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# Agricultural Policy in Developing Countries

by Hermann Priebe, Wilhelm Hankel, Frankfurt\*

**Development failures are less the result of "natural" short-comings, but are caused instead by false conceptions and by the misapplication of experience from highly-developed economic systems to countries in the initial development stage. The following article points out the pit-falls and discusses some alternative strategies.**

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Inappropriate development approaches are applied in most countries. These are generally characterized by the failure to recognize the development potential of agriculture, as the primary sector of the economy; instead, attempts are often made to allocate to industry the leading role in the development process, which produces serious negative results:

- ☐ Available economic resources are not utilized,
- ☐ Industrialization is attempted, at high cost, in places where the necessary prerequisites have not yet been created,
- ☐ An additional burden is placed on the balance of payments – which is weak in any case – because essentially unnecessary imports are required.

This not only aggravates the precarious food supply situation, but to an increasing extent causes the loss of the developing countries' scope for independent economic action as a result of budget and balance of payments deficits; their dependence on foreign assistance increases, as do the contrasts between rich and poor countries, with all the tragic consequences for overall international development.

## False Basic Assumptions

The discussion of development policy is dominated by false basic economic assumptions from the 19th century: pessimism as regards agricultural productivity together with a preoccupation with industrial progress. Whereas the great political economists, such as Adam Smith, and the pioneers of social reforms, such as

Freiherr vom Stein, worked on the basis of the conviction that personal freedom of action and initiative would everywhere create the preconditions for the prosperity of nations, Malthus' pauperization theory gave emphasis to the conception of agriculture's lack of ability to develop. The correspondingly limited agricultural productivity was also taken as a basis by Ricardo in his law of real income distribution, which was subsequently further developed by Karl Marx.

This false basic conception of the low development potential of agriculture is also the basis of the economic theories which have continued to make themselves felt ever since the great industrialization phase in the second half of the 19th century and which deal with the preeminence of industry and the reduction of agriculture, which contributes to development more by way of supplying resources. In this sense the importance of world trade as a driving force behind development was – and still is today to a large extent – also overestimated, and it was not realized that only the formation of internal economic flows are capable of creating the preconditions for increased exchange of goods across borders. Special circumstances in Britain, caused by the social environment, were one cause of these basic misconceptions. It has not been sufficiently recognized hitherto that they stemmed from a special, unrepeatable development in Britain. The peasantry there had been decimated not by economic forces but by feudalism. Only by virtue of its special position as a world power was Britain able to find a way out via the international market, by guaranteeing the food supply from the new territories in the colonies and by employing the masses, proletarianized by the

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expropriation of the farmers, in the rapidly growing industrial sector.

The background to this development, as economically successful as it was socially questionable, lay in feudalism and the way in which it was transferred to the colonies and less in the "capitalist system", as Marx believed, stressing at the same time the social disadvantages. Nor was this development based on the laws of a natural development process, as the "classic" conceptions of the political economists regarding the preeminence of industry and the role of world trade in the development process assumed.

### **Tragic Consequences**

The conviction that agriculture lacked development potential led both the classical economists and Marx to the conclusion that industrialization had priority. Marx and his disciples went one step further and demanded complete reshaping, an "industrialization" of agriculture, in order to accomplish its social functions and the task of providing adequate food supplies.

The same fundamental conception formed the basis for the theories of "special natural production conditions" occurring in German agricultural policy. These theories arose first of all as a defence reaction on the part of the large farmers against the development of industry and world trade, served to justify price and subsidy demands and were then also reinforced by agricultural science in the theories on a special law of returns in agriculture (Blohm, as recently as 1957)<sup>1</sup> and the low price elasticity of supply (Weinschenck, as late as 1969)<sup>2</sup>.

The failure to recognize the true development potential in agriculture had tragic consequences for international development:

□ "Industrialization" of agriculture in the Eastern Bloc countries with its social tensions, economic failures and yet its effect on developing countries which, with all their inexperience, are endeavouring to find ways out of their distress.

□ Failure to recognize the production reserves in agriculture, which leads to an inappropriate agricultural pricing policy, namely a policy of high prices, resulting

in surplus production in highly developed countries, and a policy of low prices, resulting in intensification of need in the developing countries.

□ Misconceptions of agricultural structural policy, with premature mechanization of agricultural production, as a result of which the labour force, the most important resource, cannot be utilized fully, so that less capital is formed than is used in agricultural development.

□ Taken all in all, employment and growth losses in many developing countries.

### **Situation in Developing Countries**

As in the initial phase of European development, the majority of the population in developing countries today are primarily self-supporting in agriculture. Per-capita domestic product and capital formation are thereby extremely low. However, this correspondence of facts must not obscure the fact that today the preconditions in the poor developing countries are not the same as – and are largely more unfavourable than – those in European countries at the beginning of the 19th century:

□ The population growth rate is, at 2.5 to 3 %, two or three times higher.

□ Agricultural productivity is in contrast still lower.

□ Mankind's demands in life are on the other hand greater in today's world and social distress is no longer accepted as a natural feature.

□ Industrialization is no longer a continuation of traditional crafts, of "manufacturing" using simple mechanical aids, as it was a hundred or two hundred years ago; developing countries today depend on the import of technology and know-how. This special situation is a challenge to the developing countries to use their own potential to increase production and form capital and to reduce their dependence on external aid.

The economic and social dualisms which lead to premature break-up of the traditional social structures and to the growth of landless and jobless masses and of rapidly expanding slums show that this has not so far been achieved to an adequate extent. On the contrary, the social tensions from the early phase of European industrialization are returning today in the developing countries in a more intense form and on a considerably larger scale.

Consequently top priority is given to

□ employment and

□ the provision of a food supply.

<sup>1</sup> Cf. G. Blohm: *Angewandte landwirtschaftliche Betriebslehre* (Applied agricultural economics), 3rd edition, Stuttgart 1957, pp. 44-48.

<sup>2</sup> Cf. G. Weinschenck, K. Meinhold: *Landwirtschaft im nächsten Jahrzehnt* (Agriculture in the next decade), an expert opinion commissioned by the „Verein für wirtschaftliche und soziale Fragen" and distributed by the Economic Council of the German Christian Democratic Party, Stuttgart 1969.

In the initial stages of development only a country's domestic agriculture can supply these. If, on the other hand, economists (e. g. Hemmer)<sup>3</sup> point out the drop in income elasticity of demand for agricultural products (i. e. Engel's law that a higher proportion of low incomes is spent on necessities) and use this to justify increased industrialization, the realities of the situation are ignored: Given population growth of 3 % and only a modest increase in income, the additional demand for foodstuffs will rise by almost 50 % in ten years, even with decreasing demand elasticity.

### **Agriculture and Economic Development**

In view of the fact that industrialization causes a decrease in the proportion of the labour force and the national product accounted for by agriculture, the fact is largely overlooked that both the volume of agricultural production and productivity show considerable rates of increase per hectare, per member of the labour force.

In Germany, a four-fold increase, in real terms, of soil production and a six-fold increase in labour productivity were achieved up to World War II on the basis of animal and human energy and without major structural alterations. The subsequent transition to external forms of energy led within a very short time to another considerable increase in food production and, with a drastic decrease in the size of the rural labour force, to an increase of over 10 % per year in labour productivity. The rates of increase were higher than those in the rest of the economy.

Japan is another impressive example. In complete contrast to the development in Britain, feudalism was abolished through the reforms after 1868, the position of the small farmers reinforced and the prerequisites for Japan's unparalleled economic rise created through its own efforts with the intensification of agriculture.

Throughout the world today it can be seen that overall economic development is clearly linked everywhere with agricultural development. In places where the growth rates in the agricultural sector are far below those of the Gross Domestic Product, no permanent growth in the overall economy can be achieved. Although this applies only to the initial stages of development, the preconditions for these stages will continue to apply in most developing countries for the foreseeable future. In these countries the development of agriculture determines not only

whether the population is adequately supplied with food, but also what scope a country can create through its own efforts for investment in the rest of the economy and imports necessitated by industrialization.

Mobilization of a country's own economic potential, the productivity reserves in the agricultural sector, thus becomes a central problem of development policy. In practical terms, we are concerned with non-monetary capital formation through a country's own efforts.

The "classic" theory which states that capital formation necessitates partial foregoing of consumption, applies only in later stages of development, once full employment has been achieved. In the early stage of development, in which the production factors — labour and land — are "underemployed", capital formation results primarily from increased production as a result of the reduction of surplus leisure time and improved work organization and land use. Agriculture and crafts constitute a field containing production reserves which can be opened up to aid economic growth without major investment.

The question of the right measures and strategies in agricultural policy thus becomes decisive.

### **Equality of Targets**

Agricultural development is not only a sectoral problem, but rather a task of overall economic and social development, particularly in the initial stages of development. The conventional targets of development policy must thereby be interpreted in accordance with the special preconditions of the developing countries:

- ☐ The growth target is expressed first of all in the increase of agricultural production and in supplying the population with all the foodstuffs required.
- ☐ The employment target is all the more important because the absorption capacity of trade and industry almost everywhere is still too small to be able to offer jobs even to only the additional job-hunters. The livelihood of the majority of the population will continue for the foreseeable future to be based only on agriculture.
- ☐ The distribution target in the initial stages of development must be regarded not so much in the sense of achieving income distribution as in the case of countries with a developed monetary flow and division of labour, but rather as the target of ensuring that broad sectors of the population participate in development through access to land and their own work in agriculture and crafts.

<sup>3</sup> Cf. H. R. Hemmer: *Wirtschaftsprobleme der Entwicklungsländer* (Economic problems of developing countries), Munich 1978, p. 287.

□ The stability target serves to increase the country's own supply of goods and to strengthen the balance of payments by reducing imports and incurring few foreign debts. Development planning, too, requires stable price and cost data.

All in all, increased production, employment and mass incomes – no matter how modest – lead to the formation of internal economic flows, the creation of an internal market for consumer goods and agricultural production equipment and thus to the growth of the economy as a whole.

Specific aims may become particularly important for short periods depending on the special conditions prevailing in each country. However, the frequently discussed alternatives, such as growth or employment, do not exist in the long run. Only if all targets are given equal consideration is it possible to achieve long-term balanced development on the basis of a country's own resources and without troublesome financial bottlenecks.

### **Pricing Policy Incentives**

In countries where the majority of the rural population has access to land and secure rights of ownership, promotion of agricultural production by means of pricing policy is the most effective means for inducing broad sectors of the population to produce more and for initiating development of the rural basis without major capital expenditure.

Experience throughout the world has shown that the farmer reacts as a quantity adapter if he can see the sense of his additional work. In other words: high supply elasticity exists. Profits are then a source of further investment, which leads to intensification and formation of markets. There are also vast production reserves for this purpose in traditional agriculture. However, these can be effectively mobilized only if governments do not pursue a policy of "cheap bread", thus exploiting the rural population to the benefit of urban consumers. In the initial stages of development a policy of low agricultural prices must lead to a deterioration in the food supply and thus to the vicious circle of growth stagnation, inflation and foreign debts.

The way out of this situation lies neither in agricultural mechanization nor in external food aid, which only worsen the stagnation of the country's own development and foreign debts. The key to self-help lies in an agricultural pricing policy which motivates the farmers to personal initiative. If labour is available it can be used to initiate whole development processes.

Decisions concerning agricultural promotion and pricing policy are to be oriented in each case according to the various framework conditions prevailing within the respective countries. In this case, a variety of strategies may appear appropriate. Above all, it is necessary to distinguish between two types of countries:

□ countries with industrial raw materials, such as for instance crude oil, copper, tin, etc., and countries with favourable conditions for the production of special agricultural products, such as for example natural rubber, cotton, coffee, cocoa, etc., in which investment capital for the build-up of the economy can be procured through export;

□ poor agricultural countries which in the primary stages of development depend entirely on obtaining their investment capital from the agricultural sector.

Poor agricultural countries have to tread a toilsome path to attain step-by-step development. By contrast, countries which are in a position to export industrial raw materials or special agricultural products can become industrialized more quickly. On the other hand, they are in danger of neglecting their agricultural development and failing to exploit their own resources in the agricultural sector, this giving rise to social and economic disequilibria.

The latter can only be avoided if certain principles for the development of the agricultural sector are observed, which – independent of a country's possibilities to export – are all the more important, the higher the percentage is of those engaged in the agricultural sector of the country involved. Three important alternatives for the development of the agricultural sector will be dealt with in the following, in which case different views are taken in the development policy discussion with respect to these alternatives.

Independently of this a number of alternative strategies, which are of vital importance for overall development, are treated in general terms in the discussion of development policy. The following three items contain fundamental comments on these strategies.

### **Domestic Food Supply v. Export Promotion**

The first alternative deals with the fundamental question of whether emphasis in the agricultural sector should be placed more on providing a food supply using the country's own resources or on the export of specific agricultural products, if there are favourable

natural locational conditions for these products. The potential export products are usually not so much foodstuffs but rather agricultural raw materials and semi-luxuries.

The experience and market links of specific countries should certainly be further used in the export of agricultural products. However, this must not be done at the expense of the country's own supply, as sometimes happens, because then some of the export earnings are used to import foodstuffs and the investments aiding the country's development are deprived of the corresponding amount of foreign exchange. In such cases there is much to be said in favour of giving import substitution priority over export promotion.

Marketing opportunities are easier to see at a glance on the domestic market than on the world market. Using the foreign currency saved through domestic production of goods formerly imported it is fairly certain that it will be possible to achieve the same effect as could be attained through corresponding expansion of the export trade. The effects on internal development are probably still more decisive. Increased domestic production contributes towards employment, reinforcing domestic economic activity and improving distribution of income, whereas in general only small groups of the population participate directly in exporting.

In the interests of balanced development promotion of domestic supply is to be preferred in most countries. However, the precondition for success in overall economic terms is that this promotion is combined with determined promotion of traditional agriculture.

### **Conflicting Aims of Pricing Policy**

In the early stage of industrial development in Europe the "cheap bread" policy originated in the endeavours to supply the growing industrial population with cheap food and to curb the upward wage drift. With the improvement of urban incomes the interests of agriculture were then given greater consideration in agricultural pricing policy towards the end of the 19th century in most European countries. Only Britain as a colonial power was able to maintain a policy of low prices and largely give up domestic agricultural production in favour of cheap imports.

If many developing countries today pursue a policy of low consumer prices, the fact is ignored that in this respect, too, the preconditions are fundamentally different from those prevailing during European development.

In most developing countries industrial workers participated in development before the agricultural population and achieved a comparatively high income level. The long working day, with hard, low-paid work, which was usual in early European industrialization is almost non-existent in these countries. In the social pyramid the traditional rural population is at the bottom. In the interests of overall development the migration of this population must be counteracted by means of improving the situation of agricultural production.

The corresponding agricultural pricing policy, however, inevitably leads to conflicts of aims in most countries, for in order to supply the landless, under-employed masses, which did not exist to anywhere near the same extent in Europe, cheap foodstuffs are necessary.

This produces a vicious circle: the lower the agricultural prices, the greater the migration, the greater the number of people demanding cheap bread, but the smaller the amount of bread which can be produced altogether.

The solution can be reached only through a permanent increase in supply and direct participation in food production by population groups which are as large as possible. This is the task of a reform policy, which facilitates access to land, even if only to supply the farmers' own needs, and also the function of an agricultural pricing policy which leads to an increase in production for the market by means of the use of labour.

An excessive policy of low prices to benefit consumers must inevitably lead many countries into social chaos. In cases of doubt, temporary subsidizing of basic foodstuffs for the poorest groups of consumers, with suitable prices for agriculture, would be preferable. In the long term, the interests of the poor small farmers and poorest sectors of the urban population are linked in a producer-price policy which brings about a lasting increase in the food supply and thus also promotes the country's further economic development.

### **Need for Labour-intensive Production**

There can be little doubt as to the most appropriate form of agricultural production. All considerations result in the demand that the country's own potential should be used for development by means of increased labour input and that in this way the rural population should be allowed to participate in development.

Suprisingly, this is done only half-heartedly in many countries, or precisely the opposite occurs: the target is modern, capital-intensive production measures. The effect is all the more negative for the countries' overall development, the more the producer prices are kept low and modern means of production subsidized.

The arguments in favour of a policy of this type stem from the ideas of highly developed countries, and the funds largely from development aid. They have a decidedly explosive effect for the social structure of the countries concerned, carrying over the dualisms into the rural sector. Not only is the traditional population deprived of a wage, but market growth is also taken away by mechanized, subsidized enterprises.

The need for labour-intensive agricultural production, dispensing with premature mechanization, results from the priority targets for overall economic and social development as described here from various points of view. Although these are basically clear, the problem here, however, concerns the details of the questions as regards appropriate aid for further development of traditional agriculture.

In contrast to industry, agricultural production is less dependent on specific technologies. It remains tied to biological processes and mechanization becomes practical only in later stages of development when labour is expensive and in short supply, capital available in abundance and a high level of production from the soil, which makes the use of machinery profitable, has been achieved.

It is not the present-day method of operation, but the earlier development of European agriculture which provides the example for developing countries: the four-fold increase in production from the soil, using a country's own energy, simple technical aids and predominant improvements in the biological field, i. e. in the increases of crop yields through cultivation, fertilization and crop rotation, and in the performance of animals, the increase in the number of animals, crop and animal hygiene, stock-piling, to mention but a few.

In practical terms, we are concerned with improvements complementing the increased production, not with replacing labour. The correct starting points for these improvements can be ascertained in each case only by means of detailed, on the spot investigations.

However, in most developing countries, the transition to using external forms of energy is the decisive element in initiating negative development. This can be well examined in detail, using the

alternative "tractors or oxen". Except in the oil-producing countries, the result is clear: In the early stage of development motorized agricultural production leads to increased production costs, makes the country dependent on external aid, reduces the capital contribution made by agriculture to growth and works against the major targets for overall development.

### **State Tasks**

Just as important as the initiative of the small farmers in agricultural production is state initiative for marketing these products.

A positive reaction by the farmers to price incentives depends on whether there are guaranteed marketing opportunities close at hand, even for small quantities. The rural population is not very mobile, the transport system is underdeveloped and the individual farmer can easily become dependent on dealers and money-lenders if he has no adequately clear view of the market.

It is consequently the task of the state to contribute towards the creation of the necessary market organization and legal provisions by means of accompanying measures. In contrast to food production modern techniques and management are of importance in this field.

Various forms of organization may be selected for the marketing functions.

The cooperative system facilitates an effective combination of individual work in the farmers' own sector with services above single-farm level. The supply of production equipment and the granting of small loans can be combined with marketing. In many countries semi-governmental organizations, in the form of marketing boards, have been created for this work, particularly if processing methods, large-scale sales and exports are involved in addition to the collection of specific products.

Both good and bad examples of the operation of the various organizations exist. A decisive criterion for success is probably that the cooperatives should not be misused by the state as instrument of control and thus lose the farmers' trust. It is essential to leave room for the initiative of the rural population and to involve the farmers in a learning process to encourage methods of thinking and acting in the sense of money and market, a process which can then also create a basis for the country's further economic and social development.