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III. ASPECTS OF MARKETING AND INTERNATIONAL TRADE

INTERNATIONAL AGRICULTURAL TRADE IN RELATION TO NATIONAL OBJECTIVES

W. J. ANDERSON[1]

Agricultural Economics Research Council, Canada

Introduction

THERE is a large volume of literature in agricultural economics reporting upon research into the restrictive measures which affect world agricultural trade. These studies document, analyse, and comment upon the effect of the interference with this trade. The results generally show that the barriers limit the contribution that international agricultural trade could make to advance world income, and confirm what economic theory has said about the negative income effects of restricting trade between persons, regions, and nations.

The historical documentation reveals that the flow of world trade in agricultural products was severely dampened by a general increase in tariffs during the thirties supplemented by more precise means designed to control the importation of agricultural products to individual countries, including exchange controls, quotas, import permits, and embargoes. This movement took place among the great trading nations, which sought to maintain employment by substituting domestic products for foreign imports, thereby providing an antidote to the Depression. This depression induced movement toward more protection amounted to a substantial escalation of agricultural trade restrictions, and added to agricultural tariffs which already existed. These had been imposed to protect agriculture as part of general national policies to control the course of economic development, and to ensure domestic food supplies for the purpose of national security. The Second World War followed the Depression and in the post-war period the restrictive trade structure, though modified, has remained a significant factor in agricultural trade. In the general post-war environment of economic expansion the developed countries, being dependent on each other as market outlets for temperate-zone farm products, have faced a more-or-less continuous threat that production could not be absorbed at prices which would be remunerative to producers.

While this narrow view of protecting individual national interests has prevailed there also has been, during the period of the fifties and sixties,

[1] Agricultural Economics Research Council of Canada.

a continuing interest among trading nations to expand international trade, and negotiations have been underway seeking for ways to lower the barriers to the flow of world trade. But in that environment, as if to underscore the restrictive outlook held by major trading nations toward international trade in agricultural products, agreements to modify restrictive measures on farm products have been most difficult to achieve.

The level of agricultural protection in industrial countries during the early sixties has been estimated to range from 13 to 43 per cent. Added to these tariffs are other kinds of restrictions which have extended agricultural protection into regulation of the physical flow of trade. The consequences of this protection have been to maintain agricultural production at a higher level that it would be otherwise within the protected area: this becomes costly in terms of the sacrifice in economic growth because agriculture retains resources that otherwise would have gone into the growth industries. The support and protection of farm prices also serves to make food more expensive than it otherwise would be, which may increase wages and the general cost of growth. Moreover, protection probably yields little by way of increasing farm-labour income; the effect would be slight if there is a high degree of elasticity in the supply of labour, and especially if that elasticity is sharply in contrast with a low elasticity of supply of some other factor, such as land.

It would be difficult to measure what the effect of protection has been on the growth-rate of the lesser-developed countries through reducing their supplies of foreign exchange. These nations have required imports for purposes of development but have had inadequate means of earning the foreign exchange whereby these imports might have been purchased. It has been estimated that the lesser-developed countries as a group would need to increase their foreign exchange earnings in the order of U.S. $24 billion[1] annually in order to maintain a reasonable level of growth. Many of these nations have depended upon the sale of products of agricultural origin to earn the foreign purchasing power, and the developed countries have provided the principal markets. Therefore agricultural protection must have contributed to the shortage of foreign exchange, which has been a major problem in the economic development of lesser-developed countries.

Attempts to expand agricultural trade

What are the possibilities of opening up trade within such an environment, accepting the fact the most important reason to expand international agricultural trade would be the rate of economic growth in the lesser-developed regions?

Nations, at the present time, are in the position of attempting to liberalize trade, and at the same time to protect the agricultural sectors within countries or economic areas. This inconsistency arises from the fact that the benefits of expanding trade are recognized simultaneously with the internal problems of agriculture associated with the need to maintain and

[1] By the U.N. Secretariat.

stabilize farm income. The result is that there has been a number of proposals for arrangements in agricultural trade, or for international policies which would affect it. These include concessional sales, commodity agreements, tariff reduction, export subsidies, and selective devaluation of currencies.

Concessional sales. A phenomenon of international trade in the post-war period has been the growth of concessional sales of agricultural products. These have extended as a form of aid to lesser-developed areas for purposes of economic development. The origin of concessional sales goes back beyond the recent period in which they have attained a prominent place in trade. There were barter and loans during the Second World War and special price concessions were made during the thirties. In that view concessional sales, which include gifts, special pricing, or the acceptance of non-convertible currencies in payment, are only an extension of practices previously used in foreign trade. There has developed in the world a psychology of acceptance with respect to aid which could be an important element determining the potential expansion of concessional sales.

The pros and cons of food aid are complex. The benefits put forward by its proponents are that food aid helps to fulfill a large and growing need to increase food supplies, to improve nutritional levels, and to aid in development. In this setting the concessional trade particularly assists those lesser-developed countries whose foreign-exchange earnings would be used to purchase agricultural products.

It is probably true that concessional sales of food, though not a particularly efficient form of aid, contribute to growth and stability. On the other hand, the underemphasis on food production in the development plans of the lesser-developed countries has been aided and abetted by concessional sales of food from developed countries. In assessing the potential use of non-commercial sales, one must take into account the fact that surpluses have existed in developed countries and that they could reappear.

Commodity agreements.[1] A commodity agreement is an attempt on the part of producing and consuming countries to resolve the problems of instability of prices and supplies. The agreements have been applied to a limited number of commodities which exhibit considerable uncertainty in both output and price.

There are a number of basic principles on which commodity agreements might rest. One has been exemplified by the wheat agreement, which has specified minimum and maximum prices and amounts which buyers and sellers agree to trade before going outside the agreement. Another principle is that agreements might provide for export quotas, the goal being to keep prices within a certain range. Another type can be based on the principle of a buffer stock. Finally there may be agreements which go no further than to provide for exchanging information and providing liaison,

[1] For a comprehensive treatment of commodity agreements see William E. Haviland, *International Commodity Agreements*, Private Planning Association of Canada, 1963.

the purpose being to achieve a better understanding between buyers and sellers.

In general, commodity agreements can not be powerful instruments in trade because of the conflict of interest between the two groups which are party to them. The common interest of producers and consumers is price stability; their conflict of interest is that consumers want lower prices and producers want higher prices. The latter may become a particularly insistent demand because of the pressure on agriculture to rearrange its resources and business organization, and the fact that it is not a growth industry in developed countries. Thus commodity agreements contribute mostly to price stability. The benefits which lesser-developed countries have received are not great, nor do commodity agreements offer much hope for the expansion of the exports of the lesser-developed countries to the more-developed regions, which the former need to expand in order to increase their foreign-exchange earnings. One basic problem is that for most products the opportunities for providing close substitutes are available, which greatly limits the power of an agreement to stabilize or raise prices or to ensure sales.

Tariff reduction. While it is very desirable to reduce tariff barriers, the importance of such changes would be principally among the developed countries themselves. It has been estimated that if those countries eliminated all tariffs on imports from the lesser-developed countries, the latter's foreign-exchange earnings would increase only by about 3 per cent. The real barriers to exports from the lesser-developed countries are quantitative restrictions; it is the removal of these which would significantly improve the foreign-exchange earnings potential of the lesser-developed countries.[1]

Balance of payments. Short-term financing will assist to correct an imbalance of payments occurring out of circumstances which are clearly short run. Methods can be devised to enable countries to obtain foreign exchange so as to maintain a balance of payments consistent with a preconceived exchange rate. The balance of payments resulting from a given exchange rate is often used as the criterion of equilibrium in a nation's trade; if so a country might look for a product to fill temporary gaps in the balance. Agriculture is not particularly suitable to supply products to make up a short-run shortage in foreign exchange because output can be unpredictable and the production period tends to be too long for this purpose.

Exchange rate and export subsidy measures could be considered as means of improving the longer-run foreign exchange position of the lesser-developed countries. Multiple exchange rates raise a number of difficult administrative problems, and to the extent that they have been tried they have not been successful in relieving balance-of-payments difficulties. Subsidizing exports on the part of the lesser-developed countries poses

[1] Grant L. Reuber, *Canada's Interest in the Trade Problems of Less-Developed Countries*, The Canadian Trade Committee, Private Planning Association of Canada, 1964, pp. 13–38.

serious political and administrative problems for both developed and lesser-developed countries. Any subsidy measures which do improve the competitive price position of the lesser-developed countries can be offset by importers using quantitative restrictions and extending them in the face of increased import competition from the lesser-developed nations.

Another method for improving the foreign exchange earnings of the lesser-developed countries would be a general devaluation on the part of all the lesser-developed countries relative to the developed countries. If these nations devalued their currencies as a group, this would give them a competitive advantage in the export trade relative to developed countries without changing the terms of trade relative to each other. Devaluation could give a relative advantage to the lesser-developed countries as a whole to improve their export earnings from the developed countries, without disturbing price relationships and therefore the pattern of trade among themselves.

The increase in foreign-exchange earnings resulting from devaluation would depend on the elasticity of demand for the products exported. It also would depend upon acceptance of this policy by the importers who otherwise could adopt some form of retaliation to protect their industry from what might appear to be low-priced competition. Devaluation would increase the price of imports of the lesser-developed countries from developed countries. But this would not necessarily be undesirable, provided that steps were taken to ensure that the importation of goods for economic development was not affected.

As one assesses the possible ways of improving the environment for international trade, the various modifications and schemes are always limited by the fact that trade is basically based on earning power, which in turn results from the use of resources. Ultimately, one faces the basic proposition that a nation's earning power is determined by the productivity of its resources. In lesser-developed countries low productivity is a national problem of fundamental importance related to food supply and development. In the developed countries low productivity may be characteristic of certain resources, for example, under-employed labour in agriculture, and this creates a problem of income distribution.

However, nations are commodity-oriented and tend to look to commodity markets for solutions to problems associated with the income of an industry, hence commodity agreements, export subsidies, and concessional sales exist as special cases within a generally restrictive environment. These may be useful devices but are not corrective, because ultimately trade depends upon production carried on under conditions of comparative advantage, which in turn depends upon resources and the way in which they are used.

Agricultural trade restrictions in relation to national economic objectives

Given the fairly rigid position of agricultural trade restrictions in the complex system of world trade barriers and the difficulties of circumventing them with special arrangements, it is pertinent to ask, can world trade in agricultural products be enlarged significantly within the confines of national objectives in developed and lesser-developed countries, so that trade between nations will contribute to the high purpose of positive income benefits? The answer I believe is 'no' until nations put more emphasis internally on positive policies for using resources rather than on price policies to influence the returns to producers. I will try to make this point by examining the performance of agriculture in relation to national economic objectives.

There are a number of major objectives among their economic aspirations which nations have in common. These shared objectives include attaining full employment of the labour force, achieving a high rate of economic growth, holding prices reasonably stable, and trying to achieve an equitable distribution of rising incomes. These, in fact, are goals which have been defined as universally acceptable within Canada, and, given the non-controversial objectives which they represent, one might expect that these economic objectives would take precedence in a world where people generally are attempting to progress economically. This set of goals, however, is complex in administration. It imposes the responsibility on national policy to guide the economy so as to achieve simultaneously, stability in prices and employment, economic growth, and an acceptable pattern of income distribution. These represent a much wider range of responsibilities for public economic policy than commonly existed prior to the Second World War. Thus it becomes necessary to have a greater degree of public participation, the extent of which depends on whether the industry is regarded as essential and whether it contributes to achieving the national objectives. The question then is—How does agriculture fit into these objectives and how does that relate to international policy?

In those parts of the world where individual enterprises in agriculture are encouraged as the desirable form of business enterprise, the goal of achieving full employment is assured in agriculture. The nature of the business organization provides self-employment, which means that unemployment does not occur. Therefore full employment in agriculture can prevail without an explicit manpower policy, and regardless of the success or otherwise of national anticyclical policy, if the industry is typically one of owner-operated family farms. Not only does farming provide full employment but it may even absorb some of the non-farm unemployed during downswings of the business cycle. Consequently it performs a useful role in the context of short-run stability, assisting to stabilize the economy through the constant level of employment which it offers.

With respect to economic growth a major facet of national policies in developed countries has been to increase the productivity of agricultural resources; this policy has greatly enhanced production possibilities in agriculture. These advances in technology also have tended to be translated into greater output because of the highly competitive environment in which farm production decisions are made. The increase in output makes a direct contribution to growth but agricultural policy, which has emphasized productivity, has contributed to economic growth in other ways as well. The policy also has served to enhance labour productivity in agriculture, thereby releasing labour resources to the industries which have had greater growth potentials. Moreover, the favourable performance of agriculture in terms of output has provided cheap food for consumers. This contribution to the economy has facilitated saving and consequently the accumulation of capital for economic growth in the non-farm sectors. In the matter of national security agricultural productivity has been important; some nations have wanted an assured food-supply as part of the defence programme, and agriculture has been able to contribute to that national objective.

In respect to stability in prices there has been a general tendency in the post-war world toward rising price levels; but agricultural prices, during that period, have risen more slowly than the general price level. Thus agricultural prices have contributed only moderately to price inflation thereby keeping the general problem of rising price levels from being more severe than it would have been otherwise. The same, however, cannot be said about price fluctuations in the short run because a high degree of price instability has been particularly characteristic of agricultural products, a fact which has caused a considerable degree of income instability in certain parts of the industry.

On the goal of an equitable distribution of rising *per capita* income the record of achievement in respect of agricultural people has not been impressive. The lag in farm incomes relative to rising non-farm labour incomes throughout the world is evidence that attainment generally has fallen short of this goal in the case of agriculture. The gap between the labour income *per capita* in agriculture and in other sectors of the economy has persisted throughout the post-war period; furthermore, this phenomenon is characteristic of both the developed and the lesser-developed countries. The relatively depressed position of agricultural labour income throughout the world has been an anomaly in the general pattern of rising incomes in the post-war period. It has been referred to commonly as the farm problem, or the farm price and income problem, and seems to remain peculiarly chronic and intractable.

In general it can be said that the performance of agriculture in developed countries has been consistent with promoting national goals to enhance productivity, economic growth, and employment stability, and to keep inflation in check during the post-war period. But the labour market has been sufficiently imperfect so that farm people have not received an equitable share of the growth in income of these economies. Moreover, while the rise in agricultural prices has not contributed unduly to inflation, they have been unstable and this fact has been recognized as a serious problem for producers because it makes farm income fluctuate and production planning uncertain. It has been politically significant in developed countries that agriculture has contributed so much to major objectives to stabilize employment, to attain economic growth, and to keep inflationary tendencies in check, yet itself has been plagued with price uncertainty, and its people have been unable to partake of an equitable share of rising *per capita* labour income of the economy. The response, in many developed countries, has been to adopt measures designed to obtain a greater share of the national income for people in agriculture, and to reduce price instability.

Typically, the methods used to strengthen agriculture's income position have been aimed at supporting and stabilizing the level of farm prices. The measures have had implications for agricultural trade, because to achieve the price objectives restrictions of various kinds have had to be imposed on the importation of farm products.

These measures in respect of prices have not been successful in solving the income problem because to support prices for this purpose is to treat symptoms rather than causes. The roots of the income problem are found in the preoccupation of policy to increase agriculture's productivity and output potential, and to improve marketing techniques and selling procedures. This commodity approach to policy has been dominant and has tended to neglect the problems in the use of resources which has been markedly affected by the technological changes which bring about changes in productivity. The increase in agricultural productivity benefits the economy in terms of food-supply makes labour resources available, and facilitates the accumulation of capital; but the process requires the reorganization of resources within agriculture, and also between agriculture and the rest of the economy, involving particularly the transfer of manpower from agriculture to the growth industries. Therefore if the process of increasing agriculture's productivity is not associated with equally positive programmes for resources the result is that some persons in agriculture become under-employed. This is reflected in low labour income; but stabilizing and increasing the level of farm prices does not provide the remedy because the problem is one of recombining the major resources of labour and capital.

The widespread existence of barriers to the international flow of agricultural products has been highly associated with the fact that the rearrangement of resources in agriculture has not been easily achieved and has lagged behind what the pace of technological change has required. Instead of adopting positive resource policies, nations have tended to turn to price supports, and the accompanying restrictive measures to trade with which these support policies must be associated. To meet the problems emanating from the unequal rates of change many countries have found it easier to treat the symptoms of low price with price supports, and to impose trade restrictions, than to face up to the painful process of transferring manpower to the growth sectors of the economy. If problems of labour income are viewed as commodity problems for purposes of domestic policy then international trade will continue to be a casualty. The incentive to freer trade in agricultural products is weak unless nations concentrate on achieving optimum resource use as a matter of internal policy.

INTERNATIONAL TRADE AND MARKETING PROBLEMS WITH PARTICULAR REFERENCE TO REGIONAL AND OTHER AGREEMENTS

THEODOR J. DAMS[1]

Introduction

IN a rapidly changing world the economist has to take into consideration not only the patterns and trends in international trade in general, he has to focus his particular attention on the changing determinants of international trade in agricultural products, such as the following:

1. The industrial countries, as well as the 'new' countries, realize more and more that the development of agriculture has to be seen in close connection to the conditions of a growing economy, and that agricultural policy must therefore be integrated in the national framework of economic policy as a whole.

2. On the other hand, the world-wide discussion on an expansion of international trade in agricultural products is concerned only with the flow of agricultural goods—without taking into consideration the co-ordination of national agricultural policies. Since foreign trade in agricultural products is considered to be an instrument to reach national economic policy objectives, which are formulated in relation to the situation in the internal markets for agricultural products and to the level of economic development, as a result there exist deep conflicts between national goals and international agricultural trade (industrial *v.* developing countries, industrial countries with agricultural imports *v.* industrial countries with agricultural exports).

3. But the conflicts in international agricultural trade mentioned above are only a sympton; the reason for these conflicts is the absence of a generally accepted concept of how to co-ordinate national agricultural policies on a world-wide level.

4. Regional integrations between industrial countries, between developing states as well as between industrialized countries and developing countries in preference systems may be an aditional source of difficulties for international trade in agricultural products; they may, however, also give new incentives to an international co-ordination of agricultural policies. In the case of a regional integration, the member states have not only to overcome the divergencies of their former national agricultural policies in order to reach the consensus necessary to make international to inter-regional trade by means of a common policy; they have also to keep in mind the traditional trade connections with third countries and to try to integrate their claims for access to the larger market.

[1] Institute of Economic Development Policy. University of Freiburg i. Br./Federal Republic of Germany.

5. The solution of these problems on a world-wide level is closely connected with the solution of the internal conflicts between the member states with respect to the different ways and means of integrating agriculture and industry. Thus the E.E.C. has so far been successful only because it was necessary to overcome the internal conflicts of interests in establishing a common market for agricultural and industrial goods in order to reach positive results in international negotiations on industrial as well as agricultural trade; as an example of the close inter-relationships between 'internal' and 'external' solutions in agriculture and industry it might be noted that the most important step in establishing a common agricultural policy has been taken at the same time as the documents fixing the results of the Kennedy Round have been signed (30.6/1.7.67).

Economic growth, development of agriculture and trade theory

The postulates and arguments characterizing the recent discussion on how to expand world trade in agricultural products can be fully understood only if one keeps in mind that

(*a*) the traditional theory stressing the importance of international trade in agricultural products for the development of new countries has undergone substantial change (trade theory *v.* growth theory) and that

(*b*) the regional integrations (like E.E.C. and E.F.T.A.) have significant consequences for the competitiveness on the world market for agricultural products and for the degree of self-sufficiency of the member countries.

The traditional concept according to which foreign trade by itself stimulates economic growth in developing countries has been more and more challenged by economists. Obviously, it is the industrialized countries that have drawn increasing advantages from the growing international division of labour, whereas the low level of economic activity and effective demand have prevented international trade from functioning as an 'engine of growth' for the developing countries (R. Nurkse). Moreover, in view of the present differences in economic activity, multi-lateral agreements aiming at a general lowering of barriers to international trade ('most-favoured-nation' clause) seem hardly able to bring about a substantial change. The development of demand and prices on the international markets for agricultural products and industrial raw materials, both of which limit the volume and revenue of exports, leave the developing countries no other way but to seek economic growth by internal industrialization.

This general argument, however, needs to be modified to take account of different demographic circumstances. Wherever resources in agriculture and raw material production are poorly utilized under conditions of a low population density, increasing foreign trade may effectively stimulate agricultural and economic development. In large, highly populated countries, however, forceful industrialization seems to be the only way leading to self-sustained growth (H. Myint). Thus in a differentiating approach, one could assign to foreign trade a leading, balancing, or braking function for the economic development—depending on the density of population (Ch. Kindleberger).

Quite a few economists, on the whole, deny that foreign trade stimulates economic growth in developing countries (e.g. G. Myrdal). They consider the narrowness of the world's raw material and agricultural markets as well as the missing international integration to be the major causes for this state of affairs. In addition, these arguments are brought in connection with the secular decrease in the commodity terms of trade (real income transfer to industrialized countries) and interpreted as 'exploiting function' (R. Prebisch) of foreign trade or—under certain conditions—as 'Immiserizing growth' (J. Bhagwati).

In line with the results of this theoretical dispute, a large number of developing countries have chosen another way: Starting from a desirable rate of growth (in terms of national income and income *per capita*) to be achieved by a policy of planned industrialization, they consider foreign trade exclusively as an instrument contributing to the achievement of national growth targets. A striking example of this philosophy and its implications are the G.A.T.T. forecasts for the period from 1956/60 to 1975, assuming an annual increase in net real national income of 5 per cent on the whole and of 3 per cent *per capita.* With respect to world trade in agricultural products this implies that, even if the amount of non-commercial food deliveries to developing countries increases three times and commodity terms of trade improve generally in favour of these countries each, the net value of agricultural exports and that of raw material exports will rise by one-fourth. The highest increase of exports is necessary in metal raw materials and energy supply (127 per cent).

On the whole, one can conclude: In line with a modified trade theory that does no longer expect foreign trade, by itself, to foster economic growth in developing countries, development policy is increasingly conceived as a comprehensive effort to change the tradional economic structure towards industrialization, which, on its part, determines the formulation of foreign trade policy for agricultural products, raw materials as well as for industrial goods.

Turning now to regional economic integration, national policy of economic growth, such as it is, designed to increase the volume of foreign trade may be influenced substantially, if a number of countries integrate their national economies to build larger markets.

Increasingly, developing countries combine to form supra-national integrations to widen the narrow national markets, so essential for any successful large-scale industrialization, and to strengthen their position on the world market for agricultural products. The success of such regional lowering or even removing of trade barriers depends above all on the degree to which the economic potential of the participating countries has been developed on the internal market and to which such development has led to intensive trade relations between the member countries, which are now to be liberalized from barriers erected by national trade policies. Under certain conditions, it may indeed be more promising for a country to develop its own economy first, particularly if it offers a large market, than to combine with other developing countries to form a common market on a low level of economic activities. The case for such integration efforts rests on the premise that they go further than just to remove obstacles to the free flow of goods and favour a common policy that is more effective in stimulating economic growth than it could be on a national level. This pre-supposes that there is a consensus among all participants on the fundamentals of a development policy that is apt to achieve the structural changes in the different economies necessary for the all-out improvement of factor allocation desired. Investment decisions, national and supra-national, have to be co-ordinated along sectoral and regional lines consistent with these common policy principles.

Recent examples of regional economic integrations have led to an extensive discussion on whether, in a particular case, trade-diverting or trade-creating effects prevail. This is true more with respect to the E.E.C. than to E.F.T.A. for two reasons: First, even before integration began, the division of labour between the E.E.C. member states was highly developed (for the E.E.C., in 1965, more than two-fifths of total imports came from member states, less than one-sixth came from E.F.T.A. countries; for E.F.T.A., in 1965, only one fifth of total imports came from member countries, almost one third came from E.E.C. countries). Secondly, in contrast to E.F.T.A., the E.E.C. set out to integrate not only the industrial sector but also the markets for agricultural products. As a consequence, the common agricultural policy of the E.E.C. has, for the majority of agricultural products, led to the establishment of systems of market regulations mostly including common prices and common instruments for protecting internal markets against the supply from third countries.

The level of the internal agricultural prices as well as the coverage of agricultural protectionism (85 per cent of agricultural products are subject to special market regulations beginning with 1 July 1968) within the E.E.C. has met hard criticisms from third countries fearing for their future access to these markets. In fact, the E.E.C. has reached a degree of self-sufficiency of 88 per cent (on an average of all products, 1962/3–1964/5) and it has achieved or will in the near future achieve self-sufficiency with respect to bread grain, sugar, fresh vegetables, wine, milk and dairy products, veal, pork, poultry and eggs. This situation has resulted from national agricultural policies making for substantial differences in the prices of major agricultural products between the member countries. Since the common agricultural policy in the E.E.C. leads to price increases in some member countries that supposedly enjoy unused production capacities, it is to be expected that, as a consequence of innovating technical progress, the expansion of agricultural production will continue even at falling real prices; but increasing prices will speed up the implementation of technical progress, while a decrease in real prices, due to the low factor mobility in agriculture, may not lead to lower production.

Apart from this new form of agricultural protectionism, developing countries criticize the privileged treatment conceded to those of them associated with the E.E.C. They argue that by granting to these associated areas a privileged access to the E.E.C. market and capital aids for improving and diversifying production facilities, particularly in the field of agriculture, the other developing countries are hurt in competitiveness by not enjoying comparable advantages.

The E.E.C. and agricultural world trade

In the middle of 1960, the first measures of the common agricultural policy concerning the instruments of marketing organizations have been applied in the E.E.C. Since 1 July 1967 the differences in national prices of major agricultural products (45 per cent of the total value of production) inside the Community have been abolished. On 1 July 1968 a common market for all agricultural products will in fact be realized. The political decisions of the Council of Ministers regarding prices of the internal market and the protection against the supply of non-member countries meet growing criticism because of the possible effects on agricultural world trade. In fact, it cannot be overlooked that a conflict-situation exists between the realization of the goals of article 39 (increasing of the individual earnings of persons engaged in agriculture) and article 110 of the E.E.C.-Treaty (harmonious development of world trade, the progressive abolition of restrictions on international exchanges). Yet, by now, nothing can be said about the future effects of these decisions of a common agricultural policy on world trade with agricultural products; there are only some forecasts estimating the development of agricultural production and the degree of self-sufficiency of the E.E.C. in 1970, under the (unrealistic) assumptions that existing prices and price relations on the national markets will be maintained.

But it is possible to characterize the trends in agricultural trade of the E.E.C. countries for the period 1958 to 1965 (1958 = 100):

1. The imports of agricultural products coming from member countries (internal trade) rose—as a consequence of preferences—by 166 per cent. In comparison, the foreign trade of the E.E.C. increased by 43 per cent. In absolute terms, in the period 1958–65, the agricultural imports of the E.E.C. countries rose by \$5·3 billion (total value \$13·9 billion) of which \$3·2 billion (60 per cent) came from non-member countries.[1]

2. All third countries took part in this considerable import increase of the E.E.C. countries, but to a rather different extent: The industrial countries by 54 per cent (E.F.T.A. by 40 per cent, U.S.A. by 90 per cent); the developing countries only by 24 per cent (Latin America by 70 per cent) and the state-trading countries by 133 per cent. Only the imports coming from the developing countries associated with the E.E.C. decreased by 12 per cent.

[1] In 1965 total imports of agricultural products coming from non-member countries amounted to \$10·576 billion; the share of the industrial countries was \$4·8 billion (46 per cent), that of the developing countries was \$4·749 billion (45 per cent), and that of the state-trading countries \$905 million (9 per cent).

3. This evident differentiation of the growth-rates of E.E.C. agricultural imports in favour of the member countries can be seen even better from the trade of products subject to market regulations. The internal E.E.C. trade with these products rose by 186 per cent, the international trade only by 47 per cent. Third countries took part to a rather different degree: imports from U.S.A. rose by nearly 300 per cent (from $253 to 743 million), those from E.F.T.A. countries by 30 per cent; the developing countries which mainly sell tropical products to the E.E.C. reached an increase of only 10 per cent (Latin America offering a lot of products subject to market regulations + 138 per cent; the imports from E.E.C. associated countries decreased by 50 per cent). The imports from state-trading countries doubled.

4. With respect to all agricultural products, the ratio of the E.E.C.-internal trade to the E.E.C.-foreign trade grew from nearly 1:6 (1958: 14·5 per cent) to nearly 1:4 (1965: 24 per cent). For agricultural products subject to market regulations, the corresponding values are: 1:4 in 1958 and 1:2·5 in 1965.

Yet so far this shifting of the trade shares in favour of the E.E.C. countries has not had negative consequences for the third countries, because the vigorous economic growth of the E.E.C. has led to a considerable enlargement of the demand for food-stuff. As a consequence, it was possible to sell a growing home production and at the same time to increase the volume of agricultural imports from third countries substantially.

But this existing import-margin for agricultural products in the E.E.C. may rapidly shrink in the future. The absolute protection of agriculture against imports from the world market by marketing regulations, the relatively high common agricultural prices (which represent a price increase for some member countries with considerable production capacities), and technical progress may lead to a further increase of agricultural home production.

Besides it is questionable whether the economic growth of E.E.C. will remain as vigorous as it has been in the past, and whether further income increases will have the same (positive) effect upon the quantitative demand for food-stuff as it had in the past.

The third countries' arguments in favour of an expansion of world trade in general and of the trade in agricultural products in particular

The problem of how to make developing countries participate in international trade more successfully, and of how world trade in agricultural products could be expanded in general, should be discussed under two aspects:

(*a*) The differences in the arguments between developing countries and industrialized countries with agricultural export interests.

(*b*) The necessity of workable competition on world agricultural markets.

Arguments of different groups of countries. The developing countries' arguments for a more profitable participation in world trade are not limited to agricultural markets but are derived from the basic prerequisites of economic development to which foreign trade has to contribute essentially. Their postulates upon which the dispute on trade theory versus growth theory concentrates are primarily the following:

1. An absolute increase of exports to industrialized countries and a relative expansion of their share of the market for agricultural products and raw materials.
2. An improvement of their commodity terms of trade.
3. Equal conditions for all developing countries *vis-à-vis* the industrialized world, i.e. abolishment of privileges on the basis of associations or preference systems in favour of a few developing nations.
4. Protective tariffs in favour of newly established industries (even quantitative restrictions) against imports from industrialized countries, without reciprocity.
5. Privileged access for industrial products from developing countries to the markets of industrialized countries.
6. Removal of the agricultural protection policy in industrialized countries (export as well as import countries).

Most industrialized countries today recognize that something must be done in favour of the developing countries' position in world trade. It may be taken to be a first practical step in this direction that Chapter IV on 'Trade and Development' was incorporated into the 'General Agreement on Tariffs and Trade' (G.A.T.T.). It postulates for the developing countries a quick and continuing rise of export revenues, a more favourable access for basic products to the markets of industrialized countries, a stabilization of world market prices for agricultural products as well as raw materials, and a diversification of economic production to avoid or overcome the dependence from exporting a very limited number of agricultural products and raw materials.

In recent G.A.T.T. negotiations (15 May 1967) the industrialized countries have indeed offered some remarkable tariff reductions to the developing countries, without, however, reaching an agreement on eliminating or at least reducing the Commonwealth and/or E.E.C. preferences in favour of certain developing countries. Moreover, tariff cuts for important products have been granted, which are soon to be fully realized, so that developing countries do not have to wait the usual five-year period of transition before profiting from this improvement of their trading position. On the whole, however, developing countries do not consider these results as satisfactory, this is true particularly with respect to agricultural products.

The industrialized countries with agricultural export interests (especially the U.S.A.) have been vigorously claiming the maintenance of their traditional access to the agricultural markets of importing countries, particularly of the E.E.C. Therefore they suggested that G.A.T.T. negotiations on lessening trade protection of agricultural products should proceed in a way similar to that used for industrial products, i.e. to transform the absolute protection of European agriculture into a relative one. As an alternative to this approach, the E.E.C. was urged either to accept a policy of low prices for agricultural products on the domestic market (since, under this condition, the import margin might continue to exist) or, apart from any price policy, to grant secure access to the Common Market to a fixed quantity of agricultural products from third countries.

Economists' discussion on how to maintain traditional flows of goods between the industrial countries with agricultural export interests and those with agricultural import needs under conditions of agricultural protectionism, has gone on for years. In 1965 D. E. Hathaway suggested that price policy for agricultural products should be supplemented by measures controlling acreage and/or agricultural output in both exporting and importing countries in order to maintain the traditional flows of agricultural trade. Similar ideas have been discussed in Europe.

The result of the Kennedy round

In the 1967 G.A.T.T. negotiations this problem has been solved, for the time being at least, in quite a different way. The industrialized countries have agreed to grant to the developing countries the delivery of 4·5 million tons of grain per year, of which the E.E.C. countries promised to finance 23 per cent. The E.E.C.s non-commercial transactions to developing countries are approximately equal to one-tenth of their grain imports from the U.S.A. and Canada (1965: total E.E.C. imports of about 18 million tons).

On the whole, with respect to agriculture, the results of the recent G.A.T.T. negotiations are but modest, especially if compared to the concept of an appropriate inclusion of agriculture in a policy favouring the expansion of world trade. Of the world-wide agreements originally envisaged for dairy products, meat, sugar, fats and oils, as well as cereals, only that for wheat was concluded covering about 90 to 95 per cent of the world trade in wheat and fixing prices favourable to the producing countries (15 to 25 cents price increase per bushel as compared to the former International Wheat Agreement). Yet, neither the question of how to stabilize the agricultural world markets nor the problem of co-ordinating agricultural policies of import and export countries on a world-wide level were discussed, let alone solved.[1]

Towards a workable competition on world markets of agricultural products

The problems of world trade in agricultural products can hardly be solved as long as they are attacked as problems of trade only. For their actual causes have much deeper roots: they are to be found in the differences of national agricultural policies! To secure a fair standard of living for the agricultural population which is comparable to industrial earnings most governments grant to agriculture subsidies different in amount from

[1] The lowering of a few tariff rates (e.g. for canned food) or for some import levies (e.g. for beef and frozen meat) need not be dealt with here.

country to country. The result is a distortion of competitive conditions on almost all international agricultural markets concomitant with a structural disequilibrium between supply and demand. Thus in the long run, there are two major tasks of international agricultural policy: the first is to make world market prices to function as signals directing agricultural production, and the second is to enable the developing countries to substitute their own production for the present grants-in-aid of food from industrialized countries or to commercialize them.

At the beginning of the G.A.T.T. negotiations (1963) the E.E.C., urged to defend its own market regulations as part of the common agricultural policy, suggested the following policy steps on an international level: to make evident the extent of agricultural protectionism, to freeze the amount of subsidies for each country and to lower it gradually in both import and export countries; to work on world-wide agreements for major agricultural products in favour of both the industrialized countries with agricultural export interests and of the developing countries wanting export revenues to finance a policy of economic growth; and finally, for the industrialized countries to finance an international agricultural policy (especially food aid).

As compared to these comprehensive postulates and this consistent concept of an international agricultural policy, the results of the recent G.A.T.T. negotiations (1967) seem very modest. For one side (E.E.C.), the protectionism established by the common agricultural policy remained practically untouched; for the other side (countries exporting cereals), a more favourable world-wide agreement could be concluded and for the access to the E.E.C.-market a substitute could be found by making the E.E.C. pay for part of the international food aid to developing countries. The national and international agricultural policies, however, remained as they were before so that the conflicts of international trade in agricultural products will continue to exist.

Thus, it remains to be a primary concern of economists to analyse the prerequisites and to formulate principles for a binding co-ordination of national agricultural policies on a world-wide-level and for the abolition of the agricultural protectionism in both importing and exporting countries. Only in this framework will it be possible to solve the conflicts of agricultural world trade between the different groups of countries involved.

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A. B. LEWIS, *U.S.A.*

Our theory as to the cause of the existing conditions is extremely important to our understanding of what we are to do about them. I should say at the present time it is quite conspicious that in many of the countries which sell manufactured products and import raw material, such countries as the United States, Australia, Japan, Britain, there is a policy of meeting the trade instability with certain monetary adjustments. This is the basic policy of those who govern the volume of the currency in reference to the requirements of trade. In the case of the United States it is the Bureau of Labour Statistics index which is watched as an indicator of stability. It contains about two thousand commodities, many of which are highly manufactured commodities and many of which would be expected to rise in price in any case because of the rising level of compensation of labour in an economy which is developing rapidly. A really normal situation with reference to that index would be for it to rise, but if the policy of currency governance which is administered by the Federal Reserve Board and other Agencies, is to maintain that index constant, then there is no other result to be expected than that the prices of farm products in such countries shall decline, as they have indeed done, and no other expectation than that prices of raw materials from other countries shall also decline in comparison with manufactured commodities.

Professor Anderson expressed the view that the situation which I have just described is universal; this is not true. In Taiwan, where I have been residing for two years past, and made a particular study of the price structure, you find that there is no price squeeze, because in this country there is no attempt—or at least no successful attempt—to maintain the general level of prices at a stable point; instead it rises about 7 per cent per year and agriculture is highly prosperous. It is a much healthier situation in Taiwan than it is in U.S.A., or in Japan, or in Australia, in this regard and we have to look at the very basic causes if we are really to understand what we are up against.

D. H. MCKAY, *Australia*

Over the last four years I have spent long periods in Geneva as a member of many Australian delegations attempting to negotiate an International Grains arrangement as part of the G.A.T.T./Kennedy round. That experience has not made me an optimist. You will understand, therefore, that my comments on the main papers will be from the point of view of a member of a negotiating team, not as an economic theoretician.

I do not find much in the opening papers to disagree with, my points of disagreement will come later. In fact it is always a matter of some surprise to me that when we gather as *economists* to discuss international trade and agricultural products we find very large areas of agreement; we become almost a mutual admiration society. But when we gather as *negotiators*, often the same people dealing with exactly the same subject, we find ourselves in the midst of a knock-down drag-out fight in which agreement with the other fellow can only be achieved by the sacrifice on your part or his part of some dearly held principle.

I agree, therefore, with the presentation of Professor Dams, who has drawn attention to the conflicts in agriculture and also to the conflicts in domestic policies and international policies and in his view of seeking co-ordination of national agricultural policies through trade.

But it seems to me that before this can come about one of the principal tasks of economists and agricultural economists interested in international trade will be to bring the economic theoretician, the politician, the trader, and the negotiator closer together in their understanding of the economic principles involved in international trade.

In the international negotiations in the Kennedy round, and more particularly those concerned with grains, meat, and dairy products, an attempt was made to bring domestic pricing and production policies in agriculture on to the negotiating table. It was, and still is, recognized that tariffs are virtually irrelevent for these commodities and a number of others. So that if the levels of protection afforded them by importing countries are to be negotiated at all, it will have to be done by negotiating about domestic policies, because it is these policies which determine quantitative access to markets. But after four years of negotiations, as Professor Dams has said, the attempt failed and it failed in my opinion for two reasons. The first, and most important, was that the governments who were party to the negotiations generally were not prepared to accept or to undertake measures in relations to their domestic agricultural policies which would have had meaningful results for international trade. This suggests that the economist had either failed to build a body of theory which would support governments in taking action to reduce protection in many areas of agriculture or if such a body of theory has been constructed then economists have failed utterly to have it accepted.

Yesterday in discussion we listened to the problems of interdisciplinary communication between agricultural economists and natural scientists, we listened to the discussion of problems of communication between agricultural economists and farmers, but there is a third and very important area of communication which we have yet to cover and that is communication upwards to the decision maker and to the policy man.

This reason for the unwillingness of the governments to put meaningful suggestions on the table was itself sufficient to account for the failure to have domestic policies included in the final agreement. But there was a second important, though secondary, factor—and here it is the negotiators and the administrators who are largely at fault—and this was the difficulty of translating any existing good-will to negotiate about domestic policies into a practicable and workable framework. Let me underline the fact that international agreements for which countries pay in terms of reciprocal trade rights, like domestic legislation, must be capable of being administered. If countries are to bargain reductions in the tariffs on manufactured goods against actions taken in the area of domestic agricultural policy, which is presumed to give them greater access to markets, then they must be able to form at least some idea of the value of such concessions. Codes of good behaviour and gentlemen's agreements are simply not enough, perhaps because there are not enough gentlemen around.

In this education and communication process the economist must be rigorous in his theory, rigorous in his concepts, and rigorous in his terminology. Let me take, quite uncritically, a phrase used by Professor Anderson in his paper as an example, and I am taking his phrase out of context so my remarks do not apply to him. He used the words 'prices which would be remunerative to producers'. Now this was a phrase which was very much used in international commodity negotiation in Geneva and perhaps we all think we know what it means but somebody in the negotiations asked a question 'well, what do you mean' some clever fellow immediately answers 'we mean prices remunerative to efficient producers'. But the question goes a long way further than this, what is efficiency and who are the efficient producers in any case? Efficient by what criterion? When we talk about producers and making prices remunerative to them, are we talking of producers in importing countries or exporting countries or both? Are we talking of prices which would be remunerative with or without the various subsidies on inputs and the other social costs that are involved? Are we talking of prices that are remunerative in a welfare sense? There are endless questions that are raised around this one, very small, point and the list I have given you is by no means exhaustive.

We can take a further point, I think from both papers, and that was the suggestion that there is a simple dichotomy of countries in the world between industrialized or developed, on the one hand, and less developed, on the other. I think we have in that view a basis for possible error in our analysis and in our prognostications.

Let me just pick up one further point, Professor Dams commented that the E.E.C. has offered greater access to its grains market to the extent that it will be a contributor to the world food aid agreement. This may be so, or it may not be so, for the simple reason that contributions may be made in cash or kind. If the E.E.C. makes its contribution in cash, when there is not necessarily any additional flow into the E.E.C. market. Of course, a million tons of grain will be disposed of in another way and will leave that much market available but not necessarily in the E.E.C. If they make their contribution in kind from grain from the E.E.C. perhaps then we will have the situation of greater access to the E.E.C. market. That is a small technicality.

And finally, let me make it clear that in all of my remarks about the negotiability of domestic agricultural policies I am not for one moment advocating free trade in agriculture. One must take the world as it is and recognize agricultural protection as a fact of life. One can only hope that such policies can be negotiated in the same way as tariffs are negotiated and the trade in these agricultural commodities will become freer, hopefully leading to a better allocation of resources both nationally and internationally.

I thank the first two speakers for their thoughtful and stimulating contributions on this subject.

J. KLATZMANN, *France*

Everybody speaks about price instability, but price instability is not in all conditions bad. The real problem is that of income instability. It is true that in many cases when demand elasticity is low, price instability also means income instability, but in other conditions of demand elasticity, income stability can only be achieved by way of price instability. The primary factor is the instability of crops and that price instability may in some cases reduce income instability.

Secondly, it has been remarked at this Conference that there is in fact no international aid from richer countries to poorer ones, because the aid is offset by low prices of the raw materials sold by the L.D.C.s. The less-developed countries are themselves to a certain extent responsible for the low prices they receive for their products because of the strong competition between them. If, for example, all cocoa producers in the world make an agreement between them they would be in a commanding position and would be able to obtain much higher incomes for their products for less work.

I. H. ERGAS, *F.A.O.*

Mr. McKay introduced a note of welcome reality into the discussion. Listening to the two main speakers one had the impression first, that trade and agriculture were ends in themselves, which they are not. Secondly, that there is some mystical agreement that free trade is necessarily a good thing. If it is, I cannot imagine why so many countries and so many statesmen are going the wrong way. There must be some doubt in the minds of a number of people about free trade and the fact of the matter is there is very considerable doubt about the extent of which free-trade theory applies because there is a fundamental difference in the matter between countries on their way to development and countries which are already developed. Even in countries which are already developed there is a realization that the world is not one world, much though we would want it to be and there is also a realization that economies of scale operate and if you are in situations of relative under utilization of factors then your pricing system does not reflect adequately factor scarcities.

In fact it was this very idea that introduced a lot of doubt in our minds when Dr. Kristensen advocated international trade by way of large-scale industrial exports from the developing countries.

One is really groping towards a double morality in international trade; the idea of this double morality would go something like this, that in developed countries there is a fair coincidence between factor scarcities and relative prices, in developing countries it does not operate so clearly. Therefore developed countries ought to open up more and developing countries might continue a system of industrial protection. We are making some headway towards this but I do not think that it will be here tomorrow.

On the question of regional groupings, the discussion seems to be concentrated on the regional groupings which are taking place in developed areas. In fact, there is a fairly strong movement towards regional grouping in developing areas, too, and that poses practical problems.

The fact is, take for instance the central African grouping, in East Africa there has been a dislocation of trade which was rather sharp and this has been mixed up with political factors. Efforts are being made there again to introduce some measure of integration. Now the difficulties that are occurring are the exact converse of the difficulties which occur in the developed countries. In the developed countries people do not object so much to industrial exchange as they do object to agricultural exchange. In the developing countries they are all for wealth, they accept agricultural exchange much more easily than the industrial exchange.

W. J. ANDERSON, *in reply*

The points that have been made are that certain realities are not consistent with the general theory of trade, and there seems to be a suggestion that fact and theory have come into conflict. The theory of International Trade stands on a very firm empirical basis, but what I was trying to say was that economics deals basically with resources, and that the combination of these resources and the level of technology ultimately determine what the real incomes actually are.

I am suggesting that, generally speaking, our countries have tended to underemphasize the resources and to emphasize the commodity approach to policies; I was glad that Mr. Lewis could point to an exception to this, but I still think that it applies very generally. I will draw an example from my own country, Canada. We are very heavily oriented in our agricultural policy towards the commodity, and very lightly oriented towards resource policies with the result that we try to maintain certain commodities. The outstanding example in Canada is the dairy industry which is in need of a major resource adjustment, but it simply does not come about because of the commodity emphasis. Thus the realities seem to conflict with the general theory of trade, because we, as economists, have not convinced the national policy makers to emphasize the resource rather than the commodity side of policy.

THEODOR J. DAMS, *in reply*

I would like to answer a question put by Professor Klatzmann. He is right to point to the close relationship between price instability and income in stability but I think we have to remember that in the highly developed countries—such as the E.E.C.—price policy is only one instrument of income policy. We are concerned today with what is going on in highly developed countries, pushing exports of industrial goods while protecting their own agriculture; we find a high-price policy diverting agriculture trade, in conflict with the requirements of a growing economy because there are more inputs in agriculture than are needed. There is disparity between agriculture and various other sectors, very high expenses incurred by the authorities and by the official budget, and/or high prices paid by the consumer. I think we have to have a reorientation of the agricultural policies in these countries.

I was very glad to hear Mr. McKay stressing that the economist must be rigorous in his theory, but I have been very modest because I have tried to demonstrate that they have still a lot of work to do in this field. There are a great many theoretical questions unanswered. I think that we must bring together economists of the various disciplines and those responsible for the policy decisions in international trade, before we will reach a solution satisfactory for the importing countries as well as the exporting countries—for the D.C.s and the L.D.C.s.