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CHAPTER I

THE OBJECTIVES OF AGRICULTURAL POLICY

1. AGRICULTURAL OBJECTIVES

The title of this chapter assumes the existence of political entities called nations, each equipped with an effective Government and an agricultural policy. A decision to have no agricultural policy—to leave the development of farming to the play of market forces—is of course a major decision of policy; it was the policy effective in the United Kingdom during the ninety years from the repeal of the Corn Laws to the agricultural depression of the nineteen-thirties. But in the twentieth century, and especially since two world wars disrupted international markets, Governments have favoured more active policies for agriculture; they have encouraged, regulated, subsidised and stimulated various types of farming, for a variety of reasons and by a variety of methods. Agricultural economists can no longer assume that an active Government policy is an exception to the normal rule of a freely operating market; the study of agricultural economics, even in its elementary stages, must start from the assumption that Governments have agricultural policies, and sufficiently developed administrations to make their decisions reasonably effective.

It has become common for Governments to fashion plans for the development of their national economies; such plans vary in effectiveness from a pious wish publicised by some Minister of State to detailed control of individual industries and firms, as in eastern Europe. The objective of full employment, for instance, necessarily involves the existence, either in fact or in reserve, of fairly comprehensive powers over national finance and capital investment, in which agriculture must also be involved. Even this minimum of economic planning must

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therefore include some general concept of the desired role of agriculture; while in many countries the security of food supplies is of crucial importance, and in others the export of agricultural produce dominates foreign trade and the internal price structure. To separate out for study the planning of agriculture creates a somewhat artificial distinction in the field of economic policy; the justification for this course lies partly in the peculiarities of agriculture and partly in the interest which we all take in food.

During and after the second world war, agricultural planning became a highly complex matter in most countries. The administrative improvisations developed in the years of depression were extended into food rationing and price control in varying degrees. Since the end of the war many countries have been involved in acute problems over their balance of payments; and agricultural policies have reflected these post-war strains as well as the wider aspirations of social policy and national welfare. There is therefore no lack of material for any analysis of the economic basis of agricultural planning. But since each country has its own peculiarities in farming technique and economic structure, I propose to draw examples mainly from the United Kingdom, from New Zealand, and from the United States; the first being an importer of food, the second being an exporter of food, and the third having a wealth of statistics which illuminate its economic growth.

The activities of mankind do not lend themselves to logical classification in well-defined categories. Especially in the political world, legislation promoted for one reason may be continued for others and may develop quite unplanned results in the process of administration. But some classification of agricultural policies, however imprecise, is a necessary preliminary to a reasoned discussion of them. Let us start with four main groups, into one of which most intentions can be squeezed.

1. Maximisation of the national output .. .. .. (Plenty)
2. Maintenance of food supplies .. .. (Strategy)
3. Reducing variability in agricultural incomes .. .. (Stability)
4. Redistribution of personal incomes .. .. .. (Equality)

Let us look briefly at examples of each, bearing in mind that

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measures appropriate to achieve a certain policy in one country may have no relevance to the problems of a second which is at a different stage of development.

I. PLENTY

A country which aims at plenty attempts to secure the maximum increase in the supply of goods and services. In the modern world, the concept implies not a rise from one static level to another but a constant and continuing rise in the 'standard of living' for the majority of the people. For this policy, two points can be said to have fairly general relevance.

A continuing increase in the output of goods and services implies an inevitable conflict between present and future; immediate consumption may have to be cut if resources are to be made available for building a dam which will supply in the future both more irrigated land and more electric power for industry. And the poorer the country, the more urgent is the maintenance of immediate consumption and the more difficult it is to find resources to devote to capital equipment for the future. Conflict is also inevitable between the natural forces of custom and inertia, and the mobility of manpower over space and between occupations which is involved in rapid economic growth.

Secondly, a country which is open to foreign trade has greater opportunities for increasing its wealth than one which has to raise itself by its own bootstraps, using only its local resources. By borrowing from elsewhere, a country can improve its capital resources without an appreciable loss of current consumption; repayment can be effected out of the rising output to be expected when railways have been built, export crops established and local industries developed. Further, specialisation between countries enables a given output to be achieved with fewer resources, thus enabling all to be richer. In the last quarter of the nineteenth century, for instance, Britain specialised in the production of railway material which was used in America, Canada and Australia to open up the new lands from which grain was sent back to Britain; the price of bread fell markedly in Britain with a consequent improvement

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in the general standard of consumption, although there was financial distress among those farmers and landowners whose income was derived from cereal crops. A similar trend is seen in New Zealand which grew most of its own wheat supply in the nineteenth century. But in the last thirty years a greater total output of goods and services has been obtained by importing much of the extra wheat required from Australia, by devoting the land and labour to the production of fat lambs and dairy produce, by selling these in Britain, and by using part of the proceeds to pay for the Australian wheat, and the remainder to import British china and American oil. Compared with both Britain and Australia, New Zealand has in its climate and pastures a 'comparative advantage' for the output of meat and dairy produce, and Australia for wheat production. Such specialisation between countries obviously involves certain risks, both of the physical interruption to transport and of the breakdown of the delicate mechanism of international payments; the achievement of plenty, therefore, may perhaps conflict with strategy.

2. STRATEGY

A country which has to import part of its food consumption has to consider the security of its supply. Supply may be liable to interruption because the exporting country ceases to export, because transport is stopped by war, or because the importing country lacks the means to pay on the international market. Drawing supplies from a large number of friendly countries is obviously the best security, but if this is not feasible, Governments may adopt a wide variety of measures to encourage the production at home of a greater supply of essential foodstuffs, even though this implies going without other commodities which could have been produced with the same resources.

3. STABILITY

There are three main causes of the instability of agricultural incomes over time. There is the short, but often violent, fluctuations caused by variations in crop yields from one year

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to another. Secondly, there are the more general fluctuations created primarily by fluctuations in aggregate demand associated with the trade cycle. Thirdly, a particular class of agricultural incomes may diverge from the general trend because the conditions of supply or of demand are undergoing a permanent change to which the economic structure is not yet fully adapted.

It is only quite recently that fluctuations in income have come to be regarded as undesirable, as something to be prevented or at least mitigated; the two great price falls of the inter-war years—from 1920 to 1922 and from 1929 to 1933—which affected almost all countries in varying degrees, left an indelible mark on the evolution of economic policies. The prevention of the second type of fluctuation—the maintenance of full employment, as it has come to be styled—is a recognised objective of Governments, most of which now possess wide powers to regulate investment, foreign exchanges and the money markets. These general powers aimed at the prevention of the most general type of fluctuation have been reinforced by a mass of purely agricultural legislation, inherited largely from the years of depression, but which can also be used to mitigate the fluctuations in agricultural incomes arising from the other causes.

4. EQUALITY

In a society based on private enterprise and the free choice of employment, the desirable distribution of capital and of labour between employments can only be secured by the offer of different incomes to the owners of these resources. The resulting inequalities in income have at times been found undesirable from other points of view; a great disparity in wealth is in itself sometimes regarded as an evil, which, unless corrected, is apt to increase by inheritance and aggregation. Most Governments now undertake a considerable redistribution of income and sometimes of capital by a variety of measures which affect agriculture as well as other industries. Taxes on income, taxes on inheritance, compulsory insurance against sickness and old age are obvious examples, but other measures operate through the mechanism of prices and markets. The

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suppression of monopolies or, on the other hand, the encouragement of monopolies may alter prices and therefore the distribution of incomes between groups of citizens, as may the control of rents and the enforcement of minimum wages. Many countries have imposed a maximum size of holding so as to prevent a small number of persons from aggregating land while others must work as landless labourers without security or status.

II. THE ROLE OF PRICES IN A MARKET ECONOMY

By choosing the agricultural policies of industrial countries for analysis we assume a commercial agriculture, working for non-agricultural markets and not primarily for the food supply of its operators. Farmers in such countries are mostly business men, seeking the greatest monetary return, though other motives also influence their actions. In making the most of their opportunities, they work through a system of prices—prices for the goods and services they buy, prices for the goods they sell. Agricultural planning also works mainly through the pricing system, raising some prices and lowering others, restricting the opportunities of some people to operate at certain prices while encouraging others. Observed from a central Planning Office, prices provide a method of inducing individuals to perform certain functions, and to offer the use of property which they control. On the assumption that most citizens are seeking most of the time to secure for themselves the greatest real income, a system of prices thus encourages individuals to produce voluntarily the huge variety of goods required in a complex industrial society. If more milk is required and less bacon, then a higher price for milk and a lower price for pigs will induce farmers to devote more resources of land, labour, capital and management to the upkeep of dairy cows and less to the upkeep of pigs. Higher profits to dairy farmers will enable them to outbid the pig-keepers in wages for men and rents for land; higher wages for dairymen will encourage some pig-keepers to master the intricacies of a milking machine.

Changes in prices thus become translated into changes in

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incomes for the individuals who offer certain services as land-owners, farmers and pig-keepers. To a certain extent, prices will distribute incomes in proportion to the efficiency of individuals within each trade; an efficient dairy farmer will usually obtain a higher income than the inefficient, from the same system of prices. To a certain extent, again, prices will distribute incomes in proportion to the efficiency of individuals in offering the services most urgently required by consumers at any particular moment; the pigman who becomes a cowman when milk prices are rising will usually earn a larger income than the man who continues to produce pigs on a falling market. The employment of resources in the required amounts depends on inequalities of income; if all incomes were compulsorily equalised, the appropriate distribution of land, capital, and manpower could presumably be secured only by the wholesale compulsion on persons and their property.

At the other end of the market, the spending of incomes by individuals reflects the pattern of national demand to which the activities of citizens as producers must conform, if they are to secure collectively the greatest possible satisfaction from the resources available. Our observer in the central Planning Office could decide what ought to be produced to secure this satisfaction by observing in what way people were spending their incomes. If housewives decide to buy more milk and less bacon for their families, then the prices to be obtained for the present supply of milk will tend to rise, and grocers will find that at the current level of prices, stocks of bacon are accumulating, and they will order less from the bacon factories and press for lower prices. Prices link together demand and supply in such a way that supply at the current price tends to equal demand at the current price. A system of prices thus indicates the preference of consumers to which the pattern of supply should conform to secure the greatest possible amount of satisfaction, given the current distribution of income.

The division of resources between occupations created by the pattern of monetary demand within one country applies also in a modified form to the international market. If consumers can choose freely what goods to buy, they will tend to buy the cheapest goods that adequately fill their needs; as producers,

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they will offer such services as seem likely to bring the largest monetary returns, whether from home or foreign buyers. The wider the market, the greater are the benefits to be derived from specialised production based on natural resources in climate or minerals, or on inherited skills in hand or brain. In the nineteenth century, an international system of markets based on freely convertible sterling led to an international division of labour on a gigantic scale. In spite of the tariffs and exchange restrictions of the twentieth century, the economies of the United Kingdom and of New Zealand are still dominated by foreign trade; the standard of life of their populations depends very largely on the successful adjustment of their agriculture and industries to the changing demands of overseas markets.

Until 1914 it was generally accepted in Britain that (apart from a few special cases) the intervention of Governments in economic affairs was likely to arrest, rather than to promote, the continuing increase in the output of goods and services. Such matters as the control of animal diseases and the collection of agricultural statistics could usefully be undertaken by the State; but consciously to modify the size of any industry or the incomes earned by it was held to interfere with that proper mobility of resources between one use and another by which alone the nation would secure the greatest possible supply at the lowest possible cost. It was partly the war-time developments in administration and partly the economic confusion of the years after 1918 which led public opinion to allow to centralised Government a wider sphere of influence, including the maintenance of full employment, the provision of certain minimum standards of housing, medical care and education, and a general oversight upon economic development. To achieve the desired ends, Governments have relied largely on the manipulation of prices, using direct administrative measures to reinforce and supplement the effect of prices. The analysis of the persuasive and detailed influence of prices on all aspects of farming is therefore the first stage in the study of agricultural economics and of agricultural policies.

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CHAPTER II

AGRICULTURE AND ECONOMIC DEVELOPMENT

Let us begin our study of agricultural policy and prices by considering the nature of the demand for agricultural produce, the part which agriculture plays in the economic life of various countries and the historical forces which have brought about the current situation. For such an analysis we shall need to equip ourselves with some economic concepts, beginning with the income-elasticity of the demand for food and the propensity to save.

I. INCOME-ELASTICITY OF DEMAND

As a nation or a group of people becomes richer, the demand for different products does not increase equally. Starting from a very low level of subsistence, the greater part of any increase in income will be used to obtain more food in total, or to obtain more of certain foods and thus to improve the content or variety of diet. At this level, the 'income-elasticity' of the demand for food is high; a rise of 10 per cent in income may induce more than a 10 per cent increase in the demand for food, and the demand for other commodities increases very little. But once the most essential demand for food is met, an increase in income will be used mainly to satisfy other wants and the expenditure on food will increase less than the rise in income; the income-elasticity of the demand for food will be less than 1.[1]

[1] The income-elasticity for a commodity can be defined as the percentage change in expenditure on that commodity divided by the percentage change in income which has caused that change in expenditure, other things being unchanged. Its precise measurement is difficult for various reasons. The definition of income is by no means easy, and total expenditure, which is more easily measured, need not closely follow changes in income. Changes in the expenditure on food may involve changes in quantities or in quality or in the amount of processing involved. But in spite of these problems of measurement the concept is useful.

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Table 1. *Income-elasticity of demand for food*

	Food	Other	Total
If income-elasticity of demand for food exceeds 1			
Stage A	75	25	100
Stage B	84	26	110
Percentage increase	12	4	10
If income-elasticity of demand for food equals 1			
Stage A	75	25	100
Stage B	82½	27½	110
Percentage increase	10	10	10
If income-elasticity of demand for food is less than 1			
Stage A	75	25	110
Stage B	77	33	100
Percentage increase	3	32	10

The arithmetic of this relationship is set out above. It is assumed that at Stage A total income is 100 units, of which 75 are spent on food and 25 on other commodities; at Stage B income has risen by 10 per cent to 110 units.

Because the income-elasticity for food is less than 1 in most industrialised communities, the proportion of total income spent on food falls as income increases, a relationship sometimes known as Engel's Law. For instance, budgets collected from American families in 1941 showed the trend in the proportion of income spent on food reproduced in Table 2.

In Britain the income-elasticity for food in the years just

Table 2. *Proportion of income spent on food in the United States, 1941*

Net income class ($)	Spent on food: Total ($)	Spent on food: Percentage of income
under 500	144	49·7
500 — 1,000	272	36·9
1,000 — 1,500	402	32·4
1,500 — 2,000	521	30·0
2,000 — 3,000	693	28·3
3,000 — 5,000	849	24·0
5,000 and over	1,312	12·0

Source: Dewhurst and associates, *America's Needs and Resources* (Twentieth Century Fund, 1947), p. 98.

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