

we will only try to complete the findings presented there. The relevance of problem 162 to practical policy, already stressed, may be taken as an excuse for emphasising some of the conclusions derived from it. The *important role of the wage rate as a supplementary instrument in an open economy* is confirmed. An equally important instrument may be found in *indirect tax rates*, because of their immediate influence on consumer prices and hence on national expenditure. In many countries wage rates are not considered a feasible instrument of economic policy in that government intervention in wage negotiations is not considered desirable; it may be questioned whether this attitude is wise in the long run. With an increasing desire to consider full employment and a constant price level as important targets of economic policy the need for these instruments will have to be recognized.

4.282 *Monetary policy*, on the contrary, looks less promising. There are important arguments to be given in favour of constant or almost constant *rates of exchange*. Once they are recognized as an instrument of current economic policy there will be a tendency to use them for everything. It seems better to have them in reserve for emergencies. *Discount policy* has a very restricted influence; its influence on general activity is very limited and its influence on the balance of payments of a small country, though more important, is only temporary. The only monetary influence of importance is *credit rationing*, which, from its nature, only works one way.

4.283 Finally, as an instrument of economic policy *productivity* has some considerable peculiarities. Although it represents, without any doubt, a vital factor in the long-term world-wide development of wellbeing, it can evidently work in a paradoxical way, in the short run, in isolated countries and accordingly should be handled with some care. From our example we showed the usefulness of "*directed productivity increases*".

4.3. Example of Sector Policy in an Open Economy: Agriculture

4.31 An example of sector policy in a closed economy was discussed in § 3.7, where the features specific to sector policy were mentioned. These will also be found in the present example. In addition it will

show some features characteristic of an open economy. Agriculture provides a good example of a sector in an open economy since most agricultural products have international markets. Foreign policies will, as a consequence, exert a considerable influence on national agriculture. An independent price policy for agricultural products will only be possible if trade impediments are accepted as one of the instruments. An important question for the design of a national agricultural policy is whether the aims of that policy coincide or do not coincide with those of international policies, if these exist, or with the combined outcome of foreign policies as far as they are relevant to the market concerned.

4.32 Our example, agriculture, is a very specific one, itself characterized by a number of features that are decisive for the policy being devised. They are:

- (a) the existence of random fluctuations in production, that cannot be foreseen and usually create a deviation between intended and actual production;
- (b) a low elasticity of supply: prices cannot exert a short-term influence on the volume of product available, especially of crop products;
- (c) a low elasticity of demand: prices cannot, in the short run, exert much influence on the quantity demanded, particularly of primary food;
- (d) a time-consuming production process: crop products often take more than half a year, some even much more, whereas meat and dairy products, as far as dependent on the numbers of livestock also require years, sometimes many years;
- (e) the existence of seasonal fluctuations of different types;
- (f) in many western countries agriculture is a well-organized industry, able to carry out a number of measures of regulation, either of prices or of production or trade;
- (g) usually land is in short supply, at least in the densely populated areas; and in particular in the country taken as an example here, the Netherlands, there is the additional characteristic
- (h) of high fertility of the soil.

4.33 As our example we not only take the situation prevailing in

Dutch agriculture but also the agricultural policies of the Netherlands government. Its aims may be said to be, loosely speaking ¹:

- (1) agriculture should make a maximum contribution to national income, under the following conditions:
- (2) agricultural income should at the same time be as stable as possible;
- (3) it should be reasonable in comparison to the incomes earned in other industries;
- (4) it should be regionally well distributed, and
- (5) the seasonal pattern in labour demand should not show too wide fluctuations.

A more precise formulation will only be possible if certain of the rather loose terms have been given an exact meaning; evidently there is, in the minds of the policy-makers, a system of preference scales with regard to the degree of stability, the ratio of agricultural to other incomes, the regional distribution and the amplitude of seasonal fluctuations in labour demand, each of which have to be defined. These preferences should be given numerically if any precise and consistent policy is to be designed; in practice the relative weights are, of course, a question of feeling. They provide good examples of the target variables that may be chosen in a more elaborate economic policy.

4.34 The instruments needed in order to carry out a policy with so many aims must, of course, be numerous. Nevertheless there would seem to be quite a variety of possibilities. Historically there has been, during the period the policy was carried out, some shift in emphasis, in line with the general trend of preferences. Immediately after World War II a larger number of instruments was used than in later years and gradually a considerable extent of freedom was introduced. This was partly due to the fact that, in the beginning, a detailed intervention in consumption was also considered necessary. The instruments

¹ The terminology is loose in that the following expressions are of doubtful clarity: (a) the contribution to national income made by agriculture; (b) it should be a maximum and (c) agricultural income should be reasonable. Probably a better formulation of the aims would be that total real income for the country should be a maximum (account taken of the sacrifices made) and that the distribution of benefits and efforts over the various sectors should be reasonable; but, even then, much remains to be explained (cf. §§ 1.4 and 1.5).

that were used are the following: import duties or subsidies, export duties or subsidies, price subsidies to the consumer, quantitative restrictions in imports and exports, the regulation of production, periodic stock accumulation and liquidation, and rent and wage control. With liberalization of trade developing in Europe, several of these instruments have been given up, in particular, quantitative restrictions on trade and price subsidies to the consumer. Accordingly, some of the aims have had to be given up or to be interpreted more loosely. Regional distribution of agricultural income, to quote one example, may be influenced in a very precise way as long as the prices of all separate products are regulated; if only a few prices are regulated, however, only a loose influence on regional distribution can be exerted.

4.35 The use made of some of the instruments in order to attain the set aims may be illustrated by a few examples. It goes without saying that a complete and thorough discussion would require a rather more complicated mathematical treatment than it is intended to offer. The policy obviously has to be flexible, since world market conditions change rapidly; in principle the production pattern has to be adapted to the profitability of world market prices. A complete adaptation in this sense would, however, mean that absolute priority would be given to the first of the aims mentioned before; corrections will be needed in order to satisfy the other aims. The extent of these corrections must depend on the relative weight given to the other aims as well as on the influence the corrections exert on the target variables. In view of aim (5), rather less of products with very wide fluctuations in labour demand and rather more of products with small fluctuations will have to be chosen. World market prices may be considered to be abnormal because of exceptional crop conditions; either too low or too high. Accordingly it may be thought better [cf. aim (2)] not to let national prices follow world prices for this would yield either too low or too high incomes to farmers, and place consumers in either a too favourable or a too unfavourable condition; and it would perhaps induce farmers to production patterns which, in the following year, when the products become available, would no longer be considered attractive. In order to regulate internal prices, then, duties or subsidies will be needed. For products of which the country has a deficit and

so is importing, these duties or subsidies will have to be applied on the import side, while for products of which there is a surplus in the country, export duties or subsidies may be necessary.

Stabilization of farm income may also require direct regulation of production; this applies particularly to time-consuming processes, such as pork production. Here the well-known endogenous cycle, which does not serve any useful purpose, may be eliminated by such regulation.

To the extent that agricultural incomes are high in comparison to other industries with due account taken of differences in the quality of labour required [cf. aim (3)]—a fact that may be due, for example, to the high fertility of the soil—prices to consumers may be fixed at a lower level than world market prices. These again will have to be accompanied by certain regulations at the frontier. In addition there may be need for rent control, the more so if the supply of land is very restricted. On the other hand aim (3) or (4) may sometimes require price regulations in favour of farmers as well. This may be possible if incomes in certain regions depend largely on one product and there are no other possibilities of assisting the regions concerned in the short run. In the long run shifts in production will be the better solution.

4.4. Quantitative Economic Policy Where Policy-Makers are Many: (1) International Quantitative Policy

4.41 So far we have assumed that the responsibility for the design of economic policy is the concern of one single unit or at least of a group of agencies and persons acting as one unit: in brief, that there is only one “policy-maker”. We will now consider cases where there are a larger number of policy-makers, that is, of centres of action in the field of economic policy. Evidently, the assumption of the existence of only one policy-maker applies approximately if one single country is considered.¹ It certainly does not apply to the international community, and even in one nation there may be, in reality, more than one centre of action. In this §, some attention will be given to international economic policy. In accordance with the subject matter of this chapter we restrict ourselves to quantitative policy.

¹ Cf., however, §§ 8.3 and 8.4.