BOOK REVIEWS

The Impact of Tax Policy on Agricultural Investment in Australia, T. E. Glau. Department of Agricultural Economics, The University of Sydney, Mimeographed Report No. 5, 1971. Pp. xi, 253.

This report is a copy (with the omission of appendices) of T. E. Glau's Ph.D. thesis submitted in September, 1970. It is the most detailed and readily available economic analysis of this topic to date. As well as being necessary reading for anyone working in this particular field, because of the comprehensive treatment of most aspects of taxation, which have been relatively neglected in most farm management and policy work, it provides worthwhile reading for a wider audience.

Glau begins by outlining the history of taxation and the aspects of the present Australian tax structure influencing agricultural firms. In addition he estimates the benefits to primary producers from the investment incentive provided. This reveals that in recent years this benefit has been larger than any individual direct subsidy. He thus concludes that "the magnitude of the benefits to primary producers from the investment incentives warrants the analysis of the potential and actual effectiveness of tax policy in ensuring that national goals are being achieved".

The second section begins this analysis with a partial equilibrium analysis of two important aspects of tax policy:

(a) The accelerated depreciation concession and investment allowance. An example of the likely effects on replacement policies of machinery is given with some expected income inequities noted.

(b) The mechanics of the livestock trading account are illustrated and it is shown that this has the effect of postponing tax payment or alternatively reducing the real cost of increasing herd or flock size.

The third section develops the theory of the firm to include consideration of taxation. He considers the implications of annual inputs, capital inputs and progressive taxation on the specification of a so-called, neutral income tax policy. This is extended to include firm growth and Glau then develops a multiperiod linear programming model which incorporates existing features of the present Australian tax system.[1]

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[1] An interesting alternative procedure for incorporating a progressive tax structure is given in J. M. Vandeputte and C. B. Baker, "Specifying the Allocation of Income Among Taxes Consumption and Savings in Linear Programming Models", *American Journal of Agricultural Economics*, Vol. 52, No. 4 (November, 1970), p. 521.

In the following section this model is used in a case study of two farms similar in physical but different in financial characteristics. Three factors are suggested for assessing the effect of tax concessions on these situations:

(i) effective tax rate (tax versus no tax).

(ii) cumulative tax saving (a measure of the, so-called, income effect).

(iii) examination of substitution effects.

From this analysis he concludes that present tax concessions significantly increase the individual producer's incentive to invest.

The final section involves an aggregate level analysis which attempts to measure the additional investment, by farmers, which has resulted from income tax incentives. A modified stock adjustment model of investment behaviour is used to find estimates of this additional investment. This revealed that only since the introduction of the 20 per cent initial investment allowance, in 1963, has the additional investment due to tax incentives exceeded the cost to society of the tax saving of farmers.

In conclusion Glau emphasizes the need for consideration of taxation in studies of farm development—pointing to his results as evidence of its importance. He also suggests several areas requiring further research. For example, from a taxation point of view he calls for investigations into a more explicit method of taxing the profits of the livestock account. The present method he suggests is inequitable and since it is probably understood by very few farmers is of limited effectiveness in stimulating investment. On a broader note he suggests increased research into the determinants of investment behaviour.

The availability of this mimeograph is restricted in the case of individuals, but should be available through libraries.

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Agricultural Policy in Wealthy Countries, P. G. James. Sydney: Angus and Robertson, 1971. Pp. xiii, 368. \$5.50 paperback. \$6.00 cloth.

Almost all nations that have achieved a high level of economic development have met with a common phenomenon—that of the lower cash income of the farmer relative to other self-employed persons. This has been called *The Farm Problem* and the reasons for its existence and what can and should be done about it have been the subject of passionate and often self-interested debate. Many economists would argue that the apparent income differential represents the valuation farmers place on the non-monetary benefits of their occupation and that free market allocation of factors of production is the most desirable method. However, the social disruption that is said to be caused by low incomes and political agitation from farmer and allied industry representatives has led to government intervention in the market on a massive scale.

Gwyn James offers an overview of the whole subject: the causes and cures of the *Farm Problem*; its social, political and economic aspects, and the variations that have appeared in different economies. This broad vision should recommend itself to its desired audience, not only students but politicians, farmers, extension workers and the general public. While his arguments are hardly new and are certain to be questioned, they are comprehensive and thorough. Unfortunately, the promise of the book is slightly marred by a few contradictions and some ponderous prose. On page 360 James states: "Farm operators wholeheartedly support methods that maintain their gross return from production at a level generally higher than that which reflects the free interplay of market forces." But on page 355 he contradicts this statement by concluding that "farmers do not wish to be supported by artificial policies inspired by benevolent Governments".

The first three chapters deal with the nature of the *Farm Problem* First the contrapuntal forces of agriculture, politics and economics are fitted into the framework of policy formulation. This leads to an examination of the pressures that cause adjustment between supply and demand, between factors of production, and between the various stages of processing. The impact of technological changes and sociological forces on agriculture are discussed. Finally, in chapter 3, James identifies the farm problem. He says it has been seen as a problem of lower income for farmers, also as an inadequate price relative to costs, and also as an unsatisfactory rate of resource re-allocation. He considers that the farm problem can be most usefully viewed as one of adjustment.

In chapters 4 to 7 (which consists of about one third of the book) the farm problem and the past attempts at a solution are examined by means of examples from the agricultural problems of and resulting government policies of Australia, the United Kingdom, the European Economic Community and the United States of America. These chapters are particularly interesting for comparison of the constraints that the different political frameworks have imposed and also of the different approaches that have been tried and the degree of success achieved in solving the problem.

In chapter 8 James argues that, in the past, farm policies have attacked the symptoms but not the root causes of the farm problem. Subsidies and tariffs are shown to be dangerous policies that attack only the price symptom. They do not help the low producing farmer because he produces so little that higher prices do not significantly raise his income. Nor do such policies remove the basic cause of lower incomes which he says is farmer immobility. Thus he introduces the various proposals for "reconstruction" and "adjustment" that have been put forward in various countries. Commonly, farmers have been induced to leave agriculture by offers of retraining, pensions and cash grants. "Uneconomic" units are either withdrawn from agriculture or amalgamated into larger ones which are capable of producing a certain minimum income with efficient management.

In his conclusion, James argues that the concept of a "fair" price, a price based on the cost of production, is erroneous. He says that production must be related to the requirements of the market and we must attempt to overcome the causes of price instability rather than temporarily alleviate its symptoms. Specialized, non-compulsory marketing agencies are put forward as one thrust of his attack. Marketing is seen as an integral part of the production process directly affecting the farmer's income. For Governments, he prescribes a strategic withdrawal from interference with the market price, as this is the mechanism for equating supply and demand. However, to James, while subsidies, quotas and tariffs adversely distort resource allocation, "reconstruction" and "adjustment" do not. He argues that imperfect competition in the labour market and the phenomena described in Glenn Johnson's asset fixity theory give farmers an unfair disadvantage in competition that should be corrected by Government programmes. In this way, he says, we can effect a permanent cure for the farm problem.

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Measuring the Effectiveness of Agricultural Marketing in Contributing to Economic Development: Some African Examples, W. O. Jones. Stanford University: reprint from Food Research Institute Studies in Agricultural Economics, Trade and Development, Vol. 9, No. 3, 1970. Pp. 22. $US1.00.

This bulletin is principally concerned with the implication of marketing activities for the central issues of allocation and distribution, growth and stability, and efficiency in economic development. The traditional assessment approach to marketing, by function, is the basis of the bulletin.

There is a fundamental confusion apparent throughout the paper. The first manifestation occurs when Jones attempts to describe and define marketing. He states: "It is customary to say that the marketing system increases the place, time, and form utility of the commodities that pass through it. Strictly speaking this is wrong. Place utility is enhanced by transporting a commodity, time utility by storing it, and form utility by processing it. These are purely physical activities . . . it is the complex net work of economic exchange comprising the marketing system that makes it possible for productive activities to be performed . . . Marketing, or exchange, is the economic element in distribution as opposed to the more visible technical element." These views infer that a marketing system is comprised of various functional elements, which is acceptable, but it also infers that these elements are derivatives of marketing (so defined), which is not acceptable.

The identification of the exchange function in its very narrowest sense with marketing is then apparently contradicted: "The marketing system is an allocating mechanism. It exists to facilitate the rational allocation of resources in production and of products among users. Study of marketing is therefore a study of the allocating process."

Jones' penchant for description and definition and its diversity suggests that he is not altogether clear as to what subject matter should be contained under the banner of marketing. The delineation between what is marketing and what is a marketing system and explanation of the relationship between them is unnecessary, untenable, and detrimental for the purposes of exposition. In one sense, it can be argued that without the desire for exchange, the physical and facilitating functions would be unnecessary. But given this, these other functions cannot be considered apart from the pure exchange function. A more reasonable proposition from which to proceed would have been to consider marketing as the "analyzing, organizing, planning, and controlling of resources, policies, and activities with a view to satisfying the needs and wants of consumers". Such an approach would not have forced Jones into the position where, to assess the effectiveness of marketing, the efficiency of elements of the marketing system are taken as criteria. That this is done illustrates two points. Firstly, that marketing must be broadly considered. Secondly, that the various physical and facilitating functions of marketing are inextricable. All contribute to exchange.

This bulletin can also be commented upon from a more specific point of view. Jones states that the general "tasks" that a marketing system must perform if an economy is to achieve maximum productivity are to provide: transport; storage; market intelligence; market places; an ability for participants to respond to market opportunities (carrying of risk, financial support), and; moderate marketing margins.

This listing is by no means exhaustive. Marketing authorities may no be in complete agreement as to the specific activities that should be classified as basic marketing functions but most listings do include three important functions which would seem to be indispensable parts of the marketing process in a developing economy and which are ignored as such in this paper. The functions referred to are those of grading and standardization, processing and planning. It is surprising that Jones has not given emphasis to these facilitating elements of marketing. The first of these, grading and standardization, is referred to only in passing. "Traders who see advantage in learning about supplies and prices in other markets find little difficulty in getting such information through private sources, and merchants who trade in markets with differing measures of volume appear to be able to convert from one to another easily. The same is true of quality standards". Processing is ignored as is market planning. This is particularly disappointing in the latter case as the planning function, responsible for co-ordinating all other functions to form a composite and hopefully efficient system, can be considered the most important of all functions in a developing economy.

When discussing the functions he does list, Jones constantly refers to specific, localized, and one would expect unique situational examples. Interesting as these are, such an approach, because of its very nature is inadequate in effecting an understanding of measuring the effectiveness of agricultural marketing. Such measurement becomes no more than subjective judgment. On the other hand, if objective assessment is impossible, an attempt should be made to present an integrated knowledge of the existing marketing systems by looking at similarities and complementarities among them. This is not done.

In the "general evaluation" the summary comments put forward are disappointing because of their complete lack of analysis. "The Nigerian system appears to function best"... "In Kenya a private trading system badly crippled by government intervention still manages to market perhaps four times as much maize as does the official monopoly"—are examples of what should have been one of the more interesting and certainly more important sections of the bulletin.

The paper concludes with a section entitled "marketing and the green revolution". This speculates on the stresses that a marketing system will have to endure if a country is to progress through stages of growth more rapidly than it would otherwise have done. Interestingly, towards the end of the section Jones ignores an earlier quoted "law of economic theory" that "economic progress, broadly viewed, tends to be accompanied by a decline in the relative importance of agriculture" and argues that "one major concern must be the extent to which the new technology can be introduced without reducing employment in farming... If supplies of the new inputs are difficult to obtain and the new outputs difficult to market because of large inadequacies of the distribution system, farmers with ample resources will enjoy a distinct advantage through their greater bargaining power. This could reinforce the tendency already apparent in some of the less developed countries to large-scale mechanized agriculture". It may well be that larger producers can become dominant in a relative sense in the earlier stages of development of an economy and reduce agricultural employment. However, one is left wondering what the point of the remark is since it is not theoretically demonstrable, and certainly not indicated in the text, whether this is good or bad.

Jones is obviously conversant with much of the existing literature and has had long experience in the field. In this sense the paper must be assessed as a work of scholarship. The overall impression is one of disappointment.

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Cost-Benefit Analysis: An Informal Introduction, E. J. Mishan. London: George Allen and Unwin Ltd, 1971. Pp. 364. $8.90 limp cover, $14.65 cloth.

Mishan promises an introductory text on cost-benefit analysis which is mostly free of mathematics and digestible by anyone with a reasonable grasp of economic concepts. The virtual absence of mathematical formulations leads to often lengthy descriptions of the various economic abstractions involved, but Mishan offers no apology for this, and certainly he must face a large market among students and public servants who would prefer a non-mathematical treatment.

The explanation of cost-benefit analysis is properly based in price theory and welfare economics. Thus, the student who works carefully through the book will gain an enlarged grasp of both of these areas of economics, as well as an understanding of the particular application of these parts of economic theory to cost-benefit analysis.

The book begins with five chapters which are very brief descriptions of the central aspects of five published cost-benefit studies. Provision of such examples is a good technique for demonstrating the power of the analysis (which, as with applied economics generally, is largely dependent on the ingenuity of the analyst), as well as stimulating interest for the discussion to follow.

Part II of the book is composed of seven chapters describing, again rather briefly, some of the economic concepts which will be met in cost-benefit analysis, viz., consumer's surplus, producer's surplus, transfer payments, shadow prices, and the theory of second best.

The next two parts, comprising twenty-four chapters, provide a rather more full treatment of external effects and investment criteria. The subject of externalities is, of course, one on which Mishan has written extensively, and as one would expect his treatment is both lucid and confident. Short chapters provide a discussion of compensation and legal liability. Then there are two chapters containing a relatively extended discussion of the gains and losses arising from changes in the incidence of death, disablement, or disease caused by the operation of new projects. Here Mishan essentially demonstrates how the concepts of Pareto optimality and compensating variation can be applied to arrive at a method for calculating the gains and losses to society from projects affecting loss of life and limb.

As Mishan acknowledges, part V on the subject of uncertainty in project evaluation is probably the least satisfactory part of the book—a state of affairs mainly due to the early stage of development in this area of economics. Mishan provides an introduction to the concepts and problems with chapters on certainty equivalence, game theory, probability, and utility.

The final part of the book, part VI, is divided into three sections which provide in turn a more advanced discussion of three subjects already covered—the welfare basis of cost-benefit analysis, more accurate measures of consumer's surplus and rent, and finally, the effects on allocation, distribution, and equity of what might be called the direction of bias in the laws of liability. The first of these sections is essentially concerned with the relevance of welfare economics, and hence cost-benefit analysis (and most other economic analysis perhaps), to the way in which decisions are actually made in an economy with elected representatives. In the third section Mishan attempts to give some analytical force to a proposition which he has recently canvassed—that the liability in law should be biassed against activities likely to produce external costs.

Altogether, this is a book which is mostly easy to read. The author's technique of breaking the subject up into a large number of short chapters contributes to this end. It is enjoyable reading, with occasional moments of humour. I consider the book to be good value at the price quoted.

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Marketing Research, J. Seibert and G. Wills (editors). Penguin Modern Management Readings, Penguin Books, 1970. Pp. 392. $1.70.

The editorial introduction to this book places marketing research in the corporate context and proposes a "model" of the marketing process which, it is said, "shows the role of marketing research as the sensitivity monitor in the market place". This conceptualization of the role of marketing research is rather simplistic. The general property ascribed to marketing research by Seibert and Wills is more properly that of a marketing information system of which marketing research is part, and which itself is a subset of the total management information system. All in all, the statement by the authors, expecially the "model" taken from a mystical figure called King (no reference), sets a low tone for the book which, unfortunately, is maintained.

The aim of the book, as inferred above, is to place marketing research in its managerial context. In fulfilment of this objective, "the managerial problems" and secondly "the regular tools and techniques" of marketing research are examined.

The book is divided into two parts—the management of marketing research and marketing research methods. It contains eighteen papers drawn from a variety of sources. Those contained in part one are by Crisp, Mayer, Wills, Harden and Lindell, Blakenship and Doyle, Haldane, and Rodgers. The best are those by Mayer and Wills. Mayer is concerned with choosing a marketing research contractor by a quasi-objective rating system, and Wills with cost-benefit analysis of test markets. The latter is based on an integration of Bayesian decision theory and network analysis, in conjunction with discounted cash flow technique. Part two contains papers by Blunden, Emmett, Kotler, Payne, Rothman, Goldman, Sudman, Fothergill, Adler, and Levine and Gordon. The paper by Kotler, which looks at mathematical models of buyer behaviour, is one of the better inclusions.

The relevance of some of the papers to the theme of the book is not entirely obvious. This criticism applies in particular to the second section. The paper by Payne for example is concerned with the semantics of questions in relation to meant and attributed meanings. However, this apparent lack of consistency may be explained by the necessity of the authors to adhere to the structure of the *Management Readings* series.

Notwithstanding the inconsistency of the papers in relation to the objectives of the book, the second main weakness is in the quality of a number of the papers themselves. It is obvious that a better selection, with exceptions, some of which are mentioned, could have been made.

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