

THE ECONOMICS OF STATE ASSISTANCE
TO
AGRICULTURE
with special reference to future
policy in South Africa.

by

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PREFATORIAL NOTE.

This study was written during the winter of 1946. The original draft has since been slightly amended in the light of two governmental reports which have recently been published, namely the Report of the Distribution Costs Commission (Second Report), U.G. 28/47, and the Report of the National Marketing Council on the Marketing Boards, 1938-1946, U.G.27/47.

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INTRODUCTION.

The argument by which it is shown that, under a system of free competition, prices are determined in a way which secures to consumers a maximum aggregate of satisfaction consonant with the relative scarcity of the means of production is the familiar material of many treatises on economics, and does not need to be repeated here. In Economics (as distinct from Politics) this argument provided in a simple form the logical justification for the advocacy of laissez faire in State policy during the early 19th century, even though "it was the actual success of private enterprise and the inefficiency and corruption of Government control that caused laissez faire to be an acceptable policy".⁽¹⁾ No-one, of course, contended that pure competition did in fact characterize the economic relations of the time. Quite the reverse. It was argued that if the hindrances to competition were removed, society as a whole would reap the benefits indicated by the theory. "The Classical Economists ... looked upon (competition) as a sort of ideal means for the achievement of social well-being."⁽²⁾

But despite the classical economists, modern economic development proceeds ever more and more on lines of conscious social control. Agriculture, perhaps more than any other branch of economic activity, exhibits this recent tendency towards central and social direction. Accordingly, it is pertinent to ask why the arguments

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1. BUER, Health, Wealth and Population, quoted by HUTT, Economists and the Public, p. 138.
 2. HUTT, Economists and the Public, pp. 154-155.

favouring the free and unfettered development of institutions in accordance with laissez faire doctrine have been put aside. Are the arguments themselves false ? or is it impossible for technical reasons to realize their basic assumptions in actual practice ? or for political and other extra-economic reasons ? To answer these questions (with special reference to the implications in the economics of agriculture in South Africa) will occupy the first division of this enquiry. The second division will be taken up with a discussion of economically advantageous intervention by the State. A final division will appraise the recently enunciated South African policy towards agriculture in the light of the foregoing.

P A R T O N E .Chapter One.

The function of the market may be regarded as that of bringing together buyers and sellers for the purpose of the exchange of goods and money to their (the buyers' and sellers') mutual benefit. The mechanism by which the market performs its function is that of price, which regulates the amount of any commodity demanded to the available supply. The first and essential condition of the FREE market (the ideal institution envisaged by the classical economists) is the competition in it of a large number of buyers and sellers. If for some technical reason (such for instance as increasing returns in industry) a given quantity of goods can most cheaply and efficiently be produced by a relatively small number of units or a single unit, a situation may arise in which producers combine in order to achieve real economies of production ; and as a result of their having combined for this purpose they are also placed in the position of a monopolist.

"If we assume competition to begin with, a standardized product and add the assumption that average costs will decrease so long as any firm increases, we can predict that competition will give way to monopoly, for this is implicit in our premises." (1)

The assumption of a free market is therefore one which is not necessarily consistent with production at minimum cost unless it is shown that average costs cannot decrease as the output of a firm increases up to the point at which that firm produces the same volume of output as did the whole industry before.

From United States sources there is abundance of evidence to show that in manufacturing industry there are increasing returns to scale. Monographs of the Temporary

National Economic Committee provide a wealth of material.

Steindl mentions as an instance that

"in the steel industry, the automatic strip mill has reduced direct man-hour requirements by 97% as compared with the obsolete hand-mill process used in the early twenties, while the necessary capital investment in an efficient modern steel works is about \$ 100 millions." (1)

A detailed study of the available material leads to the conclusion that

"in the course of technical development up to now the most efficient size of plant in many industries has steadily increased", (2)

but the question as to whether or not there is a limit to this process is not conclusively answered. As to the connection between increasing returns to scale and the emergence of monopolistic conditions, Steindl observes

"Whatever the relative weight of the various factors... it is certain that in a sense large scale economies are the primary factor. They are basic, because without them firms would hardly grow to the size at which they are able to exercise monopoly power... However much monopoly power and financial conditions may contribute to the advantages which big firms enjoy, these advantages are in the last resort based on technical conditions." (3)

It being recognised, then, that realisation of the economies of large-scale operation may involve some degree of monopolistic control of the market, justification is found for public interference in the economy with the object of subduing an actual or incipient monopoly to the public weal -- i.e. preventing it from exercising its control over the market to the public detriment. A discussion of the forms which such public control may take is not germane to the present purpose.

The writer has been able to find no satisfactory and conclusive evidence as to whether or not agriculture is subject to increasing returns to scale. Van der post

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1. STEINDL, Small and Big Business, p. 15, quoting T.N.E.C. monograph No. 22.
 2. STEINDL, op. cit. p. 17.
 3. STEINDL, op. cit. p. 21.

contends that "especially in agriculture does the inexorable law of diminishing increments ... operate",⁽¹⁾ and proceeds to indicate the reasons, of which he mentions two. First,

"... as applied to a portion of land, the law states that after a certain point is reached, other things remaining the same, the returns of successive applications, or doses of labour and capital, will successively diminish." (2)

Second,

"beyond a certain point, every additional quality of land taken into cultivation gives a diminishing return per unit of productive power". (3)

These considerations, however, relate solely to marginal physical returns to individual factors of production, and are not concerned with returns to scale. They do not in themselves refute the view that large-scale farming would be any less efficient than small-scale operation. But there are other reasons which suggest that the size of efficient farms may be limited at the present time, as conveyed in the following quotation.

"Farming in general has not yet shown itself to be adapted to large-scale operation in the sense of being conducted in large operating units employing a great number of hired workers. There are some successful farms thus conducted but they are rare. At least one contributing factor to this is that agricultural work cannot be easily standardised and supervised. The variations in weather affecting soil, crops and livestock call for the constant attention of the farmer to adapt his plans for cultivation, feeding, etc, to new conditions. The fact that labourers are not in one building, but scattered over the farm increases the problem of supervision. Successful farming usually involves the doing of many little odd jobs and tasks not in a regular schedule, which an operator (i.e. owner) is more likely to look after than hired labour ... The person with unusual ability to organize and direct the labour of hired employees has in general had a better opportunity to make profits in other kinds of business undertakings. In general, the successful farm has tended to conform to a family-sized farm, employing perhaps a few hired labourers." (4)

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1. Van der POST, *Economics of Agriculture*, p. 81.
 2. Van der POST, *op. cit.* p. 83, quoting NICHOLSON, *Elements of Political Economy*.
 3. Van der POST, as in (2).
 4. DUMMEIER AND HEFLEBOWER, *Economics with Applications to Agriculture*.

The problem of management, in sum, is held largely to account for the failure of agriculture to realize increasing returns to scale. But whether or not this explanation is valid, the fact remains incontestable that small-scale operation is characteristic of agriculture, while in manufacturing industry and in some other sectors of the economy, the reverse is true.

Data for a comparison of the scale of operation of agriculture and manufacture in South Africa are given below.

TABLE 1. (1)

South African secondary industry (1940-1941).

<u>Industry.</u>	<u>%age of establish- ments producing half the total output.</u>	<u>%age of total output produced by half the establishments</u>
Food and drink	3.5	1.4
Vehicles	0.4	5.0
Metals and engineering	5.0	3.6
Clothing and textiles	3.9	4.0
Building	6.4	5.2
Stone and clay	3.1	3.3
Paper and printing	5.0	5.0
Wood	6.4	6.4
Furniture	8.0	8.0
Leather	6.0	1.3
Chemicals	4.8	5.0
Heat light & power	3.5	1.8
Surgical instruments & jewellery	4.8	3.0
Raw materials	6.5	4.9
Other	3.3	3.0

TABLE 2. (2)

European-occupied farms and holdings, 1938.

<u>Size in morgen</u>	<u>Number</u>	<u>Total area (000 morgen)</u>
Under 5	3783	88
5-20	9927	971
21-100	10532	607
101-500	34861	10632
501-1000	20621	15145
1001-2000	13129	18859
2001-3000	4497	11291
3001-5000	3625	14059
5001-10000	2167	15133
Over 10000	873	14291

1. Taken from R. H. Smith, "The Size of the South African Industrial Unit", S. A. J. E. December 1945, p. 302.
2. Taken from Union Year Book, 1939.

These tables set out in simple form the contrast between the concentrated character of manufacturing industry, and the 'atomistic' nature of agriculture.

The emergence of the large operating unit in manufacture may be accounted for in many and various ways, though no precise significance can be attached to any one isolated factor. Taussig contends that

"it is not clear to what degree its growth" -- i.e. the growth of large-scale management -- "has been actuated by the expectation of achieving internal economies, how far by that of securing a monopolistic or semi-monopolistic control of price Horizontal combination has a place among possible internal economies, though a dubious and uncertain one." (1)

Quite apart from the search for monopoly profits or for economies of scale, some weight may be attached to the assertion of leadership and also to the desire to alleviate the risk burden. Says MacGregor,

"... there is something to be said for capitalist evolution in the alleviation of risks ; so that we cannot easily separate the risk element from the simple purpose of leadership and wide control. This desire for more extensive control is a feature merely of active enterprise and ambition ; it has counterparts outside of industry. But as distinguished from, for instance, the tendency of public departments to expand when they can, the mixture of risk with ambition is a special industrial fact." (2)

It has already been suggested as unlikely that there are significant economies of scale to be realised in agriculture -- in contrast with secondary industry. No satisfactory generalisation as to the comparative significance of the desire to assert the quality of leadership in agriculture and industry can be arrived at, so this factor is ignored in what follows. In a consideration which follows of the so-called 'disabilities' of farmers vis-a-vis manufacturers arising out of their.

1. TAUSSIG, Principles of Economics, Vol. 1, p. 178.
2. MACGREGOR, Enterprise, Purpose and Profit, p. 137.

characteristic small scale of operation, special attention is given to the significance of monopoly profits and the risk burden.

The relevance to this study of the foregoing discussion as to whether agriculture and industry are more efficient when conducted on a large or small scale arises out of the fact that the control exercised by industrialists over the price of their product has been used as the basis of an argument justifying attempts artificially to diminish competition in agriculture. (In what follows, along with secondary industry may be grouped the professions, commerce and other sectors of the economy in varying degrees of priority.) An exposition of this argument may be taken from the pen of no less an authority than Hevesy.

"As it is not difficult to prove that over a large part of the commercial and industrial field, pure and perfect competition no longer exists, the question remains whether the farmer should really be expected to sell, as many people recommend, in an open market, and buy in a market where so many producers and sellers are entrenched behind national and international monopolies, cartels, price agreements, and combinations of all kinds." (1)

The classical analysis considered economic ends as being achieved only within the confines of the market and through the unfettered operation of market forces. It pointed to an ideal condition of the economic system which in theory would result in the maximization of welfare. Since the ends which the economic system was generally required to serve closely coincided with those which the classicists had logically demonstrated would follow from their postulates, it was reasonably concluded that State policy could most fruitfully and beneficially be directed towards the removal of all hindrances to the practical realization of the major postulates of the classical analysis. Laissez faire is now, however, a discredited policy, its place having been taken by

1. HEVESY, World Wheat Planning and Economic Planning in General, p. 170.

'restrictionism' or 'planning'.

This gradual reversal of State policy has come about largely in response to the concurrent modification of the nature of economic behaviour and of the nature of economic phenomena. Whereas society in the 19th century was characterized by competitive relations (which is not to say that competition was perfectly realized but merely that a substantial measure of competition existed), the technique of 'extra-market operations' discussed below was so widely practised and exploited in the inter-war period that competition as such endured only in name and not in fact. Among the reasons for the latterday stifling of competition, the following cannot be disregarded. First, the rate of obsolescence of costly capital equipment: while no statistics of obsolescence are available, there is a *prima facie* case for supposing that the owners of specialised (or 'specific') capital equipment have a strong incentive to attempt to limit competition which, perhaps by the utilisation of some new invention, threatens to render obsolete their present equipment before the time anticipated when the investment was made. With the increase in the amounts of capital sunk in highly specific plants even over the last fifty years, the risk of loss has at the same time been accentuated. By how much the danger of 'inventiveness' has increased during the same period cannot easily be told, but the vast extension of facilities for scientific research must certainly have acted to increase the danger. Second, it has been suggested (for instance by A.G.B. Fisher in his book "Economic

* An instance of deliberate and overt limitation of competition on these grounds is to be found in the State-administered licensing system under which the new oil-from-coal industry is to be operated in South Africa.

Progress and Social Security") that the cessation of the increase in Western populations has tended to concentrate economic development on 'intensive' as against 'extensive' expansion of earlier days. Whereas profitable investments could formerly be made simply by the extension of the old sources of supply to meet the demands of increasing population, present day expansion in the face of generally stationary populations involves competition with the old sources of supply.

"Expansion during the nineteenth century was relatively easy because for the most part the newer types of production which it was then advantageous to develop did not threaten much serious inconvenience to well-established vested interests. The 'vertical' expansion which is now more necessary does, however, threaten a good deal of such inconvenience. While therefore there was no particular reason why vested interests should resist expansion in the nineteenth century, they have tended more and more to be mobilised against the developments demanded by the conditions of our own time." (1)

Both of these factors, the increase in inventiveness and the falling-off in the upward trend of population, are wholly outside the domain of direct State control, and are in any event the 'independent variables' of the economic system -- supposing the above analysis to be valid of the economic events which it is intended to describe. There are yet those who advocate a return to unfettered competition and seek to introduce new institutions or modify existing ones so as to secure such competition. They argue that the prevailing restrictions merely serve to hamper the full attainment of potential productivity. But if it is correct to regard the widespread negation of competition as a reflection in part of the heavy risks to which owners of capital equipment are exposed, then it must be recognized by the protagonists of free competition that a re-enthronement of competition in supply would simultaneously increase the

risks of investment, and would therefore tend to deter the owners of capital from investing in those branches of industry which were significantly vulnerable to competition arising out of new inventions. The end result could only be that in some degree the advantages which accrue to society from investment in costly and highly specialised equipment would be lost, and the industrial progress of the last century would end in relative stagnation.

The barriers to competition have not evolved at an equal rate in all branches of economic life, nor have they taken the same forms in those several branches. In a discussion of this subject it will be useful to indicate the nature of the principal means by which market forces have been modified so as to secure results different from those which would have obtained under the unfettered sway of competition. The term 'extra-market operations' has been introduced by Professor E. R. Walker (in his book "From Economic Theory to Policy") to cover attempts made by those who themselves operate in the market or have an interest in its working to modify market conditions to their own advantage. He distinguishes four 'intermediate objectives' of extra-market operations, the 'ultimate objectives' being the same as those sought by direct market operations. Three of these are relevant to the present discussion.

- "A) To circumvent the market and to obtain money, goods or services without offering anything in exchange.
- B) To alter the external data of the market so that, without any change in the principles of market behaviour, the resulting prices, production, incomes or the associated conditions of work etc. will be different from those obtainable with the original data.
- C) To modify the principles of market behaviour so that the same external market data will give rise to prices, production, incomes or associated conditions different from those reached with the former principles of behaviour." (1)

1. WALKER, From Economic Theory to Policy, p. 126.

As to (b) of the above groups, it is important to notice that it is easier to alter the external data of the market when the control of either supply or demand is in a few hands than where it is widely diffused over a large number of independent economic units. One of the most striking economic developments of modern times has unquestionably been the growth of combination in industry, commonly referred to with a touch of euphemism as "rationalisation". Discussion has earlier been given over to the question of whether this development took place in response to a genuine prospect of reducing costs via the economies of large-scale operation, or whether it was designed to secure the benefits of monopoly or quasi-monopoly to the industrialists concerned. Available evidence does not give any conclusive answer. But before the development of monopoly by a process of combination can come about, it is necessary that there should be a wide recognition of community of sectional interest on the part of those who stand to profit from centralising the control of supply or demand to any market. This is especially true of such forms of combination as price-fixing agreements and international cartels.

In some measure the tendency to concentration of particular industries in a single locality may be regarded as having contributed to the ready recognition by industrialists of their community of interest in combination. In respect of agriculture, however, the position is wholly different. Farmers are notoriously individualistic. The fact that farming operations are diffused over wide areas, and have in the past been conducted by a very large number of independent owners, is probably the reason why effective combination among farmers did not appear until long after it was an established relation between many industrialists. Equally, the difficulties of introducing trade unionism among hired agricultural labourers may safely be regarded

as arising out of their spatial diffusion, which in turn hinders their recognition of community of interest in combination. Industrial trade unions on the other hand readily took root when workers came to be concentrated in factories. In sum, industry was quicker to organize for the purpose of conducting extra-market operations of the second class than agriculture. It should not be overlooked that English farmers enjoyed tariff protection in the early 19th century ; nor that farmers' political organisations (such as the "Grange" movement) achieved fairly wide membership in the United States in the latter half of that century. Nevertheless in these manifestations of extra-market operations, agriculturalists looked ultimately to the State for the protection of their interests ; they did not aim at control of their own market independently of State intervention, as could be said of industry particularly in the inter-war period.

Whereas the second of the above classes of extra-market operations does not necessarily require the authority or sanction of the State to make it effective, the first and third classes -- respectively the circumvention of the market, and modification of the principles of market behaviour -- can by their very nature scarcely be made effective without active participation by the State. Except for private charity or violence, the only large transfers of wealth, whether in kind or in money, which take place in modern society without the return of a *quid pro quo*, are made at the instance of some public authority, as for example State subsidies to farmers in times of depression, and unemployment benefits to industrial workers by way of the 'dole'.

Then again, modification of the principles of market behaviour (the fixing of minimum and maximum price levels is a common instance) generally requires legal sanction, except where moral or other such forces are set to work,

but these exceptions may be dismissed as insignificant. It follows that any industry, such as agriculture before the first world war, which by reason of diffused control over the supply of its products to the market is unable to engage in extra-market operations of the second class (which in their most effective form involve either restriction of supply to the market or limitation of entry into the industry) will be virtually debarred from the advantages of successful engagement in extra-market operations -- unless, of course, it is able to secure sufficient political influence to induce the State to prepare the ground for operations of the first or third classes.

In illustration of this generalisation, it will be sufficient to point to the repeal of the Corn Laws by the House of Commons in 1815 : the landed interests, having by then lost their political ascendancy to the manufacturing classes, found themselves abandoned to the mercy of free competition, their only bulwark against which had been the import tariff reflecting operations of the third class. Being unorganised for independent operations of the second class, British farmers later (i.e. after 1875) succumbed to the pressure of supplies from the New World. It was not until the beginning of the present century that the State could be induced once more to intervene on behalf of the farmers. (The establishment of the Board of Agriculture in 1889 can scarcely be classed as a result of extra-market operations, since it had no connection with the market for agricultural produce.) In summary form, the conclusion emerges that one of two conditions requires to be satisfied for the successful conduct of extra-market operations : either the industry concerned must have sufficient political influence to be able to enjoin State intervention on its behalf ; or it must be so organised that restrictive measures relating

to price or supply can easily be put into effect by representatives of the industry.

There has already been occasion to observe that agricultural production has long been conducted on the basis of free competition (at any rate within national boundaries) among a very large number of producers, each of whose supply represented only an insignificant fraction of the whole. This does not mean to say that from time to time there had not been some among the multitude who recognized the advantages which would accrue from organizing the supply of their produce to the market so as to make it pass through a single channel. But whenever a producers' co-operative association was brought into being for the (tacit or overt) purpose of restricting supply to the market, its prospects of surviving in the performance of that function were limited by the competition of producers supplying the same market and who chose not to enter the association. Altogether such associations were liable to founder on one or other of three rocks. First, there was the danger of indiscipline within the ranks of the associations. Producers who undertook to deliver the whole of their crop to the association might not in fact do so. How much could be held back in this way depended largely on special circumstances, most important of which was whether or not formal contracts had been drawn up between the association and its members for 100% delivery. In the absence of such contracts, the incentives to members to bypass the association fluctuated with the level of prices on the market. The following quotation from an article by James McFayden lends authority to this view. He complains of members of agricultural co-operative societies in England that they were

" ... reluctant to trade consistently with their societies, and prone to buy or sell elsewhere for a real or apparent temporary advantage. They were usually

willing to market their produce collectively when markets were difficult for the seller and reasonable returns problematical, but easily tempted to sell through other channels when the demand for their produce was good. It was not infrequent for farmers to build up a direct trade for their highest quality goods and dump the remainder on their co-operative society ... Such weaknesses ... were probably the principal reason for the passing of the Marketing Acts and the compulsory system." (1)

Second, raising of the price of one agricultural product by artificial means has the effect of attracting other farmers who were not previously producing that good to switch over and become competitors with the members of the association. The greater the rise in price brought about by the single-channel technique, the greater the danger of outsiders coming in and spoiling the market. In the absence of State intervention, no machinery can be devised whereby production can be restricted to the members of the association. Here then there rises a submerged reef on which the single-channel ship may easily founder ; and if not actually wrecked, it is liable to be severely damaged structurally. To prevent such submarine disturbances, the Union government legislated in the 1925 amendment to the Co-operative Societies Act of 1922 for compulsory co-operation under specified conditions.

Third, in the hopes of being able to sell each and every crop at a good price, the managers of the associations are often tempted to hold over part of the crop in a bumper season for sale later. While an experienced and skilled manager might be successful in estimating the amount that can profitably be withheld, agricultural societies are prone to appoint as managers those who will accept the mediocre salaries offered -- and therefore competent managers are seldom or never secured. The Report of the Commission on Co-operation and Agricultural Credit bears this out.

1. From "Impressions of Agricultural Co-operation in England", by James McFayden, in Yearbook of Agricultural Co-operation, 1943-1944.

"Disloyalty of members, inadequate working capital subscribed by members, and the engagement of cheap and inexperienced staff have been, to a large extent, the direct and indirect result of bad or inefficient management." (1)

Voluntary associations of farmers, formed for the purpose of "altering the external data of the market" were found by experience to be inadequate to the task of restricting supplies to the market in order to raise prices, (each contributor to the pool drawing a share of the revenue). The reasons for the failure of the voluntary movement have already been indicated : producers, being spatially diffused (in contrast with manufacturers who, by the 'agglomerative' force of secondary industry have tended to concentrate in limited areas) do not, or have not in the past, adequately recognised their community of interest in association ; also, farmers being characteristically individualist in outlook, have not taken readily to interference with their activities, even when such interference has been demonstrably in their own long-term interest.

In sum, since open-market operations of the first and third classes require, as has been shown, State support : and operations of the second class presuppose, for success, a greater degree of unanimity and unity of purpose than farmers have earlier been wont to display, it has resulted that agricultural marketing continued on a generally competitive basis (until such time as powerful producer interests were able to gain the ear of the State and enlist its beneficent support) the while other forms of economic activity were already well entrenched in restrictive practices, acting independently of the State. Dr von Biljon states the conclusion clearly.

"Past experience in the Union and elsewhere has ... made it clear that co-ordinated action by producers and other interested elements is unlikely to ensue or to persist in default of suitable legislative

1. From Summary of Conclusions, p. 196.

machinery and coercive powers." (1)

In the Union, the Marketing Act No 26 of 1937 was the State's answer to agitation for comprehensive and enduring assistance to agriculture. Administrative machinery came to be created under the aegis of the Union Government whereby single-channel marketing and distribution of all farm products could be enforced. Farmers, that is to say, by using their political influence were put in a position where open-market operation of the third class became possible on a far wider basis than formerly.

Whatever the detailed imperfections of the Marketing Act ~~the~~ ^{and} the machinery whose creation it sanctioned, there is this to be said : farmers, finding themselves unorganised and unable to organise successfully for direct economic ends in a world where almost every other form of economic activity was controlled and regulated in sectional interests, chose not to be outdone. By recourse to political pressure, some among them were able to force the farming community as a whole into acceptance of extra-market operations (by way of the Marketing Act) in the common interest and in such a manner that sabotage by private interests became impossible. That is to say, the Marketing Act, as also much of the earlier less comprehensive legislation, is to be viewed primarily as an attempt for and on behalf of farmers to achieve parity of agriculture with secondary industry and other activities in the field of extra-market operations.

The Act has been criticised on the ground (among a host of others) that it set up the principle of producer majorities on the control boards regulating the marketing of individual farm products. Farmers' protagonists have contended, however, that it is unreasonable for consumers and others to claim equal representation on the boards in

the light of the nature of control exercised by producers over marketing in other fields. The industrial group, it is pointed out, which gives the interests of consumers and others equal weight with its own prospects of profit and security when decisions are taken on policy, has yet to be found. In other words, producers' dominance on the control boards sanctioned under the Act is regarded as the essential ingredient of any successful attempt to give farmers parity with other groups in the conduct of their extra-market operations. For, as has been demonstrated both theoretically and from practice in the earlier part of this chapter, unless farmers receive power to combine at the hands of the State, they must necessarily continue on a basis of unrelieved competition.

Subject to qualifications which have been suggested by the arguments so far discussed, it may be allowed that a system of free and unrestricted competition in all sectors of the economy would lead to economic utilisation of resources. It is permissible therefore to argue on grounds of economy that ALL hindrances to competition should be simultaneously removed. Professor W.H. Hutt said in an interview⁽¹⁾

"that to achieve a food price economy, the Government must allow the price mechanism to do its work freely. At the moment the synchroniser and co-ordinator in this mechanism -- the price and value system -- was being upset by the Government in the private interests of the producer".

If this statement is read in isolation (and it was presented in the newspaper columns in isolation), the critic may be led to make a charge of inconsistency. The price and value system, so far as it impinges on manufacturing industry, is being upset in the private interests of the producer there too, the only difference between the two instances being that in the first the Government supported the process of upsetting, and in the other it was carried

1. as reported in the Cape Times, April 4th 1946.

through by private interests themselves (customs tariff and other protection being here disregarded). This being so, to urge the release of the price system from farming control alone without at the same time advocating the establishment of fully competitive conditions in manufacturing production appears as inconsistency. And so it is with many critics of the Marketing Act. Recognising as they do that sectional control is a negation of economy, they do not hesitate to condemn (in isolation) separate aspects of the creaking whole. But unless they make it clear that what they condemn is not alone the isolated instance of restriction which they discuss (as with the Marketing Act) but the whole demon of restriction in whatever part of the economy it rears its head, their arguments are likely to evoke little more response than derision among the defendants and applause among the assailants. Howbeit, though Professor Hutt may be charged with carelessness in presentation of his argument, he cannot justifiably be accused of inconsistency of thought. For the Cape Times again, in its issue of April 13th 1946 made mention of his address to the Economic Society of South Africa.

"Professor Hutt said that efficiency appeared to increase when the size of factories decreased. Conversely, increases in the average size of industrial plant were accompanied by a decrease of efficiency ... Wise industrial policy should, therefore, encourage small-scale industry."

Reading these two newspaper reports in conjunction, it becomes clear that what is advocated as an item in overall economic policy is the reduction or elimination of all barriers to competition in all sectors of the economy.

The theory of extra-market operations thus draws attention to the fact that sectional interests may devise and exploit one or other of several alternative means of achieving monopolistic control over the price of their product. If one group of producers, in their own special

circumstances, successfully exploits one weapon of control -- and if society acquiesces in their success -- then other groups will claim that it is only equitable that they should be permitted, free of hostile criticism, to exploit such other weapons of control as suit their special circumstances. To translate the general conclusion into South African terms, the Marketing Act is merely one element in the complex of restrictive practices which characterize the economic life of the country.

A group of producers becomes monopolistically organised in order to secure to itself a larger relative and absolute share of the material wealth of the community (and for other reasons which have been touched on in the course of this chapter.) In doing so, however, the group acts by way of bringing about such a redistribution of resources between occupations as to reduce the aggregate communal wealth below the level it could otherwise attain. It follows that the economist, whose criterion of policy is such that he will only approve those measures tending to improve welfare, will condemn all monopolistic organisation.

However, if the community takes no steps to counter the emergence of monopoly in one field of activity, and thereby tacitly approves it, then producers in other fields will press a claim IN EQUITY to restrict their output by way of restrictive organisation. For who will contend that it is equitable that one group should be permitted to enrich itself at the expense of others without the threat of retaliation? The argument is readily seen to be fallacious, however, as soon as monopoly becomes so widespread that aggregate output is reduced to such an extent that the producers who first organised collectively now get a smaller absolute share of aggregate wealth than they were previously getting. (This, incidentally, is by no means to suggest that the spread of monopolistic

organisation is economically defensible before the latter stage is reached !') The end result of all such blossoming of restrictive practices is liable to be, then, that the last state of all groups of producers is worse than the first. As Yves-Guyot paraphrased a famous sally,

" Qui restreindra la restriction ? " (1)

As to the risk burden (the factor other than monopoly profits which, it was said earlier⁽²⁾, called for special attention), monopolistic organisation admittedly brings enhanced security. Farmers, however, seeing secondary and other industries enjoying the security of combination, have claimed in equity that they too must not be denied their share. Exactly the same mechanism is operative as in the consideration of monopoly profits. The Marketing Act is referred to in terms of "recognition that the farm producer has a right to be equally protected by the State as the urban worker ... "⁽³⁾ Security, however, is a goal which is not necessarily in consonance with economy, if at all. If at time A a given distribution of available resources between different occupations is economical, then at time B a different distribution may be required to preserve economy as a result of changes in tastes, techniques, etc., in the interim. Considerations of security, however, may require that the distribution of time A be maintained even at time B, in which event security is being regarded as the sanction of diseconomy.

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1. Quoted by MacGregor, *Enterprise, Purpose and Profit*, p. 156.
 2. See p. 8.
 3. "Reconstruction of Agriculture", Report of the Reconstruction Committee of the Department of Agriculture and Forestry, para. 168. In para. 78 of this Report it is stated : "The urban worker already enjoys a certain amount of security through his trade unions and under the wage and social laws of the country. The professional man is protected by means of legislation. The men in commerce and industry are strongly organised and have built up effective machinery to look after their interests."

This verdict can be accepted by the economist in so far as increased security gives rise, *cet. par.*, to a higher level of satisfaction in the community. The general acceptance of a political philosophy which lays upon the State the duty of assuring economic security to the individual is evidence in itself of the satisfaction derived from security. But the economist cannot be indifferent between the techniques of attaining to greater security : if monopolistic restriction is to go hand in hand with security, then the additional diseconomy thereby engendered may be expected in the end to more than offset the gain from enhanced security. Once again, the conclusion remains to be drawn that State sanction to the spread of monopolistic or restrictive organisation is economically indefensible : the problem of security requires to be tackled not on a sectional basis but rather by means of an overall and comprehensive social security programme sponsored by the State.

The general conclusion of this chapter is that State interference in the economy, and particularly in agriculture, is *inter alia* an aspect of the widespread search for the many sectional benefits of restrictive organisation. It is shown that a State policy of *laissez-faire* would allow the triumph of some sectional interests, but not of all.

Chapter Two.

The farmer being unable to transfer his land resources to other more remunerative employment in times of generally depressed prices for farm produce, is confronted with three unpalatable alternatives :-

either (a) to continue farming operations as before in the hope of getting some return, rather than none, on his capital ;

or (b) to cease operations entirely for the time being ;

or (c) to realize his resources in cash and reinvest elsewhere.

The first of these alternatives has two most important drawbacks. It aggravates the condition of over-supply in the market, and thereby depresses prices still further. It is a matter of common observation among those concerned with farm economies that the reaction of the farming community as a whole to lower prices is not a curtailment of production and supply, but sometimes an extension, in the hope, as already suggested, of getting some cash return, however small, rather than none.

"As he cannot abandon his home and enterprise the farmer, realising his dependence both upon the vicissitudes of nature and the vagaries of the market, persists in past practice and perhaps even attempts to increase production rather than attempt to modify his enterprise in order to counteract a possible decline of prices. In brief, he keeps the farm business going in spite of adverse conditions and does so at full pressure, changes in organisation and production being effected only gradually." (1)

Also, since production is almost certain to be carried out under these conditions with as little working expenditure as possible, the land is very often unduly exploited to the detriment of its future productive powers.

The second alternative, to cease production or greatly restrict it until prices improve, is one not likely to commend itself widely among farmers. In the mere

1. Van der POST, op. cit. p. 527.

purchase of land, overhead costs are incurred which are large in proportion to working costs. Provided prices are higher than working costs it pays producers to continue operations which give them some return on their fixed capital investment. But this is to presuppose that in making such a fixed investment the farmer has incurred no debt burden. Should he, for instance, have contracted to pay interest charges year by year, it may well be that the difference between working costs and revenue from the sale of his produce does not suffice to pay the interest, in which event he may be forced to adopt the third alternative, that of realizing his investment, probably at a figure below its capitalised future earning power in view of the prevailing pessimism. This capital loss of the individual in no way relieves the pressure of supply on the market, since his successor will be able to continue production under much more favourable overhead cost conditions. A further reason why individual producers view unfavourably any restriction or cessation of production is that, unless concerted steps are taken by all to reduce supply, those who adopt restriction lose all prospect of earning their present attenuated income while gaining no prospect of a larger eventual income, since full-scale operations by others will continue to keep prices depressed.

The third alternative, that of realizing investments in farm property, is unlikely to be chosen voluntarily, since there is very little, if any, competition between buyers to secure land in times of agricultural depression, sales usually being effected at prices far below the capitalised future earning power. And, as already observed, sales which do take place cannot be expected to diminish the volume of production on land which has changed hands. The tendency is more likely, under the easier cost conditions, to be in the opposite direction.

Having now considered the influences which govern the individual farmer in his choice between these alternatives, we may reasonably conclude on the grounds both of past experience and of theoretical analysis that the reaction of farmers to falling prices in agriculture generally may be if anything to increase rather than to decrease the aggregate flow of supplies to the market.

South African experience is reflected in the table reproduced below.

TABLE 3.

	<u>Agriculture.</u>		
	(1)	(1)	(2)
	<u>Value of produce</u>	<u>Volume index of gross production (1924-5=100)</u>	<u>Index of wholesale prices (1927-9=100)</u>
	<u>£000</u>		
1924-5	58,785	100	:
1927-8	62,940	108.7	; 1927-9 100
1930-1	40,663	117.4	; 1930 67
			; 1932 51
1933-4	52,879	127.5	; 1933 67

(1) from Board of Trade and Industries Report No. 282, p. 12, figures supplied by Division of Economics and Markets.

(2) from Report of the Industrial and Agricultural Requirements Commission (Third Interim Report) U.G.40/41, page 30. Statistics compiled by Division of Economics and Markets. (Henceforward referred to as I.A.R.C. Report)

The fall in prices has clearly not been associated with any diminution in the volume of supply but rather with a substantial increase. This is the first of two propositions essential to the present argument. ✓

Again, at any given income level, the demand for agricultural produce, *cet. par.*, is considered to be significantly inelastic -- this being deduced largely from a priori considerations. It follows that an increased supply gives rise to a diminished gross revenue. The statistics presented in the table above neither prove nor disprove that demand for agricultural produce is inelastic, since marked changes in the level of incomes in the period there referred to must be taken into consideration. Moreover, the effect of artificial assistance to farmers is reflected in the figures both of prices and of value of output.

Then too the *ceteris paribus* condition as to demand is somewhat disturbed by the artificial closure or restriction of overseas markets by the raising of protective customs tariffs. The second of the two propositions on which the present argument is founded is then that there is a *prima facie* case for supposing that demand for agricultural produce at any given income level is significantly inelastic.

The combination of the two propositions yields the result that if, owing for instance to industrial depression, there is a decline in the effective demand for farm produce, then there is reason to suppose that disequilibrium between demand and supply instead of being corrected as competitive theory presupposes by a fall in supply may instead be accentuated by an enlargement of supply. That is to say, there is evidence to suggest that agriculture is characterised by cumulative price instability arising out of a decline in general effective demand. Alleviation of the social ill-effects of such instability is a legitimate sphere of State intervention. But here again it is true that alleviation by way of State sanction of monopolistic organisation is not economically defensible. In sum, the supposed self-righting characteristic of the competitive economy may not always manifest itself. It follows that a policy of *laissez faire* is at those times not appropriate.

Chapter Three.

A third criticism of the free competitive system as idealised by the classical economists is that contained in J.M. Keynes' "General Theory of Employment, Interest and Money". Keynes indicates how the concentration of the classical school on the 'real' as opposed to the 'monetary' approach to economic problems gave rise to certain fallacies which it is his object to correct. Essentially the issue centres round the proposition overtly or tacitly accepted by the classicists, that "supply creates its own demand", "meaning by this in some significant, but not clearly defined, sense, that the whole of the costs of production must necessarily be spent in the aggregate, directly or indirectly, in purchasing the product". (1) In short, the effective demand is assumed to be always sufficient to absorb the available supply at the price expected when production was undertaken. But as soon as money enters into the picture, the scene changes. For a man in saving his MONEY income withholds that money from the purchase of the goods which it represents : since these goods are not sold, the producer or distributor of the goods is involved in losses, and consequently reduces his volume of output and employment (or orders for output) -- all this provided the money is not actively invested in the purchase of new capital equipment, in which event that money may be thought of as the income of the factors producing the capital equipment, who may again be supposed to spend it (or some part of it) on the goods unsold as a result of the original act of saving. In so far as the 'inducement to invest' is not

1. KEYNES; General Theory of Employment, Interest and Money, p. 18.

sufficiently strong to create incomes from investment large enough to provide in themselves for a level of consumption equal to the level of saving from other incomes, entrepreneurs will incur losses which will lead to a contraction of offers of employment at given wage rates. (It will be seen that an ex ante definition of 'investment is here followed.) In Keynes' view it is fallacious to suppose

"that there is a nexus which unites decisions to abstain from present consumption with decisions to provide for future consumption ; ... the motives which determine the latter are not linked in any simple way with the motives which determine the former." (1)

Hence arises the eventual criticism of free competition and laissez faire, that equilibrium may be achieved short of full employment in the face of institutional rigidities.

Though it is beyond the scope of this study for a full exposition and criticism of the Keynesian position to be presented, there are however some features of that position which may profitably be discussed as relevant to the main subject matter.

Since the inducement to invest may not be strong enough to fill the gap between the aggregate supply price of output and the aggregate demand price, owing perhaps to an unduly pessimistic estimate of the marginal efficiency of capital being held by entrepreneurs, there does appear to be scope for state action in such cases to boost expectations of yield or alternatively to enter into the investment field itself. This criticism of the laissez-faire doctrine is virtually identical with that advanced by Dr S. Viljoen :-

" ... business men may not be exceptionally gifted with regard to either intellect or enterprise. Their ignorance and inertia may, in fact, prevent methods of reorganisation and especially the investment of resources in new industries, which would have

1. KEYNES, op. cit. p. 21.

jerked the economic system from one relative maximum to another greater relative maximum. The State can facilitate economic development by the granting of bounties, through the protection of new industries, the dissemination of knowledge, and by the direct provision of economic services. The theoretical possibilities of 'legitimate' State action are almost unlimited." (1)

Prima facie, the investment by the South African government of millions of pounds in irrigation works may be regarded as a justifiable State intrusion on private enterprise in so far as private investors indeed have shown the greatest reluctance to embark on such ventures. Whether the investment will in fact yield a satisfactory return is another matter. (The Union Government's shareholding in South African Iron and Steel Industrial Corporation Ltd provides an interesting analogy.) In advocating public works as a remedy for maladjustments in the economic structure arising out of a deficiency of investment (reflecting undue pessimism of private owners of capital) we should not lose sight of the fact that investment by the State may involve competition with private investment and therefore tend to reduce the volume of that private investment. The field for State investment so demarcated as not to interfere with or encroach upon private enterprise is ordinarily somewhat restricted, especially in respect of industry, but there does seem to be an opening for certain State-financed undertakings as an adjunct to agriculture, since South African farmers themselves appear to be either indifferent to collective investment action designed to improve productivity, or alternatively have not the necessary capital at their disposal. For instance, the report "Reconstruction of Agriculture" states in connection with land reclamation work,

"while private initiative should not be discouraged, landowners are often at a serious disadvantage,

1. VILJOEN, Economic Tendencies of Today, p. 218.

due to shortage of labour and to their financial inability to purchase the necessary equipment, much of which is of a costly nature". (1)
(Italics inserted)

Far more important to present purposes, however, is the consideration that depressed conditions in agriculture are often a reflection in part of industrial depression. For a recession in industrial activity carries with it the implication of a decrease in the effective demand for the products of agriculture, so that wide fluctuations in aggregate farming incomes may be experienced as a result of fluctuations in effective demand, even though the volume of supply may be relatively stable. An official report complains that

"It is one of the blots on the free competitive system of the past century that the individual agricultural producer has time and again been faced with the position that, often with the same volume, his farm produce has been saleable only at ruinously low prices." (2)

A contrast may be drawn between the relatively steady productive effort made in agriculture, and the erratic performance of industry. Since the variation in farming incomes consequent upon industrial fluctuation does not have any directive significance to the economy -- i.e. does not indicate any malallocation of resources between alternative occupations -- so it may be seen that State intervention to bring about a lessening of the amplitude of industrial fluctuations would carry positive benefits to agriculture without being in any way uneconomic. An American expert writes :-

"... should it be the aim of national policy to help agriculture reduce its output quickly when curtailed industrial output occasions a drop in the demand for farm products? And, conversely, increase its output when industry expands? Or would it be better to help industry change its gait? Put this way, the choice should not be difficult. It is obvious that the steady performance of agriculture is a major national

1. page 73.

2. "Reconstruction of Agriculture", op. cit. para 157.

asset, while the erratic rate of production in industry is a serious liability." (1)

In sum, State intervention related to the trade cycle and designed to bring about a fuller utilisation of resources in spheres of activity outside agriculture is not only fully defensible economically, but is also to be viewed as an essential component of any programme intended to mitigate the social hardships associated with wide fluctuations of farming incomes.

Reference is made later in this thesis to the relative overpopulation of agriculture in South Africa. The available statistics do not adequately bring out the connection (if any) between rural-urban migration and the course of the trade cycle in South Africa, so experience in the United States may well be quoted here.

"Paradoxical as it may seem, it is a fact that since World War I the movement of workers into and out of agriculture has not been in accord with changes in farm prices. As farm prices fell, more people stayed in agriculture; as farm prices rose, the migration from farms increased... We infer that the mechanism of relative prices in this particular sphere, looked at cyclically, is not effective in inducing the desired redistribution of the labour resources, that is, lessening the excess supply of labour dependent upon farming for its income. Another economic force has superseded changes in relative prices. The availability or nonavailability of jobs has been the dominant force." (Italics inserted) (2)

Once more it appears that State intervention designed to stabilise activity at a high level of employment in spheres other than the agricultural is economic in that it may be expected to serve to ease the congestion of population in farming occupations.

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1. SCHULTZ, Agriculture in an unstable economy, p. 13.
 2. SCHULTZ, op. cit. pp. 130-131.

Chapter Four.

Competitive theory assumes that the price, or rate of return, on the marginal resources of various kinds used in different occupations will tend to be equal. Capital, then, may be expected to yield the same long-period rate of return in secondary industry as in agriculture, the risk factor being neglected since the long period only is being considered ; (in the short period a higher expected rate of return on agriculture than in other industries would be required in order to compensate for the greater risks of farming investment : in the long run the risk factor will be incorporated in the average yearly rate of return). In fact it appears from the table presented below that capital invested in farming in South Africa yields a very considerably smaller short-term (and probably long-term) return than that invested in other branches of production. The explanation appears to rest on a combination of two factors. First, there has for decades past been a continuous improvement in the volume of farm output as a (partial) result of improving technology.

"The changes which have occurred in modern agriculture are more revolutionary than those of the so-called Agricultural Revolution in England. The most outstanding fact is that man's control over Nature has grown by leaps and bounds : the output per man engaged in agriculture increased 33% between 1900 and 1920 ... The new methods of production in no small part lie at the root of the bitter post-war adjustment period in agriculture." (1)

The fact that advanced agricultural techniques have not been universally adopted in South Africa in no way rebuts the argument, since their adoption by other countries has adversely affected the market for South African produce overseas. Complementary to the first is the second reason, which is that the effective demand for agricultural produce has not kept pace with the increasing output.

1. DUMMEIER AND HEFLEBOWER, op. cit.

This in turn is largely a reflection of the inelasticity of demand for food coupled with a declining or stationary population in Europe and increasing hindrances to trade. The combined effect of these two factors is to bring about a condition of over-supply on world markets for foodstuffs relative to demand resulting (in the absence of withdrawal of resources from production or an increase in demand) in a long-term tendency to depressed or unremunerative prices. This tendency is reinforced by the high degree of specificity of agricultural resources.

Statistics of the utilisation of capital and labour in agriculture and private manufacturing industry in South Africa are presented in the table below.

TABLE 4.

Earnings of capital and labour in private manufacturing industry and in agriculture, 1937-1938.

A.	Labour force ⁽¹⁾		with fixed together earn	
	Eur.	Non-Eur.	capital of	annually
			£million	£million
Agriculture	181,400	3,210,000	457 ⁽²⁾	44.3 ⁽³⁾
Pte. manuf. industry	132,000	273,000	82.5 ⁽⁴⁾	76.0 ⁽⁵⁾

B.	Salaries and wages	Return to fixed capital
	£million	of £82.5 million.
	£million	£million
Pte. manuf. industry.	37.0 ⁽⁶⁾	39.0 ⁽⁷⁾

- From Table 11, I.A.R.C. Report, from Occupational Census, 1936.
- Estimate of Division of Economics and Markets, quoted in "Reconstruction of Agriculture", op. cit., para. 9.
- Estimate of Division of Economics and Markets, quoted in "Reconstruction of Agriculture", para. 10 (Av. 1936-1939).
- From Union Year Book, 1940 : Value of Land and Buildings. Value of land and buildings in private manufacturing industry for 1937-1938 : £ 36.1 millions. Value of Machinery and Plant in private manufacturing industry for 1937-1938 : £ 44.4 millions.
- From Union Year Book, 1940 : £ 82.5 millions. value of net output of pte. man. ind. 1937-1938.
- " " " " " : salaries and wages in pte. man. ind. 1937-1938.
- " " " " " : calculated from costs and gross value of production of pte. man. ind. 1937-1938.

The figures themselves call for some comment.

(a) The fixed capital of £457 million employed in agriculture includes an allowance for the value of land based on an average of £ 3 per morgen, this being the figure decided on by the Division of Economics and Markets 'after careful calculation'. (1)

(b) The figure for average net value of agricultural production (net of 'cash expenditure excluding labour costs, rent for land and interest on bonds') is questionable : it is not clear that adequate allowance has been made for the value of foodstuffs consumed on the farms.

(c) The value of £82.5 millions placed on fixed capital in manufacturing industry is an understatement by the amount of goodwill not included.

The statistics do not permit separation of the contribution made to the national income by the farmer and his labourers from that made by the capital employed in agriculture. From the empirical fact that there is a drift to the towns from the rural areas it may be inferred that returns to labour in industry are higher than in farming at the margin. Supposing then that the figure of £37 million for salaries and wages in industry were to be applied to agriculture (with its much larger population) then the return to capital employed in agriculture would be £7.3 millions plus whatever allowance may be necessary in view of (b) above. This is an inordinately small return on a capital of £457, indicating both (1) that the figure of £3 per morgen on which the estimate of value of land is based is grossly excessive, and probably also (2) that the equivalent of salaries and wages in agriculture is very considerably below the level ruling in secondary industry. Following

1. "Reconstruction of Agriculture", page 2.

the Keynesian analysis, it is here taken that the capital value of an asset is represented by the true present value of the expected series of future returns from that asset discounted at the current rate of interest. The conclusions drawn above may well be vitiated by a consideration that the average annual return on agricultural capital may have been expected to improve at the time the estimate of capital employed in farming was made. Nevertheless it has been observed that

"Die Suid-Afrikaanse landbou is baie geneigd tot oorkapitalisering en die markwaarde van plase is in baie min gevalle 'n aanduiding van die ekonomiese of produktiewe waarde, en hierin lê grootliks een van ons primêre oorsake van hoë produksiekoste." (1)

(Comparisons of productivity per capita in different employments cannot validly be made unless account is taken of the extent of co-operant factors other than labour in each of those different employments. The Industrial and Agricultural Requirements Commission concluded from the fact that "almost two-thirds of the Union's population engaged in farming are found to produce only one-eighth of the national income"⁽²⁾ that

"... the residual population permanently dependent upon farming and the number of casual farm labourers are ... far in excess of the proportion warranted by the unimpressive contribution of this industry to the national income". (3)

The conclusion is inadmissible without reference to capital employed per capita : though there is no mention of this factor in the text of the Report, nevertheless in fairness to the Commission it must be acknowledged that the table heading the paragraph quoted did show estimates of capital per capita -- but these estimates are drawn from sources not quoted, and appear highly questionable

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1. TOMLINSON, Die Taak van die Landbou-Ekonomie in Suid Afrika, p. 15.
 2. I.A.R.C. Report, op. cit., para. 61
 3. I.A.R.C. Report, op. cit., para. 61.

in the light of available evidence.)

Direct comparisons of the proportions of population engaged in agriculture and in other occupations with their respective contributions to the national income suggest either

- a) that too many persons are engaged in agriculture ; or
- b) that relatively too little capital is employed in agriculture ; or
- c) a combination of (a) and (b).

Argument has been presented above to show that agriculture is if anything overcapitalised by reference to land values. An estimate that investment in farming has continued throughout the depressed period 1924-1939 at an average and well-sustained rate of £2 millions annually is given by Professor Frankel, quoted by the Industrial and Agricultural Requirements Commission in Table 17 of their Report, whereas investment in machinery, plant and tools in private manufacturing industry for the same period was significantly smaller at an average of about £1.6 millions annually (subject, of course, to a wider range of fluctuation from year to year). Despite the continued investment in farming, the share of the national income enjoyed by farmers fell from 19.9% in 1924-5 to 12.7% in 1938-9 while the share accruing to manufacturing rose from 12.4% to 17.8% in the same period, and that to gold mining rose from 12.4% to 18.4%. The degree of reliability of the estimates of investment in farming is, however, probably very low, for they are "personal estimates" : five per cent of net farming income for each year, adjusted to the nearest £500,000 -- amounts reduced during the depression years 1931-2 to 1933-4" according to a note appended to the table. It seems likely that this farming investment took the form largely of an enhancement of land values by the sale and resale of farms, little if

any attempt being made to improve the productivity of the land. A plausible explanation for the inflation of land values is to be found in the statement that

"Actuated by their inborn love for land and ignorant about forms of investment other than land, farmers almost invariably invest their savings in land, even though this is done at speculative values."(1)

Others besides farmers may, of course, have contributed to this continued investment in land : speculation or ignorance of the poor returns on farming are possible reasons for such investment in land by outsiders.

From this discussion it is concluded that agriculture in South Africa is overpopulated, but that there is almost certainly room for the profitable employment of capital in raising the productivity of the soil.

The relevance of this conclusion to the task in hand is that economic forces are tending to bring about a redistribution of population between agriculture and other sectors of the economy, but this redistribution is widely regarded as socially undesirable. General Smuts voiced his opinion when he said

"In future, there will be a growing temptation to go over to industry and mining in South Africa because there is more money to be made in these fields than in farming. It is all the more necessary, therefore, to ensure that agriculture should be placed on a firm foundation and that, as far as possible, our people should remain an agricultural people. The drift to the towns, while it is not in itself an evil, is remarkable, and is taking on forms which give cause for some concern."(Italics inserted) (2)

State intervention to slow down or prevent this occupational redistribution is justifiable if social considerations are held to overrule the call for economy. If however the social undesirability of the transfer consists in the fact that, for instance, elderly farmers cannot adjust themselves to urban life, then admissible state interference may take the form of assistance to these

1. "Reconstruction of Agriculture", para. 52.
2. Reported Eastern Province Herald.

people to enable them to remain on the land, energetic measures being taken at the same time to equip an adequate number of the rising generation in rural areas for profitable occupations other than farming. The task of the economist in such circumstances is to point out that these and similar objectives are attained not without cost in terms of immediate material welfare. Moreover he may have much to say as to the forms which such intervention may take -- but discussion of this topic is not relevant to the present purpose.

Chapter Five.

The international gold standard, operating without adjuncts such as the International Monetary Fund, contains within itself the seeds of its own disruption. When disequilibrium develops in a country's external trade, evidenced for instance by the loss of gold, that country is required to take steps to reduce its level of costs and prices. The bank-rate technique, which is used to influence the level of costs and prices, in so far as it operates via the rate of investment, may, however, disrupt the economic structure of the country the while it reduces costs and prices. In the converse case, where disequilibrium develops and results in the accumulation of gold, domestic monetary policy may be directed towards stability in the level of costs and prices. Therefore, unless that policy is to be abandoned, the accumulating gold reserves will be sterilized. The result must clearly be that the burden of restoring equilibrium by continued deflation falls wholly on the debtor country. If the disequilibrium is sufficiently deep-seated, the debtor may be forced to repudiate the gold standard so as to preserve some part of its gold reserves, or alternatively to devalue its currency in terms of gold. Either course is liable to provoke retaliatory measures by that country's competitors.

Given, then, that a major disequilibrating factor exists, the maintenance of the gold standard may be precarious. It is an instrument which requires great flexibility in national economies : where domestic policy, or special factors in the domestic situation such as statutory minimum wages, introduce rigidity, it cannot function adequately or at all.

" ... In the modern world, where, on the one hand, inflows of gold are liable to be sterilised and prevented from causing an expansion of credit, while on the other hand the deflation of credit set up elsewhere is prevented by social causes from transmitting its effect to money-wages and other costs, it may be that the whole machine

will crack before the reaction back to equilibrium has been brought about." (1)

In the event of one country repudiating the gold standard, others having trading relations with it may take retaliatory action. The outcome cannot be other than a restriction of world trade. The economic chaos of the early 1930s developed closely after this pattern. In such conditions a case can be made out for the granting of State assistance to those sections which suffer directly as a result of diminished exports, for, since the State is charged with the maintenance of the machinery and avenues of trade, the breakdown of that machinery, which inflicts sectional losses, may be considered the responsibility of the State to rectify, or alternatively the State may be expected in equity to compensate those sections of the community adversely affected. And since, once a breakdown has occurred, restoration cannot be made except slowly and painfully, the granting of compensation or assistance by the State becomes necessary on the alternative plea in the interim. In a country with an export surplus of agricultural commodities, the breakdown of international trade bears heavily on the farmers, who may be compensated for the loss of their export market (through causes wholly beyond their control but supposedly within the ambit of State influence) in a large variety of ways, of which not all are economically acceptable. For the purpose of this study it is important that the theoretical bearing of the breakdown of the international gold standard on the question of State assistance to agriculture in the inter-war period should be stressed. Whatever other factors may have contributed to the agricultural distress (as such) of the 1930s, it can be shown that the disruption of the international monetary system (with which is inseparably

1. Committee on Finance and Industry, Cmd. 3897, para. 248.

associated interference with the free flow of international trade by means of the raising of customs tariffs, imposition of import quotas and like restrictive measures) was an item in the chain of causation of which due account must be taken when an attempt is made to appraise on economic grounds the wide measures of State assistance to agriculture enacted by many governments after 1929. The Commission on Co-operation and Agricultural Credit reported that

"With overseas prices prevailing at unprofitable levels ... the South African maize farmer naturally turns his attention to the local market and claims a price for his product from the local consumer which he considers must at least reward him for his capital and labour. The Maize Export Control Act of 1931 was the direct outcome of this claim." (1)

Moreover, the movements of costs and prices in individual countries which are required by the gold standard for the maintenance of external equilibrium themselves tend to be disruptive of internal equilibrium, for all prices are not equally responsive to conditions of inflation or deflation. Price rigidities may arise from various causes : in part, for instance, they may reflect the rationalization of industry ; in part they may be the outcome of trade union or other pressure for the maintenance of wages. But for whatever reason, in so far as the internal economic structure of a country is not equally flexible in all its parts, deflation in particular may bear more heavily upon some sections than upon others. There is reason to believe that agricultural incomes are especially vulnerable in times of deflation. Though parallel statistics of price changes of agricultural products and of other goods are abundant both for South Africa and for other countries, no clear picture can be drawn from the figures of the respective degree of responsiveness of the prices of these two classes

1. Report of Commission on Co-operation and Agricultural Credit, U.G.16/1934, para 164. (Report henceforward referred to as C.C.A.C. Report.)

of product to changes in the flow of money, since it is not possible to distinguish the effects upon prices of inflationary and deflationary movements from co-existing effects of structural changes. (In respect of agricultural prices, the mounting hindrances to international trade by way of tariff barriers are important in the inter-war period.) Nevertheless, the figures quoted below are of interest.)

TABLE 5. (1)

S O U T H A F R I C A .

	<u>Index of wholesale prices of farm produce.</u>	<u>Wholesale price index :non-farm products.</u>
1927-9	100	100
1930	67	94
1931	63	87
1932	51	82
1933	67	82
1934	77	82
1935	66	82
1937	80	85
1938	76	85
1939	73	85
1940	86	99

TABLE 6. (2)

U N I T E D S T A T E S O F A M E R I C A .

	<u>Ratio of prices received by farmers for their products to prices paid by farmers for commodities bought. (1909-1914= 100)</u>
1923	.93
1929	.95
1932	.61
1937	.93
1939	.77

It is noteworthy that in years when the ratio of agricultural prices to other prices has been falling, deflation has been in progress, and vice versa.

The fall in the ratio of agricultural prices to other

1. Copied from I.A.R.C. Report, p. 30

2. From DUMMEIER AND HEFLEBOWER, op. cit. p. 1.

prices in the period of sharp deflation after 1929 must be ascribed to oversupply of agricultural produce relative to effective demand, which in turn is in part due to declining exports in the face of high European and other tariff barriers, but they bear out the contention that prices of farm products are more vulnerable than other prices. In putting forward a likely reason it seems worth while to quote in full a lengthy passage.

"Farm prices suffer from the fact that whereas they are highly competitive, many other prices are not. In the cases of the latter, those who exercise certain monopoly powers over their prices try to hold their prices steady, particularly during a price-level decline, although they will eventually lose if the price-level decline is large. Union labour -- which is strong in the transportation fields and in some mining and manufacturing -- tends both to hold up the prices of the things farmers buy and at the same time to prevent a reduction in the margin between farm prices and retail prices, so that the farmer gets a smaller share of the consumer's dollar. Trade associations and trade-marks both tend to hold up the prices of things bought by farmers in face of a general price-level decline. At the same time these two non-competitive factors tend to hold up the retail price of the farm products, particularly those which have gone through important form-changing processes, and thus to prevent the farmer from benefiting from the increased consumption that would take place at lower prices. Agriculture, being highly competitive, not only cannot resist price-level changes, but finds its position made still more unbearable by elements of monopoly in non-agricultural prices." (1)

Moreover, in an earlier chapter reasons were suggested for the observed tendency of agricultural output to be maintained or even increased in times of depressed prices for farm products, but these latter reasons, being based on the farmers' immediate financial needs and their response thereto, are of less cogency than the reasons quoted above in condoning State assistance to agriculture in times of deflation. It is probably not pressing the point too far to draw an analogy between the grant of State assistance to agriculture in such times with the recovery of certain maritime losses as a general average :

1. DUMMEIER AND HEFLEBOWER, op. cit. p. 6.

the loss which is suffered by farmers is (in some part) the result of deliberate action by the State (or its Central Bank) in effecting a deflationary policy in the common interest, and should therefore in equity be recoverable from the State (representing the common pool) provided of course it can be adequately shown in a particular case that the burden fell more heavily on the farming community than on others because of the peculiarly competitive organisation of agriculture.

The above discussion represents an attempt to show that under certain conditions pertaining to the international gold standard system of settling international monetary obligations, it is equitable that the State should be called on to grant specific relief to a certain section of the community. And it has been suggested that these conditions were fulfilled with and after the depression of 1929. The question then arises, cannot a system be devised to take the place of the gold standard such as will not involve the same (or any other) difficulties.

The International Monetary Fund, together with the International Bank for Reconstruction and Development and the International Trade Organisation are intended to provide the means whereby relative stability of foreign exchange rates can be secured while at the same time permitting, indeed encouraging the attainment and maintenance of full employment in all countries throughout the world. A wide measure of international consultation is required. To the extent that these aims can be fulfilled, so the sanction for specific State relief to agriculture in the future falls away under the conditions earlier discussed. But there are some doubts as to whether the devices now adopted will prove efficacious. Since there

is no coercive authority behind any of the institutions, it is patent that any country coming within the ambit of the relevant international agreements may choose to disregard its obligations in face of the meagre penalty of severing its membership of the organisation. The recent devaluation of the franc lends weight to these doubts. Says Hansen,

"It cannot be emphasised too strongly that the Fund is founded in the spirit of consultation, collaboration, and goodwill. If, in fact, it turns out that it cannot succeed on this basis, then success on any terms is not attainable." (1)

Much, if not everything, then, depends on the readiness of nations to submerge immediate sectional advantage in the stream of common wealth.

Again, fears have been voiced in some quarters that this scheme provides for too great authority being vested in the great trading nations, more particularly the United States. Mr E. J. Ward, an Australian Minister of State, is reported⁽²⁾ as having said that

"the Bretton Woods agreement would enthrone in the world a dictatorship of private finance more complete and terrible than any Hitlerite dream."

It is certainly far from clear that the international machinery for meeting such an eventuality by consultation is yet adequate ; yet this is not to say that the scheme will not work far more satisfactorily than its predecessor.

Then too in this discussion of international aspects of State interference in agriculture, mention must be made of the weight which is commonly attached to the claim that national self-sufficiency as a strategic aim must be allowed to override all purely economic considerations. It would be idle to pretend that this claim can be dismissed so long as political insecurity has any hold on men's minds. It is yet too early to generalize on the experience and

1. HANSEN, America's role in world economy, p. 80.
2. Cape Times, March 28th, 1946.

and prospects of the United Nations.

In any event, agricultural problems cannot be adequately discussed except in their world context. Specialisation and division of labour are inseparable from economy. But the contrary claim is often put forward, for instance by Mr L.S. Amery :-

"The progress of science itself favoured the development of nationalism in economics by weakening the arguments based on the peculiar aptitudes of individual countries for particular products ... Few, indeed, are the industries which cannot to-day be made to flourish anywhere, if the will to create them is there." (1)

This argument however wholly overlooks all considerations of economy : for all that it may be possible to grow a crop in one country rather than in another, it by no means follows that it is economic to do so. So far as the world as a whole is concerned, the amplitude of fluctuation between agricultural famine and surplus is far less than it is for individual countries. It has been observed that

"Within an expansive world economy ... importing countries would have no special difficulty in financing purchases of foreign raw materials, price fluctuations should generally remain within reasonable bounds, and prolonged conditions of excess productive capacity could be expected to occur but infrequently." (2)

To the extent that the problems here mentioned have been, inter alia, effective inducements to State intervention in agriculture, so it follows that to attain to an "expansive world economy" is not only an economic ideal, but would also avert the need for State intervention in some degree. To this objective, however, there are certain prerequisites. They are listed in the pamphlet quoted as

1. Political security.
2. Security from economic depression.
3. Security from the machinations of economic pressure-groups.
4. An orderly transition to peace.

As to the last of these items it is well observed that

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1. AMERY, The Washington Loan Agreements, pp. 28-29.
 2. LEAGUE OF NATIONS, Raw-material problems and policies, p. 108.

"The complexion of world monetary affairs and the future degree of protectionism and restrictionism will be largely decided by the readiness of nations to co-operate during the immediate post-war years and by the principles which guide this co-operation."
(1)

The first three items have already been discussed. It is sufficient to add that international machinery is in being to meet the first two prerequisites ; but the international approach to meeting the third is still far from adequate. In addition, the machinery for international collaboration with specific regard to agriculture has been strengthened by the establishment of the Food and Agriculture Organisation of the United Nations.

To sum up, some weakness of the classical analysis of international economic relations have been considered ; it has been shown that the pattern of State intervention in agriculture will in future be markedly influenced by the success or lack of success of international political and economic institutions in achieving their objects ; moreover, for each individual State its pattern of intervention must be determined in some measure by the view which it takes of the likelihood of success of these institutions and by the degree in which it is prepared to co-operate internationally.

1. LEAGUE OF NATIONS, op.cit. p. 109.

PART TWO.Economically advantageous action open to the State.Chapter Six.

The several sections of Part One have all been concerned with a largely theoretical discussion of some of the principal grounds on which may be justified the abandonment of a laissez-faire attitude towards agriculture on the part of the State. But only one aspect of the theoretical problem has so far been explored. Up to now the purpose has been in part to consider why disequilibrium between agriculture and other industries may not at all times sow the seeds of its own correction in the absence of ad hoc measures being taken by the State. An alternative and complementary approach consists in enquiring : how may the State contribute to a solution of farming problems without interfering with the pricing process as such ? Part Two is thus devoted to arguing from the special nature of farming organisation to the part which the State might usefully take in rendering that organisation less susceptible to economic shocks while not thereby creating fresh sources of diseconomy.

As a preliminary, then, it will be useful to sketch briefly the 'special nature' of farming organisation, considering how it differs in this respect from other forms of enterprise. Agricultural production in South Africa is intensely competitive, as may be seen from the table quoted on page 6. Manufacturing industry, to make one contrast, shows a strongly monopolistic tendency. A combination of several factors may be held to account for this difference. Farmers for the most part engage in production on their own account. The corporate form of enterprise has as yet scarcely appeared over the farming horizon (though, at the time of writing, August 1946, an attempt is being made to float a public limited company whose principal object is the production of

of polished rice). It will be sufficient to put forward two among other possible reasons for the conspicuous absence of corporate control in farming. First, the widely fluctuating rate of monetary return on farming investment is a deterrent to the sinking of publicly-subscribed capital, especially since the positive peaks of return are by all standards not high, negative returns or losses accounting for much of the fluctuation. Second, delegation of authority and control over farming activity is precarious, as mentioned in Chapter One. Organisation which is largely based on individual ownership is necessarily small-scale and multiplex.

A second factor accounting in part for the highly competitive relations in farm production have already been noted -- the individualistic temperament and outlook of farmers. Submission to control of their farming operations by others is commonly regarded as to be avoided in all circumstances.

Of considerable significance is the fact that industry has largely depended on individual enterprises to conduct their own independent research into techniques of production and new types of product. The results of such research are jealously prized and guarded, so that the large-scale firm with its well-equipped laboratory has an advantage over smaller firms which cannot set aside sufficient funds to equip and staff an adequate research department. Large scale industrial undertakings are thus sometimes enabled persistently to undersell their smaller rivals, and to force them out of production. With farming, however, the position is wholly different. Agricultural and pastoral research is conducted almost exclusively by government or public organisations which disseminate the results among all producers. Large-scale farming enterprises thus have little or no advantage over small concerns due to superior scientific knowledge.

Another aspect of the special nature of farm production is that it is territorially widely diffused. Not only does this entail that a recognition by all farmers of their common interest in sales control is hindered, but also effective liaison between individual farmers and financial credit organisations is difficult to institute. Hence voluntary combination, both technical and financial, is as inconspicuous in farming as it is blatant in manufacturing industry and commerce. (State intervention has of recent years of course greatly modified if not obliterated the truth of this assertion.) In the absence of special measures being taken by the State to promote co-operation and to provide special credit facilities to farmers, the territorial diffusion of agriculture (to be contrasted with the spatial 'agglomeration' of industry) is a marked handicap.

Of all assets subject to purchase and sale, land is the most durable. The capital equipment of industry, if it is made subject to excessive wear and tear, will certainly have a shorter life than if it were well tended. But if and when it must eventually be scrapped, it can be replaced. Not so with land, the principal capital asset of the farmer. Misuse of land not only jeopardises the long-term interest of the farmer who is responsible for its misuse : future generations are equally despoiled. Therefore the most prominent forward-looking agency in the community, the State, necessarily has an interest in how the farmer uses his land, while it does not need to recognize any analogous responsibility for the operation of industrial equipment.

The products of human design -- a category which embraces all manufactured goods -- can readily be differentiated one from the other in so far as they originate from different industrial plants. Hence 'product differentiation' giving rise to all the problems of advertising and



monopolistic competition, is characteristic of manufacturing industry. By contrast, many or most of the principal farm products do not permit of such differentiation. Unless special containers are used, there is no means of identifying a bushel of wheat as having been grown by Farmer A. To make a generalisation, industrial products are commonly differentiable, while farm products are usually directly substitutable -- provided, of course, they are the same in quality. The individual farmer, therefore, cannot expect more than the market price for his product (though there are some notable exceptions to this rule.) This situation is significantly different from that obtaining in industry, where by advertising, the individual firm may induce some buyers to pay a higher price for its product than would be paid for the product of a competitor actually equal in quality. (And the economies of large-scale advertising contribute to the success of large-scale industry.)

Of all single contributory causes of agriculture's production and marketing 'disabilities', perhaps the most important is that, given the volume of input, the volume of output can seldom if ever be reliably estimated a season ahead. That is to say, given the area of land ploughed and otherwise prepared for sowing : given the labour force ; given the number of tractors and other mechanical devices which will be available -- in short, given all the factors of production, it is impossible to tell how much wheat will be reaped, not because different combinations of factors may yield different outputs, but because the incidence of risks at present beyond human control cannot be reliably forecast. Prominent among these risks is unfavourable weather. Pests and plant and animal diseases multiply the risk factor. And if gross output of farming operations both as a whole and in their individual contributions cannot be reliably forecast, then it

is difficult for the individual farmer to find a rational basis on which to plan his operations. He may, for instance, consider it necessary to curtail his output of a particular crop because of available evidence suggesting that in other parts of the country -- or even overseas -- farmers plan a large extension of production of that crop, which, if it actually matures in an increased flow to the market, may reasonably be expected to lower the price. Given then the lower price, and given the price at which some other crop is likely to sell (if all crops mature) it may pay him better to substitute production of the other crop for the first. But these assumptions as to price movements may prove wholly false : an unexpected drought, or a locust invasion in one or more of the relevant producing areas, may well vitiate all the conclusions drawn. In all farm production the physical returns particularly (and therefore also price if the market is unregulated) are far more unstable than in manufacturing production. And once more it is pertinent to point out that analogous problems in the sphere of manufacture of estimating the intended output of competitors have been overcome in considerable degree by the simple device of combination.

Yet another item in the list of economically-significant differences between farming and other forms of enterprise is that the tempo of farm production is fixed by Nature, and has not proved amenable to attempts at human control. An unexpected shortfall in supply of a staple farm product cannot be remedied in a shorter time than is set by natural forces -- unless surplus stocks can be drawn on. With manufacture, however, there are available several means of meeting unexpected shortages in a shorter time than would normally be taken to provide a volume of output sufficient to meet the shortfall.

A severe disability in most forms of agricultural production is that labour requirements over the period of

production are highly variable in magnitude. While it is unwise to generalize as to conditions in all branches of farming, suffice it to say that the harvest season in many instances brings a peak to the number of workers required. Where pockets of industrial and other activity are distributed in and about the farming area, a small rise in the temporary wage offered by farmers over and above that paid in other occupations may well bring about the requisite increase in the supply of labour to farms. It is well known how even London is affected by the advent of hop-picking time in Kent. A more homely example -- Cape Coloured persons, particularly those in domestic service, have disconcerting habits of playing truant when in such places as Paarl and Stellenbosch the grape-picking season is at its height. Farmers in such areas are not unduly penalised by the irregular nature of the employment they offer. Altogether different, however, is the labour set-up on farms which are far distant from urban centres. Here, either the farmers must offer regular employment, or do without labour. Since, as postulated, they are situated far distant from labour reservoirs, the wage offered for temporary work must be high enough not only to attract workers to leave their present employment temporarily (if that is possible) but must also be sufficient to compensate them for the costs of transport. The force of this disability of territorially-diffused farming is reflected in South Africa in the familiar farmers' complaint of 'labour shortage'. Professor Leppan quotes from Lady Howard's "Labour in Agriculture",

"The consequences of the seasonal law cannot be evaded. That law gives rise to the biggest of the immediate problems in agriculture ... Agriculture seems faced with the dilemma between running on lowest gear or of jolting off her passengers at stated intervals into the wayside ditches ... The cultivator's remuneration is necessarily constituted of his seasonal worth spread over the

year. It is when agriculture meets, in modern competition, industrial production run on all-the-year-round, and sometimes on an all-day and all-night basis, that the crushing force of this disability is brought home." (1)

Now that the most important of the economically significant differences between agriculture and other sectors of the economy (particularly manufacturing industry, whose well-known characteristics have facilitated the comparison) have been sketched, it remains to be considered how far -- if at all -- these differences, or 'special disabilities', justify State assistance to farmers, and what forms such assistance should take. In Professor Leppan's opinion,

"the consideration extended to farmers by all modern legislative bodies is justified, not only because the results of farmers' efforts are basic to society but because of their economic disabilities in the earning of their livelihood." (2)

In this chapter attention will be given only to the latter of the two items constituting Professor Leppan's attempted justification of State assistance to farmers.

For the sake of clarity of argument, it is as well that the criteria on which State intervention will be appraised in the following pages should be simply stated. First, it is taken as axiomatic that every improvement in the distribution of all productive resources between alternative occupations is economically justifiable, no matter by what agency such improvement is brought about. (The distribution of resources is 'improved' whenever a factor of production is transferred from one occupation to another in which the marginal 'social' product of that factor is higher than in the first.) This criterion is essentially based on a long-term view, since it is often not possible except over a considerable period of time to transfer productive resources from one occupation to another. A plough, for instance, can easily be transferred from being a factor of production in the raising of wheat to contributing to the raising of maize. Yet an efficient farmer

1. LEPPAN, *The Organisation of Agriculture*, p. 16.
 2. LEPPAN, *op. cit.* p. 27.

cannot be turned into an efficient skilled workman in industry except over a period of years -- if the transformation is possible at all. The fact that some factors of production are relatively immobile prevents their always being employed in those occupations where they would yield the highest return. What, then, of a short-term criterion? The economist is interested in the problem of how to make the best use of available scarce resources. Recognising, however, that some resources are necessarily wholly immobile, and others again (particularly individual persons) are immobile except over long periods of time, even the economist accepts the view that the alleviation of hardship on particular persons arising out of their immobility is a justifiable interference with the workings of the competitive system. That is to say, the rigidity of the long-term criterion must be moderated in the short term by allowance for social needs. Underlying many manifestations of individual personal hardship is the inescapable fact that prices fluctuate more rapidly and widely than resources can move from one occupation to another.

At the same time it must be acknowledged that there are several methods of alleviating social hardship due to immobility of resources, of which some are less acceptable than others. Interference with prices as such is especially unsatisfactory, for it is liable permanently to obscure the fact that some resources are, in fact, not being used in spheres where their potential contribution to the national wealth is greatest.

In view of the special conditions of farming production already outlined (special, that is, as compared with, say, industrial production), how far and in what directions can State intervention and assistance in the affairs of agriculture be justified on economic (including socio-economic) grounds? In other words, what economic measures

may be taken by the State which will have the effect of improving the efficiency of agricultural production and marketing? The emphasis in the following discussion will be placed on seeking means, not whereby farmers' "economic disabilities in the earning of their livelihood" can be removed so as to make it easier for them to show profits on their operations, but rather whereby their economic efficiency can be improved. (The immobility of resources raises special problems which must be treated on a different footing.)

1. Research work undertaken by government departments for the express benefit of farm producers undoubtedly has assisted in improving efficiency. Valuable work has been accomplished in this respect in South Africa at Onderstepoort and at the agricultural research stations, but there are several fields in which enquiry might with advantage be undertaken more extensively. For instance, some preliminary studies have been undertaken at Meteorological Headquarters, Pretoria, with the object of making possible reliable seasonal forecasts of rainfall. A vast amount of work must yet be accomplished before this aim is achieved. Advice (such as is given in Southern Rhodesia) as to when sowing and reaping can safely be undertaken (in so far as the weather is concerned) would be of inestimable benefit if it were reliable. To make such forecasts would require, however, a very much larger and better-equipped organisation than has so far been provided.

State research does not, of course, necessarily ease the competitive struggle, since its findings are available to all. But it does ensure that those farmers who adopt progressive methods will be able to produce at lower long-term costs than others, and hence will tend to drive inefficient producers out of operation. Moreover, it gives farmers producing for export a relative advantage over their competitors, *cet. par.*, if those competitors have not the same advanced knowledge of technique. But since

many other States are already heavily committed to agricultural research, an actual advantage on this score may not easily be realised.

The necessity for State or State-supported research in agriculture arises from the fact that the structure of farming, as has already been shown, is essentially based on the competition of a large number of comparatively small units, few if any of which have the financial strength to support independent research on any scale. The question then arises, why have these small units not pooled resources for research purposes, instead of leaving it to the State? The most plausible answer appears to be that privately-sponsored research of this type would probably suffer from being accorded only short-term support while agricultural prosperity lasted (if farmers could in the first instance be led to appreciate the advantages of research being undertaken in times of prosperity), which would be withdrawn when depression set in. Research, if it is to be fruitful, must necessarily be continuous. Sporadic and short-lived efforts in this direction would probably serve only to destroy farmers' confidence in the usefulness of research. In view of these considerations, the State seems to be the appropriate agency for maintaining continuous research.

2. Finance is one of the most pressing problems of agriculture. The structure of individual ownership prevents financial assistance on long-term being obtained from public sources. At the same time, the extreme variability of prices of farm products makes raising of short-term loans difficult, especially from such sources of credit as the commercial banks. In the absence of special credit institutions as co-operative societies, farmers would probably be dependent to a large degree on traders for advances. The fact that traders themselves may be largely financed

by commercial banks does not diminish the weight of the argument, which is that a credit-system based on the advances of territorially-diffused traders is necessarily one which admits of little effective competition in the supply of money loans. Not only may the rate charged on loans include a high risk premium (which, of course, is economically justified) but a monopoly element in the market may keep rates far above what they would be if competition were more effective.

To these arguments, which seem to favour the provision of special facilities by the State, it is sufficient to reply that there is nothing to prevent farmers from forming a co-operative organisation for the purpose of exploiting competitive sources of short-term credit. Economic justification for the provision of State-financed credits to co-operative organisations cannot easily be established. Mr E. R. Jacklin, in discussing assistance given by the Land and Agricultural Bank in South Africa to crop associations, remarks that its terms "are more favourable than any obtainable from other sources".⁽¹⁾ The effect of such assistance is to draw capital funds away from occupations where the marginal rate of return is higher than it is in farming -- a negation of economy in a capital-hungry country. Similar counter-arguments apply in the discussion of the provision of long-term capital to farmers. If it is individual ownership which is to blame for inadequacy of long-term capital for farming operations, then there is every economic reason why joint-stock ownership should supplant it rather than that special State assistance which has the effect of intensifying the maldistribution of resources, should be extended in the provision of long-term capital. This criticism is valid, of course, only in a fully-employed society.

1. In an article on "crop-methods" in "The Principles of Co-operation", Dept. of Agriculture Bulletin No. 80, 1930.

In sum, the financial disabilities of farming appear to arise from defective organisation on the part of farmers, and should not therefore be regarded as remediable by the provision of State-granted advances on medium or short term unless on other than purely economic grounds (exception to this rule being taken in times of depression).

3. The small-scale competitive nature of the economic structure of farming suggests the considerable benefits which might accrue as a result of co-operative action -- benefits, that is to say, not necessarily in the shape of higher profits for farmers realized through the stifling of competition, but arising rather from the better distribution of resources between alternative occupations. Compulsory single-channel marketing is by no means the economic ideal of co-operation. In the bulk purchase of farmers' requisites, cooperative associations can perform a service which is economic in that it is cost-reducing. In finding short-term working capital necessary to bridge the gap between the incurring of initial expenses of production and the final sale of a crop or product, an association may also perform a valuable function for the economy as a whole. But there the major benefits end. When co-operation is taken so far as to make possible the exploitation of inelasticity of demand, it is obviously providing an artificial incentive for the employment of resources in agriculture whose marginal product in some other occupation is higher. On the long-term economic criterion, any action taken by the State to sanction or make possible such exploitation is to be condemned. This, however, is not to say that there is no economically-justifiable assistance which the State can render to the co-operative movement. For the benefits of co-operation in certain spheres have been sketched above ; yet farmers show a marked reluctance to organise on their own for

co-operative action. Hence the State may render an economic service by promoting co-operation among those who are either too diffused for spontaneous movements to emerge or who do not understand how their own costs may be reduced by their joining a co-operative organisation.

4. The State has an interest in the land transcending that of the individual farmer. The farmer, in considering whether capital improvements of his land are likely to be justified by returns, cannot be expected to take into account the returns on such investment for as long a period ahead as the State. Hence provision by the State of capital for improvements at rates below the ruling market rate of interest for loans of similar risk is justifiable. The principle, in other words, is that SOME reduction on market rates for loans for land improvement can be condoned. To the wider question of how great that reduction should be, it is impossible to give a precise answer.

5. The system of land-tenure which has evolved from the Roman-Dutch law of inheritance was highly unsatisfactory. The division of farms among all the male heirs to a landed estate resulted in capital impoverishment and consequent exploitation of land. A solution to this problem may be found in a proposal which is put forward by the eminent English agronomist Sir Daniel Hall as a means of overcoming the difficulties discussed in the previous item.

The proposal⁽¹⁾ is that, since the State is deemed to be the only agency that can carry out the necessary adaptation of farming to modern conditions, it should purchase the whole of the farm land of the country, to be let to tenants in the usual way after capital improvements and reconditioning had been carried out. This proposal has several merits to commend its adoption. First, soil improvement could be effected without involving the sometimes

1. A.D. HALL, "Reconstruction and the Land".

unready co-operation of the farmer. Second, it would place in the State a powerful weapon for enforcing sound farming practices, since any farmer who refused to adopt efficient techniques could be ejected, due cause having been shown. It might be urged against the adoption of this solution that the insecurity of tenure to which it might give rise might possibly deter farmers from putting forth their best efforts. But it should not be difficult to devise adequate safeguards, particularly for the efficient farmer. The adoption of this policy in South Africa is already being urged in certain progressive circles ; while it would certainly involve an unwelcome extension of bureaucratic control, there is nevertheless much to be said in its favour.

6. An earlier discussion has already shown how the immobility of farm resources between alternative occupations (especially between primary and other industries, as distinct from immobility within agriculture itself), coupled with the greater liability of farming to the danger of succumbing in times of depression due to its high level of fixed costs, together constitute a burden which agriculture has in recent times shown itself not capable of bearing unaided. Moreover, the continuing inability of either farmers or their advisers to anticipate accurately what the levels of realised production will be in the several branches of agriculture adds considerably to the hazards of farming. There are liable to occur in farming at odd intervals peculiar stresses which, in the absence of special relief, must inevitably end in the elimination of a greater or lesser number of farmers from production, according to the degree of stress.

In so far as the representative farmer is unsuited by temperament, and by his training to enter employment outside agriculture, the recurrent stresses discussed

above are likely to involve farmers as a class in special hardship. It can be argued, of course, that in the long run the transfer of redundant population from agriculture to other employments can be effected by mere pressure of circumstances -- and that is how the competitive system functions. But, in accordance with our recognition that the long-term criterion of State intervention (namely, that of an improvement in the distribution of resources between occupations), must be moderated in the short term by allowance for social hardship, a case can be made out for easing the worst social aspects of agricultural fluctuations -- rural unemployment or underemployment.

Whenever it appears that the rural population is in excess of the numbers which are economically warranted over the long term, the State can adopt a policy (which is in every way 'economic') of encouraging the youth among that population to train for occupations other than farming at an early age by providing whatever training facilities may be necessary for this purpose. The Rural Industries Commission, with this end in view, advocated widening the educational facilities available to farm children.

7. Short-run fluctuations in prices of farm products in the open market giving rise to marked instability in the level of farm incomes are largely due to changes in supply against a fairly stable demand. Climatic and other at present uncontrollable factors are principally responsible for year-to-year fluctuations in supply. Long-term price fluctuations, again, give rise to undue loans being taken on mortgage by farmers in times of high prices, leading to a severe interest burden being carried in less prosperous times. The high specificity of farm land and equipment in turn encourages land exploitation when prices are low. Altogether, it is evident that measures to reduce the amplitude of price fluctuations by providing a greater flow of produce when prices tend to rise, and vice versa,

are not only economically defensible and desirable, but would help to meet the problems outlined above and especially that of income instability. Since farming in many of its branches yields its product only at discrete intervals of time, the measures described above are seen to require storage over one or more of these time-intervals. There is no reason why co-operative societies, competently managed, should not effectively reduce price fluctuations over the single time-interval ; provision of their finance requirements might properly be undertaken by the State as already mentioned if it is shown that private sources of loan funds are in any way monopolistically organised -- and this proviso calls for rigid insistence. When storage over more than one time-interval is involved, however, a host of problems arises. Single-channel marketing sanctioned by legislation becomes necessary in view of the practically insuperable difficulties earlier enumerated which are faced by co-operative societies aiming at withholding some part of the season's product from the market during the ensuing season. Now there is no doubt that the aim of meeting price fluctuations by appropriate responses in the flow of produce is economic : so too, seeing that co-operative societies have proved inadequate to the task, it follows that State intervention designed to fulfil this aim is also economic provided that the aim is rationally and exclusively pursued. To design a system of administration, State sponsored or State-controlled, which shall meet the aim and the attendant proviso is the emerging problem -- and a problem so difficult of solution that a compromise with some elements of diseconomy seems inevitable.

(It is tacitly assumed in the latter part of the discussion that imports are, for whatever reason, not available to augment the flow of supplies when prices tend to rise. This assumption may vitiate the conclusion drawn if the 'reason' referred to is indefensible, but the assumption

is in accord with present-day pressure on governments to secure national self-sufficiency in preparedness for war.) Discussing storage policy, Schultz observes,

"One of the major difficulties lies in the political sphere, the fact that interested pressure groups have not yet attained a full sense of national responsibility." (1)

Contrary to this in its placid optimism is the view of the South African Secretary for Agriculture and Forestry as presented in his annual report for the year ended 31/8/1943 :-

" ... criticism directed against control boards is based mainly on a misunderstanding. Control merely consists in a conscientious endeavour to regulate prices and supplies in such a manner that both the producer and the consumer derive the maximum benefit. Who can dispute the soundness of this policy ? "

Further justification for State interference is thus found, provided that an appropriate institutional medium can be devised for carrying out the economic aim referred to.

In sum, it is open to the State to adopt a long-term policy of making farm resources, and in particular farmers or their sons adaptable to employment in other sectors of the economy whenever it appears that there is undue pressure of population on farm income. By providing special facilities for rural youths to be trained, for instance, for urban employment, much could usefully be accomplished in absorbing surplus rural population in occupations where they could make a greater contribution to the national income than in farming. But such a long-term policy, which has the blessing of being 'economic' is not enough to relieve rural hardship, since its operation is too slow. Accordingly, special relief measures may be instituted to keep farmers on the land. Such measures are defensible only when they are regarded as transitional, and to be scrapped as soon as long-term policy has become effective. It has also been shown how in various other ways the State

1. SCHULTZ, op. cit. p. 246.

may bring about a more economic utilization of resources.

PART THREE.Appraisal of South African agricultural policy.Chapter Seven.

The earlier parts of this study have been devoted to a consideration of (a) some reasons for the substitution of interference in State policy in place of laissez-faire, and (b) some spheres in which the State may assist in bringing about a more economic utilisation of resources, all this with special reference to agriculture in South Africa. Between (a) and (b) there is a measure of overlapping : in practice, State interference has here and there been undertaken with the object of making better use of available resources and of developing new resources ; but interference has sometimes also had other objects in view which seem to run counter to the requirements of economy. These two aspects of State interference are often not readily distinguishable in practice, since policy is commonly evolved not at one time as a coherent whole but rather in a disjointed process of adding new measures and modifying existing ones in order to meet new circumstances as they arise. The end of the recent war was a propitious time for planning agricultural policy de novo so as to make it coherent in all its parts. The Union Government was not slow to take the opportunity, with what results are described hereunder.

In this part, the published intentions of the South African Government for determining the future course of agriculture in this country will be appraised in the light of the theoretical considerations advanced in the foregoing parts. But before policy as such can be discussed, it is necessary that the facts to which that policy will relate shall be clearly set out. Accordingly, some space is given here to an enumeration of the principal South African data which are relevant to the further argument.

The intentions of the Government in respect of farming policy have been set out in a White Paper issued in 1946⁽¹⁾. This is evidently intended to be a synthesis of the recommendations and researches of the two lesser bodies, namely the Department of Agriculture and the Social and Economic planning Council, modified so as to fit in with the broad scheme of governmental policy in general. The Department, it may have been hoped, would confine its report to the INTERNAL aspect of the farming structure, dealing for instance, with the special problems of agricultural marketing, credit requirements, and production. The Council, again, would report on the broader and EXTERNAL aspects of farming, taking into account the requirements of equilibrium between all sectors of the national economy, and between the national economy and the rest of the world. It would then be for the Government to consider how the two reports, dealing with complementary aspects of the total situation, could be harmonised and worked into a logical synthesis consistent with the other obligations of government. The drawing up of such a co-ordinated plan of research prior to the formulation of policy would have had everything to commend it. However, the lack of co-ordination between the functioning of the two bodies in this matter is all too apparent from the wide overlapping of the two reports. As can be seen from the Council's introduction to its report, whatever scheme of co-ordination there was at the outset later fell into lamentable confusion. Neither the Council nor the Department worked to any such master-plan as is suggested here, with the result that the advantages of division of function have not been realized in as full a measure as possible.

As a result of this confusion of function and the over-

1. White Paper 10/1946 - "Agricultural Policy".

gap between the two reports, it is necessary that rather full consideration be given here to the reports themselves instead of attention being confined to the White Paper.

Factual.

There are seven well-attested and documented facts which must be accepted as a background to any State agricultural policy in South Africa. Briefly stated, the facts are :-

1. The pressure of population on income from farming in the pre-war years was acute, reflected in the fact that prices of farm products on the internal markets were often well above those ruling in some other countries.

The Industrial and Agricultural Requirements Commission showed that one third of the European population "engaged permanently in the farming industry outside the Native Reserves produce one-eighth of the national income". This assertion is supported by statistics calculated and estimated for the year 1936-1937. The position at the time of writing is undoubtedly different as a result of the War, and it is doubtful whether a return to pre-War price-relationships will be made. The Secretary for Agriculture, however, writing in 1942, expected the price of most agricultural products to be "considerably lower" after the war.⁽¹⁾ The Social and Economic Planning Council believes that

"the chances are good" .. "that in the post-war period agricultural prices (will) rule at a relatively higher level in relation to industrial prices than was the case in the period between the great depression of 1930-1932 and the war". (2)

The reasons given by the Council for this assertion are

"Food supplies are short the world over, and the shortage will last longer than the shortage of manufactured goods. Due to exploitive farming systems all over the world the capacity of the land to produce food has been impaired over large areas. In contrast to this, industrialisation is

1. Report of the Dept. of Agriculture and Forestry for the year ended 31/8/1942, p. 12.
2. Report No. 4, "The Future of Farming in S. Africa", p.18.

not limited in the same way. Increased industrialisation the world over must necessarily result in relatively (to industrial prices) more for agricultural prices." (1) (Italics inserted).

Support for the latter view is to be found in the work of Colin Clark, who writes of the period up to 1960 after detailed statistical analysis that

"... the terms of trade for primary produce will improve by as much as 90% from the average level of 1925-1934.

At first sight it may seem rather hard to accept a movement so violent as this. Consider, however, the two largest factors (amidst a host of smaller factors) determining this result. The first is the rapid industrialisation (even though productivity will be low) of Japan and China, and their consequent development as exporters of manufactured goods and importers of primary produce. The other predominant factor is the anticipated continuance of the rapid growth of output per head in the United States of America. These two large-scale events within themselves constitute a world industrial revolution."(2)

2. Vast tracts of land at present under market crops are suited only to pastoral production.

Professor Leppan draws from a consideration of the natural controls of farming in South Africa the conclusion that

"the land can be best utilised in enterprises connected with animal husbandry. This is so because at least 85% of the country can be employed only for pasturage and because properly maintained animal industry is less affected by precarious climatic conditions than field crop production. The animal can be moved, so too the required foodstuffs : growing crops cannot be moved -- they suffer the full toll of drought."(3)

Yet these natural controls have not been allowed to influence farming development to the extent that long-term interests require. Authority for this view is found in an oft-quoted commission report :

"At present the position is very far from the ideal. Thus wheat is often grown in unsuitable areas not to provide green winter feed but for the production of bread wheat ... The inadequacy of foodstuffs given to animals as a supplement to natural grazing is reflected in the fact that the Union suffers the loss of nearly 500,000 cattle and 4 million small stock

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1. Council's Report, op.cit., p. 18.
 2. CLARK, The Economics of 1960, p. 52.
 3. LEPPAN, "The Union's Farming Resources", University of Pretoria Series No. 1, Agr. no. 30, p. 4.

annually, chiefly through under-nutrition." (1)

3. The menace of soil erosion threatens the future of farming in South Africa.

The Social and Economic Planning Council (henceforward referred to as "the Council") quotes two renowned experts as saying that "a national catastrophe, due to soil erosion, is perhaps more imminent in the Union of South Africa than in any other country." (2) The contribution made to the emergence of this problem by the neglect of natural controls in deference to artificial controls needs to be recognised.

"The concentration on cereal culture and unwise farming practices in many areas has already culminated in an alarming depletion and loss of soil. Erosion has assumed menacing proportions particularly in those regions which were increasingly brought into cultivation in response to the artificially high prices for wheat and maize in the local market." (3)

4. Malnutrition, especially among Natives, is widespread, e.g. as reported by the Native Economic Commission

5. Manufacturing industry is 'moderately' protected from foreign competition, and the prices goods farmers buy is thus raised to them above the level at which imports could be made.

The Customs Tariff of 1925 was designed essentially to promote industrial development and a high level of European employment at high wages. That the farming community is very much alive to the attraction of importing supplies which can be landed at lower cost than they can be produced in the country may be seen from an extract from a governmental report.

"All manufacturers (of farm implements and other farming requisites under the control of the Controller of Agricultural Machinery, Implements and Requisites) have already been notified that production costs will have to be reduced during 1945, and that unless these costs can be made to compare favourably with the landed cost of similar imported articles, manufacturers will have to prepare themselves for the cessation of production." (4)

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1. I. A. R. C. Report, op. cit. p. 33.
 2. Council's report, op. cit. p. 3.
 3. I. A. R. C. Report, p. 61.
 4. Annual Report of Secretary for Agriculture for year ended 31/8/1944, p. 150.

6. To bring about a pronounced shift of European labour resources to other sectors of the economy is a difficult task which cannot be accomplished in any short time.

The obstacles are of two kinds : natural and artificial. Natural obstacles are such as that members of a rural community do not take readily to urban life : the inducement to abandon their old ties requires to be very strong if it is to be effective. Apart from this almost sentimental but nevertheless operative hindrance is the more direct problem of how a person unversed in the skills of urban economic life can acquire such skills. Artificial obstacles, again, comprise those emanating from deliberate decisions of authorised bodies such for instance as the trade unions and the apprenticeship boards by which efforts can be made to keep down the number of new entrants -- to the benefit of present members.

7. Violent fluctuations in agricultural prices which are liable to rule in the absence of control have questionable corrective significance so far as production is concerned and lead to overcapitalisation and exploitation of land.

Since this Part is intended as a review (critical where need be, but also constructive) of the officially declared policy of the South African Government, it is desirable that -- so far as they are ascertainable -- the considerations upon which that policy is based should be carefully examined. Now it is explicitly stated in the White Paper that the Government caused the reports of the Department of Agriculture and the Council to be submitted 'to assist it in the formulation of a programme'. The survey to be given here would be incomplete, then, if it did not fully cover these two ancillary reports. Moreover, the National Marketing Council in its Report for 1943-1944 (part 1) discuss at considerable length the very topics which are germane to the present investigation. Some mention will therefore be made of the views of this body. (The Marketing Council's report in question was issued subsequently to

the two other reports discussed here, but prior to the issue of the White Paper.)

The Departmental Report : "Reconstruction
of Agriculture".

Chapter 2. The 'importance' of the place occupied by agriculture in the national economy is stressed. (The Report states that its importance cannot be overstressed, with what significance is not apparent.) This view appears to rise from two considerations :-

- a) "farming provides by far the greatest number of contributors to the country's production efforts" ; and
- b) "the farmer holds the key position in our national life".

In view of (a) -- and the truth contained therein is incontrovertible -- the importance of agriculture in any discussion of any economic policy must be considerable. But the Report seems to draw the inference that on account of the considerations cited, agriculture is deserving of special assistance from the State. To the pure economist this position is untenable. It regards agriculture as subject only to overall adjustments from outside, and ignores the highly important fact that adjustments CAN also be made from within the farming industry. For illustration, given that the industry is over-populated by Europeans relative to other industries, two broad types of solution are available. (The prospects of improved efficiency are here ignored.) The first is that purchasing power be transferred in some way from those employed in the other activities to persons engaged in agriculture. In this way the discrepancy between the average per capita incomes in the different sectors of the economy can be removed. Alternatively, the excess population in agriculture can be transferred to other occupations, with the same result. But the Departmental Committee entirely overlook the latter solution to the problem.

The growth of agricultural production in South Africa from the time of the First world war, when large quantities of food had to be imported, to the more recent past when,

it is contended, the country's overall food requirements could be met coupled with 'actually having to export surpluses of certain food products' is hailed as an 'achievement of the greatest importance'. Whatever meaning may attach to this latter phrase, the fact is that the achievement is one of grave economic significance. To speak, as does the Committee, of meeting the country's overall food requirements when malnutrition is rife among the poor is to verge on absurdity. It is well recognised that malnutrition arises from the inability of the Natives and others to pay the ruling market price for food. Yet when that price is artificially maintained at such a level as to be prohibitive to certain classes, it is by no means arguable that the country's food needs have been met. As Dr von Biljon states,

"in addition to imposing high import duties, assistance was accorded from 1950 onwards by licensing and effectively restricting certain agricultural imports, subsidising exports and maintaining a high internal price whenever the product is not fully dependent on the export market". (1)

In other words, exploitation of the inelasticity of European food demand by farming interests was carried to such lengths that cheap exports were made of food which was urgently required by the poorer classes but for which they could not pay the artificially inflated price. This deliberate sacrifice of human resources in the South African 'economy' appears all the more indefensible on grounds both of economy and equity when it is recognised that 1½ million Natives over the age of 10 were in the Reserves presumably engaged in farming occupations, occupying ten million morgen of land, while approximately one million Europeans occupied 100 million morgen of farm land in 1936. This alleged achievement of agriculture, when viewed in its

1. VON BILJON, State Interference in South Africa, p. 16.

proper perspective, is surely nothing less than an indictment of the regime under which it was made.

The 'psychological and spiritual' contribution made by the farming community to the nation is elaborated; while such values escape the economist's measuring-rod of money, there may be some measure of truth in the contention that these nebulous contributions to national welfare should not be overlooked. But happily the issue can be side-stepped, for it is not shown that an equal contribution (if not a greater one) would not be made by a smaller farming community than is given at present. It may well be that the transfer of the whole farm population to other occupations would involve a significant loss of these contributions, but such a wholesale transfer has never been advocated in any responsible quarter.

The enormous disparity in per capita European incomes between agriculture and other branches of the economy, particularly gold mining, commerce and secondary industry is noted, with the comment that it exists 'despite the fact that agriculture has been and still is the broad foundation of our economic life'. The term 'broad foundation' is open to two interpretations. It may reflect that farming occupies a greater absolute proportion of the total population than any other activity. Or it may be intended to emphasize that food and raw materials are essential to life and industry. The first interpretation is defensible, but merely serves to show the urgency of the problem of correcting the inter-occupational disequilibrium. The second ignores the fact that food and raw materials can be imported if need be. That the latter interpretation is intended may be inferred from the next paragraph where it is stated that 'in a country like the Union, industry, commerce, the professions and urban life, in spite of their great importance, can have no independent existence -- they are structures built very largely on agriculture'.

From being described as the 'broad foundation' of our economic life, agriculture later suffers a mild metamorphosis to become 'the key industry in our whole economic structure'. From reading these vivid descriptions of agriculture it is hard to escape the conclusion that the Committee is more concerned with its megalomania than with economy.

In the final paragraph, recognition is at last given to the part which a developed secondary industry might play in easing the problems of agriculture.

Chapter 3.

In a consideration of the economic disabilities of farming, it is noted that 'the whole question of land abuse is closely linked with economic considerations'. This is in accord with an earlier analysis of the present study. But the further conclusions which are drawn by the Committee are inadmissible. They represent that 'the man on the land has been caught in the vortex of an economic system not of his own making, which in a large degree compels him to exploit the agricultural resources in order to enable him to meet his commitments and at the same time to maintain a reasonable standard of living'. A less hysterical analysis would show that the existence of surplus capacity in the industry, coupled with competition, induced the farming community as a whole to exploit the productive capacity of a capital asset. Had this latter exploitation not been possible, some farmers would have been forced to leave the land sooner than they did, and others who did not leave would have left. This shifting of labour resources from agriculture to other occupations is the appropriate economic remedy under the competitive system. But the State appreciates that the remedy is more drastic in its social implications than the harm which it is to rectify. Accordingly, assistance to the farming community can be justified as a temporary measure to ease the transition of surplus pop-

population to alternative occupations. (In so far as the State has connived at hindrances being set to the absorption of farm workers, farmers and unskilled labour generally in mining and industry, it must also in equity either undertake to place such persons as leave the farming industry, or it must maintain them as farmers. Thus the diminution in the national income becomes cumulative once sectional interests in any sector of the economy are allowed to impose rigidities on the economy.) No hint is given, however, of any recognition by the Committee of the fact that only temporary assistance can be justified (temporary, that is, if the State is prepared to make provision for workers released from agriculture being absorbed in other occupations.) The Committee hold that 'the nation as a whole must share responsibility for the flaws and maladjustments arising from the system'. In this view they are justified, but it is of importance that the reasons underlying the flaws and maladjustments should be set out explicitly and carefully evaluated as has been attempted above in a few words. The flamboyant passage elaborating the 'economic vortex' merely fogs the issue. (1)

The same crude economic notions of the Committee inform a subsequent paragraph. There the reader may learn that 'the farmer has had to be satisfied with prices which were not commensurate with the inherent value of many of his products'. (Italics inserted) This represents probably little more than an unreasoned resistance to change.

Marketing is discussed in para. 49. 'There is no sound system of organisation and regulation, particularly from the point of view of ensuring an even and orderly flow of

1. The selfsame analysis is evidently being taken round the countryside by the Minister of Agriculture at the time of writing. He is reported in the Star of 25th September 1946 as having told a Queenstown meeting that the farmer "had been caught in the whirlpool of an economic system which was not of his making but which nevertheless compelled him to exploit his resources".

products from producers to the markets and from the markets to the consumers .. making .. for an undue margin between the prices received by producers and those paid by consumers'. The Committee give no enlightenment as to what they understand by a 'sound' system. The crux of the matter however, is that to bring about an even and orderly flow of products is to perform an economic service, and in so far as farmers themselves have not performed this service, they cannot justifiably complain of an 'undue' margin between prices to consumers and to producers. So long as there is effective competition among those agencies performing the marketing services there can be no question of an 'undue' margin. And the Committee do not attempt to show that competition is not effective. They point out that 'control over local markets is vested in the Provincial Councils, which bodies cannot give the necessary expert guidance in respect of organisation, development, etc.'. Yet so long as the Provincial Councils can establish and maintain conditions necessary for free competition on the markets, they are performing all that can be legitimately required of them in this respect. The matter is further examined later.

The section on overcapitalisation of farm land is sound. The Committee recognize the necessity for a solution being found to the problem but do not themselves put forward a solution here.

Unbeneficially occupied land, and the uneconomic subdivision of land arising partly from the old system of bequeathment, receive attention from the Committee. They make no constructive proposals.

Chapter 4.

As the economic aspect of 'work done to cope with the difficulties of agriculture', the Marketing Act of 1937 is referred to in glowing terms. Parliament is said to have realised 'that one of the main lines of approach to the

elimination of the economic disabilities of farming lay in the organisation of marketing and the assurance of a reasonable price to producers'. The emphasis which is placed on these two functions of the Marketing Act is well placed : for many years prior to the passage of the Act, farmers had been vociferous in their demands for a 'reasonable' price and for 'orderly' marketing. Each of these demands deserves close attention.

First, then, as to 'orderly' marketing, the Report of the Commission on Co-operation and Agricultural Credit (presented 1933) is relevant. There one may read that

"Witnesses have repeatedly stressed that a board of control will ensure a better return to the producer by creating a direct channel of distribution between producer and consumer, thus eliminating the large number of intermediaries who, today, all participate in a share of the consumer's dollar ... The question of middlemen's profits and their elimination is advanced by agricultural producers all over the world as one of the main reasons if not the only reason why producers should organize and combine."
(1) Italics inserted.

From the (sometimes wide) disparity between the price paid by the consumer and the price received by the producer it was inferred that intermediaries were making excessive profits. Now the price disparity may represent merely the cost of services performed in processing and distribution, et cetera, plus an allowance representing the normal rate of profit and an appropriate risk margin, or it may include an element (one, perhaps, among others) of monopoly profit. If then by any means the monopolistic link in the chain of distribution (where and when it existed) could be eliminated, the price to the consumer would tend to fall, demand would increase, and the increase in demand would be reflected in an increased price, other things being equal, to the producer. Or again the price disparity may include an element of inefficiency in processing and distribution : the Distribution Costs Commission has examined in detail the possible causes of 'excessive

costs', including in their enumeration 'inefficient or faulty methods of distribution', 'unco-ordinated assembly and /or distribution'. (1) Cross haulage is cited as an example in the latter category. It is claimed by Professor Richards and Mr Penver in a Memorandum of Reservations appended to the Report that

"cross haulage as such is not necessarily an evil : more frequently it is simply a manifestation of competitive selling ... " (2)

This, however, does not deny that cross-haulage is wasteful.

In sum, there are those who maintain that the price disparity could be reduced by State-sanctioned control boards aiming either at eliminating monopoly profits or by lowering 'excessive' costs in processing and distribution, or by both of these devices. As to the lowering of 'excessive costs', the Distribution Costs Commission observed that the baking industry

"is burdened by an excessive number of units, operating considerably below capacity. It is also apparent from the cost investigations that retail delivery costs are unduly high, as a result of the criss-cross haulage which appears to be an inevitable characteristic of competition. The Commission has accordingly come to the conclusion that the establishment of an utility corporation for the industry offers the best, indeed the only prospect of lowering the price of bread to the consumer". (Italics inserted) (3)

Here, then, is an example of the tacit assumption being made that a public or semi-public operation of concerns is necessarily more efficient than competitive operation. At present there is not sufficient information either to prove or disprove the assumption convincingly, though the onus would seem to be on the protagonists of control to establish their claim. Nor can a better case be made out for control to eliminate monopolistic (and monopsonistic) exploitation in the processing and distribution stages ;

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1. Second Report of the Distribution Costs Commission (henceforward to as D.C.C. Report) U.G. 28/47, para. 71.
 2. D.C.C. Report, op. cit. para. 79, p. 103.
 3. D.C.C. Report, op. cit. para 38.

of such exploitation the Commission did find some slight evidence, but scarcely such as to warrant a vast and comprehensive organisation of control. In any event, the type of control which would be appropriate in these circumstances is merely that of the limitation of profit margins, and not the cumbersome system of producer-dominated control boards sanctioned by the Marketing Act. The conclusion emerges that no compelling reasons have been found here "why producers should organize and combine". (1)

Also underlying the quest for 'orderly' marketing is that 'producers desire stability of prices and assurance as to future returns'. (2) State intervention in relation to price stability was discussed in an earlier section (part 2, item 7) where it was found that a case could be made out for such intervention provided, in brief, that the end pursued was economic in that it brought about a greater flow of produce when prices tended to rise and vice versa. The practical difficulty, of course, is that of devising an administrative institution equipped to take long-range decisions which are economically rational, and furthermore an institution which will not allow considerations other than the economic to intrude on the taking of its decisions. No one can pretend that the producer-dominated control boards sanctioned under the Marketing Act are the best possible solution to this difficulty.

So much then for 'orderly' marketing. On this ground, it has not been possible to make out a case for the Marketing Act that will bear economic scrutiny. The second of the farmers' demands, it was said earlier, was for a 'reasonable' price. There is no question but that a reasonable price means a price that is higher than would other-

1. cf. p. 78.

2. C.C.A.C. Report, para. 135.

wise rule on the average. One justification which the National Marketing Council find for State sanction of artificially raised prices to farmers is that their bargaining position is weak.

"When numerous primary producers have to sell to the limited number of primary buyers, or in competition to individual consumers, their position is as weak as that of employees contracting individually with large employers. The development has consequently been towards the closed shop and collective bargaining in the industrial field and towards the grant of statutory powers for organised marketing in agriculture." (1)

The evidence assembled by the Distribution Costs Commission does not support the contention that there is generally a 'limited number of primary buyers'. And if 'weak bargaining position' is to be interpreted to mean that farmers in selling their product are exposed to monopolistic exploitation, then it is not a little difficult to see how farmers' bargaining position can be weak when they are selling 'in competition to individual consumers'. This attempt at justification is a failure.

Many attempts have been made to justify the artificial raising of prices of farm produce because agriculture is a 'key' industry. For instance,

"... it is essential to appreciate fully the fact that agriculture is fundamental in our economic life and that in normal times agricultural production warrants a remuneration commensurate with the unique position which it occupies." (2)

But the argument is not couched in economic terms, and does not bear scrutiny.

Strategic considerations are perhaps of some moment.

The National Marketing Council claims that

"Security requirements still necessitate, more especially in the atomic age, that the Union should, as part of its long-term policy, maintain a large wheat industry." (3)

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1. NATIONAL MARKETING COUNCIL ; Report on the Marketing Boards, 1938-1946, para. 4.
 2. Annual Report of Secretary for Agriculture and Forestry, for year ended 31/8/1943, p. 147.
 3. NATIONAL MARKETING COUNCIL Report op. cit. p. 37.

At no stage does the Reconstruction Committee overtly recognise that economic forces would serve to bring about a higher per capita return to agricultural producers by means of a redistribution of population between different economic activities. Implicitly, however, the Committee attempt to justify artificial support for prices of farm produce when they state in Chapter 5 of their Report that

"the country requires a fairly large percentage of people on the land in order to retain, for the benefit of the nation, the stabilising influence which emanates from a strong rural population."

The question which arises -- and which cannot be answered by the economist, though it is his function to pose the question -- is whether or not the supposed benefits of this 'stabilising' influence are not too dearly bought by the nation in terms of material welfare. It is here assumed that the transference of a considerable proportion of the farming populace to other occupations could be effected in course of time without impairing the social fabric of the country. The criticisms of the Committee's report appearing in these pages spring in no little part from the divergence of viewpoint between the Committee and the writer on the question of how great a proportion of the rural populace should be assisted to remain permanently on the land so as to exercise a vague and ephemeral 'stabilising influence'. The Committee appears to be of opinion that no transference can be afforded: the writer avers that the nation cannot afford NOT to transfer some proportion of the rural population out of farming.

Since the Committee and the writer argue from conflicting postulates, it is to be expected that different conclusions should be drawn. This conflict in postulates is stressed as accounting in some measure for the criticisms which the writer levels at the Committee. The Social and Economic Planning Council, by contrast, evidently have adopted the same standpoint as the writer in the matter, yet they neglect to remark that their criticism of the

Committee is in part attributable to a fundamental conflict in postulates.

The conclusion is inescapable that State intervention to ease the pressure of economic forces tending to bring about a transference of farm workers to other occupations can only be justified (a) in the interests of national security, when an emergency threatens ; (b) in order to alleviate the social hardships which must be caused by rapid urbanisation of rural persons. As to this last, experience leaves no doubt that many a farmer, and to a lesser degree farm labourers, will not take to the towns until forced to do so by dire misery.

This seems to be the appropriate point at which to consider in greater detail the implications of policies designed in the social interest to arrest economic developments tending to draw farmers away from the land. If it be granted that such policies are justified for the sake of long-term welfare, the question then arises, what is the most appropriate form from the economic point of view which such interference can take ? There are two broad systems to be considered. The first is that of raising market prices for farm produce. Whether this is accomplished by way of restricting supplies to the market, or by administrative fixation of prices is of no account to the present argument. This broad category embraces the action which is contemplated under the Marketing Act. The second scheme is that of subsidisation : again, whether such subsidisation takes the form of money grants to marginal producers, or to producers generally, or to consumers so as to enable them to increase the money demand for farm produce does not affect the immediate argument. Both schemes are efficacious instruments of assistance to farmers. In judging between them on a criterion of welfare it must be acknowledged that the first must lead to malnutrition if any number of the populace is living near the breadline ; equally clearly

the second must alleviate malnutrition by maintaining the flow of supplies to the market. In South Africa, where so many people, particularly among the Natives, are in dire straits for want of food, it is idle to pretend that the policy of subsidisation is not the more appropriate of the two. In short, judged on this criterion, the Marketing Act is an inappropriate measure.

Yet there are good practical reasons why the price-raising scheme has been preferred (as embodied in the Marketing Act) to the alternative of subsidisation. Not only do subsidies paid by the State involve expenditure which the Treasury is loath to bear -- since the raising of additional revenue presents problems which Ministers of Finance prefer not to face -- but the grant of a subsidy draws attention to the exact amount of assistance in terms of money which is being given to a particular section of the community. The grant of such direct assistance is likely to be more vehemently opposed by combined non-agricultural interests than indirect aid because of its being so blatantly obvious. Moreover subsidisation has a lesser element of permanence than a scheme of administrative price-fixation in that it must figure yearly in the State budget, and in addition its extent is liable to fluctuate from year to year in sympathy with the vagaries of the political situation. In sum, from the point of view of the farming community, a subsidy scheme is not 'practical politics'. But that is not to say that the alternative is economically defensible. The subsidy scheme is acceptable from the economic point of view in part because it gives less promise of becoming permanent ; because in other words, the hardships which it is intended to alleviate are transitional in the eventual economic equilibrium between farming and other occupations can be secured by the appropriate movement of workers. On these grounds, the Marketing Act is again found to be an

inappropriate measure, confirming the previous conclusion. The topic is further examined later in this study.

Complementary to all schemes for affording immediate assistance to the farming community to withstand undue pressure of economic forces (undue from the social point of view) there should be instituted yet other measures designed to bring about in due course of time whatever changes the purely economic forces require. In other words, steps should be taken to ensure that the economic disequilibrium earlier in evidence between agriculture and other sectors of the economy should be eventually righted by the transference of some portion of the farming population into other more remunerative occupations. Unless these complementary measures are adopted, disequilibrium cannot be cured : it is only palliated by relief measures such as the Marketing Act. The diseconomy of maintaining disequilibrium indefinitely cannot be ignored.

As a measure providing for 'orderly' marketing and 'reasonable' prices to producers, no support has been found here for the Marketing Act.

Chapter 5.

After making a spirited plea for social security for the farmer, the Committee devote the remainder of this chapter to 'refuting the erroneous idea that agricultural prices cannot be on parity with industrial prices'. Analytical precision being anathema to the Committee, they neglect to consider what is to be understood by the term 'parity' in this context. However, they conclude that 'the primary product should command a price which is in conformity with its basic value and which more closely approximates that of the industrial product'. Since 'recognition of this fact as a guiding principle for the future' is recommended, it is unfortunate that the 'fact' is so unintelligibly expressed. At a guess, the Committee may mean that disequilibrium between agriculture and other occupations has

persisted in that there has been an inducement for farmers to abandon farming and take up some other livelihood. Yet it is difficult in the extreme to understand how 'recognition of this fact ... would in itself be a very appreciable contribution to the security of the farmer'.

Chapter 8.

It is alleged that the Marketing Act provides the 'first recognition on the part of the State that the producer is entitled to receive a fair reward for his labour'. This contention contains the seed of a highly dangerous outgrowth from the economic point of view, namely that the State will be led to guarantee a certain standard of living to all persons regardless of whether or not they are producing those commodities most urgently required by the community. The incentive to turn from producing goods less urgently wanted to those in more urgent demand would thus be destroyed, resulting in stagnation and the arrest of all economic development. Apart from any question of what constitutes a 'fair' reward, it is obvious that the Committee is seeking to justify means to guarantee an income to all farmers by the State irrespective of whether they are producing those commodities most urgently needed. The contention as a whole and in all its parts is to be rejected.

The Committee claims that 'the farm producer has a right to be equally protected by the State as the urban worker'. The nature of this right has been extensively discussed earlier in this study where it was shown that the spread of restrictive measures on the grounds of equity here set out must lead in the end to the impoverishment of the whole community.

In considering the principles on which price fixation should be based, the Committee become voluble and not surprisingly incoherent. Prices are to be

"properly co-ordinated with the internal exchange values and general economic level of the country and adjusted to the farmer's cost of production of the particular product and a reasonable living."

"The mal-adjustment in the relation of prices of different farm commodities must be smoothed out, and the producer should, commensurate with his efforts, be remunerated equally where in suitable areas and in accordance with sound agricultural practice, he produces what the country requires!"

It is perhaps allowable to infer from the Committee's incoherence in this matter that price-fixation by control boards is not envisaged as leading to the most productive utilisation of resources -- the economic criterion.

Chapter 9.

In a sub-section on 'demand', the Committee in effect re-affirm the principle of maintaining scarcity on the home market, surpluses being sold in export markets at whatever price they can fetch. But here they are led into a naive inconsistency, wanting farmers both to have their cake and to eat it. They say,

"Under the freer world trade, which is to obtain in the post-war world, it is justifiable to assume that the Union's agriculture will, after satisfying the effective demand of the country at agreed levels, be entitled ... to seek its markets where returns are more remunerative."

They therefore hopefully assume that other countries will throw open their internal markets to South African farm produce virtually being dumped. But this 'freer world trade' is not to be allowed to interfere with the protection of the South African market. For, declare the Committee,

"it may for various reasons be necessary to maintain an internal level of prices for some products which is higher than that ruling on the world's export market".

The Committee are addicted, it would seem, to wishful thinking. Special attention is here drawn to the fact that the reasons for the artificial maintenance of disequilibrium between internal and external levels of prices for farm produce are merely stated to be 'various'.

Complementary to the artificial raising of prices on the home market, State subsidisation of the food requirements

of the lower income groups, is recommended. This question of subsidisation is further considered in the section devoted to the White Paper.

The local urban consumer is called upon to realize

'that the agricultural food product can be produced only as cheaply as the overall level of efficiency in farming permits and as the natural controls dictate'.

In tendering this advice, the Committee, it is to be regretted, overlook the significant fact that the 'overall level of efficiency' is lowered when production is extended to areas which are unsuitable, and hence that a contraction of farming activity involving the transference of some farmers to other occupations would improve overall efficiency.

Moreover, it would not be surprising if an 'assurance' to which the Committee draws attention were not very confidently received by the consumer.

"The system of price fixation visualised for farm produce should be an assurance to the consumer that, taking all production factors into consideration, the producer will not be accorded an exploitive price, but one which will afford him a reasonable living".

(Incidentally, it may be observed how the principles of price-fixation by control boards have been simplified as the Report grew. Earlier, the Committee proposed that prices be 'properly co-ordinated with the internal exchange values and general economic level of the country and adjusted ... etc'. Now they look to prices being based on only one consideration : affording the producer a reasonable standard of living.) Before accepting this assurance, the consumer is likely to ask which and how many producers are to be afforded a reasonable living. If the whole population of the country were attracted to the security of a reasonable living in farming, would it be guaranteed them too ? However, the point need not be far pressed : The Committee are clearly concerned to preserve the status quo, to make the farmer immune from the operation of economic forces tending to his absorption in other sectors

of the national economy. But the consumer may not find this altogether reassuring. Diseconomy may be further entrenched if farmers choose to pay exorbitant prices for land, backed by capital borrowed at exorbitant rates, confident that they have only to point to their heavy interest charges to secure whatever price protection is needed to give them a 'reasonable living'.

Chapter 11.

Blissfully unaware that the price-policy they advocate must lead to the interest-burden on land becoming ever more burdensome (as suggested above), the Committee complain that 'it is by no means unusual for farmers to cripple their farming resources through paying too much for their land'. Accordingly the Committee find it necessary to propose measures to counteract the undesirable effects (in no small part) of their own proposals for price policy. They suggest first, that a Bureau of Farm Values be established as an independent institution to assess farm values ; and second, that the State should be made the sole mortgage creditor. Clearly, however, the Bureau could not mitigate the evil, since presumably it would allow all land to have a higher capital value the higher the internal price levels allowed for farm produce. Moreover, the Committee is careful not to suggest at what interest rates the State should advance money on mortgage.

As to land ownership, the Committee favour an unspecified extent of State ownership, land to be leased to tenants under perpetual lease. The advantages of such a system are well recognised, and have been widely proclaimed by such authorities as the eminent British agronomist Sir A. Daniel Hall, who writes that

"the ill-success of farming is due less to the farmers than to the conditions under which farming has to be practised. The farming structure has grown out of date and requires reconstruction." (1)

1. HALL, Reconstruction and the Land.

He goes on to suggest that the State is the only agency that can carry out the necessary adaptation, and recommends that it should therefore purchase the whole of the farm land of the country (i.e. of the United Kingdom), to let it to tenants in the usual way after reconditioning.

There is much to be said for a similar policy being carried out in South Africa. Not only would it provide a workable solution to the problem of reducing or preventing soil erosion, but the principle is wholly acceptable of State ownership of an asset which above all others requires in its handling the subordination of short-term considerations (which in the past have been dominant and which have led to soil exploitation and hence erosion) to long-term interests extending beyond any one generation of people. Moreover, in South Africa, State ownership of farm land would overcome the diseconomies of small-scale holding resulting from continual subdivision of farms formerly made necessary by the Roman-Dutch law of inheritance. On the matter of uneconomic small holdings, Professor F.R. Tomlinson makes some purposeful comments. He says

"Die klein onekonomiese boerdery-eenhede in ons saai-streke het bepaald een van ons belangrikste landbou-ekonomiese probleme geword. Alles behoort gedoen te word om die opсны van plase in onekonomiese eenhede te verhoed ... Beter opvoedingsfasiliteite vir die plaaskind en geldelike steun in hierdie rigting sal in talle gevalle daartoe bydra dat nie so'n groot persentasie van die seuns deur omstandighede gedwing word om op die plase te bly nie, 'n faktor wat noodwendig tot verdere opсны van plase moet lei." (1)

While the remedy which Professor Tomlinson proposes would undoubtedly prove sound and in large measure efficacious, complementary direct control of the size of holdings by the State is probably necessary to ensure that the problem is solved in its entirety. For the sake of logical precision, it is perhaps as well to suggest that Prof. Tomlinson's remedy be viewed as complementary to State

1. TOMLINSON, op. cit. p. 13.

ownership of land as a remedy for soil erosion and multiplication of uneconomically small holdings : if holdings are to be larger, and therefore to offer less reason for soil exploitation, it follows that some persons at present farming must be transferred to other occupations. The provision of more facilities for education would assist in making the transference easy of accomplishment.

It is perhaps noteworthy that the Reconstruction Committee, though they recognize that the Unbeneficial Occupation of Farms Act 'should be put to much more effective use .. for the expropriation of any or all farms which are of sub-economic size', yet they wholly fail to consider what is to become of the persons displaced by expropriation of their farms. The problems which arise under this heading are not the least difficult of solution.

SUMMARY.

The principal proposals of the Reconstruction Committee concerning future State economic policy for agriculture may be summed as follows :-

1. Industrial development (expansion) is considered to be complementary to agricultural development (expansion) :

"Agriculture and industry must ... both be developed much further, and developed together in order to avoid maladjustments and disequilibrium ... For the agricultural industry, the establishment of more and stronger manufacturing industries will mean a much greater local market for food and primary products."

It is not indicated whether such development is to be State-encouraged or not.

2. Farming efficiency must be improved, by the utilisation of the best methods (involving the extension of State research and educational services) and by promoting development of the several branches of agriculture only in the most favourable natural regions (which also is to be a task of the State.)

3. Prices are to be determined by the State acting on the advice of producer-dominated control boards, the machinery being that provided by the Marketing Act of 1937 and presumably as amended in 1946.

"While, in terms of the Marketing Act, the control boards at present possess the theoretical power of price fixation, it is visualised that in the post-war world, as now, the State will be the price-fixing power, acting only on the advice of the boards".

4. Control over markets requires to be centralised, and Provincial control abrogated.
5. Overcapitalisation of land (i.e. inflation of land values concomitant with a severe interest-burden on the farmer) can be 'practically removed', it is suggested, by the setting up of a National Mortgage Bank with the sole right of advancing money against farm bonds, the Bank to work on the assessments of a 'Bureau of Farm Values'. The fundamental idea is to make effective a 'mortgage limit'. Short and intermediate-term credit is to be provided by an institution 'guided and supported by the State'.
6. State expropriation of any or all farms which are of sub-economic size is called for ; 'State ownership on a voluntary basis' is tentatively proposed.
7. Reclamation measures are required to be undertaken both by the individual landowner and by the State, but mainly by the latter.
8. Food processing industries 'should be State-owned or at least owned and operated by public bodies'.

Social and Economic Planning Council Report No. 4 :-
"THE FUTURE OF FARMING IN SOUTH AFRICA"

On each of the recommendations of the Reconstruction Committee set out above, the Council makes some comment.

1. Unlike the Committee, the Council looks to development of other sectors of the economy than the agricultural, not principally because such development will provide larger markets for farm produce, (though the council recognises the truth of this assertion) but because it will provide a means of absorbing surplus rural population.

"Hand in hand with the strengthening of the farming industry must ... go a policy of economic development elsewhere in order to effect a shift from the less to the more remunerative occupations, possibly for the whole increment in the rural population and for a large proportion of the non-European increment as well." (1)

Furthermore, the Council specifically charges the State with responsibility for developing the 'other sectors' :

"Government should do everything in its power to facilitate the creation of non-farming occupations, in both the European and non-European areas." (2)

In turn, the National Marketing Council claims that

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1. para. 169
 2. para. 116.

"The fixation of the price of a product by the State imposes the counter obligation of providing alternative opportunities to the producers concerned either in other branches of agriculture or in manufacturing and the service industries, and where radical changes are involved assistance during the transition period. " (1)

The State, that is to say, having accepted the duty of organising agricultural prosperity, is committed, at the same time in the Marketing Council's view, to responsibility for the absorption elsewhere of those who come to be displaced by its policy. But this traffic in obligations and counter-obligations is hard to regulate. From the economic viewpoint, it is sufficient to acknowledge that the State will be improving economic welfare if it assists in transferring resources from less to more productive occupations.

Severe problems would be set up by State acceptance of any responsibility for finding employment for rural emigrants, problems which unfortunately are not touched on either by the Reconstruction Committee, the Planning Council or the National Marketing Council. Happily the Orange Free State gold discoveries offer a solution to some of the more acute problems. It is more than likely that State provision of special training facilities designed to assist rural emigrants in acquiring industrial skill would be hotly opposed by the trade unions, especially if transfers from rural areas were to be on a large scale -- and that they must be if the scheme of raising per capita farm incomes is to be effective. (An advance indication of the nature of trade union opposition likely to be experienced if the State adopts special rural workers' training schemes has recently been provided by demonstrations against the C.O.T.T. scheme of training ex-servicemen for the building industry.)

While the Planning Council may have felt that a consideration of industrial policy lay outside the ambit of its

report, yet it is one of the principal theses of this study that State policy towards agriculture cannot be adequately conceived in terms of a watertight compartment. To go further, the very dangers of thinking in terms of 'State policy towards agriculture' need to be recognised.

All sectors of the economy are interdependent, and policy in respect of one sector is inadequately formulated if it does not take account of repercussions on other sectors. Whatever the merits of the Council's recommendations (and, for that matter, of all other bodies which have submitted reports and recommendations as to agricultural policy) -- though such merits are not for the moment under discussion -- the recommendations must be regarded as insufficiently comprehensive in that they have not taken into adequate account the repercussions of primarily 'agricultural' policy on industry, mining, commerce and the provision of services. The problem of securing employment elsewhere than in farming for those persons displaced by the proposed State policy towards agriculture may well be the most difficult of solution. It is therefore particularly important that in a consideration of future agricultural policy, some attention should be given to this matter.

Artificial maintenance of scarcity of any productive factor is so patently uneconomic that it requires special justification on other grounds if it is not to be condemned. Trade union resistance to unrestricted admission to membership of those who are qualified by virtue of skill acquired in training is economically inadmissible. In the State's industrial policy, a complementary item to that of the proposed agricultural policy urging a transference of population out of agriculture must be the overhaul of the legal basis of apprenticeship and trade unionism so as to admit of greater flexibility.

State action designed to redistribute farm population so as to achieve a closer approximation to parity in per capita incomes between different sectors of the economy is acceptable since the present disparity in incomes is evidence of an economic maldistribution of resources.

2. The Council is in agreement with the Committee as to State participation in the improvement of farming efficiency by encouraging the utilisation of the best methods and by encouraging development only in the most favourable areas. However, the Council amplifies the Committee's ideas ; for instance by proposing that mechanisation and electrification be promoted. Earlier in this study it was suggested that capital investment in agriculture designed to improve productivity was complementary to the withdrawal of labour from farm work. The Council also proposes that land use be prescribed 'so as to maximize farm income without deterioration of the land' compulsorily in conservation areas and by 'financial inducement' elsewhere. Acceptance by the State of this item of policy is economically defensible on the ground that it will give rise to a more efficacious use of productive use of productive resources than would be attained in the absence of intervention.

3. Continuance of the control board system of marketing and pricing of farm products is a subject of some controversy, and the Council examines 'the fundamentals of price fixation policy ... within the framework of the Marketing Act'. There are two topics to be discussed : (a) regulation of the flow of supplies to the market ; and (b) methods of raising average per capita farm incomes.

(a) Since farm output is not continuous (at least so far as crops are concerned) some form of day-to-day regulation of the flow of supplies to consumers is desirable. Moreover, natural factors such as climate and pestilence prevent the level of output from being held constant year by year ; on this ground, year-to-year regulation of the flow of supplies is required. Justification of regulating the flow of supplies is to be found in the fact that

consumer demand of staple food products is little subject to change except over periods which are long in relation to the period of production, and hence a scheme of evening out the flow of supplies in fact provides a storage service to consumers who would otherwise require (at some inconvenience) to perform this service for themselves. Furthermore, price-stability of benefit both to consumer and producer may be attained by the maintenance of day-to-day and year-by-year regularity in the delivery of supplies to the market. Price in these circumstances will be governed largely by the volume of supplies which the control agency releases from time to time (the effective demand being assumed relatively stable). Alternatively, prices can be fixed by decree, and supplies issued equal to demand at that price. In either event, prices are actually or virtually determined by the authority regulating supplies to the market.

(b) The two alternative methods of raising farm incomes -- limiting supply against an inelastic demand, and provision of State subsidies to producers -- have been evaluated at length in the discussion of the Committee's report. It was shown that the former method is regressive against the lower-income groups, particularly the Natives, and is indefensible in view of the already high incidence of malnutrition among them.

The Council take the same view as the writer in this matter, and condemn the Committee's proposal that exports at a loss should continue. In this connection, those in the Department of Agriculture responsible for writing on economic matters display a curious obstinacy. In a year-end report there appears the following :-

"It is a generally recognised fact that in the years before the war the one great agricultural problem in South Africa was the question of surplus supplies ... It is frequently asserted that this surplus is an 'economic' and not an actual surplus, and that the entire production can be consumed locally. This is by no means the case, however. The surplus was real

and we cannot get away from the fact that for quite a number of years the country produced more agricultural products than could be consumed within its borders in the form of food, or absorbed as raw materials for industrial purposes. Export was therefore unavoidable and indispensable." (1)

This reads strangely in the light of the volumes of evidence of widespread malnutrition among Natives and others. Mention of price is significantly lacking.

However, the Council consider that the control boards established under the Marketing Act

"must continue to function ... Their regulatory operations are indispensable if pointless inter-seasonal price fluctuations are to be avoided.." (2)

While, in the Council's view, the control boards should act purely in a regulatory capacity, they agree with the Committee that 'the legal power to fix prices should be vested in the government'. (3) As to the level of prices, they 'should be stabilised in relation to international prices enjoying moderate protection only', and the Council visualises that 'conservation farming bonuses of the order of £5,000,000 annually will ... be paid out yearly to farmers... in order to provide the necessary inducement for them to go in for conservation farming.' (4)

Ideally, it may be objected to the criterion of price policy put forward by the Council that it allows for 'moderate protection'. On what grounds? Though no answer is given, various social considerations such as the desirability of maintaining a rural population, and the need for agricultural self-sufficiency, may supply an answer. Alternatively (or complementarily), it can be argued that since industry in South Africa enjoys moderate protection, farming can claim in equity to be extended the same degree of protection. The fallacy of this latter

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1. "New Conditions and the Agricultural Industry", Report of the Department of Agriculture and Forestry for year ended 31/8/1942, p. 3.
 2. para. 86.
 3. para. 86.
 4. para. 85.

argument has already been explored. The payment of yearly subsidies of £5 millions calls for more explanation and justification than the Council has given. If the payment is merely 'to provide the necessary inducement for (farmers) to go in for conservation farming', then it can be objected to the payment that land nationalisation would be a considerably cheaper and more efficacious method of securing the same result. The Council's reply is guarded: it 'would welcome cautious experimentation with land nationalisation under proper conditions'.

The matters discussed in this section all relate to major incursions by the State into economic affairs. Such incursions can be justified on economic grounds as follows. First, price control vested in the State :- provided the State is not influenced to manage prices so as to give producers a monopolistic exploitive position, price stability over both the long and short periods is advantageous both to consumers and to producers. The Marketing Act, however, does not accord with this proviso. Since most branches of farming cannot be adapted to momentary price levels, it follows that sudden price changes can serve no useful purpose of adjusting the volume of production (not the volume of supplies) to demand. As Schultz observes,

"There are certain kinds of price changes affecting farmers that are not essential to attain a moving equilibrium, to reconcile the forces affecting supply and demand of farm products ... The additional price certainty that would be gained by eliminating these unnecessary price fluctuations would substantially better the capacity of relative prices of farm products to perform their primary economic function of guiding production." (1)

And again,

"We want to maximize those price changes which are necessary to keep farm production in line with changes in demand and cost of food, and to minimize those which contribute to economic uncertainty in farming!" (2)

1. SCHULTZ, op. cit. p. 264.
2. SCHULTZ, op. cit. p. 42.

State price control, by minimizing economic (i.e. price) uncertainty in farming, may be expected to lead to a more economic use of farm resources, and is thus economically justified.

The position of the lower income groups under the price control scheme is far from having been satisfactorily settled in either of the two reports. The Reconstruction Committee propose that State subsidies be provided to enable the lower-income groups to meet 'the maximum of their food needs'⁽¹⁾, presumably at the ruling level of prices. The Council do no more than observe that 'It is wrong, and against the resolutions of the Hot Springs Conference ... to burden the low income groups'.⁽²⁾ The State, however, has obligations not only to agriculture and mining and industry and related groups but also to the poorer classes. Its obligations towards the latter group require to be carefully considered. Customs protection, it may be argued, is allowed to manufacturers on some goods which are consumed by Natives. It is equitable therefore that agriculture vis-a-vis industry should be allowed an equal degree of price protection notwithstanding nutritional considerations. On such an argument, however, the Natives are liable to suffer the depredations of all groups in the European economy without being given any assistance or quid pro quo. The point does not need to be stressed further : economy (and for that matter every other argument save sectional interest) requires that tariff duties on articles consumed largely by the poorer classes should be withdrawn. Granted this step, then it may be feasible to permit the food requirements of the Native reserves at least to be drawn from imports on which no duty is levied.

1. "Reconstruction of Agriculture", para. 831.
 2. S.E.P.C. Report, para. 84.

The only alternative is for State subsidies to be paid such as to enable the Natives in particular to buy their food requirements at protected and fixed prices ruling on the internal market. Farmers naturally favour the latter policy, for it increases the absolute demand for their produce, but the cost to the taxpayer is certain to be prohibitive, and in any event no economic justification can be found for the latter measure.

The second incursion of the State into economic affairs for which justification is sought in this section is that of according to agriculture 'moderate' protection. A number of considerations arise. The vulnerability of South Africa's lines of communication in time of war is an argument in favour of maintaining at least some moderately large farming capacity alive in the face of price competition from overseas producers. This argument in favour of protection has been put forward (on the surface it seems strange) by the President of the South African Federated Chamber of Industries, who said that

"In the interests of national safety, the importation of foodstuffs should, as far as possible, be restricted to luxuries and articles needed for special purposes." (1)

Then there are the political and social arguments of vague character. How much weight they are to be given lies solely in the determination of opinion. Customs protection is of course a necessary ancillary to single-channel marketing. But since the latter has not been found justifiable when its aim is to confer monopoly, the ancillary protection must fail on the same test.

Third and last, the writer is at variance with the Council when it comes to their statement that 'conservation subsidies' of £5 millions per annum should be made available. Such subsidies, it is felt, cannot be justified. If conservation farming cannot be induced by calling on

1. Reported in The Star, 14th October 1946.

farmers to accept the responsibilities of using an asset such as the soil which once destroyed cannot be replaced, then land nationalisation appears to be the only economically admissible alternative policy for the State to adopt. If however extra-economic considerations do not permit of land nationalisation, then the subsidisation is acceptable in preference to allowing further soil exploitation.

4. The Planning Council holds over 'detailed and critical' appraisal of the distribution system until the publication of the Distribution Costs Commission report. In so far, however, as the State by assuming the functions of supervision and control of municipal produce markets at present held by the Provincial Councils, can do anything to make them fulfil their economic functions as markets more efficiently, its intervention is justified.

5. The Council reject the Committee's proposals to effect a 'mortgage limit'. It agrees with the Board of the Land and Agricultural Bank that

"The remedy (for overcapitalisation) appears to be ... not in attempting the drastic method of directly stabilising or standardising farm values, but in controlling and maintaining the price of farm products at stabilised and remunerative levels."(1)

Here, then, lies an additional justification for State assumption of price control, that it will assist in overcoming the wastes of overcapitalisation, provided such price control is economically exercised.

The provision of long, short and intermediate term credits to farmers by State or State-supported financial institutions, advocated by both the Committee and the Council (though the former ill-advisedly proposes that a separate State institution -- i.e. apart from the Land Bank -- be given the monopoly of short and intermediate term credit) can be allowed to be economic if it can be shown that the usual private channels for other than economic reasons

1. Quoted in Council's Report, para. 95.

discriminate against agriculture. It was concluded from an earlier section however that "the financial disabilities of farming appear to arise from defective organisation on the part of farmers, and should not therefore be regarded as remediable by the provision of State-granted advances on long or short term". This being so, State credit advances can be justified in fact only on the general grounds that it assists them to maintain productive capacity, which is advantageous in time of war, etc.

6. State ownership of farm land, whether as part of a policy of expropriation of uneconomically small units or of 'voluntary nationalisation' has much to commend it. As stressed earlier, the interest of the State in maintaining the productivity of the soil is greater than and transcends the interest of the individual farmer. If private ownership cannot be relied on to withstand the temptation to exploit soil productivity, then a feasible solution is for the State to assume ownership so that it can dictate soil treatment and evict the lessee in the event of non-compliance. Furthermore, if the ownership of land is vested in the State, whatever improvements are necessary by way of reclamation or conservation works can easily be carried through on a co-ordinated plan for a wide area. The Council, however, adopts a cautious attitude towards nationalisation proposals.

7. As to reclamation measures, the Council is generally in agreement with the Committee that State intervention and assistance is necessary, but points out that reclamation works carried out by the Government on private farms "if not accompanied by changes in farming practices, are usually a waste of money".⁽¹⁾

The State is justified either in taking fully responsibility for reclamation work or in assisting private

enterprise (whichever is the more practicable and expedient) by reason of its long-term interest in resuscitating an asset which is threatening to become a national liability.

8. The Council does not support the Committee's proposals that the processing industries should be taken over by public utility companies or control boards. It contends that

"there is no reason why private enterprise if properly regulated should not be as efficient as State-owned enterprise. The technical functions of the distributive and processing industries remain the same whether under private or public ownership."⁽¹⁾

The Committee however had alleged that 'private ownership ... has led to wasteful utilisation of resources and exploitation of the public'. Though the Council quotes this passage in full, it does not refute the charge that the public are being exploited by the food-processing industry. The investigations of the Distribution Costs Commission have not given any serious substance to this charge.

The proposals of the two independent bodies as to the future State agricultural policy have now been set out. Their points of agreement and disagreement on these proposals have been noted, and economic justification for the State's adopting each of the proposed measures has been set out or withheld.

One matter further deserving of note is that the Reconstruction Committee and the Planning Council, in a jointly-composed annexure to the Government's White Paper make the point that they 'accept the same four fundamental aims of reconstruction policy', one of which is that "alternative opportunities must be created so as to remove undue pressure on the land".⁽²⁾ There is nothing in the

1. p. 20.

2. White Paper, p. 53.

Committee's report to suggest that they actively held this view. Rather (as it has been argued earlier in this study) does their report suggest that they held the contrary view, namely that a decline in the numbers engaged on the land is to be resisted. But this later rapprochement is all to the good.

At the same time another curious anomaly may be noted. The National Marketing Council in their report for the year 1943-1944 set out their conclusions as to what State agricultural policy in South Africa should be. The 'needs' of agriculture they considered to be 'an increase in the level of farm incomes relative to that in other industries and greater stability in incomes'. The Council then goes on to say that

"To achieve these goals an energetic and sustained effort to speed the transfer of labour from agriculture to other industries ... is the basic requirement."(1) (Italics inserted)

With this conclusion the economist can have no quarrel. The disparity in incomes shows that the economic conditions of equilibrium, namely equi-marginal returns to the factors of production, is not being fulfilled. Now the signatories to this Report (none of them dissentients) include Dr C.H. Neveling (Deputy Chairman), and Professor H.D. Leppan, both of whom were members of the Reconstruction Committee. Yet nowhere in the latter Committee's report is there to be found any recommendation remotely resembling that to 'speed the transfer of labour' is to be regarded as a 'basic requirement' of policy. It may be pertinent to question whether these investigators modified their views in the interim between the publication of the two relevant reports.

It now remains to consider the "White Paper on Agricultural Policy"⁽²⁾ in which the Government indicates

1. N.M.C. Report, U.G. 31/1945, para. 1001.
2. White Paper no. 10/1946.

the policy it has decided to adopt in the light of the two preliminary reports.

White Paper on Agricultural Policy.

Before the policy decided on by the Government in the light of the recommendations of the Planning Council and the Reconstruction Committee is considered, some comment on the preliminary material presented in the White Paper is called for.

1. From the consideration that the main consuming centres are near the country's best farming areas, and that these centres are separated from foreign low-cost producers not least by an 'expensive overland haul', the authors conclude that

"It is essential ... and also economical in the long run, for the Union to rely in large part on the wide range of food products and agricultural raw materials it is fortunately able to produce". (1) Italics inserted.

That such a policy is 'economical in the long run' is far from having been established. If 'economical' is intended to have reference merely to costs of produce at the market, then there is reason to believe that imports not subject to duty and paying railway rates covering average costs of transport (being thus higher than the present rates) could be landed in the Transvaal market more cheaply than some of the internal supplies to that market. In other words, transport costs on imports cannot be assumed to outweigh their lower costs of production. A host of other feasible arguments may be found to support the view that it is essential for the Union to rely largely on internal farm producers -- but not that to do so is necessarily economical in view of transport considerations.

2. 'The elements of agricultural policy' are sketched in such broad outline that one at least of the most pressing problems of policy receives no attention whatever. Despite the stress laid by the Planning Council and the Marketing

Council (joined later in a recognition of this point by the Reconstruction Committee) on the transference of some agricultural workers to other fields of activity, the White Paper fails to make any mention of this 'basic requirement' -- to quote the Marketing Council -- of future agricultural policy. There is not even an 'et cetera' at the end of the White Paper's list of items of policy under which this pre-eminent condition of equilibrium can be subsumed. In view of the emphasis laid by the ancillary reports on this matter, it can only be assumed that the Government's failure to make provision for it reflects deliberate and consciously-adopted policy. Whatever the administrative, political, social or economic difficulties attending such a transference as a long-term measure, some indication at least should have been given in the White Paper of the grounds on which the Government has seen fit to neglect this recommendation of the reporting bodies. However severe the problems of effecting such a transference the ultimate result of continuing the status quo cannot but be an intensification of the ruling disequilibrium between agriculture and other industries. By choosing the path of least resistance now, the government is bequeathing to its successors and future generations of South Africans a spate of problems whose solution will entail incomparably greater sacrifice than now.

The Government, while paying lip-service to the principles of economy, is prepared to countenance the continuance of the grossest diseconomy. The White Paper speaks of the Union being enabled, by virtue of a hoped-for lower national cost structure, 'to play its part in the establishment of a sound international division of labour, based on the comparative advantages of the developed resources of all countries and regions.' (1) As to how it comes to be thought that the country can

1. White Paper, p. 7.

assist in establishing a sound INTERNATIONAL division of labour when the NATIONAL division of labour is so patently unsound, the White Paper is very properly silent.

At one point the White Paper fathoms the depths of absurdity.

"The Government will see to it that farming, like other industries, receives the measures of protection needed to enable it to realize in full its productive advantages." (1)

If farming had any 'productive advantages' (meaning presumably that it can produce at lower cost than competitors : it is difficult to see what other interpretation can be placed on the meaning of that expression) it certainly would not require to be protected if it is to realize them. Even supposing the expression to mean that farming in South Africa has latent productive advantages over other competitors, the available evidence in respect of many branches of farming in the country points in quite the opposite direction. It is regrettable that the Government, having been so well schooled by the reporting bodies, should have been led into making such a blunder.

The same confusion of thought coupled with a pious statement of economic principle is further instanced in the White Paper.

"The Government will also seek to preserve a fair balance between the prices of farm and other products in future. At the same time, the relationship of local to overseas prices cannot be ignored ; nor can there be any rigid adherence to a policy of maintaining parity prices or of basing prices solely on costs of production in each branch. Failure to recognize this will result in extensive misdirection of resources from more to less productive directions" (2)

Having ostensibly recognised the diseconomy of misdirecting resources, the Government then glibly announce that their policy is to preserve a 'fair balance' between farm and non-farm prices. The scientific exactitude of the term 'fair balance' in this context may well be held in question

1. White Paper p. 7.
2. White Paper p. 8.

by all save the authors of the White Paper. Its intended meaning, however, is scarcely in dispute. If the Government intends to sanction the setting of farm produce prices not by reference to the criteria put forward by the Planning Council and discussed earlier in this study, but on the consideration of preserving this 'fair balance', it seems not a little unctuous to deprecate 'misdirection of resources' in the same breath.

At the same time, on this matter of 'fair prices', the White Paper does throw a spark of light, unhappily one that is not sufficiently illuminating to give even a shred of confidence.

"Attainment of the objective of stable farm produce prices that bear a fair relation both to world prices and to the price of non-farm products further depends on constructive measures to raise the productivity of our farming industry". (1)

Here the economist sees a gleam of hope -- surely now the Government will give recognition to the need for a transference of population from agriculture if per capita productivity is to be raised. But his hopes are ill founded.

"For this purpose" -- i.e. to raise productivity -- "all the causes of its present low productivity must be attacked, be it ignorance or inefficiency or exploitive farming". (2) (Italics inserted)

No mention is made of the excess of population presently being carried by the farming industry as a prime cause of its low marginal productivity.

3. The Government's decision on the question of how the food requirements of the lower-income groups are to be met is that these groups will be 'subsidised'. As to whether these subsidies are to take the form of money or food, no indication is given. A rider is added, however, to the effect that any food industry 'faced with the alternative of exporting at lower prices' will be required 'to contribute towards the subsidised food supplies

1. White Paper p. 9.
2. White Paper p. 9.

needed'.⁽¹⁾ It is far from clear, however, how this policy will work out in practice. In good years when there is a substantial surplus over and above supplies taken off the market at the fixed price, the surplus can either be stored against shortage in a succeeding year or it can be exported, or it can be directed to the lower-income groups. Any combination of these alternatives can be effected. It is evident that the Government intends to institute some form of 'valorisation' scheme whereby surpluses will be stored, since the White Paper makes later reference to 'carryover of surpluses from good seasons in anticipation of bad crops later'.⁽²⁾ Valorisation however is a perilous system, as the history of the Canadian Wheat Pools shows; but the perils are not touched on in the White Paper. As for surpluses available for export, the Government clearly intends that some part of these surpluses shall be directed to the lower income groups -- but what proportion, and at what price, are questions left wholly unanswered. The White Paper states that

"It is realised that farmers cannot be held responsible for supplying the requirements of the (lower income groups) below ruling prices" ⁽³⁾

From this it follows that the policy is for the groups in question to be subsidised to the extent of the difference between the price which they can pay and the ruling market price. A qualification is, however, provided that 'a contribution towards the subsidised food supplies needed' will be required. The price at which that contribution is to be made not being mentioned, the Government may intend that it shall be at ruling market price or at any other price. If the former, then the profitable market

1. White Paper p. 9.
 2. White Paper p. 10
 3. White Paper, p. 9

for farm produce will be enormously extended to the advantage of the farmers, but to the very apparent disadvantage of the State, which has to pay the subsidies. In the circumstances, the sale of the surplus at export prices would from the Treasury viewpoint be cheaper. But the White Paper is silent as to the Government's intentions in this matter.

4. 'Economic stability', says the White Paper, "will pave the way for that expansion of production that is needed to enhance the net worth of our farming industry to the nation." (1) (It would be interesting to know what the term 'net worth' is intended to mean.) A new principle of economic policy is thus enunciated. "It is one which is wholly repugnant to reason. The idea that production should be expended without reference to costs of supply or the intensity of demand, but merely in order to 'enhance the net worth of our farming industry to the nation' is to be repudiated. It appears strangely in a document which in one place deprecates 'misdirection of resources' and in another applauds 'sound international division of labour'.

The confusion of thought and lack of decision represented in the White Paper is remarkable.

The positive decisions announced in the White Paper are few. They are :-

1. "To promote the speedy adoption of conservation farming methods ...";
2. "To raise the productivity of the farming industry..."

The means by which these aims are to be achieved are stated so vaguely that the conclusion is inescapable that the Government has failed to work out in any detail how its policy is to be put into effect. The second aim, for instance, is to be achieved by

1. White Paper, p. 11.

- (a) improving educational standards of farmers ;
- (b) modernising farming methods ;
- (c) raising efficiency (sic) ;
- (d) promoting price stability ;
- (e) ensuring absorption of the increased production needed to improve national nutrition (*Italics inserted*)
- (f) by providing improved transport and other facilities.

All these 'means' are in fact subsidiary 'aims' which themselves will have to be achieved.

However, the White Paper does arrive at some elaborated decisions.

1. Farming is to be protected from foreign competition in the home market. But the degree of protection to be accorded is so vaguely stated as to be meaningless -- i.e. 'the measure of protection needed to enable (the farming industry) to realize in full its productive advantages'.

2. (a) 'A downward alignment of prices will .. have to occur in the Union' ;

(b) The Government 'will seek to preserve a fair balance between the prices of farm products and other products in the future' ;

(c) There can be no 'rigid adherence to a policy of maintaining parity prices or of basing prices solely on costs of production in each branch' ;

(d) 'A reasonable relation to world prices must be maintained'.

Of these, (d) is negative in statement and is not an expression of positive policy. Thus (a), (b) and (d) remain. (a) is complementary to (d). (b) and (d) may well be contradictory. The State's price policy is thus in confusion.

3. 'There will also have to be a realignment of land values'.

What this means can only be guessed at.

4. 'The Government is prepared to participate in international schemes of price stabilisation for products exported in quantity from the Union.'

The implications of this decision have not been considered.

5. 'All causes of (the farming industry's) low productivity must be attacked, be it ignorance or inefficiency or exploitive farming.'

This is nothing but a vague aim which may be achieved in one or other of a multitude of different ways.

6 (a) 'The Government has ... taken the necessary steps to subsidise the food needs of the low-income groups' ;

(b) 'The Government will, however, require any food industry that is faced with the alternative of exporting at lower prices to contribute towards the subsidised food supplies needed'.

The lack of decision on the all-important question of price policy has already been commented on in the text.

7. 'The Government will utilize the control board system established under the Marketing Act.' Consumer representation on the control boards is to be strengthened.

A clear-cut decision, but since producer-domination of the control boards is presumably to continue, economically unsound.

8. 'The Government's view is that processing and manufacture should remain in the field of private and co-operative enterprise.'

A clear decision, and economically sound.

9. 'The responsibility for the Union's farming resources now rests with and will continue to rest with the farmers themselves'.

In other words, nationalisation proposals put forward by the reporting bodies are rejected, and without explanation.

10. (a) 'The Government proposes to finance and carry out all major reclamation works' ;

(b) Measures will be taken 'to adapt farming systems to the natural controls and to the principles of conservation farming' ;

(c) 'The Government will subsidise 'approved systems and practices of conservation farming' ;

(d) 'The Government will continue to give financial assistance for the construction of minor conservation works' ;

(e) The Government will 'impose necessary restrictions on the rate of stocking, on the cultivation of steep slopes, on the subdivision of holdings, and on other deleterious practices'.

Reclamation and the means of encouraging conservation farming are thus amply provided for. The methods where mentioned have been justified in the text.

11. Rural public works and amenities -- good roads, electrification, telephone services etc -- will be provided.

These measures will assist in raising the productivity of the industry.

12. 'Expert enquiry' is to be instituted into the question of the Reconstruction Committee's recommendation as to the provision of long-term and other credit. Discussion of this matter is thus wisely postponed.

13. No decision is taken on farm labour problems.

While on many points the White Paper on Agricultural Policy, setting out the Government's policy towards farming in South Africa, does not indicate a clear-cut decision (as for instance in the matter of price and tariff fixation) it is nevertheless evident that a considerable measure of interference with the functioning of the economic system is intended by the State. Consideration has been given to the fact that the Government evidently (and for a reason which is not disclosed and is therefore probably of a political nature) does not intend to adopt one item of policy which economic enquiry has indicated to be highly desirable, namely that facilities should be provided to encourage over a long term the transference of a substantial proportion of the number of persons presently deriving an income from agriculture to other occupations. It is no business of the economist to condemn the Government for not having accepted this recommendation of policy. Provided he stresses the economic advantages of accepting it, and the disadvantages of not doing so, his task has been performed. In other words, it is recognised that economic considerations form only one aspect of overall State policy.

It will be appropriate to set out here a brief resume of the criticisms made and implied in these pages of South African agricultural policy as set out in the White Paper.

1. The futility of enunciating agricultural policy as such has been referred to. In the formulation of any economic policy, it is imperative to recognize that all the many sectors of the economy are interdependent, and that what is done in one sector must necessarily have repercussions in all the others. Stability of farm incomes is inconceivable without industrial stability, yet throughout all the governmental reports which have been dealt with in this study, there has been found no mention of the fundamental

need for a State economic policy which will foster industrial stability. This one omission in itself constitutes an indictment of the policy set out in the White Paper.

2. No attempt has been made to find out or even to suggest what the economically desirable future allocation of resources between different occupations is likely to be. It has been shown in this study that, for one thing, the speed of industrialisation of foreign countries is certain to have important repercussions upon world prices of food-stuffs and raw materials in relation to other goods and services, with further consequences for the comparative cost advantages and disadvantages of the various economic activities of South Africa. Yet such considerations have been wholly ignored in the White Paper and elsewhere, with however the one significant exception of the relevant report of the Social and Economic Planning Council).

3. Following on from (2), evidence of the immediately pre-war years suggested that inter alia, provision for a large-scale transference of population out of agriculture was economically desirable. The considerations advanced in (2) when fully elaborated may well modify this conclusion so far as the future is concerned. The White Paper, however, gives no attention to the need for such a transference, nor is any explanation given for the neglect to discuss this matter. Any such transference would, of course, have far-reaching repercussions elsewhere in the economy ; these repercussions have naturally been ignored too.

4. No reference is made in the White Paper to the significance for the policy which is there advocated of (a) national security in times of emergency ; (b) international currency arrangements ; (c) South Africa's participation in the resolutions of the Hot Springs conference ; (d) expectations as to the lowering or raising of barriers to the free course of international trade. All these items must vitally affect the economic

interests of South African agriculture, yet they are overlooked.

5. The White Paper looks to the continuance of the system of price-fixation established under the Marketing Act, but envisages increased consumer representation on the control boards. Elimination of the producer majorities on the boards is not contemplated. In this study it was found that the essential aims of the Act were to secure to farmers higher prices and stable prices. Stability of prices in so far as it has been shown to be a legitimate economic aim could be secured by means which are economically less repugnant. The artificial raising of prices is indefensible for several reasons. It aggravates the already deperate circumstances of the poorest classes -- and machinery for subsidising their consumption, although promised in the White Paper, has not appeared. It prevents that redistribution of resources, in particular of farmers and farm labour, which appears to be economically desirable (but see (3)), and it is apparently intended to perpetuate disequilibrium. It is a further application of the unacceptable principle that sectional interests have a right to use the influence of the State to establish a privileged position for themselves and so paves the way for wider measures of restriction in the economy. It adds further to the inflexibility of the economy.

The criticisms of South African agricultural policy which have been advanced in these pages are intended, not to show that State interference in the economy is necessarily indefensible economically, but rather to indicate how commonly economic principles are overlooked in the formulation of State policy.

Chapter Eight.

From this study of

The Economics of State Assistance to Agriculture
with special reference to future policy in
South Africa

the following principal and general thesis emerges :-

1. The unregulated economic system visualised by the early classical economists requires more flexibility in the organisation of production and distribution than is socially, politically, and otherwise feasible. But the setting up of rigidity in one part of the system necessarily has repercussions in other parts, thanks to the close interdependence in modern times of all branches of the economy. The State, as the final arbiter in all matters, is then called on to achieve a consciously regulated harmony between all economic activities. State assistance to agriculture provides an example of the many conflicting considerations which have to be harmonized by acts of deliberate decision and judgment.

Subsidiary and more specific theses are as follows :-

2. Agricultural policy cannot be adequately formulated without due cognisance being taken of the likely trends of future development in all sectors of the economy, nationally and internationally conceived. The White Paper fails on this test. Since policy is concerned with action in the future, it is a reasonable demand that some estimate should be given of the principal circumstances with which policy is expected to have to contend in the future. The spread of industrialisation, particularly as it affects the terms of trade between agricultural and other products ; the prospects of peace or war as affecting national economic security ; the stability of the international currency system ; the prospects of widening or shrinking freedom in world trade ;

all these and a host of other considerations are vitally relevant in the formulation of economic policy with respect to agriculture, yet they have been wholly ignored, or perhaps merely left as unidentified preconceptions in the minds of the policy-makers.

3. The growth and spread of monopolistic organisations (and hence of economic restriction) is advantageous to the beneficiaries in two respects : it provides them not only with larger incomes, but also with greater security of income by the suppression of competition. Other groups in the community claim that in equity they should be accorded 'equality of bargaining power' and an equal degree of security. The claim thus put forward by the farmers in South Africa has met with State support in the sanctioning of powers of price fixation and single-channel marketing.

(a) In the award of security, the State has the choice between extending restrictive organisation to all groups, so impeding economic change and hence progress, or of adopting adequate schemes of social insurance while insisting on competitive organisation. The latter is the economically appropriate choice. State policy in South Africa has favoured the other alternative.

(b) In the award of equality of bargaining power, the State has the choice between setting up new restrictive combinations in reply to those already in existence, so reaching what may be termed "equality in restriction", or of breaking down the restrictive combinations already existing without creating more, so reaching what may be termed "equality in competition". The latter is the economically appropriate choice. State policy in South Africa has favoured the other alternative.

4. A strong case can be made out for State encouragement of joint-stock ownership in farming in South Africa in order to spread the risks of investment in farms and farming over a larger number of persons.

