

# AGRICULTURE IN THE NEW SOUTH AFRICA: AN OUTLOOK

*Prof W E Kassier, Head : Department of Agricultural Economics, University of Stellenbosch*

## Introduction

To deliver a paper on the New South Africa has its risks and problems. Two of the major future role players have put some of their policy positions on paper (White Paper on Land Reform, 1991 and ANC Land Commission). Others, notably on the extreme left and right, have not to my knowledge clearly documented any of their demands. Public statements, however, indicated that parties on the extreme left want to go back to 1652 while the far right wants to go back to 1 February 1990. The differences are clearly considerable and it is very tempting to state the obvious, namely, that hopefully the answer will be somewhere between the two extremes. This paper is based on the assumption that neither of the two extremes will prevail.

It is commonplace today to couple most of the changes that are taking place in agriculture to the new (emerging) South Africa. There are, however, trends which would manifest themselves had the events around 2 February 1990 and thereafter not taken place. Some of these changes will be discussed first, followed by the major changes that one might expect due to the New South Africa.

## Trends, New South Africa Or Not

Agriculture is experiencing a serious crisis in many parts of the world where farming is practiced under various political systems. We all know what has happened to the agricultural sectors in the USSR and Eastern Europe where the failure of collectivisation in the form of state farms and cooperatives has resulted in the demise of many over-capitalized and at the same time labour intensive farms. The economies of scale did not outweigh the lack of individual initiative and an attempt to ignore market forces proved disastrous.

Agriculture in the developing world has had its fair share of problems too, but largely of a different nature. In some countries, like Zimbabwe for instance, many subsistence farms have increasingly produced more than their own needs. Large scale project farming in the developing sector has not achieved the intended goals and is experiencing problems similar to commercial agriculture in the Western World.

In the Western World where farming has operated under various shades of capitalism and socialism or free market and state control, the general picture does not look promising either. Farmers are up in arms because of agriculture's deteriorating terms of trade. Many producers find that their standard of living is declining and for many their continued survival as farmers is at stake. There are some who maintain that the farming crisis can be compared to the depression of the early 1930's. In the United Kingdom for example, the real value of farming income is the lowest since 1945. The real value of farm land is 50 per cent of what it was in 1988. Over 80 per cent of the farms are operated on a part-time basis. In the United States and Australia more and more abandoned farmsteads can be seen. South African commercial farmers as a whole are clamoring for more assistance and despite the fact that the State has granted no less than R10 billion in aid since 1980, farm debt has risen to R17 billion.



In short, agriculture appears to be in disarray everywhere. There appears to be something fundamentally wrong.

In order to determine the cause(s) of this crisis, it is necessary to go back to the depression years of the early thirties. At that time, agriculture was in trouble worldwide. In the western "democracies" a significant percentage of the population and/or voting power were in agriculture. The economic and political pressures were therefore strong to alleviate the suffering. Also, the farmers are generally not well organised and together with the realisation that they are largely price-takers and not price-makers, caused them to plead with government to intervene.

The era after the depression was marked by a plethora of government acts, regulations and schemes, with the main theme of stabilising the agricultural industry. After the Second World War researchers, academics and politicians warned that worldwide mass starvation could be expected because of the rapid increase in population and that agriculture's future was therefore

assured. In fact, it was said, agriculture would be hard pressed to meet the food demand.

The stabilisation efforts have tried to make agriculture into an industry which it inherently cannot be. Agriculture is unstable, and in many cases necessarily so to clear the market of perishable products. Price stabilisation measures resulted in unstable incomes and further state assistance to overcome the instability. The euphoria of an apparently stable agriculture and an ever expanding demand for products resulted in over-investment and a concomitant low return on capital. Land prices rose to too high levels.

Farmers were advised to go for maximum production i.e. to spend or produce themselves out of trouble. Apart from the fact that it simply does not pay, at this level of farming it is even more important that all inputs are used in the correct proportions. Using too much or too little of a resource could and often does negate, in part at least, the effect of other high cost inputs.

A high cost, capital and energy intensive and off-farm inputs dependent commercial farming system has evolved. In addition the annual inputs, which often amount to between 25 and 50 per cent of assets, are more often than not purchased by production credit at interest rates the agricultural sector simply cannot afford. Total input cost increases exceed the rate of inflation. On many farms to-day, interest on credit represents the single largest cost item. A single crop failure often means sequestration. LISA (Low-input-sustainable-agriculture) will be the new name of the game. Agriculture will have to extensify.

More and more specialisation occurred which made farmers highly vulnerable to the vagaries of weather (which some climatologists believe is becoming more variable), epidemic disease, insect pests and market fluctuations.

The average farm business is also producing less of its household and employees' food needs, purchasing more at supermarkets, etc.

With an opportunity cost of own labour of near zero in many cases and



relatively low cost of hired labour, living costs, which on small farms comprises a significant portion of total costs, also add to the expense burden.

It is important to realise that we have moved away from an industrial to an information era. Apart from the role of technology in the generation and dissemination of information, time has taken on a new dimension. In short, we have reached the stage where unprocessed and unrefined information "to-day" is worth more than processed and refined information "to-morrow" and statistically proven information "day-after-tomorrow". Entrepreneurs (incidentally, not necessarily those who do things better than others, but those who do things differently) are beginning to realise that the return on early information can be considerable and are prepared to take the risk that such information may be wrong. Research and advisory institutions should take note of this phenomena, otherwise they might become irrelevant.

More services, processing and packaging will be involved in the marketing of agricultural products. Unless the producer becomes involved in one way or another in the value-added-on process, he will receive a lower and lower portion of the consumer rand.

Too little attention had been paid to fixed or overhead costs in farming. The over accentuation of variable costs and the use of gross margins as planning criteria has often resulted in a neglect of fixed cost increases.

### Trends Due to the New South Africa

It is common cause that if all goes according to plan we will in all likelihood have a new government in power not later than 1994/95. Apart from other expected developments discussed below, it is logical from a political point of view that such a government is likely to be less favourably disposed financially towards the commercial farmer. Also cooperatives kept afloat with large Land Bank loans may be forced into liquidation should the bank's new management demand repayment. It is well to remember that in the period ahead, politics could have priority over economics. There is little doubt that where government was involved in price fixing of agricultural products in the past, the policy was to increase prices to such levels just as not to evoke significant consumer resistance. Future governments are likely to adopt a somewhat different approach by attempting to keep prices as low as possible just not to cause producers to reduce production significantly. Many governments in the Third World have adopted such cheap food policies which had a detrimental effect on agricultural development in those countries.

Organised Agriculture has, until recently at least, worked fairly closely with government on most of the major policy matters. A split in the ranks is, however, beginning to form - the Pretoria siege being one of its manifestations. It is likely that certain agricultural groupings will break away if the central body becomes either too militant, too scrimshanking or too unrepresentative. Others again may remain in the fold but let it be known that they should not be judged by the company they keep. Also, public image building will become important in the new dispensation. It is fair to say that many people outside agriculture are beginning to suffer from compassion fatigue. The question will be asked: "Is what's good for commercial farmers, good for South Africa?"

It is the opinion of the writer that Organised Agriculture will have to be there where the action will take place. To distance itself from what will inevitably eventually take place, appears to be extremely short-sighted. No sector can afford to isolate itself, but should contribute towards an enlightened debate on the issues at hand in order to find a workable solution.

It is the land issue which both sides of the political spectrum are most concerned about. The land acts and the Group Areas Act are all but something of the past, and any land transactions will in future be devoid of any race constraints. The outright nationalisation of land and the attitude that "All our land will remain our land" are clearly untenable.

Also to believe that a policy of a free land market involving willing buyers and willing sellers from now onwards, will be acceptable, is naive. Some redistribution of land, by whatever method, is unavoidable. How much land will be involved and when and where are unknowns at this point in time, although common sense would exclude some areas and make other areas more likely candidates for redistribution.

Apart from the redistribution of land, it is the compensation which is of considerable importance. It appears unlikely that compensation will be at ruling market prices. How much of the payment will be in cash and how much in say, government bonds, is not known at this stage, but obviously concerns all current land owners. Some are of the opinion that in respect of certain pieces of land there should be reparations rather than a debit order. A Land Claims Court is proposed.

The imposition of land tax seems to be on the cards for two quite different reasons. First, it has to do with the policy of devolution of decision-making where local authorities will have to accept greater responsibility for the maintenance/improvement of local infrastructure, monies for which will have to be raised. The second reason why land tax may be imposed is to attempt to bring unused or under-utilised land onto the market. Both would no doubt have a depressing effect on land prices, which in turn would negatively effect the asset : liability ratio of producers. Also, the definition of "unused" and "under-utilised" could present problems.

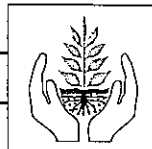
The Subdivision of Agricultural Land Act of 1970 will probably be scrapped with time. There are those who say that this Act should be replaced with an act which places a maximum on land holdings instead of a minimum size. Also the idea of "one man one farm" has been mentioned. To what extent these thoughts will eventually be incorporated in government policy is of course not known at this stage. It will be interesting to monitor the developments in Zimbabwe where at the time of writing no concrete actions have been taken on land redistribution since the passage of the relevant legislation.

Funds for commercial agriculture, be it for research or extension, will be scaled down and at least partially privatised. South African commercial agriculture can take a leaf out of the Zimbabwean farmers' establishments of the Agricultural Research Trust. Finance via the Land Bank and other state institutions will be channelled more and more into subsistence agriculture and to those commercial farmers who were in the past barred from owning agricultural land in the major part of South Africa. Reduced tax concessions are likely.

Employer : employee relationships on farms will change considerably over the next few years. The "boss : servant" approach, wherever it may still exist, will disappear once the envisaged legislation is enacted. Practices such as participative management, gain and/or asset-sharing will receive increased attention. Where practical, especially in the more intensive farming areas for instance, farm workers will increasingly be housed in off-farm villages where they can obtain title to their houses.

The typical commercial farmer a few decades from now will be a part-time operator. This is probably the most effective way in which incomes can be stabilised if the other occupation has a less risky income. Much more land will probably be rented in future, mainly from institutions such as the Land Bank which will be saddled with farms of delinquent previous owners.

Agriculture has over the years progressed with distinct great leaps ahead. In this century artificial fertilizer, mechanisation, the Green Revolution and chemicals can be cited. We are eagerly awaiting the next significant discovery. Some believe it will be biotechnology. At this point in time it does, however, not look too promising. The usually exceedingly high cost of development makes its application costly at a time when cost reduction is an important objective. Also, agribusiness is unlikely to be too enthusiastic about cost reduction technology. Due to the high cost such research would have to be conducted by the State but with a policy of privatisation almost everywhere, little attention is likely to be focussed on such research. The inevitable conclusion again



is that commercial farmers themselves will probably have to become increasingly involved in financing research for their own benefit.

To sum up in cliché form:

In the past farmers had to make more than they spent

but now

They have to spend less than they make

and

Produce what sells well

and

What grows well.

In addition

We should not put all our efforts to try and entrench yesterday

but rather

be involved in creating to-morrow.