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Theoretical analysis of agricultural pricing policy and the problem of financing economic growth

Analyse théorique de la politique de prix agricoles et problématique de financement de la croissance économique

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Abstract

The financing of economic growth by means of agricultural pricing policy has long been an issue for both liberal and socialist economists. However, the basic postulates of each school have not been unanimously accepted by the community of economists, since the concepts used are different. But overall, the agricultural pricing policy is considered by some economic theorists to be a solution for saving the national economy from the crisis in which it finds itself. In Morocco, agricultural pricing policy has been characterised by two main features from independence to the present day: a voluntarist strategy characterised by the policy of stabilising the prices of basic food products, and a strategy based on the disengagement of the State from all operations regulating the functioning of the market. The aim of this article is to see how economic thinking has approached the issue of agricultural prices in relation to the question of financing a country's economic growth. The expected outcome of a sound agricultural pricing policy is to improve the living conditions of rural populations, boost citizens' purchasing power and make a significant contribution to development.

Keywords : agricultural prices ; economic growth ; agriculture ; investment ; financing.

Résumé

Le financement de la croissance économique par le biais de la politique de prix agricoles a interpellé à la fois les économistes d’obédience libérale et ceux d’obédience socialiste depuis longtemps. Cependant, les postulats de base de chaque école n’ont pas obtenu l’unanimité de la part de la communauté des économistes étant donné que les concepts utilisés sont différents. Mais globalement, la politique de prix agricoles est considérée par certains théoriciens économistes comme une solution pour sauver l’économie nationale de la crise où elle se trouve. Au Maroc, deux traits essentiels caractérisent la politique de prix agricoles depuis l’indépendance à nos jours : une stratégie volontariste caractérisée par la politique de stabilisation des prix de produits alimentaires de base et une stratégie fondée sur le désengagement de l’Etat de toutes les opérations de régulation du fonctionnement du marché. L’objectif de cet article est de voir comment la pensée économique à aborder la problématique des prix agricoles en relation avec la question de financement de la croissance économique d’un pays. L’objectif attendu d’une bonne politique des prix agricoles est l'amélioration des conditions de vie des populations rurales, le renforcement du pouvoir d'achat des citoyens et de contribuer de manière significative au développement.

Mots clés : prix agricoles ; croissance économique ; agriculture ; investissement ; financement.

Introduction

The economic policy applied in Morocco from independence to the present day has implemented a series of economic reforms affecting, among other things, the agricultural sector. The expected outcome of these reforms, supported by international financial bodies (World Bank and IMF), is the liberalisation of agricultural prices.

To contain budgetary pressure, the State's disengagement from the agricultural sector has focused on the gradual reduction of production and consumption subsidies, while encouraging the most competitive products on the external market.

However, whatever the pace of implementation of the policy of liberalising the prices of agricultural products, there is a risk of aggravating the social tensions caused by the disproportion between the level of consumer prices and the real purchasing power of the vast majority of the population, on the one hand, and on the other, the fall in the standard of living of small-scale producers as a result of the increase in production costs.

The decisive role of agriculture in financing economic growth has not escaped the attention of economists. Firstly, because agriculture can fulfil an accumulation function, and secondly, because agricultural pricing policies, which are seen as a means of releasing the funds needed to finance economic growth, can run into problems when they are implemented.

With this in mind, we need to answer the following fundamental question: is agricultural pricing policy a good choice when it comes to financing growth?

To analyse this issue, we have opted for a methodology based on a documentary study of the various economic writings relating to our subject.

This article deals with agricultural pricing policy and the problem of financing economic growth, in the case of Morocco.It is structured around two themes: the first is devoted to the role of agriculture in the accumulation process; the second deals with the importance of agricultural pricing policy in the context of economic policy.

1. Does agriculture fulfil an accumulation function?

Any country striving to achieve economic growth is obliged to seek an increase in the volume of savings to finance the investments that underpin its development.

There are various ways of financing investment to achieve economic growth. But the choice of the type of financing remains largely linked to the level of development already achieved by the country. Broadly speaking, there are two different economic policy options:

- An economic policy based on external financing using imported savings;

- An economic policy based on domestic savings.

As the agricultural sector plays an economic and social role, it is seen as a supplier of the savings needed to finance economic growth. In other words, it must participate in the accumulation of social capital that will be used to finance the development of productive forces. Consequently, the participation of the agricultural sector in the financing of growth must consist of a large-scale mobilisation of agricultural savings, which will enable the entire rural population to be included in the economic development process from the initial start-up phase.

Even if history teaches us that the industrial revolution in Great Britain was preceded by an agricultural revolution, we are faced with a difficult equation to solve: 'Will the economy get more out of agriculture than it has given? (Guerraoui.D & Akesbi.N , 1991).

The answer to this question was not unanimously accepted by economists and those responsible for economic policy.

1.1.Ishikawa's point of view

A central aspect of the role of agriculture in modern economic growth is its contribution to the market and its factors, as analysed by S. Ishikawa. He sees that one of agriculture's contributions to the market is the supply of food to the urban sector. He also emphasised the contribution of agricultural factors to growth, in particular its role in financing industrialisation. Although Western researchers have studied Chinese agriculture intensively, little work has been undertaken on inter-sectoral resource flows, with the notable exception of the work of S. Ishikawa demonstrating that agriculture was an important net beneficiary of inter-sectoral resource flows (Ishikawa. S, 1967).

The aim of the S. Ishikawa analyses is not to determine the magnitude of inter-sectoral flows at specific points in time, but to ask whether development policy has been balanced on the basis of the inter-sectoral allocation of investment resources and whether it has equalised the marginal rate of return on investment in agriculture and industry? Failing that, the focus could be on whether policies have maximised interactions between agriculture and other sectors of the economy.

Ishikawa doubted whether agriculture could make a net contribution to financing economic growth. Indeed, in studying the agricultural sector in certain Asian countries, he compared the cost of agricultural expenditure (e.g. expenditure on extension, fertiliser use) with the revenue from the sector intended to finance non-agricultural development projects. He concluded that the result is negative, pointing out that farmers are unlikely to play an active role in financing economic growth.

1.2. R. Badouin's point of view

Any country seeking economic development must strive to increase the amount of savings available for productive investment. R. Badouin felt that the variation in the savings rate was an important phenomenon, and that it alone could distinguish one of the stages of growth. Modern analysis, like traditional theory, has not found any formulas that allow us to avoid this requirement (Badouin, 1962).

An economically backward country does not have many options in terms of the sources it can rely on to guarantee the financing of its economic growth. The choice is limited: either the country relies on ‘imported’ foreign savings, with all the risks that this entails, or it relies on domestic savings as a precondition for its development.

If the latter option is retained, the financing burden will also continue to be determined by the structure of the underdeveloped country. Only one sector is likely to have sufficient resources to be able to make major financing efforts. Opting for internal financing means identifying the agricultural sector as the supplier of the necessary savings, given that it employs almost the entire working population and makes a remarkable contribution to the national product.

On the other hand, the share of the industrial sector in the national product is low and the tertiary sector cannot play the role of a source of financing for the national economy. Classifying the agricultural sector as a sector for financing growth is consistent with a process which, in addition to starting from the premise of a very clear international specialisation, is being achieved by diversifying the economy and reducing the size and place occupied by this sector in national production.

In the initial phase of development, agriculture should play a key role in financing growth. Agricultural yields are expected to expand and farmers' incomes to rise, leading to the emergence of an economy that is diversified in its structure and sustained in its pace.

The growth of the agricultural sector will create a large network of economic flows in the rural world. Firstly, the increase in the volume of production will lead to the expansion of the tertiary sector, the development of the commercial and banking sectors and the development of means of transport.

Secondly, the increase in farm incomes is leading to the emergence of a number of markets which are gradually becoming large enough to allow the installation of industrial business units which manufacture consumer goods under sufficiently secure conditions of profitability.
The financing of economic growth can be provided by the agricultural sector, given the presence of a number of characteristics specific to it. The savings generated by rural areas play a significant role, either as self-financing to develop farms, or as a means of supplying external sources when the entrepreneurial spirit is not sufficient to allow indigenous industrial enterprises to be set up.

2. Controversy over the financing of growth

2.1.Controversy over the relationship between agriculture and industry

On the relationship between agriculture and industry, the debate was very much divided between two main trends. One sees agriculture and light industry as the engines of economic growth. At the head of this trend were Bazarov and Shanin (a current outside Bolshevism) and the Bolshevik Bukharin. The other trend based economic growth on heavy industry. It was led by Preobrajensky (Dobb, 1965).
On the subject of growth through agriculture and light industry, in a January 1926 text entitled 'Questions of Economic Evolution', Shanin wrote: 'Since in our Russian conditions agriculture requires less capital than industry, preference must be given to agriculture. The limit of agricultural development is what the world market can absorb. Second priority should be given to industries that process agricultural products for export, and third priority to industries that use raw materials of agricultural origin, even if these industries do not export' (Basile, 1967). In this text, Shainin answers at least two questions:
- How much should we invest?
- In which industries?
On the question of growth through heavy industry, Preobrazhensky went against Shanin and Bazarov by insisting on the rapidity of ensuring the supremacy of the socialist sector, industry, over the non-socialist sector, agriculture. In his seminal book The New Economy, he developed the concept of primitive accumulation.
The notion of primitive accumulation comes from MARX.According to him, for the capitalist mode of production to emerge, a process of dissociation of workers from their means of production had to take place under feudalism itself.This process of stripping workers of their means of production is what MARX called primitive accumulation.By analogy, primitive

socialist accumulation is 'the whole of the processes which place at the disposal of "socialist industry" accumulation funds drawn from the economic surplus of the "non-socialist" sectors of the economy (Frank, 1976).According to Preobrajensky, conditions in Russia in 1926 did not allow it to have a prosperous industrial sector because it was too weak to begin with and, consequently, its accumulation funds were insufficient.

What can be done?There is only one sector of the economy that can be a source of economic surplus.It's what he calls the 'small market economy', represented mainly by agriculture.Part of the agricultural surplus must therefore be taken and allocated to industrial development, but how can this be done?According to Preobrajensky, it is impossible to pretend that this deduction can be made by exchanging industrial products for agricultural products at their fair value; in these conditions, industry will only have the surplus it has produced, before and after the exchange. The exchange must be unequal, i.e. industry must receive more than it gives. It is essentially through the price mechanism that this transfer can be accomplished.

2.2.Absurdity of the 'Farming' hypothesis

The economy can be financed thanks to the share deducted from the overall value of a product.This share tends to be greater than the share accruing to the producer. The latter is therefore forced to live at a rigorously designed level.The government's share is determined by the difference between the price paid to producers and the price charged to consumers.However, is this deduction, which is made through the agricultural pricing policy, compatible or not with the increased effort made by farmers?

KUZNETS has pointed out the scale of the difficulties encountered when it comes to generating a 'surplus' to finance growth. In this sense, he wrote: 'One of the crucial problems of modern economic growth consists in taking a fraction of agricultural income to finance growth without breaking the expansion of agriculture' (Kuznets, 1959).

Even if we agree with the idea that capital accumulation is a real development problem, the notion of 'exploitation of agriculture' remains unconvincing and less clear.

Some O.C.D.E. authors have examined the absurdity of 'exploiting agriculture' by analysing the economic policies of numerous underdeveloped countries (U.S.D.C.) such as Mozambique, Madagascar, Ghana, Tanzania and Sri Lanka. Tanzania and Sri Lanka.

These authors concluded their work by concluding that every time these states attempt a somewhat muscular policy of 'exploitation of agriculture', agricultural production declines and even collapses as farmers withdraw into self-sufficiency.On the other hand, when the

State allows a certain amount of freedom for the development of small-scale trade and agricultural prices rise freely, the result is an increase in agricultural production.

2.3.Prices and financing growth

To be effective, any development strategy must provide the means to finance accumulation.According to G. Debernis, this problem is linked to the 'price question', which is a 'decisive question': 'no effective development strategy can be envisaged if the problem of relative prices is not raised.(agriculture/industry), which is also that of keeping the surplus within the economy that produces it in order to finance accumulation' (Debernis., 1988).

Before attempting to analyse these ideas clearly, Debernis puts forward the idea that the societies of the developing countries are 'decomposed' and 'recomposed' by the 'world price system'. This becomes clear when agriculture in the developing countries, which is integrated into the world market, has to submit to the demands of a 'price system'.

As a result, this 'price system', which is incompatible with the reality of agriculture in the P.S.D., is preventing the sector from progressing.

This integration into the world market has developed in a climate characterised by :- Low farm prices in the developing countries due to competition between farmers.

- The interference of 'transnational' capital in setting wage levels by reorienting labour legislation in the developing countries.

According to Debernis, foreign capital imposes a wage level that does not even meet the conditions necessary for the reproduction of labour power. The natural result is a purchasing power that does not allow the citizens of the developing countries to buy domestic agricultural products at a 'remunerative price' for the peasants.This is especially true in cases where the government has failed to take 'the necessary steps to maintain the prices of agricultural products at the "appropriate" level'. Thus, under the initiative of foreign capital, the importation of cereals from developed countries at 'a very low price would ensure the desired result' (Debernis, 1988).

By force of circumstance, the 'farmer-breeder' in the S.D.P. finds himself in a situation of 'progressive impoverishment' at a time when he is forced to accept selling prices that do not even equal the cost price of the product sold.Debernis concludes from this challenge facing the 'peasant-breeder' in the developing countries: 'the transfers of surplus to the developing countries, which are permanent during periods of stability in the accumulation process, are further intensified during the crisis. They are linked to the flow of goods. National or foreign companies sell their waste products to the precarious sector, thus having the possibility of adding value to them, which they cannot do in the case of agricultural products exported directly by 'peasant-breeders', and indirectly by landowners, and manufactured products exported by companies controlled by national capital pass through import-export traders who supply, in the opposite direction, tools to the precarious sector, intermediate goods to the modern sector, and tools and fertilisers to rural areas' (Debernis, 1988).

2.4.Criticism of the role of the state

State intervention in favour of industry by 'exploiting agriculture' has been much criticised by economists such as Nurkse (Nurkse, 1961), who proposed the idea of 'balanced growth'.

His theory proposed that the industrial sector should supply inputs and consumer goods to agriculture. In turn, agriculture, which sees its productivity increase under the effect of technical progress, frees up a part of the workforce that will be likely to be employed in industry. In this way, both sectors develop simultaneously.

As for J. Boussard (Boussard, 1987), he considers the action of the State as something which 'kills the goose that lays the golden eggs', saying 'The retraction into its shell of the agricultural sector subjected to such pressures means that it is no longer possible to extract any surplus from it. Investment plans that were to be financed in this way must therefore be abandoned or financed in some other way'.

Excessive state intervention in agricultural production means that the sector is unable to meet the food needs of the entire rural and urban population. Hence the shortage of foodstuffs, especially in towns. So what can be done?

Imports from abroad can provide an adequate and rapid solution to this problem. But this requires foreign currency resources that are too low or even non-existent, because the 'existing reserves have been absorbed by industrialisation plans that could not be financed by the agricultural surplus' (Problèmes économiques, issue 2255, 1992).Taking all these remarks into consideration, should the State withdraw completely from the agricultural sector, or what percentage of intervention should the State have in this sector?

The answer to this question does not lie in 'more state' or 'less state', but in the distinction between 'good' and 'bad' state intervention, as J. Boussard points out.Boussard.Because :

- Pure liberalism in the sense of F.V. Hayek has never been practised.Even in R. Reagan's United States of America or Mrs Thatcher's England, state intervention has been maintained.-

According to Boussard, the 'positive' intervention of the State should 'use prices as levers in the incentive policy to avoid bureaucratic constraints, and to concern itself as much with agriculture as with other sectors in economic policy'.

Conclusion

If the policy of liberalising agricultural and food prices is seen as a solution for rescuing the national economy from the crisis in which it finds itself - following the application of the costly price support policy - it must take into account the context in which it is evolving.The main lesson we can draw from the above is that the agricultural price policy pursued to date has not yet led to a solution to the problems posed :

- The question of food self-sufficiency remains unresolved.
- The introduction of 'remunerative' producer prices has not improved the living conditions of poor farmers.
- Agricultural production is largely influenced by climatic conditions.
- Agricultural productivity is still low compared to productivity in developed countries. etc...

Which begs the question: Can we believe that this new agricultural pricing policy has already exhausted its possibilities? To be effective in the future, it is essential that the agricultural pricing policy be accompanied by structural measures :

- Technological change is needed to lower production costs, which requires public investment in research, education, extension and infrastructure;
- At the same time, transaction costs need to be reduced by developing more efficient marketing and supply channels;
- Strengthening credit policy for agriculture;
- Agricultural development must be linked to the specific agricultural characteristics of the country's different regions and to the conditions of a social democracy that involves direct producers in decision-making.

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