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CONTROL UNDER THE MARKETING ACT

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Introduction

State intervention in the agricultural economic sphere, especially in regard to prices and marketing, is so general in the world of today that it is no longer of much practical use to excurse on the advantages and disadvantages of laissez faire or an entirely free economic order. Especially the extremely depressed conditions in agriculture during the depression of the early thirties called for action; and due to the inability of the agricultural sector to organise within its own ranks, without state assistance, against the whims of a free marketing system, state intervention became general.

In South Africa special regulatory legislation for the purpose of raising the local prices of dairy products, maize, tobacco, slaughter stock and wheat was passed during the years 1930 to 1935. After the depression, however, prices of agricultural products failed to recover to the same extent as those of industrial products; and the view gained ground that a measure of permanent state intervention in the marketing of agricultural products had become essential. The necessary legislation with this objective came in 1937, when the Marketing Act was placed on the Statute Book.

The nature and objects of the Marketing Act

The Marketing Act is an enabling measure; that is, it provides for the introduction of schemes for regulating the marketing of agricultural products, with a control board for each scheme to administer that scheme. The Act stipulates all the powers with which a scheme may invest its control board. In general, the Act subjects the application of schemes largely to the supervision and power of veto of the Minister of Agricultural Economics and Marketing. The Minister is advised by the National Marketing Council - a body created by the Act specially for this purpose.

The objects of the Act must be seen in the light of the circumstances which led thereto, namely a depression under which agriculture suffered so severely as a result of the extremely low prices that farmers had to be assisted by the Government in various ways and to an extent which threatened their very feeling of independence, and the inability of thousands of producers to organise efficiently within their own ranks. The control board system was seen as the means whereby producers could strengthen their bargaining power; reduce the price spread between producer and consumer; and establish more satisfactory and stable prices for their products.

The manner in which these objects can be pursued is reflected in the nature of the powers with which a control board may, in terms of the Act, be entrusted, the most important of which are the following:-

1. To prohibit producers from selling the product except to or through the board. In this way a control board can come into possession of the entire supply, or so much thereof as is deemed necessary, and market it in an organised manner.
2. To regulate prices.
3. To apply restrictive registration of units in respect of businesses dealing with the product in the course of trade, or industries which process the product. By virtue of this power it is possible to limit surplus capacity in these enterprises with a view to economising in costs.
4. To impose levies on the product and to utilise the funds for the benefit of the industry concerned. This permits, inter alia, of the accumulation of reserve funds for the stabilisation of prices.

The application of the Marketing Act

The first schemes introduced shortly after the acceptance of the Marketing Act were in respect of the products for which special control legislation had been introduced between 1930 and 1935 (dairy products, maize, tobacco, slaughter stock and wheat), as well as deciduous fruit, dried fruit, citrus fruit and chicory root.

With the outbreak of the Second World War conditions changed entirely. A period of sharp inflation entered; the demand for

agricultural products increased appreciably, whilst (due to a lack of farming requisites and even manpower) agricultural production decreased during the years 1943 to 1946. Except for the exporting industries, namely deciduous and citrus fruit, which lost their overseas markets and in respect of which special measures were taken during the war years, the stronger demand for agricultural products exceeded production in most cases within a few years after the outbreak of the war.

As a result of these changed conditions, prices of agricultural products increased rapidly and the need for measures to create more satisfactory prices thus temporarily disappeared. Short-term fluctuations in prices were eliminated by fixing prices. The price spread between producer and consumer was controlled by fixing the margins of processors, as well as maximum wholesale and retail prices. In some cases measures were taken for the rationalisation of industries in order to limit surplus capacity, cross haulage, etc. and to promote lower costs per unit. The Wheat Board, for example, applied a policy of restrictive registration in respect of millers and bakers, and so did the Dairy Board in respect of dairy produce factories.

After the war the production of agricultural products increased rapidly under the incentive created by the favourable market and price conditions. Whereas the volume of agricultural production by 1945/46 was only 3 per cent. higher than just before the war, it was already some 41 per cent. higher by 1950/51. In the latter year the producers' price for maize was 263 per cent. based on the pre-war level; that for wheat 239 per cent., groundnuts 343 per cent., sheep 332 per cent., cattle 228 per cent., cheesemilk 291 per cent. and butterfat 275 per cent.⁽¹⁾

As production overtook and even surpassed demand, a need arose for the extension of the control system to more products. For one product after another representations for schemes were received, with the result that as from 1951 to 1957 a further eight control boards were instituted, namely for potatoes, groundnuts and sunflower seed, lucerne seed, eggs, rooibos tea, dried beans, drinking milk (in Cape Town) and bananas - whilst a scheme for kaffircorn was incorporated in the Maize Scheme in 1957.

(1) "An Abstract of Agricultural Statistics": Division of Economics and Markets, Department of Agricultural Economics and Marketing.

Due to differences between products in regard to the size of the industries concerned, the relative importance of the local and overseas markets, the marketing pattern, etc., the schemes differ from one another in respect of certain basic aspects, so that the following types of schemes may be distinguished:-

Group A. Schemes for products which are produced primarily for the local market. The following types of schemes fall under this heading:-

1. The one-channel fixed-price schemes, as in the case of tobacco, maize, wheat, oats, barley and rye. In the case of tobacco, producers may only sell to co-operatives and at prices fixed by the Tobacco Board. In the case of maize and the winter cereals producers may only deliver to agents of the board concerned. These agents buy the grain on behalf of the board at prices determined by the board. The agents resell the grain to the trade in accordance with the board's instructions.
2. The one-channel pool schemes, as in the case of dried fruit, chicory, oilseeds (groundnuts and sunflower seed), lucerne seed, rooibos tea, drinking milk (in Cape Town) and bananas, where producers may sell only through the board concerned. On receipt of the product the board pays an advance, and pools the proceeds which it obtains from the sale of the product. After a pool has been closed, the board makes a final payment. Also in these cases the control boards as a rule make use of agents.
3. A combination of 1 and 2, as in the case of dairy products, where the board fixes prices for butterfat and cheesemilk delivered by producers to factories, and assumes responsibility for the sale of factory butter and factory cheese in respect of which it conducts pools.
4. The floor-price schemes, as in the case of slaughter stock, eggs, dried beans and kaffircorn, where the board concerned merely announces a floor price at which it is prepared to buy for its own account. A similar type of scheme is applied in the case of potatoes, except that the board mostly operates as a buyer on the open market in order to stabilise the price during times of heavy supplies.

Group B. Schemes for products which are produced primarily for

the export market, namely deciduous fruit and citrus fruit. In these cases the two boards concerned regulate the export and offerings overseas of all the fruit mentioned. The boards conduct pools for the proceeds from sales of the fruit. (The Wool Board does not fall under the Marketing Act.)

The values of the products which fall under the various types of schemes referred to, represent approximately the following percentages of the total value of all agricultural production in the Republic (calculated at producers' prices on farms for the 1959/60 season):-

<u>Group A schemes</u>			<u>Group B schemes</u>		
1. One-channel fixed-price schemes	2. One-channel pool schemes	3. Combination of 1 and 2	4. Floor-price schemes	Fruit primarily intended for export	Total percentage under Marketing Act
25.1%	3.8%	5.1%	24.3%	5.3%	63.6%

According to these figures nearly two-thirds of the total agricultural production (on a value basis) falls under the Marketing Act control boards. (The controlled products wool and sugar, which together constituted some 17 per cent., are not included in the table, as these products do not fall under the Marketing Act.)

The control boards finance their expenses from levies which they collect on the products for which they were instituted. Some of the boards have already accumulated substantial reserve funds in order to be able to meet contingencies. As far as finances are concerned, the control board system is therefore independent. Only in the case of maize, butter and wheat does the Government pay, for some considerable time now, predetermined subsidies in order to keep the consumer prices of these products as low as possible.

The task of the control boards under present conditions

In the foregoing section it was briefly indicated what tools have been designed under the Marketing Act to meet the new phase which entered round about 1953 and which was gradually increased in intensity. That is, the phase during which production increased to such an extent (under the incentive of favourable

prices and with the assistance of improved methods of production) that it overtook and surpassed the demand in most cases, whilst the surpluses cannot, at the ruling local price structure, be exported profitably. During the three years 1957/58-1959/60 surpluses in respect of maize, butter, cheese, eggs, pork, tobacco, dried beans and kaffircorn were exported at prices which did not cover the local producers' prices, plus transport and marketing costs. The shortfall on these products collectively was on an average R6,834,000 per year over the three years. These losses were for the account of the industries concerned.

These changed conditions have materially subdued the increase in agricultural prices. In the mean time, however, costs of production have continued to show a rising tendency and the cost/income relationship has deteriorated. Especially during the past two years producers have been pressing strongly for some price relief in view of the "cost/price squeeze". Representations are repeatedly made for prices which will guarantee costs of production, plus a reasonable compensation. In this respect reference is usually made to the controlled products; obviously because it is considered that the machinery under the Marketing Act can be used to keep prices on a more lucrative level.

It is, therefore, essential that clarity should be obtained on the position which the control boards occupy under the existing conditions, and what is expected of them.

In this respect it is important to note that no control board, which has to act independently of state assistance, can continuously maintain an artificial price which is too high in relation to the prevailing production and consumption conditions.

The essence of the majority of the marketing schemes is the regulated marketing of the entire supply, or a sufficient quantity thereof, through one channel, namely the board, in order to arrange the disposal more systematically and thus to make the best use of the available demand. In respect of those products which the control boards market locally the boards as a rule set fixed prices, and so avoid the short-term price fluctuations which are caused by all kinds of accidental events under free marketing conditions. In those cases where the boards merely announce a floor price, a limit is set to these fluctuations.

In determining these prices, the control boards must necessarily take the production and consumption position into account.

In some of the cases where the producer receives a fixed price, costs of production are, in fact, taken into account when that price is determined, but this is only one of the factors which have to be considered.

Where surpluses have to be exported, it goes without saying that the bigger those surpluses are, the bigger will be the influence of world prices on the producers' prices concerned. The export industries citrus and deciduous fruit, are, of course, very nearly entirely dependent on conditions on the overseas markets. In all cases where the boards handle the exports they do, however, serve as the means whereby producers derive the maximum benefit from the overseas prices as the boards are not profitseeking institutions.

During the past five to six years, control over trade prices has to a large extent been lifted. With the availability of more than sufficient stocks and the increasing competition in the trade itself, this type of control, which is inelastic and which often hampers distribution, has become undesirable in many cases. Boards such as the Dairy Board and the Wheat Board, however, still apply restrictive registration in the case of processing units, with the object of avoiding surplus capacity and unnecessarily high costs of processing.

The position of most of the products in respect of which the marketing is regulated under the Marketing Act, is therefore nearly the same as that of the manufactured article where the manufacturer himself sets his price instead of leaving it to the price-forming mechanism of free competition. The word "nearly" is, however, used advisedly because the similarity ends just there. Although the manufacturer sets his price, he almost automatically regulates his production according to the needs of the market. The inability of agriculture so to adjust production (and the resultant inelasticity of the supply), especially in the case of the basic agricultural products, is well known. In addition to this, the demand for agricultural products is as a rule much more price-inelastic than in the case of manufactured articles, where the demand can often be increased fairly substantially by means of a relatively small reduction in price.

It is for these reasons that the necessity for an adjustment of production in agriculture is so repeatedly emphasised - an adjustment both in respect of quantity and efficiency of

production. In the mean time the task of the control boards is clear: The local demand must be extended as far as possible. The control boards' function of marketing, as against the mere regulation of marketing, has increased in importance and demands an expert approach. The market must be investigated and information gathered on such matters as the requirements of the market in respect of varieties, quality, price, channels of distribution, etc.; and the necessary steps must then be taken to satisfy these requirements - where applicable, producers should be enlightened on these requirements. Information and guidance should be given to consumers, the trade and manufacturers and, where desirable, use should be made of sales advertising.

In view of the general expectation that the purchasing power of the population, especially that of the large Bantu population, will increase further, the prospects of a greater local demand seem promising. Competition for the purchasing power of the consumer is, however, very keen and timely steps should therefore be taken.

The control boards are aware of this duty which rests on them. Due to increasing requests from them to spend money on advertising in the Republic, the matter has been investigated by a Study Group. Arising out of this investigation, representatives of most of the control boards recently decided to appoint jointly a co-ordinating committee to investigate the possibility of a nation-wide market investigation in which all control boards can participate. In terms of a further decision of the same meeting, investigations are also being made as to how the sale of agricultural products in the Bantu market can be increased.

Of the agricultural products for which the local market is more important (and also more lucrative) than the overseas market, about 70 per cent., on a value basis, fall under the control boards established under the Marketing Act. This substantial percentage indicates the important position which the control boards occupy in respect of the local market for agricultural products; their willingness to join forces, where practicable, for the extension of this market, must therefore be welcomed.