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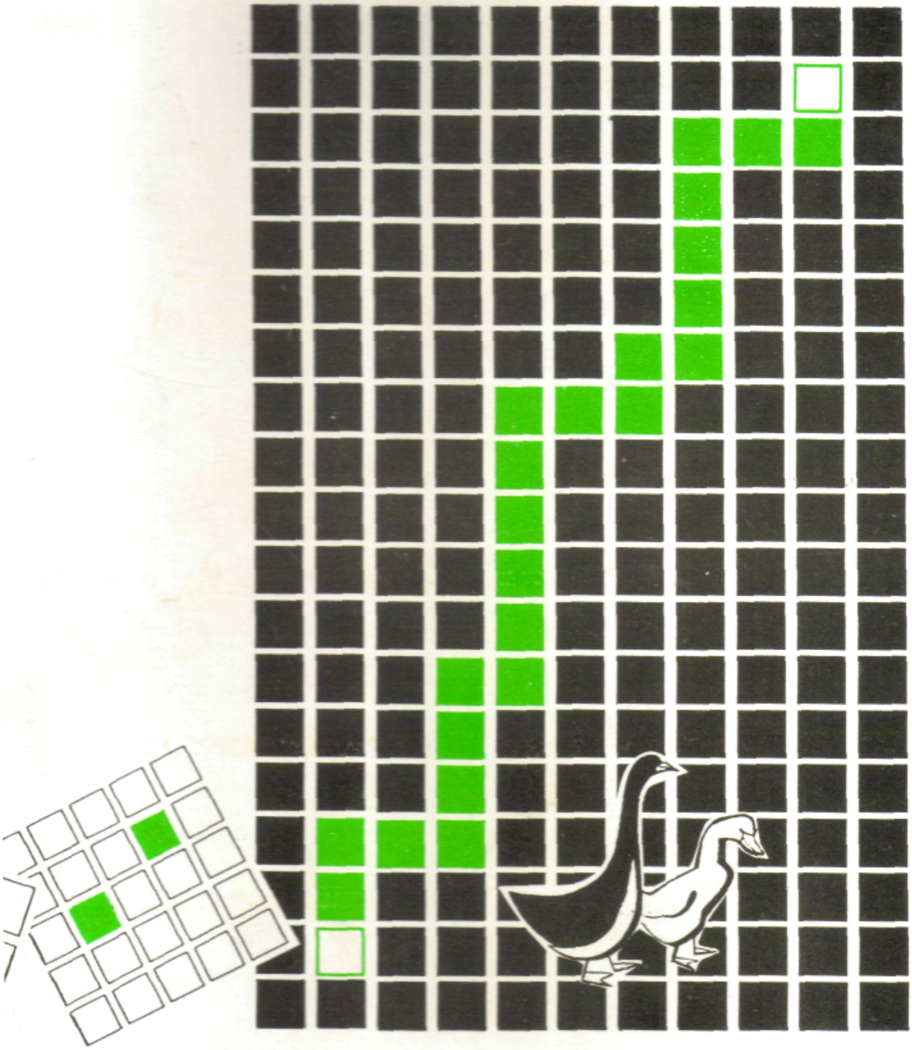

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FARM AND BUSINESS

AIMS AND SCOPE

While the primary aim of this journal is to provide a forum for Caribbean creativity and scholarship, as an international journal. FARM AND BUSINESS will consider for publication all papers that bear a direct relevance to the Caribbean.

Though the journal will publish original work on research, extension, theory and policy in the area of Economics of Agriculture, the focus will be on papers which deal with the business aspects of agriculture and rural development in the Caribbean.

INSTRUCTIONS TO AUTHORS ON THE SUBMISSION OF ARTICLES

Papers should be dear and concise, with a minimum number of illustrations. The metric system should be used. The use of footnotes should be limited. Manuscripts should be typed on 8 1/2 x 11" paper. Use one side of sheet only. Double space all typed matter including titles, text quotations, footnotes, and legends for illustrations. The authors should include a disk (preferably entered in Word Perfect 5.1) and four (4) hard copies of manuscripts. Only standard abbreviations should be used

Original line drawings should fit in an 8' x 10' (20.3 cm x 25.4 cm) format and must be submitted in a camera ready format. References to the literature must be cited in the text in parentheses using the author/date form of citation, e.g. (Doe 1971. p.5). References should appear in alphabetical order in the References section at the end of the text. Titles of journals should be given in full and the place of publication, publisher, and pages of books cited.

Submission of the paper to the Editor wil be held to imply that it has not been previously published and is not under consideration for publication elsewhere If the paper is acceptable by this journal, it is understood that it will not be published elsewhere in the same form in any language without the written consent of the publisher. To reduce unnecessary correspondence, the Editor reserves the right to make minor linguistic alterations without consulting the authors.

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NOTE

PRIVATIZATION AND AGRICULTURE AN ALTERNATIVE TO STATE OWNERSHIP

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INTRODUCTION

All around the globe we are witnessing the demise of State-owned enterprises (SOEs) and *a* surge in the privatizing of the *"commanding heights"* of the economies of developing countries that seek to achieve their goal of economic development. This goal continues, to be elusive for while average consumption per capita in developing countries has increased by 70 per cent, life expectancy has risen from 51 to 63 years, and school enrolment has reached 89 per cent, poverty and under-development are still prevalent. Poverty levels have worsened in Sub-Saharan African, the Middle East, North Africa, Latin America and the Caribbean *[World Dev. Report, 1992].*

In countries as disparate as Britain, Hungary, Barbados, Jamaica, Japan, Poland, Laos and the United States, explicit strategies are in place offering the option of privatization as an alternative to State ownership or management of a variety of activities or services.

More importantly, the emergence of privatization has taken on an almost evangelical flavour where its merits are being trumpeted throughout the land and its tenants offered as a substitute for existing development strategies. Zank *[Ott and Hartley, 1991]* expresses it this way: *The rise of privatization is a result of the dramatic change in thinking among donors and LDCs about the roles played by the private and public sectors in driving economic growth. An emerging mainstream consensus is now assigning the primary development and employment role to the private sector, with the public sector creating the environment and setting the policy framework so that market forces can act.*

The situation in the Caribbean is moving in lock-step with its counterpart countries. We are now witnessing the emergence of a dialogue on privatization in several of the English-speaking Caribbean countries.

This paper explores the implication of the privatization of the agricultural sector with special reference to the countries of the Caribbean. Further, the author while recognizing the growth and interest in privatization seeks to explore the extent to which privatization is being accepted as a basis for sustaining agricultural producers' incomes.

GROWTH AND IMPORTANCE OF PRIVATIZATION

Privatization refers to individual producers or corporate bodies doing a job for government that the government previously performed. Paul Starr *[1987, p.2]* points out that *"privatization refers to the shift from publicly to privately produced goods and services".* Policies that encourage such a shift include (1) the cessation of public programs and disengagement of government from specific kinds of responsibilities; (2) sales of public assets including public lands, public infrastructure and public enterprises; (3) financing private provision of services through contracting; and (4) deregulating entry into activities that were previously treated as a public monopoly.

L. Gray Cowan is even more focused as he defines privatization as the *"transfer of a function, activity or organization from the public to the private sector".* The current interest in privatization, he suggests, is a phenomenon mainly of the late seventies and early eighties.

This whirlwind process that has engulfed much of the world, incorporates several forms, chief among which are full divesture, the transfer or sale to private parties of publicly owned assets or partial divesture including the use of contracting-out or leasing-out of the countries' assets including land. The process is of course flexible allowing for creative rationalization on the part of governments who often place stress on the function of deregulation, the securing of greater efficiency in the operation of the enterprise, the securing of increased revenue, the reduction through the loss of government funds, the opening up of foreign markets and the broadening of the base of domestic equity involvement. These are all activities currently being examined. In discussing Jamaica for example, Schumacher and Hutchinson/Off *and Hartley, 1991]* report, *"While academic circles still adhere to the notion that the public sector needs to play a major role in the economy, Jamaica policy-makers either by conviction or in an attempt to comply with the conditions imposed by international lending agencies have adopted a philosophy of deregulation and divestment in order to make private enterprise the primary engine of growth." "The government has moved ahead with its divestment efforts and has thus far privatized some of its major holdings with others slated for future privatization" (p.223).*

THE ROLE OF AGRICULTURE

W. Arthur Lewis *[Rural Change. 1979]* in discussing *"Development Strategy in a Limping World Economy"* addresses the fact that agriculture has been the weakest link in the development chain. He points out that *"Industry in LDCs has grown at around 7 per cent per annum: the number of children in school has multiplied by four; the domestic savings ratio has risen by three percentage points - the picture is everywhere bright until one turns to agriculture, where the dominant fact is that in LDCs as a whole, food production has failed to keep pace with the demand for food" (p.13).* Such a condition breeds a proliferation of problems and consequences which demand new strategies for their amelioration. One such strategy being introduced is that of privatization.

PRIVATIZATION AND AGRICULTURE

Privatization in the agricultural sector parallels that of the goals enunciated by various governments in the non-agricultural sector. Cowan *[1990]* states: *The agricultural sector has been the subject of state intervention in most LDCs at least since the colonial period. Marketing services have frequently been government monopolies as have input services, pricing and overall management of production. Almost universally, state intervention has proved to be a disaster, in terms of food supply as well as from the viewpoint of the peasant farmer.* Among developing countries, including the Caribbean, governments have always been active players in using parastatals enterprises in all aspects of the agricultural institutions. The intention here is to improve the returns to the country including that of employment in the privatized area. Steve Hanke *[1986, p.6]* in discussing issues in privatizing the agricultural and agribusiness sectors offers the following considerations.

Production Inputs: Involvement in the procurement and distribution of physical inputs, seeds, fertilizer, chemicals and equipment by State enterprises is pervasive.

Capital Resources: In-as-much as government agencies often have access to cheap capital, with institutional guarantees, there is need for a proper balance between public and private funds as a basis for meeting production goals.

Land and Capital Investment: Land tenure programs designed to provide farmers with an incentive to fully involve them on the land are necessary, for without the assurance of long-term interest in the land required to farm and the capital goods needed by entrepreneurs to engage in business, privatization will fail *[Ibid, p.8].*

Here the issue then becomes one of defining how government parastatals will facilitate the efficient flow of these factor inputs to needed farmers.

In Latin America attempts at carrying out these plans exceed actual results except in Central America. An example of an employee purchase plan occurred in Belize where reports indicate that the banana farms have shown increased production since the government sold them to private firms *[Current Issues, 1988].* Privatization has been at the heart of the government program to increase efficiency in the agricultural sector. In Jamaica a recent study by Carl Stone *[Caribbean Affairs, 1992]* sought to determine whether privatization made a difference in the management and performance of divested farm firms. Thirty-three farms were identified and evaluated. The findings were that after privatization, 68 per cent of the total acreage was put into production; 4,522 acres in production under government control increased to 21,700 acres in production, an almost five-fold increase in land utilization. More importantly, however, is that the study concluded that *"Privatization has improved farm productivity".* Hence, the sustaining of agriculture through privatization envisions improvements in farm production and productivity, the granting of ownership rights to the land with all the rights and privilege of ownership but also the availability of the facilitating services including extension, seeds, fertilizer, insecticides and pesticides, as well as all necessary marketing services to improve the success rate of the new owner.

Of course, many of the public firms being considered for privatization are unprofitable and have had a history of government involvement in dictating prices, employment and product selection. It has to be realized that the mere act of selling these off to would-be private firms will not improve their financial condition.

An example of this is recognized in a study in Malawi where the government's program was mainly to improve the Agricultural Development and Marketing Corporation's (ADMAC) financial position by allowing private traders to encourage other private traders to offer more of the transport and marketing functions *[Christiansen and Stackhouse, 1989].* From this experience, four important conclusions were drawn that aptly summarizes the concerns of a privatized agricultural sector: (1) The transition from a government dominated system to one in which markets perform these functions is not easy. There is need for training for those involved in the privatized program; (2) Appropriate planning prior to the implementation stage is essential to the success of privatization; (3) In the presence of privatized crop trading, provision must be made for ensuring that small farmers have access to an effective buyer and seller of last resort; and (4) Explicit guidelines, appropriate regulations and a system of monitoring of privatization programs must be put in place.

For the agricultural producer the issue must be even more focused. The incidence of public ownership often found in the involvement with marketing institutions, e.g. marketing boards and other parastatals might also include the setting of prices and the use of tariffs and quotas. As such, privatization will be reflected in the depoliticizing of the institutions, thus allowing for a true marketing system to operate.

As such, the privatized institution will: (a) seek to create a marketing entity that will stimulate production through improved confidence of producers; (b) establish a pricing mechanism which is reasonably understandable and which has the effect of stimulating agricultural production; and (c) ensure that producers' incomes are stabilized if not guaranteed to facilitate budgeting and forward planning on their part.

CONCLUSION

Rarely in history has an innovation in economic and financial policy been so quickly accepted and become as all encompassing in such a wide range of countries as has the phenomenon of privatization. The goals and objectives espoused by countries in incorporating this concept covers the full range of economic sectors including the agricultural sector.

In the case of the Caribbean, the stabilization of farmers' incomes is paramount. In such a setting government allows private firms to assume the major responsibilities including equity participation in the distribution process of agricultural commodities. To facilitate the objective of stabilization, two institutions - agrarian reform and agricultural insurance are considered necessary to ensure that farmers will have the necessary land and facilities on which to operate and will be assured that their efforts will not be lost to the elements over which they have no control. Through such efforts the country will benefit from the derived earnings. While much of the current discussion is centred on private ownership and operation, there are other points of view as some have argued that there is no inherent reason why state supported institutions cannot succeed. As C.Y. Thomas points out, *"failure of state enterprises is much more a testimony of the failure of governments than it is of the inherent incapacity of enterprise because they are state-owned to perform weir.* In Guyana, he adds that state enterprises suffer principally from the lack of public accountability, the absence of clearly defined goals and objectives. By the same token, in a study in Bangladesh, Quasem found that with the introduction of the policy of privatization, the number of agricultural retailers increased as there was greater involvement by seasonal traders. The conclusion then is that the mere act of privatization is not a sufficient condition for increasing agricultural profitability. Allocative efficiency is a function of market structure rather than ownership. Privatization will not change the nature of the market or environment in which the firm determines its pricing, production and profit decisions. Rather, privatization rests with the gains in productive efficiency that will result since public enterprises are assumed to have less incentive for allocative efficiency in comparison with that of private enterprise.

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