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REPORT OF THE LATIN AMERICAN CENTRE ON FOOD AND AGRICULTURAL PRICE STABILIZATION AND SUPPORT POLICIES

Document presented by the Food and Agriculture Organization of the United Nations (FAO)

Note by the secretariat

NOTE BY THE SECRETARIAT

The Latin American Centre on Food and Agricultural Price Stabilization and Support Policies was convened by the Food and Agricultural Organization (FAO) and met at Santiago, Chile, from 23 February to 6 March 1959. This was one of several such meetings organized by FAO in various parts of the world as a forum for the exchange of information on price stabilization policies and methods, for studying the results obtained and the problems that arise, and for collecting study material for the use of the Panel of Experts which met in Rome early in April 1959. ECLA cooperated closely with FAO at that meeting and the Chief of the Joint ECLA/FAO Programme officiated as Secretary of the Centre.

The participating countries deemed it advisable that the Centre's report should be submitted to the Economic Commission for Latin America for consideration at its eighth session and the Director General of FAO, bearing this suggestion in mind, has agreed that the attached reference document should be distributed.

The secretariat suggests that the Commission should study the Centre's report in connexion with the problems arising out of the need to increase domestic supplies of agricultural commodities in order to satisfy growing demand in the region. The report will undoubtedly be very useful because it deals not only with the solutions based on price regulation and stabilization but also with others based on measures designed to increase productivity and reduce costs. Such measures are particularly important in Latin America since they provide the farmer with the necessary incentive to produce and thus increase his net income, and because they also help to eliminate some of the most serious obstacles to agricultural development.

REPORT OF THE LATIN AMERICAN CENTRE ON FOOD AND AGRICULTURAL PRICE STABILIZATION AND SUPPORT POLICIES

I. INTRODUCTION

The Latin American Centre on Food and Agricultural Price Stabilization and Support Policies met in Santiago, Chile, between 23 February and 6 March 1959. The Centre, which was jointly sponsored by the Government of Chile and the Food and Agriculture Organization of the United Nations (FAO) in collaboration with the Economic Commission for Latin America (ECLA), was convened in accordance with a recommendation made by the Ninth Session of the FAO Conference in 1957 and approved by the Fifth Regional Conference for Latin America in November 1958. As in the case of the FAO/ECAFE Centre on Policies to Support and Stabilize Agricultural Prices and Incomes in Asia and the Far East (March 21 - April 3, 1958), which was the first of these meetings convened by FAO, the purpose of the Latin American Centre was to provide a forum for the interchange of information and for the study of the results obtained and the problems faced in implementing the various methods and measures which are now being applied in the region. The present report will be part of the basic information to be used by the Panel of Experts that will meet in Rome at the beginning of April 1959. The countries represented at the Centre deemed it advisable that this report should also be presented by FAO for the consideration of the Eighth Session of the Economic Commission for Latin America to be held in Panama in May 1959.

The Centre was attended by forty six representatives of fourteen Latin American countries, and by members of both sponsoring organizations. Observers were present from the United States of America and from the following Chilean organizations: Instituto de Economía de la Universidad de Chile, Corporación de Fomento de la Producción, Sociedad Nacional de Agricultura, Instituto Nacional de Comercio, Departamento Técnico Interamericano de Cooperación Agrícola, Banco Central y Banco del Estado.

Mr. Enrique Delgado (Chile) was elected Chairman of the Centre and Messrs. Elías Soley (Costa Rica) and Ricardo de Sola (Venezuela) were elected Vice Chairmen.

A complete list of participants is given in Annex A. Annex B contains a table of contents of the documents issued at the Centre and Annex C the Agenda as finally adopted.

Opening the Centre on 23 February 1959, Mr. Mario Astorga Cartes, Director General of Agriculture and Fisheries of the Ministry of Agriculture of Chile, welcomed the Delegates.

Mr. Astorga pointed out that the economic and social motivation of price support and stabilization policies in agriculture was to increase the productivity in this sector of the economy in order that it may play its part in the process of economic development. The formulation of such policies was particularly difficult in countries in the process of development, where large scale transfer payments between different sectors of the economy were not feasible, and where as a result of the striking unbalance in the distribution of per caput incomes a large portion of the population lived on subsistence levels. There was an overriding need on the one hand for providing food at low cost to the less favoured sectors of the population and, on the other, for encouraging agricultural production. This required that price and exchange controls were to be complemented by measures of a technical, economic and politico-social nature which could not be easily reconciled. The application of any price policy reflected so strongly on the economy as a whole that such policies needed to be very carefully planned and implemented. Their application is particularly difficult in countries subject to progressive inflation, such as e.g. Chile. In organizing this Centre FAO satisfied a need felt by the majority of the governments of Latin American countries. A free discussion of the problems faced and the methods employed by the various countries, of their success or failure, would help in formulating more consistent price support policies that could contribute to general economic development and, at the same time, to the improvement of rural living conditions.

Mr. Hernán Santa Cruz, FAO Regional Representative in Latin America, read a message from Mr. B.R. Sen, Director General of the Organization.

/Mr. Sen

Mr. Sen briefly traced the origin and the successive changes in the objectives of price support and stabilization policies in Latin America as well as in other parts of the world.

Mr. Sen then stated that the agricultural price policies of Latin American countries have had to reconcile a number of sometimes conflicting objectives. On the one hand they had to encourage a badly needed expansion of production to meet the needs of a rapidly growing population with rising standards of living. On the other hand, they had to contribute to controlling the inflationary pressures resulting both from this unusually fast growth of demand and from periodic booms on world markets. These objectives had further to be combined with the need to maximise export earnings and to reduce the drain on foreign exchange arising from quickly growing import requirements for some agricultural products.

Agricultural expansion is, of course, largely a technological problem: a problem of know-how. FAO in fact devotes a large part of its resources, especially of technical assistance, in seeking to raise agricultural productivity and output. But evidently technology is only part of the answer. Unless a farmer sees in it some advantage for himself and his family, he is unlikely to make the extra effort or to use the better methods to step up his output for the market. It is here that agricultural support and stabilization measures have a major part to play. And it is largely for this reason that FAO attaches so much importance to this Centre, held in association with ECLA, where for the first time the countries of the region are meeting together to discuss their common problems in this field. For, undoubtedly, agricultural support and stabilization measures in many ways present more difficult problems in economically under-developed countries than in the wealthier industrialized countries. What, in these circumstances, should be the level of support prices? On what basis should this level be established? How can they be most efficiently enforced? These are real problems which arise even more acutely in this region than in more industrialized countries. They make it all the more useful for the countries of

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the region to confer together on how such matters can be most effectively tackled and with least cost to the consumer and tax-payer. They also make it necessary to approach the problem over a very broad front.

Agricultural support and stabilization policies, like all other policies, must seek to strike a balance between different, and sometimes conflicting, interests; for example, those of agricultural producers; of consumers; of international trade; of overseas payments. On the whole it appears, in recent years, the main emphasis in North American and Western European countries has been on the need to give a larger and more secure income to the producer, at the expense sometimes of other interests. In Latin American countries, on the other hand, the main emphasis appears to have been on safeguarding the consumer against over-high prices and inflation, and on channelling part of the profits from agricultural exports into other sectors of the economy, at times, it may be said, to the disadvantage of the producer. Nevertheless, the operation of the consumer price policies has often led to substantial improvements in the food consumption levels of needy groups. Similarly, the various export price policies for agricultural commodities have contributed to the progress of industrialization.

Apart from these general characteristics which have guided the application of agricultural price policies in the region, special mention must be made of the export price policies. Designed, on the one hand, to maximise export earnings and fiscal revenues, they have, on the other, tended to minimise fluctuations in the incomes of producers of export commodities and to aid in stabilizing the domestic price and cost structures. It is in this field of export price policies, of such vital importance for many of the less developed countries, that the inventiveness of Latin American price policy makers has been particularly fecund and has produced a number of specifically Latin American methods. Among these, the use of multiple and variable exchange rates, the "aforo" system, and the operation of government export agencies are the most widely applied. All of them have some advantages and some disadvantages. However,

/their relative

their relative effectiveness and their relative advantages and disadvantages so far never appear to have been subject to comprehensive and comparative analysis, at least in relation to balanced agricultural and over all economic development.

The conclusions of this Centre will be studied with great interest and care at the World Meeting on Price Policies to be held in Rome in April next and will also be reported to all FAO Member Nations at the Tenth Session of the FAO Conference in November this year. Mr. Sen was confident that they would also be considered by many of the governments of the region, since they will prove of invaluable guidance in the formulation of their policies.

/II. CONCLUSIONS

II. CONCLUSIONS

1. The objectives of food and agricultural policies in the Latin American region are broadly:
   (a) to encourage an expansion of production to meet the needs of a very rapidly growing population with rising standards of living;
   (b) to keep essential foodstuffs within the needs of the poorer consumers, and to raise their nutritional levels;
   (c) to maximise earnings from agricultural exports.

   The Centre considered that appropriate agricultural price and support policies could contribute powerfully to these ends. Their effect in most countries would be even greater if they were coupled with parallel measures e.g. to improve methods of production and marketing, or to improve the agrarian structure and other institutional weaknesses.
2. At the present time price policies for basic foodstuffs in most Latin American countries are aimed primarily at stabilizing their price levels, particularly against seasonal and year to year fluctuations due to variations in yields. They do not have as their primary aim, as in some more industrialized countries, raising the general level of farm incomes in relation to incomes in other sectors of the economy. The large and sustained transfer payments to agriculture which such a policy would imply would not be feasible in more than a few Latin American countries in view of the generally low level of incomes and the large percentage of the population engaged in agriculture.
3. During World War II and the decade afterwards when primary emphasis was placed on the control of retail prices for the protection of consumers, there was a considerable flow of funds from agriculture to other sectors of the economy, which in many countries contributed largely to the development of urban industries. These policies, however, resulted in inadequate investments in agriculture and a failure of agricultural production to keep pace with the rapid growth of demand. As a result inflationary pressures were aggravated, while exports declined and imports increased, thus adding to difficulties of external payments and limiting the funds available for

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imports of capital goods for general economic development.

4. In the view of the Centre the recent tendency in many countries to stabilize farm prices at a somewhat higher level than before was necessary in order to encourage increased investment in agriculture and to correct imbalances of supply and demand which had developed during the year when farm prices were held at a relatively low level. As a rule these policies have not been long enough in operation for their results to be appraised. In a few countries, however, they have already led to a steady expansion of production and occasionally to the emergence of small surpluses in formerly importing countries. While the danger does not yet arise, incentive price policies should not be pushed too far in the years ahead or there is a danger of mounting stockpiles and regular annual surpluses which can be exported only with the aid of subsidies. Nor should the elimination of agricultural imports be regarded as the only indication of a need for increased production: consideration should also be given to natural advantages and to some degree of specialization, possibly within the framework of a Latin American common market. Incentive price policies should be associated with the measures discussed below in paragraphs 8 and 9.

5. It was considered that in determining the level to stabilize farm prices, formulae of the type used in some industrialized countries were not generally suited to the needs of Latin American countries, and might impose too great rigidity on price relationships. Note was taken, however, of some recently devised formulae, with a moving average base period, which appear to combine a degree of price flexibility with the greater security to farmers resulting from the formula methods. In general, the Centre considered that <u>ad hoc</u> methods, taking into account e.g. production costs, movements in general price levels, and the changing level and pattern of consumer demand were to be preferred. The price levels established should be subject to gradual revision if experience showed that they led either to an excessive or an insufficient expansion of output. Care should be taken to keep the prices of different agricultural commodities in reasonable relationship. This may involve problems of coordination

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where price stabilization schemes are operated for single commodities or groups of commodities by producers or other autonomous organizations.

6. In most Latin American countries prices of basic foods are stabilized by government intervention in the market, coupled with a system of buffer stocks and the regulation of the volume of imports or exports. This method seems well suited to the needs of the region and if effectively operated can be financially self-supporting; though it may also involve danger of losses. It has led to greatly increased attention to the marketing and grading of agricultural produce. Its further development and extension to a wider range of commodities would be of great value in many countries, particularly in those where farmers are small, unorganized and lacking in financial resources.

7. The Centre considered that the following conditions were necessary for the fully effective operation of such price stabilization measures:

(i) announcement of minimum assured price level in advance of planting time;

(ii) adequate availability of credit to farmers for the purchase of production requisites;

(iii) a network of government purchasing agencies available to all producers as an alternative to accepting very low prices at harvest time from commercial traders;

(iv) adequate commercial and government storage capacity;

(v) sufficient operating funds to finance the purchase and storage of as much of the product as is necessary to maintain the announced minimum price levels;

(vi) sufficient trained staff for the efficient operation of the programme.

In order to provide adequate incentives to increase production without an unduly high level of prices, the Centre considered that price support and stabilization measures should be supplemented by measures to increase agricultural productivity and to reduce costs. Considerable attention is given to provision of farm credit in Latin American countries, though hardly anywhere are funds fully commensurate with needs. Other support measures could usefully be more fully developed, such as the supply of improved planting material, fertilizers, farm

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machinery and other production requisites at reduced prices, e.g. by means of subsidies, by exemption of import duties, by increased allocations of foreign exchange, or by favourable exchange rates. Such measures could lead to a considerably increased output at low cost, but could not entirely replace measures of price stabilization, or farm prices might fall with improvements in productivity so that the farmer received no net gain. These measures to raise productivity, together with the marketing improvements mentioned below in paragraph 9 offer one means of combating the inflationary pressures which have become endemic in some countries of the region.

9. Improvement in the marketing structure could also contribute to the problem of reconciling profitable prices to producers with retail prices within the reach of the poorer consumer. Better marketing facilities could also contribute to larger production by opening up new agricultural areas, and by improving the supply and quality of perishable foodstuffs.

10. Ceiling prices at the retail level for the protection of the consumer are less widely used than during the first post war decade, but still have a place in Latin American price policies in view of the generally low level of consumer incomes. The imposition of ceiling prices, even though backed by sanctions, without a release of additional supplies from stocks or imports is seldom effective. Even so they are difficult to maintain over a wide area because of the inadequacy of communications in most Latin American countries.

11. Ceiling consumer prices are likely to depress prices and incomes for farmers unless coupled with effective farm price supports. Consumers' subsidies to reduce the gap between farm and consumer prices should be used with caution. Once granted they are not easily removed. They sometimes lead to wasteful consumption, and are liable to be expensive in that they benefit those who do not need assistance as well as those who do. In general it is important not to raise the purchasing power of consumers for foodstuffs without a commensurate increase in supplies.

12. The agricultural export price policies of Latin American countries have been designed on the one hand to maximise export earnings, and

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on the other to minimise fluctuations in the income of producers of export products and to aid in stabilizing the domestic price and cost structure. Apart from direct regulation of the volume of exports the three measures most commonly applied are the channelling of exports through government or other official export agencies, multiple and variable exchange rate, and the "aforo" system. All three have been used primarily as variable export taxes, although both official export agencies and multiple and variable exchange rates can be and occasionally are used to subsidize exports. The three methods are not mutually exclusive, and are sometimes used in combination.

13. The most complete control of exports and of insulation of domestic from international prices is possible when exports are channelled through a single export agency. Such agencies, however, are naturally very subject to political pressures and in some cases they have been used to keep export prices at a level which restricted sales, or to divert export proceeds to general government finances or other purposes to a degree that discouraged production. These practices are not of course inherent in the system, and there are instances of such agencies operating successfully.

14. Multiple and variable exchange rates do not entirely insulate domestic from world prices unless the rates are changed in accordance with major fluctuations of world market prices. It is, however, difficult to operate the system so flexibly in practice. Its scope is of course much wider than the regulation of agricultural exports, and it can be used to influence the volume and direction of both exports and imports. Multiple and variable exchange rates are now used less widely than formerly, partly because they tend to encourage speculation, to reduce the business confidence of both importers and exporters, and to aggravate inflationary pressures. Argentina, for example, has adopted a free exchange rate system, under which world market prices are reflected in producer returns with a view to obtain adjustment of supplies to demand; producers are protected by minimum price guarantees and exports are taxed by means of exchange retentions and taxes.

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15. The aforo system is no more than a highly flexible and simply administered method of variable export taxation. It appears to have been very successful in avoiding the inflationary effects of price booms in export markets, but it can do nothing to prevent price fluctuations arising from variations in domestic supply and demand. Nor can it aid producers if world market prices fall to unprofitable levels. It is therefore sometimes supplemented by other measures to aid producers.

16. Since agriculture employs about 50 per cent of the workers of the region and contributed 22 to 24 per cent of the gross national income, the functioning of the whole economy depends to a large extent on the progressive development of agriculture in all its aspects. At the present time progressive development is being delayed by many institutional factors as well as by an inadequate development of both direct and indirect price support and stabilization policies.

17. In the view of the Centre a fully effective agricultural development policy would have to attack not only the problem of agricultural price and support policies, but also a number of other difficulties which tend to impede agricultural expansion which we discuss briefly in Chapter VII. The present report is concerned explicitly with the economic incentives for an expansion of production, and it has been shown that in the past these were generally insufficient to foster a level of investment and consequently a rate of increase in the agricultural productivity and production necessary for the balanced economic development of the region. These policies are now being modified and a considerable improvement may be expected to ensue. Nevertheless higher prices and other incentives to increased agricultural production cannot be expected to exert their full potential effect unless parallel improvements are made to remove other obstacles to agricultural expansion.

III. REVIEW OF FOOD AND AGRICULTURAL PRICE POLICIES AND OTHER AGRICULTURAL SUPPORT POLICIES IN LATIN AMERICA

A. General

The Centre undertook a review of the food and agricultural support policies of the countries represented. In this review they were aided by detailed statements from each delegation on the main objectives and methods used in their own countries, and of their experiences in implementing them; as well as by a secretariat study of such policies in selected Latin American countries. The situation in each country as it emerged from these discussions is briefly summarized later in this chapter.

The Latin American region as a whole is characterized by an exceptionally rapid expansion in the demand for foodstuffs and other agricultural products. This stems partly from the very fast growth of population, and partly from rising per caput incomes, which at the generally low income levels of most countries of the region have relatively a greater effect on the demand for food than in more industrialized and wealthier countries. The rapid expansion of demand has greatly coloured the economic and social conditions of the region. It has for example led to rather widespread inflationary pressures. It has resulted in increased imports of foodstuffs and also in decreased exports, a matter of great importance since many countries of the region depend primarily on agricultural exports for their earnings of foreign exchange. All these factors are reflected in the agricultural price and support policies of Latin American countries.

In many countries of Latin America most agricultural producers operate on a small scale, lack financial resources, and are very little organized in producers associations or cooperatives. To obtain ready cash, and often because they are already in debt for production and living expenses, the majority are forced to sell their produce immediately after the harvest when markets are glutted. As a result there are immense seasonal swings in agricultural prices to the grave disadvantage of both producers and consumers. It was reported, for example, that in Colombia the maximum price of potatoes in a year was commonly three times the post-harvest price. These within year fluctuations are superimposed upon price variations due to differences in yields from year to year, which can be considerable,

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especially in countries subject to extreme weather conditions.

Another source of price instability, which affects both large and small producers, is the heavy dependence of many countries on agricultural export markets, where prices fluctuate widely, both with changes in supplies and with changes in the level of economic activity and demand in the main importing countries. Such price fluctuations affect not only the particular export product concerned, but in some Latin American countries, by influencing the general level of prosperity, may have a considerable effect on price levels as a whole for all products.

In these circumstances a primary objective of food and agricultural price policies in nearly all countries is price stabilization. In this chapter only price stabilization on domestic markets will be considered, apart from passing references to export products in country reviews. The main discussion of price stabilization measures for export commodities is reserved for a later chapter. But it may be noted here that export policies have been aimed not only at reducing fluctuations in returns for the individual commodity, but also in some countries at general price stabilization.

During World War II and the decade afterwards it appears that the main emphasis of price stabilization measures in most countries of the region was on regulating prices to consumers and on keeping down the retail cost of basic foodstuffs in the face of inflationary pressures. Price ceilings were imposed at the retail, and sometimes at the wholesale and farm levels as well. They were enforced by regulating the level of imports or exports, by government intervention in markets, and not infrequently by resort to consumer subsidies. The wide range of measures used to regulate foreign trade, including export and import quotas, multiple and variable exchange rates and the aforo systems, are discussed briefly in relation to producers and consumers in Chapters IV and V respectively, and more fully in Chapter VI on agricultural export policies.

In the last few years, however, there appears to have been a marked shift in emphasis in a number of countries. It was found that price stabilization policies aimed primarily at keeping down the cost of food to the consumer often did not give enough incentive to producers to obtain

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the rapid expansion of food production necessitated by the circumstances in the region. The results, as already noted, were continuing inflationary pressures, together with declining food exports, mounting food imports, and increased difficulties of foreign payments.

Argentina and Chile may be cited as two recent examples of countries which have reoriented their price stabilization policies to provide greater incentives for agricultural expansion. In most countries of the region producer prices of basic foods now tend to be somewhat above the general level of prices at which food could be imported. As a rule the change has been too recent for the outcome of the new policies to be assessed. In a few countries, however, e.g. Costa Rica and Panama a state of self-sufficiency for basic foodstuffs has been reached, and small exportable surpluses arise when harvests are good. In the years ahead, care may be necessary in some countries to avoid the emergence of regular surpluses which could be exported only with the aid of subsidies or special exchange rates, and to prevent an uneconomic use of resources.

The method primarily used for price stabilization has been government intervention in the market, coupled with a system of buffer stocks and measures to regulate the volume of foreign trade. Very often special organizations have been set up to regulate the marketing of a group of basic foodstuffs. There are also many examples of producer or other autonomous organizations to regulate the marketing of individual agricultural commodities, especially those destined for export. Although all of these agencies cooperate closely with agricultural, economic development and other government departments concerned, the existence of these separate agencies may in some cases raise problems in coordinating price levels between different agricultural commodities in order to obtain a balanced development of agriculture in relation to the growth of demand. An additional point which may be mentioned here is that in some countries, e.g. Cuba, the impossibility of securing a sufficiently rapid development of export outlets has led to increased attempts to expand and diversify production for the domestic market, often with the help of price incentives and similar policy measures.

The widespread adoption of a network of official buying agencies and a system of buffer stocks, as the principal measure of price stabilization,

/appears to

appears to be well suited to the conditions of the region. Government funds are seldom available on a large scale for agricultural support measures, except to the extent that profitable export markets may make possible subsidies or incentive prices to expand the output of one or two commodities for domestic consumption. Moreover, the generally low level of incomes, and the large size of the agricultural sector in most Latin American economies rule out large transfer payments to agriculture of the kind common in some highly industrialized countries.

On the other hand, the wide within-season price fluctuations under free market conditions in most Latin American countries make it possible for price stabilization measures based essentially on buffer stocks to be self-supporting if efficiently run. At the same time, unless sufficient trained staff, financial resources and suitable storage capacity are available, heavy trading losses and physical wastage may ensue. Several countries reported heavy losses of this kind during the early years of operating stabilization schemes. Additional funds for price stabilization measures may sometimes come from profits on imports, when these are handled by the stabilising agency, or from other sources.

The stabilization of prices by official intervention in markets has led to greatly increased attention to grading and presentation of agricultural products, and this should greatly benefit Latin American agriculture. In most countries these improvements have so far occurred mainly in basic foodstuffs (e.g. cereals, beans) and in export products. As the coverage of price stabilization measures is gradually extended, however, similar improvements may be looked for in other products as well.

The limited availability of public funds has so far restricted the use made of measures aimed at increasing the efficiency and reducing the costs of agricultural production. The main efforts appear to have been directed towards the provision of agricultural credit, and in some countries very valuable services to farmers are being built up, though hardly anywhere are funds adequate to needs. Some countries are now giving greater attention to other measures of increasing production efficiency; the matter is discussed more fully in Chapter III. It appears that this is one direction in which further developments may be particularly useful, both in increasing the competitiveness of Latin American agriculture, and in

/making possible

making possible the needed rapid expansion of production without unduly high price levels.

B. Review of the situation by countries

1. ARGENTINA

The recent initiation of an economic and financial stabilization scheme has brought about deep changes in the Argentinian economic structure. This programme intends to create, among other things, favourable conditions for increasing production and expanding trade on a free competitive basis that is expected to be followed ultimately by a reduction of general price levels as a consequence of lower costs and profit margins. Government intervention by fixing unrealistic prices is being eliminated and direct as well as indirect subsidies are being removed. On the other hand, a single and free exchange rate has been introduced, based on the relationship between supply and demand. As a transitional measure intended to mitigate the impact of a sudden increase in farm incomes, a system of retention of a part of export earnings has been introduced which diminishes the proceeds of exported produce. At the same time, and especially as regards agricultural commodities, former market regulations have been liberalized.

At present there is a free market for all grains and their derivatives with the exception of wheat. In this latter case the Government deemed it necessary to leave its marketing in the hands of the National Grain Board (Junta Nacional de Granos) a self-supporting Government body created on October 24, 1956, with the principal aim to defend producer interests. Its relations with the executive branch of Government are maintained through the Secretariat of Agriculture and its jurisdiction extends over the entire national territory. The principal terms of reference and functions of the Board are:

- To prepare and submit for the approval of the Government's executive branch minimum price proposals;
- To engage in the actual trade of those grains, oilseeds and sub-products for which minimum prices have been fixed, in order to defend producer interests or to regulate their markets;
- To regulate grain transactions introducing standard procedures in accordance with: current usage and practices; modern technology;

/the interests

the interests of producers, merchants, processors and consumers as well as foreign market requirements;

- To make sure that farmers will receive the right price for their products in accordance with classes and grades as defined by official standards or contracts;
- To assist in the preparation, negotiation and carrying out of international agreements contemplated by the Government and of grain contracts made by the State with foreign countries;
- To determine the location of, and to operate, terminal and radial elevators, silos and other equipment for the assembly, storage and loading of grain that belongs to Government; to take charge of their maintenance and to build additional capacity or dispose of superfluous or uneconomical units in any manner, if necessary demolishing or selling them and/or making plans for new installations;
- To supervise the weighing of grain when received or at any other stage of its sale, handling or transportation;
- To determine the best procedure for storing grain and to prepare and enforce mandatory rules for the preservation, antiparasitic and other treatment of grain at any stage of its marketing or transport.

In addition to the above, the Board has been designated to carry into effect the provisions of Laws 11,742 and 12,253 of October 1933 and September 1935, respectively. This implies, among others, the following activities:

- Administration of the Government owned elevator network and determination of its rules of operation;
- Leasing elevators in accordance with established rules, preferably to farm groups or cooperatives;
- Supervising all organizations and bodies that engage directly or indirectly in the domestic or international commerce of grains;
- Selection of types of grain to be grown in various zones of the national territory if and when required;
- Delivery of certificates establishing class, grade and other specifications, whenever requested, in order to facilitate grain trading.

/The system

The system now in force with respect to wheat price fixing is as follows:

1. Government announces yearly a basic price for medium-hard N° 2 wheat with 78 kgs. per hectoliter specific weight, delivered on board railway wagon in the port. (It amounted to 100 pesos per 100 kg. for the 1957/58 crop year and 150 pesos for 1958/59 until January 15, 1959, when it was raised to 200 pesos.) This price is adjusted upward or downward for class or quality, according to standard specifications. The tests required for this purpose are made by Board specialists or by domestic private Chambers of Cereals on the basis of representative samples both parties are obliged to take.
2. Producers may sell directly to the Board (this being the less common practice) or through the medium of cooperatives or commercial organizations. Both cooperatives and private firms must obtain authorization from the Board if they wish to trade with it in this manner.
3. The Board thus enters in possession of the bulk of the wheat crop. It supplies domestic mills with grain (about three million metric tons per year) and sells the balance to local private export firms on a f.o.b. Argentinian basis. Wheat destined to be used as seed or for livestock feeding may be freely negotiated. Export prices are determined at periodical auction sales organized by the Board.

With the exception of wheat, all other grains as well as their derivatives and by-products may be negotiated in the free market. Government guarantees floor prices for these, and will buy any amount offered on the basis of a standard price adjusted in accordance with quality and freight charges to the nearest port.

Thus producers have a free choice between selling at minimum prices to the Board or at higher prices to private dealers resulting from the free interplay of offer and demand.

After the recent introduction of the uniform single exchange rate system, the Board has ceased to intervene in the export trade of farm produce acquired by private dealers in the domestic market, except in

/the case

the case of wheat and wheat flour sold by the Board to private exporters. Beginning with this year customs authorities only determine export values for taxation purposes.

2. BOLIVIA

Agricultural price policies in Bolivia have not followed an integrated plan based on studies and technical investigations, but have been determined ad hoc by the supply and demand situation, thus remaining traditionally arbitrary.

Producer prices of foods and other agricultural commodities were depressed, up to 1956, through the competition of products imported at preferential exchange rates which, in many cases, reduced their prices to levels at which domestic producers could not compete.

After the international conflict of 1932-35, Bolivia started a series of monetary devaluations, which compelled the Government to adopt a policy of preferential exchange rates for imports of essential consumer goods, in order to supply the population at prices within the limits of the small average per caput income. In Bolivia foreign exchange resources are mainly derived from mineral exports, and are largely used for the importation of foodstuffs which the country cannot produce in sufficient quantity.

This system of price control worked as a disincentive for the expansion and improvement of domestic production in Bolivia, and thus affected agricultural development unfavourably. No non-price support measures were used to reduce costs of production and raise efficiency in farming. The marketing of agricultural products is furthermore greatly hampered by the great distances separating the regions of production from the consumption centres, and by the inadequacy of transportation facilities. However, since 1952 farm-to-market roads have been constructed in the larger agricultural areas, particularly in the Oriente and Jungas de la Paz Provinces.

On the consumer side, the system of food imports under preferential exchange rates also had serious effects. For example, sugar, which was imported from Peru at especially low exchange rates under a quota system, was immediately re-exported to Peru at a huge profit to traders. In 1956, when the multiple exchange rate system was replaced by a single exchange rate, consumer prices of essential imported goods rose sharply.

/The demand

The demand for foods has also increased greatly as a result of the agrarian reform which affected a large section of the population. Consequently, food imports had to be increased.

In 1956 the Government initiated the stabilization programme establishing a new unified exchange rate and abandoning multiple rates. Bolivia entered thus into a new phase in its agricultural and foreign trade policy giving more scope to the free play of demand and supply forces.

Prices of all agricultural and livestock products, whether produced at home or imported, are now completely free, except for wheat, where about 90 per cent of domestic requirements are covered through aid by the United States Government. The domestic wheat price is fixed by the Ministry of Economy.

The Government and the people of Bolivia are now devoted to the development of production with a view to increasing domestic supplies. To this effect a cooperative movement was also initiated recently.

3. CHILE

The agricultural price policy followed by Chile during the last decades has played an important role in determining agricultural incomes and can explain, at least in part, the slow development of the agricultural sector of the economy. Chile's experience in this sense is valuable since the long-term effect of the policy of fixing maximum prices to contain inflation has been to aggravate the problem of scarcity of foods and to accentuate even more the imbalance between supply and demand. This in turn has served to stimulate the inflationary process which was supposed to be contained through maximum price controls.

Up to 1930 prices were determined freely in the market. There were also no foreign trade and no exchange rate controls. National prices were directly related to international market prices.

Subsequently, and with the objective of stimulating production which had fallen considerably as a result of the 1929-30 price depression, a policy of minimum support prices for agriculture was established. This was initiated in 1933 with wheat.

In 1939, economic conditions changed notably and the Government price policy likewise. Price control at the retail level was emphasized and

/measures to

measures to restrict foreign trade were also tightened through the action of the Food Supply Office (Comisariato de Subsistencias) and the Agricultural Export Board (Junta de Exportación Agrícola) respectively. The object was to regulate the market in order to support the price level desired by the Government which was generally fixed for the short-run protection of the consumer without considering the medium and long-term effects on agricultural production.

Starting in 1940, inflationary pressures became stronger and at the same time the Government intensified its efforts to directly control prices of the most important food and agricultural products by measures such as ceilings at the wholesale and retail level, import and export controls, and exchange rate controls, including multiple and variable exchange rates. As a result of these measures most agricultural products were insulated from international market prices.

Various public bodies have acted to put these measures into practice. The principal ones were: the Food Supply Office (Comisariato de Subsistencias), the Agricultural Export Board (Junta de Exportación Agrícola), the Agricultural Economics Institute (Instituto de Economía Agrícola), the Foreign Trade Council (Consejo de Comercio Exterior), the Production Development Corporation (Corporación de Fomento de la Producción), the National Trade Institute (Instituto Nacional de Comercio), the Supply and Price Inspection Service (Superintendencia de Abastecimiento y Precios), the Foreign Exchange Commission (Comisión de Cambios Internacionales), the Agricultural Credit Agency (Caja de Crédito Agrario), the State Bank (Banco del Estado), and the Central Bank (Banco Central). The Ministries of Economy and Agriculture also took part in the controls.

Since 1955 mostly as a result of the intervention of the Ministry of Agriculture a tendency towards a gradual relaxation of controls on agricultural products started. Thus, the maximum prices at the wholesale level for meat, milk and rice were successively eliminated, and certain restrictions on foreign trade as well as measures impeding the better marketing of certain products were also relaxed. At the same time, minimum prices were established for wheat and sunflower seed, substituting maximum price controls for these products.

/Recently, prices

Recently, prices for all agricultural and food products with the exception of wheat were freed. For wheat an annual minimum price was established which was supported by direct purchases by the Government through the National Trade Institute (Instituto Nacional de Comercio).

Tax exemption, the elimination of certain administrative difficulties and recently, devaluation of the currency, acted as an incentive for agricultural exports.

In summary, it can be noted that after a long period of maximum price controls at the wholesale and retail level, and of control of foreign trade and of marketing of agricultural and livestock products (1939-1953) unsatisfactory results have been obtained. Production has failed to increase at the required rate and marketing costs and margins have increased excessively in the absence of a freely competitive system.

4. COLOMBIA

In Colombia, the Instituto Nacional de Abastecimientos (I.N.A.) has, since 1944, acted in the field of price policy and market stabilization for basic foodstuffs. Main attention has been centred in the last six years on five principal products: rice, beans, wheat, maize and potatoes. In the course of the last year two additional products, sesame and peas were also handled by I.N.A.

In addition, a number of semi-public institutions exist which are concerned specifically with important products outside I.N.A.'s jurisdiction. The most important of these is the Federación Nacional de Cafeteros, established in 1928, which since the early 1940s, has intervened actively in the domestic and world coffee market. Coffee constitutes some 80 per cent of the total export value of the country. The Coffee Federation disposes at present of large and well-organized warehouses where coffee as well as other products can be stored, and has buying agencies reaching even the most remote production zones.

Traditionally, the Coffee Federation buys at domestic minimum prices for coffee, effectively implemented on a national scale. These prices are set in accordance with current world market conditions and take into account the need to provide reasonable returns to producers. The Federation only buys in volume when its minimum price equals or exceeds the free

/price of

price of exportable coffee, which itself is determined by the world price, and by a rather complex set of regulations affecting coffee exports.

The other principal commodity institutions are: Instituto de Fomento Algodonero (Cotton); Instituto Tabacalero (Tobacco); Campaña del Cacao. These institutes intervene in various ways in the domestic market of the specific products, but also perform many additional functions to generally assist and stimulate production.

Objectives of I.N.A. The main objectives of I.N.A. can be stated as follows: a) to reduce or eliminate large seasonal fluctuations characteristic of Colombia's domestic food markets; b) to create conditions propitious for the expansion of food production, needed to supply the requirements of a rapidly growing and developing population; and c) to improve the standards of living of the rural population.

Methods of implementation. The I.N.A. aims at attaining these objectives by intervening directly in the market for the products mentioned, purchasing at pre-established minimum prices in times of harvest, and selling whenever demand requires additional supplies. I.N.A. has also imported supplies in times of shortages and may (but has not so far) arrange exports of any products in excess supply. For these purposes I.N.A. disposes of a network of buying and selling agencies, and is at present engaged in the construction of a number of grain elevators and warehouses, some of which are functioning already. Through the press I.N.A.'s minimum prices payable to producers, and maximum prices to be charged at retail to consumers are published. This, together with the actual buying and selling operations themselves, are thought to have had a stabilizing effect on the domestic food market, and production appears to be on the upswing.

Principal difficulties. In the past, many problems have arisen in the operation of I.N.A.'s functions. These were mainly technical and administrative difficulties in the first period (1944-1952) of the institution's history. As a result, considerable losses were suffered in the products stored, and the prestige of I.N.A. declined. Direct market intervention involves considerable financial risks, and there is an imperative need to prepare the ground fully before adopting this method of price stabilization.

/Special features.

Special features. 1) The prices are not determined by cost of production-plus formulae, because of the difficulties of obtaining representative cost data and conceptual problems. Rather, the prices are fixed by historical comparison keeping in mind the effects of I.N.A.'s prices on supply and demand; 2) since seasonal price fluctuations are very large on the Colombian food market (maximum potato prices in one crop year may be as much as three times as high as the minimum ones), there is a good possibility of financing market intervention by buying at harvest time and selling during the non-harvest period, with little or no need to obtain outside funds once the system is operating; 3) serious attention is now being given to problems of quality differentiation and to the determination of grades and standards in general.

Conclusions. With the exception of coffee, Colombian agricultural price policies are still in a rather early stage. Many serious difficulties have been overcome, and there is a notable tendency towards better organization and more technical studies. The country has a long way to go before the stabilization objectives are attained on a national scale.

5. COSTA RICA

Costa Rica is one of the countries in Latin America with most experience in price regulation and market stabilization policies. Since 1937 the Government has directly intervened in the country's principal markets for foodgrains, both at the producer and the consumer level. Initially, the products concerned were rice, beans and maize, and to these more products were added with time.

At first the responsibilities in this connexion were carried by the Ministry of Finance and by the National Bank of Costa Rica (State Bank), but more recently the National Production Council (Consejo Nacional de la Producción) was established first as a dependency of the Bank. In 1948 the Council became a semi-autonomous institution, gaining full autonomy in 1956.

The Consejo buys, in competition with private trade, quantities of foodgrains and other foodstuffs, paying prices determined in advance for the sowing season. The acquired products are stored in public warehouses until consumer prices reach a certain level, after which they are released

/to the

to the public through wholesale and retail channels as well as by direct sales to consumers. The Consejo offers its products for sale during harvest time as well as throughout the year. Both producer and consumer price regulations are handled by one and the same institution.

The objectives of this intervention in the market are both to protect producers against sharp price falls which were frequently brought about artificially during harvest time by the private trade, and to prevent unreasonable rises in consumer prices. These price fluctuations are mainly seasonal in character. In years of short crops imports are made to prevent domestic price rises.

At present the Consejo disposes of two central grain elevators with a capacity of about 40,000 metric tons of foodgrain, and of 51 regional buying and selling agencies. The latter are equipped with facilities to determine quality and humidity of the various products and some have drying equipment.

The Consejo intervenes in the regulation of a large number of commodities, including fish products, but the bulk of the operations are in rice, beans and maize.

The basis for the determination of the Consejo's purchase prices is average cost of production, determined by special surveys. These costs, as used by the Consejo, take account of cash operating costs, as well as of depreciation charges and a reasonable rate of interest on the invested capital. However, this production cost formula is applied in a flexible way so as to take into consideration any special problems of demand or supply, the crop situation and stocks.

The Central Bank finances 80 per cent of the value of the products acquired by the Consejo at 4 per cent interest. The remaining funds are either supplied by the Consejo itself or may be financed through credit from the commercial banking system at 6 per cent interest.

The official standard prices are fixed for first quality products having a certain degree of humidity and deductions are made by the purchasing agencies, on account of excess humidity or impurity of the product concerned in order to adjust them to established standards. The problem of grading has been a very important one, and much attention is paid to the establishment of a uniform system.

/Difficulties.

Difficulties. Costa Rica has not been spared the difficult problems caused by the operation of a direct market intervention scheme. Insect infestation has damaged stocks in early years of operations, owing to the lack of adequate storage space. Food shortages have made the effective regulation of consumer prices particularly difficult. In the past, lack of finances has often limited the size of the Consejo's operations. In the first phases of the programme it was necessary to train technical personnel.

Conclusions. As a result of a long and steady effort, Costa Rica has been able to book a considerable degree of success in its objectives of agricultural price stabilization. The effects of the Government programme of direct market intervention for a wide range of products are felt throughout the country. The products covered include both those consumed directly by the public and those used as raw materials in industry. The result is a satisfactory balance between domestic production and consumption and stabilized consumer prices and producer incomes. This was obtained through a comprehensive policy, which included price guarantees, adequate financing and assistance in solving the technological and marketing problems involved.

6. CUBA

Price controls in Cuba have been implemented by different organizations each of which deals with a specific agricultural product.

The intervention of the Government, as to tobacco, dates from August 1946. At present tobacco production is controlled by the "Comité de la Producción Agrícola Tabacalera" whose main function is to advise the Minister of Agriculture on the establishment of national production quotas and on the determination of floor prices for each crop year. In order to develop production and to guarantee the established price the committee makes its own purchases, or advances to raw tobacco producers the necessary funds for the selection process, against the guarantee of their crops. Among other functions of the committee, the purchase of land to be subsequently distributed to small producers, should be noted. In regard to the purchase of tobacco the committee generally restricts its activities to the portions unsold after private buyers complete their purchases.

The operation of the committee considerably contributed to develop tobacco production in Cuba. Activities up to the 1956-57 crop concerned a

/total of

total of over 1.6 million hundredweight evaluated at about $ 70 million. In view of the fact that sales have been made at an average loss of 40 per cent the total deficit of all operations was of about $ 30 million. The Banco de Fomento Agrícola e Industrial de Cuba (BANFAIC) assisted the "Comité de la Producción Agrícola Tabacalera" in the financing of producers in accordance with established quotas.

As to rice, since January 1955, a tax has been established of 10 cents for 100 pounds of husked rice on national production as well as on imports. It is prohibited to pass this tax on to the consumer; thus in the case of the domestic rice the millers deduct the tax from their payment to producers.

Since November 1955 the "Administración de la Estabilización del Arroz" has been assisting the Minister of Agriculture in the establishment of production and import quotas for rice. It determines furthermore minimum prices for rice and may purchase the product at the established price, particularly from small farmers. It may also sell in the market for the purpose of stabilizing consumer prices. However, up to the present the Administration has made no purchases of rice because market conditions have remained favourable to producers.

A branch of the Administration called the "Comisión Económica del Arroz" was created in January 1957. The purpose of this commission is to estimate crops and to generally analyze the economic problems of rice.

Intervention in the coffee economy is the responsibility of the "Instituto Cubano de Estabilización del Café (ICEA)" established in 1934 in the wake of the world economic crisis. During the last few years the Institute also concerned itself with problems of production, trade and processing of coffee for domestic consumption as well as with export trade. Furthermore, the Institute usually represents the Cuban coffee interests in the different international conferences. The Institute has been also responsible for legislation to avoid the adulteration of coffee, making the Cuban product rate among the best in the world.

The Institute also contributed to the establishment of the "Administración de Compra y Venta de Café" which guarantees a minimum price to producers by buying the coffee at these minimum prices established each year. The activities of the Institute, particularly its efforts to stabilize the coffee

/market, met

market, met with considerable success: salaries in the coffee industry are particularly high and at the same time a way has been found to solve the problem of unemployment for many thousands of agricultural workers during the slack season. The Institute completely covered domestic coffee needs which on a per caput basis are surpassed only by Iceland and Sweden, and contributed to the establishment of a regular export trade of coffee which at the end of 1956 represented about 465 thousand hundredweight valued at approximately $ 23 million.

To assist the development of agricultural and livestock production, processing and marketing, an enterprise under the name of "Empresa Transformadora de Productos Agropecuarios S.A." was formed in June 1956. The capital of $ 5 million was subscribed by BANFAIC, the "Banco Cubano de Comercio Exterior", the "Banco de Desarrollo y Económico Social" and by the associations, cooperatives, private producers and other entities and persons which are involved in the trade and processing of agricultural produce.

This firm has already traded beans, maize, onions, rice, potatoes and burley tobacco.

7. ECUADOR

In Ecuador the price policy is not the result of a comprehensive plan, but measures that have been taken from time to time have been mainly of an *ad hoc* nature, whenever difficulties in food production required official price regulation.

The Ecuadorian farmer has a very low per caput productivity and this fact must be taken into account for the purposes of the establishment of any price policy with respect to agricultural products.

In principle, the supply of agricultural products in Ecuador is controlled by a Supply Office (Dirección de Subsistencias) which intervenes in buying and selling products for immediate consumption, but the Office's operations are small in relation to the size of the internal market, and as a result have little effect.

When conditions have required it, temporary price support policies have been in operation during certain periods. It may be said that the Ecuadorian Government pursues a policy of caution in respect to prices in order to

/maintain the

maintain the stability of the Sucre, which has been maintained for a long period, while the general price level has increased little. Price intervention in Ecuador has been limited to rice, wheat, cocoa, coffee, bananas and cotton.

Domestic consumption of rice in Ecuador absorbs about 45 to 50 per cent of production. In view of the impossibility of exporting the surpluses at a price which covers at least the cost of production, the Government has been obliged to follow a policy of export subsidies. Initially, exporters converted the value of rice exports at two different exchange rates. About four fifths of the amount was converted at the official rate, and the rest at a free rate prevailing for imports of luxury goods. At present, the Ministry of Development (Ministerio de Fomento) fixes farm prices for rice according to quality, with the object of providing an incentive for the production of the better qualities.

Ecuador supplements its wheat production with imports from the United States and Canada. The imported grain enters the country at a lower price than that of the national product, and this has resulted in a certain illegal transport of imported wheat towards the Colombian border. Owing to the price difference between national and imported wheat, the Government has had to fix every year the wheat price paid by the mills to farmers and has also fixed a quota of national wheat that every mill must acquire, in proportion to its capacity.

The internal markets for cocoa and coffee are completely free for producers, as well as for middlemen and exporters. The Cocoa Improvement Institute (Empresa Renovadora del Cacao) and the National Coffee Institute, (Instituto Nacional del Café) are essentially engaged in stimulating and developing production, but the Coffee Institute has also bought and sold this product, and intervenes in coffee processing so as to obtain a higher quality export product. Although the results of these activities are not entirely satisfactory so far, it is considered that this organization can in future play a decisive role in price policy and marketing of coffee.

Bananas are Ecuador's most important export product and the country is at present the world's largest producer and exporter. Banana production has been strongly developed since 1950, both by credit policies of the

National Development Bank (Banco Nacional de Fomento) and by favourable export prices. A National Banana Association (Asociación Nacional de Bananeros) has also been created which among other activities intervenes in export prices and qualities when exports are restricted.

The regulation of cotton is handled by the recently established National Cotton Commission (Comisión Nacional de Algodón). This Commission purchases cotton from farmers and sells it to the textile industry. No satisfactory solution has so far been found with respect to cotton, because despite the existence of large exportable supplies of certain types of cotton, other qualities of this fibre must still be imported.

It is considered that in Ecuador there is underconsumption of meat, milk, eggs, poultry, and other food products, and at the present level of income, current production covers requirements. Thus there is no need for price intervention by the Government for these products.

8. GUATEMALA

In Guatemala Government intervention in agricultural marketing and price fixing is of recent date and limited scope. It began in 1953 with a wheat support programme and was followed in 1958 by the regulation of maize markets through direct purchases.

These programmes were carried out by the Production Development Institute (Instituto de Fomento de la Producción). Before that, the only significant experience in the field of price regulation and distribution of supplies was made during the Second World War. These war-time activities were handled by the Economic Stabilization Office (Oficina de Estabilización Económica), a body that was dissolved later on.

Nevertheless, primitive marketing practices, lack of adequate storage facilities, lack of quality standards for domestic products and the wide seasonal fluctuations in the prices of important food products have clearly demonstrated the need for market regulations and stabilization.

The Production Development Institute 1/ prepared in the course of its first few years of existence plans for the establishment of a network of

1/ The Production Development Institute (INFOD) was created in 1958 by Congressional Decree N° 533.

/grain elevators

grain elevators and radial silos, and intervened to a limited extent in the markets for maize, rice, wheat, flour and some other products, aiming at stabilization of their prices.

The wheat development programme began at the end of 1953 and has been carried on ever since by the Institute, with the technical assistance of the Ministry of Agriculture and of a specialized section of the former that works for the development of native areas. Incentive floor prices not based on any kind of formula were being paid and production has increased. The principal object of the scheme has thus been attained.

After a period of declining prices due to political reasons, the elevator and radial silo programme was continued and by 1958 five of these, equipped with up-to-date drying and cleaning facilities, had been constructed. Each of these silos has a capacity of about 7,000 metric tons.

In the course of the same year, the Institute began to stabilize the maize market by purchasing 14,000 metric tons.

In the case of maize, the Institute's farm purchasing price has been based on the average of the previous five years' prices to which 25 per cent was added as the aim was not merely to stabilize the market, but also to increase production. The latter objective was motivated by the decrease in coffee prices - Guatemala's foremost export product - which had adversely affected the country's balance of payments. It is expected that owing to the remunerative price fixed for maize, there will soon be a maize surplus for exportation to Central American deficit countries which will bring in additional foreign exchange.

As regards price supports for other basic products, such as rice and beans, no organized programmes are as yet in existence although they enjoy state protection through the regulation of imports and exports. It is planned that as soon as it becomes possible, the Institute will enter the field of stabilization as well as market and price regulation with respect to these products.

As to coffee, Guatemala is a party to the Latin American Agreement for the marketing year 1958/59. By virtue of this arrangement, a certain proportion of exportable surpluses owned by coffee producers and large processors is being retained within the country. The Ministry of Agriculture, in cooperation with the Central Coffee Office (Oficina Central del Café), ensures that retention measures are actually respected. Coffee prices are not being interfered with except for the existence of an export duty.

9. PANAMA

The problem of agricultural price supports in Panama is closely linked with the creation of the Economic Development Institute (Instituto de Fomento Económico) in 1953. The Institute established a price fixing policy for producers as well as for wholesale and retail distribution. Although the Institute makes direct purchases at pre-established prices, the system is not compulsory. Producers and merchants engage in private transactions their prices being influenced by the purchasing operations of the Institute designed to implement the guaranteed producer price. A certain amount of stocks of farm produce is also being maintained with the purpose of releasing supplies to the market whenever there is a tendency for prices to rise. The Institute sells only to the wholesale trade, and fixes adequate margins both for wholesalers and retailers. The Institute handles and controls trading in rice, coffee, maize, copra and salt. In almost all these products there is ample private trading, salt being the only exception as it is practically a monopoly of the Institute.

The Institute's price policy has been quite successful in stimulating Panama's agricultural production. Thus in 1952 total farm product imports were valued at almost one million dollars whereas by 1958 the largest import items had almost disappeared and exports of farm commodities for an amount of $ 600,000 were registered.

The Economic Development Institute acts also as an agricultural credit institution. Its fixed and uniform interest rate is 6 per cent. In the beginning of each calendar year the Institute makes an estimate of credit needs and establishes its financial policy in accordance with these. As private enterprise is active in the marketing of farm produce the Institute does not need large funds for its operations. Whatever funds are required are provided by the National Bank and the Government owned workers' insurance agency (Caja de Seguro Social), the stocks of produce acquired by the Institute being used as collateral.

The Institute maintains its own network of agents and purchasing centres and one may therefore reasonably assume that the benefits of incentive prices are actually received by the producer. In this manner middlemen can still determine prices only in very few limited areas where no agents of the Institute exist. Even in these cases at present higher price levels are in effect than in previous years.

Prices paid to farmers are fixed as far as possible on the basis of a national average of production cost and no attempt is made to relate them to world market levels as the domestic market is completely isolated from fluctuations on the latter. If there is a need for imports the Institute makes them and sells the imported products at price levels fixed for the domestic market. Profits made on these operations are passed on to the State.

On the other hand, the Institute is trying to perfect its technical and administrative services. At present, it makes its purchases on a quality basis; e.g., in the case of rice the price varies according to grain size, humidity and foreign matter content.

The Institute operates a network of maize elevators with an annual capacity up to 100,000 quintals (of 46 kgs.). For other products storage needs are practically nil.

The Institute gathers statistical data by means of sample surveys, particularly in the case of crop forecasts.

The Institute's success in its intervention policy is partly due to the valuable help given in its initial stages by specialists from Costa Rica, U.S.A., etc. Furthermore, a large group of Panamanian experts has received technical training abroad.

10. PERU

In Peru the policy of price support and stabilization of agricultural products has been restricted to ad hoc measures to control prices. These measures were in each case fitted to the particular situation encountered. The Ministry of Agriculture established and applied them after consultation with the organizations representing private interests such as the "Sociedad Nacional Agraria", the "Asociación de Ganaderos", the "Asociación de Criaderos Lanares", etc., in view of the role private initiative plays in the development of the country.

At present the products which still remain under government control are wheat, flour, meat, rice and coffee. With the agreement of producers, a special control system also applies to cottonseed oil and sugar.

/The measures

The measures adopted consisted mainly in ceiling consumer prices, and in subsidies to imports paid by the government for those products for which there is a national deficit. In this way domestic prices have been kept below international levels in order to meet the purchasing capacity of the consumers. These subsidies which obviously represent the difference between national and international prices have been interpreted, at times by the national producers as a subsidy to foreign producers. In view of the increase in demand, Peru has been forced to considerably expand imports of foodstuffs. While these imports so far have been made under a favourable balance of payments there is a danger that the rapid increase of foodstuff imports may ultimately endanger the foreign trade position of the country.

Being an underdeveloped country, Peru is mainly an exporter of raw materials. In this field intervention consists essentially in the taxation of exports in order to obtain financial means for keeping domestic consumer prices below the levels of the international market. When world markets for major export products take an unfavourable turn, exports are assisted by the elimination or temporary suspension of the export taxes. These policies are established and carried on in cooperation between the Treasury and the Ministry of Agriculture.

Generally price controls in Peru have not produced positive results. The development of the agricultural and livestock production has been hampered in those cases where controls existed. On the other hand, the elimination of the controls has produced the opposite effects. Consequently under present policies the tendency is toward free trade in agricultural and livestock products. Trade of some of these products has already been liberalized and others will follow in the near future in accordance with possibilities.

In very broad terms it might be said that there are in Peru conditions which permit the implementation of a national agricultural policy along the following lines:

a) Development of the agricultural and livestock production by technical assistance, credit, and by enlarging the areas under production.

b) Improvement of marketing techniques and liberalization of the trade of agricultural and livestock products.

/11. VENEZUELA

11. VENEZUELA

During the last ten years Venezuela has had no clear and definite price policy either to stimulate the development of agriculture as a whole or to arrest the inflationary process resulting from an increasing demand for agricultural products. In spite of this some measures of direct protection were taken regarding certain products, among which the custom's control, the subsidies to producers, the establishment of bodies to control supplies and the use of differential exchange rates for exports should be mentioned. Protection to consumers was mainly achieved through facilitating imports of certain foodstuffs and raw materials, and through public investment in the creation and operation of organizations concerned with storing, processing and distributing certain domestic or imported agricultural products.

The principal products benefiting from these protective measures are:

a) Maize and pulses, which are bought by the Agricultural and Livestock Bank (Banco Agrícola y Pecuario) at guaranteed and remunerative prices, though the limited funds available to this institution tend to be reflected in the success these programmes have in supporting prices;

b) Rice production was stimulated by the Venezuelan Development Corporation (Corporación Venezolana de Fomento), which used to buy this product at remunerative prices. This programme has been discontinued;

c) Coffee and cocoa exports benefit from differential exchange rates and guaranteed minimum prices. Both these measures are implemented through a transfer of income from mineral oil production;

d) Milk production is directly subsidized and protected by a mechanism obliging merchants to purchase one unit of domestically produced preserved milk for each five similar units imported;

e) Sugar prices are supported through the regulation of supplies in the wholesale market, which is implemented by a body in which both public and private interests are represented;

f) No direct support measures exist for tobacco, sesame and cotton, but negotiations between the industries concerned and agricultural

/producers take

producers take place annually under the auspices of government institutions. This generally results in the determination of prices and of the areas to be sown.

Consumers generally benefit from systems designed to ensure the food supply throughout the year, though no price controls exist.

The storage facilities for rice and maize which are administered by the Agricultural and Livestock Bank (Banco Agrícola y Pecuario) do not only assist producers directly, but they also aid in reducing fluctuations in consumer prices. These products are sold to wholesalers and to the food industries, but further sales are not regulated and consumer prices are freely determined.

Imported products are generally regulated by a system of import quotas in order to avoid both monopolies and surpluses, especially when the imports are made to complement insufficient domestic production.

IV. AGRICULTURAL PRICE AND SUPPORT POLICIES IN RELATION TO PRODUCERS

Two main aspects of agricultural price policies as they affected producers were considered by the Centre.

(i) the level at which producer prices should be stabilized, and the best ways of determining this level;

(ii) the measures taken to ensure that producers do in practice receive these prices.

The Centre also devoted much attention to methods of increasing the incentives of farmers to expand production, in ways which did not necessitate any regulation of prices, (a) by increasing agricultural productivity and reducing production costs, and (b) by increased efficiency of marketing and distribution which would give the producer a larger share of the consumers total expenditure on food, and release productive resources which could not at present be economically utilized. Finally, the Centre gave some consideration to the most suitable balance between the various policy measures as they affected producers.

A. The level of producer price supports

The main factor influencing the level at which agricultural prices are stabilized is of course the main policy objective of the country at the time. It was noted earlier that until recently the policies of most countries were aimed primarily at keeping down the cost of food to consumers, and that the tendency was therefore to stabilize prices at a relatively low level. These policies were found to result in too slow an expansion of production, and more recently they have been considerably modified so that producer prices are now being stabilized at appreciably higher levels. Clearly, however, farm price levels cannot be considered in isolation. Their effect, and the results of a given level of price stabilization, will depend on many interrelationships, e.g. on the relation of farm prices to consumers' incomes and buying power, to the general price level in the country, to the prices of

/farm requisites

farm requisites and other things entering into the process of production. Consideration must also be given to the interrelationships between the prices of different farm products, which largely determine the direction of future agricultural expansion, and to the relation between domestic prices and those ruling on world markets, which greatly influence both the competitiveness of the country's agriculture and the methods of price support to be adopted. Unless adequate consideration is given to these factors, the price policy of the country may not give the results expected in achieving a balance between supplies and the growth of consumer demand, and may indeed lead to serious difficulties.

Two countries, Argentina and Chile, have recently introduced policies maintaining prices generally in line with world market prices. In both countries this involved an appreciable increase in producer prices, which under the previous policy had been maintained below world market levels. For a large exporter of agricultural products such as Argentina the risks involved in price insulation are particularly great. If prices are maintained at too low a level, export profits and export tax revenue are higher, but production may not expand sufficiently and the volume of exports is likely to dwindle. If on the other hand, prices are higher than international prices, exportable surpluses are likely to increase, but exports will require subsidies. In the view of the Argentinian Government, the adjustment of supplies to domestic and foreign demand is best achieved by leaving considerable scope to the free interplay of supply-demand forces, notably in view of the rather sharp competition for resources amongst the various agricultural export products. In both Argentina and Chile (wheat), however, the producer is protected against too heavy a fall in prices by official minimum prices high enough to cover costs of production and maintain the purchasing power of his income.

Most countries of the region, however, insulate to some extent domestic prices for basic foodstuffs from world market prices, and in contrast to earlier policies few now appear to maintain producer price ceilings for the protection of consumers. Apart from the growing realization that an expansion of agricultural production is essential for balanced economic development, this change partly reflects the decline (in real terms) of world

/market prices

market prices of foodstuffs. During the period of scarcities and high prices on world markets there was a need to protect consumers, but now that this phase has passed it is producers who are increasingly in need of support.

In this connexion some delegations maintained that as a result of the specific structural conditions of a number of Latin American countries production costs were inevitably high, and some degree of protection was essential if there was to be adequate investment in agriculture, especially as at the present time the prevalence of export subsidies greatly influenced world market prices. The shortage and high prices of farm requisites (mainly imported), the disproportionate rise in land values (often as a hedge against inflation, for reasons of social prestige or for other reasons not directly related to the profitability of agriculture), and in some cases the sharp rise in farm wages without a comparable rise in productivities, were mentioned as factors tending to raise production costs. At the same time, it was stressed that the exchange rate controls used in many countries of the region made very uncertain any comparison of prices and costs with those ruling elsewhere.

It was recognised that there was a great need, both by price support and non-price measures, to increase the productivity and competitiveness, and to reduce the production costs of agriculture in many countries of the region. Nevertheless many delegations considered that too sharp an alignment of domestic prices with those on world markets would seriously dislocate their economies and discourage further effort towards a more efficient agriculture. They considered that price adjustments should be made gradually as productivity increased, and in such a way that both producers and consumers shared in the benefits of higher productivity.

As to the methods of establishing official producer prices, a broad distinction may be made between two major systems i.e. formula and non-formula methods. Under formula methods prices are based on statistically assessed facts brought into a definite relationship through the formula. Non-formula methods, on the other hand, proceed by weighing all relevant factors, often including statistical series, without bringing them into a definite relationship, but on an ad hoc basis.

/It was

It was generally agreed that the scope for using formulae to determine the level of official producer prices was rather limited in Latin American countries. Apart from the fact that the necessary statistical data was seldom fully available, the more elaborate formulae such as the parity formula or the farm income formula were not appropriate to the conditions of the region. These formulae were used in countries where a major objective of price policies was to raise farm incomes generally to something approaching those ruling in other occupations; this was not a feasible objective of price policies in Latin American countries for reasons already discussed.

Most countries of the region have at one time or another attempted to fix prices on the basis of the estimated cost of production. Such estimates, however, always involve some arbitrary assumptions, and costs inevitably vary rather widely from one region of the country to another, according to climate, altitude, size of farm and other factors. Moreover this formula can make no allowance for changes in consumer demand. It is less misleading when used solely as a means of estimating the magnitude of changes up or down in average production costs, when it approximates to a parity formula. Most countries which used production costs as a basis of price fixing have now turned to other methods: Chile and Costa Rica are examples. Argentina still uses the system, but is now considering to take into account parity price indices since these are more dynamic and are more directly related to industrial prices. This is mentioned in the considerations of the Decree for the fixing of the base price for wheat for the 1958/59 crop.

In Chile, a new and comparatively flexible type of formula has been developed for wheat prices, which seems well adapted to the conditions typical of many countries of the region, such as monetary instability, frequent revision of statistical series, etc. Under this formula variations in official producer prices are determined with the help of the probable general price level in the country at harvest time. The general price level is determined by a combination of the cost of living and general wholesale price index. In addition the changes in an index or the cost of inputs into wheat production are determined from year to year. The average of these two indices provides the percentage of variation necessary in the official wheat

/price. Since

price. Since 1956 the base period for these indices, namely 1934-48, has been replaced by a moving average of the ten immediately preceding years. It is believed that by this method the purchasing power of the official wheat price is maintained. At the same time, the moving average base period, while avoiding abrupt year to year fluctuations in price, enables account to be taken automatically of the current revision of the statistical series and indices and of the demand-supply changes as expressed in the general price index.

The latter point deserves particular emphasis. Most formula methods have shown in practice a tendency to rigidity. Thus the cost of production formula does not take into account changes in demand, while the parity formula takes little account of changes in supply and demand and also in productivity. In the less developed countries with relatively high price and income elasticities of demand, with limited funds for support measures, and where there are often marked fluctuations in consumer incomes and monetary instability, flexibility in price fixing is of particular importance.

A new formula recently introduced in Canada, which takes no account of the level of farm incomes or the purchasing power of farm prices, but only of changes in demand-supply conditions, also seems to provide greater flexibility than the older formulae. Under this formula, minimum producer prices are based on a moving average of market prices for a determined number of years preceding the year for which the prices are fixed. Without guaranteeing a fixed margin over cost of production, this formula nevertheless gives the producer a fair degree of price security, smooths out excessive fluctuations, and appears to ease the adjustment of supplies to demand. This method comes very close to the non-formula method under which prices are based on the experience of market prices during the past, as for example in Guatemala.

Most countries of Latin America, however, establish official producer prices for basic foods on fairly flexible ad hoc methods, taking into account, however, some statistical series, notably estimates of the cost of production. In some countries, e.g. Costa Rica and Panama, prices are not allowed to fall below the estimated cost of production, though this is not the only factor

/taken into

taken into account in price fixing. Against the greater flexibility of <u>ad hoc</u> methods, however, must be set a lower degree of security to producers (which may discourage investment) in comparison with formulae methods, though this may be avoided if a maximum is set to the permissible decline in the farm price in any one year, as in the United Kingdom. Again, where inflationary conditions prevail, it seems important to give the farmer some automatic security against a decline in the purchasing power of the official price.

On the whole, it appears that for the time being producer prices are best established to a considerable extent on a basis of experience, taking fully into account both producer and consumer aspects, and attempting to balance as closely as possible supplies and requirements. For example, if stocks accumulate excessively, or if surpluses emerge consistently (and not only occasionally in years of heavy crops) which can be disposed of only by means of subsidized exports, it seems an indication that the producer price is too high. If on the contrary imports have to be greatly stepped up, or if shortages lead to inflationary pressures in retail markets, it seems an indication that producer prices are too low. If the production of one commodity grows too quickly and of another too slowly, it is an indication that their price relationship is wrong. The extent of the price adjustment necessary to correct these defects can probably be found only by trial and error. At the same time that flexibility is preserved, excessively large changes in price levels which may undermine the security and confidence of farmers are to be avoided.

The system which is now being introduced in Colombia, under which official prices are to be fixed at a level that balances supply and demand, appears to pursue this objective, though clearly such a balance can be struck at more than one price level. Under it, the costs of production factors are taken into account. Above this level prices are allowed to move freely, except that any excessive rise of consumer prices is checked on an <u>ad hoc</u> basis by Government releases of supplies from stocks or imports.

/It was

It was further noted, that price guarantees could not protect producers against a heavy fall of their incomes in the case of serious crop failure, and that several countries of the region had introduced or were considering schemes of crop and livestock insurance as a supplement to price supports. Experience suggests, however, that such schemes, though of considerable value to farmers, can seldom be operated on a self-supporting basis.

B. How are Official Producer Price Levels Maintained

Almost all countries in Latin America have some programmes for assuring that the producers actually will realize prices at harvest time in line with their price policies. These programmes usually provide for government purchase and storage when market prices at harvest otherwise would fall below the announced level. As pointed out earlier the prices of the basic food crops within the countries are insulated from world price levels by import and export quotas and are often maintained at levels designed to encourage increased production. There was much variation noted, however, in the comprehensiveness of programmes for assuring producers favourable prices at harvest time.

Most agricultural producers are very small and often are heavily in debt, therefore they have no alternative to selling their crops immediately at harvest time. It was agreed that under these conditions it is especially important to have comprehensive programmes for assuring the small producers prices at harvest time in line with announced stabilization levels.

Comprehensive and fully satisfactory programmes must include (1) announcement of the minimum assured price level in advance of planting programmes, (2) adequate supplies of government credit at reasonable rates of interest - with a view to avoiding excessive indebtedness - for use in the purchase of fertilizer, improved seeds, tools and implements, (3) a system of purchasing centres available to all producers as an alternative to accepting excessively low prices at harvest from commercial traders, (4) sufficient (and adapted) commercial and government storage capacity to prevent spoilage of the crops from harvest time until they are utilized by the consumers, (5) sufficient government funds to finance the purchase and storage of as much of the crops

/at harvest

at harvest time as is necessary to stabilize prices at the minimum announced levels, and finally (6) efficient and timely administration of the programme with emphasis on the full coordination of all the parts mentioned above.

Several countries, notably Costa Rica, Colombia, Chile, Panama and Venezuela reported government programmes, including the construction of storage facilities and the supplementation of private business enterprise with government purchasing centres in order to assure all producers an opportunity to market their products at favourable prices. Countries with the most experience have adopted quality standards in their purchase programmes and have encouraged private business enterprise to adopt similar quality standards. There was general agreement that quality standards are an essential part of plans assuring producers agreed minimum prices at harvest time.

In most countries the assurance of minimum prices at harvest is limited to a few of the more important storage foods such as maize, wheat, rice and beans. Several countries, however, have been successful in maintaining price stabilization programmes for potatoes, and other perishable products.

The more perishable fruits and vegetables, although subject to great fluctuations in price, could not be stored. Some countries have attempted improved marketing programmes for these products in an effort to reduce price fluctuations, but it has been impossible for governments to adopt policies for the perishable products comparable to their programmes for the storable grains.

Many countries reported programmes for the development of the dairy industry including the assurance of favourable prices. It was noted that producer and marketing cooperatives often played an important role in dairying and were utilized by the governments in carrying out price policies in this field. The wider use of cooperatives in carrying out price policies for other products was suggested by several delegates.

The role of import quotas in determining the general level of domestic production and prices is crucial. Many countries have well organized statistical bases for determining desirable annual revisions in the level of import quotas. When production exceeds domestic consumption needs for products not regularly exported, the important role of export quotas also was noted.

/In general,

In general, the level of live cattle prices and the price of meat is maintained in Latin American countries only by their import and export quotas. Only a few countries set minimum prices for live cattle although maximum consumer prices on meat are in effect in a number of countries. Several countries are developing slaughterhouse and cold storage facilities as a means of stabilizing the supplies of meat for their consumers and as a means of stabilizing prices for their producers.

In many cases much of the gains in increased production which might be expected by a given price policy are lost because of uncertainty with respect to government actions in setting import or export quotas, to delays in the announcement of the minimum price level to be supported, to delays in credit programmes, to a lack of funds and personnel to carry out the programme, or uncertainty about the imposition of consumer price ceilings by another branch of the government.

It was agreed that for complete success governments must announce their price policies in advance of the planting season, they must have well developed programmes for assuring producers the opportunity of realizing the announced prices at harvest time and they must achieve the necessary coordination among all its branches to carry out fully and on time, all announced price policies.

Only in this way do producers learn to have confidence in the announced price policies of the government. When such confidence is achieved a greater production will be realized at lower price levels to consumers.

C. Indirect Agricultural Support Measures

Latin American experience would seem to indicate that measures exclusively intended to regulate prices may produce results which do not fully meet the objectives of an agricultural stabilization and support policy in underdeveloped countries. In such cases, the problem, briefly, is the following: on the one hand, the rate of agricultural expansion has not kept pace with increases in population and income levels; on the other hand, great masses of relatively low-income consumers are insufficiently fed.

/Agricultural price

Agricultural price and stabilization policies therefore must reconcile two apparently contradictory objectives: first, to provide farmers with the necessary incentives to increase production, which requires establishing remunerative prices for the producer, and secondly, to benefit the low-income sections of the population by improving their nutritional levels. To this end, low consumer prices on foodstuffs must be maintained. In addition to the stabilization programmes mentioned earlier the reconciliation of these twin objectives lies to a large extent in measures to improve the efficiency and to reduce the costs both of production and marketing.

Measures to increase the efficiency of production

In underdeveloped countries in general it is not possible to make large transfer payments from one sector of the economy to another. If incentives are given to agricultural producers, as the major part of the national income comes from them, it is usually found that in the end the very sector that is to be favoured has to pay the cost. If low consumer prices are to be maintained, there is a resultant danger of discouraging production. From the foregoing it is clear that in Latin American conditions price control methods should be complemented by others of a different character that may be designated as indirect support measures. These are meant to raise the net income of the producer increasing agricultural productivity and by lowering the costs of production. Other measures are designed to avoid any sharp drops in incomes by protecting farmers against losses caused by extremes of weather.

Indirect support measures tend to break the vicious circle operating as follows in a great part of the area: small income levels conducive to only a low rate of savings and investment cause low productivity, and a resultant inability to raise incomes.

The Centre considered that indirect support measures should receive special attention in Latin American countries as they tend to remove some of the obstacles impeding agricultural development. Moreover, subsistence farmers not included in the monetary economy of a country can be encouraged in this way, while they benefit little from measures that only affect the price of a commodity.

/The Centre

The Centre discussed specifically three methods of indirect support: subsidies to the factors of production; credit; and crop insurance. There are, however, others, such as land improvement through irrigation, drainage, eradication of weeds and other pests; reform of deficient agrarian structure; establishment of experimental and extension services, etc., all of which are long term measures. The Centre also referred to possible fiscal measures, which by reducing or adjusting the incidence of direct and indirect taxation, including sales taxes, ensure higher farm incomes without affecting prices.

The Centre considered that one of the most efficient methods to improve productivity and the farmers' final income is by subsidizing or otherwise reducing the costs of input factors which represent a considerable part of production costs. Latin American experience shows that such measures if properly applied, give very satisfactory results since they do not require as large an investment of public funds as to indirect producer or consumer price subsidies.

In many countries of the region subsidies have been given, or remission of taxation or import deposits granted, for the purchase of machinery, tools and other requisites, fertilizers, pesticides, improved seeds or breeding animals, etc. The subsidy may be made available directly by selling these articles at lower than market prices through governmental agencies, or indirectly by exempting these from customs duties when they are not produced domestically.

In several countries, the high cost of input factors is the result of shortages due to import difficulties attributable to lack of foreign exchange. These items should receive preferential treatment through import quotas, licences, preferential rates of exchange, etc. Care should also be taken to make sure that the benefits of these measures go to the farmers instead of being absorbed by importers and distributors. Certain countries of the region have established machine stations which lend their services to farmers at low cost, particularly for heavy work such as land clearing and breaking. Some of the countries represented suggested that negotiations between Latin American countries and countries exporting farm machinery should take place

/through the

through the good offices of FAO or other international organizations, with a view to achieving the reduction or suspension of export taxes on farm machinery which would result in a reduction of their cost to underdeveloped countries.

Credit is the most common form of extending aid to farmers in Latin America. In many of the participating countries mechanisms created for this purpose compare well with those of any country, including some of those most highly developed. If farm credit allows producers to expand the scale of their operations, if it is timely and if its terms are reasonable so as to keep production costs within reasonable limits, it will then contribute to increasing the net income of the farmer.

In Mexico, a condition for receiving operation credits from a government owned bank is to insure crops and livestock against all risks. The premium is considered as part of the loan. The insurance system is all inclusive in that it covers all the crops and livestock on the farm.

In Brazil too, though on a smaller scale, similar insurance is available, while Costa Rica is at present planning the establishment of all risk coverage for crops and livestock. In Uruguay, insurance may be taken out for certain risks connected with cattle breeding. In almost all these cases, public funds are used to maintain the systems and to make the cost of the insurance attractive to low-income farmers.

Insurance of this type represents an additional collateral for credit which otherwise could not be obtained. It also prevents farm incomes from falling drastically if the main crops fail.

The Centre recognized the need for giving more attention to indirect farm support measures as a means to accelerate agricultural development in the region and raise farmers' incomes without increasing consumer prices. These measures may become a valuable tool of farm policy, and the Centre considered it advisable for countries to consult with FAO and other international organizations for the purpose of coordinating such policies on a region-wide basis, so that balanced development of the region and better resource utilization might be achieved.

/Indirect Support

Indirect Support Measures in the Field of Marketing

The Centre explored several aspects of the marketing process that were considered to show promise of contributing toward the achievement of the twofold aim of securing a more rapid expansion of production without raising the cost of food to consumers.

In the field of transport, the construction of feeder roads was unanimously described as an important means of increasing production. Practically all of the countries represented have more or less complete plans for opening up potential zones of production through road construction. In Venezuela a programme of this type has been carried forward energetically since 1948 with outstanding results. In Costa Rica two per cent of Government taxes collected on liquors has for years been employed toward this end and in Colombia the opening of the Atlantic highway has greatly speeded up the movement of cattle with attendant reduction of weight losses in transit and corresponding gains for the farmer while even some reduction of meat prices in terms of real values has become possible.

The Chilean delegation reported that in their country high transport costs were a considerable obstacle to the efficient marketing of agricultural products, a condition that is at present under review and for which solutions seem to be in the offing. In Costa Rica the Production Development Council (Consejo de Fomento de la Producción) pays outright transport subsidies.

The assembling and marketing of agricultural commodities through farmers' marketing cooperatives plays a relatively unimportant role in Latin America. One of the few successful examples is Panama where livestock producers have created marketing cooperatives with proper slaughterhouses and butcher's shops and many more such organizations are in the process of formation. Cattlemen have greatly increased their receipts although selling at lower prices than private outlets. Far-reaching Government intervention is more usual than cooperatives, and there is some type of semi-autonomous or similar official marketing agency in practically all countries of the region. These sometimes deal with a large number of articles and in other instances there is a series of commodity organizations whose aim it is to buy directly from producers and sell through wholesale and even retail channels to consumers in order to eliminate middlemen and thus secure better prices for farmers and maintain stable or reasonable ones at the consumer level.

/Most of

Most of these organizations own storage and conditioning facilities, sometimes even processing plants and a network of retail distribution agencies. In some cases they sell through private retail channels reserving for themselves the right of fixing profit margins or sales price to consumers. This type of regulation exists e.g. in Colombia and Costa Rica and implies at times official subsidization of consumer prices complemented with imports or exports on special terms. In Guatemala, similar intervention is entrusted to commodity organizations, some of which are of a cooperative nature, such as e.g. the Cotton Producers' Cooperative Society (Asociación Cooperativa de Algodoneros) and the Sugarcane Growers' Cooperative Society (Asociación Cooperative de Cañeros). In Venezuela there are official purchasing programmes and a vast network of storage facilities but distribution has not been duly organized.

In Cuba special farmers' markets have been organized and are successfully functioning, whereas in Chile a given area of market places has been reserved for producers in the hope that they might get a better net income through elimination of huckster's profits. In actual practice many of them have given up farming and become hucksters instead.

In Venezuela the provision of ample storage facilities has completely changed the structure of agricultural production. While formerly cash crops were only grown as a side-line of subsistence farms, after the establishment of the Government storage network commercial production had taken great strides. In several countries a number of products formerly in short supply have developed exportable surpluses after the construction of elevators.

Officially sponsored and privately owned meat packing plants, milk processing facilities, etc. have greatly contributed to the achievement of reconciling income gains for producers with reasonable consumer price levels in Chile and some other countries of the region.

The existence of monopolies and various market levies or exactions have greatly interfered with the attainment of these aims. In various countries a whole series of legally protected middlemen who perform little service has grown up within the marketing system. In almost every Latin

/American country

American country Municipal authorities are levying heavy dues from post-holders in market places at the cost of both producers and consumers. In Ecuador and Peru road tolls are imposed upon merchandise transported by road, sometimes by several municipalities in succession.

An important production incentive that is frequently part of the basic mechanism of price support consists in making the granting of import licenses to local industries conditional upon full absorption of domestically produced agricultural raw materials. Such arrangements exist e.g. in Colombia for wheat for which INA has the import monopoly. In Guatemala and Ecuador millers are required to use domestic and imported wheat in equal proportions and this measure has been followed by an increase in wheat production within a few years.

Obligatory grading of wheat and meat in Argentina has brought about more remunerative prices for farmers while consumers obtained better value for their money.

Vertical integration through contract farming in the case of brewers' barley, oils and fats, sugarcane and beets, etc. has greatly benefited farmers in most Latin American countries, although some apprehension was expressed that monopoly positions might later develop out of these arrangements. On the other hand the recent multiplying of super-markets in many countries has been described as a powerful influence in securing better returns for farmers while reducing retail prices as a result of savings effected by economies of the scale. Many of these super-markets buy directly from farmers and some even have processing plants.

There has been a notable lack of mention in the Centre of marketing agreements or mandatory marketing schemes. On the contrary, the trend seems to be for some relaxation of direct market and price controls in Chile and Peru. In Argentina, the final goal is to re-establish free markets eliminating all measures affecting prices, trade or free competition. On the other hand, all control measures necessary to prevent that the functioning of the free market system is impeded by single industries or enterprises, were maintained.

/The general

The general conclusion seems to be that on the side of marketing, Governments could best contribute toward the attainment of higher agricultural returns without prejudice to consumer interests by constructing feeder roads; by the provision of storage facilities, packing and processing plants; ice factories and similar accessory equipment; and eliminating monopolies. However, it was generally admitted that no firm bases or studies existed in practically any Latin American country represented at the Centre, for the determination of the most economical single measure or combination of these in a given situation. The desirability of creating marketing associations or committees in each country was emphasized in this connexion, as one means of promoting serious investigations of this type.

D. Appraisal of Producer Price Support Policies for Products for Domestic Markets

There was general agreement among the delegates attending the Centre that direct and indirect producer price policies have achieved a measure of success in all Latin American countries. Agricultural output has increased and consumer food supplies are more ample as a result of the price policies in effect in recent years.

When however, the producer price policies were derived from consumer price ceilings set at low levels in an endeavour to ease the economic position of the consumer, the development of production often proved to be inadequate and led to shortages and increased problems of external payments.

The desired level of agricultural output has not yet been reached, however, except in the case of a very few products in a limited number of commodities. As the development of agricultural output is continued either by direct or indirect policies it becomes especially necessary to maintain an appropriate balance in the output of the different agricultural products.

A guiding rule is that the output of each product should be developed to the point that resources used to obtain the final increment of output for each product should realize equal returns. If the capital and labour employed to obtain additional increases in the output of wheat or maize fail to give a return equal to that obtained by an equal amount of capital and labour employed in increasing cattle production, then an unbalance exists. Too much capital and labour are going into wheat and maize production. These resources might better be employed in increasing cattle output. The same rule applies with respect to the proper emphasis on crops for domestic use as against crops for export. In applying this rule trends in output and demand need to be taken into account as well as the situation which exists at a particular time.

In many Latin American countries an inadequate agrarian structure reduces the effectiveness of both the direct price policies and the indirect measures employed to increase productivity and the efficiency of marketing.

Changes in the agrarian structure and in institutional factors can be brought about only slowly. Nevertheless, it is important to continue studies of these factors and studies of ways and means of reducing their adverse effects on the rationalization of agricultural output.

Several delegates reported land reform programmes under way or under discussion by their governments. In some cases land reform measures must be carried out before the full effect of price policies in producing the desired increases in agricultural output can be obtained.

It was generally agreed that a balance must be maintained between the funds and human effort apportioned to direct producer price supports and measures aimed at increasing farm incomes by greater productivity and by increased efficiency in marketing. Undue emphasis on any one of these programmes will yield small results as compared with a carefully balanced approach. Moreover it is necessary to review the several programmes year after year and change the emphasis from one to another from time to time to achieve the greatest results with limited funds.

Almost every country in the region has taxation policies, commerce regulations or outdated credit institutions which have adverse effects on agricultural productivity and efficient marketing. It is urgent that these institutional factors which have adverse effects on programmes for increasing productivity be studied intensively to determine the most appropriate policies for minimizing their adverse effects.

/The foregoing

The foregoing paragraphs indicate that there remain many opportunities for the improvement and the greater coordination of direct price policies and indirect measures for increasing farm output and marketing efficiency. Reforms in the agrarian structure and in tenancy practice are needed in many countries. Reforms also are needed in such institutional barriers to rapid agricultural development as outmoded tax, commerce and credit policies. Equally important continuing review of programmes and policies is needed to assure the maintenance of a proper balance in the output of the different crops and livestock products.

V. CONSUMER PRICE POLICIES

The principal direct aim of Latin American consumer price policies is to ensure a minimum diet for low income populations. In addition, policy makers have been concerned to avoid by the adoption of such measures any slackening of industrial development in the region, that might arise from more costly food and consequent higher wage levels. While this endeavour implies considerable sacrifices and effort in any case, in Latin America it is particularly difficult to carry it into practice because of rapid population growth especially in urban centres, monetary and administrative instability and widely fluctuating crop yields in tropical and semitropical countries, combined with storage problems due to excessive prevalence of insect pests and other ecological factors. With the exception of a few Central American countries, most nations in the region are vast in size and often contain extensive zones of very difficult access. This difference in size often determines the type of consumer price policy adopted.

In Central America, where most countries are small, regulation of market supplies by means of buffer stocks is fairly common. In Costa Rica this covers grains and some other crops. In Guatemala about 50 per cent of the annual wheat crop and 5 to 8 per cent of maize is bought up by the Government and held in reserve for market stabilization purposes; when necessary additional supplies are introduced from abroad and sold at cost. Often the mere knowledge that sufficient stocks are being held by the official price support agency is enough to prevent prices from rising. In Panama the Government has a continuing policy of maintaining buffer stocks of rice, coffee and maize for price stabilization purposes.

Among other Latin American countries, Colombia has a fairly well organized system of this kind handled by the National Supply Institute (INA). This organization buys up substantial quantities of wheat, maize, rice, beans and even potatoes at harvest time and covers by imports any deficit in these commodities, as well as a few others. When markets are in short supply, INA releases these stocks gradually as soon as

/prices show

prices show a tendency to rise. It also tries to favour consumers by purchasing basic foodstuffs in remote areas and making them available in consumption centres when most needed. In Chile "INACO", an official trading agency also stores wheat and releases it to millers as required, in support of its fixed price policy, to make it effective. Similarly in Argentina, the National Grain Board, after having recently withdrawn from exercising control over other products, is still purchasing wheat and maintaining stockpiles in order to avoid sharp rises in the price of flour or flour products.

Another method of consumer price stabilization that is commonly applied in the region is the granting of subsidies. These generally consist in imports of foodstuffs in short supply purchased at the ruling world market price or from surplus stocks at special terms; the former generally being made available to domestic consumers, sometimes below cost, while on the latter import duties and other charges are often waived by the Government. At other times, especially when high producer prices are being maintained within a country for farmers' benefit, imported stocks are resold by official agencies at higher than world market prices, in order not to jeopardize the returns of domestic producers. In such cases a net profit is made, but consumers benefit in that prices are not allowed to rise. This system is in force, e.g., in Costa Rica. In Colombia imports of wheat and hydrogenated fat are a monopoly of INA and they are not subject to import duty and other charges. Much wheat is obtained from U.S. surplus stocks at special terms and sold at the higher domestic price level that serves as an incentive for domestic producers. Part of the profits made is then used for bringing from abroad foodstuffs in short supply and selling them below cost if necessary. Another portion of profits is used for domestic price support purposes, and when stocks acquired in the course of these operations are released at less than cost the result is a subsidy to consumers. In Argentina, the Government for a time covered all losses incurred by its packing plant's meat sales at fixed ceiling prices, but this form of subsidy was abolished not only for meat but all other subsidized products early in 1957. In Venezuela milk is subsidized.

/In various

In various countries where multiple exchange rates were still in effect when the Centre was meeting, consumer subsidies have taken the form of imports at preferential exchange rates, at times accompanied by export restrictions in order to prevent scarcities and consequent price increases on domestic markets. In Paraguay a virtual Government monopoly of the cattle and meat trade has been in existence for years with the object of maintaining low domestic prices through a strict rationing of exports. The consumer subsidy in this case is a direct burden to producers and the economy as a whole as export values are about double the domestic price.

By far the most common method of regulating the cost of basic foodstuffs between the Korean war and until about 1958 was the imposition of price ceilings enforced largely at the retail level and sometimes wholesale as well under penalty of fines, closure of contravening sales outlets and other threats. Lately, however, such measures have been gradually removed in Argentina, Brazil, Chile and some other countries. In Costa Rica, the Ministry of Economy still fixes compulsory maximum wholesale and retail prices for a whole series of products. In Chile ceiling prices are now imposed only temporarily whenever the cost of a given basic article shows a sharp tendency to increase. In such cases restrictions are removed as soon as sufficient supplies become available from domestic sources or from abroad. In Argentina, nowadays, only wheat has virtually a fixed price, although a minimum price is guaranteed to producers, however the Government practically has the purchasing monopoly. Nevertheless it is possible, as already announced by the authorities, that the Government fixes ceiling prices at economic levels for some major consumer products whenever the circumstances make this desirable. In Panama, the Government still imposes maximum prices on practically all domestic and imported farm products and in some cases makes adequate supplies available to the trade. Thus, satisfactory results were obtained, but ceilings were ineffective whenever the Government failed to release stocks in time.

/Reviewing the

Reviewing the experiences with the several support methods outlined above, the Centre came to the following conclusions. Export controls and subsidized imports, if properly handled, usually produce satisfactory results and do not require excessive administrative machinery. In the smaller countries price ceilings are more likely to be effective than in the larger ones, provided that they are complemented by buffer stock operations or regulations of imported supplies, and that there is no runaway inflation at the time of their application. Consumer subsidies once granted cannot be removed easily, they benefit all income groups not only those in need of assistance, and for this reason e.g. Chile has recently withdrawn the subsidies and replaced them by higher family allowances. They sometimes lead to high and often wasteful consumption, as for example in Argentina as regards meat.

Any of the above methods is likely to be reflected in lower prices and incomes for farmers unless a thoroughly effective and fully financed price support system is in operation. The selection of the most adequate mechanism that would best suit each individual country's need, as well as its efficient administration, are often seriously hampered by lack or scarcity of timely, and in some cases even of basic, statistical data, market information and marketing research in general. Another serious obstacle is the frequency with which the Governments succeed each other in some countries, with the attendant lack of continuity and administrative instability.

VI. PRICE POLICIES FOR AGRICULTURAL EXPORTS

A. Objectives

Export price policies usually pursue the following objectives:

(a) to maximize foreign exchange earnings;

(b) to raise Government revenue;

(c) to maintain the competitiveness of the export industry;

(d) to minimize the impact of world market fluctuations on the economy as a whole and on farmers income.

In times of high world market prices these four objectives are obtained through flexible export taxation. The effects of a decline in world market prices are levelled off through partial or complete tax remission. If international prices decline to uneconomic levels or domestic prices rise above world market levels some form of support, either through export subsidies or stockpiling becomes necessary.

During the post war years world market prices in real terms have been generally favourable for the agricultural export products of the region, and although they have declined during the past few years, they remain appreciably higher than during the nineteen thirties. Export price policies were therefore largely devised as systems of variable taxation.

Subsidies to exports, on the other hand, are rare in the region because as a rule countries cannot afford to maintain the prices of their export products above the world market level. In some cases, however, agricultural exports are supported by subsidies. In Venezuela, for example, the coffee and cocoa industry, on which a large section of the population depends for its income, has become less competitive, largely as a result of high cost of labour and of low productivity, and the exports of these two products can only be maintained through subsidies. In Uruguay wheat surpluses are produced under and incentive scheme and exported with the help of subsidies in order to increase foreign exchange earnings. In both countries the funds for these subsidies stem from taxes on prosperous export industries, oil and wool respectively. In some countries, (Panama), marginal export surpluses arise under food selfsufficiency schemes, under which prices are raised above the world market level. In other countries, Cuba for example, new export industries are developed with the help of export subsidies with a

/view to

view to reducing the dependence of the country on one single major product.

B. Methods

Very flexible methods are clearly required to maintain a reasonable balance between these various objectives, and four main systems have developed in the region:

1) regulation of the volume of exports;
2) State export agencies;
3) multiple and variable exchange rates;
4) the "aforo" system.

The regulation of the volume of exports has no objective other than price stabilization. It can only be used by countries supplying a very large share of world trade or under international commodity agreements, such as the Sugar Agreement and the Coffee Agreement. Control of export volume under these two agreements is achieved by export quotas. This method may involve burdensome stockpiling. In Cuba, therefore, acreage restrictions are imposed for sugar cane with a view to keeping production in line with demand.

A State Export Agency may be used to control the volume of exports, to tax exports, and in emergency to subsidize exports. The Agency purchases at fixed prices and the margin between these prices and the export prices represents the tax or subsidy. Through variation of the purchasing price production may be guided in relation to demand.

Multiple and variable exchange rates may be used for the purpose of taxation or subsidy. Instead of one exchage rate reflecting the foreign purchasing power of the currency, different rates are applied to individual commodities or groups of commodities according to their competitiveness on world markets. If world prices or domestic production costs change significantly the exchange rate may be varied in accordance with current circumstances. Multiple and variable exchange rates are the method most widely used in the region to influence the returns of exporters from agricultural exports.

Multiple exchange rates make it hard to judge the real relation of domestic to international prices and costs. An actual subsidy would only arise, where the special export rate were higher (in national currency)

/than a

than a single rate representing the foreign purchasing power of the currency. With the lack of such a single rate comparison can only be made more or less approximately. As in the majority of agricultural exports taxation rates apply, devaluations of such rates represent a partial or complete remission of taxation rather than an export subsidy. In Costa Rica, for example, the official rates applying to major exports (coffee, bananas) and to essential imports represent a tax on the farmer and a subsidy to the latter. The free rate, on the other hand, represents a subsidy on exports and a tax on imports. However, most minor agricultural exports, such as the marginal surpluses of basic food crops arising from time to time under the incentive scheme to production, enjoy a mixed rate: 35 to 65 per cent of the foreign exchange earned can be sold by the exporter on the free exchange market. The free rate is approximately 20 per cent higher than the official rate, and the cross rates, through which exports of these products are eased, are some 6 to 10 per cent higher than the official rate. If Costa Rica applied a single rate, this rate would probably come very close to the cross rates. These rates, therefore appear to involve export tax remissions rather than export subsidies. Similar considerations may apply to some other countries, where apparent subsidies apply through multiple rates. In Venezuela, however, the coffee and cocoa rates are higher than any other rate and represent an outright export subsidy.

The "aforo" system is purely a variable export tax method and can be used for no other purpose. It was devised in Mexico to provide the export tax system with the flexibility necessitated by the fluctuating world market prices of their exports. The basic export tax, and particularly special export taxes introduced at the time of the two currency devaluations of 1948 and 1954 are levied on an officially fixed but varying export price, instead of on the actual price, in order to increase or reduce the export tax with world market trends. If necessary, further relief is granted by a reduction or temporary complete remission of the tax. In recent years, some countries, Argentina, Paraguay, Uruguay, combined the multiple exchange rate system with an "aforo". Here the "aforo" indicated the portion of the export price for which the exporter had to surrender the foreign exchange earned at the official rate. The difference between the "aforo" and the actual price could be sold on the free exchange market. The system, in

/practice, amounted

practice, amounted to cross rates between the official and the free exchange rate. The purpose was to make the multiple rate system more flexible. In Argentina it resulted in a very great number of different rates. In this country it was combined with minimum price guarantees to producers and used by the Governments mostly to maintain exports competitive through tax remission and to avoid support purchasing.

The results obtained by these various methods in terms of the objectives sought were greatly different in the various countries. This is only partly due to advantages or disadvantages inherent in the method, much of the success or failure of the method is the result of the way in which it was operated.

A State Export Agency in theory is particularly well equipped to achieve all the objectives of export price policies. In Argentina, however, the export monopoly operating in the ten year period 1946 to 1956 for all agricultural produce with the exception of wool, was not successful in achieving its objectives, because it resulted in an excessive taxation of agriculture for the benefit of general economic development. This, combined with a sharp decline in exports because of reduced output and larger consumption caused by various socio-economic factors resulted in the loss of traditional export markets.

Under multiple exchange rate systems modifications in rates necessitated by changes of production costs or world market prices were often delayed so long as to seriously hamper exports. Moreover, devaluations of exchange rates for major exports lead to a rise in import prices and often to a rise in the general price and cost level in the country. In other instances, pressure from the producers and exporters resulted in a kind of inflationary exchange rate spiral adding to the existing inflationary pressure. Multiple exchange rates also tend to encourage speculation and they introduce an element of uncertainty and risk into business transactions which is liable to inhibit both sellers and buyers.

Generally, the method of multiple rates worked satisfactorily where it was used to subsidize exports as in Venezuela. It also raises less problems and difficulties under conditions of monetary stability and where the range of rates is rather limited. In Costa Rica, for example, the free market rate is stabilized through exchange purchasing and selling by the

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Bank of Costa Rica since the beginning of the 1950's and the range of rates is moderate. The system is used to provide a flexible means of adjustment to world market fluctuations of minor exports through variable taxes and perhaps sometimes some small subsidy. On the other hand, the tax on the two major export products, coffee and bananas, through the official exchange rate is inflexible. Stabilization of prices of these products is achieved through additional measures, for example an ad valorem export duty of 5 per cent on coffee exports during the boom in 1954.

Generally, because of the various difficulties and particularly the inflationary effect of multiple exchange rate systems, there is a tendency in the region to return to single exchange rate systems. The outstanding example is Argentina where one free and fluctuating rate was introduced at the beginning of 1959. This rate represents a devaluation of the currency devised to encourage exports without hampering the maintenance of the essential imports. Under the new system, guaranteed minimum prices are granted for agricultural products. The margin between ruling international prices and these minimum prices is large enough to require export taxes in order to prevent inflationary pressure. These taxes are raised in the form of foreign exchange retentions varying between 10 and 20 per cent for livestock and crop products respectively; for some of the latter an additional tax of 15 per cent is levied. When domestic market prices do not exceed the minimum prices the National Grain Board purchases any quantity offered at the minumum price. In the case of maize support purchases were necessary in the past year. Losses arising out of the purchases and sales by the National Grain Board are covered by the Government out of preestablished allocations, while profits are transferred to the following marketing periods. Much of the success of the new system which aims at a current adjustment of production to world demand will depend on the control of inflation in the country.

The "aforo" system as applied in Mexico was very successful in obtaining its major objectives. There is no way, however, under either the "aforo" or the multiple exchange rate system to make sure that the modifications in export prices through the policy are reflected in producer prices. Sometimes the crop has already been bought by exporters

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before a tax remission is granted to exports so that producers do not get any of the benefits.

In Venezuela under a revised support system for coffee and cocoa, minimum prices are guaranteed to exporters who, in turn, are obliged to guarantee minimum prices to producers. This policy is supervised by the National Coffee and Cocoa Fund. In Ecuador, the multiple exchange rate support system for rice has now been replaced by support purchasing through the Provincial Banks who absorb the trading losses; in this way greater security is given to rice growers.

The difficulties of stabilizing prices of export products rise in the countries of the region when the terms of trade begin to move against them. One major difficulty is that, as a rule, the returns from taxation on agricultural exports go into general revenue. Some countries, in other regions, however, have adopted an alternative plan of earmarking all, or part of the receipts from export levies to augment farmers' receipts at times of depressed prices. This may be done either by direct payments to producers, or by using the funds to establish a buffer stock. One advantage of this method is that it takes agricultural price supports out of the field of general taxation. But the very fact that the method involves renouncement of government revenue may explain the reason why this method has not so far been used in Latin America. In countries with inflationary conditions it would also be difficult to prevent heavy depreciation of such price stabilization funds.

/VII. PRICE

VII. PRICE SUPPORT AND STABILIZATION POLICIES FOR FOOD AND AGRICULTURAL PRODUCTS IN RELATION TO THE GENERAL ECONOMY

Agriculture constitutes one of the principal sectors of the Latin American economy, since it provides employment for about 50 per cent of the economically active population, contributes between 22 and 24 per cent of gross national incomes and uses an important share of the area's capital and other resources.

Agriculture also has a principal and dynamic role to play in the present stage of economic development of the various countries, since this sector must satisfy the growing demand for foodstuffs and agricultural raw materials; provide foreign exchange through exports to accelerate economic growth; constitute a well remunerated source of employment; be an important consumer of agricultural as well as non-agricultural goods and services, and, finally, release the labour force required for urban and industrial development.

The development of the whole economy depends to a large extent on the success achieved in meeting these objectives. In many countries there are imperfections in the system and these are typical of the region as a whole. In fact, insufficient agricultural development is at present causing agricultural imports from countries outside the area to increase, especially in products such as cereals, dairy products, and vegetable oilseeds, all of which can be produced in the region under favourable conditions. Agricultural exports on the other hand, which constitute the main portion of or even the total export trade of the majority of countries, have practically stagnated at the prewar level, so that a sizeable decline has since taken place in the per caput volume. This stagnation is in part due to a general world trend affecting several agricultural export products, but may also be explained by the decline in Latin America's exportable supplies. Certainly, the region's trade balance in these products shows a decline of net exports, which in combination with the price falls of recent years causes serious pressures on the balance of payments and limits the capacity to import capital goods and raw materials.

Although agriculture forms the principal source of employment in the region, labour productivity in this activity is very low, due to excessive labour supplies, its lack of training, the scarcity of capital per man

/employed, and

employed, and the low level of technology. Consequently, rural wages are also low.

In the region as a whole, three and one half agricultural workers produce the same gross product as one non-agricultural worker. Moreover, agricultural productivity is increasing at a much slower pace than would be desirable in order to mitigate this great difference, or than would be possible if the available technology were used more widely. Added to this is the circumstance that rural labour is often paid in kind, and perhaps less than half in money. In these conditions the rural worker hardly plays a role in the commercial demand for agricultural and non-agricultural goods, limiting the scope of industrial development and creating small markets which favour the establishment of inefficient and monopolistic industries.

Far from playing fully its dynamic role in the region's development, agriculture therefore tends to act as a break to economic growth, since it does not provide the food required by internal demand, forcing countries to spend part of their scarce foreign exchange to import consumer goods, which with a more efficient production could be substituted by domestic production. At the same time imports of capital goods are reduced by the unavailability of exportable surpluses of agricultural products and the low income levels of the population put a limit on the expansion of the markets for industrial goods and for services.

The Centre paid attention to the possible causes of the situation described and agreed that the insufficient agricultural development is to be explained by the existence of a series of different factors. Among these were mentioned those connected with economic incentives, institutional causes, structural problems, capital investment, levels of technology, etc.

The main economic incentives discussed at the Centre were those provided by price support and stabilization policies, subsidies to agricultural requisites, exchange rate differentials and credit and foreign trade regulation.

General agreement existed that these aspects are important but that they should be handled in such a way as not to stimulate inefficient productive processes or marginal farms. Moreover, incentives should be used to stimulate the output of certain products and to discourage that of

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others, taking due account of the possibilities of complementary development of the Latin American regional market.

The Centre further analyzed other factors contributing to the unbalanced growth of agricultural production in relation to demand requirements. Among others, the following points were mentioned in this connexion:

1) The existing size distribution of farms, characterized on the one hand by large concentrations of productive but badly used land resources in the hands of a few people, and on the other, by the existence of a large number of small farmers, which hardly have enough land to provide subsistence levels of living. Between these two extremes, commercial family farms and a relatively small number of modern and highly efficient enterprises are to be found. Both the _minifundio_ and the _latifundio_ typically lack sufficient capital investment, and operate inefficiently and at a low technological level.
2) Inadequate land tenure systems and archaic and unjust methods of paying rural labour. In addition to privately or jointly owned lands, and the renting of private or public lands, certain other tenure types are widely spread over the entire region. These are known under a variety of names (the operators are called _medieros_, _tanteros_, _aparceros_, _inquilinos_, _huasipungos_, _colonos_, _yanaperos_, etc.) and are used commonly by large land owners as forms of payment for labour services. The existence of these mixed land tenure types and wage payment systems constitute one of the greatest obstacles to agricultural progress.
3) General consensus was expressed on the fact that the prevalence of the above factors was responsible for the low unit-area yields, low productivity levels, low income levels of the population and the unbalanced distribution of income between labour and entrepreneur.
4) Many of these structural deficiencies are connected with the operation of a tax system that, rather than operating to change them, tends to maintain them. The region requires tax policies designed to stimulate the efficient utilization of natural resources, the use of better techniques, the investment of capital,

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so as to raise the productivity of land and labour. Of equal interest are the establishment of progressive taxes or other penalties on land that is not utilized productively.

5) The lack of sufficient transport and storage facilities is responsible for the loss of large quantities of farm products in the hands of producers, and of great weight losses in cattle which are sent to slaughterhouses. Large areas are also kept from being cultivated for the same reasons.

6) Related to the previous point is the problem of processing of agricultural products. This industry is only in an early stage in Latin America, and its establishment is of great interest since it increases the demand for agricultural products, stimulates production and facilitates their conservation, transport and distribution. In Venezuela, with the assistance of the Development Corporation, a credit programme is being established for the development of agriculture. With a view to achieving a balanced and efficient programme, a study of priorities for the various production sectors is being carried out. In addition, a special department for the processing industries was created in order to study the technical and economic aspects of the concession of credits and of the promotion of agricultural industries to be newly established in the country. A special section will supervise the investment of the credits and will grant technical assistance to the existing or newly established agricultural enterprises.

7) The low level of education which prevails in a large sector of the population is another obstacle to agricultural development, since the manual worker lacks the ability to perform specialized operations. The land tenure and remuneration systems mentioned above do not provide him with sufficient incentive to acquire this ability. To this is added the low level of technical knowledge of many farm entrepreneurs.

8) The low level of agricultural technology in Latin America was also discussed and it was agreed that this contributes to the low and declining level of agricultural yields. It was noted that the

/existing experimental

existing experimental and extension services are too small, and that there is much duplication of effort and dispersion of resources in this field. Furthermore, excessive emphasis is given in many countries to the aspect of mechanization, without considering first where to employ the labour that is being displaced by the greater use of machinery.

9) The low level of agricultural investment which largely derives from past inadequate price policies may be considered both the cause and the result of the low unit area yields and labour productivity. The improvement of technology in rural areas requires increased investments, some of which should be made by private individuals, while others are to be made by the public sector. In general terms it may be stated that this aspect is neglected considerably in the region.

10) Finally, it was considered that many of the existing agricultural problems could be solved more easily through the establishment of farmers' associations at all levels and in all activities.

In the view of the Centre a fully effective agricultural development policy would have to take into consideration all the factors discussed above. The present report is concerned explicitly with the economic incentives for an expansion of production, and it has been shown that in the past these were generally insufficient to foster a level of investment and consequently a rate of increase in the agricultural productivity and production necessary for the balanced economic development of the region. These policies are now being modified and a considerable improvement may be expected to ensue. Nevertheless, higher prices and other incentives to increased agricultural production cannot be expected to exert their full potential effects unless parallel improvements are made to remove the other obstacles to agricultural expansion which have been set out in this chapter.

/Annex A

Annex A

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	Mr. Elías Soley C.	General Manager, National Production Council
	Ing. José M. Guzmán G.	Chief, Price Stabilization Department, National Production Council
CUBA	Mr. José Zimmermann M.	Chief, Loan Section, Cuban Agricultural and Industrial Development Bank, BANFAIC
ECUADOR	Mr. Luis Guzmán V.	Professor of Economics, University, Guayaquil
EL SALVADOR	Mr. Hugo Lindo	Ambassador of El Salvador in Chile

/Mr. José A. Mixco

Country	Name	Function
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	Mr. Arturo Clark	Advisor of Production Development Institute
MEXICO	Mr. Saúl Arriola	Economic Attaché of the Embassy of Mexico in Chile
PANAMA	Mr. Mario de Diego	General Manager of Economic Development Institute
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	Mrs. Hilda Angarita	Chief, Statistics Price Section, Ministry of Agriculture
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/INTERNATIONAL ORGANIZATIONS

INTERNATIONAL ORGANIZATIONS

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Mr. Francisco Aquino	Regional Economist for Latin America, and Chief, Joint ECLA/FAO Program - Secretary of the Centre
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Mr. Anton Gargurevich	Economist, FAO
Mr. Onno Van Teutem	Economist, FAO

/Annex B

Annex B

LIST OF DOCUMENTS ISSUED DURING THE MEETINGS OF THE CENTRE

1. Opening address by Mr. Mario Astorga Cartes, Director General of Agriculture.

2. Message from Mr. B. R. Sen, Director General of the Food and Agriculture Organization of the United Nations, read at the Opening Ceremony by D. Hernán Santa Cruz, Regional FAO Representative for Latin America.

3. Statement by the Delegate of Argentina.

4. Statement by the Delegation of Colombia on the Provisional Agenda of the Latin American Centre on Agricultural and Food Price Support and Stabilization Policies.

5. The importance of Agriculture for General Economic Development in Colombia.

6. Official Price Policies for Agricultural Products in Chile.

7. Statement by the Delegate of Ecuador.

8. Statement of Price Stabilization in Guatemala.

9. General Objectives and Methods of Implementation of the Price Stabilization and Support Policy for Agricultural and Food Products in the Republic of Panama through the Institute of Economic Development.

10. The Tobacco Stabilization Fund - Cuba.

11. Statement by the Delegation of Venezuela.

Note: These documents were issued and distributed during the Centre in Spanish only.

/Annex C

Annex C

ANNOTATED AGENDA

1. Opening ceremony.

2. Election of Chairman and Vice-Chairman.

3. Adoption of agenda and procedures.

4. General objectives and methods of implementing food and agricultural price stabilization and support policies in Latin American countries.

   Introductory statements by participants on the main objectives, the scope and commodity coverage, and the methods used in implementing current price stabilization and support policies, as applied to:

   (a) agricultural producers

   (b) consumers

   (c) the export trade in agricultural products.

5. Special features of the countries of the region which influence the objectives and the choice of methods of carrying out their food and agricultural price and support policies.

   A brief discussion to establish some of the main economic and social factors which determine the food and agricultural policies of Latin American countries, e.g.

   Unusually rapid growth of population and demand;

   Consequent tendency to inflationary pressures, in the absence of adequate resources for food imports;

   Low consumer incomes and consumption levels;

   Limited government revenues;

   Relatively under-developed machinery of administration in most countries;

   Under-development of industrial and other non-agricultural sectors of the economy;

   Competition of non-agricultural industries with agriculture for investment funds and labour;

   Heavy dependence on agricultural exports for earnings of foreign exchange.

6. Policies affecting prices and incomes of agricultural producers.

   (i) What are the main objectives sought? To expand agricultural output? To stabilize food prices? To reduce food imports? To encourage exports? To support or raise the incomes of farmers generally, or of particular groups of farmers? To encourage agricultural productivity and competitive power? To increase government revenues? Other objectives? Or several of these in combination?

(ii) What

(ii) What prices regulation or support measures are used to attain these objectives?

(iii) What measures other than the regulation of prices are employed, e.g. special credit facilities to farmers, measures to reduce the cost of farm machinery or other requisites, other measures to increase productivity or to reduce distribution costs?

6.A. Implementation of producer price policies.

(i) How is the level of official producer prices fixed? By What methods are the official prices of the various commodities brought into proper relatiom? What are the main economic indicators or other factors to be taken into account?

(ii) Would there be any advantage in adopting price fixing formulae of the kind used in the United States and some other countries (e.g. parity or cost of production formulae)? What difficulties might arise?

(iii) Are official prices fixed, minimum or ceiling prices? How have they compared with world market prices? What has been the trend of official producer prices in recent years compared with (a) prices of farm requisites, (b) general price trends?

(iv) How are official producer price levels enforced? By government purchases? By regulating imports and exports? By regulating production? By buffer stocks? What are the main advantages and disadvantages of these various methods of price stabilization under Latin American conditions?

(v) Are there any examples in the region of stabilization funds or other devices for reducing fluctuations in farm incomes without necessarily regulating market prices? How far might they be suitable to the conditions of the countries of the region?

6.B. Measures to reduce costs and to raise productivity.

(i) What are the principal measures used in the region to reduce agricultural production costs and to raise productivity? How successful have they proved? Are there ways in which their effectiveness could be increased? Should they be more widely used?

(ii) How far could measures to reduce the cost and to increase the efficiency of marketing and distribution help to reconcile the twin objectives of providing greater incentives to expand production and of keeping down the cost of food to consumers? How far has the lack of marketing facilities tended to hamper agricultural expansion?

/6.C. Appraisal

6.C. Appraisal of Producer price and support policies.

(i) How far have producer price policies proved successful in achieving their main objectives? E.g. expanding output to meet the growing demand? In stabilizing farm prices and incomes? In contributing to general price stabilization? Etc. etc.

(ii) How far have producer price policies been successful in maintaining an appropriate balance in the output of the different agricultural commodities?

(iii) Are there any indications that the effectiveness of producer price policies (including incentive price for an expansion of production) has sometimes been reduced by the agrarian structure or other institutional factors?

(iv) How, in Latin American conditions, can the limited funds available be best apportioned between (a) direct producer price supports, and (b) measures aimed directly at increasing farm incomes by greater productivity, or by reducing the cost of production and marketing?

(v) Do taxation, revenue or import policies at times tend to reduce agricultural productivity, e.g. by restricting farm credit, or by making farm requisites scarce or expensive? How could any adverse effects be avoided?

7. Food price policies.

(i) What are the main objectives of food price policies? To stabilize the prices of staple foods? To check inflationary pressures? To reduce distribution margins? To raise food consumption levels generally or for particular sections of the population? Etc. etc. What measures are employed? What relative importance is attached to price ceilings, to regulating market supplies, to consumer subsidies?

(ii) Should price ceilings be imposed at the wholesale or retail levels or both? What is the general experience of enforcing such ceilings (a) with no regulation of market supplies, (b) with the aid of some regulation of supplies?

(iii) What are the main problems of regulating market supplies? How may this be most effectively done? E.g. by regulating exports and imports? By competitive buying and selling through official agencies? By other methods including rationing?

(iv) What are the advantages and disadvantages of the subsidies which have been used in the region to reduce retail food prices generally, or for particular groups of consumers?

(v) Has it been found useful and practicable to regulate distribution margins?

/(vi) How

(vi) How far do retail or wholesale price ceilings influence farm prices and farm production? How can any adverse influences be minimized?

8. <u>Price policies for agricultural exports.</u>

(i) What are the main objectives of current policies? To maximize government revenues? To maximize earnings of foreign exchange? To diversify exports? To increase the competitive power of export products on world markets? Etc. etc.

(ii) What are the main advantages and the main disadvantages or difficulties of operating the principal methods used in the region?

(a) Regulation of the volume of exports.
(b) State export agencies.
(c) Multiple and variable exchange rates.
(d) The aforo system.

(iii) Would stabilization funds of the kind used in Australia or New Zeland or other similar devices be likely to be of value in Latin American conditions? Could they be usefully combined with any of the measures listed under (ii)?

9. <u>Food and agricultural price stabilization and support policies in relation to the economy as a whole.</u>

(i) What measures have proved necessary in the experience of the countries of the region to coordinate price stabilization and support policies for agricultural producers, for consumers, and for the export trade in the interests of the whole economy, and to prevent the various measures cancelling each other out?

(ii) What have been the main sources of operating funds of food and agricultural price stabilization and support measures?

(iii) How has the final incidence of the burden of such schemes fallen as between agricultural producers, domestic consumers and foreign buyers? Has there been, in general, a transfer of funds to agriculture or from agriculture under the various schemes?

(iv) What in the experience of the countries of the region has been the main influence of the various measures on:

(a) Production efficiency in agriculture;
(b) Farm incomes;
(c) The adjustment of production to the growth of demand?

(v) What in the experience of the countries of the region has been the main influence of the various measures on:

(a) General price levels and costs;
(b) The level of international trade;
(c) The steady progress of economic development?

10. Conclusions.

What in the light of the foregoing discussions have been the main strengths and the main weaknesses of Latin American policies and measures in this field? What practical steps might be taken to increase their effectiveness?