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REQUIREMENTS FOR CONTRIBUTIONS

Articles in the field of agricultural economics, suitable for publication in the journal, will be welcomed.

Articles should have a maximum length of 10 folio pages (including tables, graphs, etc.) typed in double spacing. Contributions, in the language preferred by the writer, should be submitted in triplicate to the Editor, c/o Department of Agricultural Economics and Marketing, Pretoria, and should reach him at least one month prior to date of publication.

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CONTROLLED AGRICULTURAL MARKETING

by

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Weaknesses of the farming industry

I believe that the Commission's major contribution towards an improved understanding of the economics of South African farming is its identification of the problem of the undersized farming unit. It is a pity, therefore, that its terms of reference excluded consideration of the parallel development of the agriculture of the Bantu homelands on a total basis, not merely of undersized farms, but of undersized smallholdings. I am sorry, too, that I was not asked to speculate further on these general matters but instead on the far more mundane subject of controlled agricultural marketing to which chapters 5 and 6 of the Commission's Third Report are devoted.

In the fifth chapter, the Commission lists the following major structural defects of our White agriculture:

- Farming systems that conflict with the natural controls and with conservation farming principles;
- farms that are under mediocre management;
- farmers who lack the means to undertake needed adaptations; and
- farming units that are too small.

The Commission believes that the great reliance which our farming industry places on State aid originates primarily from these structural defects which are in turn largely a consequence of past, and even present, policy that the maximum number of White farmers be kept on the land. The Commission, therefore, emphasizes that State aid should not be such as to perpetuate the structural defects or to bolster inefficiency, and so as to obviate that the Commission advocates selective State aid and programmes to achieve specific aims, all with the overriding objective of enabling the farmer to increase his own income by enhancing his efficiency.

These are sound precepts. The Commission goes further and says that direct or indirect State assistance should be considered only if the same results cannot be achieved more effectively by for instance the marketing mechanism. Here the Commission evidently ignores the fact that price support, the principal purpose of controlled agricultural marketing, is but another form of State aid; indeed, perhaps its most important manifestation. And the greatest defect of price supports in fact is its non-selective character, benefitting all and those who need assistance most the least. An endeavour during the thirties to differentiate assistance to maize farmers according to crop size, for instance, promptly converted relatives, managers and girlfriends into independent marketers.

Although the structural defects which exist partially cause the need of the agricultural price support, the Commission attributes it directly to two further sets of circumstances which are distinguished.

In the fifth chapter reference is made to four special factors which so weaken the economic position of the farmer as to necessitate the introduction of a system of regulated marketing. These factors are :

- The exposure of farmers to circumstances over which they have little or no control, including the discovery of substitutes;
- the limited size of farm production units which makes it impossible to engage the services of specialists;
- the relative inability of the farming industry to shift rising costs on to consumers; and
- the producer's poor bargaining position on account of the low income elasticity of demand for farm products.

It is worthy to note that the Commission does not refer to a further primary cause of the farmer's poor bargaining position, namely, increasing concentration in the processing of farm products and now even more in retail food distribution.

In chapter 6 the Commission adds the market imperfections which distinguish farming from other industries where output is strictly adjusted to demand, so that large open-market price fluctuations are characteristic of agriculture on account of the seasonality of production, the inelasticity of demand, the high incidence of fixed costs and the fact that individual producers cannot influence price formation.

The aims of stabilisation

The Commission comes to the conclusion that because of these two sets of causes, the short-term price fluctuations of farm products, together with the other economic weaknesses to which it suddenly adds an alleged tendency towards chronic over-production, place farmers' prices and incomes under such pressure that the Marketing Act had to be passed in 1937 and control boards established with the primary purposes of achieving what it calls "settled prices, i.e. price stability". It adds that a secondary purpose of the Act was "to keep the price spread between producer and consumer as small as possible".

The term "stability" has such a connotation of double-talk in the context of controlled marketing that the Commission found it necessary to devote considerable attention to unravelling what it really signifies. In this discussion, the Commission repeatedly quotes the view (also really a double view) of the South African Agricultural Union, both in order to clear up certain ambiguities and in recognition of the fact that the S.A.A.U. necessarily exercises considerable influence on agricultural price policy as the mouthpiece of Organised Agriculture and which fact ought to give it a very clear view, and also indirectly through the producer majorities it nominates to the individual control boards.

The Commission endeavours to obtain clarity on the concept of "stabilisation" from four different angles — the desired volume of output, whether the aim should be stable prices, or stable incomes, or whether a more comprehensive set of factors comes into play when fixing prices. I deal with these points in succession.

The Commission regards farming as an industry with a threefold function: The supplier of food and raw materials; the exploiter, and protector of the natural resources; and the livelihood of the farming section of the population. It considers that, structural weaknesses notwithstanding, the industry has performed the supply function successfully, and that prices exercise a decisive determining effect on output. As regards the volume of output, the Commission considers it prudent for a country to strive towards a measure of self-sufficiency, but adds: "Such a policy would be economically justifiable only if food prices need not be raised excessively above import values". It continues to point out that "the Republic has a sizeable foreign trade and consequently cannot afford to allow its price policy and cost structure to get out of step with that of its trading partners in the world market". The Commission consequently subscribes to the policy statement of the S.A.A.U. as follows: "Developing the production of a certain commodity into an export industry is justified only in cases where South Africa is, in the long run, able to compete on the export market at world prices. If this can be done only through permanent State subsidisation, regardless of the form such subsidisation takes, it would mean that the factors of production would be misapplied".

With the exception of beef, as the Commission points out, the desired measure of self-sufficiency and export development have in fact been achieved during the past 40 years of controlled marketing. This is a signal achievement. By contrast the E.E.C. system of price support — buying up surpluses at the support prices coupled with large variable import levies — resulted in the accumulation of huge uneconomic surpluses within a single decade. In the United States this was only avoided in part for a number of years bycoupling the purchases of surpluses at floor prices with quantitative production restrictions; and while these acreage limitations at first stimulated higher yields per acre, they also proved to be cost-raising so that American farm product exports were seriously curtailed while lately shortages even developed. Incidentally, our control boards find that in order to be self-supplying throughout, it is necessary to plan for limited permanent surpluses which do yield losses owing to the difference between import and export parity prices, but continuous large export losses have been avoided.

In further examining the meaning of the term "stability", the Commission poses the question whether short-term fluctuations should be eliminated or whether prices should be kept fairly constant between crop years. The Commission actually devotes very little attention to short-term price stabilisation and I, therefore, wish to indicate that day-by-day price fluctuations serve no purpose in the case of many durable farm products and can with advantage be eliminated through regulated marketing. On the other hand, short-term price fluctuations are necessary to balance the supply and demand of perishables which lack a processing outlet, are indispensable to ensure a regular supply of slaughter stock over the whole season and constitute virtually the only means of establishing correct inter-grade value differences for wool and leaf tobacco.

The Commission deals fairly extensively with the question whether stable prices or stable incomes should be the aim of stabilisation. In this regard it quotes the evidence of the S.A.A.U. as follows: "Emphasis in the price determination process should in future shift from stable prices to prices which will lead to income stability and income parity in the various commodity branches of agriculture", in pursuance of which it makes two concrete recommendations —

(a) "that prices should be adjusted for normal fluctuations in production so as to eliminate the effect of such fluctuations on incomes; and
(b) further adjustments should be made according to the gross rate of growth in the per capita national

income for the country as a whole, in order to maintain parity between the rate of growth of incomes in the agricultural sector and that of the rest of the economy."

In commenting on these propositions, the Commission concedes that, within limits, farmers' incomes ought to be taken into account in price fixing, but correctly points out that in order to share in the growing prosperity of the country "the long-term increase in the farmer's productivity must keep pace with that of the rest of the community".

On the issue of adjusting prices to compensate for normal variations in crop size, the Commission points out that enforced price stability between crops — that is, uniform prices — will induce income instability in South Africa with its variable climate, but that proportionate adjustments in prices in order to stabilise the income level of an entire branch of farming, yet is no guarantee of income stability for all regions or all producers. The Commission accordingly concludes "that annual fluctuations in prices should be reckoned with in price determination" and that "there can be no objection to moderate price adjustments aimed at adjusting supplies to the effective demand".

Despite its emphasis on the criterion of income parity between agriculture and the remainder of the economy, the S.A.A.U. in the end nevertheless sees its way clear to subscribing to the following formulation of the price-fixing task by the 1947 Distribution Costs Commission. Incidentally, the wording was Prof. Leppan's, then a member of the Marketing Council, and reads as follows: "Over long periods prices must ultimately be determined by supply and demand and therefore, no more can or should be attempted than an intelligent estimation of these long-term trends, the adaptation of prices to these trends and the stimulation of agriculture in the desired directions, due cognizance being taken of the natural controls of agriculture in the Union and of international trends". The Commission itself also indicates its approval of this conclusion that all relevant factors (and there are a large number) must be taken into account for the purpose of price stabilisation which can accordingly never be purely scientific and in which intuition will of necessity have to play a role.

I regard the Commission's evaluation of the concept of price stabilisation as highly creditable and must concede the validity of the summary conclusion of the Departments of Agriculture, namely: "Purposefully to maintain the correct ratio between the prices of a large number of agricultural products is virtually impossible" because "there are no distinct farming systems for the various regions; it usually takes a long time for prices of competing products to find expression in production; and on the whole, the control boards tend to adopt a sectional or even subjective attitude to the marketing of the product controlled". According to the Department, the result is that: "At best, an attempt can be made to work in the right direction, this necessitating a constant study of agriculture in all its branches, including production trends, production potential, the effects of technological developments, shifts in production and the reasons for them, consumer trends, price movements — both locally and overseas, etc."

In their submission to the Commission the Departments added that there is as yet no provision for such a study, but that the National Marketing Council could be developed for the purpose. The Commission disagrees with this and prefers a different 'umbrella' organisation. It, however, appears to make two conflicting recommendations on the subject in two successive chapters of its Third Report.

In paragraph 5.10 the following appears: "The Commission considers that the business of assessing the supply and demand position of agricultural products and laying down the eventual price policy to be followed to obtain the desired results, should fall under the proposed national advisory council for the planning of agricultural production, as recommended in its Second Report" — incidentally a basically technically-orientated body.

In paragraph 6.3.8 the Commission however proposes that the Minister be advised by a national advisory council on agricultural marketing and price policy, consisting of representatives of several economic Departments of State, Organised Agriculture, commerce, industry and consumers, to be endowed with a special economic research unit and required to maintain contact with the proposed national advisory council on agricultural production.

In view of the length of the second and third reports and the many advisory councils that are recommended — there is still a third, on agricultural credit — this little bit of confusion is perhaps only human.

Reduction of the price spread

It is also perfectly understandable that the Commission devoted much attention to the price stabilisation, this being the principal task of the boards and also the most complex, but having done so, the Commission proceeded to confine itself largely to description instead of analysis; nor did it thereafter express further conclusive views, whether critical or approving in content.

In this way and without prior analysis, the Commission makes the following statements on what it regards as the secondary aim of regulated marketing — "to keep the price spread between producer and consumer as small as possible". It says: "By co-ordinating the collection and distribution of products under their control, various boards have succeeded in promoting sales and reducing costs". And further: "The price stability achieved, together with steps taken to encourage rationalisation, have enabled processors and distributors to function more efficiently and provide the necessary facilities for the steady rising output". And finally: "Proper grading of agricultural products ... has undoubtedly led to an improvement in quality and the general promotion of sales".

Of the three statements, the last is the most valid, since, in my opinion, the institution of compulsory grading for many of our farm products can be regarded as the most constructive achievement of the system of regulated marketing.

But the Commission already begins to err when it asserts that controlled marketing was introduced in order to minimise the price spread between producer and consumer. Such was the initial intention of the wheat scheme under which the Board channelled the crop through designated agents at a fixed remuneration, registered millers and bakers, controlled their capacities, fixed operating margins, and also the selling prices of bread and flour. This example was later followed in part by the maize scheme and also with meat during the wartime shortage, but as soon as supplies returned to normal the entire approach changed. Full control, with its unavoidable rigidities and arbitrariness, was gradually abolished and reliance placed on the rationalising effects of competition between processors and distributors in order to ensure efficiency at the lowest cost for the services rendered.

Full control was retained over the assembly of farm products by means of the so-called one-channel schemes which compel producers to deliver their crops to appointed agents, either at fixed prices, for pooling or for resale at best floor prices. The agents are remunerated at fixed rates for handling and storage while the boards as a rule themselves arrange the delivery to processors in order to minimise transport costs. The Commission is correct that this did bring about sizeable economics on transport and in cases where bigger throughputs of a restricted number of assemblers and processors had a strong cost-reducing effect, economies of scale were sometimes secured as well. The Commission is doubtless also correct in saying that certainty in regard to prices and supplies encouraged processors to expand facilities as needed. But such extensions and economies of scale are not unique to a system of regulated marketing and occur as well in countries without marketing boards and in conditions of intense competition. So, for instance, the U.S.A. which applies price supports without in any way prescribing marketing channels to producers, has developed a sophisticated assembly and processing mechanism for farm products — a model envied by all. In truth, the controlled assembly of farm products has the major defect of discouraging innovation — a fact not brought to light by the Commission. So, for instance, have the compulsory carcase auctions at municipal abattoirs under our meat scheme inhibited the establishment of integrated factory-type abattoirs — which are not only the most economic and hygienic method of slaughtering and processing, but have the additional advantage of expediting the adaptation of production practices to the requirements of the market.

Discrimination in favour of agricultural co-operatives

Another adverse outcome of board control over the assembly trade has been, and is, the arbitrary discrimination in favour of co-operative agents and processors, both at the time of appointment and in the determination of their conditions of trading. In this regard the Commission does quote the finding of the Co-operative Commission of 1967,presumably with approval, that the control boards are so constituted that impartiality on their part is humanly impossible. The true cause, of course, is that producer majorities on the boards are in the main appointed by the S.A.A.U. and its affiliations and the Union declared before the Commission that its policy is unequivocal (and is doubtless respected by its representatives) that what is not in the interest of the agricultural co-operatives, is also not beneficial for South Africa's agriculture.

The Commission did not examine the serious implications of the resultant co-operative hold over the suppliers of food and raw materials. Had it done so, it would have had to qualify its conclusion that control invariably facilitates the provision of facilities, since private operators are most reluctant to undertake new investment in assembly and processing facilities if the raw materials have to be obtained direct from producers, in view of the ever-present danger that these supplies will be cut off by co-operative competitors whose tax concession enables them to pay the fixed prices plus bonuses, whereas private processors are prohibited from paying bonuses and could in any event not do so at the expense of the Treasury.

The Commission ought perhaps also to have commented on the consequent tendency amongst processors to safeguard the needed supplies by producing these themselves. We accordingly now find fruit juice processors who acquire their own citrus orchards, egg packers with their egg-producing units, meat processors with large piggeries and cattle feedlots and canners with their own vegetable farms. Nor should the ultimate results of this on the structure of South African farming be minimised. One large dairy farm with 5 000 cows can, for instance, produce sufficient milk to replace the 1 000 suppliers of South Africa's largest cheese factory, and one piggery with 7 500 sows would produce one-tenth of the country's daily pork needs. Such large units are in successful operation in the United States and in our own country there are piggeries with 2 000 sows. It must be expected that as the technique of large-scale farming improves, private processors will increasingly develop in that direction, both to safeguard themselves against discriminatory board action, against the preferential advantages of co-operatives and in order to secure the advantages of the system of income taxation of farming.

The composition of Boards

In the final analysis the two principal shortcomings of controlled marketing, the absence of a co-ordinated price policy and the discriminatory application of statutory powers, can both be attributed to the faulty composition of the control boards which exercise these functions. They generally consist of representatives of producers, processors, the trade and consumers, with the proviso that there must be a majority of producers as defined in each scheme. And although the dairy scheme, for instance, defines producers to include the primary producers of butterfat and milk as well as the manufacturers of butter and cheese, all the control boards in fact have a clear, or even a bigger majority of primary producers.

In its treatment of this composition of the boards, the Commission alludes to the unanimous view of the 1947 Marketing Act Enquiry Commission that a producer's majority is in principle defensible only for boards which confine themselves strictly to the prices and marketing of primary products. By way of contrast, it quotes the assertion of the S.A.A.U. that: "Since the Marketing Act specifically provides that control boards should be producer boards, and since there has been an undesirable disruption between production and marketing under the control system, producers should have larger majorities". These two assertions are correctly contested by the Commission which also refers to the opposite viewpoint of the Association of Chambers of Commerce that a producers' majority is indefensible in principle and that more balanced boards are required. Finally, reference is made to the Commission on Co-operatives and to its recommendation that a further commission of enquiry be appointed to examine the matter and related issues. And this is precisely how the Agricultural Commission disposes of its problem in this regard, in the following terms:

> "The Commission is deeply impressed by the extent to which the system of controlled marketing has promoted the orderly marketing of agricultural products and the contribution which this system has made to progress in agriculture. In the course of its investigations, however, the Commission's attention was directed to the desirability of making certain adjustments to controlled marketing. The Commission considered that its constitution was not fully such as to enable it to make a more profound analysis of the operation of controlled marketing and to make full recommendations on this matter. The Commission therefore recommends that a special commission be appointed..."

The Commission of Inquiry into the Marketing Act

And so we now have the Commission of Inquiry into the Marketing Act. It will have to supply the answers to the key questions which the Commission of Inquiry into Agriculture did not resolve:

- Whether it is morally and economically desirable to entrust the fixation of own prices and margins to sectional control boards with a one-sided majority, something that is not tolerated in other branches of the South African economy.
- Whether, despite the power of veto of the Minister of Agriculture, the producer majorities do not in any event ultimately get their way, so that a co-ordinated price policy cannot be implemented.
- Whether in the circumstances discrimination in favour of agricultural co-operatives will ever be terminated.
- Whether it will in these circumstances serve any purpose to seek to build up the National Marketing Council, or any other supervisory body, into a central co-ordinating price authority and as arbitrator on charges of discrimination.
- And indeed, whether the disappearance of prodducer majorities from the boards will not be the biggest single forward step, leading to greater marketing consciousness, to termination of the temptation to solve an industry's economic problems by employing the majority vote to raise prices and so shifting the emphasis to positive board measures to enhance productivity.

Perhaps you will be able to read between the lines what I believe the findings of the Commission of Inquiry into the Marketing Act should be.