RECONSIDERING THE ROLE OF GOVERNMENT IN SOUTHERN AFRICAN AGRICULTURE

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Thoughts on the role of government changed late in the nineteenth century from non-intervention in economic affairs to government control. Events over the last decades have upstaged the ability of governments to achieve what had become to be major goals. The future role should be a balance between what is wanted, what is possible, and who – national government, trading block or private enterprise – should do what.

HEROORWEGING VAN DIE ROL VAN DIE OWERHEID IN SUIDER AFRIKAANSE LANDBOU

Denke oor die rol van die regering het in die laat negentiende eeu verander van nie-inmenging in ekonomiese aangeleenthede na regeringsbeheer. Gebeure oor die laaste dekades het die vermoë van regerings om wat belangrike doelwitte geword het te bereik, twyfelagtig gemaak. Die toekomstige rol moet 'n balans stel tussen wat begeer word, wat moontlik is en wie –nasionale regering, handelsblok of privaatinstansies – wat behoort te doen.

1. INTRODUCTION

Patterns of thought concerning the appropriate role of government in economic life (including agriculture) have over time followed the general pattern of history; events tend to change the course of history. Adam Smith's *Wealth of Nations* (1776) heralded a swing in thought – and policy – away from mercantilism to *laissez faire*, a dogma or ideology prescribing minimal role for government; government's role became restricted mainly to fields of governance not directly involved with economic life or trade. Although Thomas Robert Malthus and David Ricardo pointed at misery involved with the inexorable march of economic events, most intellectual thought, and official policy remained non-interventionist in economic affairs. However, these writings certainly influenced intellectual thought, including those of the Utopian Socialists (Roll, 1950 and Heilbroner, 1967), and more importantly, Karl Marx, who published his seminal major work, *Das Kapital* in 1864.

The real catalyst that caused the pendulum to swing the other way was an occurrence which, normally, would economically be of little significance – the

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Vienna stock exchange crash of 1873 (Drucker, 1990). It caused advisors and governments to consider governmental intervention in economic life as a dire necessity. Two types of socialism were to dominate intellectual thought and government action for the next 120 years: Marxism (communism) and national socialism (which should not necessarily be equated to Nazism, its most extreme form). Even in the so-called bastions of capitalism, these policies and thoughts preponderated as shown by John Maynard *Keynes' General Theory* (1936) and the economic policies of President F.D. Roosevelt in the USA and Prime Minister Lloyd George in the United Kingdom.

The belief in the power of governments to provide everything, or almost everything, for most, if not all, their citizens visibly started waning in the 1970's and collapsed roundabout 1989 and 1990 with the final demise of the USSR. One can only guess at the aftermath of the 1998 world financial crisis.

It is now important to consider the potential role of government in Southern African agriculture, given existing knowledge and changed circumstances.

2. DEVELOPMENTS AFFECTING AGRICULTURE

2.1 The moves away from protection

The economic and financial problems that beset agriculture after World War I, particularly the depression of the late 1920's and early 1930's, led to a worldwide phenomenon of protection and support. Procedural methodologies included price fixation, floor prices, supply restrictions (production and/or marketing quotas), quantitative and qualitative import restrictions and export promotion (e.g. subsidization of exports).

Over time, at least since the 1970's, national policies to shield or support local agriculture became increasingly ineffective. The prime reason was increased inflexibility as governmental interference and control became more complex and increasingly dampened economic performance. Schuh (1986) concluded that national agricultural price and income policies had became ineffective, largely because of four dramatic changes in world economics:

i. A worldwide increasing dependence on trade, causing any country to became more open to influences of events on international markets.

ii. The emergence of an well-integrated global capital market with international capital flows over twenty times the value of international trade flows.

iii. The adoption of flexible and floating exchange rates; the effects of monetary policy are now transmitted to all trading sectors, including agriculture, and world agriculture has become more interdependent.

iv. Increasing monetary instability.

The ineffectiveness of domestic policy became evident in the failure of USSR policies and the high costs of EU and U.S. policies. Roningen & Dixit (1989) concluded that the net effects of agricultural protection were negative everywhere in terms of welfare and efficiency. South Africa experienced increasing dissatisfaction with its Marketing Act, as it became increasingly ineffective in pursuing its goals. Eventually, this Act was rescinded.

The international experience led to the recent changes in WTO (formerly GATT) rules concerning trade in agricultural products. These rules outlaw many policy tools previously used to protect domestic agriculture and also strive to reduce domestic protection over time.

Although the new trade regimes should over time make developed countries' markets accessible to the developing countries' agricultural sectors and improve the latter's ability to compete, there is a giant backlog. In addition, some developed countries have shown themselves to be rather averse to open their markets in the spirit of the Marrakesh Agreement, as is evident by the degree of "dirty tariffication" indulged in particularly by the EU (Ingco, 1995) and the EU's obvious reluctance to open markets to South African products.

2.2 The changed nature of trade

Since approximately mid nineteenth century, world trade was a *competitive trade*, aimed at finding or creating customers and serving them. The successes, particularly of Japan, in using new and powerful management technology and training to achieve very high productivity and virtually take over markets, has now changed trade into *adversarial trade* (Drucker, 1990). Adversarial trade aims at domination of an industry either by destroying adversaries or obtaining such predominance in a market that newcomers will find it almost impossible to challenge the market leader.

Under such circumstances, as pointed out by Drucker (1990), we can no longer automatically assume trade to be completely beneficial. Neither *laissez-faire* nor protectionism is the answer. The answer lies in countervailing power, which can be obtained only by forming economic regions or blocks – as has been done in the northern hemisphere. A regional or trading block is a unit capable of mounding an effective trade policy that transcends both protectionism and free trade (Drucker, 1990). Such a unit is capable of *reciprocity*. Free trade can be encouraged within blocks, although reciprocity may under circumstances be applied within blocks, given very unequal power bases. Under reciprocity two blocks' businesses would enjoy the same entrance in each other's markets – no more and no less. A regional or trading organization needs to be beneficial to all its members – it must be a club worth belonging to (Sunter, 1992). The EU prospered because it was club worth belonging to; the USSR was not. Reciprocity can be used for goods, services and know-how. We must ask the question: Is SADC a club worth belonging to? If not, what can be used in its place?

2.3 Comparative advantage

The movement from competitive to adversarial trade caused a change in the nature of comparative advantage. Comparative advantage has largely been based on the quality, availability and prices of land, labour and capital. However, since management has became the decisive factor of production, it is now management on which comparative advantage has to be based. This poses a quandary for the developing world: Managerial skills have to be developed (at all levels concurrently with technical skills), but also directed toward the products that developing countries (or blocks thereof) hope to specialize in.

A further sign of this is the decline in commodities' and raw materials' share of world trade, also within agricultural trade. Trade in processed foods has been the most rapidly expanding portion of world agricultural trade, and already exceeds the value of unprocessed agricultural products (Henderson *et al*, 1996). Another sign of the changed nature of comparative advantage is the major role now played by transnational companies, usually through foreign affiliates. Sales of foreign affiliates of U.S. food companies have became a fourfold of U.S. processed food exports (Henderson *et al,* 1996).

3. HOW SPECIAL IS AGRICULTURE?

It is probably attractive for any line of business to claim uniqueness as justification for special policy – as has always been done by agriculture and some other economic sectors. One may, however, question the degree to which any economic activity, including, agriculture, can claim uniqueness. Caswell (1997) states that farming as a business is not unique from many other small, medium and large businesses and nor are the characteristics of food processing and distribution industries unique. The question could be narrowed down to relative degrees of maturity. South Africa, being part of the developing world, may differ substantially from the developed countries concerning the position of non-commercial and newly commercialising farmers.

Although Caswell's points are debatable and have been criticised (Kilmer, 1997), this should be considered when framing policy. The similarity to other similar sized businesses was certainly not lost on arguably the father of farm management: "The success of the individual farmer is as much dependant on the application of business principles as it is on crop yields and production of animals" (Warren, 1913).

It is fragmentary to equate agriculture with farming. While farming is central, it is not synonymous with a modern agriculture which also includes services rendered to agriculture, further processing and marketing of products, supply of inputs and agri-milieu (Mosher, 1970).

4. LIMITS TO GOVERNMENT

In the century following the 1873 Vienna Stock Exchange crash the role of government in economic life (including agriculture) increased steadily. The question was invariably: "What *should* government do?"; "What *can* government do?" was seldom asked if at all. Mankind had almost limitless confidence in the ability of the State to plan and deliver desired benefits. Questions involving governmental action had more a moral than economic content.

The cracks in the dogmatic belief of government's omnipotence started appearing in the 1970's (in the aftermatch of the World Oil Crisis), widened during the economic upheavals of the 1980's and burst open with the demise of the USSR.

It is time to take stock of what government can and cannot do – even though governments, and particularly bureaucracies whom developed around governmental action, usually find it hard – or traumatic – to terminate actions that do not work. There are always efforts to fine-tune what should be scrapped.
The events have illustrated that central planning of economic activity does not work. It is technically impossible to plan from the centre, and the bigger and more open the economy, the more impossible it becomes (Maasdorp, 1992). Such efforts go hand in hand with poor co-ordination, and lack of motivation (Truu, 1992). This calls in question the widespread use of the so-called

"Effendis" as advisors to governments in developing countries. Effendis are characterised as intelligent well-educated people, who think they know it all; they have an inborn tendency to interfere in the lives of common people (Sunter, 1992). Friedrich von Hayek (1944) called this as a "fatal conceit". It is important note that the expertise needed for central planning and even for evaluating Effendis' efforts is very scare in developing countries. Neither can a government change the Laws of Economics and Management.

Another type of activity that governments usually don't do well, is the production of goods and services for both industrial and personal consumption as demonstrated by inefficiencies in nationalised industries in many countries such as Great Britain, France and South Africa. Experience in many industries and countries have proven that privatisation improves efficiency, provided ample competition is ensured.

This does not mean that government should not provide services. Many cannot be provided without government's contribution (and some can be provided only by government), but the production (delivery) can be done privately while being contracted by government (Kolderie, 1986). This *modus operandi* has become well established, using the term "outsourcing".

A further limitation in government lies in the sheer size and cost of government services. Services have to be paid, and are paid through taxes or inflation or both. High levels of either are injurious of economic growth and work ethic (Sunter, 1992). It has been argued that South African tax rates are already high; further increases will stunt development (Loots, 1992).

There are "easy" and "hard" government activities. In the former all constituencies want the same result, and a government can do it – although, e.g. in postal services, a government often needs a monopoly to do it. Activities are hard if different constituencies demand different things and have different values and expectations. In many programs, governments promised different things to different people, or attempted to benefit some groups at the expense of others. The result and controversies made it impossible for governments to perform (Drucker, 1990).

5. THE RESPONSIBILITY OF GOVERNMENT

Limitations of government do not absolve government from duties and responsibilities. Governments are elected to do the best they can do for the population. The first responsibility is a clear and respected legal system, also in relation to commercial law. This responsibility also includes effective control of crime. But the state should do more: Adversarial trade has rendered trade blocks a necessity. Governments in Southern Africa should now be serious about turning the SADC in a genuine trading block, even if this will require some sacrifices. Recent events have seriously dented the SADC's credibility. Southern African states, given a certain degree of stability, might look elsewhere in the Southern Hemisphere or Indian Ocean Rim.

In at least three countries, it is a main challenge to level the playing field between white and black. This must done in a way that will not jeopardise productivity and the ability of the economy to grow and thus creating more unemployment and poverty. One necessity is to avoid creating uncertainty concerning the ability of economic subjects to maintain and enjoy the fruits of their labour, capital and management – as witnessed in Zimbabwe. An investor friendly environment is a first requirement.

So, what can the State do in this regard? Empowerment is the obvious answer. But this is easier said than done. Empowerment will first and all have to consist of managerial development – in terms of knowledge, involving technical, financial and marketing know-how. Government obviously has to play a major role in the provision – not necessarily production – of such services. Capital and land are also needed for empowerment. In this respect, proven financial principles need to be respected if the State is not to create a clan of insolvent failures. Experience has shown that financial success is rare if a farmer's own equity is exceeded by his debt – and also that a farmer short on capital does better by leasing, rather than buying land. A change in the *modus operandi* of the Department of Land Affairs in South Africa is urgently needed. In terms of capital problems, the Start-up Fund together with a few private sector corporations, has proven itself (Sunter, 1998). At this stage, it still has limited scope. Government investment in this fund may be a wise step.

Empowerment, order in a deregulated market and competitiveness in a global economic world require high quality information – as put by Sunter (1997), a sensitive radar system. Without this, smaller and emerging as well as most commercial farmers, processors and traders are left to the mercy of more powerful competitors and adversaries. This is indeed an urgent task for government. Once again, provision and production need not necessarily be done by the same institution. In addition, a decision has to be made as to what kinds of information will be available free, and what at a cost to the user.

A prerequisite for international competitiveness is efficiency in production, processing and marketing activities. Experience has shown monopolisation to be an anathema to such efficiency. Therefore, control over monopolies can be regarded as an important responsibility of government in the modern, global economy.

Farmers in Southern Africa need protection from foreign governments, particularly governments of developed market economies. It was largely the agricultural policies of the USA and EU that necessitated the Uruguay Round of the GATT. It has mostly been EU import tariffs as well as subsidised USA and EU agricultural exports that have put pressure on some Southern African agricultural industries. The EU has shown itself to be averse to the opening of European borders for importation of farm products. In terms of current WTO regulations, member countries may take action against unfair action competing countries. Such action will, off course be dependent on intelligence involving such actions. This will require a much more efficient early detection and warning system than is now available anywhere in Southern Africa. The obvious location will be entering locations – harbours and airports. This action will once again have to provided by the State – or in the long run, a trading block. Once again, outsourcing or partnership with business is likely to be the most efficient way of providing the service.

Government should also be able to grant short-term relief to victims of short-term catastrophes such as drought, floods, epidemics, etc.

6. A FINAL EVALUATION

History has taught that some things can be done, some not. We must benefit from the lessons of history. Governmental action affecting the economy – including agriculture – should be a balance between what is desired and what is possible. Finally also, it should be decided what is the function of government and what should be done for government. And eventually, what is the function of one government and what should be done by a trading block.

These considerations should be kept in mind by Southern African governments and by the SADC.

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