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BOOK NOTES

Agricultural Credit in Economically Underdeveloped Countries (FAO Agricultural Studies, No. 46), Horace Belshaw. Rome: Food and Agriculture Organization, 1959, pp. xvi, 255, 15s. 0d. (stg.)

“Improved agricultural credit is one of the necessary requirements if agriculture is to make an adequate contribution to the process of economic growth in underdeveloped countries.” (p. 65). This is the basic motive behind Dr. Belshaw’s book in which he examines the existing credit framework in backward countries in general, and suggests means by which deficiencies in the credit structure may be remedied.

So many differences exist between advanced and underdeveloped economies in respect of the conditions under which rural credit operations must take place, that traditional Western experience is largely inapplicable to less advanced countries. For instance, characteristics of the peasant societies on which the author concentrates, present special difficulties for agricultural credit, e.g., the small farms and low incomes, the long seasonal periods during which no returns are forthcoming, the illiteracy and tribal customs, etc.

The usual pattern of agricultural credit as experienced in the past has been one in which local merchants, traders and moneylenders, as the most important source of finance for peasant farmers, have exploited the helplessness, ignorance and necessity of the borrower by charging disproportionately high interest rates (up to 24 per cent) and by other questionable practices. These lenders rarely re-invest their large profits in the agricultural sector, and as a result there has been a net drain of funds out of agriculture. In addition to this, the credit which has been given has remained at best “static” in nature, i.e., after paying interest and repaying debt, the assets and earning power of the farmer have remained unchanged. The basic problem as Belshaw sees it, is to convert “static” to “dynamic” credit so that agricultural production and incomes are increased. This conversion may be achieved by increasing the supply and reducing the cost of credit and by integrating it with adequate ancillary services.

An increase in the supply of funds to agriculture can be achieved by encouraging rural saving or by direct transfer of money from outside the rural sector. In the latter case, the government may provide assistance by expenditure on public works, agricultural extension, etc., and by assisting in the development of an active capital market which will facilitate the flow of private funds into the rural sector.

The author defines some criteria of efficiency for an agricultural credit system in an underdeveloped country. The system should aim at keeping down the cost of credit without giving undue favour to any specific individual or group and should be orientated towards convenience to the borrower. Integration of credit with marketing and supply is of vital importance. The reduction of risk to the farmer should be a further goal; credit, together with improved extension and supervision can reduce technical and commercial risks facing the peasant.

Considerable attention is devoted to co-operative credit societies. The advantages of this approach are offset to some extent by socio-economic difficulties arising from the nature of peasant communities. The Government should provide finance and other assistance with the aim of allowing the co-operative ultimately to be independent. Another useful avenue is "supervised credit" which is controlled by a field officer and which takes account of the needs of the family as well as the farm through budgetary methods.

It soon becomes apparent that if the ideals of the agricultural credit system for underdeveloped countries which Belshaw advocates are to be achieved, government must assume an extremely active role, at least in the initial stage of development. Its functions must include the establishment and supervision of credit agencies and instruments, the provision of ancillary services such as supply information, storage facilities, extension services, etc., and the promotion of a favourable climate for private investment in agriculture. The central bank may often have to participate in activities not normally associated with traditional reserve banking. Further, the government must make finance available in numerous ways, both direct and indirect, to assist the growth of the agricultural sector. Although the author admits (when speaking of the central bank) that "limitations (may be) imposed by the volume of real resources" (p. 227), one wonders perhaps whether he does not expect too much from a government which, in the important early stages, may well find its resources of technical knowledge and trained personnel to be limiting.

Nevertheless, this book will be of great value to all those interested in the development of backward economies. The writer, who has had wide experience in undeveloped countries, is concerned with making practical proposals for policy rather than with developing arguments along theoretical lines, and numerous examples of past credit experience in many countries serve to illustrate the text.

Principles for British Agricultural Policy. Edited by H. T. Williams. Oxford University Press, 1960. Pp. vii, 317, 33s. 6d. (stg.)

The experience of being critically short of food in two world wars has caused recent governments in the United Kingdom to be fairly thorough in the determination of agricultural policy. In a food-surplus country like Australia, with great natural advantages for agricultural and pastoral production, it is difficult to appreciate the problems of a country like the United Kingdom which depends upon home production for some of its food requirements and imports the remainder; apart from the risks of periods of food shortage, many factors have to be considered in determining the best balance between the volume and composition of domestic production on the one hand and imports on the other.

At the end of World War II the Nuffield Foundation recognized the importance of a sound agricultural policy and brought together a committee representing economics, farming, agricultural science, sociology, nutritional science and military strategy to work out a set of principles "on which long-term policy might be based for such use of the land as would serve the enduring interest of the country". The chairman of the committee was Sir Frank Engledow, then Drapers Professor of Agriculture at Cambridge.

The late Mr. T. Eastwood, with the help of a Nuffield Foundation grant, was appointed in 1948 to collect information and to compile the record of the committee's discussions. Other research workers and experts contributed information on soil science, human nutrition and rural life. Mr. Eastwood had completed a first draft of the whole report when he took up an appointment with FAO in 1951. Little further progress was made until 1956 when Mr. H. T. Williams undertook the task of preparing the report for publication. Because of the long break in the work of the committee, Mr. Williams was given freedom to edit and develop the original draft in consultation with the chairman. The result is a very useful report which, as Sir Frank Engledow says in the foreword, is "informed not only by experience in the war and post-war years of world scarcity of food, but also by the past few years of market plenty."

The book is in five main divisions, each part containing its own conclusions. In this way the report sets out very clearly the principles for policy derived from (i) an historical review of agriculture, (ii) agricultural science and farming experience, (iii) a review of farming life, (iv) strategic considerations and (v) considerations of the demand and supply of farm products.

One point on which some disagreement with the report could be expected is in connection with the brief reference to the influence of climate on farming practice. To support a claim that "In general, the [United Kingdom] climate is very favourable to agriculture" there is a statement that "the country is almost free from the soil erosion and crop damage caused by high winds and violent rains experienced in many parts of North America, Africa, Australia and Asia". This is an over-simplification, neglecting the adverse aspects of the United Kingdom climate and favourable climatic features of the other countries mentioned. In fact, when one considers the long and expensive harvesting delays due to wet weather, the need for expensive grain-drying machinery, the added costs of housing cattle for five to seven months per year and the frequent problems of soil drainage, one would be tempted to argue that it is largely the climate which causes food production in the United Kingdom to be difficult and expensive.

In general, however, the conclusions reached are based on informative discussion which should be especially helpful to those concerned with policy formulation. Of particular interest is Part IV, which deals with strategic considerations. In this section it is argued that the aim of United Kingdom agricultural policy must be to ensure security by means which least affect its ability to enjoy the fruits of international division of labour. Possibilities for reducing Britain's dependence on food imports are discussed but "the prudent conclusion is that although in another war, home production could contribute a higher proportion of total food supplies than in 1943, taking the growth of population into account, the absolute figure for food import requirements would not be very much less than in the middle years of the Second World War".

The report contains an interesting chapter on the key problem of peacetime measures to safeguard Britain's food supply in the event of war. It is shown that in the inter-war years little attempt was made to dissociate the problems of food defence from those of general defence.

“As a result two schools of thought emerged, the one putting its faith in storage and the other in the defensive planning of home agriculture. The two lines of thought appeared to be in opposition.

“The exponents of storage concentrated their attention on iron ore, grain and timber, which together made up nearly half the tonnage of British imports in a normal peace-time year.

“The ‘defensive agriculture’ principle involved putting British agriculture on a war footing in peace-time and keeping it there. This proposal was unacceptable because of the cost involved for the world price of cereals in many cases subsidized between the wars was so much lower than the home cost of production that it would have taken large subsidies to maintain the British cereal acreage at a high level.

“Another argument against a ‘defensive agriculture’ in peace-time was that the reduced volume of food imports it implied would cause a decline in the size of the merchant navy. Since the carrying capacity of the merchant fleet would adjust itself to the volume of peace-time trade, the provision of shipping for war-time purposes would not be made any easier . . . It was only possible to meet the heavy shipping demands of the two world wars because our merchant navy and shipbuilding capacity were large and they were large partly because we were importing in peace-time large quantities of food.”

Thus, from the experience of previous war-time emergencies, the report stresses the value of a shipping reserve and a strategically sound system of agriculture: “Strategically, a high degree of self-sufficiency in peace-time is not essential. Moreover, it would conflict with the need for a large volume of imports to ensure a healthy shipbuilding industry and a strong Merchant Navy. What is important is not so much the food currently produced as the condition of the industry which produces it—the soil, the skill of the farmers, and their workers, the man-power, and the equipment. Change in the composition of agricultural output in an emergency cannot be effected suddenly, and the peace-time state of the industry should be such as to allow as quick a change as natural conditions permit.”

American Wheat Exports, Policies, and Prospects. Helen C. Farnsworth. Stanford, California: Food Research Institute, 1960. Pp. 60, \$1.00.

This publication is a sequel to *Multiple Pricing of American Wheat*, Food Research Institute Studies in Commodity Economics and Agricultural Policy 1, 1958. It is a concise but worthwhile discussion of the complex American wheat export programme, of which the author says, “none is less understood, more controversial, or more far reaching in its economic effects”.

The topic is introduced with an outline of the volume and destination of wheat exports, in historical perspective. The emergence of the United States as the premier wheat exporter (with usually 35-45 per cent of total exports) is noted, and it is suggested that this is a “rank attributable less to the competitive power of American wheat growers than to the competitive power of the American Treasury”. Of the 1956-57 record American wheat exports (550 million bushels), less than a third was in “commercial” sales, and even these were subsidized by the general wheat export subsidy.

Some important observations are made on the importing countries. In general, Europe has declined in relative importance as the chief market for American wheat and Asia has advanced. Also every wheat importing country has taken more American wheat during the post-war period than it did earlier.

The second section is devoted to the distinguishing features of "commercial" versus "special" exports. This terminology is defined by reference to the International Wheat Agreement, 1959, in which "Special" sales include sales involving (i) long-term credit, (ii) government loans, (iii) inconvertible currency, (iv) barter transactions, (v) bilateral trade agreements, (vi) gifts or grants. All other exports are referred to as "Commercial".

Having defined the form which "special" exports may take, the third section discusses the characteristics and economic significance of the four major types. In particular the ill-effects of foreign currency sales under "section 402" and P.L. 480 and barter agreements are analysed. The author suggests that these are inconsistent with present United States policy; "(1) that commercial wheat markets must be maintained, and surpluses eventually eliminated; and (2) that commercial wheat markets of friendly foreign wheat-exporting nations must not be undermined by surplus disposal techniques". Grants are more favourably reviewed, and it is suggested that these "deserve the unanimous approval . . . of all competing exporting countries". The handicaps of long-term credit and associated long-term contracts appear to make this form of "sale" unattractive to importers.

The volume, destination and importance of "commercial" exports is discussed with particular reference to the decrease in the relative importance of these exports due to the mushrooming of "special" exports. Trade records indicate that subsidized American export competition has caused some restriction of Australian and Argentine exports. The author suggests that this is unfair, not because the volume of United States exports was so large but because this was "subsidized competition financed by domestic consumers and the national Treasury". More recently the various United States wheat disposal plans have operated with more consideration for other exporting countries. This has been reflected in the reduction of barter transactions, triangular sales, and long-term contracts. The author expresses concern that administered "commercial" export prices are fixed "at an excessively high level" without regard for the underlying economic equilibrium price for wheat. Such overpricing encourages governments to maintain prices to their producers at unreal high levels, which in turn "results in higher wheat production, smaller 'commercial' imports, and larger competitive export supplies".

An evaluation of future supply and markets for wheat is made difficult due to possible population growth, dietary changes, production prospects, rice surpluses, "commercial" wheat prices, changing import purchasing power, and future attitudes of various governments. But the author suggests a stable Western European wheat consumption and a possible sharp expansion of wheat consumption in rapidly growing underdeveloped countries. When discussing prospective supplies it is suggested that Australia has reduced wheat acreage and become "a high cost exporter", as part of "revolutionary

changes" in the agricultural economy. Recent trends back to wheat indicate that the changes which have taken place are more closely geared to relative prices for farm products, than the author suggests.

The author closes by outlining the basic elements for a new American wheat programme, based on more realistic commercial prices, regard for other exporters, and recognition by the United States "that any 'domestic' wheat programme is an 'international' economic programme".

In this complete, concise discussion, the author presents evidence which, in her own words "leaves no doubt that responsibility for the present heavy world wheat surplus lies with the United States, not outside". The importance of this to Australia hardly needs emphasizing, as wheatgrowers are increasing acreages and the Commonwealth Government faces a payout of several millions as subsidy to growers in this present season.