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# FOREIGN AFFAIRS AND THEIR RELATION TO AMERICAN AGRICULTURE— ECONOMIC ASPECTS

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## I. Introduction

This is a very broad assignment, and to make any progress I have been forced to chart my own course with regard to points to discuss and ways of discussing them. So let me begin by considering the American agricultural problem in three possible world situations.

## II. Three possible world situations and the place of American agriculture in them

- A. Nuclear war and world holocaust. Here I have nothing to say; I have no idea what world needs, the state of food and agriculture, and so on would be like in this situation. I leave this situation to RAND Corporation planners.
- B. Limited, but hot wars of the Korean type. In this world situation:
  1. Present surplus stocks would turn into valuable reserve stocks overnight.
  2. Government price objectives would shift from supports to goals.
  3. We would expand output rapidly. Pushing production is what we enjoy, and what we do well.
  4. With the return of peace we would be even more overexpanded relative to conventional *commercial demand*, than in the 1950's with more intense adjustment problems in agriculture.
  5. Hence, in my opinion, flashing hot wars interspersed with intervals of peace mean more and more governmental intervention in agriculture, some of it pleasant, some of it unpleasant.
- C. A continued uneasy peace with war alarms and power politics, but no serious shooting.
  1. This situation seems to me to be a distinct probability; further, it is the interesting case as far as American agriculture is concerned, and it is the situation with which I will be concerned in the remainder of this talk.

2. The problem for American agriculture in this situation is how to live and prosper in a state of overabundance, how to manage the growing excess productive capacity of American agriculture to advantage at home and abroad.
  - a. The major outlines of a policy designed to do this, was the subject of my presidential address at Ithaca and I will not give a complete repeat performance here, but I would like to point out that such a policy solution involves two integrated lines of action.
    - (1) A long-run program designed to use the excess productive capacity of American agriculture to support economic development in underdeveloped countries.
    - (2) Comprehensive supply control to adjust supplies to demand, at a fair price, commodity by commodity, year after year.
3. The above policy conclusions rest upon the following line of reasoning:
  - a. Aggregate farm output is outracing aggregate commercial demand (foreign and domestic).
    - (1) The annual rate of increase in aggregate output exceeds the annual rate of increase in demand by .5 percent.
    - (2) This imbalance is likely to become worse rather than better.
  - b. The food and fiber needs of the underdeveloped countries are great and growing.
    - (1) I estimate the caloric gap of the non-Communist underdeveloped world to be 30 to 35 million metric tons of wheat per year.
    - (2) This gap is widening rather than narrowing.
  - c. Food and fiber can be used to finance development—to support capital formation and increase worker productivity.
    - (1) In the main, present surplus disposal is not inducing development.
    - (2) We are simply getting rid of our surplus stocks.
    - (3) But with some substantial but not impossible revisions in our surplus disposal policy we could make an im-

portant contribution to economic development in these countries.

- d. But an effective linkage of foreign needs to our excess productive capacity does not solve the American farm problem.
    - (1) It temporarily moderates the pressure of supplies on demand.
    - (2) But the present heavy pressure of supplies on demand can be expected to rebuild again within a few years.
  - e. Thus, any permanent solution to the American farm problem demands effective, comprehensive supply control—commodity by commodity, year after year.
4. In the remainder of this paper I want to consider certain foreign developments and their interaction with the above lines of action in the context of continued but uneasy world peace.

### **III. A thesis concerning economic development prospects in underdeveloped areas**

- A. Emerging in several places is a thesis, to which I subscribe, that Communists have a distinct advantage over us in promoting economic development in underdeveloped countries. The thesis<sup>1</sup> runs as follows:
- 1. The underdeveloped peoples aspire with a consuming desire to develop themselves in 20 years—not 200. (*This is the crux of the matter.*)
  - 2. The Communists tell them that if you follow us you can do it—and they point to the U.S.S.R. and now China.
  - 3. So a country with no tradition or experience with Western democracy *and great poverty* takes the Communist route complete with central planning, state police, and propaganda machine. The central Communist party with its rigid doctrine, drive, and police force substitutes for tradition in controlling and directing the lives of the toiling masses. No loss of freedom is experienced since none existed in the first place—except for the few very rich whose heads roll in the substitution process.
  - 4. In this context capital is rung out of the hides of the people whatever the cost in human lives and suffering—but capital is formed and productivity is increased.

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<sup>1</sup>Conrad Hammar, who spent a decade in various overseas programs following World War II, is now writing up this thesis; it is touched upon in the many writings of Hans Morgenthau, the famous University of Chicago political theorist; and it is stated forcefully in the article by Zbigniew Brzezinski entitled "The Politics of Underdevelopment," *World Politics*, Vol. 9, October 1956.

5. Further capital is formed readily where the private profit motive will not take it—in schools, roads, canals, irrigation projects, etc.—and where it must go in great amounts to support *rapid* industrialization in backward countries.
  6. After the cost has been paid for and buried, in human sufferings, the Communists can then point to another “success”—a developed economy. Central planning, continuous propaganda, and a police state permit a Communist government to do what a democratic government cannot do—form capital *rapidly* at the expense of human dignity and human lives. This is the Communist advantage in underdeveloped countries.
- B. Let me point out that all eyes are going to be on China and India in the 1960’s—comparing the development of those two countries.
1. If India falls way behind China in the development race, then we can say good-bye to India.
  2. And when India goes—so does all the underdeveloped world in Asia and Africa.
- C. Thus, I argue that we must in our national self-interest, whatever the cost, transfer huge amounts of capital to India and other key underdeveloped countries (e.g., Egypt, Turkey) and help them transform that capital into going productive economies—help them make the leap from underdeveloped areas to developed areas in a few decades. This help must take many forms.<sup>2</sup>
1. Technical know-how (economic, administrative, production practices).
  2. Raw materials.
  3. Machines and equipment.
  4. Food.
- D. Now all of these avenues of assistance are important, and all must be traveled in mass, but let me concentrate on the last, namely food.
1. We have surplus capacity in food production, which is a problem to us, and we have the opportunity here to use it wisely and constructively if we will (i.e., to induce and support economic development).
  2. We have the knowledge to use this surplus food producing capacity wisely and constructively.

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<sup>2</sup>For a directly opposing view see the article by Milton Friedman, “Foreign Economic Aid: Means and Objectives,” *The Yale Review*, Vol. 37, June 1958.

3. Thus, I make this plea to all agricultural economists, extension and research workers alike, that they go all out and convince the relevant groups in American life of:
  - a. The need to make a major contribution to the development of the underdeveloped countries.
  - b. The important role that food can play in the development process.
4. Extension economists can do this by developing strong educational programs on this foreign problem.

#### **IV. Problems and potentialities of American agriculture vis-a-vis developed economies and competing export nations**

- A. If we continue to provide the agricultural sector in the United States with price and income support, as I am sure that we will and as most every country does to some degree, then it is almost certain that our domestic farm prices will be above those of most other export countries and that we will have difficulty selling our farm products abroad.
  1. In this real world context there is much pressure in Congress, representing specific commodity groups, to sell our products abroad competitively for dollars for whatever it will bring, and make up the difference out of the treasury—in short to engage in old fashioned dumping.
  2. But this, of course, is where we run into trouble with our Western friends and neighbors who have less well fixed national treasuries.
- B. The problem here is—how do you sell on the commercial world market from a base of a planned and income-supported agriculture when you also happen to be the richest country in the world?
  1. Third parties do not worry too much about this problem when the exporting country in question happens to be New Zealand, or the Netherlands, both of which have government stabilization programs of one kind or another for agriculture, but also have limited public treasuries.
  2. An answer often given to this problem by persons not engaged in farming is to pull the price-income support rug out from under agriculture and let it operate in a free market.
    - a. But, as most of you recognize, I do not consider this to be a wise policy for many reasons.

- b. Further, you should be aware that most of our foreign competitors would hate very much to see us “jerk the rug.”
  - c. They just don’t want us to use our public treasury to run them out of business.
- 3. The solution that I would suggest in this context is a system of International Committee Agreements.
  - a. Formulated multilaterally with both import and export nations represented in the agreements.
  - b. Where an agreement price is arrived at through compromise and “horse-trading” around the agreement table.
  - c. Where both import and export nations agree to take and to ship specific quantities over given periods.
- 4. This is not an ideal solution, for the strongest national power (probably the U. S. in most instances) could and would still throw its weight around and adversely influence the economic position of lesser powers.
  - a. But at least all could see what was going on, and various alignments of power could be pitted against the strongest country in the bargaining process.
  - b. In other words, the International Commodity Agreement provides one kind of a multilateral trading arena in which the various national interests may be advanced and countered in arriving at a sort of equilibrium price and quantity solution.
- C. In sum, given state intervention in foreign trade in most countries, governmental intervention in agriculture in our country and almost every other export country, and unequal national powers (in terms of military might and public treasury), I don’t see any reasonable alternative to multilateral International Commodity Agreements for the commercial segment of agricultural exports.
  - 1. And we should be taking the lead in their formulation and development rather than talking piously about a free world market while we are looking for a place to dump on the world commercial market.