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# U.S. FOOD POLICIES: THE PERSPECTIVE OF DEVELOPED COUNTRIES

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In the mid-1960's, we had the first serious food scare on a world scale since the end of World War II. With it came a brief revival of the neo-Malthusianism. This scare quickly passed, however, and in its place we had the misplaced euphoria of the so-called Green Revolution of the late 1960's and early 1970's. Emphasis shifted from Malthusianism to concerns with other problems. These problems were expected to involve challenges of what to do with the increased output expected to flow from the improved seed-fertilizer technology, and how to make the necessary resource adjustments.

The euphoria was shortlived. Something called a "world food problem" came back on the scene in the period 1972-75, and with it claims that we were all threatened by a growing food shortage and an inability to feed ourselves.

The concern generated by the events of this recent period was probably exaggerated by a number of factors. The United States had substantially reduced its grain reserves because taxpayers were unwilling to pay for them. Hence, short-falls in production were quickly reflected in higher prices in international markets. Second, these price changes were further aggravated by international monetary disturbances associated with two successive devaluations of the dollar and the shift to something approaching a system of flexible exchange rates among the industrialized countries. Third, events of this period were strongly colored by the "limits to growth" analyses of the early 1970's, and their arguments that population and industrialization were on a collision course with a limited resource endowment. It was predicted that this ultimate collision would cause our system to come crashing down around us. Finally, the success of OPEC in quadrupling oil prices and making it stick lent some credence to the limits-to-growth analyses and their predictions of scarcity.

The concerns generated in this period resulted in a World Food Conference in late 1974 at which the world food problem was discussed by world political leaders, journalists, and technicians. New institutional arrangements were proposed, and commitments of

development funds were solicited from the rich countries to help the poor countries improve their agricultural situation.

Despite the dire warnings of that period, we are now well on the way to the third successive bumper crop of grains for the world as a whole. Grain prices have declined markedly in the United States and in international commodity markets. Stocks have been rebuilt faster than most people expected. And the United States Congress and the Administration are now back to price support programs and possibly to withdrawing land from production. India has an unprecedented 18 million tons of grain in reserve. The USSR has made still another switch in policy, and it now appears to be acquiring grain at low prices in the face of its own bumper crop in order to have a reserve to meet future contingencies.

Some have bemoaned this most recent turn of events on the grounds that it has enabled both advanced and low-income countries to back away from their commitments to do something about the world food problem. Aid money has not been forthcoming as expected; governments of low-income countries have not changed their policies in any major ways; and only a few new institutional arrangements have come on the scene since 1974.

This easing of the pressures from the crisis situation of 1972-75 may be a blessing in disguise. It gives us an opportunity to re-think the nature of the problem and the institutional arrangements needed to deal with it. Equally as important, it gives us home time to do a much needed educational job. It is difficult to imagine a set of economic issues that is less well understood by the public than those associated with trade, aid, and development policy. Yet it is also difficult to imagine a set of issues of more importance to the American public.

My paper deals with trade, aid, and development policies in the context of the world food problem. But I want to discuss trade, aid, and development policies in the context of the current dialogue between the developed and the less-developed countries. Tensions between these two sets of countries have grown at the same time that there has been somewhat of an accommodation between the East and the West. The issue is the growing demand from low-income countries for a new international economic order.

The perspectives of the developed countries on the issues before us is anything but uniform. Let us concentrate on the United States perspective, but also weave in at least a bit of the Western European perspective as counterpoint. The United States perspective is important, for at the present time we stand almost isolated

in our trade and aid views, despite the efforts of the Carter administration to move us somewhat closer to an accommodation with the views of both Western Europe and the low-income countries.

### **Some Historical Perspective**

History is important in taking our bearing on the issues before us, because the perspectives of the various actors on the world scene have changed markedly over time. Both developed and less-developed countries have experienced frustrations with each other, as well as disappointments in policy approaches that each at one time expected to be successful.

As we came out of the confusion and chaos that was the aftermath of World War II, many of the low-income or developing countries embarked on some form of program to achieve industrialization. The central core of those programs was an emphasis on self-sufficiency, with most countries having a strong desire to cut themselves off from the international capitalist system of trade.

A number of factors motivated this particular policy thrust. First, there was the desire on the part of many countries to cut themselves off from their colonial masters and previous relationships that were in their view exploitative. Second, contemporary development theory at the time was strongly influenced by Keynesian unemployment theory, notions of "unlimited" supplies of labor in agriculture, and a view of industrialization as the driving force of development.

Perhaps as important as any of these factors, however, was another set of circumstances in the experience of these countries that has been much neglected, at least among professionals and policymakers in the developed countries. This neglected factor is the large shocks imposed on these countries by the trade crisis of the 1930's. The magnitude of these shocks can be illustrated with data from Latin America. Ten important commodities suffered an average decline in real price of about 60 per cent between the peak year of the late 1910's and the low point of the Depressions. The sharpest contradiction anywhere in the world took place in Chile, which suffered a decline of 85 per cent in the value of its total trade (imports plus exports) between 1929 and 1932. And the contraction exceeded 65 per cent for seven other Latin American countries as well.

These same countries experienced strong export booms associated with the two World Wars. So, in historical terms, we had a strong stimulus. Given the dependence of these countries on

international trade, the shocks imposed on their economies from external sources were indeed large. It is little wonder that they developed a strong desire to isolate themselves from these same forces by pursuing self-sufficiency.

A second development emerging in the post-World War II period was the Cold War rivalry between the East and the West and the struggle for the political allegiance of the newly emerging countries. The success of the Marshall Plan in reconstructing Western Europe, plus the state of development theory at that time, caused the United States to put major emphasis on foreign aid as the means of helping low-income countries to gain their political allegiance.

Our aid policies were based on the simplistic assumptions that a shortage of physical capital and the absence of economic planning were the root causes of underdevelopment. Hence, it appeared that all the developed countries could usefully contribute was foreign aid to help close the balance of payments gap, coupled with technical assistance in planning and executing its investment. The bulk of the capital provided was in physical form, with little emphasis on human capital.

The primary reliance on foreign aid in policy toward the less-developed countries has been called as the "soft option" for both parties. It is "soft" for the beneficiaries in the sense that the real resources which are provided reduce the pressure to develop industries than can compete efficiently with those of the developed countries, and aid in the form of surplus agricultural products reduces the incentive to do anything about agriculture. Aid is "soft" for the donor countries as well, since the giving of aid excuses the maintenance or adoption of commercial and domestic economic policies that restrict the opportunities for less-developed countries to develop on the basis of exports. Also, our giving of surplus agricultural commodities enables us to export a domestic problem under the guise of charity. In short, both donor and receiver are able to avoid harsher choices involving conflicts between the requirements of economic efficiency and other objectives of economic policy.

A decade or more of aid-supported, import-substituting industrialization proved disappointing. Moreover, the low-income countries chafed under their new form of dependence — aid and the American presence which it almost inevitably brought. Hence, they were ready to turn to a greater dependence on exports and to a more subtle form of aid expressed in preferential trading arrangements.

The developed countries, and the United States in particular,

were disillusioned with the contributions that aid made to development. Moreover, the United States became politically sensitive to criticisms of its presence in the low-income countries and its intervention in the domestic policies of these countries.

The United States response was one of withdrawal and a reduction in its aid program. The response of the Third World countries was just the opposite. They aggressively took the initiative. The turning point in relations between the developed and the less-developed countries occurred in the spring of 1964. This was the year of the first United Nations Conference on Trade and Development, referred to most commonly as the UNCTAD I.

That important conference was a three-month seminar involving more than 2,000 delegates from 120 countries. It was one of the largest and most wide-ranging international economic conferences ever held. Existing policies, objectives, and institutional arrangements were subjected to severe criticism by representatives of the less-developed countries, and the United States found itself virtually isolated among the developed countries as a defender of the prevailing principles governing international trade.

The low-income countries demanded higher prices for the primary products on whose export they depended, with prices to be obtained primarily through international commodity agreements. They also wanted a modification of both agricultural and industrial protectionism on the part of the advanced countries, plus other forms of assistance. The United States was unwilling to bend on these issues, but at the same time did little to come up with alternative proposals.

Two other things came out of this conference. The first was the clear demonstration that the communist bloc was unable to offer the less-developed countries trade opportunities comparable to those of the developed Western countries. The second was a rather sharp division between the United States and the Common Market on how to respond to the demands of the less-developed countries. The Common Market countries were inclined to accept a comprehensive system of "organized" commodity markets, whereas the United States was not. This divergence in views has persisted up to the recent policy shifts by the Carter administration.

In the period since 1964, the low-income countries have progressively come together as a political bloc, and the confrontation between the developed and less-developed countries has become progressively sharper. Political unity and a program of action have evolved out of a series of UNCTAD conferences which have now

become a regular part of the United Nations apparatus. This led to the proposal for an Integrated Program for Commodities. Until recently, the United States had conceded little on the main issues. At the same time, the United States foreign aid was permitted to decline so that we now rank 14th among 17 industrial countries in the share of our gross national product provided in aid.

### **The Integrated Program for Commodities**

The Integrated Program for Commodities was first proposed in 1975. The demands of this original program were translated by the UNCTAD secretariat into a set of practical proposals for action by the international community and endorsed at UNCTAD IV in 1976. The general objectives of the program as now adopted are (1) to create more stable conditions in world commodity production and trade, (2) to reduce fluctuations in the commodity export earnings of the less-developed countries (LDC's), and (3) to insure that their earnings from commodity exports improve in real terms at a pace adequate to support their accelerated development,

Commodities now on the priority list that are produced in the United States include vegetable oilseeds and oils, sugar, meats, and cotton and cotton products. However, arrangements for grains remain of interest to the LDC's, though negotiations on them are currently being conducted outside the formal apparatus of UNCTAD. Moreover, the list of commodities is open-ended and will eventually be extended, and many of the proposals for changes in trading arrangements will effect all commodities in which LDC and United States producers compete.

The specific objectives of the LDC's in the negotiations that are now under way are to secure the application to commodity trade of six principal and mutually supportive measures:

1. The negotiation of a set of formal intergovernmental commodity agreements (ICA's) of indefinite duration. These ICA's would provide for minimum and maximum prices for commodities moving in international trade. For ten "core" commodities, the primary instrument of price management would be international buffer stocks.

2. The establishment of an international fund for those commodities for which buffer stocks are used to implement the pricing provisions of the ICA's.

3. The index linking of the prices of LDC commodity exports to the prices of their imports of manufactured goods.

4. An expansion and liberalization of the existing International

Monetary Fund compensatory finance facility to stabilize the LDC's receipts from their commodity exports. The more ambitious demands under this rubric would stabilize the commodity export earnings of the LDC's in real terms and around a rising trend.

5. A wider role for intergovernmental supply and purchase commitments in primary commodity trade. The purpose of these commitments would be to enhance market stability and predictability by a better matching of net export availabilities and net import requirements.

6. Finally, improved access to developed country markets for the raw and processed commodity exports of the developing countries. This would be accomplished by lowering tariff and nontariff barriers, and on a preferential basis. Particular emphasis is placed on lowering the high effective rates of protection accorded processing industries in developed countries by the escalation of their tariff schedules with the degree of product fabrication.

Negotiations to attain these objectives have been going on under various auspices: The UNCTAD itself, the GATT multilateral trade negotiations, the Conference on International Economic Cooperation (1976), and elsewhere. The original goal was to have negotiations completed by the end of 1978.

### **Some of the Issues**

There are five such issues of basic importance.

1. *Whether or not we want to retain a system of floating exchange rates.* The answer to this question is fundamental in shaping a response to the demands for the Integrated Commodity Program. The United States has been a major force in insisting on a system of flexible exchange rates, and this insistence has been a source of some conflict between the United States and other industrialized countries.

Clearly, floating exchange rates have served the advanced countries exceedingly well in the crisis associated with the OPEC-induced increase in oil prices. They have facilitated the reallocation of resources within the various countries, and they have provided a much needed equilibrating mechanism in the trade sector itself. It is difficult to imagine that the shock to international trade from the quadrupling of oil prices could have been handled as well as it has been with a system of fixed exchange rates.

However, there are two important sets of issues associated with floating exchange rates that ultimately need to be addressed. First, it has been a long-held belief that flexible exchange rates would give



the individual country the ability to pursue independent economic policies. Hence, it was believed that with such a system there would be no such thing as imported inflation or exported unemployment, and the monetary and fiscal authorities would be able to pursue their internal stabilization policies without concern for their external accounts, since adjustments in the exchange rate would provide an equilibrating mechanism for the external sector.

What that analysis failed to consider was the capital account on foreign trade. Countries on a flexible exchange rate regime are no more independent in their policy making than they were with fixed exchange rates. The only difference is in the particular form of the linkage, with the capital markets taking on more importance with flexible rates.

The rather obvious evidence of the strong interdependency that still prevails is given by the frequent attempts at coordination of economic policies that have occurred since the system changed. United States policymakers were quite pleased when they learned that Germany and Japan were taking steps to stimulate their economies, for they know it is needed to keep our expanding. A year ago, the other countries were looking to the United States to bring the world economy out of its slump.

The low-income countries are for the most part still under fixed exchange rate — or at best, crawling peg systems. The nature of any modification in the rules governing trade will have to take into account whether the industrial countries go back to a fixed exchange rate system or whether the low-income countries eventually become part of a generalized system of flexible rates. The gains that individual countries can realize from commodity agreements, for example, will be influenced by the exchange rate system. Similarly, the detailed regulations governing these agreements will be influenced by the exchange rate system.

The second issue with flexible exchange rates relates to where adjustment takes place in response to monetary and fiscal policy and the relative weight of monetary and fiscal policies to be used in managing aggregate economic activity. With flexible exchange rates, the trade sectors bear the burden of the adjustment to monetary policy. Since exports are important to United States agriculture, that means that agriculture could, in the future, be more unstable due to monetary policy than it has been in the past. That could make United States producers more sensitive to demands for some form of stabilization program.

This brings up the whole question of reserves and buffer

stocks. They play a rather different role in a regime of flexible exchange rates, and their presence could in fact be counter-productive in light of the larger policy goals. This may require that they be managed by some international agency if they are not to lessen the effectiveness of domestic economic policy.

In conclusion, the decisions we make on the Integrated Commodity Program will be conditioned by the decisions we make on exchange rate policy.

2. *How much stability we want in international commodity markets and how best to attain it.* United States farmers are no different from LDC farmers when it comes to stability. They have a strong preference for instability when prices are going up, but prefer stability when prices threaten to go down.

International commodity markets as now structured are inherently unstable. An important source of this instability is that governments have intervened with tariffs, quotas, and variable levies to such an extent that the prices in the international markets are not reflected to their producers and consumers. Hence, when prices rise, the producer receives no stimulus to reduce his consumption. Market equilibrating forces are therefore impeded, and we have the large price run-ups such as occurred with sugar in 1974 and more recently with coffee. Similarly, when there is a shock to the system, such as a devaluation by a major exporter, the short-term response can be out of all proportion to the longer-run response.

Some have argued that the key to obtaining more stability in international commodity markets is to obtain freer trade. Shortfalls in one part of the world would be offset by unexpectedly large increases elsewhere, and in the aggregate these differential fluctuations would average out.

There is no question about the logic of this argument. But two important questions remain. The first is that stable markets in the price sense do not mean that the exchange earnings of individual countries would be stable, and it is this that the LDC's are interested in. Hence, there would still be demands for some form of compensatory financing even if some degree of price stabilization should be obtained in international markets.

Second, the question of how to move from the present situation to one of trade liberalization is important. Unstable markets are an inducement to self-sufficiency. Hence, a transitional period in which some inter-government arrangements provide more stability to international markets may be the most effective means of

obtaining trade liberalization. In this sense, it may be in the best long-run trading interests of the United States to support some form of stabilization program. The challenge, of course, will be to know how and when to phase these arrangements out and when to begin to depend more and more on the free forces of the market.

3. *The kinds of concessions we are willing to make.* There has been a tradition in the post-World War II period to treat agricultural products as one group and industrial products as another in trade negotiations. This was especially important in the "Kennedy Round" of multilateral trade negotiations, with the result that there was very little liberalization in trade for agricultural products. In the current round of trade negotiations, the United States has insisted that agricultural and industrial products be discussed together so as to realize some trade-offs. The Common Market has resisted this approach and has been unwilling to bargain over Common Agricultural Policy. This, of course, has been an important cause of the stalemate in those negotiations this past year.

The issue vis-a-vis the LDC's is somewhat different. The projections developed by the International Food Policy Research Institute suggest that in the future the low-income countries will be sorely deficient in food grains, while the advanced countries will be running a sizeable surplus. If that gap is to be bridged through trade, the advanced countries, especially the United States, will have to be more willing to accept labor-intensive manufactured products in exchange. Our recent record would suggest that we are not prepared to go very far in making such concessions.

An important related issue is our willingness to make more effective use of the 1974 Trade Adjustment Act. That very progressive piece of legislation and the means it provides to adjust to dislocations caused by imports has not yet been used in a true adjustment sense. Rather, it has been used primarily as a short-term bail-out mechanism, on the assumption that particular industries are facing only temporary problems rather than problems that require longer-run adjustments.

Facing up to the kinds of concessions we are willing to make and resolving to make greater use of our potentially important Trade Adjustment Act can be important determinants of how we respond to the LDC's, as well as how to negotiate with the other advanced countries.

4. *The mix of trade and aid.* The United States has traditionally opted for the "soft" option of aid over the harder choice of making trade concessions to the LDC's. If we should once again price

ourself out of international agricultural markets, as we appear to be in very real danger of doing, and build up sizable stocks in government hands, the soft option may become attractive again.

The LDC's have been arguing for trade concessions in place of aid, although they would probably opt for both if the aid were unencumbered and they were able to use it. It would be regrettable if we were to turn back the clock on aid, especially if we were to once again use surpluses as a major form of aid. In my view there is an important role for foreign aid, but it should be limited primarily to short-term emergencies arising from natural catastrophes and to the development of human capital. Even in the latter case, care should be taken not to totally distort the incentives these countries have to invest in their own human capital.

5. *Finally, and probably the most difficult decision of all, is the issue of how much of an international division of labor are we really willing to live with.* In the final analysis, this question is fundamental to the other four, and it is a hard question. In the past, when our dependence on the trade sector was minimal, it was easy for us to argue that other countries should submit themselves to the discipline of the market so as to gain the benefits from an international division of labor. As we have become more dependent on trade, however, we have learned that there are costs associated with such specialization in production, and we ourselves have become less willing to submit to the discipline of the market. In three successive years, we put embargoes on our agricultural exports in an attempt to isolate ourselves from the forces of international markets. And, of course, in recent years we have heard the repeated pleas of policymakers for the United States to become self-sufficient in energy.

I suspect we are to the point where we cannot turn back from our growing dependence on trade, although it may take some "learning" before we recognize that. We will eventually learn the high cost of energy self-sufficiency, especially if the oil cartel should weaken. Similarly, we will eventually learn that agricultural exports are important to pay for imports of consumer goods and raw materials.

An international division of labor brings interdependencies to the fore, and not all of the important interdependencies are among countries. For example, our ability to import petroleum will be influenced by our domestic policy, concerning agriculture. Similarly, the continuation of the OPEC cartel will help sustain agriculture since a large import bill keeps the dollar lower on international markets than it would otherwise be and thereby helps to keep agricultural exports competitive.

The important point about a greater international division of labor is that it can lead to some rather unbalanced economies. There are risks associated with such unbalances that few countries would be willing to accept, least of all our own. In the event of war, the individual country may lack the capacity to produce an important import or product. In peacetime, the individual country may still be subject to economic blackmail, as has happened with the petroleum cartel.

There are a whole host of political ramifications associated with a greater dependence on trade, but those are beyond our present assignment. It is important to note, however, that as world trade has expanded, economic factors have become an increasingly important element in our international political relations.

### **Some Concluding Comments**

It is in our best interests to help low-income countries obtain higher rates of growth. The easy way to do this would be through larger sums of foreign aid. The route with the hard choices involves trade liberalization. But that route probably also gives us the strongest leverage in negotiating an international market system that would be to our advantage.

As public educators, our responsibilities are great in this important area. The American public is badly informed as to what our international interests are, how we fit into the international system, and what the issues before us really are. We have a major educational task before us.