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USING SURPLUSES FOR ECONOMIC DEVELOPMENT¹

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I

THE subject before us today arises largely from the recent history of U.S.A. disposals of agricultural surpluses, particularly those under Public Law 480. This law² defines a surplus agricultural commodity as that amount, whether publicly or privately owned, which may be 'expected to be in excess of domestic requirements, adequate carryover, and anticipated export for dollars'.³ I need no table to remind you that surpluses so defined have been and are still very large, especially in wheat and some other grains, cotton, and tobacco. Some of these surpluses continue to grow rapidly despite the vigour of the disposals programme.

In approaching our subject—the use of surpluses for economic development—it is important to emphasize that both opportunity and problems arise from the historical fact of surpluses. Surpluses have not been produced to meet a recognized need. To the extent that surplus disposals have been useful in promoting economic development, the result is more accidental than due to intelligent national and international planning. It is not my purpose to speculate on the policies which brought the surpluses into existence. It will be relevant, however, to some of the conclusions I reach, to judge

¹ My debt to several writers in this field will be evident in the ordinary way of acknowledgement. Special thanks are due to two of my colleagues at the Australian National University: Mr. E. K. Fisk, Senior Research Fellow, and Mr. R. K. Hefford, Research Assistant. Both have offered constructive criticisms which I have gladly used. Mr. E. S. Hoffman (also cited later), a member of the Wheat Mission to Japan, India, and Indonesia and a former colleague of mine in government service, has likewise offered helpful comment. A less easily definable but very real debt is due to those many officials of several countries with whom I have been associated in recent years. My official past (Secretary, Department of Trade, Canberra) explains my interest in the policy decisions governments have to make in this complex field of aid generally, and on food disposals as a particular form of aid.

² The Agricultural Trade Development and Assistance Act of 1954, better known and more easily referred to as P.L. 480. The bulk of disposals are under Title I which permits sales for local, non-convertible currency.

³ The fact that some P.L. 480 sales may immediately or ultimately lead to some dollar returns does not affect this definition. Without the P.L. 480 disposals the commodity would be surplus in relation to normal export expectations.

whether the surpluses programme should continue to be regarded as temporary or accepted as more likely to be permanent in one form or another.

Again, it is not my task to pass judgement on the mixed objectives of P.L. 480. As stated by Congress, the objectives include the promotion of economic stability for American agriculture; expansion of international trade in agricultural commodities; 'to encourage economic development' and promotion of the collective strength of the free world.¹ Many writers have made judgement for me:² the marriage of domestic problem and overseas need is, or has been, a shade too convenient. Cochrane concludes that 'emphasis in these programs has been on surplus disposal rather than on the development needs of the recipient country'.

Many writers consider that the disposals programme may have done no more than postpone the day of reckoning for U.S. farm policy. Nevertheless, we hear more and more of the opportunity these surpluses provide for promoting economic development. Schultz, appearing to prefer more flexible forms of aid, questions the notion 'that U.S. farm surpluses are a powerful resource for economic growth in the under-developed countries that receive them'.³

It is this notion that I wish to examine. While I believe a large part of my remarks will have general application, most of my illustrations will be drawn from the example of wheat. India will be cited most frequently. My official experience is most relevant here. In any case, however, wheat is the most important commodity in P.L. 480 programmes and India—traditional market for Australian wheat—the most important recipient.

I propose to suggest that certain uses of surpluses do contribute to economic development in ways over which there will be few serious doubts. Famine relief, continuing charity to the starving, building up national reserves as buffers against the ordinary vagaries of supply in under-developed areas, will command widespread support. Again, in short-run periods surplus disposals may prove to be the only way domestic supplies can be supplemented as a means of raising the calorie intake of a growing but seriously underfed population. In all these cases it would readily be conceded that productivity of workers and therefore economic development is likely to be enhanced.

¹ See the Act, *op. cit.*, and Willard W. Cochrane, 'Public Law 480 and Related Programs', *Annals Amer. Acad. Pol. & Social Science*, Sept. 1960.

² See especially Cochrane, *op. cit.*, and T. W. Schultz in *Journal of Farm Economics*, Dec. 1960.

³ *Op. cit.*, p. 1021.

Beyond this point the argument becomes both more difficult and more controversial. It is best handled in terms of real resources, although the financial complications associated with the method of disposal and the creation of counterpart funds cannot be ignored. These funds are the source of the illusion, so well described by Prof. Mason, that one dollar can do the work of two.¹

My own view will emerge. It is that food disposals can help development. I will suggest there are less complicated ways of achieving this objective through foreign aid. Nevertheless, I expect for various reasons, including the fact that the surpluses are with us still, and because there is a marriage of convenience, that food disposals will continue as a programme. It is not the most efficient way to dispense aid. Given the surpluses, however, they ought, in my view, to be used as effectively as practicable in promoting economic development. While it is not an impossible concept, I do not suggest we should (or that the United States should) set out, in the absence of commercial stimuli, deliberately to produce surpluses as a form of aid.²

II

I will devote very little time to the less contentious issues before us. This, however, is not a measure of the importance to be attached to efforts to prevent mass starvation, to build reserves against shortages which can lead both to political unrest and economic trouble in the form of inflation.

Straightout gifts of food are both physically possible and politically probable when natural disaster threatens supply. The threat of famine, whether caused by flood or drought, will always evoke a humanitarian response from those holding surpluses.³ In a less dramatic way, Title II of P.L. 480 can be used for programmes by 'friendly governments' to relieve continuing food poverty and for the relief of

¹ See especially his fine article: 'Foreign Money We Can't Spend', *Atlantic Monthly*, May 1960. The article is developed around the need to realize 'that, in fact, one dollar cannot do the work of two.'

² On the other hand, food disposals may become accepted by Americans as a more or less integral part of a price support policy for American agriculture. This would be part of the marriage of convenience since to rationalize disposals as a form of aid would be to soften criticism of the price support programme.

³ Political difficulties are not, however, automatically overcome. China presents a difficult case in which humanitarian response may be stifled not only because of political relationships but also because of doubts about the facts of the situation. Nevertheless, Title II would seem to make legally possible relief to the *people* of China if need and mutual U.S. and Chinese willingness were to coincide.

malnutrition in various areas served by missions and charitable organizations. Such efforts are small in relation to the total problem of food supply.

To the extent that food relief maintains or lessens a fall in minimum food standards enjoyed by workers it can be said to aid development. This can be assured by the building up of national reserves. On this much has been written especially by F.A.O. officials and advisory groups. It makes sense to have buffer stocks designed to offset the natural fluctuations in crop production in under-developed countries.

Not only do such reserves, if properly maintained, offset physical shortages from time to time, but they are capable of minimizing the harmful economic effects of price fluctuations. I agree with Schultz that smoothing out the fluctuations in farm product prices in India in a way that lessens uncertainty in the minds of producers is likely to help production, rather than hamper it—'even if average prices over 3-or 5-year periods were somewhat lower than they otherwise would be'.¹

There is scope here for international action to build reserves earmarked for agreed famine relief and economic buffer stock operations. Some of these reserves could be held in the countries of likely need and some earmarked in surplus producing countries. For various reasons of international politics and finance beyond the scope of this paper, little progress has been made in establishing national food reserves—despite favourable U.N., F.A.O., and E.C.O.S.O.C. resolutions.² It is pleasing to note that both India and Pakistan wish to use P.L. 480 supplies for these purposes. Yet more than food is required (e.g. storage and handling facilities). To me it seems a pity if a concept which could capture world imagination and support—food reserves to stabilize supplies where the need is greatest—is apparently to be left to bilateral rather than more widely international arrangements.

As already observed, famine relief and reserves designed to stabilize food supplies may serve to sustain a minimum level of nutrition. To raise standards at any point of time requires less waste in use, or increased production or imports or both. Whatever the source, any increase in food supplies *per caput* in areas where people are not well fed is likely to help economic development at least

¹ Op. cit., p. 1029. There are, of course, many obstacles to increased productivity other than price uncertainty. Moreover, whether stable or unstable, prices must be adequate to allow farmers to purchase factor inputs as well as consumer goods.

² See Director General's comments (paras. 54-62) on Report by an Expert Group (March 1961) on 'Development Through Food: A Strategy for Surplus Utilization'.

indirectly.¹ As Schultz says, 'the increase in the intake of food also acts as a kind of "producer good" in enhancing the energy and strength and thereby the amount of productive work that is done'.²

In this connexion, R. K. Hefford has made two estimates of interest. He has estimated that disposals under P.L. 480 (Title I) to India (all foodstuffs) from 1 July 1954 to 30 June 1961 represented a gross average *per caput* calorie intake per day for that period of 77 calories.³ This compares with an estimate of 2,050 calories *per caput*, total intake for 1958-9.⁴ It is open to some question, since Title I disposals are sold in India through the commercial market, whether this significant average addition was received by those sections of the population most in need.

Hefford has further estimated that if current P.L. 480 foodstuff disposals were raised by the amount by which C.C.C. stocks have recently increased each year *after* disposals, there would be enough in the increased level of disposals to raise average daily *per caput* intake in south and south-east Asia (excluding China, Japan, and Soviet Asia) by 214 calories. I mention this figure only to suggest that while overseas wheat supplies are marginal to food supplies in the region, surpluses are not to be dismissed as of no account nutritionally. If significant nutritionally they may be significant economically. I say 'may' since it is not clear what the marginal productivity of 100 calories per day is.⁵ Moreover, if labour is in relatively abundant supply, raising the capacity for work per individual may not be a major objective. Nevertheless, such considerations may well be relevant to a decision whether or not to import more food concurrently with plans for increased investment.

All this suggests that P.L. 480 disposals could be, and may have been, an important indirect factor in Indian productivity. To give these supplies full credit is to assume that they were completely additional to commercial imports—an assumption at least open to argument but wisely ignored at this stage.

¹ As Prof. Farnsworth rightly warns us, we must not assume that chronic malnutrition is the rule. (See especially Davis, 'Food for Peace', *Food Research Institute Studies*, Stanford, May 1960, quoting Farnsworth.) However, we can safely assume that average diets in calorie intake terms are below what they would be if food were plentifully available. (See also p. 383, n. 1, below.)

² *Op. cit.*, p. 1027.

³ No allowance has been made for lags in deliveries; otherwise shipments are implied here.

⁴ See 'Report of the Wheat Utilization Mission to Japan, India, Indonesia', U.S.D.A., Foreign Agric. Service, Jan. 1961, para. 44, table 1.

⁵ A Canberra nutritionist, Dr. E. Hipsley, Director of the Institute of Anatomy in Canberra, has suggested to me that 100 calories could be equivalent, in Indian circumstances, to more than an hour's physical effort.

III

However, our principal concern is to establish the more direct relationship of food supply to development. This is best seen in real terms of consumer goods needed as a vital part in economic growth. Food may be needed not only for a growing population (and an assumed commensurate rise in national income) but also because rising incomes per head, if achieved, are likely to increase the *per caput* demand for food. Put in other terms: if an expanding investment programme leads to rising money incomes, additional consumer goods such as food and clothing must be made available if inflation or control is to be avoided. Unless belts are to be tightened by inflation or more direct means, additional investment (whether public or private) calls for additional consumption goods to meet the inevitable extra demand.

R. M. Stern has put this point very clearly.¹ A necessary condition for the use of agricultural surpluses for economic development, he says, 'is that additional consumption made possible through receipt of surpluses be matched concurrently with additional investment. Additional investment with an insufficient supply of consumption goods would cause inflationary pressure, while added consumption goods without corresponding investment would contribute relatively little except in an indirect way (e.g., improved diets might increase productivity) to capital formation.'²

There are important arguments implicit in such statements as these. There are three major questions to be answered before we can be sure that surplus disposals have a direct relevance to economic development. (1) Why worry about increasing the supply of consumption goods? (2) Why is more food needed? (3) Why import food? Given certain answers to these questions a case can then be made for drawing on surpluses under such programmes as P.L. 480 disposals.

¹ See 'Agricultural Surplus Disposal as a Means of Financing Economic Development', *Economia Internazionale*, vol. xii (1959), p. 646. Mordecai Ezekiel is no less clear on the role of food supply as a kind of subsistence fund to enable increased investment of available resources. See *Journal of Farm Economics*, Dec. 1960, p. 1065, and also F.A.O. *Uses of Agric. Surpluses to Finance Economic Development in Underdeveloped Countries* (A Pilot Study in India), 1955. Also see F.A.O. Experts' Report and Director-General's comments, March 1961, op. cit., and the Report of the Wheat Mission, op. cit. E. S. Hoffman has developed ideas somewhat parallel to mine in an as yet unpublished address to the Australian Agric. Economics Society, Canberra, Feb. 1961.

² While harm might be done if *added* food supplies (surplus disposals) merely depressed the market for domestic producers.

Questions 1 and 2 can be considered together and put in another form. Why not reduce consumption—the classical way of making greater investment possible? Given a society in which income standards are very low—as in India—there are probably two answers: standards cannot be pushed down further and it is probably wise to offer some positive real income incentives to producers. Let us look at both these points—principally in terms of food.

India's *per caput* food intake is barely back to pre-war levels.¹ Whether these can be kept down to these levels or even reduced depends upon what is defined as *minimum* food needs. The Indian authorities see a need to increase *per caput* consumption of grains.² It is fairly clear that the Indian Government could not tolerate a failure to match population growth with supplies. They may well argue that not to do better than this is to invite political unrest, arising partly from the lack of adequate food supplies to meet the wishes of consumers and partly because inflation could prove a dangerous and perhaps unmanageable alternative.

Both these dangers may be greater in societies preferring democratic processes of political and economic planning to the more direct and rigid controls exercised in Communist countries.³

Quite apart from the question of minimum adequacy of food supplies, there is also a need for incentives to producers in the present as distinct from an uncertain future. Agriculture is normally the largest employer: it may prove a drag on industrialization unless productivity and incomes are raised in this sector. Hence the importance of incentives to producers. It is possible (although probably impossible to verify) that China is finding it even more difficult than Russia did in the twenties and thirties to hold down consumer demands. In the case of India added supplies of consumer goods (e.g. of food, textiles, and tobacco), as well as of producer goods, may well give the incentive to work harder, especially in agriculture. As Professor Arthur Smithies states, in writing of the interacting nature of supply of and demand for goods: 'individuals should . . .

¹ F.A.O. sources give 1970 calories as the pre-war *per caput* consumption level. The Wheat Utilization Mission (op. cit.) gives 2,050 calories for 1959-60. In between, e.g. 1951-3, there was a considerable dip (F.A.O. estimates = 1,750 calories). Independent calculations by Mr. Hefford based on food production and imports, broadly confirm the relative order of magnitude of these results.

² See *Wheat Utilization Mission Report*, op. cit., table 3. Whether these increases are essential and not merely desirable, is perhaps debatable. P.L. 480 supplies, as we shall see, may be a *convenient* rather than a necessary way of increasing savings for development.

³ Where the proportion of income spent on food and simple consumer goods is high (and the marginal propensity likewise), the pressures against attempts to curb consumption will be all the greater.

receive direct encouragement to improve their economic condition and to entertain rising expectations for the future'.¹

Once a determined *minimum* food standard is set and achieved, to use further resources for food production or import may be wasteful in terms of other possibilities for their use. Therefore it is necessary, in any intelligent planning for development, to have some concept of *necessary* food standard to be achieved. A given supply (e.g. 16 oz. of grain a day) may maintain physical capacity to work, but it may be necessary to allow 18 oz. to provide useful incentives and to minimize the dangers of inflation. This, at least, is how I judge the objectives in the Indian Third Plan.² Moreover, it is of interest to note that the standards fixed are still well below those enjoyed in Japan. India cannot be accused of fixing an extravagant *minimum* food standard. If it were politically and administratively practicable to hold consumption at 16 oz., no doubt more development projects could be added to the Third Plan, other things not yet discussed being equal.

I have inferred that if food supplies in sight are below a minimum thought necessary, it may be sensible—as an integral part of a development programme—to provide for more food. But why imports? (This was my third question precedent to assessing the role of P.L. 480 supplies.) The short answer is that in many cases, of which India has been one, adequate supplies cannot be provided otherwise. This is tantamount to saying that domestic supplies cannot be increased enough, or quickly enough, and that the availability of foreign exchange therefore becomes a critical issue.³

In any well-conceived plan aiming at expanding national income, productive resources (land, labour, capital, knowledge, and organization, to use an old-fashioned classification) will be put to use as fully as possible. It is a safe enough generalization that in low-income areas investment (whether public or private or both) must be steadily raised above levels that have prevailed in the recent past if the goal of rising *per caput* incomes is to be achieved. This is particularly true in countries with rapidly growing populations.

In these cases some limiting factors operate to curb the practicable rate of progress, but it is not usually the supply of unskilled labour. It may be skilled labour, or management, or public services. It may be capital items; and for a large share of these foreign exchange will almost certainly be needed. The limiting factor may be supplies of

¹ 'Rising Expectations and Economic Development', *Economic Journal*, June 1961, p. 261.

² See *Wheat Mission Report*, op. cit.

³ Whether non-commercial food imports will lead to a smaller domestic agricultural effort than otherwise possible is another question to be noted later.

food. In the case of India—and most other developing low income standard economies, excepting perhaps oil producing areas—the ability to import needed goods becomes *the* limiting factor. A plan to utilize available domestic resources cannot be pushed beyond the availability of essential foreign exchange components in the programme. In many of the cases of most interest to us, exports are not running at levels sufficient to procure all the imports of capital goods and consumption goods needed for development, and for which matching domestic real resources are available. If they were, foreign aid, except perhaps for technical assistance, would not be so relevant and crucial as it is.

In the case of agriculture it is not easy to improve standards; there are so many forces of inertia.¹ Perhaps the early Indian Plans might be criticized on this score, but not the Third, which does look to self-sufficiency by 1965–6.² In the meantime, at least, some of the needed food supplies must come from imports. P.L. 480 supplies now become relevant either as replacement of commercial imports or as additions to some concept of *normal* commercial imports.

IV

Taking India as an example of a number of cases where foreign exchange is *the* limiting factor to development we may now generalize the problem.³ I assume that normal export earnings are not sufficient to provide essential capital goods and foodstuffs for *new* development as well as provide those imports required to maintain the existing social and economic structure. I assume implicitly that in the absence of additional foreign exchange resources, there will be under-used domestic factors of land, labour, knowledge, and organization.

The usual supplements to export earnings including net 'invisibles' (*E*) are net capital inflow (*F*) (both on government and private account) and aid (*A*).⁴

¹ See *Wheat Utilization Report*, op. cit., and F.A.O. Experts' Report, March 1961, op. cit.

² Scepticism does not imply disapproval or lack of sympathy. The Plan may not exaggerate capacity but may under-estimate demand. It is relevant to note the annual rates of increase in food production in the three Plans. In the First, the actual rate was 3.8 per cent.; in the Second it was about 2.9 per cent.; in the Third a rate of 5.9 per cent. per annum is projected (*Wheat Utilization Report*, op. cit., para. 65).

³ Clearly, if food supply is not a problem—either because home production is, or can readily be made, adequate, or because foreign exchange is not a limiting factor—food supplies cease to be a helpful form of economic aid.

⁴ I ignore the running down of reserves, a method now largely exhausted in India's case. Aid is taken in the sense used by the F.A.O. experts (Report, March 1961, op. cit.)

If imports, however financed, comprise capital goods and components (I) and consumption goods (C), then $E+F+A$ determines the total of $I+C$. Imports will include what, following the Indian Plans, I have called maintenance imports (some I and some C), and imports essential to programmes for further developments including essential food imports. If the planners know or can project the level of $E+F+A$, they can plan the disposition of domestic resources.

If now we add to $E+F+A$ a new factor, Disposals (D), adjustments can be made. If D equals P.L. 480 disposals, requiring (let us assume) no foreign exchange, the other foreign exchange receipts can be used, for example, to procure more capital goods and to reduce commercial imports of food, cotton, and tobacco. Whether or not D replaces in part or entirely the normal allocation for commercial imports of food will depend partly upon whether this is possible, having regard to the predetermined *minimum* food standard, and partly on international relations between the countries concerned.

If the amount of D available enables a reduction in commercial imports without sacrificing the minimum food standard required, it will be in the interests of the recipient country to do so. For this will enable more foreign exchange to be devoted to investment goods (I) and so make fuller use of under-used domestic factors of production.

It is equally apparent that if E (export earnings) falls, an accretion of D (or of F or A) will enable the planned level of imports of investment goods to be maintained. [This enters the realm of compensatory finance to offset fluctuations in export earnings, the subject of another U.N. Report prepared in January 1961.] The interests of third countries (Burmese rice, Egyptian and Pakistan cotton) will be adversely affected by the substitution of disposals for commercial imports.

We can say, therefore, that if aid in the form of food is additional to a planned level of export earnings, capital inflow, and aid, it will serve, in effect, as an addition to receipts. There is a first limit: the disposals, even if entirely replacing commercial imports, ought not to exceed the *necessary* amount of food required under the Plan to supplement home production. If it does, it may be usable since a high income elasticity of demand for food exists, but it will almost certainly call for more non-food aid, or capital inflow or export

who define it as those parts of capital inflow which normal market incentives do not provide. Surplus disposals can be regarded as part of aid if regarded as 'producer goods' or 'subsistence' fund (Schultz and Ezekiel, *op. cit.*) For analysis it is better to show it as a separate element, Disposals (D).

earnings in order to expand the investment programme commensurately with it.¹ At this point, where total food supplies exceed the pre-determined level of food requirements, other forms of aid (*A*) may yield better economic results than would follow from increased food disposals (*D*). A final limit to usefulness could be regarded as the point at which food disposals (*D*) merely add unnecessarily to food stocks in the country. At this stage scarce resources will be unwisely diverted to building storage.

Recent Indian experience and the projected Third Plan illustrate the general thesis stated. Recent import figures certainly show the influence of P.L. 480 'sales'. Cereal imports (commercial) were 20 per cent. of total imports by value in 1951. They were down to 3 per cent. of lower total value of imports in 1958. Textile yarn and raw materials fell from 20 per cent. in 1952 to 9 per cent. in 1958. Metals, machinery, vehicles, &c., rose from 19 per cent. in 1951 to 53 per cent. in 1958. All three movements reflect the influence of P.L. 480 disposals of wheat and cotton as well as of other factors. In a very real sense, commercial wheat exporters, in this case principally Australia, have contributed to Indian development through loss of market. It is not credible that, in the absence of P.L. 480 sales, either commercial wheat or commercial cotton imports would have been so low as they are in fact. Some increase in commercial imports, but not to the full extent of P.L. 480 supplies, would probably have occurred with consequent tightening of other essential imports.²

It is possible, in the light of the general argument, to interpret the rate of food disposals in the Third Plan. This looks to foreign investment assistance or aid, over and above export earnings, for machinery, equipment, and components amounting to 2,100 crores of rupees. This is 20 per cent. of the total investment projected under the Plan. In addition 600 crores of rupees is the value placed on 17 million tons of food grains anticipated under P.L. 480 agreements.

In terms of the general argument I have put forward, failure to

¹ This point is continually stressed in the most recent F.A.O. Experts' Report and the Director-General's Comments, op. cit.

I have assumed in this discussion that the *planned* food imports (commercial and non-commercial) have been accompanied by adequate supplies of the non-food foreign exchange elements, whether financed by exports, borrowings, or aid. It must be emphasized that food disposals cannot be regarded as a fully effective form of aid unless they fit neatly into the total investment programme. In such a programme, as the F.A.O. experts state quite clearly, non-food aid required is likely to be several times (four or five times on average) the amount of aid in the form of food.

² I believe that what I am saying here is supported by the paper of S. R. Sen, 'Impact of P.L. 480: Indian Perspective', *Journal of Farm Economics*, Dec. 1960. See especially p. 1040.

acquire this 17 million tons could mean an increase in commercial grain imports if the minimum food standard set as a goal were to be achieved. This would lead to a consequential reduction in other imports. Otherwise, the planned aid investment, if proceeded with in these circumstances, would almost certainly lead to inflation, or require very strict controls, since money incomes would rise without extra food to match it at the anticipated levels of demand consumption.¹ To the extent that the 17 million tons P.L. 480 grain, when added to home production and commercial imports (perhaps under 2 million tons in the period) proves excessive in relation to the projected minimum *needs* (including national reserves), food imports may prove excessive. In view of the high ratio of incomes spent on food they would be used, but non-food aid in lieu of the excess over minimum needs may more effectively lead to economic development.

V

I believe I have made the strongest case possible for using surplus disposals for economic development. I have argued that in certain circumstances, where foreign exchange is a limiting factor to development, disposals can contribute to development by functioning as an addition to foreign exchange. This role will be served either by replacing commercial imports or adding to them, provided the imports of food are made an integral part of the development programme.

In these circumstances food disposals function as a form of aid. This is one thing; it is another to argue that it is the best form of aid. They may be, as Stern argues, an inefficient way of transferring income from rich to poor countries.² Even if the disposals appear to meet all the tests of fitting into the planned allocation of real resources as an integral part of a development plan, and even if administration in recipient countries is fully adequate, there may remain serious qualifications to their effectiveness.

Some of the qualifications arise from the practice of selling P.L. 480 produce for local currency (for example, rupees) which is then identified as 'counterpart funds'. Thus under agreements signed with India, 1 July 1954 to 31 December 1960 (including only those commodities to be financed during the first year of the May 1960

¹ A rough use of known ratios of food expenditures to income of workers and farmers supports the view that the use of incomes to be generated under the Third Plan would readily absorb all the home-produced food grains and imports postulated, after allowing for some reserves to be established. (See, for example, V. M. Dandekar, 'Use of Food Surpluses for Economic Development'.)

² *Op. cit.*, p. 656.

agreement), the total market value (including ocean transport) of disposals is estimated at \$1,345 million equivalent of the rupee sales.¹

This amount breaks up as follows :

\$m.	%	
370	27.5	Grants for economic development.
113	8.4	Loans to private enterprise.
667	49.6	Loans to foreign governments.
195	14.5	For U.S. uses.
<u>1,345</u>	<u>100.0</u>	

The first item is clear; it is a grant. That much foodstuffs and cotton is given free of fetters. It enables matching investment resources to be used.

Loans to private enterprise could be a nuisance; they only make sense if the particular enterprises fit in with the Indian Plan. If they do not, they represent competition for resources the Indian Government might have preferred to use for greater priority needs.

This last comment is also true of loans to government. Why should the Indian Government borrow its own currency? These rupees give rise to no real resources additional to the wheat and cotton acquired under P.L. 480. If the Government, under U.S. pressure, must find projects to fit the loans it will certainly put forward those projects it would have gone ahead with anyway. It can then reduce the amount of deficit finance or internal borrowing it would have incurred. The same result is better achieved by *granting* the counterpart funds.

If, on the other hand, the U.S. Government looks for projects outside the Plan, then it is unfairly forcing the Indian Government to drop preferred projects or to risk inflation by adding unsafely to the total money investment flow. As S. R. Sen and Mason have both said this effort to relend counterpart funds can lead to needless friction.² The disposals of food and cotton have added to real resources; the counterpart funds cannot do the job again.

One good word can be said for counterpart funds if properly handled by both governments. The act of selling wheat or cotton withdraws funds from the consumer. If the Indian Government

¹ Data drawn from *Thirteenth Semi-Annual Report on P.L. 480*, 87th Congress, Document No. 131. It is to be noted that to the extent that the U.S. may seriously expect repayment of some part of the original loan ultimately in dollar terms, a future burden on the Indian economy is implied. This may qualify the current aid character of food disposals.

² See articles, *op. cit.*

reduces its deficit finance commensurately, an anti-inflationary step has been taken which may be useful.¹ If the U.S. Government wants to circulate these counterpart funds outside the approved Plan and the Indian Government is not prepared to drop any of its projects, inflation is a likely result.²

The final item in the table—the 15 per cent. for U.S. uses—is indeed a genuine commercial sale, although a forced one. If, for U.S. Embassy purposes, sales promotion and educational enterprises, P.L. 480 counterpart funds are used in lieu of providing dollars in the normal way, the Indian Government is virtually deprived of that source of unfettered exchange. The U.S. Government pays its Indian obligations in wheat. Assuming the Indian Government needs this wheat, Australia and other competitive suppliers are denied the opportunity to compete. Certainly, this 15 per cent. hardly qualifies as aid in any real sense.

VI

There are two more important qualifications to the view that P.L. 480 'sales' are a 'powerful resource for economic growth'. Both have worried F.A.O. officials and the several writers noted in this paper.

The first, mentioned quite early in this paper, is a doubt whether the method of selling P.L. 480 supplies to consumers in the recipient countries really gets the food and cotton to those consumers both in greatest need and likely to respond in terms of productive effort. This topic would take me too far afield to justify detailed examination. Nevertheless, while any other method may be impracticable, it is necessary to stress that sales through commercial channels may not get the P.L. 480 food supplies where they will do most good. Administrative steps need to be taken to ensure the geographical distribution to match development areas. Workers engaged in new projects need access to the additional food. For this reason there may be value in attempting to apply some of the F.A.O. recommendations for direct use of food in work projects, especially for rural improvement.³

Next there is the danger that readily available surpluses will

¹ In less highly organized economies, such sales of surpluses can and do act as substitutes for taxation revenue, again lessening the need and dangers of deficit finance.

² This is one reason why developmental programmes must be looked at as a whole, not in projects. See Sen, *op. cit.*

³ It must not be thought that I know the Indian scene well enough to put this point in any firmly critical way, for I do not. I mention the point as a legitimate question. I suspect that a large element of necessity determines the answer: the only practical way to put the bulk of disposals into circulation is through commercial channels—a point made by the F.A.O. Report, *op. cit.*, and by Prof. M. R. Benedict (one of the authors of that Report) in correspondence with me.

dangerously retard agricultural development. This can happen in two ways. If imports of wheat together with increased local production exceed demand at hitherto ruling prices, prices will fall unless a support price scheme operates. The object of the planners should be to keep total imports of wheat at levels that can be absorbed without endangering price levels. I accept Sen's view that this has not been a significant danger in India.¹ A more significant danger, it seems to me, is that planners may come to rely on food imports under P.L. 480 and not provide the investment needed for ancillary aids to agriculture—chemical fertilizers, equipment, irrigation, &c. For donors of surpluses to acquiesce in this attitude would be irresponsible in respect of countries where improved agriculture is possible. Greater productivity in agriculture is needed not merely to meet the needs of a growing population, both rural and urban, but also, through higher farm incomes, to provide a demand for the growing output of the industrialized sector. Food disposals can help in the early stages of a frontal attack on the basic agricultural problem; they ought not to be an excuse for postponing needed action.²

VII

Before my concluding comments let me sum up the main conclusions reached.

1. The subject under discussion arises from the fact of surpluses which have risen for reasons quite other than a desire to make them available for development (Section I).
2. There can be little quarrel about using surpluses for purposes like famine relief and buffer stocks against seasonal changes in supply (Section II).
3. Although there are important qualifications and difficulties (Sections V and VI), there are nevertheless circumstances in which U.S. farm surpluses can be a resource (whether 'powerful' or not is more debatable) for economic growth in the recipient countries (Sections III and IV). The two principal circumstances are present when food is needed beyond the reasonable expectation of home agriculture *and* when foreign exchange is a limiting factor in the use of available and usable domestic factors of production.
4. This relevance to growth is found when food disposals replace commercial imports but is also possible when they are addi-

¹ *Op. cit.*, p. 1034.

² The Indian Third Plan seems to recognize and meet the danger noted here.

tional to some measure of commercial imports. A first limiting factor is the total volume of food imports required to meet a level of consumption regarded as a *necessary* minimum as an integral part of the total plan. Imports (whether disposals or commercial) beyond this level may not be necessary for economic growth (Section IV).

These are reasonably straightforward answers to the question I have chosen to examine: 'Can surpluses be used for economic development?'¹ The actual title of my paper opens up rather wider although related issues. I cannot refrain from making three observations by way of warning that the fact that surpluses can provide development ought not to lead us astray on these wider issues.

Whilst many Congressmen may see P.L. 480 disposals as 'sales'—or at least a means of 'getting rid of these surpluses'²—some of them and some others frequently see them not only as aid, but as aid every bit as good as *dollar* aid. This strikes a false note which may be dangerous if Americans and other people allow the need for other forms of aid to be obscured by the food disposals.

We have seen that, to the recipient country, food disposals may function as aid. At the giving end disposals should not be identified with the generous giving normally associated with American foreign aid. Surplus disposals may cost the U.S. less than nothing. Their disposal adds nothing to the tax burden, or to the drain on foreign exchange reserves.³ As Schultz has pointed out, the marginal revenue, if all P.L. 480 surpluses had been sold along with 'normal' commercial exports for what the market would bear, would probably have been zero.⁴ On the contrary, disposals save dollars both to the extent of 15 per cent. used to pay for U.S. purposes abroad, and to the extent that the growing burden of U.S. storage costs is reduced.

In short, we cannot yet ignore the marriage of convenience: this form of U.S. 'aid' disposes of what U.S. does not want and cannot

¹ The answers, at least in relation to India, are somewhat less sceptical than implicit in the quotation from Schultz (p. 378, n. 3 above). Nevertheless, as suggested on p. 390, n. 3, the wider application of my conclusions is perhaps more limited than my text suggests. There is need to examine other important cases.

² See remarks of Hon. Harold D. Cooley, quoted by Schultz, *op. cit.*, p. 1025.

³ The same is true of surpluses given by other countries *if* they happen to have the same characteristics as the U.S. surpluses. What I have said is true of surpluses *now in existence*. If produced, not as a part of a price support programme, but for *aid* purposes only, the story is different. Opportunity cost (the alternative production foregone) then becomes a rather more real concept.

⁴ *Op. cit.*, p. 1022. It is fair to observe that this argument also supports the view that the competitors of the U.S. have enjoyed the protection of an umbrella of price support—at least for the supplies they could sell!

use. This condition is likely to prevail for some time. With the best will in the world U.S. farm policy will not be quickly modified to a position in which *unwanted* surpluses are no longer the rule.

All this is said with no air of moral indictment, but simply as a reminder that surplus disposals are not aid in the sense of other non-commercial forms of aid which lead to a drain on American taxpayers or overseas resources. More important, they ought not to be regarded as a substitute for other aid which is needed in ever larger measure. Moreover, even if foods were a substitute for part of the aid otherwise needed by recipients, food disposals have a very uneven incidence as aid. Many countries do not need food but do need aid. There is much work yet to be done to examine the actual distribution of P.L. 480 disposals in the light of the tests suggested in this paper.

As a final extension of this warning that surplus disposals however helpful are not a substitute for other international action, let me return to the simple equation I used earlier. I said that Exports (E) + Net Capital Inflow (F) + Aid (A) determine the level of Imports (Investment + Consumption goods). Disposals (D) acted, in certain circumstances, as an increase in E or A , enabling a further increase in imports of needed goods.

It should not be thought for a moment that this rules out all external payments problems of under-developed countries. Many countries (in this case India less than most) suffer badly from fluctuations in export earnings (E). Unless these fluctuations are ironed out, a planned development programme will receive set-backs, for which Disposals may sometimes, but not frequently, provide a partial answer.¹ It would, however, be quite unrealistic to expect all U.S. aid to be given in the form of convertible currency. Although this form of aid gives greatest flexibility to the recipient, it is unreasonable to expect either the U.S. or recipient countries to ignore the surpluses now in being, for these provide a useful but relatively, if not absolutely, costless form of aid.² Nor would the rest of the world wish to ignore them.

¹ A group reported on this problem to the U.S. earlier this year: *International Compensation for Fluctuations in Commodity Trade* (E/3447). Our approach (the author was a member) was through a social insurance type of plan designed to buffer adverse movements in export returns.

² India hopes to grow out of the need for aid and, as remarked earlier in the paper, except perhaps for some protein elements, it is a bit early to talk of deliberately producing surpluses for aid purposes. This is not an impossible concept, however, in a world in which Malthus's ghost still stalks a great continent. P.L. 480 experience, however, suggests that such a policy ought not to be embraced except as part of an international (multilateral) understanding.

This brings me naturally, and perhaps appropriately, to my final observation. I believe surplus disposals have done damage to commercial trade—less than some think and more than others are willing to concede. Rice, cotton, and wheat exporters have all felt the impact. From the analysis I have given and the data presented, it would be difficult to pretend that what commercial imports would have been, or would be, in the absence of P.L. 480 sales, can be measured with confidence. Therefore, my final observation is not in the nature of a complaint. It is rather to suggest, while recognizing that surpluses exist and ought to be used, that there is room for more international understanding of the scope for, and limits of, using surpluses for economic development.

For the good reason that surpluses have been concentrated in the U.S., surplus disposals have developed very much as a function of bilateral arrangements. This has fitted in with U.S. foreign policy convenience and, in any case, is likely to continue this way. Nevertheless there are five good reasons why a greater move towards multilateral understanding and, on some matters, agreements should be attempted. The first is the interest of friendly exporters. The second is that objectives like establishing national food reserves lend themselves to multilateral agreements. The third is the fact just noted that food aid by itself cannot replace the need for substantial aid in other forms. The fourth is the growing awareness by America's Allies, especially but not only in Europe, that aid policies call for more support and for greater co-ordination. The fifth reason arises from the continued growth of U.S. surpluses (wheat) and from the probable outcome of the Common Market. Both on the grounds of increased protection to European producers and further technological progress in Europe, the Common Market is likely to lead to more surpluses in Europe, North America, Australia, and New Zealand. We need to approach this prospect with rational awareness.

In a system in which total aid from at least the Western powers becomes more multilateral, because better co-ordinated and better shared, food disposals (by others as well as U.S.) could be placed in proper perspective as an integral part of the total programme.¹ Agreements amongst the Western powers should be possible about providing supplies, and sharing incidental costs, for famine relief, and for national reserves for buffer stock purposes. With regard to P.L. 480 disposals which go beyond these purposes, there is need for

¹ Perspective is needed, internationally, if only because relatively few countries (for example, in Latin America) which *need* aid can usefully take very much of it in the form of food.

wider understanding that commercial exporters, foregoing commercial markets, are making a real contribution. (Such contributors include several low-income countries producing cotton and rice for export.) The work of the Wheat Utilization Committee is useful but the scope for international action is probably wider than this.¹

So many new questions are opened up by this thought that I wisely remind myself that my assignment in this paper was perhaps more limited. I regard the present system of using surpluses for development as accidental in origin; I certainly doubt the primacy of the motive of economic development in P.L. 480 disposals. I regard them as something less than the most efficient form of aid. Nevertheless, I argue that they can contribute and probably have contributed usefully to economic development in recipient countries. There is room for further international action both to reduce the frictions generated by the programme and to make the contribution to economic development more certain and more effective.

S. R. SEN, *Planning Commission, New Delhi, India*

The fact that the Conference authorities have put an Australian and an Indian as the first two speakers on this subject and that the Australian has chosen to illustrate his thesis by considering the effect of the United States surplus disposal operations in India on the Australian wheat trade may have raised expectations of a lively controversy. If so, I regret that what I am going to say will be very disappointing. For I agree almost entirely with the many wise observations which Sir John Crawford has made, and a discussion is rarely interesting unless it is controversial. However, just to provide a lining of controversy to this seemingly dull picture of agreement, I should perhaps mention at the outset the few points of difference that I have. Professor Crawford has compared Indian import figures for 1951 with those for 1958 to indicate that sales under P.L. 480 have adversely affected commercial imports and has made this the basis of a claim that Australia has contributed to India's economic development through the loss of market for her wheat.

Against this contention I would point out that sales of wheat to India under P.L. 480 started only in United States fiscal year 1956/7 so that a valid comparison would be the years 1955/6 and 1960/1 and not 1951 and 1958. Such a comparison would lead to conclusions quite contrary to those arrived at by Professor Crawford. Moreover, 1950/1 was a year of serious drought in India; production of

¹ F.A.O. Report, Mar. 1961, *op. cit.*

food-grains declined from 58.5 million metric tons in 1949/50 to 53.1 million metric tons in 1950/1 and a famine was averted by importing 3.1 million metric tons of wheat. Against this, the production of food-grains went up to 68.3 million metric tons and imports of wheat went down to only 0.39 million metric tons in 1955/6, the year before P.L. 480 sales of wheat to India were arranged. Let us now compare this picture with that during the period 1956-61, when imports under P.L. 480 were made in very substantial quantities and utilized along with other resources for promoting the economic development of India. Between 1955/6 and 1960/1 production of food-grains in India went up from 68.3 to 80 million metric tons. In spite of this increase, import of wheat into India went up from 0.39 million metric tons in 1955/6 to 3.8 million metric tons in 1960/1. Import from Australia went up slightly from 0.15 to 0.16 million metric tons and from Canada from nil to 0.11 million metric tons between 1955/6 and 1960/1. It is true that there have been large annual variations and that the increase in imports from the United States of America, especially under P.L. 480, has been very substantial; but over the period 1956-61 average annual imports from non-U.S.A. sources have been appreciably larger, namely 0.47 as against 0.15 million metric tons in 1955/6. In spite of a population growth of 2 per cent. per year, these additional supplies have been utilized mainly for a much-needed improvement in the consumption levels of the people. Between 1955/6 and 1960/1 *per caput* consumption of wheat went up from 20 to 28 kg. per annum without adversely affecting that of other food-grains. In fact, *per caput* consumption of rice also went up from 62 to 69 kg. over the same period. As Professor Crawford himself has noted, large imports under P.L. 480 have been absorbed in India without adverse effect on either prices or production of domestic wheat. This, I may emphasize, has been possible primarily because these additional supplies were injected not into a stagnant but into a developing economy in which an attempt was made to use P.L. 480 supplies in an integrated manner along with other complementary resources for stepping up the rate of investment and hence the productive capacity and the purchasing power of the people.

It would not be quite correct to assume, as Professor Crawford seems to do, that but for P.L. 480 supplies Australian wheat would have necessarily found a much larger market in India. India is now making a strenuous effort to mobilize all available resources in a planned manner for accelerating her rate of economic development. If P.L. 480 supplies were not available, she would have certainly preferred to restrain the rate of increase of consumption rather than

that of investment. She would have either reimposed the food controls which she had relaxed in 1954 or cut down the import of other consumption goods, which incidentally include wool from Australia. So I am not sure that in the absence of P.L. 480 supplies Australia would not have lost in one direction what Professor Crawford thinks she might have gained in the other. I would submit that Australia's contribution to India's economic development rests on a much sounder basis than the case he has made out about loss of market. It rests really on the assistance that she is giving through the Colombo Plan—an assistance for which India is very grateful indeed.

Professor Crawford has expressed a doubt whether the P.L. 480 wheat supplies to India have gone to those who have the greatest need and are likely to respond most in terms of productive effort. He has urged that these supplies should be directly used in work projects, especially for rural improvement. His basic point might have considerable force if India did not have a comprehensive plan for economic development. Since India has such a plan, however, which provides for sales through fair price or ration shops to the needy, and also for work projects in rural areas along with other schemes for augmenting employment, it should not in practice matter very much whether P.L. 480 supplies go directly to specific groups of consumers or workers or into a general pool of resources out of which all these requirements are met in accordance with an agreed set of national priorities. While provision exists for direct payment in kind where it may have special advantage, it is our experience that payment in cash is usually a much more efficient method of operation than payment in kind.

These differences that I have with Professor Crawford are, however, of only a minor character. I have thought it fit to deal with them in some detail only because it appeared that he was using these Indian examples to illustrate certain general points. As I have already mentioned, I am in full agreement with his main thesis that: (i) in spite of certain difficulties, United States farm surpluses can be and should be used as a resource for economic growth in under-developed countries, especially where food is needed beyond the reasonable expectation of their own agriculture, and where foreign exchange is a limiting factor in the use of available and usable domestic factors of production, and (ii) food disposal may not be ordinarily the most efficient form of aid but that it can be made really efficient when it is supplemented by adequate aid in cash, or in other forms, and integrated with a balanced programme of economic development.

It is now generally recognized that the present surpluses have been created in the United States of America partly by the price policy but partly also by technological progress. Technological innovations might have been adopted by American farmers much more slowly than has been the case in recent years if the policy of price support had not been there. But now, as a result of that policy, as well as of the extension activities of government and manufacturers of farm requisites, American farmers have got into the habit of looking for innovations and promptly adopting them if they are profitable, and I doubt whether any revision of price policy, which is politically feasible, would lead to a substantial reduction in output in the near future. Chances are that the farmers will try to make up for price reduction or acreage restriction by making a more intensive use of technological innovations. Even a policy of output restriction, which is likely to meet with serious political and administrative difficulties, may take considerable time to be operative and also prove to be only a temporary palliative. Nor can one be certain that the cost of restricting the production of a certain marginal output in hundreds of thousands of farms in the United States will not be actually higher than the opportunity cost of producing and using that output for purposes contemplated under P.L. 480.

It will be only realistic, therefore, to assume that surpluses have come to stay in the United States of America for some years to come, that any restrictive measure that may be adopted by the Government will be at best a rather tardy holding operation, and that the development of new effective demand for the surplus commodities is an urgent necessity. This new demand can be created most expediently along the lines indicated by the F.A.O. experts and commended by Professor Crawford, namely using the food surpluses together with non-food or cash assistance for accelerating the economic development of under-developed countries, thus improving their productive capacity and purchasing power and creating conditions for a substantial expansion of world trade in these commodities. It is important to emphasize, however, that unless food aid is used together with adequate non-food aid as part of a comprehensive programme for economic development, there is always the danger that it will affect agriculture adversely and hence retard the economic development of the recipient countries and fail to increase their absorptive capacity and disrupt normal trade. On the other hand, if it is supplemented by adequate non-food or cash aid and fitted into a comprehensive programme for economic development, it should prove a powerful resource for accelerating economic development, im-

proving the purchasing power and consumption levels of the underfed millions in the poorer countries, and generally promoting world trade including trade in surplus commodities. It is worth noting that during the four-year period 1956/9, the average consumption of wheat in twenty-six countries (where it was supplied under P.L. 480, Title I) has gone up by about 3.4 kg. *per caput* against the corresponding period 1952/5. During the same period production in most of the recipient countries went up and the total volume of commercial sales was not adversely affected. This was possible because there was an annual growth of national income in most of these countries of from 2 to 5 per cent., often supported by a limited amount of non-food assistance. There is still a large unsaturated demand in these countries even on the basis of present dietary patterns. If the dietary patterns change as a result of a substantial increase in income levels, and animal protein replaces carbohydrates, the demand for animal feed will increase so much as to absorb all the surplus that the exporting countries have today. There is no need, therefore, to depart from the sound F.A.O. principle that the problem of surpluses should be solved through a policy of expansion of consumption rather than restriction of production. One should at least consider carefully the justification for restricting the output of a resource the opportunity cost of which is very low when there is an admitted need for such resources for economic development.

I do not deny that any large-scale use of surplus food for promoting economic development is likely to meet with a number of practical difficulties—some of which Professor Crawford has mentioned, and I myself have noted in my paper cited by him. But I also believe that all these difficulties can be solved if a properly phased programme is adopted by the developed as well as the underdeveloped countries. The former would achieve over a period a more balanced programme of production through developing alternative opportunities for employment and investment for their own farmers besides a gradual readjustment of price policy. The latter would attain as early as possible the stage of self-sustained growth. But the main condition for this would be for both the parties to give up thinking in terms of temporizing and piecemeal measures and concentrate on long-term comprehensive programmes in close collaboration with one another.

DAVID KIRK, *The Canadian Federation of Agriculture, Ottawa*

We start, I take it, from a fundamental agreement on the moral, political, and economic desirability of expanded programmes of

foreign aid and making them more effective for economic development. We are inquiring into the uses to which agricultural surpluses can be put in furthering this end, and into some of the economic implications of this phenomenon of surpluses. I am sure we can join Sir John Crawford in broad agreement that food and fibre surpluses can be so used effectively in proper circumstances. Also, in the recent report of the Director-General of F.A.O. entitled *Development through Food, A Strategy for Surplus Utilization*, we have at least one set of estimates of the overall potential for effective utilization. It is a large total, 25 per cent. greater than the rate of recent disposals.

What, then, are the major problems and questions surrounding this subject? Professor Crawford has very successfully brought them to our attention. One is the question whether distribution of surpluses on a concessional basis represents a satisfactory and efficient use of resources for foreign aid purposes, considered as an alternative form of aid. Another is the need for increased knowledge of how best to utilize food surpluses for development. Another is the need for the best institutional and administrative arrangements for carrying through programmes of foreign aid and surplus disposal. Finally, there is the need for greatly expanded non-food aid concurrently with expanded surplus utilization. Always, as background to the discussion, there is the incredible, wonderful, and alarming fact of U.S. surplus accumulation.

Since my professional interest is in farm-organization policy, my bias will be easy to discern, although I may say that in a complicated world of conflicting motivations and interest, some objectivity at least comes finally to seem the only way out, even for the most partisan.

With most of Professor Crawford's analysis I have no quarrel. In particular, I share his desire that more multi-lateral co-ordination and action should develop in connexion with surplus disposal. It seems to me, however, that taking his paper as a whole, he is sceptical about the real efficiency and suitability of using surpluses as a form of aid for economic development. He takes the reality of massive surpluses as given, and concedes their usefulness within limits. But would it be misinterpreting him to suggest that, outside quite narrow limits, he would consider it second-best policy to welcome and deliberately plan for surplus accumulation and its use as aid, giving it an integral place in the scheme of things? I mean by this, second-best to a pretty rigorous return to commercial market criteria for agricultural pricing and production, with the demand for food-aid determined essentially by whatever allocations may be made to food from general aid funds.

At this point all the political, social, and humanitarian, as well as economic, considerations start crowding into the picture. Here also the subject is surrounded by ifs about the amount of aid likely to be forthcoming in the absence of heavy surplus accumulation, and whether surpluses are a drag on, or a spur to, the expansion of non-food aid.

The question I would raise is this: how adequate is our understanding, in terms of the real use of resources, of the debit and credit calculations that must be made in looking at farm-policy alternatives in relation to the use of agricultural product aid in economic development? What measurements of this kind can be or perhaps have been made in a broad context of indirect and direct costs and benefits?

One reads impassioned and impressive statements and analyses that, on the one hand, advocate and welcome the production of surpluses for aid purposes on an extensive scale, and, on the other, advocate a severe return to market criteria. What I am not clear on is whether, in these two views, there are any real differences in economic analysis and judgement, or whether the differences spring entirely, or almost entirely, out of differences in political and social judgements and ideology. Perhaps it is my own obtuseness that is the problem, but I should like to see a discussion of, and attempt to define, the differences in economic analysis, if any, that exist in what one may call for shorthand purposes the pro-surplus and anti-surplus views. I think this is important, for the debate on farm policy after all continues, and we are still a long way—certainly the layman in these matters is a long way—from feeling that areas of agreement are sufficiently well established and explored for the issues and choices that face him as a citizen to be defined in their simplest terms.

The development of institutions and policies for multilateral action and co-ordination of action seems to me to be not only desirable but of urgent importance. Sir John Crawford has stated the case very well. The International Federation of Agricultural Producers, with which I am associated, has always strongly taken this view and has been strengthened in its beliefs as the ramifications of food surplus utilization problems become better understood. This is particularly so as the intimate and integrated relationship that food disposal must have with the provision of development aid as a whole is better appreciated and explored. It becomes clearer all the time, in fact, that one area in which the concept of 'one world' needs to take on an increasingly concrete reality is the field of economic growth and trade policies. Multilateral action in the area of surplus use and economic aid can serve (in addition to the advantages mentioned by

Professor Crawford) as another means of enlarging the perspective, and the area of knowledge and understanding, that are prerequisites to this happening.

The I.F.A.P. supports a programme of multilateral programmes to implement a policy of abundant production and use of food and fibres to meet world needs. It would disagree with the judgement of Professor Crawford that we should not 'in the absence of commercial stimuli, set out deliberately to produce surpluses as a form of aid'. Of course, it must be recognized, and is well recognized, that 'abundance' even in agriculture is not an absolute but a relative term. One cannot talk about farm policy any more than any other as if we did not live in a world of scarce resources and economic choices. At the same time, it is inadequate either in a U.S. farm-policy context, or in the wider context of policy among the nations generally, to say, as does Professor Crawford, that the amount of agricultural surpluses available for aid purposes should be taken as being determined by accident. It is inadequate because the very existence of a world need for food and fibre, and of increasingly well-developed proposals for their utilization, must powerfully affect domestic policy decisions, and should do so. Besides, farm-policy decisions must be made, and presumably should be made, according to criteria as well defined as possible, not excluding criteria related to utilization in aid programmes. A marriage of convenience may be and should be an exceedingly well thought out arrangement.

For Sir John Crawford's country and for mine the effects of surplus disposal upon regular commercial exports, and the degree to which there is a displacement of commercial for non-commercial markets, are of great importance, and I find myself in agreement with the balanced judgements he has expressed about them. Continued accumulation of surpluses above domestic use and all exports creates a progressively difficult and pressing problem, and a progressively dangerous one from the point of view of the maintenance and expansion of commercial exports. This underlines two things. One is the urgent need for expanded disposal programmes that are effectively integrated into over-all aid programmes in such ways as to avoid undermining commercial markets. The second is the need, after all, for limits on surplus accumulation, limits which, one is forced to feel, are being substantially exceeded as things are at the moment.

Yet this is basically an *ad hoc* judgement. It is not an adequate policy, and the search for an adequate policy raises as many questions of responsibility and policy for all the other advanced nations as it does for the United States of America. Only in the context of agree-

ment on and acceptance of responsibility in the fields of foreign aid, farm and general economic policy, and modes of international action can a real policy be developed.

D. PAARLBERG, *Purdue University, Lafayette, Indiana, U.S.A.*

I wish to comment on the effect of the special export programmes on the commercial movement of wheat, a subject alluded to by all the speakers. I am speaking for the moment from the standpoint of the wheat-exporting countries other than the United States of America. Suppose that we in the United States had not developed these special export programmes. We would then have stocks of wheat not equalling a billion and a half bushels but more than twice that amount. These stocks would have to be moved through the limited commercial outlets, for dollars, in competition with the wheat from Australia and from Canada. I submit that the position of Australia and Canada as commercial exporters of wheat would have been worse in the absence of our special export programme than it is with it.

I have another comment. It concerns the major issue before us, the use of our agricultural capability on behalf of economic development. Going back one hundred years, when the American mid-west was opened up, American agricultural capabilities contributed significantly to economic development in western Europe. While these countries were being industrialized, the United States made available to them large and growing quantities of crops hastening for them the process of economic development to their advantage and to our own.

Many years have now gone by and we are faced with new circumstances. New countries are endeavouring to develop economically. The United States has a very great capacity for agricultural production. We have used and are using it on behalf of development in these new countries in a different manner but to some extent with the same effect as formerly.

We should look upon this opportunity in the broadest sense. We should view our agricultural capabilities not as a burden to us or to other people but as an opportunity to advance the cause of economic development in new countries. And I think the record to date has been outstanding.

Our accomplishment has been achieved largely by innovation, by the devices of practical people, confronted with a situation which never previously existed in quite this form. I think a great tribute

is to be paid to the officials of the United States and of other countries who have done a great deal of pioneering in working out the means for making these programmes effective. It is incumbent upon us as professional agricultural economists to bring to bear what resources we have in the way of analysis and innovation.

With our special knowledge of economic law and economic forces we can give helpful counsel to those people who are working at new, often difficult, but more often promising, opportunities.

S. SCHMIDT, *University of Cracow, Poland*

I notice among the audience quite a bunch of old-timers who attended our second Conference at Cornell. All of them will remember Frank Pearson reminding one of our Finnish friends not to ask too many questions. So I shall confine myself to one question only. Should not a difference be made between those recipients of aid who are just on the edge of famine (such as India or China) and some others that could easily satisfy and increase consumption by intensifying their agriculture? Many such countries, however, are not very rich in resources, and have great need of aid from richer countries such as the United States of America or Soviet Russia in order to create industries other than agriculture.

M. EZEKIEL, *Department of State, Agency for International Development, Washington, D.C., U.S.A.*

I think the paper and the discussion we have just heard set a high watermark in the discussion of food-surplus disposal. Sir John's paper is without question the best single paper ever written on this subject. He is the first man, so far as I know, who has made the point that if you do not work within the limitations of F.A.O.'s principles of surplus disposal (that is, that if you use surpluses as additions to, and not in place of, imports from other countries), there would be even more gain to the under-developed countries. That is a very important new point. There is a question, as some of the discussion has indicated, whether the principles have in fact been fulfilled. But it still is a very important new point.

At the same time this paper, especially from an Australian, is the widest-based approach to this subject that we have ever had. We can congratulate economic science that he no longer has to conform to his government's point of view but can speak exactly as he thinks.

I would add a footnote to what Dr. Paarlberg has said, and that is that very, very broadly, the surplus situations after the First and

Second World Wars were due to the expansion of production in countries not immediately engaged in conflict, to meet the food needs of war-time and post-war reconstruction once the fighting was over—the increase in technology and all that has been added to it. But these war needs were the fundamental causes. After the First World War there was no effective international utilization of surpluses, and prices on the international markets went down practically to zero, and to many farmers went below zero. After the Second World War government intervention has certainly resulted in a far happier economic position for farmers than after the First World War.

I would say a word on the last footnote in Sir John's paper, referring to the general report by the Director-General of F.A.O. on utilization of surpluses. The Conference may be interested to know the status of those discussions. The report, which was submitted to the United Nations Economic and Social Council this summer, grew out of a resolution passed by the U.N. General Assembly last October. It was passed unanimously, all countries present voting for it. It asked F.A.O. and the U.N. to develop proposals for the utilization of surpluses to be handled through international agencies. The report was the Director-General's answer to that request. So far, it has been discussed by the F.A.O. Committee on Commodity Problems, the F.A.O. Council, and by the Economic and Social Council last month in Geneva. After extensive discussion, and some criticism from some of the exporting countries represented, a resolution was adopted, with no negative votes but three abstentions, asking the Director-General of F.A.O. and the Secretary-General of the U.N. to prepare specific operational plans for starting a multi-lateral system of surplus food utilization. This programme would be discussed at the F.A.O. Conference this November, and then by the U.N. Assembly. These proposals are now being developed and submitted to governments in September so that they can be given consideration before the Conference.

It looks as if we are on the threshold of an initial exploratory programme. In the discussions at F.A.O. this spring Mr. McGovern put on the table a proposal to establish an initial 100,000,000 dollar fund, partly in commodities and partly in cash. This would be a fund for starting to develop the selected surplus utilization projects of various types, in co-operation with recipient countries, the U.N., and other appropriate agencies. After F.A.O. has thus developed operating methods larger amounts would presumably be put at its disposal.

Two other speakers have emphasized the point that surpluses used

for aiding economic development should be closely correlated with plans which conform with a country's own desires. This may extend ultimately to means by which not only the direct disposals through international agencies, but also all or nearly all those through bilateral action, could be co-ordinated through international consultations and discussions. If so, there would be better co-ordination of all these operations within a multi-lateral framework.

M. RABOT, *European Economic Community, Brussels, Belgium*

I want to call attention to a point in Sir John Crawford's speech. If I have not misunderstood him he thinks it certain that protection will be greater in future than at present in the Common Market. I should like to counter this by repeating what a friend of mine here present is in the habit of telling me: there is no reason to believe that the new policy will be more protectionist than the sum of the old ones. The future will decide who is right. I would ask Professor Crawford to consider the dangers of his assertion, coming from such an authoritative personality. It suggests that increase in protectionism is a normal, unavoidable, accepted phenomenon. This would be very disturbing for those of us who aim at a different policy. On the other hand, we are in complete agreement with Sir John Crawford on the advantage which would accrue from these questions losing their hitherto bilateral aspect and acquiring a multi-lateral aspect. Europe is very interested in them.

AJMER SINGH, *Oregon State University, Corvallis, Oregon, U.S.A.*

This is the first time in world history that the nations have united in a common cause for the betterment of human life. Economically advanced countries are generously contributing for the economic development of the less well developed countries in various ways. One form of this contribution is the transferring of surplus food to the needy countries from the surplus-producing ones. 'Surplus for economic growth' is a great thought which probably would contribute towards the growth of the countries who need it provided it is co-ordinated with the over-all development schemes of the receiving countries.

If the term 'surplus' is used for those resources which possess very little opportunity value in their countries of origin and considerable value for the countries who need them, then let us recognize the geographic existence, nature, and extent of other surpluses throughout the world. Given this recognition all countries of the world,

probably, can contribute toward each other's growth. Most of the Asian countries are 'over populated' and have human surpluses. This is delaying the achievement of their economic goals. If we could make use of each other's 'surpluses' many of the world's problems could be solved.

MAX MYERS, *Department of Economics, South Dakota State College, Brookings, South Dakota, U.S.A.*

Sir John Crawford, now that he has returned to academic duties, has tried to avoid the sort of details which he would have enjoyed as an administrator. As I am in somewhat similar circumstances I shall try to exercise equal restraint, although I disagree with him on several matters of detail.

My purpose in rising is simple. I wish to encourage everyone to read, study, and work on this paper for four reasons: (1) the subject, as has been mentioned, is of great and increasing importance; (2) the paper is a very solid piece of work; it raises valid, relevant questions and arrives at rational answers; (3) it raises many other questions which should lead us into worthwhile studies; (4) finally, and less important, the paper, particularly the first part of it, if read hastily may give a meaning which the author does not intend to give and which may lend itself to being quoted out of context. I refer to the fact that the references cited tend to be those which at the time they were written were attacking the 480 programme. However, Sir John Crawford's conclusions do not bear out the tenor of his citations. His conclusions will satisfy the most pragmatic administrator.

I close with a footnote in the nature of a warning which Professor Crawford does not need but which some of the rest of us do need. The programme discussed, like the development programme of many countries, will not stand still while academic economists think it over and decide on something better. We must make our modifications on the move. This is quite a challenge.

S. KRAŠOVEC, *University of Ljubljana, Yugoslavia*

The paper, especially at the end, discusses whether surpluses in agriculture are a temporary or a long-term phenomenon. I believe they are a long-term problem and worthy of serious study for the following reasons. First, all developing countries, no matter whether they emphasize industrial development or agricultural development, or so-called balanced development, make more or less rapid progress in agricultural needs and outputs. Secondly, all developed countries

with private farming cannot, for economic and political reasons, do other than encourage agricultural production. The experience of western Europe, of Scandinavia, and of other countries, confirms this, and the Common Market will confirm it still more.

We know from economic history that in all economic depressions the agricultural producers carry on longer than all other producers.

I share Dr. Sen's opinion that no matter whether we have the price-support policy of the United States or not, production will continue; the experience of ten years confirms this. Moreover, I also believe that the Soviet Union, especially the newly opened lands, will increase production. I do not believe in the law of diminishing returns in developing economies. For all these reasons we must regard surpluses as a long-term phenomenon. I make no moral or ethical judgement on it. I merely stress it as a fact which calls for serious efforts in international co-operation in using them for development.

SIR JOHN CRAWFORD (*in reply*)

My main difficulty about the discussion is that there are so many points that I must make some selection.

Starting with Dr. Sen, I confess I could not get the 1960/1 data he has used. I do not propose to go into the statistical argument. I do not think it shakes the main point I wanted to make because Sen has, for example, omitted to examine the nature of Canadian imports in this period. I simply put it to him that what we are both forced to admit is that while in a certain period there have been P.L. 480 disposals, it is well-nigh impossible for either of us to say exactly what would have happened to commercial imports in the absence of those disposals. Of course, I must respect his view that in his judgement the Indian Government would have preferred to restrict consumption rather than restrict investment. Nevertheless, I think it would be an interesting test of this if today, other things not being changed, the Indian crop turned out to be better than the seasonal average. In these circumstances would India ask for a reduction in commercial imports or for a reduction in P.L. 480 only? If my thesis is valid it would pay India to ask for a reduction in commercial imports, even though the case would not be any stronger than it had been in the last twelve months. And having a very great respect for Indian administrators, I have not the slightest doubt that they would proceed to ask for a reduction in commercial imports.

Dr. Sen refers to Australia's aid in other directions. It is only

because I was dealing with P.L. 480 disposals and not with foreign aid generally, that I made no mention of Australia's aid contributions elsewhere. Moreover, I was not, in fact, talking specifically about Australia's share in this type of problem (surplus disposals) except by way of illustration of general points.

If I did raise a doubt about food getting to the right people I was reflecting a widespread question whether food was getting to those in real need. As far as I am concerned, I think that the reading of my sixth section will make it plain that I am satisfied that the best way to handle this problem is to sell the grain through the market for cash. So I have no quarrel with Dr. Sen here. Nor do I disagree with his view (in fact, I was trying to argue this way all the morning) that further imports must be planned as an integral part of total planned allocation of resources. Moreover, I think I did pay tribute to the Third Indian Plan as an effort to do just this. But we must agree that we need more international effort.

I think it is always difficult in rushing through a paper in thirty minutes to get quite the right balance, and if I may refer to Dr. Paarlberg and to some others, I do not want to give the impression that we have made no progress in the international field. We have. Yet I am sure that this problem will not be satisfactorily handled until we have gone a long way further than we have.

As for Mr. Kirk, I am very sorry that my scepticism on some points got through in such strong terms as to overwhelm the general view, which I did think I had expressed more strongly, in favour of surpluses being used as an integral part of aid programmes as well as of development in recipient countries. I certainly agree, and I think we would all be foolish not to agree, that the character of trade in the basic foodstuffs is changing and that we *cannot* go back to a completely commercial basis. Nevertheless, it is right and proper and necessary to draw attention to the technical problems, both economic and political in character, which have to be solved in a successful use of the non-commercial form of trade.

I did say, right at the beginning of my paper, as Mr. Kirk has quoted, that we ought not, at this stage, to set out to produce more surpluses for aid. I remember I qualified that by saying this morning that while this is still true of wheat (and Mr. Kirk agrees with that), it may become necessary and wise to produce some non-wheat products for the purpose of aid. And in talking of the 'accident' of present surpluses as I did, it was with reference to the past. I get a little tired of people who take virtue out of food disposals as if they were produced deliberately for aid; *they were not*. But having said

that, let us agree as a matter of common sense that we ought to use the surpluses that are now in being for the most productive purposes.

To Dr. Paarlberg, I want to say, straightaway, as an ex-administrator, that I am sure Australia, and every other wheat-exporting country, has been grateful for what has been called 'the price-umbrella' of the United States. It is not quite such a strong umbrella as he led you to believe, especially in the field I am interested in, soft wheat. United States export subsidies of soft wheat are pretty great. Nevertheless, it would have been sheer catastrophe had the United States tried to unload all its surplus wheat in an ordinary commercial way. It is a fair comment to observe that had they done this, they would have made some quicker adjustments at home in United States agricultural policy. Nevertheless, I agree that the United States capacity has helped Europe in the past and it is now being used to help developing countries. I also agree with him that it is uncommon to find work on surplus disposals in academic circles. I hope my brother academicians will forgive me for saying, from my own past experience, that academics are rather slow to work on public questions of this kind. So please do not get too caustic with administrators who go ahead in the meantime using the best answers they can find to hand. But if you can help them, then please do so.

To Mr. Schmidt all I can say is that if my analysis is correct, food should clearly not be a high priority in the allocation of the foreign exchange resources of a country that is not right on the bread line. Indeed, in this case, if foreign exchange happens to be scarce in relation to its total needs, the country concerned would not ask for food aid, but rather for non-food aid, as a matter of common sense.

On Dr. Ezekiel's kindly references I make no comment except one of gratitude for drawing attention to a principal argument in my paper. This is that we make a mistake in looking at this problem of disposals solely in terms of whether P.L. 480 has or has not replaced commercial imports. What I am trying to suggest is that in certain circumstances, especially where foreign exchange is limited, and where domestic agriculture cannot meet a minimum requirement, *then* food imports are both necessary and relevant to development programmes. In relation to the development needs of the recipient country, the more that non-commercial food imports are available, the better off it will be.

Mr. Rabot says that it is early to raise doubts about the liberal nature of Common Market agricultural policies. To him I can only say that I am sorry, but I spent the last half of my official life getting

answers on this question from European officials, and I have come to the conclusion that the prospect is for increased protection. However, I agree, it is too early yet to say precisely how serious this will be. As to circumstances contributing to population expansion, perhaps that is too big a subject to take on now. Nevertheless, I would like to say that I regard migration as quite an unpractical approach towards a solution of the population problem when viewed in terms of the magnitude of that problem. I regard food disposals and trade in food as a far more effective contribution. However, it is proper to remind ourselves that even with the most successful programme of surplus foods, or rather trade in food, these supplies seem to be marginal to the real needs of the areas. Farms in these areas *must* produce more for themselves if the 'Malthusian devil is to be put to flight'.

To Max Myers, my friend and former official colleague, I am grateful for clarifying my reference to Theodore Schultz. I quoted Schultz who wrote quite sceptically about the use of surpluses for economic development. I examined his proposition and I am sorry if I did not get across to you that I do not agree with it. I think that surpluses *can* be used quite effectively. Even though it may not be the best way of aiding under-developed countries, it can be an effective way of aiding undeveloped countries.

The older I get the more I agree with Professor Krašovec that we may as well determine and evolve our policies on the basis of living for quite a long while with surplus production.

Allow me to finish with two sentences. First, both as an official and now as an academic, I find this subject not only interesting but extremely important. Secondly, I want to lend support to those who regard it important to have more study made of the subject both in the academic world and in governmental circles.