

The role of agriculture in development

Discuss the role of agriculture in economic development

Essay plan

Introduction

- Define economic development: A sustained increase in economic welfare or living standards achieved through growth of GDP and equitable distribution of income.
- Describe agriculture in relation to developing economies: Agriculture is prevalent in developing economies, having a high share of both employment and GDP, and developing economies often have a comparative advantage in the production of agricultural products over developed nations. They are able to produce the same output at lower opportunity cost.
- Implications of this: Developing economies and developed economies can gain from trade with each other (*see notes on absolute and comparative advantage*).

Contribution of agriculture to economic development

- Provides goods for exports which generate export revenue which can be used to fund necessary imports and service external debt (interest payments on external debt).
- Increase in agricultural productivity releases labour for the manufacturing sector.
- Higher per capita incomes for those left in the production of agriculture which increases savings ratio and tax revenue.
- Food surpluses are generated for the urban population which increases the comparative advantage in export markets further.
- Agriculture becomes a less dominant industry measured by both employment and GDP. Employment decreases due to increased productivity of workers and proportion of GDP because there is a low income elasticity of demand for agricultural goods and the value of other goods and services produced in the economy has increased.

Limitations of the contributions agriculture can make to economic development

- Low status of agriculture, manufacturing/urban bias leads to poor performance of agriculture due to under-investment, poor rural infrastructure, failure to generate food surpluses and poor productivity growth due to low payments from state marketing boards.
- Explain why these points cause problems.

Conclusion

- Agriculture is necessary but has been prevented from following its role by policy mistakes. The solution is therefore to allow agriculture to play its role adequately.
- For example, price liberalisation, the removal of artificially low prices for foods, more investment in agriculture and rural infrastructure etc. Expand and explain these points.
- Link to a case study (Economic Review, February 2004, "Primary producers and the terms of trade" by Peter Smith).

Guidance

When writing essays avoid lists, instead aim to make connections and analyse points.

Essay

Economic development is a sustained rise in economic welfare or living standards achieved through growth of GDP and an equitable distribution of income. I intend to discuss the contributions agriculture can make toward economic development, the limitations of these contributions to economic development and then reach a balanced conclusion.

In developing economies agriculture is a dominant industry measured both as a proportion of GDP and as a proportion of the employment in the economy. This is because production is labour intensive and the agricultural activity constitutes a large proportion of GDP because there are few other industries in the economy.

Developing economies are likely to have a comparative advantage meaning they can produce the goods at a lower relative opportunity cost which gives opportunity for trade with developed economies, both of whom stand to gain from comparative advantages in the production of different goods and services.

The funds generated from the export of agricultural goods can be used to fund necessary important or to service external debt. Investment of these funds into capital for use in production of agricultural goods can free workers to move to the manufacturing sector. For those workers left their increased productivity through use of capital aids is likely to lead to higher wages for them.

The increased productivity means food surpluses are generated by the agricultural workers which can feed the urban population as well as exports. The workers who move to urban areas to participate in the manufacturing industry causes agriculture to become less dominant both measured by employment and as a proportion of GDP. The decline in proportion of employment occurs as workers move to the manufacturing sector and the decrease in proportion of GDP occurs as the value of manufactured goods and services increases.

In the UK's development there was initially a focus on agriculture; many economies now developing have not had this focus. Governments have often ruled with urban bias, the workers closest to the government and who are most important to keep happy. Through the use of state marketing boards the state creates a monopsony buyer of agricultural products who can exploit the farmers by buying at a price lower than the equilibrium level.

This means farmers make very little profit and the industry is not one firms want to enter and as farmers suffer lower incomes the industry suffers from low investment and a poor infrastructure due to the urban bias. This means productivity does not improve as rapidly as the theory suggests as there is little motivation for the investment. A large enough food surplus to feed urban workers and export is therefore not generated.

Agriculture is necessary for development and has a key role to play, but poor policy decisions in the past have stopped agriculture from fulfilling this role. These policy decisions must be undone to allow agriculture to fulfil its role in development.

For example, price liberalisation through the removal of the state marketing boards will allow price to rise from their artificially low state to one which encourages farmers to invest and new firms to enter the market, and so improve competition.

However there still exist problems as the export markets are not free or fair. Developed economies use tariffs to block goods from developing economies and the bias of domestic governments toward the urban industrial sector meant exchange rates were kept high to allow for cheap imports, but this blocked agricultural exports.

Gareth Jones - <http://cyro.cs-territories.com/>

Also, the decision must be made to follow large scale or small scale farming. Large scale farming can take the advantage of economies of scale and can create diversification to reduce dependency on the volatile primary product markets where in the long run prices have continually fallen due to technological development.

Small scale farming does not have the benefits of economies of scale but increased competition between farmers in the free market should lead to greater incentives for investment.

Whatever mix of small scale and large scale farming arises, government support is needed to provide infrastructure, training and skills to utilise new productivity-enhancing technology and protect infant industries

Homework

Complete the written essay.

These notes are from lessons on Friday 7th January 2005, Monday 10th January 2005 and a homework given in the lesson on Monday 10th January 2005.