

June 1965

LTC NO. 7

THE LAND TENURE CENTER
310 King Hall
University of Wisconsin
Madison, Wisconsin 53706

BROADENING THE DEFINITION OF FARM MANAGEMENT

BY

HERMAN FELSTEHUSEN

This paper is part of the unpublished proceedings of a seminar sponsored by the Agricultural Development Council on the role of farm management research for serving farmers in the developing world.

BROADENING THE DEFINITION OF FARM MANAGEMENT

Discussion Paper for ADC Seminar on:
"A Re-examination of Farm Management for Serving Farmers in the
Developing World"
Pennsylvania State University, June 25-26, 1965

By Herman Felstehausen
Land Tenure Center and Agricultural Journalism
University of Wisconsin

Farm management services in countries where they exist, developed mainly in response to a call from farmers for help in dealing with production problems and the symptoms of economic distress. In some parts of the world--notably North America and Western Europe--farmers have pioneered in the support and use of science to come to grips with technical and management problems. And what they have gotten for their investment is personally tailored advice on the application of technology and the recombination of farm resources to maximize profits.

We do not need to review here the success or the wisdom of these efforts. While farm management steps have produced outstanding results in the Corn Belt, for example, it is doubtful that the same success could have been achieved in the face of adverse local or national economic and social disorder.

There are two factors which seem particularly relevant to this discussion. The first concerns the nature of farms and farm people--the second the environment in which farm managers must act.

First, farm managers, and to a large extent farm management advisors, understand and are most able to cope with problems which can be solved by individual action, one farm at a time. In the United States and Western

Europe where farm management services are best developed, the family farm predominates. Farm operators are comparatively well educated and have a high degree of control over the farm resource. Both are areas where climate and soil provide productive conditions with little initial investment.

These conditions are often not present in the developing countries. In many parts of Latin America one simply cannot talk about family farms as we know them. Throughout Asia, Africa and Latin America many rural people are fortunate if they receive two to three years of formal education. And parts of each of these continents have soils and climates--especially the tropical regions--which are not well studied or understood.

Second, the performance success of a farm firm is determined not only by the skill with which the resources at hand are managed, but also to a large extent by the economic, social and political environment in which the farm manager must operate. Thus a farm management decision is really made up of two broad elements: 1) A set of conditions and factors unique to a given farm such as its size, capitalization, mechanization, cropping history, labor supply, market outlets, etc.; 2) A set of conditions and factors which a farmer faces in common with other farmers in his class such as prices, tax rates, regulatory measures, wage levels, availability of technology and access to resources.

In short, a management decision is not simply a matter of bringing pertinent farm and price information to bear on a production problem while taking the social and economic setting as given. While farm management decisions can often be made in the U. S. by assuming that economic conditions will remain fairly stable and any new gains will accrue to the farm operator, this

is not necessarily the case in many parts of the world. To define farm management more broadly means bringing into management concerns not only questions of the organization of the farm resource but also questions about the operation of the economic and social institutions within which the farm must function.

In such a setting, farm management and policy are meshed together. The larger definition also assigns a broader role to farm management research. It calls for taking industry-wide changes into account while at the same time influencing the kinds of social and economic working relationships which survive. This broader view seems necessary if farm management goals in emerging nations are to be properly understood.

The ability to change economic and social institutions in Latin America, Africa and Asia is vitally important to providing peasant farmers a greater degree of security for their resources, opportunities for education and better living and assurances of a reasonable return for labor. In many of the developing nations, the institutional barriers appear to be greater obstacles to improving agricultural production and rural welfare than are the technical problems.

The Land Tenure Center with which I am associated at the University of Wisconsin, has been studying farm structure and processes of development in a number of Latin American countries for several years now. In Chile, for example, land ownership is a privilege enjoyed by a small percentage of farm families.^{1/} And with the ownership of resources often go the products of labor. The working class in Chilean agriculture in 1954 made up more than

^{1/} Peter Dorner and Juan Carlos Collarte, "Land Reform in Chile: Proposal for an Institutional Innovation." Research Paper, Land Tenure Center, University of Wisconsin. 1964.

92 percent of the agricultural population, but received less than 35 percent of the total agricultural income. The agricultural population comprising 30 percent of the total population produced less than 10 percent of the gross national product. Meanwhile, net agricultural imports have exceeded 100 million dollars in recent years. Increasing agricultural productivity and improving the welfare of peasant farmers necessarily become concerns in this setting.

But with a broader concept of farm management we have the problem of helping the farm operator participate in the broader changes of the economy and to relate that activity meaningfully to his individual farm decisions. We have not been totally successful in this country in achieving that degree of understanding. But our experience in this respect may be useful.

While farmers in the United States are better educated than ever before and are adopting new technology at an ever increasing rate, they are not necessarily aware of the implications of their collective actions. Willard Cochrane concludes from his experience as economic advisor to the secretary of agriculture, "Many farmers have become good practicing production economists. ...But farmers almost to the man do not understand and appreciate the aggregate, or industry-wide, implications of individual firm and consumer actions." ^{2/}

In the developing nations even more than here, structural problems in agriculture can often overshadow the small gains made by improvements in technology or better resource combinations at the farm level.

^{2/} Willard W. Cochrane, "Some Observations of an Ex-economic Advisor: Or What I Learned in Washington." Journal of Farm Economics, Vol. 47:2 (May 1965), pp. 447-461.

On the basis of experiences in Latin America and elsewhere, here are several thoughts on developing a broader functioning farm management concept.

1) We need to learn more about successful ways of increasing the kinds and usefulness of production and management information going to peasant farmers.

Marion Brown,^{3/} working with the Land Tenure Center group in Chile, is experimenting with a simple information service in the form of mail-out advisory sheets explaining basic farm practices. The farmers receiving the information are small land owners under a Chilean land redistribution program. The study is not yet completed, but there appear to be encouraging possibilities for reaching farmers with a comparatively small investment in spite of illiteracy and problems with mail service.

2) Local and national programs for agricultural development need to remove barriers which prevent farmers and farm workers from organizing. Legislation to carry out reforms needs to give some consideration to what it does to foster rural organization.

There are several sources of evidence to support this point. First, experience in Latin America is beginning to indicate a relationship between effective campesino organization and effective agrarian reform.^{4/} The role of organizations is to press for reform measures and to see that they are effectively executed. Some argue that the participation in organizations must be voluntary to be effective, but participation in compulsory government programs may, in some cases, also be useful.

^{3/} Marion R. Brown, "Sources of Information for New Land Owners," First Interamerican Symposium on the Role of Communications in Agricultural Development Proceedings, Mexico City (October 1964).

^{4/} John D. Powell, "Preliminary Report on the Federación Campesina de Venezuela," Research Paper, Land Tenure Center, University of Wisconsin (September 1964).

Second, farm people need channels of information and contact which will furnish them with the arguments and rationale to interpret complex problems of change. One of the areas farm management researchers need to consider more fully is the role of local groups, marketing cooperatives, credit institutions, etc. in providing the meaningful associations farmers need to use macro-economic information in farm planning.

In a study I was involved with in the Netherlands two years ago, we tried to learn why it is that farmers demonstrate a kind of selective competence to economic knowledge.^{5/} The study was made in a moderately traditional rural community. We found no lack of ability to understand complex economic processes, provided--and this appears to be the key--that the farmers could participate in the process personally or through a meaningful example while observing the economic effects of their own or their group's actions. And aside from formal education, organization participation was the most important factor in explaining levels of economic knowledge.

We were, in fact, enough surprised by the degree of economic competence displayed by this group of Dutch farmers that we decided to try the same test of economic knowledge on senior high school students in an adjacent city as a comparison. On an average, their performance was poorer than that of the farmers, but again a selectivity of economic knowledge appeared.

The concept "guaranteed price," for example, was well understood by the farmers--all of whom had dairy cows and were assured a minimum price for milk under a government program. This gave them an operational example. The high school students did poorly on the same concept.

^{5/} H. H. Felstehausen, "Economic Knowledge and Comprehension in a Netherlands Farming Community." Social Science Bulletin No. 26, Agricultural University of the Netherlands, Wageningen. (1965) (In print)

On the other hand, the high school students understood industrially related terms like "labor productivity" better than did farmers.

3) Farm management research in countries where rural institutions are undeveloped may be more productive if it would start with studies of farm supply, marketing and service organizations and relate this information to several farm cases.

A crop production decision on a commercial farm in Latin America, for example, is strongly linked to considerations of what can be done about credit, markets, land and water, transportation, wages, and other considerations.

Michael Sund found in a study of farms in Northeast Brazil that one could make very few recommendations to improve farm performance in the absence of development elsewhere in the rural sector.^{6/}

4) Farm management advice depends on the existence of abundant basic data about agriculture and commerce. Often such data will not be collected until its potential usefulness to the broader range of farm decisions is demonstrated through research and study of rural development problems.

5) Farm management researchers in developing countries need to look for successful examples of reforms and institutional changes to get insights for planning larger programs of development.

Peter Dorner has pointed out that in spite of the dozens of proposals and laws to establish agrarian reforms, few attempts have been made to write down even a suggested list of steps and procedures which would have

^{6/} Michael D. Sund, "Land Tenure and Economic Performance of Agricultural Establishments in Northeast Brazil." Unpublished Ph.D. thesis, Agricultural Economics, University of Wisconsin (1965).

to be followed to carry out the reform program.^{1/} These steps, when they come, will of necessity involve important management decisions and will bring farm management advisors into the area of social and political as well as economic issues.

In conclusion, it would seem that whatever scope farm management may come to include in emerging nations, its usefulness as an economic tool will depend on how well it can bring industry-wide economic and social considerations to bear on farm level organization and decision. Farm management economists can play an important role in developing this new definition.

^{1/} Peter Dorner, see footnote 1.