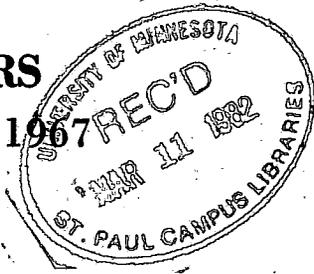


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Groups at the
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of Agricultural Economists
Sydney, August 1967**

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GROUP 2. PRICE AND INCOME POLICY

Chairman: A. G. Lloyd, *Australia*

Secretary: J. A. Girao, *Portugal*

Consultants:

L. J. Pas, *Peru*

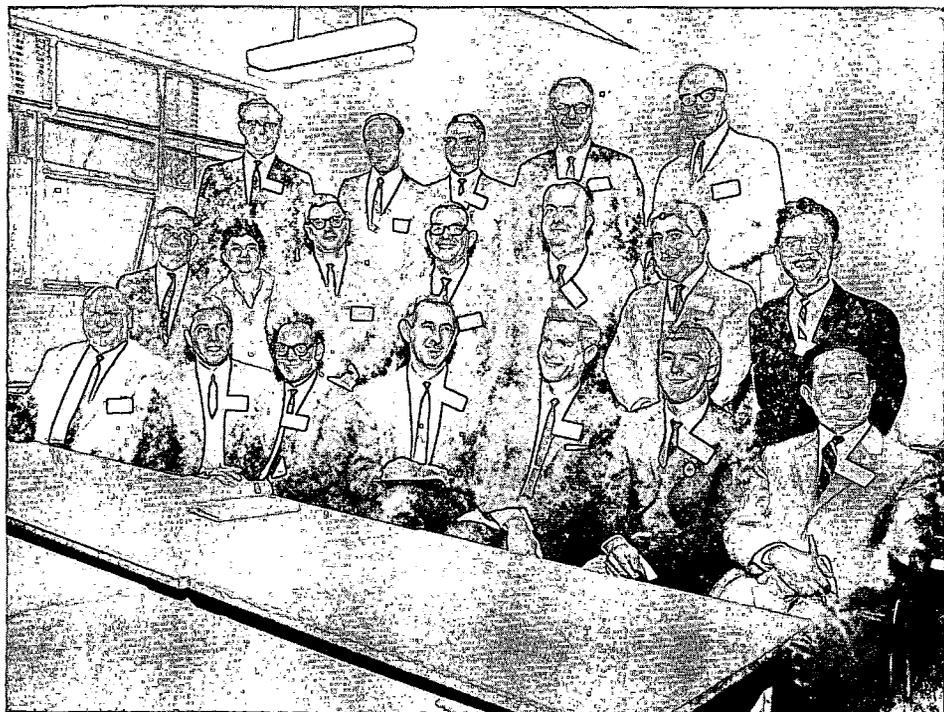
M. T. R. Sarma, *India*

The objectives of price and income policy discussed by the group were those related to the distribution of income within the agricultural sector and between sectors; the efficiency of resource allocation; price and income stability; and economic development.

Before discussing particular policy measures, the subject of agriculture's supply response was examined since it was felt that this would determine, to a considerable extent, the appropriate policy measures for particular industries and economies. The view generally expressed was that farmers respond significantly to price incentives, especially if there is reasonable price stability. In many situations high product prices provide not only the incentive for expansion, but also the source of capital for investment in new techniques of farm production. However, the use of price policy to stimulate agricultural development usually requires complementary measures such as improved credit facilities, marketing institutions, and extension services.

There was general disapproval of the use of price policy to pursue objectives related to income distribution. In particular there was discussion of the conflict between the goals of increased farm income and efficiency of resource use. Measures other than product price subsidies should be used to aid low-income farmers, such as direct payments and farm amalgamation and reconstruction schemes in the developed countries, and land reform measures, improved credit facilities, and extension services in the less developed countries. However, the group recognized that the politician has to operate within severe political constraints. There was some discussion of the role of transferable marketing quotas for individual farmers as a mean of checking the incentive towards uneconomic expansion whilst preserving levels of protection which had to be accepted as politically 'given'. Even within the political constraints, more effort should be made by governments towards a coherent set of price and income policies, rather than a piece-meal, *ad hoc*, industry-by-industry approach.

A number of discussants argued for a greater use of input subsidies rather than product subsidies, on the grounds that they involved low



GROUP 2. PRICE AND INCOME POLICY

Front row, left to right:

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 J. A. Girao, Portugal
 M. T. R. Sarma, India
 A. G. Lloyd, Australia
 K. Ullrich, Chile
 G. A. Rance, Australia
 H. Mirheydar, Iran

Third row, left to right:

K. Dexter, U.K.
 P. C. Marten, Canada
 H. H. Stoevener, U.S.A.
 R. C. Buse, U.S.A.
 S. O. Berg, U.S.A.

Second row, left to right:

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 Miss C. H. Lewis, U.S.A.
 J. P. Houck, U.S.A.
 L. J. Paz, Peru
 I. A. Chami, Lebanon
 R. A. Dias, Brazil
 Mubyarto, Indonesia

Other members of group:

H. Ergas, FAO
 T. J. Goering, U.S.A./Malaysia
 L. S. Hardin, U.S.A.
 P. Kaarlehto, Finland
 H. B. Low, New Zealand
 W. W. Wilcox, U.S.A.

administrative costs (e.g. fertilizer subsidies injected at the manufacturing plant) and that they had a more direct effect in improving technical efficiency. There was general agreement that such subsidies should be flexible and not permanent. As the use of the input increased, the subsidy should be removed and redirected. In some cases the subsidized input could only be efficiently employed as part of a complex 'bundle' of practices. In this case, the administrative costs of supply and supervision could be quite heavy.

The question of 'squeezing' agriculture to provide capital for development received some attention. Some discussants maintained that this policy had resulted in agricultural stagnation in their countries. It was conceded that, in the less developed countries, agriculture had to serve as a source of capital, but governments have choices with regard to the timing of the 'tax'. Only when the trend towards rising productivity and commercialization of agriculture is well under way is it safe to impose heavy 'taxes' on agriculture.

GROUP 3a. FARM POLICY IN AGRICULTURAL ECONOMIES

Chairman: N. M. Koffsky, *U.S.A.*

Secretary: R. van Hees, *Netherlands*

Consultants:

L. G. de Oteyza, *Spain*

H. H. Herlemann, *Germany*

The group decided to deal exclusively with farm policy in relation to the development problems of low income countries. In the development policies which these countries pursue, agriculture must inevitably play an important role. The experience which has been gained in high income countries of the modernization of agriculture might be of some help in solving several problems in low income countries. It was not proposed to deal exhaustively with all problems which might be encountered. Attention was focused on certain points, policies or problems, which had aroused the interest of those members of the group who had experience in agricultural development work.

In some countries the problem is to stimulate demand for agricultural products, whereas in others to increase supply is a pressing need. There is slack demand in several countries for export products. The lowering of the terms of trade for these products since the beginning of the fifties is a symptom that production is increasing faster than demand. Some countries, e.g. Kenya, do not easily find alternative products to which they can turn. As a consequence, development plans may be hampered due to a decrease in export earnings. Solution to this problem is not likely in the short term, as international co-operation in this respect is only moving at a snail's pace, if at all. A systematic approach must be developed which will provide opportunities for integrating the economies of developed and less developed countries in line with the comparative advantages of the less developed world. A weak demand for food products at the farm level may be caused by an inefficient marketing system. Sometimes the diet lacks some essential qualities, because the consumers are ignorant. In these cases the advice of nutritionists is necessary to raise the quality of the diet. Sometimes the deficiencies can be easily met by growing a greater variety of food products, e.g. vegetables and fruits.

In some countries the main problem is the increase in the supply of food. Again this could be caused by weakness in the marketing system. Weather vagaries sometimes cause a harvest depression and