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## AMERICAN WHEAT EXPORTS, POLICIES, AND PROSPECTS\*

Of the many complexities in the world wheat situation today, none is less understood, more controversial, or more far-reaching in its economic effects than the multiform American wheat export program.

Rooted primarily in persisting government-stimulated overproduction of United States wheat, this diversified program has had a strong impact on the level and structure of the world's grain trade and prices, has kept American surplus wheat stocks from mounting to heights that would have brought outraged public demands for earlier price-production adjustments, and has had a marked influence on the economies and agricultural policies of many other countries.

A mere two decades ago any dreamer who had proposed such a "fantastic" postwar export program would have been laughed at and discredited. Two decades hence, even half a century hence, economic historians will perhaps still be debating the net economic effects of the "special" American agricultural exports of the past decade—effects on the subsequent level and development of freer multilateral international trade and on the domestic economies of competing exporting countries, recipient underdeveloped countries, and the United States itself.

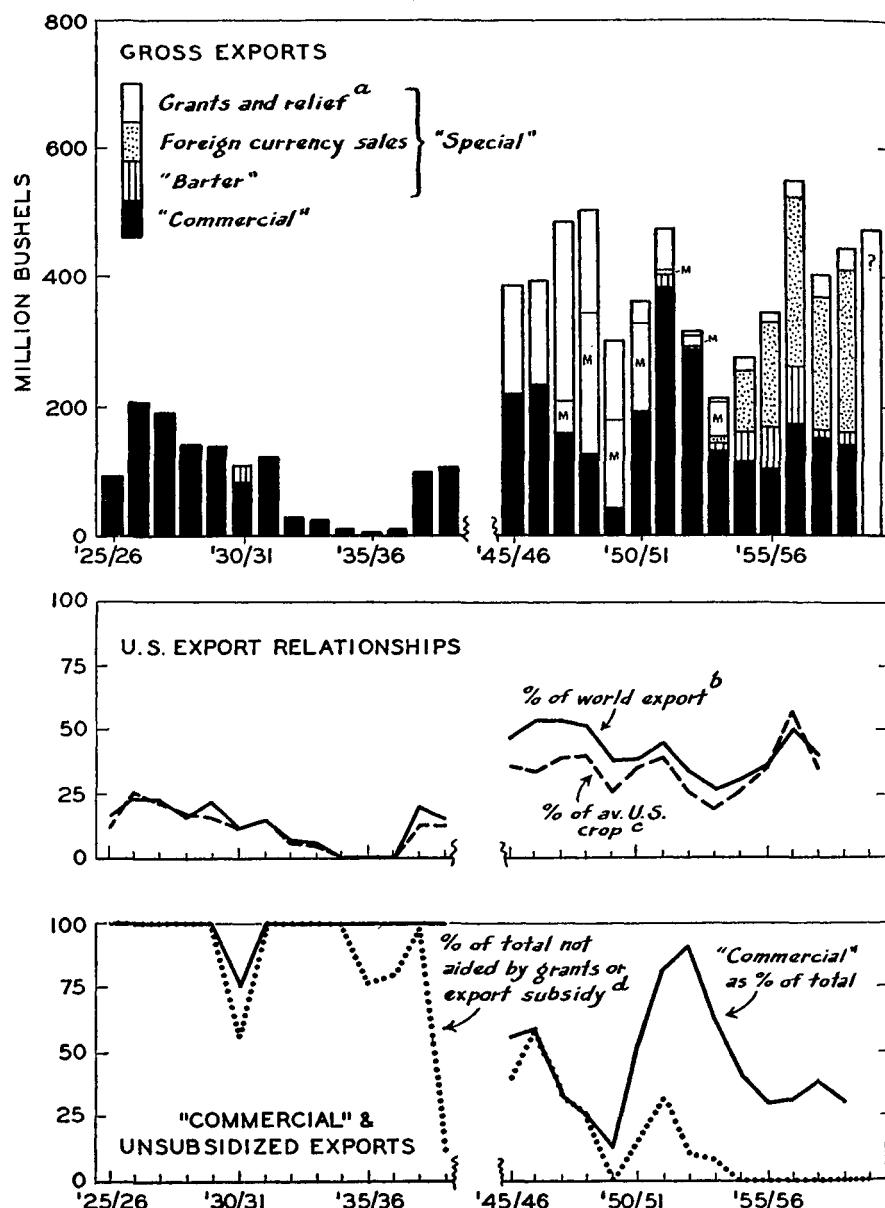
What appears to be needed most at the present time is a broad analyzed view of America's postwar wheat exports in historical perspective, and a clearer understanding of the relative importance, distinguishing features, and economic effects of the varied postwar export programs that have been partly or wholly directed and financed by the United States Government. The present study is designed to help meet this need, to consider the outlook for trade in the coming decade, and to highlight the basic changes needed in American wheat legislation.

### SIZE, DESTINATIONS, AND CHARACTER OF POSTWAR WHEAT EXPORTS

The changing annual magnitudes and general character of American wheat exports are shown in Chart 1 (top section) for all peacetime years since 1925/26. Clearly, the postwar export levels have been notably high. Only twice since the end of World War II have these exports fallen below 300 million bushels, whereas over the entire interwar period that high level was reached or surpassed only once

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CHART 1.—United States "Commercial" and "Special" Exports of Wheat, with Comparisons, 1925-60\*



\* Based mainly on data reported in *Wheat Situation* (U.S. Dept. Agr.), April 1960 and earlier issues, with minor adjustment of some categories based on supplementary information regarding certain government-assisted exports. For description of "commercial" exports and the several categories of "special" exports, see accompanying text.

<sup>a</sup> Includes wheat purchased with unrestricted "Marshall Plan" funds, indicated by "M" designation on separated sections of the bars beginning 1947/48.

<sup>b</sup> U.S. net exports of wheat as a percentage of "world" net exports of the same year. "World" net exports represent the aggregate net exports of all net exporting countries, including the net trade of the Soviet Bloc with the rest of the world (but excluding intra-Bloc trade).

<sup>c</sup> U.S. net exports as a percentage of average U.S. wheat production of the three years centered in the year specified.

<sup>d</sup> Percentage of U.S. wheat exports sold at existing U.S. market prices.

—in 1920/21, when postwar relief shipments were at a peak. Moreover, in the past five years of active operations under the Agricultural Trade Development and Assistance Act of 1954 (83d Cong., Public Law 480 and later amendments), United States net exports of wheat have averaged more than 430 million bushels annually, over nine times the size of the average exports of the 1930's, almost three times the more representative peacetime average of 1922-31, and a little larger than the relief-inflated average of the first six years following World War II.

Such heavy exports have raised the United States to the rank of premier wheat exporter of the world—a rank attributable less to the competitive power of American wheat growers than to the competitive power of the American Treasury. Chart 1 (bottom section) shows that since 1954/55 not a single bushel of American wheat has been exported without the benefit of a direct export subsidy or grant (i.e., not a bushel was sold for export at prevailing American market prices).

So subsidized, United States wheat exports have continuously represented well over 25 per cent of "world"<sup>1</sup> exports during these years (usually 35-45 per cent), whereas the 25 per cent level was not reached even once in the final fifteen years of the interwar period (Chart 1, middle section). No less significant is the fact that recent American exports have accounted for more than a fourth of the nation's domestic wheat crop, as contrasted with 10-15 per cent in most interwar years. This combination of evidence leaves no room for doubt that responsibility for the present heavy world wheat surplus lies within the United States, not outside,<sup>2</sup> and that the existing American surplus is much smaller than it would have been if the outside world had not continually absorbed much larger American exports in the postwar period than in any of the interwar years.

Pertinent also is the fact that the outside markets for American wheat exports have changed markedly since the interwar period. In particular, Europe has declined in relative importance as the chief market for American export wheat, while Asia has advanced, recently attaining top rank for the first time in history. No less noteworthy, however, is the fact that every wheat importing continent, including Europe, has taken more American wheat throughout the postwar period than it did earlier. Much of the increase recorded has been associated with concurrent rapid expansion of American "special" or "concessional" sales (1, p. 8). Even Europe, which is commonly regarded as the world's premier "commercial" market, has received a significant share of such "special" exports, a predominant share in the immediate postwar years. Equally or more important as a determinant of the increased European takings of American wheat, however, has been the concurrent decline in availability of wheat exports from the Soviet Bloc (2). Table 1 presents available data on the continental destinations of American exports by five-year periods.

Since only the figures for Europe and the Americas are reasonably comparable as between prewar and postwar years, the interesting division as between Asia and Africa is obscured in the "others" data. Clearly, the total amount of wheat

<sup>1</sup> As used throughout the present study, "world" exports refer to the total net exports of all net exporting countries, including the estimated net exports of the Soviet Bloc to the rest of the world (but excluding all trade within that Bloc).

<sup>2</sup> Further evidence, focused on world wheat developments, is presented in an earlier study by the writer (3, pp. 1-23).

TABLE 1.—UNITED STATES EXPORTS OF WHEAT AND FLOUR TO SPECIFIED CONTINENTAL AREAS, BY FIVE-YEAR PERIODS, 1925-40 AND 1945-59\*

Five-year average <sup>c</sup>	To Europe		To North and South America <sup>a</sup>		To others <sup>b</sup>		Total	
	Mill. bu.	Per cent	Mill. bu.	Per cent	Mill. bu.	Per cent	Mill. bu.	Per cent
1925-30 .....	89	52	19	11	62	37	170	100
1930-35 .....	33	45	14	19	26	36	73	100
1935-40 .....	37	59	9	14	17	27	63	100
1945-50 .....	291	71	39	9	82	20	412	100
1950-55 .....	161	49	50	15	118	36	329	100
1955-59 .....	155	36	56	13	223	51	434	100

\* Gross export data mainly from *Wheat Situation* (U.S. Dept. Agr.), August 1940 and later issues. Prewar and postwar data are not precisely comparable. Prewar figures include the grain equivalent of flour milled in bond from Canadian wheat, whereas postwar figures do not.

<sup>a</sup> Excluding Canada. Prewar data apply specifically to "Central and South America" (including Mexico), and are therefore slightly less inclusive than the postwar data.

<sup>b</sup> Primarily Asia, which in the three successive postwar periods accounted for 17, 31, and 44 per cent, respectively, of total American exports. Since 1956/57 "others" include all relief shipments made by private American charity organizations to undesignated destinations (of which Europe is perhaps the most important); by 1958/59 the undesignated total had climbed to 20 million bushels.

<sup>c</sup> For crop years beginning July.

received by those two continents combined increased sharply in the postwar period, though not in percentage terms until after P.L. 480 became operative. The great bulk of the wheat exported to "other countries" has always gone to Asia, and the impressive recent increase primarily represents grain sent to Japan, India, Pakistan, and other Asiatic countries. On the other hand, there is supplementary evidence to indicate that the modest American exports to Africa have grown fairly consistently, and thus far with less dependence on "concessional" terms than has been true for Asia as a whole.<sup>8</sup>

From an international standpoint, special interest attaches to the trade situation in 1956/57, when an all-time American export record of 550 million bushels was established. This was more wheat than any country ever exported before or since in a single year. It was roughly equal to half of the nation's average annual wheat production of the three preceding years and also to half of the 1956/57 exports of the entire "world" (Chart 1, middle section). Yet of the record American exports, only 175 million bushels, or less than a third, represented so-called "dollar sales" or "commercial" exports (Chart 1, top section). Moreover, even the "commercial" exports were all subsidized: every bushel was financially assisted by a *general* wheat export subsidy that averaged 79 cents per bushel for the crop year, the highest general export subsidy on record (6, p. 1). The remaining two-thirds of the peak exports were all subsidized at still higher per-bushel rates. They consisted primarily of record heavy "sales" under the American "barter" and "foreign currency" export programs (discussed below).

These heavily subsidized exports, especially the so-called "barter" exports, were strongly protested by governmental representatives of Canada, Australia,

<sup>8</sup> Additional interesting information about grain imports and consumption in Tropical Africa may be found in 4 and 5.

and other friendly exporting countries. The basic claim was that they "unfairly" displaced sizable commercial exports that otherwise would have been made by the protesting countries, a claim broadly supported by the 1956/57 record of destinations of American wheat exports (7, pp. 29-31) and the abnormally high proportion of world exports represented by American wheat. Such protests disturbed American administrators, who presumably had not envisaged such marked interference with the world's "commercial" trade. Moreover, the protests could not reasonably be disregarded in view of accompanying implied threats of, and limited action toward, trade retaliation.

Under these circumstances, even the United States Congress, which had been continuously pressing for larger and larger surplus disposals, could not feel entirely happy about the year's record export total. As a result, the export "lesson" of 1956/57 was reflected in more considerate Congressional instructions in later (1958) P.L. 480 legislation and in related efforts by American administrators to pay more attention to the "normal trade patterns" of friendly competing exporting countries.

#### BASIC FEATURES OF "SPECIAL" VS. "COMMERCIAL" EXPORTS

In attempting to describe in a meaningful way the peculiarly diverse character of recent American agricultural exports, economists and government representatives have found it necessary to develop several new terms and to redefine old ones. As is usual in a period of changing terminology, such new and modified old words have not immediately been accepted, interpreted, and used in a uniform manner. This is true today of a dozen or more trade terms, employed in confusingly different ways to describe the postwar agricultural exports of the United States. Much of the confusion has resulted from failure to distinguish between contract price and net price, between marketing channels in exporting countries and importing countries, between source of financing and economic type of financing, between prices below domestic levels and prices below "world" export levels.

Here attention will be directed only to the trade categories represented in the accompanying diagram (Chart 2, p. 228), which indicates the general relationships that have existed among different types of American peacetime exports during 1925-60 as a whole. Chart 1 shows how the importance of four of the major categories has changed throughout the period.

As Chart 2 indicates, the nation's exports may be divided into two general classes: "special" (or "concessional") exports, on the one hand, and "commercial" (or "cash" or "dollar") exports on the other. Over the thirty years represented, the character of each of these major types of exports has changed so greatly that one might question whether it is really appropriate to use the same words for the two categories at the end of the period as at the beginning. In the present instance this is done in order to keep as close to current intergovernmental terminology as is possible without intolerable violation of basic economic concepts.

As defined in the 1959 International Wheat Agreement (IWA), "*special*" exports (frequently referred to as "concessional" in international discussions) include every export transaction that contains "features introduced by the Government of a country concerned which do not conform with usual commercial

practices" (8, p. 9). This vague definition is further clarified in the Agreement by the specific notation that "special" transactions include (a) sales on long-term credit resulting from government intervention, (b) sales under tied government loans, (c) sales for inconvertible currency, (d) barter transactions, (e) bilateral trading agreements, and (f) gifts or grants. All exports not classified as "special" under this definition are referred to as "commercial."

Except for small recent sales related to "tied loans" and to "long-term credits" by the Export-Import Bank and the Commodity Credit Corporation (inseparable from "commercial exports" in United States statistics), the distribution of American exports in Chart 1, top section, coincides well with the basic twofold IWA classification. This is indicated also by Chart 2, p. 228.

#### CHARACTERISTICS AND ECONOMIC EFFECTS OF FOUR MAJOR TYPES OF "SPECIAL" EXPORTS

An important point not made clear in the International Wheat Agreement itself, but often stressed in discussions in international agencies and in protests of foreign governments against "unfair American export competition," is that different types of American "special" exports have had very different effects on the volume and pattern of the world's wheat trade. This suggests that more attention needs to be given to the subclasses of "special" and "commercial" exports than to those categories themselves.

Basic to any meaningful differentiation between the individual subclasses of "special exports" are the "fair trade principles" set up by the many governments subscribing to the General Agreement on Tariffs and Trade (GATT) (9, pp. 15-17, 32-33; 10, pp. 222-30) and to the "principles" and "guiding lines" of surplus disposal sponsored by the Food and Agriculture Organization (FAO) of the United Nations (11, pp. 80-86). These fundamental "principles" and "guiding lines" have been formally accepted by all leading countries of the non-Communist world, including the United States.

Among the most pertinent provisions thus specified, and broadly supported by the intergovernmental Wheat Utilization Committee (12, pp. 1-2), are (1) that governments "should seek to avoid the use of subsidies on the export of primary products (GATT)"; (2) that governments with excess stocks of agricultural products "should dispose of such products in an orderly manner so as to avoid any undue pressure resulting in sharp falls of prices on world markets" or "harmful interference with normal patterns of production and international trade"; (3) that in determining whether these conditions are fulfilled, exporting governments should give special attention to "the extent to which commodities supplied on concessional terms are likely to be absorbed by additional consumption" and "the extent to which the concessional sales threaten displacement of commercial sales of identical or related commodities"; and (4) that governments proposing to undertake large-scale sales on concessional terms "should, whenever practicable, consult with other countries interested in the possible effects of such transactions." In addition, the Wheat Utilization Committee agreed that priority should be given to efforts to expand *commercial* exports, a principle consistent with GATT ideals and presumably, though less clearly, in line with FAO "principles."

Judged by these criteria, which may collectively be referred to as "*the principles*"

of consumption additionality and trade-pattern normality,"<sup>4</sup> the four major sub-categories of American "special" wheat exports have differed markedly, ranging from "grants," which have recently resulted in heavy additional trade and consumption of the wheat received, to "multilateral barter," which has mainly substituted for commercial exports, has added little or nothing to world trade and consumption, and has materially disturbed "normal" trade patterns (during 1954-57). The particular characteristics and significance of each of these four major classes of "special" or "concessional" exports are described below.

#### "Grants"

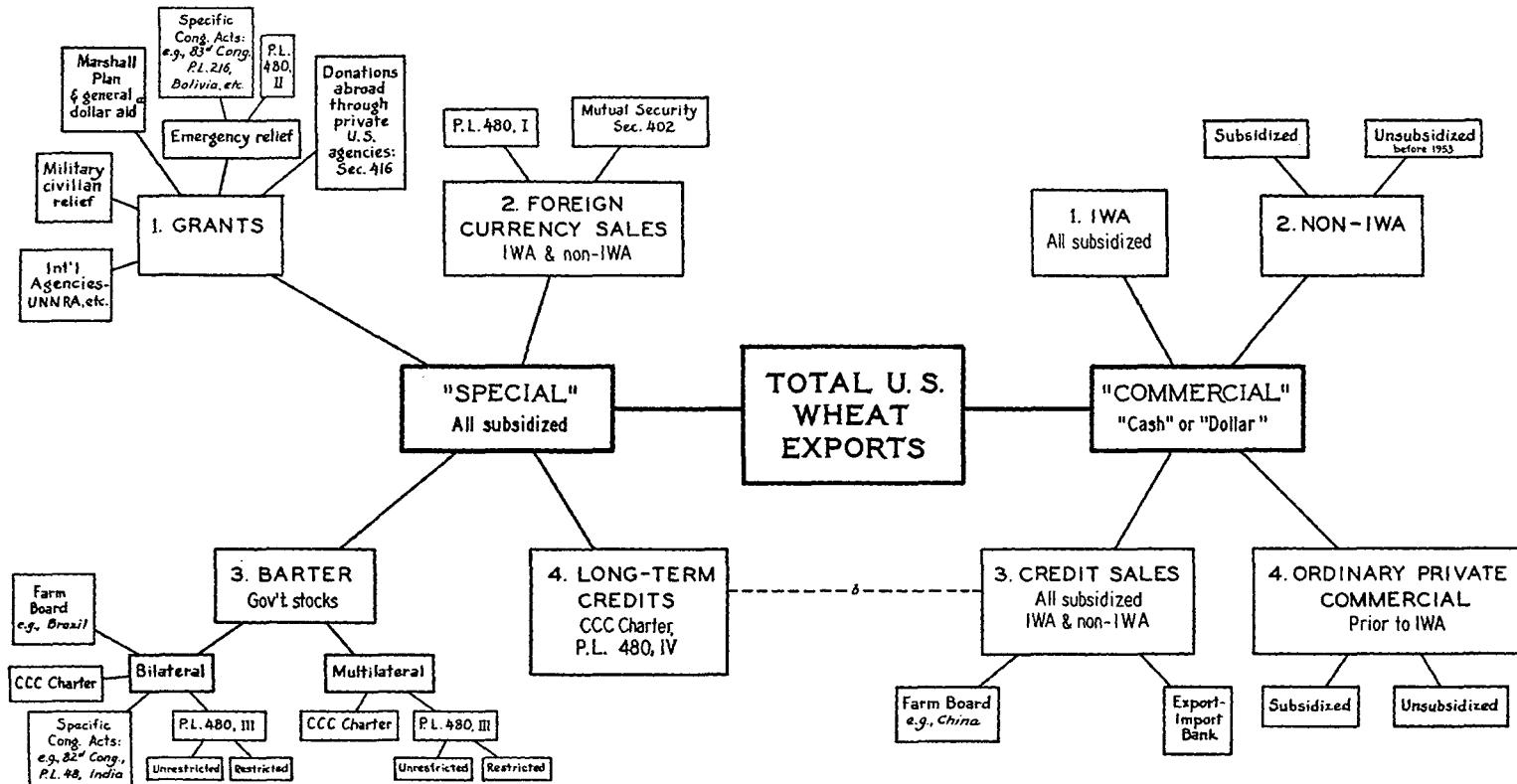
Chart 1 shows the great importance of American wheat grants in the years immediately following World War II, when the world wheat problem was one of shortage, not surplus. At first, most of the American wheat grants represented food relief distributed in war-devastated countries either by the United Nations Relief and Rehabilitation Administration (UNRRA) or by the American or other allied military forces. Soon, however, such food-relief grants were supplemented by grant-purchases of wheat requested by foreign government recipients of unrestricted Marshall Plan (Economic Cooperation Administration) funds. These semigrant purchases raised the American wheat grant total to a peak of 376 million bushels (75% of the nation's wheat exports) in 1948/49.

Although the Marshall Plan aid probably added only modestly to world wheat exports and consumption, it did nothing toward disturbing world wheat trade patterns. On the contrary, it even helped to finance small Canadian and other foreign wheat exports to Europe during the first year or two. The essentially unrestricted character of the general "Marshall Plan" grants, which were usable dollar funds not tied to specific commodities or groups of commodities,<sup>5</sup> was a notable differentiating feature. Wheat supplied by the United States under the European Recovery Program and through 1953/54 under the *general* Mutual Security Program (as distinct from "Section 550" and "Section 402" foreign currency "sales" described below) reflected the free choice of the individual Marshall Plan countries to spend essentially unrestricted aid dollars for wheat rather than for other materials or equipment. No one then worried about the fact that such

<sup>4</sup> The Wheat Utilization Committee would presumably not approve an interpretation of "normal trade patterns" that does not allow for the sharing of newly developed wheat markets. However, there has been an unfortunate lack of clarity about that term, which at times has been interpreted to mean the quantities exported in a specified earlier period to "traditional" markets. There has also been an unfortunate lack of emphasis on the normality of historical changes in "comparative costs," and an unfortunate lack of recognition of the impossibility of defining "normal trade patterns" in any precise quantitative way, particularly for individual years.

<sup>5</sup> Countries participating in the European Recovery Program (ERP) and later in the general Mutual Security Program could establish claims to such funds, however, only by proposing expenditure programs that could win the approval of responsible officials of the European Cooperation Administration, later the Mutual Security Administration. Moreover, the "counterpart funds" associated with sale of imported ERP-financed products were somewhat similar to the "foreign currency" funds associated with P.L. 480 Title I and "Section 402" sales. However, only about 5-10 per cent of the "counterpart funds" made available under the ERP and general Mutual Security Programs was assigned to the United States Government (usually used to pay current expenses mainly related to those particular programs); the remainder of the "counterpart funds" were made available for spending by the recipient foreign governments on diverse items approved by ECA officials as contributing to the "mutual security." Since July 1954 all wheat exports authorized under the Mutual Security Program have apparently been obtained under "Section 402," resulting in "Section 402 foreign-currency funds" owned by the U.S. and spendable on programs initiated by American officials.

CHART 2.—Generalized Relationships Among Specified Types of United States Wheat Exports, 1925-39 and 1945-60\*



\* For notes, see p. 229.

wheat "grants" largely substituted for commercial orders that otherwise would have been placed by European countries for their needed "staff of life." Saving of foreign exchange funds that otherwise would have been spent by the recipient countries for "commercial" wheat was entirely consistent with the underlying purposes of the two programs concerned; and, even more important, no burdensome wheat surpluses then existed to worry competing exporting countries.

Not until 1953/54 did American agricultural surplus disposal get specifically tied into any of the Economic Cooperation or Mutual Security legislation. Then the tie-in came in a separate section (at first, Section 550, later Section 402) which imposed associated obligations on the recipient countries of "paying" for the surplus products in their own currencies, thus shifting such wheat exports from the "grant" category to the "foreign currency sale" category.

Even before then (by 1951/52) the volume of American grant wheat had sharply declined as world food production recovered from its wartime dip and as the war-affected nations became better able to finance their own food imports. However, the United States Congress, troubled by persisting surpluses of wheat and other agricultural products after 1952/53, passed new legislation making enlarged grants possible for famine relief and other emergencies in countries in financial need. The new legislation (13), which has since been popularly and continuously referred to as "Public Law 480" (including subsequent amendments), also provided for other forms of concessional exports which proved to be much more important. It did not result in any notably large grants of wheat either under the broad authority provided for government-to-government famine and emergency grants (Title II) or under the provision for donations for distribution abroad by private American charity and relief organizations (Title III, Section 302).<sup>6</sup> Nevertheless, in each of the past two years these combined grants reached 30 million bushels, a sizable export volume.

In general, the entire postwar record of American wheat grants would appear to deserve the unanimous approval not only of humanitarians, but also of all competing exporting countries. Nor has such unanimous approval been lacking up to the present time. On the other hand, as the nature of America's wheat grants has shifted away from critically needed postwar food relief toward food distributions to pay workers on minor work-relief projects and toward larger donations for unsupervised distribution abroad by private American relief organizations, there has been some concern about where the American grant program may eventually be headed.

<sup>6</sup> This section of Title III is an amended version of Section 416 of the Agricultural Act of 1949, and is commonly referred to as "Section 416."

\* The indicated relationships apply to the 30-year period as a whole: in no single year were all of the specified programs operated simultaneously. The diagram was constructed by the writer on the basis of knowledge about the various government export programs of 1925-60, programs here classified mainly in line with definitions given in the International Wheat Agreement of 1959 (p. 225).

<sup>6</sup> Referred to in the text as "unrestricted grants." It is possible that some postwar purchases of wheat made with unrestricted foreign-aid dollars have not been recorded as "special" exports and therefore appear in the statistics as "commercial" or "cash" (residual) exports.

<sup>6</sup> The connecting line is designed to suggest that many of the credit sales reported in American statistics as part of "commercial" (residual) exports have had "special" or "concessional" features.

*Foreign Currency Sales Under "Section 402" and P.L. 480*

Over the past six years the most important single category of American "special" wheat exports has been that of foreign currency sales. This includes all so-called "sales" of American wheat for foreign domestic currencies, whether under P.L. 480 Title I or under Section 402 of successive Mutual Security Acts (previously Section 550). Quantitatively, the P.L. 480 sales have been much the larger, totaling 724 million bushels over the past five years, as compared with 253 million under Section 402.

Neither program has been open to all countries. Section 402 sales have been restricted to governments cooperating in the Mutual Security program, and P.L. 480 sales confined to friendly countries believed to have insufficient foreign exchange resources (especially dollar resources) to finance needed foodgrain imports. A number of countries have received wheat and other agricultural surpluses under both programs, the Section 402 purchases often counting as the "ordinary" purchases or IWA quota purchases some countries were required to make as the basis for establishing eligibility for "additional" P.L. 480 Title I wheat. The vague financial and historical trade criteria used to determine "eligibility" for P.L. 480 Title I sales were framed not by Congress but by the Administration, largely as a means of safeguarding commercial sales in line with Congressional instructions and international commitments.

Under both Section 402 and P.L. 480 limited "triangular sales" were arranged with a few additional industrialized countries willing to let the associated local currency proceeds be used to buy industrial items needed in one or more of the less developed, "eligible" countries (14, pp. 521-22). Under both programs, but particularly P.L. 480, administrative concepts of country "eligibility" and administrative use of "triangular sales" have changed markedly since P.L. 480 first became fully effective in 1955. So, too, has the practice of "tied" commercial sales to P.L. 480 Agreements. In earlier years "tied in" sales of *American* wheat were common; but since 1958 commercial purchase requirements have usually been stated in global terms, without designation of any specific national source. These and other recent program changes have mainly reflected responses to international protests against earlier procedures and to revisions in Congressional instructions designed to give more protection to the trade interests of friendly competing exporting countries.

When Section 402 wheat exports were at their height in 1954-57 (1, p. 8; 15, pp. 26-31), a sizable quantity went directly or through "triangular sales" to "commercial" importing countries in Western Europe and elsewhere, which otherwise would have purchased significantly more "commercial" wheat at existing "world" prices. In 1957/58, however, Section 402 wheat exports declined to only 31 million bushels, and in 1958/59 they dropped to 20 million—about the figure expected in the present year. At these lower levels there has been less displacement of world commercial trade; yet, even so, well over a third of the 1957/58 total and over half of the total for the following year went to Western Germany, a country fully capable of paying dollars for all desired grain imports.

Much of the recent decline in Section 402 sales came as a result of reduced Congressional provision for such exports, a reduction associated with recom-

mendations of the Administration and perhaps particularly with the opposition to "triangular sales" expressed by officials of the International Cooperation Administration (the administrative agency). In the spring of 1957, the Deputy Director for Operations (Dr. D. A. FitzGerald) informed members of the Senate Foreign Relations Committee that "triangular sales" tended "correspondingly to reduce regular commercial sales," involved "a disproportionately heavy administrative workload," and were "inconsistent with United States foreign trade policies" (14, p. 522).

More impressive, both in total and with respect to major destinations, were the Title I, P.L. 480 Agreement records. Pertinent data from these records are summarized in Table 2 for the entire six-year period and also for the two most recent crop years (half year in 1959/60).

TABLE 2.—APPROXIMATE QUANTITIES OF WHEAT INCLUDED UNDER  
TITLE I, P.L. 480 AGREEMENTS, SELECTED PERIODS, 1954-59\*

(Million bushels, except as noted)

Country	July 1954-Dec. 1959			July 1958-June 1959		July 1959-Dec. 1959	
	Total	Annual average	Per cent	Total	Per cent	Total	Per cent
India .....	398	72	38	128	52	110	61
Yugoslavia ....	135	25	13	33	14	—	—
Brazil .....	89	16	9	—	—	—	—
Pakistan .....	76	14	7	33	14	—	—
UAR: Egypt ..	57	10	6	13	5	34	19
Turkey .....	54	10	5	—	—	11	6
Poland .....	34	6	3	8	3	—	—
Korea .....	33	6	3	12	5	—	—
Japan .....	31	6	3	—	—	—	—
Israel .....	23	4	2	7	3	—	—
Colombia .....	21 <sup>a</sup>	4	2	—	—	13 <sup>a</sup>	7
Total specified.	951	173	91	234	96	168	93
Others .....	93 <sup>b</sup>	17 <sup>b</sup>	9 <sup>b</sup>	11 <sup>c</sup>	4 <sup>c</sup>	13 <sup>a</sup>	7 <sup>a</sup>
Total .....	1,044	190	100	245	100	181	100

\* U.S. 86th Cong., House, *Message from the President of the United States Transmitting the Eleventh Semiannual Report on Activities Carried on Under Public Law 480, 83d Cong., as Amended* . . . (House Document No. 335), Feb. 11, 1960, pp. 47, 48, 55. All P.L. 480 Agreements provide for commodity sales in terms of dollar value, not in units of weight or volume; consequently, the million bushel figures given in this Document are rough approximations.

<sup>a</sup> The reported figure of 13 million bushels for Colombia under agreements signed during July-December 1959 appears fantastically high for a single year; if no typographical error is involved, the basic agreement presumably provides for shipment over several years.

<sup>b</sup> Seventeen countries.

<sup>c</sup> Four countries.

<sup>d</sup> Two countries.

Of the billion-odd bushels of wheat "sold" under all Title I Agreements signed through December 1959, only eleven countries were scheduled to receive as much as 20 million bushels, individually, over the five-year period. Moreover, these few countries accounted for 91 per cent of the total; and scarcely more than half of the group, the six largest recipients, accounted for a full 77 per cent. Note-

worthy, too, is the fact that all of the major recipients rank as "underdeveloped" countries with limited foreign exchange resources.

The importance of this heavy concentration of sales to underdeveloped countries can hardly be exaggerated. It means, on the one hand, that wheat sales under P.L. 480 Title I have gone primarily to a few big "surplus disposal" unloading grounds, presumably adding materially to the total wheat imports of those countries, and perhaps adding only moderately less to their over-all wheat consumption. This reinforces the view that most Title I wheat sales were administratively planned so that they did not heavily displace "commercial" exports, particularly "commercial" exports of United States wheat. For this, American administrators deserve much credit.

Encouraging as this broad conclusion is, however, there are hidden exceptions and distortions that should be carefully noted. These include the *probabilities* that in some individual years (especially prior to September 1958): (1) India, Brazil, Japan, Egypt, Israel, and Poland would have purchased more "commercial" export wheat and/or other grain if they had not been able to benefit so heavily under the P.L. 480 program; (2) percentagewise, the displacement of "commercial" exports by P.L. 480 wheat has been even greater for a number of the 17 unlisted "other" countries, whose individual Title I wheat imports totaled less than 20 million bushels; (3) several of the five long-term P.L. 480 sales contracts resulted in somewhat more displacement of "commercial" exports than if carefully considered annual agreements had been negotiated for each of the years covered;<sup>7</sup> (4) part of the P.L. 480 wheat imported by Turkey freed additional Turkish wheat and barley for export, resulting in larger competitive exports of Turkish grain in Western Europe than otherwise would have been made over the six-year period; (5) part of the P.L. 480 wheat imported by Pakistan and Egypt freed increased quantities of rice for export from those two countries and/or cut commercial imports of wheat and other grains; and (6) in a number of recipient countries where wheat competes for land with cotton, increased reliance on P.L. 480 wheat imports meant heavier plantings, production, and exports of cotton than would have occurred in the absence of the concessional wheat imports.

How disturbing have such hidden trade effects been? At best, only a very rough, approximate answer to this question could ever be secured, and that only on the basis of a number of time-consuming country-by-country studies by experts familiar with the crop production, food and fiber consumption habits, and statistical pitfalls of the individual countries concerned. Yet even now there is enough fragmentary evidence to indicate that the adverse effects of P.L. 480 Title I sales in substituting for, and intensifying competitive trade in, other commodities is much more widespread, complicated, and substantial than is generally recognized.

A second noteworthy feature of the heavy concentration of P.L. 480 wheat sales by destinations is its intensification over time and the associated implications for the future of the program. In 1955/56, Title I Agreements involving

<sup>7</sup> Agreements involving wheat deliveries over a three-year period were signed with India and Brazil in 1956 and with Columbia in 1957; similar two-year Agreements were signed with Indonesia in 1956 and with Pakistan in 1958 (26, p. 16).

wheat sales were made with 18 nations; thereafter the number of foreign nations represented declined sharply, and the percentage of total wheat sales allocated to the six largest recipients markedly increased. Data for individual years are shown in the following tabulation (16, pp. 47, 51-55).

	1955/56	1956/57	1957/58	1958/59	July-Dec. 1959
No. of Title I Agreements involving wheat .....	18	14	15	11	6
Per cent of Title I wheat allocated to six largest recipients .....	73	95 <sup>a</sup>	85	93	100
Total wheat covered by Title I Agreements (mill. bu.) .....	118	308 <sup>a</sup>	141	245	181

<sup>a</sup> Includes large three-year Agreements with India and Brazil and a smaller two-year Agreement with Indonesia.

The extreme degree of concentration reflected in the figures for the first half of the current crop year has not been wholly maintained. Recent news reports suggest that nine countries have now shared significantly in the year's exports, yet the tendency toward great concentration remains clear.

These facts, reinforced by considerable supplementary evidence, support the view that administrators of the program probably cannot now count on putting substantial quantities of Title I wheat annually into more than about 10 friendly countries without threatening reduction and distortion of the world's commercial trade. Indeed, even this small number of "eligible" countries seems likely to decline in future years unless the existing "eligibility" rules are relaxed—a policy change that would threaten further encroachment on commercial trade, contrary to the interests of competing exporting countries and also to the long-term interests of the United States.

The past tendency has been for some of the earlier recipients of Title I wheat (e.g., Japan) to shift out of the ranks of concessional buyers into the group of commercial buyers as postwar economic recovery and development have proceeded. Others have recently developed their own grain production to the point where they no longer want to purchase much American wheat, even under the relatively attractive P.L. 480 terms. At present, Pakistan "plans" to increase foodgrain production by 21 per cent over the next five years (30), substantially raising per capita grain output despite a rapidly growing population—an increase that would presumably allow larger rice *exports*. And India, just fortified with a new P.L. 480 Title I contract calling for delivery over the next four years of almost 600 million bushels of wheat for current consumption and reserves, is hoping to raise domestic foodgrain production by 1966 to the point of self-sufficiency for "normal" crop seasons. Such "plans," even if not fully effective, are probably significant "straws in the wind."

On the other hand, part of the recent decline in the number of countries receiving Title I wheat is attributable not to improved conditions in former recipient countries, but to the fact that American administrators have been more careful in the past two years about protecting the commercial trade interests of competing wheat exporting countries. The associated legislative changes made in P.L. 480 in September 1958 deserve special attention (17). Until then Con-

gressional instructions had specified only that administrators of P.L. 480 Title I sales should "safeguard usual marketings of the *United States*" (italics added) and assure that such sales "not unduly disrupt world prices." Thus, Congress had previously appeared to seek only "additionality" of United States exports, without regard for the trade of friendly competitors unless or until heavy displacement of their export markets seemed to threaten "undue" disruption of world prices. However, after foreign government protests against American "unfair trade practices" rose to an alarming pitch in 1956/57 (pp. 224-25), Congress finally modified its earlier Title I instructions to provide, in addition, that future sales should not "unduly disrupt normal patterns of commercial trade with friendly countries" (17), a modification retained unchanged the following year.

Under these appropriately revised instructions, P.L. 480 Title I could be, and subsequently was, administered with more careful attention to anticipated world trade effects<sup>8</sup> and with more considerate open consultation with officials of competing exporting countries. Such intergovernmental consultation and cooperation was further promoted by the "Food for Peace Conference," to which President Eisenhower invited government representatives of the five leading wheat exporting countries in May 1959, a conference that resulted in the creation of a continuing Wheat Utilization Committee composed of officials of the same five governments.

These several moves in the direction of practical intergovernmental cooperation in dealing with wheat surplus disposals have brought American trading policies more closely into line with accepted international principles. Nevertheless, the huge quantities of wheat recently exported under P.L. 480 Title I, the continued pile-up of American wheat surpluses, and the intermittent introduction into Congress of new bills that provide for further sharp expansion of Title I sales under the guise of humanitarianism, leave the governments of competing exporting nations not only apprehensive about the future, but also interested in advance planning of possible retaliatory measures.

#### *Common Misconceptions about P.L. 480 Title I Sales*

Widespread confusion and misunderstanding exist in the United States about many aspects of the P.L. 480 Title I program. There are two key issues. First, what do the underdeveloped countries gain by receiving Title I wheat: Does it "save their foreign exchange"? Is it "just as good as dollars"? Does it go to "feed the hungry" or is it sold to the higher income classes? Is it used as "pay for workers on government projects"? Does it "fight inflation and speed economic development"? Or is it "just attractively cheap grain"? The second basic problem may appear simpler, but it, too, is the subject of controversy. What return

<sup>8</sup> Explaining the current administrative operation of P.L. 480 Title I, the President's Interagency Committee on Agricultural Surplus Disposal recently reported (16, p. 4): "Quantities of commodities in Title I agreements are determined only after a careful analysis of the possible effect of proposed programs on normal commercial marketings of the United States and other friendly countries. Factors considered relative to these commodities include historical trade, stocks, production, consumption, and trade import requirements. As a result of such analyses some proposals are rejected and others modified in order to avoid possible harmful effects on normal trade patterns."

does the United States Government get for such wheat: Of the billions of dollars appropriated for Title I agricultural exports, how much of the part spent for wheat comes back? What do American officials mean by saying that Title I wheat is sold "at prices comparable to those . . . for export sales for dollars" (16, p. 4)? Can the foreign currencies received be "used to buy goods and services we need"? Why do competing exporters call Title I wheat "cut-rate" exports?

No attempt will be made here to present complete answers to these questions. However, some clarification is necessary if the economic significance of the foreign currency sales is to be understood. Several of the major points will therefore be stated somewhat categorically, without full explanation.

1. *Title I wheat is not "just as good as dollars."* Nor does it "save foreign exchange" for the recipient countries, except to the extent that it displaces commercial imports of wheat or substitutable foods which these countries would otherwise finance. Since the Title I wheat program is supposed to be administered so that it does "not displace U.S. usual marketings" nor disrupt "normal patterns of commercial trade with friendly countries," the amount of foreign exchange saved should be small. This seems particularly likely for the past two years, when the bulk of the Title I wheat exports has gone to just a few "unloading grounds." In any case, Title I wheat is certainly not "as good as dollars." Dollars can be spent not only for food, but for factory equipment, agricultural machinery, and a host of other kinds of "production goods" purchasable only in the highly industrialized countries. Such imported capital goods would usually contribute considerably more than wheat to the promotion of economic development, and would usually be preferred to wheat by the governments of the underdeveloped countries.

2. *Title I wheat is rarely, if ever, used to "feed the hungry" and destitute of the recipient countries.* Indeed, insofar as serious mass hunger is concerned, free Title II wheat is obviously the more suitable relief instrument.<sup>9</sup> Moreover, the available records show that practically all Title I wheat is sold directly by the recipient governments through ordinary domestic commercial channels at whatever prices are charged for domestic and other imported wheat. In most of the poorer countries, this means that Title I wheat, priced at luxury food levels, can be purchased only by those who have enough money so that they need not be "hungry."

Whether Title I wheat tends to reduce market prices of the coarse grains customarily consumed by the poorer classes, reducing economic incentives for growers to maintain plantings of those grains and posing a future problem of providing cheap food for "the hungry," depends on a number of variable complex factors that make sound generalization impossible. Among such factors are the size and distribution of the Title I sales relative to the total market supplies, the degree of governmental intervention in the pricing system, the cropping

<sup>9</sup> Aside from such emergency food-shortage difficulties, there remains the crucial question as to how many *accessible* groups of people (not scattered individuals) are really suffering from serious undernourishment. On the numbers and locations of such reportedly "large" groups of people, trustworthy information is lacking (18, pp. 4-9). Moreover, the governments of some of those groups do not want to face the responsibility and expense of coping with the distribution of either Title I or Title II wheat.

patterns of the country, and the economic alternatives open to growers. Only to the extent that Title I wheat helps to generate increased earning power (through economic development and more productive employment) for individuals in need of additional food calories, is a firm base established for constructively "feeding the hungry" or for adding to, rather than displacing commercial sales that otherwise would have occurred. In some countries, under favorable conditions, these desirable developments have taken place; but the available evidence suggests that such favorable results have been of very limited magnitude up to the present time. Clearly, agricultural products are much less effective than general American dollar aid or American machinery or tools in promoting such development.

3. *Suggestions that Title I wheat should be used directly to pay workers on associated government projects have not been widely followed.* Nor do such schemes have much practical appeal. In essence, they represent a cumbersome, barter-type arrangement that reduces the right of the workers to decide how their earnings shall be allocated among semi-luxury wheat, cheaper foods, and other wanted items. Often the principal effect of such wheat-pay schemes is that the workers get a heavily discounted price for their wheat when they barter it with local merchants in order to obtain the particular combination of market products they prefer. And by such secondary barter the wheat enters normal consumption channels for sale to people who want and can afford it, thus competing with "commercial" wheat.

4. *Assertions that Title I wheat contributes markedly to economic development and inflation control in the recipient countries are also questionable as broad generalizations.* Under semi-ideal conditions of wise government planning of suitable development projects, concurrent timing of P.L. 480 wheat sales and related increased government expenditures, and appropriate channeling of P.L. 480 wheat (or substitutes) into the particular districts or regions in which increased development expenditures center, the amount of Title I wheat thus far received by several countries would presumably have been large enough to contribute modestly, though not heavily, to economic development and inflation control. However, such semi-ideal conditions have not commonly existed. Practically everywhere government economic planning has remained an uncertain, unskilled art. And unfortunately, too, the emphasis of American administrators of the P.L. 480 program has centered so heavily on disposal of agricultural surpluses that not enough thought, time, or money has been given to insuring that Title I loan funds have been tied to really promising development plans. Since April 1959 even less American attention appears to have been given to the constructive use of loan proceeds, as a result of program changes effected to "speed up the use of economic development funds" (26, p. 7).

Equally or more important, the general economic effects of Title I agreements are not yet ended. Since the recipient countries are expected to make amortization payments for many years against the associated development loans they have received, those payments must be counted as a continuing future claim on their national budgets and on the national economic resources required to meet resulting American expenditures of the local currency payments (factors tending to increase inflation and to retard future development). Only to the extent that

local currency depreciation occurs,<sup>10</sup> or that the governments of the recipient countries refuse to honor their loan obligations, or that loan repayments are voluntarily converted into American grants, can such future claims be wiped out. The hope, of course, is that the economic development originally generated by the loans will build resources capable of meeting the scheduled payments without strain; but the past century's record of repayments and defaults on private and public loans to developing countries (including some countries now fairly well developed) is not encouraging. Neither is the available evidence on development expenditure planning under the Title I loan funds.

5. *The "price" of Title I wheat is one of its most confusing features.* As American officials report, Title I wheat sales have typically been made at nominal prices comparable to those prevailing for "commercial" or "dollar" exports. However, the *effective net* prices of Title I wheat have been much lower. For each recipient the net price has been sharply reduced by the specific concessions written into the Title I, Public Law 480 Agreement concerned (see Table 3). The Agreements

TABLE 3.—USES OF FOREIGN CURRENCIES AS PROVIDED IN TITLE I, PUBLIC LAW 480 AGREEMENTS SIGNED JULY 1, 1954 THROUGH DECEMBER 31, 1959\*

Specified uses	Million-dollar equivalent	Per cent of total
<i>Total</i> .....	4,159	100.0
<i>U.S. uses (primarily)</i> .....	(1,550)	(37.2)
For U.S. obligations .....	653	15.7
Other U.S. uses .....	615	14.7
Loans to private enterprise .....	282	6.8
<i>Common defense</i> .....	316	7.6
<i>Foreign government uses</i> .....	(2,293)	(55.2)
Grants for economic development ....	340	8.2
Loans for development and trade ....	1,953	47.0

\* U.S. 86th Cong., House, *Message from the President of the United States Transmitting the Eleventh Semiannual Report on Activities Carried on Under Public Law 480, 83d Cong., as Amended* . . . (House Document No. 335) Feb. 11, 1960, p. 57. Amounts are in dollar equivalents at deposit rate of exchange.

negotiated for the various countries, and for the same country at various times, have differed markedly, both as to the commodities included and the specific concessions made. There have been no "standard" concessional terms. Nevertheless, such Agreements have customarily provided for the equivalent of price discounts in the form of (a) outright grants to the purchasing governments of some 5-15 per cent of the local funds scheduled to be paid for the wheat, (b)

<sup>10</sup> Prior to April 1959 most Title I, Public Law 480 loan agreements contained "a maintenance of value" clause, which was designed to maintain a constant dollar value of the foreign currencies due in payment of the loans. Thus, each borrowing country was required to repay enough units of domestic currency to equal the dollar value of the currency at the time the loan was made. If its currency depreciated, the country was obligated to pay proportionately more currency units. In April 1959, the Department of Agriculture dropped the "maintenance of value" clause, retroactive to all loan agreements signed after June 30, 1958. In repaying loans signed subsequent to that date the borrowing country is expected to repay only the number of foreign currency units it borrows, regardless of the value of the units (26, p. 7). It seems inevitable that the "maintenance of value" clauses in earlier agreements will later be dropped under a general ruling or eliminated through negotiation for countries whose currencies will have depreciated before the end of the loan period.

long-term (often 40-year) loans to those governments of another 45-50 per cent of the funds, with the loan terms specifying an interest-free period of several years and a low interest rate (recently 4 per cent) for later years, and (c) commitments by the United States Government to spend a substantial part of the remaining foreign currency for market development projects, trade fairs, international educational purposes and other services that represent additional expenditures over and above those customarily made.

Under this combination of sales terms, it seems absurd to try to maintain the myth that Title I sales are made at going "commercial" export prices. Yet this fiction is carried throughout much of the government accounting on P.L. 480 sales agreements. A mere hint of the huge additional costs borne by American taxpayers as a result of the special price concessions made on Title I sales may be obtained from Table 3. The figures are largely self-explanatory; but special attention may be called to the fact that only the funds earmarked for current "U.S. obligations" (15.7 per cent of the total) have been free for spending on goods and services that would ordinarily have been purchased by the United States Government. Even if there is no further currency depreciation in the Agreement countries and even if all of those countries should fulfill the repayment terms specified in their loan agreements (with the United States Government free to spend the repaid currencies as desired), the combination of grants, below-commercial interest rates, and initial no-interest loan period suggests an average discounted net export "price" of no more than \$.95-\$1.10 per bushel for such sales (basis central markets). Such prices compare with recent average "commercial" export prices of \$1.45-\$1.55 and with American producers' and consumers' prices of \$2.00-\$2.30 (see Chart 3, p. 247). Thus, the *minimal* discount from current subsidized "commercial" export prices can be put at about 30 per cent; and the actual average discount for all such sales may be expected to be much larger because of future currency depreciations and negotiated loan reductions.

#### *Barter*

Over the past decade, barter has ranked as the third most important "special" wheat export program of the United States. Prior to May 1957, this program was the most heavily criticized single method of American surplus disposal, because of its obvious displacement of "commercial" exports. Subsequent changes in the barter program, however, have reduced its scope and have gone a long way toward removing its most objectionable features so far as wheat specifically is concerned. For some other commodities (including coarse grains) improvement is less evident.

Although the authority of the Commodity Credit Corporation (CCC) to engage in barter transactions dates back to the Charter Act of 1948, this form of surplus disposal did not become really important until after P.L. 480 was passed in 1954. Thereafter, barter exports of wheat (all drawn from CCC stocks) rapidly expanded to a peak of 87 million bushels in 1956/57 (Chart 1). The sharp increase was associated in part with the provisions of P.L. 480 for the creation of a "supplemental stockpile" for absorption of CCC bartered materials not wanted for the "strategic stockpile" operated by the Office of Civilian and Defense Mobiliza-

tion.<sup>11</sup> It was associated, too, with the unusually favorable barter-program terms which the Department of Agriculture subsequently announced (see below).

No one appears to have anticipated that the barter program of 1954-57 would promote such a striking response, particularly by encouraging barter sales to Western European countries rated as leading "commercial" markets. As already noted, increasingly agitated protests were registered by competing exporting countries as barter sales mounted in 1956/57. Moreover, by then it was also clear that American "dollar" sales were being displaced. In April 1957, therefore, the existing barter program was suddenly suspended; and new terms, announced the following month (19) were designed to assure that subsequent operations would discourage exports that were not "additional" to ordinary commercial trade.

The revised program of May 1957 proved so contrastingly *unattractive* to barter contractors that wheat barter transactions (adversely affected also by an improved European harvest) dropped from the 87-million-bushel peak of 1956/57 to less than 10 million bushels in 1957/58. For other surplus agricultural commodities, the barter trade records also showed substantial declines.

Aroused by this sharp drop, the Congress attempted to write into the 1958 P.L. 480 Amendments (17) instructions to the Secretary of Agriculture to expand the barter program "to the maximum extent practicable" whenever he determined this to be in "the best interest of the United States," but the amendments also indicated that the Secretary was expected to take reasonable precautions to assure that barter transactions would not "unduly disrupt world prices of agricultural commodities or replace cash sales for dollars" or interfere with "normal patterns of commercial trade with respect to commodities covered by formal multilateral international marketing agreements to which the United States is a party" (the final safeguard applying specifically and only to wheat because that has been the only "surplus commodity" covered by such an agreement). Thus despite desire for heavier barter disposals of agricultural commodities, the Congress itself took special action in 1958 (extended for a further two-year period in 1959) to curtail wheat barter transactions likely to displace "normal" commercial sales either of the United States or of any friendly traditional wheat exporting country (primarily Canada, Australia, and, since 1959, Argentina).

Under these changing terms and conditions, the record of American wheat barter transactions shown in Table 4, p. 240, is by no means surprising.

The preceding historical review leaves unanswered three important questions: (1) what were the extremely favorable barter terms that resulted in the embarrassingly high wheat barter peak of 1956/57? (2) what chief administrative changes were made in subsequent program revisions? and (3) how do the subcategories of barter diagrammed in Chart 2, p. 228, tie in with the changing programs?

Before attempting to answer these basic questions, it is important to note

<sup>11</sup> Section 303 of P.L. 480 authorizes the Secretary of Agriculture to exchange agricultural commodities owned by the CCC for (a) strategic and other materials that are not produced in adequate supply in the United States and that entail less risk of deterioration or substantially lower storage costs, (b) materials or equipment required in connection with foreign economic and military aid programs, or (c) materials and equipment required for offshore construction programs.

TABLE 4.—BARTER EXPORTS OF UNITED STATES WHEAT, 1954-59\*

July-June	Total barter exports		Barter exports to commercial areas <sup>a</sup>	
	Million bushels	Per cent of total exports	Million bushels	Per cent of total barter exports
1954/55 .....	46	17	36	78
1955/56 .....	67	19	56	84
1956/57 .....	87	16	84	96
1957/58 .....	10	2	6	65
1958/59 .....	20	5	10	48

\* Data from U.S. Dept. Agr., FAS, *The World Grain Trade* (FAS-M-33), April 1959, and U.S. Dept. Agr., FAS, *U.S. Wheat and Flour Exports under Government Programs for 1957-58 and 1958-59* (Mar. 16, 1960).

<sup>a</sup> Here arbitrarily defined as Western Europe and Japan.

that the American postwar commodity-barter program has continually operated in a unique manner. At no time has it closely resembled the "bilateral trade agreements" or "barter deals" of other countries recognized as leaders in international barter trade (e.g., Argentina). Historically, international barter has normally involved the direct exchange of domestic products between two countries, each represented at the negotiating table by its own government officials or semiofficial trading agency. The American Farm Board's barter exchange of wheat for Brazilian coffee in 1930/31 broadly corresponded to that pattern. By contrast, postwar American barter has usually represented a two-way exchange of products between the United States Department of Agriculture, on the one hand, and a private American contractor on the other.

Under the unique United States barter system, a private contractor, usually a large importer of metals or other stockpile materials, has submitted to the Department of Agriculture a proposed barter contract, based on the latest Presidential list of materials acceptable for barter exchange. With aid from other government agencies, that Department has then checked the proposed contract as to reasonableness of the implied prices and other contract terms (20, pp. 19-30). Many such proposed contracts have been turned down. Once such a contract has been approved, the contractor has usually arranged with a specialized commodity exporter to handle the agricultural export part of the deal (for a negotiated special "commission" or price discount), and the contractor himself has tried to buy at the lowest price possible the particular material(s) specified for delivery to the CCC. The agricultural product has then been handled by the exporter as if it were a regular commercial export; payment in dollars has been required, and the foreign importer of the product has often been wholly unaware of the original "barter" character of the transaction (21, p. 402). However, the special commission or price discount which the agricultural commodity exporter has received has permitted him to reduce the export price moderately below the going "world" commercial level in order to make an additional doubtful sale.

Prior to May 1957, the terms written into such barter contracts were strikingly generous. No restrictions were then imposed by the Department of Agriculture as to countries of origin or destination, except that the material could not be of United States origin, and the foreign countries concerned had to be "friendly."

Then too, even more important, the barter contractor was usually permitted to take immediate delivery of the CCC agricultural commodity (for which he received prompt payment from the associated commodity exporter) and to delay delivery of the promised material for as long as 2 to 4 years, a period during which he could use, interest free, the money he had already received from sale of the surplus agricultural commodity. The associated barter profits were, therefore, usually large. Such transactions are represented in Chart 2 as "*unrestricted multilateral barter*," since few restrictions existed and the bartered material could come from a nation other than that to which the farm product moved.

Under the revised barter program introduced in May 1957, the Department did not disturb the multilateral feature of the earlier program, but imposed the requirement that a written "certificate of additionality" be presented. This, in itself, was a considerable handicap, since many officials of importing countries did not want to sign "certificates" stating that the commodities to be imported would represent "net additions" to ordinary imports from the United States. Yet this problem might have been managed in time, if the barter contractors had not had a more important reason for disliking the revised barter system. Their major objection was based on the inclusion of an interest charge in the barter contracts, a charge to cover the use of related funds during the period between the receipt of the CCC agricultural products and the delivery of the stockpile materials. This made barter deals much less attractive.

Another substantial administrative change was made in the barter program in November 1958 (22). The novel, complex system then instituted (still in operation) provided for a four-fold country-commodity classification to serve as the basis for "acceptable" barter contracts. Each of the specified individual countries, classified on the basis of their "current economic and financial conditions and historical dollar marketings of U.S. agricultural commodities" were ranked A, B, C, or X for each designated surplus agricultural commodity. Many countries were rated A for one commodity, and B or C for another, the A category representing a higher potential as a "dollar" or American "commercial" market than B, and B a higher market potential than C. The X category was introduced later, when the need became clear for a super-A category for a few countries; the X ranking thus indicates the very highest dollar-market potential. This system made it possible for the Department of Agriculture to prevent barter exports to X countries, to "screen" barter contracts involving exports to A countries (to insure "additional" sales), and to obtain pertinent information about the relationship of imported materials to barter exports to B countries.<sup>12</sup>

In Chart 2 such A country and B country contracts typically classify as "*restricted multilateral barter*" and "*restricted bilateral barter*." Only for C countries have barter contractors been permitted to continue to negotiate the kind

<sup>12</sup> For A and B countries (but not for C) every barter contract has had to name in advance all of the countries and commodities involved in the prospective transaction; and every "multilateral" contract has had to present evidence to show that importation of the material to be delivered to the CCC would be tied directly to the associated agricultural export. Furthermore, the Department of Agriculture has clearly indicated that "bilateral" contracts are to be preferred to "multilateral" for A and B countries, and that all proposed contracts for A countries are carefully screened to insure adequate safeguards for "usual marketings of the United States," "world price levels," and ordinary "commercial" trade.

of "unrestricted multilateral" contracts previously employed; and under the revised program a new name, "open-end," has been officially used to describe those contracts.

What have been the economic effects of the American barter system? This question is too big to try to answer here. An adequate answer would cover consideration of many national and international economic and political factors only indirectly related to wheat. Such factors would include: (1) the heavy, hidden costs of the swollen supplemental stockpile to American taxpayers; (2) the sharp disturbances registered on world markets whenever rumors circulate of planned sales of any part of the stockpiled materials; (3) the probability that the temporarily overstimulated demand for certain stockpile materials has raised, in producing countries, false expectations of a continued inflated export demand and continued high prices, thus postponing needed adjustments; (4) the general inefficiency and additional costs associated with such barter trade; and (5) the tendency of the system to proliferate government marketing and trade controls, both in this country and abroad.

More directly, the one outstanding economic effect of the American barter system has been its persisting tendency to displace "*commercial*" sales of agricultural products, not only the commercial sales of competing exporting countries, but also, in lesser degree, American "dollar" sales. Prior to May 1957, typical "special commissions" on barter grain paid to grain export firms are reported to have ranged between 2 and 5 per cent of the price and to have been mainly passed on to importers abroad after the barter program was well established (23, pp. 13 ff; 20, p. 18). Since May 1957, the "special commissions" have reportedly been considerably higher (8-11 per cent), partly because the export firms have necessarily incurred higher costs in locating markets where "additional" United States grain could be placed, and partly because they have found it necessary to offer larger price discounts (lower net prices) to attract such "additional" customers. For wheat, the indicated percentage commissions apparently resulted in export price discounts of something like 2-7 cents per bushel before May 1957 and perhaps as much as 8-15 cents per bushel since that time (the bigger discounts supposedly applying to C countries under the current classification).

In foreign exporting countries, such American barter competition has generated marked cynicism and bitterness about American trading methods and the lofty "multilateral trade promotion" ideals professed by American officials. Moreover, it has raised great fears—probably excessive fears—about possible future "cut-throat competition" by the United States Treasury.

So far as wheat alone is concerned, the changes in the barter program effected since 1957 (in consultation with Canadian officials) have reduced the annual outflow of American barter wheat to some 20 million bushels, and have channeled a larger portion of the total away from the commercial markets most heavily contested by Canada. Nevertheless, probably something like half of the barter-wheat shipments of the past two years have gone to markets that presumably would have absorbed an equivalent quantity of the world's "commercial" wheat either at existing commercial export prices or at prices only moderately lower. One may well question whether the remaining 10 million bushels of annual wheat disposals are worth the related costs of the barter program, with all of the

irritations it engenders. As a recent American-Canadian publication commented (24, p. 14):

it is difficult to envisage any really large role for the barter program that would be consistent with two fundamental principles of present U.S. policy: (1) that commercial wheat markets must be maintained and enlarged and surplus disposal eventually eliminated; and (2) that the commercial wheat markets of Canada and other friendly foreign wheat-exporting nations must not be undermined by surplus disposal techniques which would rekindle justifiable irritations and complaints.

### *Long-Term Credits and Supply Contracts*

Under the CCC Charter Act, the United States Department of Agriculture has long had authority to arrange long-term dollar credits at discretionary interest rates on export sales of CCC-owned stocks. However, only minor use has ever been made of such credits. Nor did the strengthening and extension of this authority in the form of a 1959 amendment to P.L. 480 new Title IV (25), result in any additional use of long-term credits through December 1959.

In the postwar period, deferred payment credits on grains appear not to have been offered by the CCC until after the surplus stocks situation had become acute and the Congress had responded by passing P.L. 480. This meant that any foreign nation in financial difficulties that could obtain grain under the more liberal foreign currency provisions of P.L. 480 Title I, would have been foolish to agree to purchase under a dollar-credit arrangement. Moreover, the credit terms specified by the CCC were not sufficiently attractive to encourage other buyers to make much use of the deferred payment program: the interest rate was only a little below existing commercial bank rates; an irrevocable guarantee of an American bank was required as security; and the credit period was limited to three years (23).

In short, the particular dollar credits offered by the CCC in recent years have been essentially semicommercial, more or less comparable to Export-Import Bank credits. Indeed, the Department of Agriculture does not report such credit exports under itemized "special" programs, but includes them with the residual "dollar" or "commercial" exports, from which they are inseparable.

Although the CCC had financed a few minor sales by three-year dollar credits prior to May 1959, it had not made any delivery commitments for more than a year in advance except in connection with five two-year and three-year sales under P.L. 480 Title I (26, p. 16). This is noteworthy, mainly because long-term delivery commitments were strongly supported by a number of Congressional leaders who sponsored even more generous long-term credits than are now authorized under P.L. 480 Title IV.

Although still unutilized, the provisions of Title IV warrant brief consideration. Under that Title, the President is authorized to make long-term credit sales of surplus agricultural commodities to friendly (developing) countries. The sales agreements commit the United States to deliver stated quantities of specified commodities annually for periods not to exceed 10 years, provided the commodities are in surplus at the time the delivery is to be made. Payment of prin-

cipal and interest is to be made in dollars over periods not to exceed 20 years, at a rate of interest to be determined by the Secretary of Agriculture, but not higher than the cost of funds to the United States Treasury (25). In operating under the Title, the Secretary is instructed to maximize sales of agricultural commodities, taking precautions to avoid replacing sales for cash dollars and endeavoring "to reach agreement with other exporting countries . . . for their participation in the supply and assistance program . . . on a proportionate and equitable basis."

It seems clear that extension of 20-year dollar credits at an interest rate no higher than that paid for funds borrowed by the United States Treasury would itself be tantamount to a price discount. Moreover, if (as seems appropriate) such long-term credits, with associated supply commitments, should be extended only to nations that appear likely to be strong enough financially to pay back the dollar loans, this would mean making concessional sales for up to 10 years in advance to the very countries that appear most promising as potential "commercial" customers. Thus, there would be a strong possibility of displacement of future "commercial" sales that otherwise would be made by the United States and/or by competing exporting countries. The future financial positions of promising developing countries can not be foreseen a decade, or even five years, ahead. Neither can the supply needs of such countries. To attempt to decide in 1960 what countries should be declared eligible for "concessional" sales of wheat, and in what quantities, even in 1962 would be a hazardous undertaking for a Secretary of Agriculture instructed (1) to safeguard "cash" sales of the United States, and (2) to cooperate with other exporting members of the International Wheat Council and Wheat Utilization Committee in expanding the world's "commercial" trade in wheat. But to ask the Secretary to make such a determination 5 to 10 years in advance clearly poses a most serious threat to "commercial" trade.

Fortunately, the responsible officials of most "eligible" importing countries would probably hesitate to enter into such long-term dollar loan agreements, even at the lowest conceivable interest rate. Most importing countries faced with variable domestic crops, as virtually all importing countries are, do not want to import the same quantity of wheat annually even over a three-year period, thus incurring additional storage costs in any year in which the imported supply would be excessive. Nor are many developing countries ready to assume that their own agricultural expansion programs may not take care of their national needs several years hence—if not directly through production of the desired amounts of food-grain, at least indirectly through exportation of other agricultural products. Finally, it would be foolish for the government of any importing country to agree in advance to buy such *American* dollar wheat during each of several ensuing years, when Argentine or Australian or even Russian wheat might then be offered on more attractive terms.

Under these varied handicaps, long-term dollar credits with associated long-term supply contracts seem unlikely to become substantial at any time in the future, at least so long as "maintenance of dollar value" is taken seriously and so long as emphasis is put on preservation and expansion of the world's "commercial" trade.

#### "COMMERCIAL" EXPORTS AND PRICE POLICIES

The second major category of United States wheat exports shown in Chart 2 is that of "commercial" exports, more commonly referred to by American officials as "cash" or "dollar" exports. Whether compared with ordinary dictionary definitions or with more specialized economic terminology, all three terms are quite inappropriate for American exports of the postwar period. On the other hand, the changing characteristics of American "commercial" exports have been so peculiar, so different from anything previously encountered in the world's trading system, that no properly distinguishing common term can readily be found to describe them. To throw more light on their peculiarities, and to point up the importance of government pricing and "special" selling in determining their general volume, is the purpose of the present section.

#### *Changing Characteristics of Postwar "Commercial" Exports*

In prewar years no one would have thought it necessary to describe the characteristics of "commercial exports" or even to use the term "commercial" as a modifying adjective. Except for a couple of Farm Board transactions, *all* prewar American exports were commercial, in an easily understood, old-fashioned sense. Until 1938/39 private American grain traders did not even have to concern themselves with any general export subsidy. They vigorously pushed export sales almost solely on the basis of "spot" and "futures" market prices tied into a world price structure that was continually responding to indicated changes in the international demand-supply situation. In 1938/39 government pricing decisions in the form of a general export subsidy became important for the first time. But even then there were no "special" exports, and the "commercial" exports of that year were tied directly to the world market structure with the general subsidy as a buffer, a buffer that further lowered the "world" export price (27).

At the end of World War II there was no longer any integrated free or semi-free "world" market. But otherwise, American "commercial" exports still retained much of their simple prewar character. There was no complicated set of differentially priced "special" exports; nor were American "commercial" export prices set at Washington. During the first four postwar years large government grants of American wheat were made available for civilian relief in war-devastated areas, and from 1947/48 additional large amounts of American wheat were purchased with virtually unrestricted Marshall Plan funds appropriated as grants by the Congress to aid European economic recovery. The rest of the wheat exports of 1945-49, however, were also heavy: all of these were true commercial exports tied directly to the free Chicago wheat market and priced to paying importing countries at the same high, world-shortage level that American consumers were paying and American producers receiving.<sup>18</sup> Interestingly, also, the same high prices applied to the programmed orders placed under the European Recovery Program (Marshall Plan).

American "commercial" exports reached an all-time peak during the Korean War period; and as a percentage of total American wheat exports, they rose to a postwar high of 80-90 per cent in 1951-53 (Chart 1). By that time, however, the

<sup>18</sup> Wartime ceiling prices were removed in 1946.

American wheat export structure had become more complicated. Participation in the International Wheat Agreement (IWA) of 1949 had necessitated the establishment of an IWA subsidy by the United States Government in order to bridge the gap between the maximum IWA price for which signatory importers were eligible (on specified quotas) and the much higher American market prices which were already being held up by the nation's price-support program. Chart 3 shows the contrasting prices available after August 1949 to IWA importers, on the one hand, and to American consumers, American producers, and foreign importers of non-IWA wheat on the other hand. From December 8, 1953, all American wheat exports were eligible for the same general subsidy: as of that date, GR 261 became effective, making non-IWA exports eligible for a subsidy equivalent to that available on exports under the IWA.

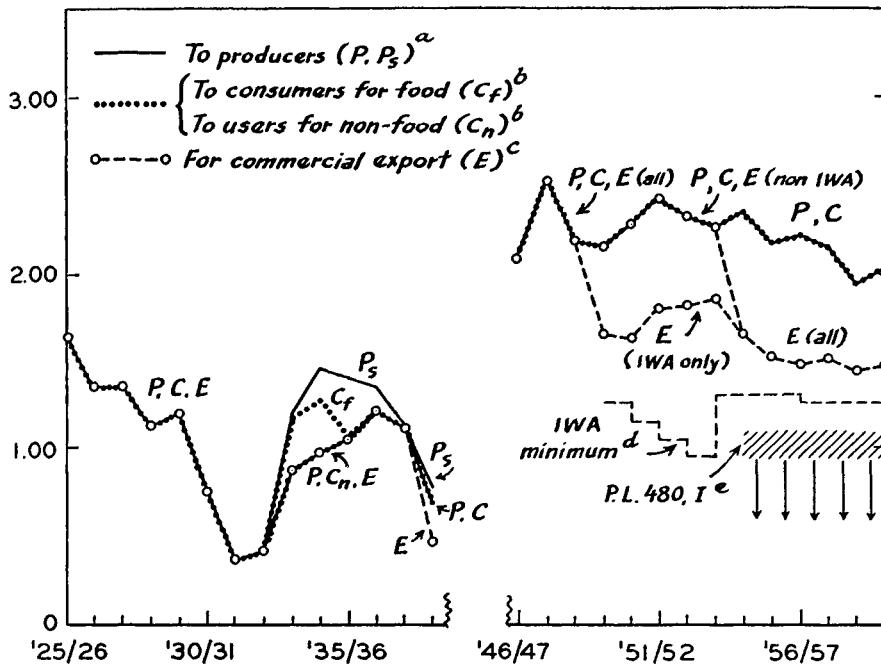
Although all IWA exports from the United States were clearly subsidized at 50-75 cents a bushel during the decade beginning August 1949 (and all non-IWA exports also after December 1953), those subsidized exports are all classified as "commercial" under current international terminology. This means that the IWA subsidy program and its "equivalent" for non-IWA wheat are not counted as "special programs," resulting in "special" or "concessionary" exports, but rather as nonconcessionary pricing procedures that permit overpriced American wheat to flow to export at existing "world" prices.

So long as other exporting countries were not troubled with surplus stocks and the American IWA subsidy program merely permitted American wheat to be priced for export to IWA importers (and such importers only) at the internationally negotiated *maximum* IWA price, there was good reason to regard that subsidy program as part of a "regular" international plan, not as an objectionable national competitive device. But when the same program was extended, in a year of world wheat surpluses, as a means of permitting American government officials to set export prices of both IWA and non-IWA wheat at whatever lower levels they chose to regard as "properly competitive," international cooperation was no longer the dominant feature, and competing exporting countries could reasonably protest the threatening economic nature of the program. This aspect of American "commercial" exports is discussed further below (pricing section).

Since 1954 the mushrooming of "special" exports under P.L. 480 has increased the need for a "commercial" export category of greater economic significance. United States Department of Agriculture wheat export statistics, which treat "cash" or "dollar" exports simply as a "residual" item after deduction of named "special" programs, only partially meet this need. Attention has already been called to the inclusion of CCC long-term credits and Export-Import Bank credits in the residual "dollar" or "commercial" export category, despite their semi-commercial and occasional concessionary features. Other minor distortions also exist in the officially classified export statistics.

For Chart I several adjustments have been made in the official export category figures to make them somewhat more consistent and meaningful. Nevertheless, some of the categories shown still include some inseparable items that are more properly classifiable elsewhere. And since the "commercial" export group is reported as a residual (both nationally and internationally), it is the least adequately differentiated of the several categories charted.

CHART 3.—Price of No. 2 Hard Winter Wheat (Kansas City) to Producers, to Consumers, and for Export, 1925-60\*  
(U.S. dollars per bushel)



\* The basic Kansas City market prices (representative of the prices paid by consumers and received by producers in most years) are unweighted July-June averages of monthly weighted average prices taken from various issues of *Wheat Situation* (U.S. Dept. Agr.), and *Kansas City Grain Market Review*. For 1959/60 the figures shown are for July-March.

<sup>a</sup> Producer prices (P) are roughly the same as the basic market prices except in years when "co-operating" producers received an additional direct payment for reducing wheat acreage or planting soil-conserving crops on wheat land; for such years (1933/34-1935/36 and 1938/39) the P<sub>s</sub> prices shown in the chart represent the crop-year market price plus the average per bushel subsidy received by "cooperating" producers in the same year. Noncooperating producers received the unsubsidized (P) market price. Recent Soil Bank payments should perhaps also be taken into account, though they are not quite as directly price supplements as the earlier payments.

<sup>b</sup> Consumer prices for nonfood uses (C<sub>n</sub>) are the same as the market prices throughout the entire period. Consumer prices for food (C<sub>f</sub>) are also the same except during 1934/35-1936/37, when millers paid the market price plus a processing tax on all wheat milled for domestic consumption.

<sup>c</sup> "Commercial" export prices (E) refer to the basic prices paid for wheat grain by "paying" countries, such as the United Kingdom. During the four years beginning 1949/50 export subsidies were available to these and other countries on quota wheat exported under the International Wheat Agreement (IWA); but all other "commercial" exports of wheat grain were then priced at current market levels. Since 1953/54 all IWA and non-IWA wheat has been subsidized to commercial importers at the same subsidy rates. "Commercial" export prices for wheat exported in the form of flour have been lower than the E prices shown for wheat grain in all years since 1949/50.

<sup>d</sup> IWA minimum price, basis No. 2 Hard Winter, Kansas City, is here roughly approximated by deducting 25 cents per bushel from the internationally agreed minimum, basis No. 1 Manitoba, Fort William. In the past few years a differential of 18-28 cents has been reflected in the "commercial" export prices of these two wheats.

<sup>e</sup> Very rough approximations of the net discounted present value to the U.S. of past and anticipated future foreign currency payments on P.L. 480 Title I wheat sales. These "prices" are based on the nominal market price minus the calculated per-bushel value of the foreign currencies returned to recipient countries (1) as grants for economic development and multilateral trade and (2) as payment for "common-defense" projects, and also minus the discounted present value of the interest saved (per bushel) under the generous P.L. 480 "economic development loans." The "prices" thus calculated carry the unrealistic implication that all loans will be repaid in undepreciated foreign currencies fully spendable for U.S. Government needs and that all other reported current uses of the foreign currencies are of equivalent dollar value to the United States. The downward arrows indicate that this is unlikely to be true.

At the international level, an additional classification difficulty arises which defies satisfactory solution. It is quite possible for a particular international transaction simultaneously to represent a "special" export from the standpoint of the exporting country and a "commercial" import from the standpoint of the importing country. For example, unrestricted multilateral barter exports from the United States should clearly classify as "special" exports, but if, as has often happened, a European importer purchases such products through ordinary channels, paying in American dollars on commercial terms, the same transaction should clearly be counted a "commercial" import. This means, of course, that world "commercial" imports may in some years exceed related world "commercial" exports, an awkward double-accounting element for the International Wheat Council to record and consider.

#### *Volume and Destinations of "Commercial" Exports*

For the fifteen postwar years and even for the past decade alone, American "commercial" exports of wheat have averaged higher than in any comparable interwar period, as is clearly apparent in Chart 1. Such long-time averages are less meaningful, however, than shorter ones. For example, the chart shows that American wheat exports practically disappeared in the mid-1930's, when extended drought reinforced the adverse trade effects of the Great Depression. Consequently, the commonly cited 1934-39 average cannot be employed as a useful pre-war reference base for United States wheat exports. Much more suitable for that purpose is the 1925-30 average. And it is particularly interesting to note that the "commercial" exports of the past five or six years have closely approximated, in size, the "commercial" exports (which were also the total exports) of that earlier period.

Indeed, in view of the much higher recent level of the world's wheat trade and of the much larger postwar American crops, the nation's "commercial" exports of 1953-59 appear surprisingly small. The answer lies partly in the relatively high c.i.f. import prices foreign importing countries have recently had to pay for American "dollar" wheat, and partly in the fact that a substantial but indeterminate part of the huge "special" American exports of those years detracted from world (including American) "commercial" exports. As noted earlier, this was most conspicuously true with respect to the heavy multilateral barter exports and the Section 402 foreign currency sales of 1954-57, both directed in large part toward "paying" countries. But it was true also, though in lesser degree, of the P.L. 480 Title I sales, which some American officials have been tempted to claim were all "additional" exports.

Table 5 shows the destinations of American "commercial" wheat exports of the past five years. For the period as a whole the European continent retained its prewar supremacy, though the lead over Asia had sharply contracted. More important, the rank relationship was reversed before the end of the period, as Japan rose to supplant the United Kingdom as the premier importer of American "commercial" wheat. As compared with prewar years, the "commercial" takings of a number of smaller Asiatic and Latin American countries were also significantly larger in 1954-59, but little trend change is evident for those countries within the latter period.

TABLE 5.—DESTINATIONS OF UNITED STATES "COMMERCIAL" EXPORTS, 1954-59\*  
(*Million bushels*)

Continent and country	1954-59 average	1954/55	1955/56	1956/57	1957/58	1958/59
Europe . . . . .	58	60	38	88	50	52
United Kingdom . . . . .	20	22	7	22	23	26
Netherlands . . . . .	12	12	14	13	8	12
West Germany . . . . .	11	11	6	22	10	5
Belgium-Lux. . . . .	5	5	3	8	2	5
Italy . . . . .	2	1	1	8	— <sup>a</sup>	— <sup>a</sup>
Switzerland . . . . .	2	1	— <sup>a</sup>	7	1	1
Others . . . . .	6	8	7	8	6	3
Asia . . . . .	40	16	27	43	65	50
Japan . . . . .	22	3	13	21	41	32
Philippines . . . . .	7	6	5	6	9	8
Others . . . . .	11	7	9	16	15	10
North America . . . . .	18	15	17	19	19	20
Cuba . . . . .	7	5	6	8	7	8
Others . . . . .	11	10	11	11	12	12
South America . . . . .	14	17	10	12	17	14
Venezuela . . . . .	6	4	5	6	7	6
Brazil . . . . .	4	9	2	—	5	3
Others . . . . .	4	4	3	6	5	5
Africa . . . . .	9	8	13	12	7	6
Total . . . . .	139	116	105	174	158	142

\* Data from U.S. Dept. Agr., FAS, *The World Grain Trade* (FAS-M-53), April 1959, and U.S. Dept. Agr., FAS, *U.S. Wheat and Flour Exports under Government Programs for 1957-58 and 1958-59* (Mar. 16, 1960, mimeo.).

<sup>a</sup> Less than 500,000 bushels.

The sharp rise of Japan as a consumer of American "commercial" wheat was due on the one hand to rapid postwar economic recovery and expanding exports, and on the other hand to the advancing level of living of the rapidly growing Japanese urban population. The shift of that country from a 1954-57 position as major recipient of "special" program wheat to top rank as a commercial importer holds many implications for future American policy decisions regarding "special" export programs, foreign economic aid, and the encouragement of freer multilateral world trade. It sharply points up the threat to future commercial trade of *long-term* sales arrangements that call for specified annual deliveries of American wheat on "special" concessionary terms over a period of several years. And it clearly indicates the desirability of promoting well planned economic development and higher export earnings of viable underdeveloped countries.

#### *Subsidization and Pricing of "Commercial" Exports*

The volume of "commercial" wheat exports shipped out annually by the United States is now determined not by economic forces reflected in the prices registered on interrelated export-import markets, but by subsidy and pricing de-

cisions taken by small groups of government officials in Washington, Ottawa, Canberra, Buenos Aires, Paris, and leading importing countries. Although such decisions have not been wholly unrelated to persisting economic forces (as some commentators imply), opposing short-run political influences have obviously interfered with and postponed appropriate administrative decisions and actions. Of the leading wheat exporters, however, only the United States and France have persistently resorted to export subsidization of wheat, and in most years French exports have been too small to be seriously competitive.

Starting each year with knowledge of (1) the volume, sources, destinations, and sales prices of the world's "commercial" wheat exports of preceding years and (2) the expected size and distribution of new-season grain crops and carryovers, responsible American administrators have continuously faced the crucial question as to whether they should or should not change the existing export subsidy rates for wheat. Since the underlying desire has been to expand American wheat exports, the obvious question has been whether the basic "IWA subsidy" (applicable to all of the nation's wheat exports since November 1953) should not be raised, thus correspondingly reducing the associated "commercial" export price and presumably widening American export outlets.

In actual fact, the record of United States "commercial" export prices shown in Chart 3 (p. 247) indicates that American administrators have kept the subsidized "commercial" export price of No. 2 Hard Winter wheat at an almost constant level since 1955/56. Moreover, the recent basic export prices appear low only as compared with the early postwar "world grain shortage" period and with the unsubsidized market prices charged for a small fraction of American exports (those outside the IWA) during 1949-54, when temporary shortage of good milling wheat, inflationary influences, and spreading war threats were prominent.

What price and trade policies have presumably been responsible for this record of administered export prices and for the associated 140-million-bushel average commercial wheat exports since 1954/55? Obviously, the International Wheat Agreement minimum price is one factor that would have to be considered. Thus far, however, that minimum has presumably not been an effective deterrent to further moderate price reductions of, say, 20-25 cents per bushel. Under the last two Agreements, the minimum price has been put at \$1.50 (U.S.) per bushel, (\$1.55 in the 1953 Agreement), basis No. 1 Manitoba Northern, in store at Fort William. No truly "equivalent" minimum price for No. 2 Hard Red Winter wheat at Kansas City can be precisely calculated. This "equivalent" has varied with changing differential transport costs to overseas markets (from Kansas City *vs.* Fort William) and with changing subjective judgments as to the quality discounts that might reasonably apply to No. 2 Hard Winter as compared with No. 1 Manitoba. On the basis of discounts recorded during the past five years, it might seem reasonable to assume an implied IWA minimum equivalent for No. 2 Hard Winter at Kansas City of \$1.20-\$1.30 per bushel.

Even if, for a given time, agreement could be reached on an implied "IWA minimum" of \$1.25 for such wheat, there would remain the fundamental question as to whether that minimum should apply only to bulk wheat grain (with an

average subsidized export price of \$1.56 in 1956/57 and \$1.48 last year) or also to the more heavily subsidized wheat milled for export as flour (with corresponding implied subsidized prices of \$1.34 and \$1.22 per bushel, respectively). If to the latter, we would have to conclude that No. 2 Hard Winter wheat has already sold close to or below the minimum IWA price and that further significant reduction would be inconsistent with the price range of the Agreement. As a practical matter, however, the point is unlikely to be raised, partly because lower differential pricing of wheat for export flour is almost universal throughout the world (though Treasury subsidization is not).

Presumably more important in the changing export subsidy decisions of American officials have been (1) the more general international policy commitments which the United States Government has accepted as a cooperating participant of GATT, the FAO, and the International Wheat Council, (2) the strong opposition of the Canadian, Australian, and Argentine governments to subsidized export-price cutting, and (3) the knowledge that American export-price reductions would probably be followed immediately by corresponding price cuts by the grain marketing boards of other major exporting countries, since those boards have not been in the habit of sitting idly by, watching their overseas "commercial" markets contract.

These associated policy influences have apparently resulted in the development by responsible United States officials of a fairly definite, time-changing concept of the nation's "fair share" of the world's "commercial" import market for wheat, a concept which has been employed as a practical price-setting guide. When queried by members of the Congress as to why certain subsidy rates were put at existing levels, one well-informed American official made the following illuminating comments (20, pp. 34-38):<sup>14</sup>

. . . there is concern in the Department about maintaining our fair share of the world market from year to year—not in any one year—as opposed to the year ahead or the year behind, but in terms of the trend. [p. 34]

. . . the Secretary finally determines what our fair share would be. [p. 35]

I think that the Secretary would take a percentage based on the historical position of the United States and the situation in the current year. [p. 35]

We are in this position on the export of about anything we subsidize. We have international agreements that in using subsidies, we will try not to use those subsidies to take other countries' markets. [p. 36]

. . . as you look at export policy on any commodity, you will have ups and downs in trade, depending on what others produce, the particular urgency an exporting country has at the time to hold a long or short position on stocks, the psychology in buying countries as to whether they are in an inventory upturn or downturn . . . [p. 36]

[For wheat, our fair share is] somewhere between 25 to 30 per cent for the commercial market. I do not include that which is made available as gifts. I do not include in that anything that we sell where we create an additional

<sup>14</sup> Much of the discussion related to the cotton subsidy program; but the replies of the Deputy Administrator of the Foreign Agricultural Service of the Department of Agriculture (Mr. Ioanes) indicated that the same general operating guides applied also to wheat.

market such as the program with India. That I do not include in the fair share concept. [p. 38]<sup>15</sup>

Quite clearly, the official "fair-share-of-market" concept is somehow related to historical trade records (which Chart 1 shows have varied greatly from year to year and from period to period in the case of wheat). Clearly, too, the concept applies to a share of the world "commercial" market, with "special" sales regarded as "additional." Finally, the "fair share" envisaged is not fixed and rigid—the same from year to year—but reasonably varies with changes in the magnitude and distribution of the import demand and also with the size and distribution of the exportable wheat supplies of competing countries.

Whether American officials go so far as to concede, realistically, that no foreign exporting country except Canada can reasonably be expected to hold back large stocks of exportable wheat for carryover into the following crop year is not clear. Indeed, past trade and stocks records suggest that American export competition caused undue restriction of unsubsidized Australian and Argentine exports several years ago, "undue," not because American exports were so large, but because their volume and pressure came not as a result of the "fair" competition of unsubsidized American farmers, but as a result of subsidy competition financed by domestic consumers and the national Treasury. It is this important point that in some past years, including 1956/57, American officials appear to have overlooked (28, pp. 9-14). And it is this point that the representatives of competing exporting countries continuously stress.

More recently, the various wheat export programs of the United States have been operated with more consideration of the interests of competing exporting countries. As previously noted, this consideration has been reflected in sharp contraction since mid-1957 of the nation's wheat barter transactions, triangular sales, "tied-in" sales, and long-term P.L. 480 Title I contracts containing inadequate global commercial-trade safeguards. Other observable "effects" have been scarcely less impressive. For example, the revised policy has been associated with more moderate Australian and Argentine carryovers (an approximation to traditional free-market conditions), with Canadian commercial exports of 260-300 million bushels annually, and with the obviously limited (though not low) percentage export figures shown in Table 6.

With full recognition of the rough, approximate character of the figures presented in Table 6, they may safely be used to indicate the general magnitude and changing course of the share of the world's "commercial" wheat exports supplied by the United States. In interwar years and in the early postwar period through 1948/49, the indicated percentages were market determined, not set by government officials (except to the extent that government "grants" kept the high early postwar percentages from being higher still). From 1949/50 through 1952/53 the only existing American export subsidy was that limited to wheat recorded under the International Wheat Agreement; and the related sub-

<sup>15</sup> Except for years of acute world wheat shortage, the percentages specified here appear excessively high if they are assumed to refer to "world" gross exports of roughly the same coverage as those represented in Table 6, p. 253. Indeed, they appear somewhat excessive even if interpreted as percentages of "world" net commercial exports or of the total net "commercial" exports of the four chief exporting countries.

TABLE 6.—AMERICAN "COMMERCIAL" EXPORTS OF WHEAT AS A PERCENTAGE OF WORLD "COMMERCIAL" EXPORTS, 1949-59, WITH PREWAR AVERAGES\*

Period or year	Per cent	Year	Per cent
1925-30 av.....	20	1953/54.....	18
1934-39 av.....	9	1954/55.....	15
1945-49 av.....	30 <sup>a</sup>	1955/56.....	13
1949/50.....	9 <sup>a</sup>	1956/57.....	21
1950/51.....	26	1957/58.....	18
1951/52.....	41	1958/59.....	17
1952/53.....	31		

\* Rough approximations by the writer, based primarily on world export data reported for 1934-59 in FAO, *World Grain Trade Statistics, 1958/59* (1960), p. 46; *ibid.*, 1957/58 (November 1958), p. 46; FAO, *Grain Bulletin* (Commodity Series, No. 10), January 1949, p. 54; International Emergency Food Council, *Report of the Secretary-General to the Fourth Meeting of the Council*, July 1947, p. 46. World "commercial" exports are here taken as roughly equal to "world" July-June gross exports of wheat less the "special" American exports shown in Chart 1. Minor "special" exports from other countries are disregarded, since they would not affect the over-all picture (except to raise the American percentage to 19 in 1957/58). The average for 1925-30 is based on August-July net export data shown annually in percentage terms in Chart 1, middle section.

<sup>a</sup> Basic data poorer than for other years, but general level is properly indicated.

sidized export price was essentially determined not unilaterally by American officials, but by the internationally negotiated IWA *maximum* price. With the outbreak of the Korean War and associated widespread stocksbuilding, and with the later (1952/53) outlook for an increased IWA maximum price, the expanded world import demand could be met only through supplementary purchases of non-IWA wheat at the high American market prices then prevailing (Chart 3). Through 1952/53, therefore, the governments of competing exporting countries voiced no objection to American "commercial" wheat exports that absorbed 25-40 per cent of the temporarily inflated total commercial exports.

It was not until after the IWA maximum price had been raised in 1953 (no longer serving as an effective American subsidy base), after the world commercial demand had subsided from its Korean War peak, after several bumper crops had raised world exportable surpluses to burdensome levels, and after the American IWA-subsidy program had been extended also to all non-IWA wheat that competing exporters became critical of American officials "taking an excessive share" (15-21 per cent) of the world commercial market.

Assuaged, but not wholly reassured, by the more encouraging American policy developments of 1958-60, which included extended intergovernmental consultations on export policy matters and continuous export-promotion cooperation through the Wheat Utilization Committee, officials of the chief wheat exporting countries "learned to live" with the American export subsidy system, but not to like it. Most of them still contend that they are ready to face any degree of export competition that *unsubsidized* American farmers offer, but that they object to competing with the United States Treasury.

#### *A Basic Danger in Administered Export Pricing*

One disturbing aspect of American export pricing that has been generally overlooked is the absence of any sound guide to the underlying economic equilib-

rium price for wheat, and the associated danger that administered "commercial" export prices will persistently be maintained at an excessively high level. With technological and other farming improvements rapidly raising wheat yields per acre and per man-hour throughout the world, with political pressures in many countries operating to delay downward wheat price adjustments, and with a separate, *secondary* export market recently available for large "special" surplus-disposal sales at cut-rate prices, the danger of overpricing "commercial" export wheat has become serious.

This danger has been further intensified by recent moves, necessary and desirable in themselves, to lessen the hardships that competing exporters have suffered from American export programs by promoting more bilateral and group consultation among representatives of the five major wheat exporting countries. A common interest shared by all of these exporters, particularly Canada, Australia, and Argentina, is the desire to maintain "satisfactory" commercial export prices. And since practically all "commercial" wheat export prices are now administratively set by representatives of the same five countries (with the tacit blessing of several respected international organizations impressed with the merits of "price stabilization"), the prospects and opportunities for artificial maintenance of "commercial" wheat prices at above-equilibrium levels have sharply increased.

Moreover, no matter how conscientious export pricing officials of the various countries might be in trying to estimate the current equilibrium price for their wheat or in attempting to envisage "normal" current trade patterns, they could not find or construct any reliable guides to such prices or trade. Clearly, producer prices in the United States are too high; *current* wheat production tends to outrun domestic consumption and heavily subsidized exports, despite restrictive acreage controls and some additional help from the Conservation Reserve. Moreover, the much lower Canadian producer prices (essentially based on the unsubsidized net return from wheat marketings earned by the Canadian Wheat Board) are apparently also too high, since the Board has found it necessary to impose marketing quotas to limit the volume of grain that Prairie Province farmers would otherwise deliver at recent prices. The one paradoxical element in the picture is that at the same unsubsidized wheat prices, Australian producers (enjoying favorable wool prices) have not been anxious to expand their uncontrolled wheat production and marketings. Nor, of course, does anyone know how competitive American wheat growers would be at the same recent "world" export prices, which, conceivably, they may actually accept in a few years under a revised wheat program designed to relieve consumers and taxpayers from much of the burden of subsidizing unwanted surplus wheat. At such prices (\$1.45-\$1.50, basis No. 2 Hard Winter, Kansas City, or a national farm price average of about \$1.25) would American production continue to outstrip the basic economic demand? Many experts think it would, even after an adjustment period of several years, but no one really knows.

If "commercial" export wheat has been overpriced in the past few years, the leading commercial importing countries have been the most adversely affected; their international payments have been raised thereby and their foreign exchange holdings reduced. However, the adverse effects of any such overpricing

have been widely distributed, extending even to importers of "special" export wheat and to the major exporting countries themselves.

Many importers of "special" export wheat have an interest in lower "commercial" export prices because they are required to purchase part of their import supplies on regular terms at the "commercial" level in order to qualify for purchases of "additional" cheaper "special" wheat. Furthermore, for all importers of "special" wheat, the commercial export price serves as the basis for determining (1) the number of bushels of P.L. 480 Title I wheat they can buy with the dollars authorized for wheat purchases under outstanding P.L. 480 Agreements, and (2) the amount of domestic currency they must deposit against imports of both Title I and Section 402 wheat.

For the major wheat exporting countries, on the other hand, the obvious, direct benefits of high export prices in apparently adding to their foreign exchange earnings and national income receipts have tended to obscure the very real and substantial, but less evident, disadvantages of administered export overpricing. Since previous and existing commercial export prices usually provide the best international guide to what later commercial export prices will be, administrative overpricing of such export wheat encourages the governments of many importing countries and minor exporting countries to maintain prices to their producers at levels higher than otherwise would have been planned.<sup>16</sup> This, in turn, results in heavier wheat production, smaller "commercial" imports, and larger competitive exportable supplies than would continue to persist if "world" export prices were allowed to stand at a lower level. And the over-all effect is to narrow the international "commercial" market for exports from the four major wheat exporting countries.

Thus, administrative overpricing of "commercial" export wheat may be as serious a threat to the world's commercial trade as the heavily subsidized American "special sales." And since the adverse effects of the latter are more readily perceived, more attention now needs to be given to the problem of securing sound economic pricing of the world's basic "commercial" export wheat.

#### OUTLOOK FOR THE COMING DECADE

With American wheat stocks now at unprecedently burdensome levels, with current production continuing to outrun all current demands despite unpalatable production controls and record exports, with the billion-dollar wheat program (for price supports and P.L. 480 exports) weighing heavily on the national budget, and with the American public becoming increasingly aware of the enormous economic, political, and social needs of the awaking underdeveloped countries, it is desirable to try to visualize the role of American wheat exports in the changing world of the 1960's. In shaping that world, the general foreign trade and aid policies of the United States, including the wheat export policy, will have great influence.

Any forward looking view of American export prospects and policies must rest on certain assumptions about the politico-economic structure into which those exports will fit. Two such basic assumptions underlie the following dis-

<sup>16</sup> This is true even of Canada and Australia, which return to producers the net proceeds earned on wheat sales priced at the "commercial" export level.

cussion. First, it is assumed that despite continued heavy armament expenditures, "Cold War" disturbances, isolated revolutions, and perhaps an occasional localized war, the world will be spared a major war during the present decade. Second, it is assumed that the economic policy makers of the principal nations will manage successfully to avoid any sharp, prolonged economic depression, and that irregular but persisting economic development will gradually raise levels of living in most countries of the world, highly developed and less developed alike.

Within this assumed politico-economic framework, what are the prospects for expansion of world commercial imports of wheat during the 1960's? What portion of those imports is the United States likely to supply? What additional outlets are likely to exist for "special" exports that can constructively be utilized without adversely affecting commercial trade in wheat or any other commodity, and without discouraging efficient agricultural production in recipient countries? These questions will be briefly discussed without attempt to formulate specific quantitative forecasts.

#### *Prospective Commercial Import Requirements*

Among the factors likely to have important effects on world commercial imports of wheat over the next decade, seven warrant special attention here: (1) population growth, (2) dietary patterns and tendencies, (3) production prospects in grain importing areas, (4) the size of rice surpluses in Asiatic exporting countries, (5) the level of commercial wheat export prices, (6) the changing import-purchasing power (foreign exchange earnings and grants) of grain-deficit nations, and (7) the extent of impingement of past and future "special" exports (of all commodities) on the future "commercial" import demand for wheat.

*Population indications* recently published by the United Nations for 1965 and 1975 are shown for selected regions in Table 7. It is noteworthy that the populations of the more prosperous, commercial importing countries of western Europe are increasing most slowly, both absolutely and percentagewise. By contrast, huge population increases are envisaged for the poorer, less developed countries of the world: India, Pakistan, Japan, "Other" Asia, Latin America, and even Africa—areas that have recently received the bulk of American "special" wheat exports. Moreover, in the less developed countries, particularly, the larger cities and urban communities generally are growing more rapidly than nearby rural districts.

As part of the Asian picture, the population upsurge of Mainland China also deserves attention. For that country, the population indications for 1975 clearly indicate that domestic grain production must be stepped up spectacularly during the coming decade simply to keep pace with the rapidly increasing population. And this, in turn, suggests that the substantial Chinese rice exports of recent years are not likely to be markedly expanded, nor perhaps even maintained, without associated severe hunger and distress among the Chinese people, a result that might be deplored but still accepted as tolerable by a dictatorial government more interested in other goals. A decade view should presumably not neglect the possibility (which now appears remote) that Mainland China might shift from the ranks of the "unfriendly" to the "friendly." If such a shift should

TABLE 7.—REGIONAL POPULATION INDICATIONS FOR 1965 AND 1975,  
COMPARED WITH 1955\*  
(*Million persons except as otherwise noted*)

Region	1955 Population	Indicated population		Absolute increase		Per cent increase
		1965	1975	1955-65	1955-75	
<i>Wheat importing regions<sup>a</sup></i>						
Europe ex. Soviet Bloc.....	332	354	382	22	50	15
India .....	386	456	563	70	177	46
Japan and Pakistan.....	172	204	244	32	72	42
“Other” Asia ex. China....	332	400	509	68	177	53
Latin America .....	183	233	303	50	120	66 <sup>b</sup>
Africa .....	216	256	303	40	87	40
<i>Wheat exporting regions</i>						
U.S., Canada, Oceania.....	197	228	261	31	64	32
European Soviet Bloc.....	274	320	369	46	95	35
Mainland China .....	600	720	894	120	294	49
World .....	2,690	3,170	3,830	480	1,140	42

\* Data from United Nations, *The Future Growth of World Population* (Population Studies 28, 1958), pp. 69-75.

<sup>a</sup> Some of these regions include countries that rank as sizable net exporters of wheat—e.g., France in Europe and Argentina in Latin America. “Other” Asia includes the major Asiatic rice exporters.

<sup>b</sup> Argentina, included in the Latin American total, is expected to show a population increase of about 40 per cent during 1955-75, as contrasted with the high regional indication of 66 per cent. Argentina is the only sizable wheat exporter in Latin America.

occur, not only might a new outlet for American “special” wheat exports open up, but there would also be a possibility of increasing two-way commercial trade beyond the levels likely to exist under “unfriendly” relationships.

No less important than regional population growth rates for the world’s wheat trade and policies are the differences that exist in national dietary patterns and tendencies. The most important of these relate to the level, composition, and trend of per capita total cereal consumption, and also to the changing place of wheat in various national diets (3, pp. 15-17; 31; 32, pp. 244-46; 33; 34; 35, pp. 239-59).

In the traditional commercial importing countries of Western Europe, wheat is clearly the dominant cereal; per capita consumption of all cereals combined is typically moderate (800-1,000 calories a day) except in the lower-income countries of the South; and almost everywhere per capita cereal consumption has been declining as fruits, fats, meat, sugar, and other preferred foods have been consumed in increasing amounts. This has meant a small over-all decline in the *per capita* consumption of wheat in Western Europe, even though wheat has fully maintained or actually enlarged its place in the diets of the rye-consuming and corn-consuming areas, where it has persistently tended to displace those less desired grains.

Thus far, regional population increases appear to have slightly more than offset the minor tendency for per capita wheat consumption to decline; but the coming decade seems more likely to witness an approximately stationary aggregate food consumption of wheat in Western Europe. Even under such condi-

*tions the total utilization for food, feed, and seed combined might increase significantly but probably only if low-priced import wheat becomes able to compete effectively with coarse grains for feeding European poultry and livestock.*

In any case, there appears to be little prospect for European commercial imports of *overseas* wheat to increase substantially during the coming decade (though Common Market imports of French wheat presumably will) unless existing government decisions to maintain high support prices and "protective" import controls are relaxed. Such relaxation might in fact, be witnessed, but presumably only (1) if "Cold War" threats subside, (2) if substantially more land is needed to provide increasing supplies of livestock products, fruits, and vegetables for a more prosperous, growing regional population, and/or (3) if American wheat price supports are sharply reduced and "world" commercial export prices are lowered on a semipermanent cooperative or free-market basis. In this connection it is noteworthy that the Common Market countries have reportedly been considering a proposal for tying the basic Common Market goal price for wheat to the price received by producers in the United States (plus all transport and handling costs).

In the poorer, grain-deficit countries of Asia, Latin America, and Africa, foodgrain consumption patterns and trends are almost the reverse of those in Western Europe. Rice, grain sorghums, corn, and/or barley are usually the dominant foodgrains; and per capita cereal consumption is not only characteristically heavy (1,100-1,500 calories per day), but it has shown no clear tendency to decline except in a few countries, like Japan, that rank above their neighbors in income level.<sup>17</sup> Moreover, in virtually all of the less developed countries that depend heavily on rice and coarse grains for food, wheat is a preferred, semi-luxury cereal, increasingly desired by the rapidly growing urban populations. In such areas, the tendency has often been for wheat to gain a firm place in the diet in the form of bakery-baked rolls, raised bread, or sweet goods, used only for breakfast, between-meal snacks, and/or workers' lunches.

To this increasingly important diet diversifying role of wheat, has been added that of gradual displacement of coarse grains (but not rice) as the staple cereal in the diets of populations moving to substantially higher income levels. And finally, in a few developing countries, or parts of countries, where wheat is already established as a basic staple (e.g., West Pakistan, Northwest India, Chile, Israel) greatly increased quantities of wheat will be needed during the coming decade merely to maintain recent per capita consumption levels for the increasing populations.

*Thus, in the rapidly growing underdeveloped countries of the world, the stage is already set for sharp expansion of wheat consumption as soon as the peoples of those countries can afford to buy more wheat.* How soon this will be is unclear: it will undoubtedly be earlier in some countries than in others. And in each country it will depend not only on the ability and willingness of individual inhabitants to pay for more wheat, but also on whether the governments of those countries are able and willing to assume the financial obligations asso-

<sup>17</sup> For many of the less developed countries, however, the available official data on grain production are so seriously incomparable over time that the basis for judging consumption trends is inadequate.

ciated with importing more foreign wheat (on either "commercial" or "special" terms).

So far as the buying responses of individuals are concerned, recent experiences with P.L. 480 wheat (channeled to urban commercial markets and sold at going market prices in a few underdeveloped countries) clearly suggest that increasing numbers of individuals in the developing countries will stand ready to purchase more and more wheat products over the coming decade if and as economic development progresses and per capita real incomes rise.

More uncertain are the future attitudes of the various governments concerned. These will largely depend on a number of essentially indeterminate factors: (1) the rate of expansion of domestic production of foodgrains in those countries, (2) their changing import-purchasing power (size of foreign exchange earnings and grants) and other "planned" uses for foreign exchange, (3) the size of exportable rice surpluses in Asiatic exporting countries, (4) "commercial" export prices of wheat, rice, and other substitutable grains, and (5) the availability of the same grains on "special" export terms. All five of these determining factors will be heavily influenced by past and future actions taken by the United States Congress and American administrative officials, as well as by the governments of the underdeveloped countries concerned and, in lesser degree, by other governments.

The size of future foodgrain crops in the various underdeveloped countries, including the Asiatic rice exporters, will depend initially on the existing and future agricultural "plans" of those countries. So far, the net progress actually made under such "plans" has been disappointingly small. The past tendency has been to pay too little attention to needed basic changes in agricultural organization, methods, rotation patterns, seed quality, and similar elements. Time and again in recent years officials and special missions of the International Bank for Reconstruction and Development and the International Monetary Fund have urged the individual governments of underdeveloped countries to invest more heavily in facilities and activities designed to raise agricultural productivity, with emphasis on crops for which a natural advantage exists, and which, if expanded, would raise foreign exchange earnings on exports or reduce foreign exchange outlays on imports (e.g., 36, pp. 333-35). Increasing future moves in this direction now seem practically assured—moves that presumably will be speeded by the Freedom from Hunger Campaign to be promoted by the FAO during 1960-65.

Yet even if, as seems probable, the coming decade witnesses modest increases in *per capita* agricultural production in the more important underdeveloped countries, this does not necessarily mean that the total foodgrain import demands of those rapidly growing nations will be reduced. Indeed, the opposite appears to be more likely, particularly with respect to wheat, which will be increasingly demanded as incomes rise. In this connection, too, there is a question as to the relative emphasis individual governments will put on encouraging increased output of foodgrains vs. other food (and feed) crops vs. fiber and other industrial crops. All of these products are needed by growing populations with rising incomes. And since these products compete for arable land, their relative rates of expansion over the coming decade will be mainly determined by traditional

crop rotation patterns, changes in agricultural practices and seed use, and existing price relationships.

The governments of underdeveloped grain-deficit nations have much less freedom of action in dealing with foodgrain prices than do the governments of higher income countries. Their limited freedom is tied to the fact that they are faced, on the one hand, with meager foreign exchange earnings and small national tax receipts, and, on the other hand, with many poor urban consumers who obtain 70-75 per cent of their total food calories from grain, which may take two-thirds of their low family incomes. Under such circumstances, the responsible governments can neither *raise* domestic market prices without regard to the low incomes of domestic consumers, nor *lower* domestic market prices below "world" levels, without payment of ill-afforded subsidies on imported grain. Obviously, too, such governments are not in a position to refuse to import critically needed foodgrain in years of crop failure, even if the associated expenditure of foreign exchange retards their economic development programs. Thus, staple foodgrain prices in such countries tend to be loosely tied to corresponding "world" price levels. And this tendency is strengthened by the fact that many of the governments concerned have considerable leeway to decide which of several semi-substitutable grains (wheat, rice, corn, grain sorghum, and/or barley) they will import in the largest quantities to fill a domestic foodgrain gap. In making such decisions, most officials are presumably heavily influenced by existing international commercial prices of the different grains and also by any "special" sales terms that are available.

Indeed, the governments of all underdeveloped countries that participate actively in world trade, either as importers or as exporters are greatly concerned with and influenced by "world" export prices of the products they buy or sell. And they also watch and are influenced by the international prices of substitutable products. This is as true of the rice exporting countries of Asia as it is of neighboring grain-deficit nations. Consequently, there is good reason to believe that the size of non-European commercial imports of wheat over the coming decade will be markedly affected by the commercial export prices and price policies of the leading wheat exporting countries. *If potentially large import markets of Asia, Africa, and Latin America are to absorb increasingly large amounts of commercial export wheat, the prices of such wheat must be attractively low.*

Furthermore, the governments of those underdeveloped countries must have access to increasing amounts of convertible foreign exchange. Their ability to buy more commercial export wheat will depend heavily on the rate at which their economic development proceeds, their success in selling increasing exports to the highly developed nations, and the generosity of the latter (particularly the United States) in providing large economic-assistance grants of foreign exchange and in renegotiating, on a grant basis, a major part of the large loans previously made to such countries, including outstanding P.L. 480 Title I loans.<sup>18</sup>

<sup>18</sup> Even though every outstanding P.L. 480 loan permits or definitely specifies repayment in domestic currency, the scheduled repayments will not only represent a significant (in some cases, heavy) drain on the limited domestic tax funds of the debtor country, but they also will substitute for American dollar exchange that otherwise would be earned if (and to the extent that) the repayments are used by the United States Government to meet "ordinary" expenses in the country concerned.

Finally, the amount of commercial export wheat that non-European countries will buy during the coming decade may be substantially curtailed by excessive zeal to make large "special" export sales to some of those countries. Although the most objectionable single form of such concessional sales, American "multilateral barter," is now fairly well controlled (p. 241), other types of "special" sales still represent a disturbing threat to the world's commercial trade—a threat both to commercial exporters and to commercial importers.

At present it does not appear likely that expanding Asiatic rice surpluses will compete vigorously with wheat in the near future for widening non-European import markets. In the light of postwar rice developments, it is difficult to believe that advances in rice production during the next ten years will be sufficient to meet the needs of the rapidly growing populations of the various rice exporting countries and at the same time to increase exports sharply above current levels. As noted earlier (p. 256), this may also prove to be true for Communist China, whose rice exports have risen spectacularly in recent years; but the export trade of totalitarian governments bends so flexibly and unpredictably to changing official goals that Communist China could conceivably rise to top place in the world's rice export trade before the end of the decade. If such an unexpected development should occur, the demand of Asian countries for foreign wheat would probably be correspondingly curtailed. In general, it seems more reasonable to expect continued slow, irregular growth of the world's rice trade, a rate of growth that can easily be absorbed.

Over-all, then, the outlook is for some expansion of "world" commercial imports of wheat over the coming decade. This is attributable not to anticipated increases in demand in the traditional wheat markets of Western Europe, but to the increasing demand for wheat as a preferred cereal in the rapidly growing and developing countries of Asia, Africa, and Latin America. How much and how fast "world" commercial imports will expand will depend on a number of unpredictable elements, perhaps most heavily on the general economic policies and specific grain-price and grain-trade policies of the United States and Canada.

#### *Prospective Supplies and Policy Issues in Exporting Countries*

Historically, Argentina, Australia, and lesser wheat exporters have shown a strong tendency to ship out each year practically all of their available exportable wheat, regardless of world price levels. Over the past three decades, the Soviet Union, too, appears to have followed this general principle except when the Soviet Government deemed it desirable to build "security" stocks, or, alternatively, considered it worthwhile for political or economic reasons to "overexport," leaving inadequate supplies for domestic consumers. In contrast, the United States has continuously stood out among all exporters as the primary residual holder of surplus wheat stocks; and Canada has ranked second in this respect, particularly when bumper Canadian crops have coincided with heavy world surpluses. These diverse national export tendencies were as clear in the 1920's and 1930's (under virtually free markets and private stocks holding) as they are today—in a couple of instances even clearer; and any realistic outlook for the coming decade must take account of their fundamental, persisting nature.

Important, too, are the related "export facts" that (1) no country except the United States has ever made, or is soon likely to make, large "special" exports involving big price concessions, though recent Canadian grants and credit sales to Colombo Plan countries have been somewhat similar on a much smaller scale, and (2) of the four major wheat exporting countries, only the United States has persistently subsidized "commercial" wheat exports by payments from the national Treasury and/or domestic consumers, and (3) the American "special" sales and general export subsidies have both been strongly protested by other exporting countries as "unfair export competition."

For the coming decade the important question is: What are the prospects for substantial changes in the exportable wheat supplies of the leading wheat exporting countries? Or, more specifically, what are the prospects of sizable changes in the wheat production and consumption of those countries? These questions can be most easily discussed with reference to Tables 8 and 9 (p. 265).

TABLE 8.—WHEAT PRODUCTION AND DISPOSITION OF THE FOUR CHIEF EXPORTING COUNTRIES, AVERAGES 1925-59\*  
(*Million bushels*)

Average <sup>a</sup>	Crop	Do-mestic use	Net exports	Year-end stocks <sup>b</sup>	Crop	Do-mestic use	Net exports	Year-end stocks <sup>b</sup>
<i>Argentina</i>								
1924-29	249	82	153	85	144	46	97	33
1929-34	228	91	139	81	185	53	121	60
1934-39	244	100	122	96	154	54	107	50
1949-54	197	121	73	96	191	75	103	101
1954-59	239	139	106	134	162	74	93	116
<i>Canada</i>								
1924-29	427	106	306	69	826	628	180	134
1929-34	354	114	224	165	792	693	91	334
1934-39	263	110	173	101	716	687	33	155
1949-54	544	148	293	304	1,117	667	324	524
1954-59	436	162	288	608	1,067	598	399	1,028
<i>Australia</i>								
<i>United States</i>								

\* Official data supplemented by Food Research Institute estimates of August 1 stocks for Argentina and Australia. Net exports include flour in grain equivalent.

<sup>a</sup> For five-year periods beginning July 1 for the United States, August 1 for other countries.

<sup>b</sup> Southern Hemisphere stocks as of August 1 include wheat required for domestic use during the following four to five months.

Considerable unleashed pressure to increase wheat production exists in the chief exporting countries. It appears to be least in Australia, uncertain but significant for the future in Argentina and France, more substantial in Canada, and great in the United States. In the USSR, where wheat acreage and production have recently expanded sharply, primary emphasis now is on increasing yields per acre of all grains and particularly the production of grain for feed.

Over the past two decades, all of these countries have improved their wheat growing methods and techniques (most strikingly the United States), raising bushel-yields per acre and per man-hour. These upward trends are expected to continue. Moreover, all major exporters except the USSR have materially re-

duced their planted wheat acreage, thus suggesting the possibility of future re-expansion, particularly in North America, where government marketing controls have played an important role. Finally, all of these countries except the USSR are now consuming less wheat per capita than earlier; and domestic utilization totals have either declined (as in the United States), or have been sustained or raised mainly as a result of marked population growth (Table 8). In the USSR, *bread-grain* consumption for food has probably declined moderately on a per capita basis, but increasing substitution of *wheat* for rye has combined with population growth to bring a considerable increase in the total domestic utilization of wheat. Since per capita cereal consumption is still notably high in the Soviet Union (probably well over a pound a day) future reduction is to be expected as livestock products and other "quality foods" increase.

Australian and Argentine farmers have cut wheat sowings on a purely voluntary basis; but the responsible factors have differed for the two countries. In *Australia*, the whole agricultural economy has changed greatly in the postwar period: crop rotation patterns have widened; fallow has declined; grass and fodder crops have increased; and wool and meat production have assumed an even more dominant position than before, both in the domestic farm economy and in the nation's international financial balance. It is possible that these revolutionary changes have turned Australia into a high-cost exporter of wheat, and that at unsubsidized competitive prices American farmers, as well as Canadian, would produce exports almost three times as large as Australian producers.

This year, for the first time, Australian wheat producers will receive a subsidy from domestic consumers and the Commonwealth Treasury that may amount to something like 17 cents a bushel for the December-November crop year (37, p. 5), a subsidy associated with the Australian Wheat Price Stabilization Plan that in a number of earlier years benefited consumers at the expense of producers. Because of the "insurance payment" character of the present Australian subsidy, Commonwealth consumers and taxpayers may willingly support similar subsidies for the three remaining years of the present Stabilization Plan. But it is inconceivable that a wheat export subsidy will be tolerated long in Australia. Such a persisting subsidy would not only put a heavy drain on the national economy, but it would greatly weaken Australia's righteous opposition to "unfair export competition," so often expressed in GATT and other international organizations and committees. Assuming, then, that Australian producers may face substantially reduced wheat prices after the next three years, further cuts in Australian wheat plantings and production seem likely to occur unless price prospects for wool and meat decline.

The lower *Argentine* wheat acreage levels of postwar years have also been associated with diversion of former wheat land to fodder and livestock. But Argentine wheat producers, unlike Australian, have suffered from additional government-imposed handicaps: successive Argentine governments have fixed government monopoly prices on wheat considerably below international levels and have continued farm-tenant and wage regulations of the Perón era that have further emphasized the relatively greater attractiveness of concurrent livestock prices.

Since January 1959, when the last currency devaluation occurred, more liberal

national economic policies have gradually reduced government controls over Argentine grain marketing and pricing. Official prices for wheat (previously "fixed," now "guaranteed minimum" levels) have been markedly raised, and government officials have declared their intention to encourage increased production and exports of wheat and other grains as well as livestock products. In spite of these more promising developments, the National Grain Board has recently been forced to buy wheat at the basic minimum price of 300 pesos per quintal (\$.98 per bushel) for No. 2 Semi-hard at Buenos Aires—a price well below the international export value. Even at this low minimum price private grain firms were unable to make a profit on export wheat in the early months of 1960, partly because they had to pay the government a number of additional transaction taxes and special fees (including a 20 per cent "retention tax" on the assessed value of all exported grain), and partly because their costs were temporarily raised by congestion of transport and port facilities.

The longer term future for Argentine wheat exports remains uncertain. Clearly, the grain and livestock producing *potential* of Argentina is great. Clearly, too, Argentina occupies a favored position as the only large wheat exporter on the rapidly growing and developing continent of South America. But these advantages cannot be effectively exploited until the Argentine Government is able, with assistance from the International Monetary Fund and the World Bank, to control inflation and to get agricultural and general economic development reestablished on a firm basis. Thus, the desired future expansion of Argentine wheat exports rests heavily on wise government decisions and actions on the home front, on their support by the Argentine people, and on adequate and timely assistance from the outside. Moreover, it may depend increasingly on curtailment of United States "special sales," particularly to Latin American countries.

As compared with the uncertainty that exists about Argentina's future wheat production and exports, the outlook for *France* appears fairly clear, at least for the early part of the coming decade. Table 9 shows that since the late 1920's France has shifted from a net import position to her present rank as the world's sixth largest net exporter of the world. Although France is endowed with land and climatic conditions more favorable for wheat production than most of her European neighbors, her present export position is probably tied more closely to the "protection" that successive French Governments have given domestic wheat producers. In recent years, such protection has included not only artificially high prices to domestic consumers, but also sizable wheat export subsidies which were materially reduced by the currency devaluations of 1957 and December 1958. Since the European Economic Community was organized, French wheat has benefited from an enlarged protected market, which will afford special price and marketing advantages for larger French surpluses, at least during the next few years. The outlook for the late 1960's is more uncertain, since it depends heavily on policy decisions still to be taken by the Community. Whether more restrictive or more liberal trade policies will prevail with respect to imports from outside areas will probably be decided partly with reference to the price and trade policies of the United States and other overseas wheat exporting countries and partly with reference to the developing trade policies of the "Outer Seven."

Although some concern has been expressed about the increasing threat of France to North American wheat exports to Common Market countries, considerably more attention has recently been given to the much greater threat of expanding *Russian* exports. As indicated in Table 9, wheat net exports from the

TABLE 9.—WHEAT NET EXPORTS OF COUNTRIES OTHER THAN THE FOUR CHIEF EXPORTERS, AVERAGES 1925-59\*

(*Million bushels*)

Exporter	Destination	1925/26- 1929/30	1934/35- 1938/39	1949/50- 1953/54	1954/55- 1958/59
France <sup>a</sup>	All countries .....	(45) <sup>b</sup>	(3) <sup>b</sup>	7	34
USSR	All countries .....	16 <sup>c</sup>	22 <sup>c</sup>	60	116
USSR	Soviet Bloc countries <sup>d</sup> .....	...	...	30	89
USSR	Outside Soviet Bloc .....	...	...	30	27
Soviet Bloc <sup>d</sup>	Outside Soviet Bloc .....	46 <sup>e</sup>	100 <sup>e</sup>	35	...
"Others" <sup>g</sup>	All countries .....	30	52	45	55

\* Based on official data, including flour in grain equivalent, with some adjustments and approximations for the USSR and the Soviet Bloc by the U.S. Department of Agriculture and by the Food Research Institute. Except for the variable group of countries designated as "Others" (see note <sup>g</sup>), averages are calculated from algebraic sums that take account of any recorded net imports for individual years.

<sup>a</sup> Including trade in semolina and alimentary pastes.

<sup>b</sup> Net imports.

<sup>c</sup> Primarily to countries other than those now included in the Soviet Bloc.

<sup>d</sup> The Soviet Bloc is defined to include the USSR, Bulgaria, Hungary, Rumania, Czechoslovakia, Poland, Eastern Germany (and, in prewar years, also Lithuania, Latvia, and Estonia).

<sup>e</sup> Including approximate shipments to Western Germany from former German areas now in Eastern Germany and Poland.

<sup>f</sup> Less than 500,000 bushels: sizable USSR net exports to "Outside Soviet Bloc" were practically offset by net imports of other Bloc countries from "Outside."

<sup>g</sup> Net exports of all net exporting countries other than the four chief exporting countries, France, and the Soviet Bloc. The number of countries included in the group varies from year to year as individual countries shift back and forth between a net export position and a net import position.

USSR rose from an annual average of about 20 million bushels in prewar years to 60 and 116 million, respectively, in the two successive five-year periods ending in 1954 and 1959. Moreover, a new record net export peak of 200 million bushels was reported for the crop year 1958/59, when the Soviet Union harvested a huge wheat crop of 2,700 million bushels, that was used partly for export and partly to build up emergency stocks. This is, indeed, a disturbing picture, disturbing particularly to those who accept the trend of "total exports" as given, mechanically extrapolate it into the future, and neglect the implications of the distribution of exports by destinations.

Behind these bits of alarming evidence, however, are pertinent facts that lead to somewhat more moderate estimates of the prospective pressure from Russian wheat exports on "world" markets during the coming decade. These facts may be briefly summarized.

(1) A small part of the increased postwar exports of the USSR—say 10 million bushels—merely reflects the inclusion in Russian statistics of exports from annexed areas that in prewar years added to the exports of Rumania (2, p. 4) and the Baltic countries.

(2) The recent striking increase of Soviet exports has been primarily due

to expansion of the sown wheat acreage of the USSR from 38.5 million hectares (95 million acres) in 1950 to a 1957 peak of 69.1 million hectares (171 million acres), an increase of about 80 per cent (38, pp. 400-01). This phenomenal expansion (not fully sustained in the two following years) largely reflected the "planned" plowing up of virgin lands in semihumid and semiarid regions east of the Volga and Urals (Siberia and Kazakhstan), which cannot be, and is not expected to be, extensively continued. Another 10-14 million acres of the recently increased wheat plantings represented a shift of cultivation from rye to wheat; and this source of wheat acreage expansion is also ended. No further reduction of the rye acreage is "planned," according to Soviet authorities, who do not want to sacrifice the higher yields per acre normally associated with rye (39, p. 17).

(3) A much smaller part of the recent increase in Soviet wheat production and exports was due to improved yields per acre. Between the single year 1950 (probably reasonably representative for its time) and the five-year period 1954-58, the increase in the average yield per acre of wheat was 17 per cent; between 1950 and the weather-favored years 1956-58 it was 27 per cent (38, pp. 400-01, 424-25). To a considerable extent these increases reflected the planting of virgin lands and better crop weather in the later years. Moreover, official emphasis on expansion of sowings and the initial high yields available from virgin lands led to reduction of summer fallowing; and return to a more normal percentage of fallow (or to a suitable substitute rotation) will be necessary even for maintenance of the 1954-58 average yields. Such adjustments may have accounted for part of the significant decline in wheat sowings that has occurred since the 1957 peak.

(4) The current Seven Year Plan puts great emphasis on doubling meat production during 1960-65, a goal that requires much heavier production and use of grain for feed. Indeed, for livestock feeding in 1965, 85-90 million tons of feed concentrates are planned, an amount equivalent to about half of the total planned grain production of that year (40). Such grain is expected to be obtained "by plowing up new lands and by revising the structure of sown areas with a view to displacing low-yield crops with those of higher yield and expanding sowings of corn" (41, p. 26). But no such rapid plow-up of land is expected as took place over the preceding decade; and diversification and better rotations, not successive grain crops, are planned for the newly plowed land of the northwest forest areas. Indeed, the total grain areas will perhaps do well to be maintained at about the 1958 level; and on the basis of past experience, an increase of 25 per cent in the average yield per acre (from 1954-58) is about as much as can be expected. This would result in an output considerably less than the lower limit of the 164-180 million tons of grain "planned" for 1965, thus suggesting that intensified efforts may be made to shift some land from low-yielding wheat to higher-yielding coarse grains. It is also probable that more bread grain (mainly rye) will be used for feed.

(5) The great bulk of the wheat exports of the Soviet Union have recently been directed not to the commercial markets of the "Western world," but to the Soviet satellite countries of Eastern Europe. This group of countries, which was a sizable net exporter of wheat and other grains in prewar years (basis postwar, as well as prewar, boundaries) is currently a chronic deficit area. Moreover, it

seems likely to remain so during much of the coming decade (though probably in declining degree) because of the fundamental, persisting nature of most of the factors primarily responsible for the postwar trade shift: extensive industrialization of some areas (e.g., East Germany), collectivization of agriculture, growth of population, and pronounced dietary shifting from rye and corn to wheat with perhaps some slight reduction of high grain-potato consumption in favor of modestly increased consumption of livestock products (which require still larger quantities of grain for feed).

(6) In view of the important boundary changes made in Eastern Europe at the end of World War II and of the subsequent political and economic reorganization of the Eastern European countries in line with Soviet plans, the most comparable and competitively meaningful export series shown in Table 9 for any Soviet area is the combined USSR-Eastern European total net exports to the outside world, a series designated as the net exports of the "Soviet Bloc." Unlike the export data for Russia alone, these more inclusive regional export figures show a marked *decline*—from approximately 100 million bushels in 1934-39 to 35 million and .4 million, respectively, in the two successive five-year periods ending in 1959. Even in the banner year of 1958/59, when the total net exports of the USSR reached 200 million bushels, the aggregate net exports of the Soviet Bloc (including the USSR) to the "outside world" amounted to only 38 million. The latter figure is clearly a much better index of Soviet competitive pressure on "world" commercial wheat markets than is the 200 million bushel total for the USSR. And it is presumably better, too, than the corresponding 50 million bushel figure for Russian exports to the "outside" world, since the Soviet Bloc total allows, in addition, for the commercial exports made by certain Eastern European countries to Western Europe and also for the compensating wheat imports taken by the Bloc from "outside" countries.<sup>19</sup>

How, then, do these various considerations balance out? What is the over-all outlook for future commercial wheat export pressure from the Soviet Bloc? The size of future Soviet Bloc exports will undoubtedly depend primarily on the changing future emphasis that the Soviet Government places on meeting domestic meat consumption goals as compared with promoting other economic, political, and/or military goals that might more quickly be reached through the expansion of Soviet wheat exports to "outside" areas. However, on the basis of what is now known or believed about Soviet plans and desires, no better "guesstimate" of future Russian wheat exports appears to be available than that indicated several months ago by Lazar Volin, of the United States Department of Agriculture (42).

In looking forward to 1965, Volin suggested that, given "normal" weather conditions and maintenance of the bread-grain area, the Soviet Union might then export something like 240 million bushels of wheat (gross total), sending some  $2\frac{1}{2}$  million metric tons (roughly 90 million bushels) to the satellite countries and another 4 million tons (150 million bushels) to "outside" markets.

<sup>19</sup> Soviet Bloc imports tend to lessen the over-all pressure of "world" exportable supplies on "outside" commercial markets except to the extent that North American "special" sales to Bloc countries substitute for Russian wheat that is thereby saved and diverted to "outside" commercial markets. In the latter case, competitive selling pressure is actually increased.

V. P. Timoshenko regards these figures as on the top side of a wide range, because of the pressure that seems likely to exist to shift from wheat plantings to higher-yielding coarse grains and hardier, higher-yielding rye for needed domestic feed. For present purposes, the writer will use 200-240 million bushels as the indicated gross wheat exports of the USSR as of about 1965; this would seem to imply total *net* exports from the Soviet Union of 195-235 million bushels and perhaps 110-140 million to countries outside the Soviet Bloc.

Although combined Soviet Bloc net exports have recently been running some 25 million bushels lower, on the average, than Russian exports to "outside" areas (because Polish wheat imports from the "outside" have been larger than the wheat exports made by other Eastern European countries to "world" markets) there is no assurance that this will continue to be true over the next five years in view of the potentially great grain producing powers of the Eastern European region. On the other hand, the growing populations of the Eastern European countries will probably increasingly substitute wheat for rye and corn in their diets; and in some areas, bread-grain production may be held down by increased emphasis on planned expansion of livestock and feed grains. In view of these varied considerations, the writer is inclined to use a range of 100-125 million bushels, as a rough indication of the prospective average volume of Soviet Bloc net exports of wheat in the mid-1960's.

At that level, the combined Soviet Bloc net exports would be 100-125 million bushels larger in the mid-1960's than they were on the average during the past five years, and they would be at least equal to the highest five-year average recorded during the prewar period (Table 9). Moreover, it is noteworthy that Soviet wheat exports are normally sold on "commercial" or "semicommercial" terms: they do not create additional import markets, but substitute for other wheats on existing markets, primarily in Western Europe. If then, the indicated Soviet Bloc exports of the mid-1960's are all counted as "commercial," and if the world's commercial import market should expand by 5 to 10 per cent over the next five years, Soviet Bloc exports would supply roughly 15 per cent of that market under "average" conditions, as contrasted with less than 3 per cent during 1954-59.

Thus, it now seems reasonable to expect substantially increased commercial exports of wheat during the 1960's from the major exporting areas outside of North America—from the Soviet Bloc, France, and probably Argentina. Moreover, the prospective increase, say 125-175 million bushels as of the mid-1960's, would considerably exceed the additional demand that might then exist as a result of possible expansion of the "world" *commercial* market by 5 to 10 per cent (40-90 million bushels). Obviously, such developments would mean further contraction of the commercial wheat export markets of Canada and the United States unless major changes in North American price, export, and foreign-aid policies should expand the total commercial import demand more than is here envisaged, and/or should discourage other exporters from competing so actively on "world" markets.

For *Canada* and the *United States*, traditional holders of the world's surplus wheat stocks, the outlook for an increase of 125-175 million bushels in com-

mercial exports of other countries by the mid-1960's appears grim. The significance of such a quantity of additional commercial shipments can best be appreciated by comparison with the recent wheat exports of the two countries shown in Table 10.

TABLE 10.—NORTH AMERICAN "COMMERCIAL" AND "SPECIAL" EXPORTS OF WHEAT, 1954-59, WITH PREWAR COMPARISONS\*

(Million bushels)

Export class and country	Prewar averages		Crop years ending				
	1924-29	1934-39	1955	1956	1957	1958	1959
"Commercial" exports <sup>a</sup> .....	486	206	368	411	434	436	412
Canada .....	306	173	252	312	263	289	274 <sup>b</sup>
U.S. .....	180	33	116	99	171	147	138
"Special" exports .....	—	—	158	241	376	280	321
Canada <sup>c</sup> .....	—	—	... <sup>d</sup>	... <sup>d</sup>	1	31	20 <sup>b</sup>
U.S. .....	—	—	158	241	375	249	301
Combined net exports .....	486	206	526	652	810	716	733
Canada .....	306	173	252	312	264	320	294
U.S. .....	180	33	274	340	546	396	439

\* Based on official trade data reported for July-June years for the United States, and for August-July years for Canada; flour included in terms of grain equivalent. United States "special" exports from U.S. Dept. Agr., *The World Grain Trade* (FAS-M-53, April 1959) and *U.S. Wheat and Flour Exports Under Government Programs for 1957/58 and 1958/59* (mimeo., March 16, 1960). Canadian "special" exports through 1957/58 as reported by the Canadian Department of Trade and Commerce (letter dated June 1959) with adjustments by the writer as indicated in note <sup>c</sup>. All totals represent the summation of the indicated Canadian and U.S. figures and therefore artificially combine exports of two different crop years.

<sup>a</sup> Reported total net exports of each of the two countries minus corresponding "special" exports.

<sup>b</sup> Preliminary approximation of the Food Research Institute.

<sup>c</sup> All reported "special" exports except those based on credits running for less than five years at rates of interest comparable with those charged by the Export-Import Bank. This adjustment was made because American-reported "special" exports do not include exports under Export-Import Bank credits, which are essentially semicommercial.

<sup>d</sup> Less than 500,000 bushels.

It is noteworthy that the anticipated additional exports are a fourth to a third as large as the combined "commercial" wheat trade of the two North American exporters, and of the same general size as the total "commercial" exports of the United States alone. The associated threat to North America's commercial wheat trade and to the dominant international pricing position of the Canadian Wheat Board is clear.

How will Canada and the United States respond to this threat if and as it develops? Will they try to isolate Soviet exports and exclude them from the leading commercial import markets? Will they seek "compensatory" outlets for "special" exports? Will they reduce commercial prices as one means of improving the supply-demand balance? Or will North American wheat stocks continue to rise to higher and higher peaks that threaten a bigger, later crisis?

Some Western observers might hope the problem could be solved by getting importer members of the International Wheat Council tied to commercial import quotas that would not permit substantial imports of Soviet Bloc grain. Actually, however, considerable leeway for increased Soviet imports exists under

the 1959 Agreement; and any hope that the existing margin would be substantially narrowed rather than widened in a subsequent comprehensive Agreement signed by practically all importers would seem to be a sheer illusion—barring intensified Cold War difficulties. Nor should it be overlooked that the definition of "special" exports is wide, that the Soviet Union could easily arrange to make semicommercial exports that would classify as "special" trade under the 1959 IWA, and that such "special" trade is not subject to effective controls under that Agreement.

A second "easy solution" for the North American exporters might appear to be a compensating expansion of "special" exports. But the preceding analysis has shown that the "special" exports of the past five years have significantly encroached on commercial export markets for wheat and other cereals, that they have often resulted in intergovernmental disputes and hard feelings, that they have involved heavier public subsidies than were immediately apparent, that they have strengthened administrative pricing at above-equilibrium levels, and that the related long-term international loans have been cumulating increasingly heavy debt burdens for the recipient countries to repay or to refuse to pay in future years. Then, too, there is the related question as to how the North American countries would share "compensating 'special' exports." Table 10 documents the well-known fact that only the United States engages heavily in "special" grain trading. Canada would neither pay for nor receive the peculiar kind of "compensation" that expanded "special" exports would provide. And, conceivably, even United States taxpayers would object to further increase in the enormous costs associated with such exports, at least without some proof that they have been performing a constructive function reasonably commensurate with the cost.

Finally, probably the most pertinent question to be asked about proposals for increasing North American "special" exports is where enlarged "additional consumption" markets are to be found. Certainly, the United States Department of Agriculture has long been seeking for wider noncompetitive markets for "special" wheat exports, and since June 1959 the intergovernmental Wheat Utilization Committee has joined the search under a "Food for Peace" banner. But every person and group concerned has continued to find it extremely difficult to locate countries that will absorb "additional" imports of any grain without interfering with the growth of commercial imports of wheat, rice, or coarse grains that otherwise would take place. At the recent annual average level of 300 million bushels, North American "special" exports of wheat have shown many signs of overextension and displacement of commercial trade; and it seems probable that this average level cannot be maintained on a really constructive basis over the next five years.

Even if there were no threat of future contraction of North American wheat exports, the persisting tendency for current wheat production to exceed all current demands and the unprecedentedly heavy North American wheat carryovers of 1959 and 1960 make basic supply-demand adjustments imperative. The post-war build-up of wheat stocks in Canada and the United States is shown in Table 8, p. 262. Although the 1960 Canadian carryover, expected to approximate 500 million bushels, will be moderately lower than the extremely burdensome stocks of 1954-59, it will still be much larger than in any peacetime year prior to 1954; and the 1960 United States carryover will stand at a new all-time record

peak of about 1,300 million bushels. Moreover, with yields per acre of wheat still rising under continuing scientific and technological improvements (43, p. 12), with total domestic utilization stationary or declining, and with Canada "statistically" expected to harvest another bumper wheat crop within the next few years, the existing North American wheat imbalance seems destined to worsen if current government grain policies remain unchanged.

It was to this "chronic" tendency for world wheat surpluses to grow under government intervention that the FAO Group on Grains directed special attention both in 1958 and 1959, pointedly commenting (44, p. 11; 45, p. 10):

The heart of the problem lies in the level of price or income guarantees to producers of wheat and other grains in many exporting as well as importing countries. These guarantees, combined with other aspects of national agricultural policies, if maintained substantially unchanged, will continue, together with technological advance, to stimulate, year after year, an output larger than can be absorbed by normal effective demand. Independent measures of surplus disposal may, therefore, assume a semipermanent character and affect an increasing part of the international trade in grains, thus adding to the marketing difficulties now being experienced by exporting countries.

The governments of both of the North American wheat exporting countries have intervened in the pricing and marketing of wheat in recent years. But the basic policies of the two governments, the character of the measures adopted, and the degree of price support given have differed so markedly that the international effects of the two national programs have been notably different. Clearly, the two governments have not been equally responsible for the current "chronic" wheat surplus, nor has their separate responsibility been essentially proportional either to their respective wheat exports or to their respective average production of wheat.

On the one hand, the well-known "parity price" policy of the United States Government has aimed at giving producers of wheat and other basic crops the same purchasing power per unit (e.g., per bushel of wheat) as in a much earlier specified base period of favorable farm prices. In contrast, the price policy of the Canadian Government has been much less ambitious: it has been semi-officially reported to be "to shield agricultural producers from the most severe of the fluctuations in prices which characterize the industry," a policy involving the associated aim "to maintain flexibility to the greatest extent possible, . . . and thus to encourage voluntary adjustments to changing economic conditions" (46, p. 53).

In pursuing these differing objectives over the past six years, the United States Government has supported wheat prices to producers at levels far *above* (60-80 cents per bushel above) the prices at which the same wheat has been sold to foreign commercial importers (see Chart 3, p. 247), whereas the Canadian Government has maintained a guaranteed minimum price to producers that has continuously stood considerably *below* (20-35 cents below) concurrent commercial export prices. Thus, while American producers have received, and American consumers have been forced to pay, wheat prices that were a third to a half higher than the corresponding international prices, Canadian producers have received, and Canadian consumers have paid, no more than the basic

international prices.<sup>20</sup> Indeed, in some earlier postwar years Canadian consumers paid and producers received less than the going net average export prices.

Moreover, the Canadian Government, like the Government of the United States, has maintained marketing controls to keep domestic deliveries of wheat (also other grains in Canada) from putting excessive pressure on the nation's storage and port facilities. Furthermore, in both countries, these and other controls, combined with price supports and government subsidies for certain other agricultural commodities, have encouraged the expansion of production of coarse grain crops, oilseeds, and livestock products. *By such diverse means, the underlying pressure to produce larger exportable wheat supplies at current prices has been held in check in both Canada and the United States, though not sufficiently in check to bring North American wheat production into line with current average demands (even including government-financed "special" export demands).*

Canadian officials generally insist that their own government policies have not contributed to development or growth of the world wheat imbalance; and they attribute recent burdensome Canadian stocks to the combination of several years of unusually favorable weather in the Prairie Provinces and concurrent and subsequent narrowing of the world commercial export market, both by American "special" exports and by restrictive import and price controls in leading commercial importing countries. In defense of this position, Canadian officials convincingly point not only to (1) Canada's long record of unsubsidized wheat production, unsubsidized commercial exports, and small "special" wheat exports, but also (2) to the lower level of Canadian wheat exports in 1954-59 than in 1924-29 (as contrasted with American exports that more than doubled) and the small increases in Canadian exports since the depression period of 1929-34 and the drought period of 1934-39 (Table 8), and (3) to the *decline* of the Canadian wheat carryover by roughly 225 million bushels since its 1957 peak—a four-year period during which the American wheat carryover *increased* by more than 400 million bushels despite extremely heavy, government-subsidized "special" exports.

These considerations, the comparative wheat production and disposition data shown for the United States in Table 8, and facts presented in earlier sections of the present study leave *no room for doubt that primary responsibility for the world's present wheat imbalance lies with the United States*. Nevertheless, this does not mean that Canadian wheat policies have not also contributed to the underlying imbalance, nor that the Canadian Government is either justified or wise in sitting back, as it apparently has been doing, waiting for the United States and other governments to make all of the fundamental price, supply, trade, and consumption adjustments required to promote a sustainable world wheat balance.

It is important to note that the Canadian Government, through the Canadian Wheat Board, has exercised monopoly pricing and export control over all Canadian wheat, which represents considerably more than a third of the "world's"

<sup>20</sup> Even the so-called "flour export subsidies" which the Canadian Wheat Board has made available in recent years have not been true, government-financed subsidies, but have represented differential export pricing that has lowered the net average prices received by Canadian producers. In contrast, the larger, more generally applicable American export subsidies on flour, which were apparently largely responsible for the introduction of the Canadian flour "subsidies," have been continuously paid for by the United States Treasury.

commercial wheat exports. And Canadian officials have made no secret of the fact that they have strongly resisted any tendency of American officials to push "commercial" export prices down to the minimum level specified in any of the several postwar International Wheat Agreements. At present, in the face of a near-record world wheat surplus, continuing technological improvements, and threats of expanding wheat surpluses in other countries, the Canadian Board has chosen to keep its basic selling price some 20 cents above the current IWA minimum level. Since a lower "world" export price would increase the wheat export subsidies now being paid by a number of countries, ranging from the United States and Australia to Italy and Greece, and would also make import wheat less expensive for all commercial importers, it seems highly probable that sustained lower "world" export prices would encourage a number of foreign governments to lower their own price supports for wheat, make wheat exports less profitable to the USSR, and widen the total commercial import market for wheat in both European and non-European countries. Even if such adjustments should take three to four years to become fully effective, the gain to all low-cost commercial exporters of wheat, including Canada, would be substantial.

Precisely why the Canadian Government has been so reluctant to lower its selling prices for wheat is not clear. Obviously, political influences and concern with inelastic *immediate* import demands have discouraged Canadian price reductions. Obviously, too, the growing Canadian population, the increasing importance of the livestock economy of Western Canada, and the improved postwar demand for Canadian exports of coarse grains, flaxseed, livestock, and livestock products have reduced the dependence of Prairie Province farmers on wider export outlets for wheat. But other, less obvious considerations have presumably also affected the Board's pricing decisions. Conceivably, Canadian officials look forward to using price reduction as a bargaining tool in future international negotiations. Or conceivably, without any free-market guides, the Board is convinced (or has decided to assume) that the constant level at which Canadian wheat prices have been held over the past few years is closely in line with the average level that would be competitively established if American producers were not subsidized. Or, alternatively, the Board may simply have decided to exercise its monopoly pricing power to keep wheat prices at a sustainable level calculated to yield the highest net return to Canadian producers over a period of years.

Whatever combination of factors have been responsible for the insistence of Canadian officials on maintaining "world" export prices above the IWA minimum level, that policy has almost certainly encouraged the expansion of wheat production in a number of marginal exporting countries and has narrowed the "world" commercial import demand for wheat. Nor have American administrators been in a position to force lower international export prices or take a larger share of the existing "commercial" import market, because (1) they represent the nation whose subsidized wheat growers are believed to be primarily responsible for the persisting world wheat surplus, and (2) lower export prices would be reflected back in lower returns to Canadian producers but not to Treasury-protected American producers.

Thus tied to limited export markets that seem likely to contract further over the next five years (at current export prices), and faced with the prospect of

continued expansion of American wheat production under present government programs (43), the United States Congress cannot long postpone the disagreeable task of making fundamental revisions in the nation's existing wheat legislation. The present study highlights some of the really basic legislative changes that need to be made in order to insure that the United States play a more appropriate and constructive role in international trade and the world grain economy over the coming decade. These indicated changes are summarized in the following section.

#### FOUR BASIC ELEMENTS FOR A NEW AMERICAN WHEAT PROGRAM

At the end of two World Wars the United States suddenly found itself the top-ranking nation of the world in economic, military, and political power, and also in international responsibility. To a nation that had only recently argued the merits of "isolationism" and that had taken unwarranted pride in not having a well-trained staff of international diplomats and negotiators, the shift in position was abrupt and not entirely welcome. It clearly demanded important adjustments in national thinking, legislation, and administration that were not all palatable and that could not be quickly made.

The more obvious humanitarian responsibilities and international cooperation concepts associated with the new national position were promptly accepted by the American people. They gladly gave the war-devastated countries not only generous postwar food relief but also unprecedented financial aid to speed general economic recovery; they showed an early and continuing interest in furthering international cooperation through the United Nations Organization and related agencies; and they have recently supported heavy Mutual Security appropriations to strengthen both the military defenses and economic progress of associated countries of the "Free World."

Yet as remarkable as these advances in American international operations appear in historical perspective, they do not fully meet the demands of the high position which the United States now holds. In agricultural pricing policies, in agricultural surplus disposal activities, in the import-barrier protection given to many primary commodities and industrial products, and even in part of its defense-oriented foreign aid, the United States has remained internationally immature, backward looking, and unconstructive in its attitudes and activities. Moreover, now that the Soviet Union has risen to challenge the top world ranking and ideological leadership of the United States, partly with prominent displays of scientific skill and partly with offers of two-way trade and spectacular economic development credits, the United States can no longer afford to maintain outdated concepts of the separability of "domestic" economic policies and "foreign" economic policies.

*The essential foundation for a constructive new national wheat program, then, is recognition by the United States Congress, the leading farm organizations, and the American public that any "domestic" wheat program is an "international" economic program, and that it should be framed to promote the general international goals of the United States and to conform with the nation's international economic commitments.*

In line with this view, the *first and most important basic element* for a new American wheat program is rapid stepping down of the present wheat support price to a level far enough below the prevailing commercial export price to per-

mit American farmers to produce wheat for domestic use and export free from all persisting subsidies and controls. Throughout the world—in GATT, the FAO Group on Grains, the International Wheat Council, and the governments of competing grain exporting countries—the current high American support price has been pointed to as the taproot of the international wheat surplus problem and as the primary factor responsible for trade-disturbing “special” exports. Officials in Canada, Australia, and Argentina contend that wheat producers in those countries are willing to compete with American farmers on a subsidy-free basis, but not with the American Treasury. Moreover, in many leading importing countries and marginal exporting countries (most recently in the important European Economic Community), the high support prices for American wheat have been extensively used by agricultural protectionists as a political weapon to get higher support prices and more restrictive import barriers established by their own governments; and this, in turn, has further narrowed the world import market for American and other export wheats.

Still more important, the high American wheat support price, with its associated import quotas, production subsidies, and export subsidies has run counter to the commitments of the United States Government under GATT; and, jointly with other agricultural support measures, it has seriously weakened the international leadership of American officials in sponsoring worldwide reduction of import barriers and freer multilateral trade. A sharp reduction in the American wheat support price to the “world” level is long overdue.

The ultimate aim should be the establishment of a stand-by price guarantee that would rarely interfere with free market price movements or with the free flow of American wheat to export, but that would nevertheless help to cushion any extraordinarily sharp drop in American wheat prices in an exceptional year of abnormally high world wheat production or other abnormally depressing international developments. At present it would seem reasonable to aim at a guarantee level that would permit American wheat to flow freely to export without subsidy or control at the minimum price specified in the internationally negotiated International Wheat Agreement. This would mean an official minimum price of something like \$1.20-\$1.25 per bushel, basis No. 2 Hard Winter Wheat at Kansas City of \$1.00-\$1.05 per bushel as a national farm average. Such a minimum would be roughly equivalent to that currently available to Canadian wheat producers, with allowance for recently prevailing transport and quality price differentials.

How rapidly the present American support price should be lowered to such a stand-by guarantee level is not precisely determinable. The indicated needed reduction (75-80 cents a bushel) is too big and the associated uncertainties and adjustments are too great to warrant a one-year cut of the required magnitude. It seems much more reasonable to preschedule price support reductions of 10-15 per cent annually over a transaction period of several years.

In any case, both the price support level and the timing of changes in that level should be based on world supply-demand conditions, crop adjustment timing factors, and the international responsibilities and commitments of the United States—not on farmer welfare considerations. The individual farmer income problems that result from lowering the government's present artificial support price for wheat should be dealt with separately, in ways that emphasize construc-

tive employment adjustment of high-cost producers and declining, terminable income assistance, without any government intervention in wheat pricing, planting, or marketing (for one recent suggestion along this line see 47).

*A second basic element* for a constructive American wheat program is relaxation of wheat acreage and marketing restrictions at a pace sufficiently slow to avoid huge new deliveries of surplus wheat to the Commodity Credit Corporation. Not until after the support price has been pushed below the corresponding "international" price should all wheat acreage allotments and marketing quotas be removed; and the intervening steps of relaxation of those controls should be annually determined by the Secretary of Agriculture on the basis of supply-demand forecasts for the following year.

An appropriately modified three-year "Soil Bank" might make a short-time contribution to wheat supply adjustments by restraining overproduction during the price-transition period; and, conceivably, if sufficiently modified, it might also promote changes in line with the longer-term adjustments needed. But special attention needs to be given to insuring that such a "Bank" does not extensively provide a refuge for the fallow land of the Great Plain States, particularly in years of unfavorable moisture conditions, thus resulting in increased government costs without correspondingly reducing production over the entire three-year period. In any case, long continued heavy budgetary outlays for any non-production program would appear indefensible in the light of the many more constructive government expenditures that are now being held back because of "shortage of funds"—expenditures for education, expanded national employment services, medical-payment assistance, etc. Moreover, existing American farm lands should not continue to be restricted as to use, but should be made available to low-cost producers who want to extend their operations, and who can earn satisfactory incomes selling at the low prices essential to permit many underdeveloped countries to buy increasing quantities of needed American grain on commercial terms.

*A third basic element* for an internationally oriented wheat program is provision for the isolation<sup>21</sup> and constructive use of all old-crop government stocks, with emphasis on methods of utilization that will add to and not displace commercial grain exports. In view of the continuing Cold War, and the reliance of many low-income countries on emergency food-relief aid from this country, it seems desirable for the United States Government to set aside for indefinite maintenance a national "emergency reserve" of roughly 500 million bushels. The remaining surplus stocks (currently 800 million bushels) could be constructively liquidated over a number of years through (1) continued "disaster relief" grants to foreign governments faced with mass hunger following severe drought, floods, war, revolution, or other natural disaster or man-caused devastation;<sup>22</sup> (2) continued donations to private American relief organizations for direct distribution

<sup>21</sup> The "isolation" should not be so complete that it would not allow for release of *special qualities* of wheat needed for current consumption (replaced by other qualities), for stocks-management substitutions, and, in case of a short domestic crop, for net commercial sales of stocked wheat at, say, 115 per cent of the average market price of the three preceding years.

<sup>22</sup> For a few low-income countries that typically suffer from abnormally sharp crop fluctuations, such grants might be somewhat more generous and more effective if associated with the building up of adequately safeguarded emergency stockpiles in those countries. Grant stockpiles of this sort, however, would merely represent an immediate transfer of American surplus wheat from one (visible) position to another (less visible) position, and would not constitute another use of surplus wheat.

to needy persons abroad, with more government inspection of the actual utilization of such grain; and (3) "special development grants" that would involve tied obligations and specific approval by a representative intergovernmental working committee.

It should be noted that no reference has been made to "barter sales" or "foreign currency sales" of American surpluses. The serious defects of those two programs have been discussed earlier (pp. 238-43 and 230-38). Because of those specified defects (largely concealed from the American public through misinformation and misunderstandings based partly on semantic difficulties) and also because the economies of low-income countries struggling to reach the stage of sustainable development should not be burdened with future payments for "additional" current imports of grain that are immediately consumed, it is here recommended that "foreign currency sales" and "barter sales" be promptly discontinued.

In lieu of those internationally distrusted programs should be substituted non-competitive "special development grants" of foodgrains. Such grants could win widespread international approval, partly because they would appear much more generous than "special sales" (despite customary eventual cancellation of most of the stated price of American "special sales"), partly because each "development grant" agreement would supposedly be sanctioned on an annual basis by a representative intergovernmental committee, and partly because the foodgrain grants would represent orderly long-time liquidation of burdensome stocks that would not be rebuilt under the nonsubsidy pricing policy here assumed to be associated with the grants. Moreover, each "development grant" agreement could reasonably include tied obligations, such as (1) commercial purchase by the recipient country of a stated total quantity of "foodgrains," defined to include wheat, rice, and any other grain customarily consumed as food in the country concerned, with the origin of the commercial grain quota limited only by the requirement that the purchase be made from a country not subsidizing exports, directly or indirectly; and (2) use of the domestic currency receipts (channeled to the recipient government through internal sales of the granted wheat) for planned development purposes or inflation control approved by the International Bank for Reconstruction and Development, its subsidiary, the International Development Association, and/or the International Monetary Fund.

Since the Wheat Utilization Committee has already given considerable attention to many of the problems that would arise in connection with such "development grants" of wheat, and since that Committee (composed of representatives from the five major wheat exporting countries and one representative from FAO) is small enough and interested enough to work effectively to promote grants consistent with emphasis on expansion of the world's commercial trade in grain, there is good reason to designate the Wheat Utilization Committee as the basic core of the intergovernmental group needed to approve the specific terms of proposed individual "development grant" agreements. However, since wheat competes so strongly with rice, and even corn and barley, in world trade and consumption, and since America's grain surpluses are not limited to wheat, the intergovernmental group could operate much better as a Grain Utilization

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Moreover, the construction of additional grain storage space in any low-income country should be undertaken only if this use of the limited economic resources of that country appears more promising for long-term development than any alternative use.

Committee than as a Wheat Utilization Committee. In any case, in order to take proper account of the interests of the major rice exporting nations and the leading grain importing nations, the Committee's membership should be expanded to include one representative or more from each of those groups of countries (say, Thailand, the United Kingdom, and perhaps Burma and Japan).

*A fourth basic element* for a new national wheat policy and program is official emphasis on expanding international commercial trade in wheat. This means, on the one hand, encouraging low-cost production of American wheat that can flow freely to export at low prices without any direct or indirect subsidization. It means, on the other hand, active efforts by United States representatives in various international organizations to bring about a concerted general lowering of import barriers and special efforts in intergovernmental conferences and the International Wheat Council to encourage prescheduled lowering of wheat import restrictions and national wheat price supports (particularly in Western Europe and other countries not severely handicapped by balance of payment difficulties). Moreover, after the American wheat support price has been reduced to the world export level, it may become apparent that the International Wheat Agreement minimum price (\$1.50 per bushel for No. 1 Manitoba, Fort William) is unrealistically high in view of the worldwide technological improvements that have taken place in wheat production. If so, low-cost American producers might later find themselves handicapped in expanding competitive export sales as much as they might want to do. Moreover, a number of wheat importing governments are certain to argue that their own price support levels are "reasonable" so long as they do not exceed the equivalent of the IWA maximum price (\$1.90 for No. 1 Manitoba at Fort William), which may be something like \$2.40-\$2.50 in leading Western European cities, disregarding quality differences. Since some government officials deliberately choose to disregard quality differences for price support purposes, and since a number of Western European countries are now finding wheat price supports of \$2.10-\$2.30 quite stimulating to domestic producers, it seems reasonable to suggest that the entire basis of the IWA price range be carefully reconsidered from the standpoint of (1) its possible effect on the total commercial import demand for wheat, and (2) its possible interference with the long-term structural adjustments needed in the world wheat economy.

Considerably more promising for future commercial exports of American wheat (and of many other agricultural and industrial products as well) is a broader and more generally helpful national approach to world trade and foreign aid problems. Such an approach, supplemented by greater national efforts to understand and appreciate differing cultural values and differing political and economic institutions in foreign countries, are to be desired for reasons much more important to the American people and to the entire world than any incidental resulting expansion of American exports. World peace is at stake. So, too, are American ideals of individual freedom and democracy. And scarcely less important is the basic need to provide education and better living conditions for many of the recently awakened peoples of the lower income countries.

In the eyes of too many of the world's peoples, much of the past foreign economic assistance contributed by the United States has been of a negative "Stop

Russia" or "surplus disposal" character. And too often, also, developing countries have found American import barriers too high for their stimulated exports to scale. These several aspects of American foreign economic policy must change—and change quickly—if major world stakes are not to be lost, if better conditions are soon to be provided for the peoples of Asia, Latin America, and Africa, and if, as an incidental result, the purchasing power of those peoples is to be raised enough to permit them to import commercially the much larger quantities of wheat they want to consume.

It is time for the United States to develop a Foreign Economic Development and Trade Program of positive character, a long-term program that is clearly centered on promoting in the less developed countries sustainable economic development and exports along lines of natural advantage. Such a program would involve further increase of American dollar grants specifically earmarked for foreign economic aid, with most of the increase offset by reduction in dollar appropriations for agricultural price support and surplus disposal programs and by some shift of funds from reconsidered foreign "defense support" items.

Under the proposed Development and Trade Program the foreign dollar grants should be restricted only by requirements (1) that the dollars be spent for imports needed to promote economic development plans or financial reforms given high priority ratings by experts associated with the World Bank, the International Development Association, and/or the International Monetary Fund, and (2) that the staffs of those organizations be kept fully informed about subsequent related operations.

For a number of the underdeveloped countries thus aided a small part of the dollar grants would presumably be made available for importing needed foodgrains; but the expansion in commercial wheat trade thus effected could not be expected to be very large.

To help underdeveloped countries increase their domestic production and their export potential without trying to open up wider market outlets for their expanding exports would be largely self-defeating. Clearly, if the United States is to continue to hold its present international position of economic leadership, it must move much faster and farther in the direction of reducing its own import barriers and in engaging in two-way commodity trade.

Moreover, in various international meetings, particularly in meetings of the signatory governments of GATT, American representatives should now renew and strengthen the nation's earlier lead in vigorously sponsoring cooperative international action to lower existing import barriers and to expand freer multilateral trade. Future American leadership in this direction should be focused not only on obtaining reciprocal concessions for American agricultural and industrial exports, but also with promoting worldwide opening of markets to exports from the less developed countries.

A strong Development and Trade Program of this sort would undoubtedly make many of the underdeveloped countries better commercial customers for American and other export wheat. More important, the desired expansion of the world's commercial trade in wheat would be achieved incidentally, as part of a broader program to raise levels of living in low-income countries and to further other American foreign policy goals.

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