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changes — the reflux of cash from wages to the family farms in the vicinity on the one hand and, on the other, exploitation of marketing chances through the cutting out of middlemen (by carrying fresh vegetables on foot over distances of 25 miles). The necessary catalyst was provided by better-quality consumption goods and improved training facilities — both in a way results of institutional changes. That these chances to sell their farm produce were actually seized by the peasants is at least partly due to their greater awareness — an awareness that must have been induced by learning from experiences gathered in the neighbouring town centre. It would seem therefore that in this case a certain “critical proximity” to the centre of demand and the place where wages could be earned played as important a role as *the novelty of the experiences*, for inquiries undertaken in the surroundings of Jinja

(Uganda) and of Kisumu (Kenya) have so far failed to confirm the Indian experience.

We pointed out in the beginning of this article that the conversion of institutional changes into impulses to bring about a general social change is a process that takes place within the personal experience of those affected. Each individual examines the situation confronting him and analyses it as best as his powers of perception, the awareness of his needs and sense of values will permit him to do; his conclusions will be determined in the light of his own requirements, the means he has at his disposal to satisfy them and the risks he runs in taking the course proposed to him. This is the kind of thought-process that motivates individual decisions; in judging institutional transformations we must seek to understand and take account of it.

## Agricultural vs. Industrial Development in LDCs

by Professor Emil Küng, St. Gall.\*

**Since the beginning of concerted efforts for developing the Third World, the question has been whether the agricultural or the industrial sector of less developed countries (LDCs) should have priority. In trying to find an answer to this question, experts have hitherto paid too little regard to the interdependence between the two sectors.**

At first sight, there seems to be no problem at all: since agriculture, in some lower-developed areas, employs as large a proportion of the total population as 80 p.c., the attention of the authorities who direct economic policy ought, naturally, to be focussed mainly on it. Because, if it would be possible to achieve major progress in farming, the benefit for the entire economy would be optimal. However, practical observations of actual developments lead to the somewhat astonishing conclusion that, in most cases, priority is not accorded to the primary sector — on the contrary.

### Discrimination Against Agriculture

It is an observation not at all rare that farming is being systematically put at a disadvantage in being supplied with investment capital. Moreover, it is suffering from inflated prices of all fertilisers

and agricultural machinery tools and farming equipment which is made inside its own country, because the manufacturers of such necessities are accorded high protection against their foreign competitors — which they, naturally, make use of to the limit. At the same time, cheaper imported goods are admitted to the country in limited quantities only, and because they are scarce, their prices are levelled up to the prevailing inflationary rates. On the other hand, the government sets artificially low ceilings for some food prices, on the grounds that it must fight inflation. It is a matter of course that food prices — which means the prices of farm produce — play a dominant part in the expenses of all households and of the cost-of-living index of the city population. Farmers are discriminated decisively in favour of this, politi-

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cally important, stratum of society. The rates of exchange between what farming supplies and what it receives in return is unfavourable. Whenever farm produce is entering the export trade, it is frequently subject to export duty, which is intended to feed the funds needed for promoting industrialisation. Under such conditions it can easily be understood that food production for the market, which feeds the rest of the population and sustains exports, is in most cases not up to the desired levels of quantity and quality. If an outside observer tries to draw attention to this fact, he may receive the answer that, in emergencies, the Americans will donate food, free of cost, thus making it unnecessary to make the required efforts at home.

### **Industrialisation – a Status Symbol**

If, on the other hand, talk veers round to the subject of industrial development, emotional involvement will at once manifest itself. It then becomes clear that people, in their minds, mostly identify a forced growth of the secondary sector of production with economic development as such. It is being emphasised that, according to the experiences of industrialised countries, farming is a less productive, often even a shrinking, sector of production, whilst industry excels by high growth rates and productivity of labour. Almost all the highly-developed economies, it is said, have a small contribution to their GNP stemming from agriculture. Therefore, it is the task of development to bring LDCs to a similar state of affairs, in order to transform them into developed countries.

Under the microscope of critical analysis, however, such reasoning is all but persuasive. The average American farmer, for example, is capable to feed, through his work, between 40 and 50 of his compatriots, so that the share of farmers in the overall population figure is relatively small. This is due to the fact that American farming has been able to raise its productivity to a fantastic degree – to a large extent, because it employs ample capital resources. As to the low contribution of farming to the GNP, the logic of the argument quoted is suspiciously similar to the following syllogism: successful men usually smoke cigars. Which means that I must cultivate cigar-smoking, otherwise I cannot hope to be or to become a successful man.

Some higher degree of plausibility may be accorded to people who argue in favour of industrialisation by stating that they would like to participate in sales outlets that show higher rates of growth than those for farm produce. This line of argument may be countered by pointing out that

there is vast scope, within LDCs, for increased food production, as long as their peoples still hover near or at subsistence level and, moreover, as rapid as is actually the case. In a number of cases, it would even be more beneficial to concentrate development in the tertiary sector, perhaps through promoting tourism, because the chances of growth in this sector are even more favourable due to rising prosperity in industrial countries. At any rate, manufacturing only simple and standardised industrial goods – the only ones with which industrialisation can begin – will not achieve the conquest of such big market shares as one may imagine. On the other hand, changing over at once to those products that show above-average rates of growth, which are made by sophisticated, science-based industries, is out of the question, because LDCs lack all the necessary conditions for them.

### **Technological Understanding**

On the other hand, it seems to be a valid argument that the secondary sector must expand because otherwise it would not be possible to spread competition consciousness and the vitalising effect it has. Industry, moreover, is said to be the source of inventiveness and of the urge for constant innovation, which is sorely needed in a society that is mainly tradition-bound and encrusted. Only in this way, open-mindedness towards technological progress could be implanted as a natural attitude, and only thus could mobility of labour, either between different occupations or for advancement in a given branch of production, be encouraged. In short: LDCs must foster the spirit which is typical for an industrialised society.

To this will be added another argument of decisive importance: LDCs are called upon to solve two major tasks, to create employment for a rapidly growing population, and to supply, at the same time, sufficient food for the same people. Farming is not able to offer sufficient employment for rising crowds of people – on the contrary, the higher its productivity rises, the smaller will be the number of “hands” it can usefully employ. But this is only true largely of South Eastern Asia, which has suffered from over-population for a long time already, yet not of sparsely-settled African countries. African farming would certainly be able to absorb more workers as soon as it starts to cultivate new areas or to intensify farming methods in areas already cultivated.

Pressing problems of creating employment are not the ones that are crucial for underpopulated Africa but they are decisive for overpopulated areas. The pressure valve of emigration can no

longer be said to operate, which indeed causes almost only the secondary and tertiary sectors of the economy being able to offer the added employment needed — but it must also be stated that available posts in service industries are usually overstaffed already, often to grotesque exaggeration. Farming, on the other hand, can employ a large proportion of the people of working age during a few weeks or months of the year only. The rest of the time, these people are condemned to idleness, yet the large family clans must feed and maintain them. For these reasons, it is completely understandable that major efforts are being spent on integrating these “hands” fully into the process of production, because their contribution to the GNP is pitifully small. In some cases, drawing these masses into gainful employment is expected to produce an economic miracle, since these workers have been claiming part of the GNP, whilst, on principle, they could contribute to the same GNP more than they are doing now.

#### No Development Without Bread

After the extensive plea in favour of industrialisation and of creating new industrial employment, we must now put the question as to how to get enough bread, or more generally spoken, sufficient food for all. In this context, the first consideration is this: in a closed economy, we must investigate the scope for feeding the population offered by farming. The bigger the food surpluses which farming is able to produce over and above what farmers and their families themselves consume, the larger can that part of the population grow which does not work on the land. For its size, there is a definite ceiling value. This ceiling will certainly not be raised by funnelling workers out of the primary sector of production in order to employ them in industry. Should it even be true that those emigrants from the villages had work only during the sowing and harvesting periods, they will be missed once they have left the land; crops will decline correspondingly, and there will be progressively less to eat for the population of towns and cities.

All this goes to show that, in a self-sufficient economy, industry is prevented from growing as long as farming does not succeed in increasing the surpluses which are needed for feeding the industrial labour force. And this requires not only that output per head in primary production rises, but that farmers are willing to sell more of their crops than before. Thus we find that under given conditions one-sided coddling of industry is a grave mistake. Balanced and all-sided growth must replace such a policy. Underdeveloped economies may be compared to a convoy of ships,

whose overall speed is determined by the speed of the slowest ship travelling in convoy. If agriculture is the slowest-growing sector of the economy, no benefit will be reaped by force-feeding industry. The only result will be a food shortage. In order to avoid it — as our chain of arguing shows — rising productivity of farming is indispensable, especially when it is required to feed growing mass armies of industrial workers.

#### Incentives Instead of Coercion

In order to produce more food for the population of towns and cities, there are, on principle, two methods available. As it has been done in the Soviet Union, it is possible to order the peasant farmers to deliver up sufficient food, for which the enforceable quantities are set comparatively high, and enforcement is carried out with the full power of the State's coercive machinery. It is obvious that only a totalitarian system of government can operate such a system. Whatever we may say of this system from a humanitarian point of view — even purely economically, it can in no way be justified.

## Economic Analysis of Agricultural Projects

J. Price Gittinger

The purpose of this book is to sharpen the preinvestment analysis tools of those people in developing countries who have responsibility for spending scarce money on agricultural development.

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LDCs of today can use only the opposite form of encouraging higher farm production: not coercive pressure but material rewards as incentives will cause peasant farmers to do their own best for increasing output and for bringing a larger proportion of it to the market. What kind of incentives: Farmers must be offered industrial products at relatively cheap prices and in sufficient quantities. And this means that the well-known policy of "import substitution" — the replacement of manufactures that in the past were imported by the results of "national" production — is cut down to reasonable size. In addition, long pending projects of irrigation or drainage, as the cases in hand may require, must be carried out, villages be electrified, and the required funds and personnel for training and advisory services be mobilised. Because capital supply is scarce, this again is only possible at the expense of force-feeding national industries.

### **Successful Agricultural Development**

To judge from experience so far, it seems generally a completely viable policy to use material incentives for achieving larger food supplies. Only in areas where farming proceeds in isolation from the outer world, serving the needs of subsistence only, this prescription will not work — at least as long as money payments, and with them prices and markets, have no meaning yet for local farmers. But even when this stage is reached, it happens in certain areas that peasants who obtain higher prices for their crops will reduce the acreage under cultivation, being satisfied to get sufficient supplies for themselves, as they are not interested in higher real incomes.

But the cases are much more numerous where this traditional attitude of keeping consumption at an ever unchanging level has been overcome and replaced by the farmers' striving for more and growing incomes. Yet frequently, this aim is not being achieved by increasing productivity but by taking more land into cultivation. Where there are sufficient acres not under cultivation, nothing is to be said against this, but the method is impracticable in overpopulated areas. There, nothing can be done but growing bigger crops per acre and/or per farmworker employed. For this purpose, the authorities would be well advised to furnish the peasants with higher-quality seeds and to teach them the efficient use of chemical fertilisers. Artificial insemination of cattle must be introduced against widespread resistance, in order to improve the results of cattle-raising. The methods of using modern weedkillers and pesticides must be utilised, and last but not least, transport and storage

facilities must be drastically improved. Once such investments are being made systematically for increasing the material and intangible capital stock, it can be seen that their profit "yields" often reach quite respectable proportions.

Up to this point, the present article mainly traced out the conventional lines along which the controversy between industry and farming is usually being conducted in LDCs. Obviously, our provisional conclusion is that it is wrong to favour disproportionately either the one or the other sector of production. However, this conclusion is based on a number of accepted "verities" which need not be true at all everywhere. Thus, we have repeatedly used the expression "closed economy", and equally frequently, people speak of the aim of national self-sufficiency. But why should any LDC constitute a closed economy, in which the local population gets all its food needs from the local farmers only?

### **Progress Through Specialisation**

That there is need for such a kind of development can in no way be taken for granted. Of course, we do not mean here the facile evasion that the Americans will help to close any food gap if local supplies should fail to satisfy the full local demand, but something quite different should be visualised as a future prospect. It might very well happen that tourism, the export of raw materials or of manufactured goods are able to earn sufficient foreign currency to pay for food imports regularly. Oil-producing countries are vivid examples of such possibilities. It is also possible that certain countries produce much more of food-stuffs or other mass consumption crops than their own population could usefully consume, so that surpluses must be exported — as in the cases of coffee and banana republics.

To sum up and generalise: the aim of achieving self-sufficiency is frequently wide of the mark. To make economic sense, it should be replaced by the aim of individual economies specialising in producing those goods for whose creation they are specifically suited. Whether these export goods will be industrial raw materials or farm produce, industrial manufactures or touristic services, does not matter at all. Once LDCs follow this guiding principle, the controversy between industry and farming will lose much of its acerbity and convincingness. Though this quarrel is not one for a mess of pottage, it suffers from being based on shaky foundations, so that conclusions built on them could be accepted only with great reservations and caution.