

## MEASURES OF THE LIBERAL POLICIES IN AGRICULTURE

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### *Abstract*

*The major part of the population of the poorest countries of the Third World lives in the rural world. Progress in the rural world is necessary to relieve poverty and to satisfy the essential needs and also, more generally, to allow development.*

*The liberal reforms of agricultural policies appear among measures which accompany policies of development.*

**Key words:** measures of liberal policies in agriculture.

### INTRODUCTION

For Kuznets (1966), one of the crucial problems of the modern economic growth is to be able to extract from the agricultural produce a surplus for the financing of the industrial investment, without compromising, at the same time, the growth of agriculture.

The works of Schultz (1964), crowned later by the Nobel Prize, and the follow-ups of many others, showed that farmers of the Third World reacted positively to the increase in prices, that they had a rational programme of maximization of profits, but that they were blocked by an unfavourable environment and policies. For the little that one gives them, by various stimulants and incentive prices, the agricultural growth potential is high.

A favourable pricing policy would bring profit to the whole rural world, where the poor are among the poor of the Third World, and would alleviate the disparities of incomes.

The countries of Black Africa correspond well to this situation, but in the other Third World countries, more urbanized, in Asia, in North Africa or Latin America, the poor are more numerous in cities and for them, food prices have an enormous importance.

#### *Measures of liberal policies in agriculture*

Brasseul (1989), states some measures of the liberal policies in the agriculture, among them, modification of the relative prices, reinforcement of the agricultural services, reinforcement of the infrastructure and the elimination of the public organizations.

1. *Modification of the relative prices* in order to make sure that the terms of internal trade (agricultural prices/industrial prices) are not unfavourable to agriculture.

To do so, it will be necessary to avoid the overvaluation of the local currency, with the need for devaluations, to raise prices to producers and to reduce the protection of industry,

Price supports, input subsidies, export taxes, import tariffs, export and import quotas, import or export licenses, etc., directly influence the terms of trade

between the agricultural and non-agricultural sectors. Fiscal and monetary policies and macro prices, however, usually have even larger effects on the terms of trade between the sectors than do the more direct price policies.

Export taxes are particularly prevalent in developing countries because they are a relatively easy tax to institute and collect compared to alternatives such as income or land taxes. Export taxes generate government revenues and, in some cases, reduce exports and encourage the shifting of production from exports to domestic food crops.

Occasionally, developing countries impose export taxes in attempts to exploit monopoly power that they believe they hold in world markets. If a country is a large enough exporter in the world market to affect the world price, it can use a tax to raise the world price.

Developing countries sometimes use export quotas to partially or totally restrict exports. These restrictions force the sale of the products in domestic markets, thereby reducing prices to consumers. The result, however, is to discourage domestic production and to generate profits for those holding the quotas rights.

Import tariffs and quotas are used relatively infrequently on agricultural products in developing countries, but are commonly employed on industrial products. When an import tariff or quota is imposed on industrial goods, prices on industrial goods are raised relative to those of agricultural goods, creating an *indirect* tax on agriculture.

The overvalued exchange rates may have very negative effects in particular on the agricultural field:

a. *Exporters of the agricultural produce see their remuneration dropping* being that prices are fixed in foreign currency.

b. *Exporters are encouraged to sell their products on parallel markets*, often in the neighbouring countries, depriving thus the government of receipts.

c. *Peasants often have a tendency to neglect exporting cultures which are insufficiently remunerative*, making thus loss of foreign currency with the country. They are turned in on themselves or migrate toward the cities thereby enlarging the rows of the unemployed urbans.

d. *Over-valuation gives the cheapest imports* and discourages the national activities which could compete with them, in the agricultural and agri-business sector as well as industrial activities. This situation tends to increase the inequalities, because, in fact, the lower classes consume the most imported products; the rural categories, most disadvantaged, consume only very little of it. Measures of restrictions on imports can be taken, but, in addition to their administrative red tape, they support corruption.

e. *A rate of over-valued exchange also penalizes the exporters of industrial products* of which prices converted in currency are less competitive.

f. *Finally the over-valuation of the national currency supports the appearance of black markets of currency* where illegal transactions are carried out by resident. These markets make it possible for the holders of currency to sell it at higher than the official rates, to agents who cannot buy it at the banks because of the exchange control.

All these reasons explain the need for devaluation in the countries where the currency is over-valued. One expects the following favourable effects from them:

- to better remunerate exporters of the agricultural produce;
- to rectify external balance by the revival of exports of manufacturing products and the reduction of the non-essential imports;
- to support national activities of replacement of imports;
- to stabilize monetary and financial circuits.

On other hand, the devaluation will have inflationist effects (by increasing the essential imports) and will increase the cost in national currency of the debt service.

**2. Reinforcement of the agricultural services**, such as networks of credit to peasants, education, extension, research, health, promotion of the cultivation practices thanks to the qualified agronomists, cooperatives or farmers' associations.

### 2.1 Credit

According to Norton and Alwang(1993), credit for purchase of seeds, fertilizers, chemicals and other inputs becomes important as a developing country moves from traditional to more modern agriculture. Credit also helps households better manage their resources; it can be used for investment, for marketing or for consumption. Without credit, even high-investments, long or short term, would not be feasible for many farmers. Well-functioning rural financial institutions are essential to improving economic efficiency, reducing income risk, and meeting income distribution goals.

According to Boussard(1987), the lack of credit is an important obstacle in traditional agricultural production. The proof is at the level of the interest rates often used by the traditional users. The first obstacle comes from

the weak amount of each operation. The second obstacle is that, the guarantees do not exist. Land ownership is uncertain and, of the remainder, there is often no real land market. We cannot thus take the mortgages. Peasant agriculture is subjected to risks at least as important as modern agriculture.

Whatever the quality of the intended organization to provide credit, it can operate only if the peasants can obtain a sufficient level for the prices of the realizable outputs with this credit. However, on one hand the price of these outputs depends on transport and sales networks established in the area considered. On the other hand, in the majority of cases, the customs policy and, more generally of the economic policy chosen by the country.

### 2.2 Agricultural research

Through research, the productivity of resources is increased, new higher-productivity inputs and ways of producing food are generated and new or improved institutional arrangements are designed. Research created the potential for increased agricultural production, moderated food prices, increased foreign exchange, reduced pressure on the natural resources base, and many other positive results.

Agricultural research can be categorized into basic research, applied research, adaptive research, and testing.

*Basic* research develops knowledge with little or no specific in mind. Most basic research is carried out in developed countries or in the largest of the developing countries.

*Applied* agricultural research is aimed at solving particular biological, chemical, physical, or social science problems affecting one or more countries or areas in a state or region. Applied research may take place at international research centres or in national research systems. Development of new plant varieties, methods for controlling specific insects and diseases in plants or animals, and animal nutrition research are examples of applied research.

*Adaptive* research takes the results of applied research and modifies or adapts them to local conditions within a country or region. A plant variety developed for a broad area may need to be modified for a specific microclimate. Fertilizer recommendations, methods for controlling soil erosion, and many other technologies require adaptation to the local setting. Most of this research takes place on local experiment stations or on farms.

Much applied and adaptive agricultural research involves what has been called biotechnology research. There is traditional biotechnology research (techniques in plant breeding, biological control of pests, conventional animal vaccine development, etc.) and modern biotechnology research (use of recombinant DNA, monoclonal antibodies, and novel bio-processing techniques).

*Testing* research is conducted on local experiment stations or on farms to assess whether research results from other locations are suitable for solving local problems. Improved pesticides, management practices, or plant varieties are examples of results that may be tested. Much testing is conducted by farmers themselves.

These categories of research are linked and dependent on each other.

### **2.3 Education and extension**

The development and utilization of new technologies and institutions are critically dependent on an educated workforce.

Rural education is an investment in people that has its objectives: improving agricultural productivity and efficiency, and preparing children for non-farm occupations if they have to leave farming. Education may help motivate farmers towards change, teach farmers improved decision-making methods, and provide farmers with technical and practical information. Agricultural extension is complementary to other sources of information because it speeds up the transfer of knowledge about new technologies and other research results.

The lack of technical training of peasants is one of the reasons often advanced to explain the insufficient traditional agricultural production. The solution is then the creation of a strengthened service of extension. Technical topics are taken over from peasants by the intermediary of a more or less important body of instructors, extension workers, agents of progress etc. The major disadvantage of the system is its high cost.

Education helps farmers to acquire, understand, and sort technical, institutional and market information.

Extension accelerates the dissemination of research results to farmers and, in some cases, helps transmit farmers' problems back to researchers. Extension workers provide training for farmers on a variety of subjects and must have technical competence, economic competence, farming competence, and communication skills. Thus extension workers require extensive training and retraining to maintain their credibility with farmers.

### **2.4 Health**

Health is a state of complete physical, mental, and social well-being and not merely the absence of disease or infirmity.

Its importance, however, especially in the workplace cannot be over-emphasized. The creation of health centres in rural areas and access to medical services (reasonable cost of drugs and consultations) will allow each peasant to maintain his health and to have the force and energy to continue his activities.

A policy of health insurance can be followed in an appropriate way to facilitate these above mentioned services to peasants.

### **2.5 Cultivation practices**

The adoption of new techniques or practices can lead to the continuous improvement of productivity. The raise in productivity must allow the improvement of the rural peasants' incomes and thus the increase in their consumption but also can help a country's agriculture become more competitive in world markets.

### **2.6 Co-operatives**

According to Crawford (1997), the motivation to form co-operatives has 3 particular aspects:

- the need for protection against exploitation by economic forces too strong for the individual to withstand alone;
- the impulse for self-improvement by making the best use of often scarce resources;
- the concern to ensure the best possible return from whatever form of economic activity within which the individual engages whether as a producer, intermediary or consumer.

**3. Reinforcement of the infrastructure** such as roads, electrification, telecommunications, postal services, control of water (dams, irrigation), storage. This is crucial to a well-functioning agricultural system (HAVRLAND, B.).

The availability and quality of rural roads have a strong influence on costs and on the willingness of farmers to adopt new technologies and sell any surplus production. Telephones and postal services increase access to information which is of fundamental importance for agricultural development.

Modern storage facilities are important to minimize rodent, insect, and water damage while commodities are being held.

**4. Elimination of the public organisations** having a monopoly on marketing and to improve the legal and institutional framework necessary for the correct operation of the competitive private markets.

According to Connell and Brue (1996), a capitalistic system is characterized by freedom of enterprise and choice. Consumers are free to buy what they choose; businesses, to produce and sell their property and human resources available in whatever occupation they choose.

The competition market system is a mechanism both for communicating decisions of consumers, producers, and resource suppliers to one another and for synchronizing those decisions towards consistent production objectives.

Apart from these measures, Ritson (1977) also states some policies in agricultural support, among them income distribution, economic efficiency and international relations.

### **5. Income distribution**

It would seem reasonable to require of a policy directed towards supporting agricultural incomes that should

have the effect with the economy as a whole of transferring income from higher to lower income groups. This means that we must be concerned not only with the aggregate amount transferred from non-agriculture to agriculture, but also with the method by which the transfer is financed and the way the benefits of the support are distributed.

### 6. Economic efficiency

Efficiency criteria are a vital part of the assessment of agricultural policies. Many of the objectives of government policy which can be regarded as subsidiary to the major objective of agricultural income support are in fact efficiency criteria. These may be divided into static and dynamic aspects. Static efficiency will include administrative cost of a support system, the extent to which a measure introduces "stability" as well as "support" into the market for agricultural products, and the general efficient use of the nation's resources in the sense of the extent to which the conditions required for a Pareto optimum are attained.

According to Tracy(1993), an economy can be said to have attained a "Pareto optimum" if there is *no possibility for making any individual better off without making some other individual worse off*. Competitive equilibrium is theoretically Pareto-efficient, subject to certain important restrictions, because the independent actions of producers setting marginal cost equal to price, and of consumers setting marginal benefits equal to price, ensure that the marginal cost of producing goods and services just equals their marginal benefits to consumers.

More precisely, the conditions for the Pareto optimum may be stated as follows:

– *production equilibrium*. Each firm allocates its factors of production efficiently between the output of different commodities. Each firm also adjusts its output of different commodities so as to equate, in each case, marginal cost and price. These conditions should be attained under perfect competition by producers seeking least-cost(or profit-maximisation) solutions.

– *consumers' equilibrium*. Each consumer chooses between available goods and services so as to maximise his satisfaction or "utility". This condition too should be attained in perfect competition when consumers are free to choose the combinations they prefer.

– *general equilibrium*. As a result of all the individual decisions by producers and consumers, relative prices and relative amounts of goods and services adjust so that no other combination could increase the satisfaction of one individual without decreasing the satisfaction of another. It can be shown that this condition will also apply if all firms are operating under perfect competition, all consumers are also price-takers, and all prices are free to adjust.

Indeed, the Pareto theory could mean that governments should not interfere at all in the market process. There are however important restrictions to the Pareto optimum concept.

One such restriction relates to *market failure*, or deviations from the model of perfect competition. A firm operating in imperfect competition can exploit the falling demand for its products by producing less and at a higher price than a firm in perfect competition. So there may be a case for government intervention to limit the market power of such firms.

Another concerns "*externalities*". "Social costs"(or benefits) may diverge from the direct "private costs" of a productive process-i.e., through pollution, or on the contrary through some environmental improvement from which many people benefit. This provides theoretical justification for government action, in the form of taxes or subsidies, to bring private and social costs into line.

Dynamic efficiency is concerned with the extent to which a policy measure facilitates or frustrates the longer adjustment of agricultural sector.

### 7. International relations

One frequent side effect of a policy to support agricultural incomes is to increase the degree of agricultural self-sufficiency, either replacing imports or adding to exports. The costs associated with foregoing the gains from trade consequent upon the output increasing effects of a policy are covered by our efficiency criteria. There may however be further costs emanating from the international repercussions of the policy in the form of reciprocal trade relationships.

Agriculture surely stands out as the most important single case in which the Governments of most industrial countries are willing to permit domestic policy considerations to override so completely their interests in achieving the advantages from increased international specialisation in production.

In short, a significant fraction of world farm output is being produced in wrong place. It is difficult to overestimate the dangers of current trends in agricultural protectionism to the future of trade liberalisation generally.

Thus the trade impact of a policy to support agricultural incomes is important for two main reasons– because of economic costs associated with foregoing the gains from trade, and because of the danger of the application of retaliatory measures by foreign Governments.

### CONCLUSIONS AND RECOMMENDATION

Any particular device must of course be seen in the context of the overall objectives of liberal policies in agriculture towards prices, improving services and infrastructure, elimination of the public organisations having a monopoly, income distribution, efficiency and relation with foreign countries.

Prices have a considerable influence on the agricultural production, but many other factors must also be taken into consideration: size of farms, type of farming systems, climatic hazards, taxation, credit, access to market, etc.

The drive to increase income and improve the standard of living for the agricultural population is so widespread that it must be considered as the predominant aim of agricultural policies. The main policy mechanism which aims at improving farm incomes by reducing farm costs is the payment of subsidies on inputs. The possibilities for aid in this form are numerous. Subsidies may be given for a specific input, such as fertiliser referring to a specific activity. In principle, another way in which farm incomes might be raised by a policy directed towards reducing farm costs is if the quantity of purchased inputs used is reduced.

Government policies can aim to raise farm revenue by increasing the prices farmers receive for their produce, by manipulating the quantity of output they produce, or by some combination of the two.

The improvement of services, infrastructure, efficiency and international relations helps to raise the productivity and become more competitive in world markets, to open up areas, reduce time and transaction costs, to develop the technology of production, processing and marketing of products, to better manage sustainable natural resources.

Product diversification, international commodity agreements, compensatory financing, and enhanced use of market information may help developing countries with instability in prices of traded goods and of foreign exchange earnings.

Diversifying the production of export and food crops can help not only to reduce the terms of trade problems arising from external constraints, but may reduce risks associated with price, production, and foreign exchange variability. Diversification can come at the cost of reduced overall production efficiency.

Possible solutions for reducing price variability for individual traded commodities are to develop international commodity agreements, to prevent competitive price-cutting by setting export and import quotas, and to involve buffer stocks. With a buffer stock scheme, supplies of a product are stored and used to moderate price fluctuations. These stocks are sold during periods of raising prices, and purchased when prices fall.

Compensatory financing schemes like the compensatory financing facility can be used to stabilize foreign exchange earnings rather than directly intervene in market commodities.

A country can attempt to minimize the negative effects of commodity price fluctuations through use of market information. Market information is essential for producers, traders and consumers in making decisions. Such information includes the character and volume of supply of a commodity, its location and probable movement, the expected level of consumer demand and of wholesale demands based on it at each exchange point. It covers current price quotations, trade opinion as to future trends and the probable effect of seasonal and climatic influences and forecasts of future production, consumption and trade movements, seasonal variations in yields and their probable impact on priced. Market information is essential if market mechanisms are work efficiently.

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