

Unlike the case of rice, however, there has been no adequate government price support for barley at least at a level that could ensure a comfortable profit margin to the farmers. For example, according to a recently announced pricing scheme for 1981, the margin between the government purchase price and the production cost of barley (excluding the implicit costs) was 2,531 won per bag. This implies an "operating profit" rate of some 9 percent in barley production. Consequently, barley has been grown only as a marginally important, winter-crop revenue source by farmers whose "opportunity" incomes during the idle season are insignificant. Like white potatoes, barley is an inferior good; as farmers' real incomes rise, its consumption tends to decrease as consumers substitute rice for barley. Thus, over the years, the Government of Korea has accumulated sizeable quantities of barley in storage. The barley-growers have generally been apprehensive of the possibility of sudden reductions in the government purchase of barley. The government's purchase decision is, as a rule, announced at the time of the harvest.

Soybeans yielded positive profits in 1977, but resulted in negative "economic profit" in 1980. Like white potatoes, the area planted in soybeans has somewhat declined since 1977.

4. Government Policies

It must be emphasized that in addition to per hectare yields and related production conditions, another major determinant of profitability in crop production is the government's pricing and purchase policies. The Korean Government instituted in 1969 a two-tier pricing system consisting of government purchase prices at the farm gate and selling prices to urban dwellers for rice and barley. The consumer price has since averaged twice that of imported rice. In an effort to subsidize farm producers, the government has also kept the purchase price of rice far above the consumer cost. As a result, in each year since 1968, the government has incurred deficits in the general account by issuing overdrafts on the central bank, which has of course added to the inflationary pressure in the economy. In the case of barley, the Government, in spite of relatively unattractive farm gate prices offered the farmers, has also provided a substantial subsidy to the growers by keeping consumer prices low. The economic implication of farm pricing policies in Korea is significant. If the social profitability of rice (and barley, of course) is to be calculated in terms of its accounting prices (international market prices), it would be unprofitable to grow rice and barley from the society's point of view. It is clear, however, that the farm price support policy in Korea seeks achievement of the political objective of self-sufficiency, and not that of achieving resource-allocation efficiency.

A related issue concerning the farm support policy is the timing of the government's decisions for purchase quota and prices. The decisions are as a rule announced around the time of the grain harvest for the produce that has already been harvested or is going to be harvested. The uncertainty and risk caused by the government delay in action has additionally lowered the farmer incentives to grow barley as a winter crop.