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Such imports have reportedly been promised by the British government. Tunisia, with only half of a normal crop, early announced plans to import 40,000 tons of grain from Allied sources before the end of 1944, and an additional 50,000 tons from France as soon as possible. Imports of this size were expected to guarantee the existing urban bread ration of 250 grams (9 ounces) a day.⁶ It seems less likely that either Morocco or Algeria will import significant quantities of grain this year, though both countries appear to need such imports.

The principal grain importers not yet considered are located mainly in the Western Hemisphere—Brazil, Mexico, Cuba, various other importers in the Americas, and the Union of South Africa. Such scanty information as is now available for these countries suggests that their domestic grain crops are generally smaller this year than last and that their aggregate import demand for wheat and flour will be relatively heavy in 1944–45. Since the imports of these countries were larger than usual in 1943–44, they may be about the same size or only slightly increased in the current crop year.

⁶ *Foreign Commerce Weekly*, Dec. 30, 1944, p. 21; *Foreign Crops and Markets*, Jan. 1, 1945, pp. 7–8.

XXI. GRAIN POLICIES AND WORLD TRADE—A LONGER VIEW

The desire of man to increase his consumption of the good things of life is as old as the human race. Since the first primitive governments were organized, the power of the state has been used to improve the economic lot of first one and then another group of individuals—the land-owning class, manufacturers, industrial workers, farmers, or (too rarely) the consuming public. While there is a great deal to be said for both private and governmental attempts to raise the planes of living of large groups of individuals, such attempts are open to criticism if (1) they subtract from rather than add to the total output of economic goods, (2) they appreciably lower the consumption levels of other large groups of individuals, or (3) they discourage improvements in techniques of production and distribution, preventing the expansion of output by low-cost producers at the expense of high-cost producers.

These tests have too often been disregarded in the planning of “class legislation.” And over the years, legislators in the United States and elsewhere have seemingly failed to grasp two of the most elementary economic principles: what appears to be *immediate* economic advantage does not always coincide with *long-run* benefits; and import restrictions (which may be of immediate advantage to specific groups of individuals) in the long run reduce the level of consumption of the entire population.

In public discussion of plans for the postwar era, it has recently become popular for government officials to stress the importance of the benefits to be derived from postwar expansion of world trade. They have even indicated awareness of the fact that there are two inseparable parts of a nation's trade in commodities and services—imports and exports—and that neither can indefinitely be maintained on an expanded scale without corresponding increase in the other (except as losses are written off).

The actions of public officials, however, do not always point in the same direction as the words they use. The United States (the largest creditor nation in the world) has already taken small steps in the direction of subsidizing exports of certain surplus farm products, with little or no associated relaxation of existing import restrictions. The United Kingdom, deeply concerned about the sharp reduction in British holdings of foreign exchange and investments during the war, has recently

entered into far-reaching agreements to purchase from Empire countries over the next few years huge quantities of meats and other products that Britain would otherwise buy on the free international market. Finally, current indications point to postwar continuation in Soviet Russia of a state monopoly of trade with foreign nations—a monopoly operated at least partly with reference to international political considerations. It is probably not yet too late to reverse these trends away from freer international trade in the postwar period, but the time grows short for officials of the United Nations to back up their words of devotion to the concept of freer international trade by actions designed to foster such a development.¹

INCENTIVES TO THE ESTABLISHMENT OF GRAIN CONTROLS

The 1930's witnessed the greatest development in recent history of restrictive controls over grain production, marketings, imports, consumption, and prices (pp. 4–8). In importing countries, such controls were established mainly to combat the adverse domestic effects of depressed world grain prices, to conserve scarce foreign exchange, and to increase domestic grain production as a safeguard against the outbreak of war. In exporting countries, grain controls were introduced to protect domestic growers against disastrously low prices (later altered to insure “fair” or “reasonable” prices), to deal with the surplus grain stocks that piled up in those countries, and, in the United States, Canada, and Australia, to compensate growers for contraction of their sown acreage. As a result of these controls, many countries adjusted to an “economy of scarcity” at a time when wiser government measures might have contributed to an “economy of abundance.”

As clear as it now is that the postwar world should follow a different route, that it should not again succumb to the temptation of adopting restrictive grain controls, strong currents will be pulling various countries toward the sort of illusory “remedies” adopted in the 1930's.

In the first place, many leaders in countries that have been on short bread rations in World War II will be convinced that a primary lesson to be drawn from the war is that their countries should strive for self-sufficiency in bread-grain production. To stimulate domestic wheat production in the face of lower costs of production overseas, these leaders will necessarily have to propose some sort of direct or indirect

¹ See address by J. S. Davis, *After the War: Freer Trade or Far-Reaching Controls?* (Food Research Institute Contribution 133, Stanford University, Calif., Aug. 17, 1944); and P. W. Bidwell, *A Commercial Policy for the United Nations* (Committee on International Economic Policy, Carnegie Endowment for International Peace, New York, 1945).

scheme for restricting wheat imports. But other leaders will doubtless come forth with a better plan for insuring the grain-supply position of grain-deficit countries in wartime, a plan that might involve (1) the maintenance of sizable war reserves of grain whenever war threatens, and (2) immediate introduction on the outbreak of war of pre-established plans for extensive plow-up of grasslands and for the diversion to bread grains and oilseeds of lands previously under less essential crops. These leaders will rightly argue, we believe, that the primary lesson to be gained from World War II is that planned adjustments in agricultural production can be made much more rapidly and effectively than had previously been inferred. And if wheat-stretching methods and bread rationing are introduced at the very beginning of a war, sizable grain reserves and prompt adjustments in crop production should put most grain-deficit countries on a basis of self-sufficiency for five years or longer. Moreover, the distress that most European countries have recently been experiencing suggests that even the most efficient preparation for war cannot safeguard a nation that embarks upon or is engulfed by it.

Second, many war-torn countries may have little foreign exchange for importing grain in the early postwar period when they are paying heavily for necessary rehabilitation materials and equipment. Even the United Kingdom is expecting to have to restrict food imports during the first few years after the war, a view summarized by the British Minister of Agriculture as follows:

For a time . . . we shall be compelled to cut down on things other than necessities. We want both food and raw materials, but many of the raw materials we require we cannot produce here at home, whereas the farmers and farm workers in this country have shown that most of the food we need can be grown here. If, therefore, we must economise, it seems reasonable to do so on imports of food rather than on imports of raw materials.²

The United Kingdom can reasonably look forward, we believe, to a relatively short transition period during which shortage of foreign exchange will be a dominant factor, but many other countries (and Germany in particular) may be less fortunate unless adequate international machinery³ is successfully set up to deal with this and other difficult problems in postwar international financial relationships. It is conceivable, though by no means yet assured, that such international machinery

² *Corn Trade News*, Nov. 8, 1944, p. 438.

³ We mean to include here a number of basic plans now under consideration (including the Bretton Woods program), some of which seem likely to be adopted. Not only must adequate machinery be set up, it must also be made to operate successfully.

might operate during the early postwar period to remove the need for substantial concern over shortage of foreign exchange.

Third, postwar price declines may be important in encouraging the re-establishment of earlier grain controls. Although it is impossible to foresee to what extent price declines will be witnessed after the present war, the extent to which grain produced on overextended acreages is now overpriced in both importing and exporting countries clearly holds the threat of substantial downward price adjustment in the postwar period. If the anticipated decline in prices should be drastic and long-continued, it would probably promote government efforts to protect domestic grain producers from depressed prices—a major incentive in the early 1930's. But the form of protection provided need not be such as to interfere as seriously as before with international trade. Moreover, for some countries with currently inflated prices there is a certain amount of hope in prospective efforts of the United Nations to stabilize the currencies of member countries.

EXISTING POLICY COMMITMENTS AND PROSPECTS FOR THE TRANSITION PERIOD

Most economic plans for the postwar period differentiate between (1) the two or more years immediately following the war, when attention will necessarily be centered on problems of transition from war to peace, and (2) later postwar years. In the present section, we shall discuss only the most important government plans already accepted or indicated for the transition period.

Among the national commitments that have been made for the transition years, the most important and potentially most dangerous is that specified for the United States in the Stabilization Act of 1942 and in the supplementary "Steagall Amendment." Under this legislation, United States agencies are obligated (within the limit of appropriated funds) to support the prices of 6 basic and 14 other commodities at approximately 90 per cent of parity for two years or somewhat longer after the end of the war.⁴ For wheat, corn, and rice (the grains directly affected) the indicated support prices are far above domestic costs of production for the bulk of these crops and far above levels at which competing countries are willing to produce these grains for the international market. Unless promptly tied to currently-condemned acreage

⁴ For those products which sold above 90 per cent of parity during Jan. 1–Sept. 15, 1942, the highest price within that period is accepted as the legal support price. Under certain circumstances the 90 per cent rate may be lowered to 85 per cent (p. 191). The 20 commodities covered by this legislation are named in footnote 13, p. 191.

restrictions, this price-support program threatens to result in large surpluses of grain that cannot readily be absorbed on domestic markets. Nor can the large surpluses be exported, except as relief donations, lend-lease shipments, and heavily subsidized exports. The way in which Congress and the War Food Administration will react to this dilemma will probably have an important bearing on world trade developments in postwar years. It is probably not too late to retrace the mistaken steps already taken to subsidize exports of wheat flour and cotton (p. 188), a step inciting British comments such as the following:

Americans are busy with vigorous designs to push American exports in every field and even to resort, where it appears useful, to the old mischievous methods of political pressure, subsidies, differential prices and tied loans.⁵

... it remains true that international "dumping", as such, is a disruptive and two-edged weapon. Once the United States starts on such a practice, other countries may follow and the effect might be to sabotage at the very start the endeavours to reduce world tariffs and to establish international trade on an expanding basis after the war.⁶

In our opinion, the existing agricultural price-support program of the United States should be substantially modified before it has resulted in greater damage than has already occurred. Even if Congress is unwilling to set more reasonable and declining price guarantees for the transition period,⁷ the existing guarantees could be made less onerous by restricting their application to that portion of the supply destined for domestic human consumption and by providing that the guaranteed prices be met by direct price-supplementing payments. Under this modified system (which would necessarily remain seriously defective because of the excessive price levels guaranteed), market prices would be left free to fall to levels that would permit commercial exports and additional low-cost domestic uses of the various surplus products. One of the important advantages would be that the United States would no longer be taking the position of leading the world back to the consumption-lowering trade practices of the prewar period.

Other countries have also made postwar commitments to domestic grain producers, though these commitments are wisely less specific and more flexible. The present Canadian price guarantee on wheat of \$1.25,

⁵ *The Times*, quoted in *Corn Trade News*, Nov. 29, 1944, p. 468.

⁶ *The Times*, Nov. 14, 1944, p. 7.

⁷ Under a bill (S507) introduced Feb. 8, 1945 by Senator Thomas of Oklahoma, the base period used for the computation of parity prices would be changed after the war from 1909–14 to 1919–29. This would substantially raise the computed parity prices of most leading farm commodities. As of Dec. 15, 1944, the indicated increases in parity for wheat, rice, and corn under the revised formula would be 32, 36, and 13 cents respectively.

Canadian (\$1.14 U.S.), per bushel, basis No. 1 Northern at Fort William-Port Arthur or Vancouver, expires July 31, 1945. At present it seems likely to be succeeded by a similar guarantee for the following crop year. And the minimum prices that have been legally in effect for western Canadian barley and oats since August 1942—60 and 45 cents (Can.) respectively on No. 2 grades⁸—may well be maintained with little change during the transition period. Under the agricultural price-support act adopted last August, Canadian producers of barley and oats will be aided, if necessary, in the transition period either through purchases at minimum prices by the Canadian Wheat Board or through direct price-supplementing payments. It is particularly noteworthy that no rigid formula for price support is set up under the Canadian scheme—nor are the minimum levels defined at which such support becomes necessary. These price-support measures will probably be supplemented, as in the past, by marketing quotas and by special bonuses for recommended acreage adjustments.

Neither Australia nor Argentina has established any specific grain or agricultural plan for the transition period. Both countries have previously established minimum price guarantees on a year-to-year basis, with some attention to both the domestic and the world supply positions. Up to the present time neither country has succumbed to the costly temptation to set grain prices to domestic producers far out of line with the international market or at levels that would encourage marked expansion of grain production in importing countries. We think it likely that this policy will be continued in the postwar period. For comparative purposes, it is worthy of note that Australia's initial price payment to producers on 1944 quota wheat is equal to 66 cents (U.S.) per bushel, farm basis, while the minimum price guaranteed to producers for the 1944 Argentine crop is equal to 73 cents, basis Buenos Aires (Table 62). Even after account is taken of the normally higher peacetime freight rates from these countries to Europe than from Canada or the United States, it is evident that Southern Hemisphere wheats are priced considerably lower than Canadian wheat and the latter much lower than United States wheat, quality considered.

So long as the Labor government remains in power in Australia, the existing Wheat Stabilisation Program will probably be continued. Fundamental features of this program are (1) guaranteed minimum

⁸ No purchases have been made at these levels by the Canadian Wheat Board since December 1942. During 1943-44 market prices were higher than the minimum levels for barley and oats by 4¼ and 6½ cents (Can.), respectively.

prices to producers, with higher initial payments on the first 3,000 bushels marketed by each grower than on additional marketings; (2) higher stabilized prices of wheat for domestic flour consumption, attained through the collection of a processing tax; and (3) wheat-planting restrictions, based on a system of acreage licenses. Opposition to this program has come from several quarters. Small farmers have complained that payments on the first 3,000 bushels of marketings have been too low. Large wheat growers have contended that the advance on excess wheat should be raised. But the most valid objections are that the system protects inefficient and high-cost producers and discourages expansion of grain growing by those with lower costs. This adverse effect of guaranteed prices was pointed out in the first report of the Australian Rural Reconstruction Committee on January 17, 1944,⁹ but thus far leading Australian officials seem not to have been disturbed by such criticism.

The only large grain-importing country which has yet outlined its agricultural policy for the transition period is the United Kingdom. This envisages gradual reduction of the nation's large wartime acreage under wheat and potatoes and gradual expansion of the production of livestock and livestock products. But so long as Britain needs to economize in foreign exchange, continued emphasis is to be placed on the maintenance of a relatively large cereal acreage. Under existing legislation, an adequate domestic market is assured for British cereal crops through 1947-48. British wheat producers are to continue to receive price-supplementing payments that will bring their average per bushel returns in each season up to the minimum level decided upon in the preceding February.

At present it is difficult to foresee the prospective importance in the transition period of three recent ventures in the field of international co-operation. The first of these is represented by the Memorandum of Agreement on wheat (signed in 1942 by the four chief exporting countries and the United Kingdom) and by the associated Draft Convention—a proposed new International Wheat Agreement, not yet signed.¹⁰ The second is the prospective Food and Agriculture Organization of the United Nations (FAO) that seems likely to be established some-

⁹ See *Corn Trade News*, Sept. 20, 1944, p. 368.

¹⁰ U.S. State Dept., *Wheat: Memorandum of Agreement between the United States of America, Argentina, Australia, Canada, and the United Kingdom, Initialed at Washington April 22, 1942, Effective June 27, 1942, and Related Papers* (U.S. State Dept. Pub. 2140, Executive Agreement Series 384, 1944). For an analysis of these documents, see J. S. Davis, "New International Wheat Agreements," *Wheat Studies*, November 1942, XIX, 25-83.

time during 1945. The third is a temporary service agency set up in 1943—the United Nations Relief and Rehabilitation Administration (UNRRA).

The Memorandum of Agreement, in force since June 27, 1942, appears to have had little effect on national wheat policies during the past two and a half years. On the other hand, it provides for more drastic co-operative action in “stabilizing” prices and in “controlling” wheat exports and production whenever the five signatory governments unanimously agree on (1) a schedule of minimum and maximum prices for the wheat offered for export by the four major exporting countries and (2) the date on which the export-control provisions of the Draft Convention are to become effective.

For some months the International Wheat Council has had under consideration bringing into operation the price-control provisions of the Draft Convention. This has not yet been done, probably largely because of the great difficulties involved in reaching agreement on the range of basic prices and on detailed schedules of minimum and maximum prices for the various wheats offered by the four countries.

Not until after the price-control provisions of the Draft Convention are brought into operation can the export-control provisions become effective. At present, the latter seem unlikely to become operative, if at all, until sometime after the cessation of hostilities in Europe and until shipping conditions have become easier. The much-publicized export-control provisions contemplate the division of the international market for export wheat between (1) the four principal exporting countries, each of which is assigned an individual percentage quota, (2) other exporting countries that sign the Agreement, and (3) non-adherent exporting countries. The anticipated aggregate volume of exports of the four chief exporters is divided on a percentage basis as follows (with modifications under certain conditions): Canada, 40 per cent; Argentina, 25 per cent; Australia, 19 per cent; and the United States, 16 per cent. Although this distribution would allot to the United States a larger share of the international market than would be open to this country on the basis of domestic wheat-price relationships, an even larger share might be seized by the United States if the four countries were free to resort to competitive subsidization of exports.¹¹ It is

¹¹ Various British journals interpreted the wheat and cotton export-subsidy programs announced last November as an effort to force other exporting countries to take effective international action in dealing with these two commodities. See *Economist*, Nov. 25, 1944, p. 709; *The Times*, quoted in *Corn Trade News*, Nov. 29, 1944, p. 468; and *Corn Trade News*, Dec. 6, 1944, p. 478.

perhaps this consideration alone which makes lower-cost countries like Argentina and Australia willing to take preliminary steps toward the establishment of a new International Wheat Agreement. But there is no certainty that this consideration will prove strong enough to force Argentina, in particular, to submit to the restrictive export and production controls provided for in the Draft Convention.

If the Draft Convention should actually be adopted by a representative conference of exporting and importing countries during the next few years or if the principal control features of the Draft Convention should become operative through action taken by the five signatory governments under the Memorandum of Agreement, the resulting influence on wheat prices, exports, production, and stocks might be either small or substantial. It would be small if the range between minimum and maximum prices should be set very wide, with the minimum “basic” price at a relatively low level, if export quotas should frequently be modified to take account of existing export pressures on the various countries, and if the production controls should be operated so as to permit a normal degree of expansion in low-cost areas with associated curtailment of production in high-cost areas. It might be slight if, as is possible, the scheme should break down as did the earlier agreement of 1933–34. Under such conditions the International Wheat Agreement might be neither harmful nor helpful—simply additional international red tape.

On the other hand, the terms of the Draft Convention are such that its implementation might have very adverse effects on the international wheat position and on levels of consumption in many countries. Too high a minimum wheat price and rigid export quotas would restrict international trade in wheat, encourage importing countries to expand wheat production, maintain world stocks of wheat at an uneconomically high level, protect high-cost producers in North America, and restrict expansion of wheat acreage in the lower-cost producing countries of the Southern Hemisphere. From season to season the range of wheat prices might be fixed with little, if any, reference to the magnitude of the available supplies of particular wheats and with scant attention to encouraging diversion of heavy surplus stocks to feed and industrial uses.

Advocates of the proposed International Wheat Agreement often cite the relief-pool provision of the Draft Convention as an example of auspicious international co-operation. This may be admitted without reflecting special credit on the Agreement itself. Whether or not such an agreement had been in force, relief wheat would have flowed from

Canada to Greece, and the various exporting countries would now be making arrangements to donate wheat to other war-torn countries of Europe, either on a national basis or through UNRRA.

The principles underlying the prospective organization of the FAO are in many respects the opposite of those evident in the proposed International Wheat Agreement. Whereas this Agreement contemplates basic restrictions on international trade, production, and indirectly (in spite of several decorative passages in the preamble and initial article) consumption, the FAO has been conceived from the beginning as an organization which will work toward the general international objective of "freedom from want"—initially "freedom from hunger." This objective can be reached only through expansion of food production (particularly in the more backward countries) and through expansion of international trade. The FAO is designed to be not an action agency, but primarily a research, educational, and advisory organization.¹² Under proper auspices, and with the co-operation of leading governments, the FAO could become over a period of years an important force operating to raise levels of nutrition and to promote an expanding world economy. On the other hand, substantial progress in these directions cannot be made in a short time, and we doubt that the FAO will rise to major importance in the transition period, except perhaps as a guiding force away from such restrictive commitments as the proposed International Wheat Agreement.

During the next few years, while the FAO is organizing and formulating its plans for operation, UNRRA will be functioning as the temporary relief agency of the United Nations. UNRRA has one point in common with the FAO: it exists for the primary purpose of raising levels of consumption. Even in this respect, however, there are important differences between the two organizations, since UNRRA functions as an action agency to supply needed relief in food, clothing, drugs, and services to countries and peoples whose consumption is at a level of acute distress.

At the moment, UNRRA is just "on the threshold of action."¹³ Its principal field work to date has been in Greece (p. 230). Future operations may be substantially expanded in eastern Europe—in Greece,

¹² *First Report to the Governments of the United Nations by the Interim Commission on Food and Agriculture* (Washington, D.C., Aug. 1, 1944).

¹³ Various aspects of UNRRA's program are informally discussed in United Nations Relief and Rehabilitation Administration, Office of Public Information, *A Program on United Nations Relief and Rehabilitation* (1944). For a more formal presentation of UNRRA's work, see its *UNRRA: Organization, Aims, Progress* (1944), and also *UNRRA Monthly Review* (successive issues).

Yugoslavia, Czechoslovakia, and Poland—countries without sufficient foreign exchange to finance their own relief. If reasonably successful in these areas, UNRRA will probably be given still greater responsibilities (and funds) in connection with the heavy relief tasks to be faced later in the Far East. On the other hand, UNRRA is not expected to have to provide food relief for the countries of western Europe (Norway possibly excepted) out of its anticipated revolving fund of \$1,800–\$2,000 million. For these particular countries, UNRRA's responsibilities in the transition period seem likely to be limited—except in special emergencies (p. 227)—to assistance in the fields of health, welfare, and displaced persons and possibly to assistance in obtaining allocations of critically needed supplies and shipping from the "combined boards" dealing respectively with food, raw materials, production resources, and shipping adjustments.

On the whole, UNRRA's operations in the transition period will be in the direction of expansion of trade and expansion of consumption. Probably the bulk of the food supplied by UNRRA will consist of cereals—especially wheat and flour. It is noteworthy that wheat and wheat products are not now listed among the "scarce" foods for which allocations must be obtained through the Combined Food Board. This means that wheat and flour can be purchased freely by UNRRA or by any foreign country with the required exchange. The purchased supplies can be shipped, however, only in vessels allocated for the purpose by the Combined Shipping Adjustment Board.

OUTLOOK FOR POSTWAR TRADE

After World War I there was an immediate sharp increase in overseas exports of grain and flour to Europe, followed by even greater expansion in trade during the next few years. European imports of wheat and flour reached peak levels during 1926–29, levels higher than any witnessed before the war. The question arises: Will a similar expansion of trade in grain and other basic foods occur after the present European war is ended.

Though the degree of damage that will be done in the later stages of the war in Europe and in its early aftermath cannot yet be forecast with assurance, there is now strong prospect that shipments of wheat and flour to Continental Europe ex-Russia will be considerably smaller during the years immediately following termination of the present European war than they were in the three crop years beginning 1919–20. Most Continental countries were closer to self-sufficiency in bread-

grain production immediately preceding World War II than in 1909-14, and the current war has brought a less severe decline in agricultural output and potentialities. Even if the postwar wheat surpluses of the Danube countries should be entirely absorbed by the Soviet Union (which we do not anticipate), the wheat imports of the Continent ex-Russia in the first few postwar years would presumably fall far short of the average of about 350 million bushels for the three crop years 1919-22.

On the other hand, it is reasonable to expect a substantial increase in Continental takings of overseas wheat, not only as compared with the restricted imports of recent war years but also as compared with the average net imports of 117 million bushels from outside sources in 1934-39 (Table 22). Yet in view of current prospects for continued tightness in shipping until the Pacific war is ended, for less than adequate handling of international food relief, and for the preference of certain Continental countries for imports of feedstuffs, we doubt that more than 200-250 million bushels of wheat (including flour) will be imported on the average in the first three years after the European war ends. Moreover, in these years, as in 1919-22, the flow of overseas feed grains to Continental Europe seems likely to pick up more slowly than the flow of wheat and flour.

The longer-term outlook for imports of wheat and feed grains into the Continent ex-USSR is more uncertain, since it depends to a large extent on national and international policies and actions still to be made known—in some cases still to be determined. One of the most important unknowns is the destination of the prospective, sizable Danubian surpluses of wheat and maize: we are inclined to believe that the USSR will not want these surpluses after the first year or two of the transition period and that they will then move primarily to central and western Continental countries. This would tend to keep down the demand for overseas wheat and flour in the latter part of the transition period and also in subsequent postwar years. By that time, however, shipping and other factors may be such as to favor an increased flow of overseas grain to the Continent ex-Russia. It is conceivable, for example, that international financial and trade relations may be so wisely organized in an expanding world economy that western Continental countries may be encouraged to reduce their output of high-cost cereals and to concentrate in increasing degree on livestock production and dairying. But at present one can only hope for and not actually expect such a remarkable reversal of trends evident in the 1930's, especially since

Switzerland and several other countries similarly unsuited for grain growing are now favorably considering postwar plans for protecting their expanded, high-cost production of grain.

During 1919-22 the net wheat and flour imports of the British Isles averaged 207 million bushels, and during the following five years 224 million. It is highly improbable that even the lower of these levels will be closely approximated in the first three years after the termination of the present European war. In the first place, the recently expanded British wheat acreage will be gradually contracted under the government's agricultural program for the transition period. In the second place, the United Kingdom now holds large war reserves of wheat and flour that can safely be absorbed after the European war ends. These factors will temporarily curtail Britain's demand for overseas imports. At present, an average allowance of 175 million bushels for the net imports of the British Isles in the first three postwar years appears liberal. Later postwar years will undoubtedly witness a substantial increase in these imports—an increase that will depend partly on the wheat-price policies of the chief exporting countries, which will be in a position to encourage or discourage the diversion of surplus wheat to feed.

The postwar cereal position of the Soviet Union deserves special attention. If, as seems probable, the economy of that country is on the verge of a notable expansion, we may expect to witness a rising total domestic utilization of grain in the later postwar period. Under such conditions, the Soviet Union would not soon again rank as an important net exporter of wheat or of any other grain. Within the Soviet Union there is an enormous potential market for the preferred and higher-cost foods. Since cereals constitute some 75 per cent of the total food consumption, and grains other than wheat and rye represent almost 10 per cent of the cereals used for food, it seems probable that the coming decades will witness a gradual decline in the cereal portion of the Russian diet and a gradual diversion of the coarser grains from human consumption to feed. There will presumably be an associated increase in the consumption of vegetables and animal products—the latter based partly on expansion of the livestock industry of the USSR. These developments in consumption will be associated with marked improvements in agricultural practices and production in the Soviet Union—improvements that have been postponed by the pressing immediate need for increased supplies of food grains. At present the proportion of the total crop acreage devoted to grains, and particularly to food grains, is too large to permit satisfactory crop rotations. The next few decades

will probably witness a gradual reduction in the acreage under food grains and all grains combined and a substantial increase in the area devoted to seeded hay and root crops. Such changes will tend to raise yields per acre of grain and permit intensification of the nation's livestock industry. In the first year or two of reconstruction of Soviet agriculture (the transition period), the USSR may take most of the surplus wheat and barley available in the Danube basin and some, but relatively less, of the surplus maize. After this initial period, however, the Soviet Union will probably again be practically self-sufficient in grain as a result of further extension of mechanized crop production and gradual improvement in agricultural practices.

In Asia, Africa, Oceania, and the Americas there are millions of people who would ordinarily eat more wheat and rice if they could afford increased quantities of these preferred cereals. The aggregate wheat imports of these areas have been well maintained during recent war years, partly because of expanded purchasing power in certain countries, partly because of forced curtailment of imports of rice.

There is little prospect that non-European imports of wheat will be further enlarged before the end of the war in the Pacific. Then, however, there may be a sharp increase in the flow of wheat and rice to China and other devastated Oriental areas—an increase partly financed out of foreign relief funds (including UNRRA's), partly out of credits extended by other nations either individually or through some international organization. Whether this expanded import demand can be long sustained and whether other non-European countries will significantly increase their imports of wheat and flour in the postwar period will depend primarily on the international demand for the export products of these various nations. The *potential* postwar market for wheat imports is extremely large in the Orient and Latin America, but the *effective* import demand of these areas may continue to be seriously restricted by lack of adequate purchasing power.

Prospective efforts of the FAO to raise levels of nutrition throughout the world seem likely to be most effective in increasing the efficiency of domestic food production in heavily populated countries such as China, India, and British Malaya. In so far as these efforts are directed toward expansion of food imports, the FAO must concern itself with the associated problem of stimulating exports from these areas. Liberal foreign credits will raise imports temporarily, but only a healthy export trade will allow heavy imports of food to continue.

It now seems reasonable to anticipate world net exports of 550–650

million bushels of wheat in the early postwar period, with the lower figure representing the prospective export level under conditions of continued shipping shortage and inadequate food relief. Neither figure provides for possible crop disasters or widespread uprising in Europe.

How would exports of this magnitude be shared by the various exporting countries? Perhaps 50 million bushels or somewhat more would be contributed by countries other than the four chief exporters—primarily by the countries of the Danube basin. This would leave 500–600 million bushels to be supplied by the four overseas exporters. Under the percentage export quotas directly specified in the proposed International Wheat Agreement, Canada would export 200–240 million bushels; Argentina, 125–150 million; Australia, 95–114 million; and the United States, 80–96 million—all inclusive of relief donations. In any particular year the assigned quotas might well be somewhat different under modifications permitted in the Draft Convention. But the export figures given above properly indicate that the postwar export movement of wheat from North America will probably not be large enough to bring substantial relief from the sizable wheat surpluses likely (barring crop disasters) to be held at the end of the war by Canada and the United States.

For the United States, in particular, the indicated exports would be notably small in relation to the total domestic supplies of wheat (Table 23). This relationship and the apparent determination of the United States Congress to maintain domestic wheat prices far above an export basis present the obvious question: Is it worth the price? The price includes not only the direct cost of the export subsidy, but also the direct and indirect costs of the whole price-support program for wheat. There are, for example, the costs associated with the wheat-purchase program of the Commodity Credit Corporation (CCC)—losses on CCC sales, storage costs, interest, insurance, etc. There are the costs of the direct payments (under various euphemistic names) that may again be made to wheat growers for curtailing their plantings and marketings of wheat. There are the administrative costs of the Agricultural Adjustment Administration and the CCC. Finally, there are the less visible costs in the form of reduced international good will, retaliatory trade restrictions, and losses of foreign markets by American export industries.

What is the reasonable long-run alternative to paying these high costs for artificially maintaining domestic wheat prices above the international level and simultaneously insisting on wheat exports? The al-

ternative is a free domestic market for wheat, supplemented by temporary relief payments to farmers in distress, by the extension of social security benefits to farmers, and by a combined employment-training program that will facilitate the transfer of farm workers to other occupations or to other types of farming.

With Canada on our northern boundary and a strong American navy on the high seas, the United States has no more reason to pay farmers to produce (or not to produce) agricultural surpluses that are unneeded and noncompetitive on world markets than she has to make similar subsidy payments to producers who prefer to manufacture bicycles, furniture, pottery, pianos, toys, etc.¹⁴ But any such subsidization interferes to some extent with concentration of the nation's energies and raw materials in lines of production in which this country is relatively more efficient than other countries. To promote a healthy domestic economy and to contribute to an expanding world economy, this country should take the lead in abolishing production subsidies, export bounties, import quotas, and all other types of trade restrictions.

¹⁴ J. S. Davis, "Agricultural Fundamentalism," in *Economics, Sociology and the Modern World, Essays in Honor of T. N. Carver*, ed. by N. E. Himes (Cambridge, Mass., 1935), pp. 3-22.

PART 4. STATISTICAL APPENDIX

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