



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

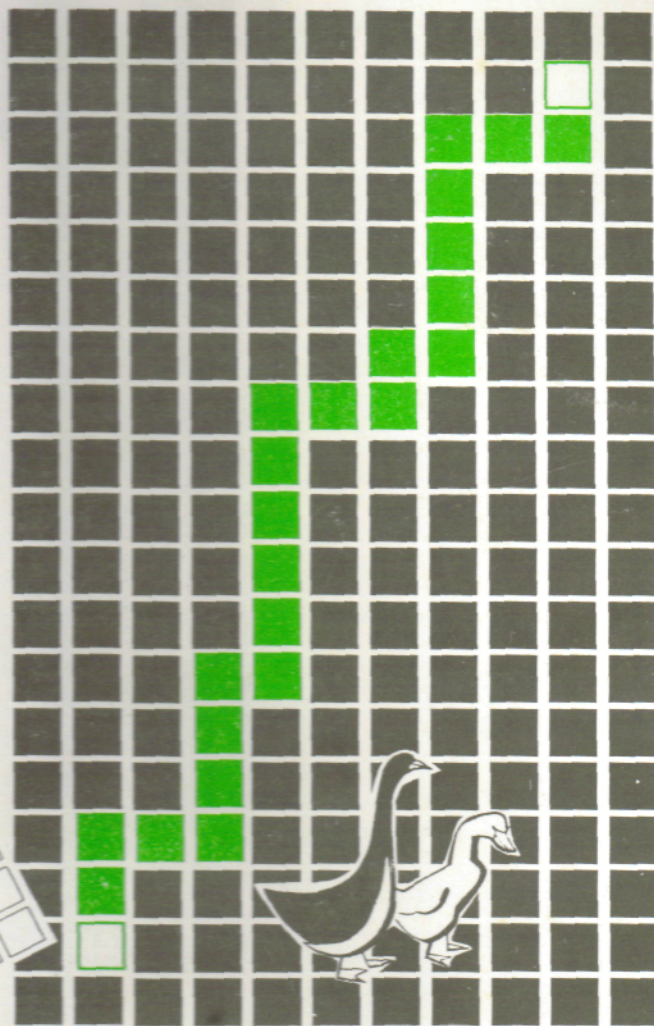
Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Farm &

Business



Vol. 1 No. 1 March 1992

The Journal of the Caribbean
Agro-Economic
Society

Published by the Caribbean Agro-Economic Society, Dept. of Agricultural Economics
and Farm Management, The University of the West Indies, St. Augustine The Republic of Trinidad and
Tobago and printed by the Caribbean Food and Nutrition Institute

**KEYNOTE ADDRESS
at the 20th West Indies
Agricultural Economics Conference**

**ECONOMIC DEVELOPMENT THROUGH THE
REVITALIZATION AND MODERNIZATION
OF AGRICULTURE**

L. Harlan Davis

**(Deputy Director General,
Inter-American Institute for Cooperation on Agriculture,
Costa Rica)**

I am pleased to be with you today in beautiful Tobago and to be able to participate in the Twentieth West Indies Agricultural Economics Conference. Congratulations are extended to President Singh, to others who have played such an important role in organizing this gathering, and to you, the members of the Agricultural Economics Society who persist, who strive to enhance our profession under adverse conditions.

The world is in the process of great change and economists have a key role to play in establishing the pace and direction of this change. Think about the great figures of our

profession who have played just such a role: Adam Smith, Karl Marx, Marshall, Keynes, Schultz, Friedman, and one of my professional heroes, a Caribbean son, W. Arthur Lewis. How Professor Lewis has influenced policy formulation, the financing and the very course of the developing world! I challenge you to analyze the events surrounding you to re-think the practical concepts of our discipline, and to apply them to shape a better future for mankind in general and the Caribbean in particular.

Latin America and the Caribbean, like the rest of the world, are at important crossroads. First, the future of the economic

situation is unclear. The Region's economy remained anemic in 1989 as the average per capital product of the Region declined (-1.0%) for the second year running, falling back to the level already registered in 1977-78, according to the United Nations Economic Commission for Latin America and the Caribbean in its "Preliminary Overview of the Economy of Latin America and the Caribbean, 1989". Despite the regional slump, the report shows modest per capita growth in GDP in several Caribbean Basin nations, including: Barbados, Costa Rica, Cuba (refers to total social product), Guatemala, the Dominican Republic, and several of the smaller Eastern Caribbean States. Also on the positive side of the equation, the value of regional exports rose by nearly 9 % to US\$110 billion, as 17 of 19 reporting countries showed increases. Imports of these countries also rose by 8%.

Aid Outlook

While the trade outlook is relatively optimistic, the aid outlook is not. U.S. aid to the Caribbean will be cut as Washington shifts priorities to Eastern Europe, and seeks funds to help Panama and, now Nicaragua. The \$8 billion aid package (for the fiscal year starting October 1, 1998) includes a sharp increase in aid to Poland, and a sharp drop in aid to this Region. The draft list of allocations, prepared by the State Department, shows that economic aid for El Salvador (US 185m. last year) will fall to US 130.6m. Other examples of decreases include: Honduras, military US\$40m. to US\$20.2m.; economic, US\$85m. to US\$60m.; Guatemala, military US\$9m. to US\$2.9m; economic, US\$80m to US\$56.5m;

Costa Rica, economic, US\$90m. to US\$63.5m.; Jamaica, economic, US\$25m to US\$5m. By contrast, Poland will receive US\$227.5m. in economic aid, up from US\$3m. the previous year. Washington's two major aid recipients (Israel and Egypt) suffered only small reductions. Israel will receive US\$1.79 billion in military aid and US\$1.19 billion in economic aid; Egypt will get US\$1.29 billion in military aid and US\$11.5m. in economic aid.[1]

While we do not have specific current figures for the Eastern Caribbean, I would expect a similar trend, perhaps even more exaggerated. These are public sector, concessionary aid data. Similarly, private sector investment, also an important source of capital for the Region, is likely to head East, not South in the next years.

The events shaping the political situation also give rise for concern. You have seen the current literature speculating on the economic polarization of the world, particularly the formation of the great trading blocs with the significant political implications that such developments portend. Abraham Lowenthal, a seasoned observer of Latin American affairs, refers to these developments in a recent article in a widely circulated magazine and is not optimistic about where they leave the Region. [2]

The Caribbean Region, in particular, has been relatively strongly organized from the economic and political point of view since 1973 but can it compete with the Asian tigers, and the United States/Canada/Mexico behemoths? Lowenthal already has the Caribbean quietly but deliberately casting

its lot with the United States/Canada/Mexico bloc. [2] He sees the same possibility for the rest of Latin America, but is less sure that it will materialize given the severe economic and political adjustments that lay ahead for that region.

The Crisis in Perspective

In 1980, after three decades of solid growth, Latin America's agricultural sector began to falter. The Region had basically followed an import-substitution growth model which, through price, fiscal and export policies, favoured the industrial and service sectors. On the other hand, food prices were maintained at artificially low levels to help control inflation and maintain food supplies at cost levels accessible to the growing numbers of industrial and service workers. Furthermore, agricultural exports were taxed to help finance the social infrastructure. This model of growth caught up with Latin America at the beginning of the 1980's.

Not only did agriculture falter but the economy in general fell into a severe recession from which it still has not recovered. With the precipitous decline in basic commodity prices in the late 1970's and early 1980's, Latin America turned to outside financing to maintain its standard of living. Heavy borrowing, rising interest rates and continued stagnant price levels of major exports to investments in efforts to conserve and preserve natural resources and interest in their long-term maintenance and enhancement. Careful study of agriculture in several Latin American countries would show rates of return in many sectors that are relatively higher than they are in farming, creating the

increasingly absorbed domestic savings for debt service. Regional investment declined and by 1988 was still considerably less than it was in 1980. Employment fell and poverty increased.

For the agricultural sector, favourable growing conditions and improved international commodity prices caused sectional performance to improve in 1987 but it dipped again in 1988. In that year, the rate of growth of real value added was only 1.3 per cent compared to a population growth rate of 2.2 per cent [3]. In war-torn Central America and some countries of the Caribbean, food production has not kept pace with the population growth rate.

Today, Latin America faces a major economic crisis. Its agricultural sector, a major source of income and employment, is severely depressed. Between 30-40 per cent of all economically active farm families are classified as landless small producers, and the numbers may be growing.[4] Unemployment and underemployment are chronic. Rural poverty is on the rise. The future is unclear.

The Failure of the Agricultural Sector

If we agree that Latin America and the Caribbean have a comparative advantage in agriculture and that agriculture could be an important source of growth and development in the Region, Why is the sector, at this juncture, in such a predicament? You know the answer, in part. It is depressed because the economies in general are depressed and agriculture is just one component of the total picture. But could it not have been a more

positive force during this period? Could it not have absorbed more of the shock and could not it play a more active role in economic reactivation? I think the answer to that question is yes, but a conditional yes.

Policy adjustment is in vogue these days, seeming to represent a panacea for all this. I do not believe it is a cure-all but I do believe it is a *quid pro quo* to turning agriculture around. Let us look at some of the policies that have worked against the farm sector.

1. Agricultural Price Policy

Since World War II, many Latin American and Caribbean countries have followed an import-substitution model that has encouraged industry and manufacturing growth. In country after country, the farm sector has been called on to finance this process, particularly through actions which have deliberately depressed farm products prices in order to maintain cheap food supplies for industry and manufacturing labour. The classical case is Argentina in the early 1950's, which has been carefully documented in more than one study, but the situation persists today throughout the Region. I personally studied and reported on agricultural price policy in one Central American country in the early 1980's and found over a five-year period almost constant prices for rice, corn and beans, while inputs for production of these basics consistently increased. The result was a long-term decline in the price/cost ratio of production.

Such policy dampens productivity and profitability in agriculture. It reduces the return

higher than they are in farming. Creating the conditions for increased profitability would encourage a more relevant and stronger farm sector.

2. Differential rates of taxation

Identifying and collecting taxes is a problem through the Region. Tangible commodities easily assembled, counted and valued lend themselves particularly to public taxation; these have traditionally been agricultural commodities, particularly export commodities such as bananas, cocoa and coffee.

In Costa Rica, for example, taxes on coffee and bananas have been an important source of public funds for many years. Even as late as 1985, export taxes on bananas and coffee were approximately 4.5% and 5.0%, respectively, of all national government taxes. Bananas and coffee accounted for 45% and 52%, respectively, of all export taxes. In addition, there was a local processing tax on coffee.

Differential taxes on agricultural commodities, particularly for export, depress relative profitability in these enterprises. This is a two-dimensional problem for the countries of the Region. First, it may result in an underemphasis on export commodities so critically needed to supply foreign exchange. Secondly, it may discourage tree and perennial crop production more compatible with long-term natural resource sustaining systems.

3. Overvalued exchange rates to intensive farming practices.

This, again, is a problem endemic in Latin America and the Caribbean. Basically, this policy has the same impact as the differential tax mentioned above: when producers get relatively lower returns from their exports than the market would normally dictate, the market signals them to seek alternatives.

4. Agricultural credit policies

The capricious impact of concessionary agricultural credit policies in Latin America has been amply documented by Ohio State University economists. They have shown, for example, that such policies encourage capital-intensive production methods where labour-intensive methods should prevail; mechanization on soils not adaptable to such practices; and the purchase and application of pesticides and insecticides where they may not be recommendable.

Such concessionary credit may distort the allocation of resources at the farm level and the economy in general along the lines mentioned above. It may discourage diversification and constitute a heavy financial burden to national budgets.

5. Land tenure policies

As mentioned earlier, the number of farm producers, mainly small operators, without land or firm title in Latin America is alarmingly high. Moreover, as rural populations expand, people are pushed into such areas as fragile hillsides and wetlands not adaptable

Producers without a future stake in the resources they manage have little incentive to utilize them in an optimal way for long-term production purposes. Thus, fallow cycles may be sacrificed, cultural practices which result in erosion and soil loss are likely to be used, and investments in terracing and drainage may be foregone in order to maximize short-term income. Lack of security of expectations may, in fact, be one of the major determinants to long-term agricultural growth and development.

6. Technology policy

Finally, I would hypothesize that many of the technologies that have been developed to increase small-farm output in Latin America and the Caribbean have been created for capital-intensive, labour-saving methods on traditional crops. They have not favoured the small producer with limited access to modern inputs and have not encouraged diversification. While evidence in this instance is less clear and compelling, I offer this thought as an area for research and study.

Thus, as a result, in part, of these policies, agriculture has not been profitable. It has not been profitable to the individual producer, nor to the public enterprise. Ministers of finance and planning are looking the other way. Young people are not going into agriculture and nowhere is this more evident than in the Caribbean. These and other policies must be changed. I am convinced that agriculture can be

economic development processes of Latin America and the Caribbean.

PLANLAC

The Institute I represent has drawn up a major new plan of joint action to deal with agricultural development in Latin America and the Caribbean, known by its acronym PLANLAC. Ministers of Agriculture of the Region meeting in San Jose last October reviewed this plan and debated the projects and actions proposed. They enthusiastically endorsed it, advocating that financing be sought to put it into action and recognized that policy changes should be implemented to make it work.

The Plan consists of a new strategy for cooperation, a strategy that supports national efforts to define and execute agricultural policies that will contribute to economic and social recovery. This approach recognizes that the Region has both the maturity required to identify its priorities and the political determination necessary for engaging in joint efforts on common issues, and that it can define and execute joint actions that take maximum advantage of available resources.

Under this new proposal of cooperation, the Region would also make the most of possibilities for cooperation with the industrialized nations. Both Canada and the United States, in particular, were involved with the Latin American and Caribbean countries in developing the ideas and proposals of the Plan.

This relationship should contribute to coor-

inating efforts to remove external barriers to financing and trade, which seriously hinder agriculture from achieving a new role in development. The community of interests achieved in the GATT negotiations, the replenishment of IDB funds, and the support in special trade agreements for sub-regions show that, despite the inevitable difficulties of each case, consensus is being generated on the importance of these issues and actions are being planned that take the new circumstances into consideration. As far as technical cooperation is concerned, there is great potential for joint work in the areas of technology, training of human capital, animal health, plant protection and others.

*

The Plan aims to encourage greater initiative in the Region, while at the same time advocating the possibility of establishing strategies of a truly hemispheric nature for technical cooperation, investments and trade negotiations with third parties. Finally, it proposes to bring together a broad range of technical and financial cooperation organizations, with a view to facilitating an organized channeling of external aid to agricultural reactivation and development in the Region. It would contribute to coordinating the joint actions agreed to by the Latin American and the Caribbean countries with potential external cooperation for the Region. With this in mind, an effort was made during the drafting of the Plan to strengthen these mechanisms.

Among specific actions recommended for the Caribbean are:

Strengthening linkages between

Latin America and the Caribbean specifically in the areas of marketing opportunities, sourcing supply of inputs and capital for investment activities, and technology development and transfer.

- (b) Exploiting opportunities with respect to the agricultural sector through the development and fuller utilization of trade and integration mechanisms of the Caribbean community.
- (c) Strengthening national and regional institutions and institutional arrangements for the provision of support services to both the public and private sector in strategic areas such as policy analysis, planning and management; technology generation and/or acquisition and transfer; investment and investment incentive policy; joint marketing; animal health and plant protection.
- (d) Strengthening farmers' organizations to improve agricultural production and marketing; and motivating and promoting the participation of youth in agricultural transformation and rural development in the Caribbean.
- (e) Upgrading the region's institutional capability for the development, production and marketing of non-traditional diversified crops such as fruits, food crops and vegetables.

IICA's Plan of Joint Action for Agricultural Reactivation in the Caribbean countries may be defined as a compendium of priority projects as well as a framework for their implementation. The activities will be undertaken on a joint basis in support of both sub-regional (DECS) and regional (CARICOM) plans and programs, and are therefore complementary to both initiatives. The Plan should not, then, be perceived as one which would, by itself, solve the agricultural development problems of the Region, but one which seeks to rationalize and maximize its contribution to regional development efforts.

The Latin American/Caribbean linkages proposed may be achieved through the development of joint ventures, technical cooperation networks or through direct technical assistance programs. In this regard, IICA's presence in its Member States represents perhaps the first strategic step in the implementation process. The Institute has already signed collaborative agreements with several regional agencies, such as The University of the West Indies, (UWI), Caribbean Agricultural Research and Development Institute (CARDI) and the CARICOM Secretariat. It should be emphasized, however, that these agreements only provide the general framework for operationalization of the projects. Strategies will have to be developed to bring the action plan closer to reality through interaction with planners, producers, traders and consumers, if the revitalization process is to succeed.

Implementation Strategy

nCA's Plan of Joint Action is just one component of the overall Regional Action Plan, as such the implementation strategy developed herein is an integral part of a fairly complex regional implementation network.

The major consideration in devising the implementation strategy has been the need to bring about a fuller utilization of existing capabilities within the existing regional institutional infrastructure through the rationalization of activities and allocation of responsibilities. In addition, the need to stimulate a higher degree of cooperation at the operational level has been recognized as one of the key imperatives of the overall Regional Action Plan, hence the need for the creation of stronger linkages between regional institutions and national agricultural agencies.

For effective coordination of all activities under the overall Regional Action Plan, IICA will interface with the other strategic initiatives through the proposed Regional Agricultural Coordinating Committee (RACC).

Finally, I want to say that in the Caribbean, I believe PLANLAC must give special emphasis to policy and projects that encourage diversification. Dominica is a case in point in what can be done in this regard. This is not a new idea. You have heard about the successful and unsuccessful models and read about this process. The Freeman/Karen study, Arthur Goldberger's book and the excellent CIDA report focusing on agricultural diversification and the promotion of

non-traditional exports in the OECS countries are excellent sources on this subject.

There is however, one other factor indicated in these sources as well as in several other studies I have reviewed that is given very light treatment or not mentioned at all. What I refer to here is that we must have access to basic data on soil, water, plants, fertilization, disease, pests, marketing parameters, etc. before plunging in. Too many grandiose schemes and even small schemes have failed for lack of basic technical data. I am personally familiar with a US\$46 million irrigation and diversification project in a Central American country that has not managed to get off the ground fully because basic technical information on soil, water and cultural practices was not available before the project was launched. I know of another such project in the same country that has thwarted the expectations of hundreds of small producers because the seeds they were given would not respond to the soil in which they were planted. I have read about other such false starts - the Belize tomato experiment, Jamaica cucumbers - which have failed for the same reasons.

In this regard, the Caribbean is fortunate to have CARDI. My opinion is that that organization must give top priority to generating the basic technical information for diversification. And to that end, the countries must give top priority to supporting CARDI.

Why do I give special emphasis to diversification? The reason is that given current world developments, particularly in Eastern Europe, I believe there will be new and

important opportunities for agricultural trade. **NOTES:**

Rising incomes, growing populations and pent-up demands should make the export of 1. non-traditional food and fiber commodities a good business. Will the Caribbean be poised to take advantage of this situation? 2.

It will if it can get its policies right, change the tenure structure, diversify, and develop and extend new technologies to farmers. 3. Agriculture can be revitalized and modernized in the Caribbean and in Latin America in general in such a way that it will become a leading sector in the development process. 4.

•

Members of this Society have a key role, let me say, a responsibility in this process. I challenge you to that task. Thank you.

"Caribbean Update," Vol.6, No.2, March 1990.

Lowenthal, A. "Latinoamerica en los 90's," Semana, 11 de enero de 1990.

"Economic and Social Progress in Latin America," Inter-American Development Bank, 1989 Report.

"America Latina y el Caribe: Pobreza Rural Persistente, Institute Interamericano de Cooperacion para la Agricultura," Program Paper Series, Jan. 1990.