TO CONTROL OR NOT TO CONTROL MARKETING IN AGRICULTURE

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For centuries governments have been interfering systematically and sporadically in commodity markets. Up to the twentieth century the motivation for doing so was mainly to raise funds for the fiscus in order to favour certain individuals, undertakings or interest groups. The universal objective was to ensure the political support of these groups, or to forbid trade with certain countries because they were regarded as real or potential enemies. The idea that market interference could be justified on the grounds of economic efficiency and social welfare is relatively new. This idea was popularised by the Fabians and other socialists from the end of the previous century up until the 1960s. Since then the intellectual and political climate has been changing and the significance of government interference is questioned more and more.

The myth that government interference took place at the request of the commercial agricultural producers, the majority of whom were faced with bankruptcy, still exists in South Africa and it is strongly advocated by those who plead for the continuation of the *status quo.* In the same vein it is alleged that were it not for interference and particularly the Marketing Act, which was promulgated in 1937, chaos would exist today. I will later attempt to analyse the present state of affairs in South Africa's agriculture, but firstly I wish to give an historical overview of the most important aspects of government interference in agriculture.

The agricultural sector in South Africa, as in other parts of the world, has been influenced by both indirect and direct government interference. Indirect interference includes more general, social and political, as well as fiscal, monetary and foreign trade measures. The earliest examples of direct government interference in this country can be found in the form of technological policies.

This involved the importation by the State of breeding animals (eg Merino sheep) and plant materials (eg maize and wine-grape cultivars). Other forms of technological policies included intervention through large-scale capital intensive estate-farming projects in the homelands, the development of sophisticated agricultural research facilities at universities, the agriculture ministry and the recently constituted Agricultural Research Council.

The Land and Agricultural Bank of South Africa was founded in 1912 from the four provincial (colonial) parastatal institutions, which already existed before the Union in 1910[1]. This institution represented the first large-scale government interference in the agricultural support sector in this century. The purpose of the Bank was to extend credit at affordable interest rates to commercial farmers who did not have access to the commercial bank sector. The Bank was later supplemented by the Agricultural Credit Council, which served those producers who represented even higher risks. The above-mentioned financial institutions applied a series of *de facto* and *de jure* sanctions against the lending of funds to black farmers. In later years a series of (predominantly) parastatal institutions was formed in the homelands to extend credit to their farmers. The Development Bank of Southern Africa acted as one source of funding for these institutions.

The most important instruments for the implementation of factor policy were the Land Acts of 1913 and 1936. As with the Land Bank, the 1913 act on land tenure had its antecedents in the previous century. The 1913 act, which stipulated that 6 per cent of the agricultural land would be set aside for blacks, was instrumental in segregating the access to land in South Africa on ethnic grounds. In 1936 an additional 7 to 8 per cent was added to the abovementioned surface. The evolutionary development of forms of land tenure in the homelands was restricted through a series of proclamations which perpetuated the "traditional" forms of land tenure as viewed by the policy-makers. A further instrument which influenced the access to land in the commercial area was the Subdivision of Agricultural Land Act of 1970.

This Act was also used as an instrument for economic and environmental policies. Another measure which served the same purpose was the Soil Conservation Act.

Policy in regard to agricultural labour was regulated by means of a series of direct measures, but it was also influenced by less direct instruments, such as influx control, the land tenure acts themselves, housing subsidies for farm labourers and the Group Areas Act.

Product policy is mainly concerned with price, quantity and foreign trade policies. In South Africa it is primarily influenced by the Marketing Act. This Act is based on government support to commercial producers through the Co-operative Associations Act of 1922, as amended in 1939.

The Marketing Act was a direct result of the recommendations of the Viljoen Committee, which was appointed in 1934. This Committee's point of departure was that the inelastic demand for agricultural products, the unfavourable climate in South Africa, the lack of (reliable) information, and the risks associated with a free market, justified government interference. This Committee argued that mechanisms should be instituted to ensure stable prices and to make provision for the disposal of surpluses. Statutory powers would be needed for the imposition of levies to acquire the necessary funds for achieving these two goals. The 1934 Committee believed that the farming problem had become too complicated to be handled by thousands of unorganised and financially weak farmers with opposing interests. As far as pricing was concerned, it was felt that a small group of responsible and well-equipped individuals who would be in possession of all the necessary statistics to determine a fair price, would be able to do the job well, if not better, in the prevailing circumstances.

This then is a short summary of the background of government interference which gave rise to the Marketing Act of 1937. On reflection it can be seen that the previously mentioned government actions and the Marketing Act, which gave the co-operative movement a significant boost (in terms of sole agencies of control boards), benefitted the *bona fide* white commercial farmers considerably, but unfortunately at the expense of black subsistence farmers. The consumer also benefitted to a degree, except in cases where the cost-plus policy of the past allowed the internal price of particularly grain products to increase out of proportion to world prices.

In addition to the above-mentioned general observations concerning the marketing of agricultural products in the RSA, Groenewald[(2)] arrived at the following conclusions:

1. According to Table 1, a relatively small change in producer and consumer prices occurred during 1975-1980, but thereafter retail prices increased at a faster rate than producer prices, and the marketing margin per rand spent increased by 1,7% during 1975-80, 8,9% during 1980-85 and 11,1% during 1985-90.

2. From 1975 to 1980 the change in consumer spending was less than the increase in gross production value. Thereafter consumer spending exceeded gross production value by no less than 29 per cent.

3. An alarmingly insignificant growth in the volume of food sold.

4. Productivity showed little progress over the last three decades:

Year	Productivity Index (1960 = 100)
1960-64	100
1965-69	102
1970-74	81
1975-79	99
1980-84	105
1985-89	108

The large-scale bankruptcies during the 1980s also support this conclusion. It appears as if the financial position of commercial farmers is currently more critical than in the 1930s and their numbers have practically halved during the last half century.

5. Price stabilisation was achieved in certain agricultural sectors, although it seldom lead to the stabilisation of income. The real prices of red meat, for example, reflect greater variations after the institution of control than existed before:

	1934-43 %	1951-90 %
Beef:	13,6	16,1
Mutton:	8,9	15,2
Pork:	12,6	12,8

6. The promotion of local consumption of agricultural products was also not crowned with any great success. On the contrary, the per capita consumption of all products which are regulated by the various schemes under the Marketing Act actually declines, with the exception of fresh fruit.

The conclusion is thus obvious that although government interference brought specific benefits to certain farmers and indisputably to consumers during the first half of this century, the analysis above shows that since the 1960s the main driving force has been exhausted in most cases. However, some of the export-driven schemes continued to flourish, assisted by a weak local currency.

In the late 1970s and during the 1980s the intellectual and political wave away from state interference towards a freer market system also reached South Africa. More and more questions such as the following are being asked[3; 4; 5; 6]:

* Can South Africa afford to ignore the worldwide trend in developed and developing countries away from controls and try again to swim upstream?

* Why is it that countries with a freer economy generally fare better? Is it not because there is competition (even if only the possibility thereof), and because businesses and individuals compete with each other, thus bringing to the fore entrepreneurship, variety and ingenuity? Was it wise to exclude competition (particularly via co-operatives) through large-scale horizontal and vertical integration? Did farmers not err in investing in the marketing chain beyond the farm gate in endeavours to maximise their gross farming income, instead of maximising the profitability of their investment?

* Although the controversy concerning the balance between group and individual rights will probably always exist, is it not true that there is a tendency nowadays to place more emphasis on free association and individual rights? Is not reference made to the era of the individual? Is it right to prevent a person from "doing his own thing" even though he becomes a "free rider" in the process?

TABLE 1. **Percentage change in production, expenditure on and prices of agricultural products**

Period	Agricultural production		Consumer expenditure on food	Volume food sold	Producers' prices	Retail prices
	Gross value	Total volume				
1980-85 1985-90	85 87	0 7	107 132	10 6	69 70	88 120
% p.a.	14,3	1,6	16,2	1,4	11,6	14,5
1980-90 % p.a.	13,2	7,0	17,0	11,1	1,5	15,2

Source: Groenewald

* If the argument for a single-channel marketing system is so strong, why are statutory powers necessary to enforce it? The extent of weak selling can surely only be minimal?

* Are those who defend the retention of the *status quo* prepared to accept responsibility for its consequences? Is it not bad enough to have to face up to the younger farmers who are not satisfied with the legacy of the "wise men"?

References

(1) Report of the Committee of Inquiry into the Marketing Act, 1993. Department of Agriculture, Pretoria, p. 82.

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(3) Sandrey, R. & Reynolds, R. (Eds.), 1990. Farming without subsidies. New Zealand's recent experience. GP Books, Upper Hutt, N. Zealand, p.347.

(4) New Zealand Round Table, 1992. From recession to recovery. Wellington, p.292.

(5) New Zealand Round Table, 1992. Agricultural marketing regulation. ACIL. Wellington, p.235.