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THE IMPACT OF THE AGRICULTURAL POLICY OF THE UNITED STATES ON DEVELOPING COUNTRIES

von

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1 Historical Roots

In comparison to nearly all other sectors of American economic and social enterprise, agriculture has enjoyed specific attention from the Federal Government. President Lincoln, already during the Civil War, endeared the Federal Government (and the Republican Party) to the farming communities through the Landgrant Act of 1863. It brought some order in the land development patterns and led to the establishment of land grant colleges and the extension service through the county agent. The Government subsidized development in various ways, including research.

It took a long time before average yields per hectare rose spectacularly, but the government's activities, including irrigation and soilconservation prevented the destruction of large areas of farm land. Important were the successes with wheat, cotton, sorghum, soybean, citrus fruits. In general, policies were aimed at increased and improved production, sustaining exports to Western Europe.

The world depression of the thirties coincided with severe droughts in the Mid-West but temporarily slowed down the flight from the land. The Roosevelt administration changed the promotional activities into protective (parity prices) and regulatory (avoidance of market gluts) services. The stated objective was to save the American family farm as a social system.

During World War II the war industries attracted many rural laborers and this promoted mechanization. Roosevelt, followed by Truman, launched the idea that the USA was called by history to

"feed the hungry world". This was especially directed towards victims of the war in Europe, North Africa, and China. Suddenly, the promotional foundations of the policies were lifted towards international social policy.

It should be noted that the "developing countries" were not yet discovered as an object of policy, with the exception of the treatment of vegetable fats and oils, where the tropical countries were a serious competitor. In such cases, the farmer became protected by import duties. The case of cane sugar is very interesting, because it promised protection (guaranteed quotas for domestic and foreign producers at guaranteed prices). Although perhaps initially geared to the joint-enterprise in sugar on Cuba, its consequences for the world sugar markets were wide-spread.

2 Internal Dynamics Since World War II

The war effort greatly accelerated the flow of - white and black - rural people to the industrial centers. This promoted the already existing trends towards mechanization in agriculture and concentration of farm units into larger entities. There was little in the domestic agricultural policy to channel or cushion these trends (like higher support price for the small farmer, or regional differences in support price).

With rapid increase in consumers income, Engel's law made itself felt.

Consumption of carbohydrates per capita hardly rose, a trend underlined by dietary advise. Protective foods - meat, milk, fruit, vegetables - came into the limelight and these were suddenly geared towards wide national markets, rather than local foodmarkets. This brought about regional specialization and intensified the conflict between the family farm and the agricultural enterprise. Carbohydrates (wheat, corn, oilseeds) and fibers (cotton) plagued by low income elasticity of national demand, remained the suppliers of the international markets.

3 External Dynamics After World War II

The war had interrupted (Argentine) or destroyed (South East Asia) some traditional competitive producers. As mentioned, the war-devastated countries needed North American food, fodder and fibers, often on non-commercial terms (UNRRA, Marshall Plan). This made international trade in food a governmental affair. If this was temporary, events in the developing world changed the scene more permanently:

- (a) A combination of more rapid population increase and rising per capita income means a very high propensity to increase demand for food - easily 3 - 4 % per annum in many instances.
- (b) Even with commendable efforts to increase food production, developing continents could not keep up with demand.
- (c) National and international agencies "discovered" a high degree of malnutrition and hunger; catastrophes could no longer go unnoticed by the world at large.

Since 1955, the developing nations as a whole have to import increasing volumes of grain, milk and other products, which also can be produced or even better produced in the highly developed industrialized countries.

4 Impact on USA Policy

The first hard hitting factor was widespread famine in India in 1953 - 54. Food help resulted out of three forces - firstly humanitarian impulses (feed the hungry) - secondly, commercial (India needs exactly what we do not need so much at home, and Europe is back on its feet) - thirdly, political (food is an agent in the Cold War, certainly in Madras and Calcutta in 1953/54).

This was sacralized in the famous Eisenhower doctrine - "food for peace". This also stimulated multilateral efforts (World Food Program) and at a later stage the E.E.C. contributions to food programs. The triple motivation gave an excellent opportunity for domestic forces of various kinds to press for more or less, or influence the choice of commodities, or the directions of the flow. An important humanitarian contribution is based on the policy to give and transport at low cost or for free, food to be distributed through voluntary agencies (CARE, Church World Service, Catholic Relief). This relieved the Government of enormous administrative and political liabilities.

At the same time, "food for peace" for large groups in the farm belt had "surplus disposal" as its major aim and operational directive. The pressure in that direction would be directly proportionate to the existence of burdensome surpluses. And, of course, the program tended to serve "friendly" governments rather than "unfriendly" ones. In a sense, these motivations reinforced rather than contradicted each other. They gave leeway to changing governmental policies.

Quantitatively, over time this led to a gradual decrease of amounts (or value) of exports under these programs, as indicated in the following table 1. As a percentage of total agricultural exports it dropped from 26 % to 13 %. It is interesting to note that sales in foreign currency dropped drastically, concessional dollar credit sales increased greatly and donations remained stable.

Table 1: UNITED STATES: AGRICULTURAL EXPORTS, CONCESSIONAL AND COMMERCIAL

	1961-65 average	1967	1968	1969	1970	1971
	<u>Million U.S. Dollars</u>					
Concessional Exports						
Public Law 480						
Foreign currency sales	1,035	736	540	337	276	171
Dollar credit sales	69	194	384	428	490	509
Donations	253	287	251	256	255	291
Barter	83	13	3	--	--	--
TOTAL EXPORTS UNDER PL 480	1,440	1,230	1,178	1,051	1,033	1,057
Mutual Security/Aid	55	33	11	--	--	--
TOTAL CONCESSIONAL	1,495	1,263	1,189	1,051	1,033	1,057
Commercial Exports	4,148	5,117	5,039	4,885	6,226	6,638
TOTAL AGRICULTURAL EXPORTS	5,644	6,380	6,228	5,936	7,259	7,695
	<u>Percent</u>					
Concessional as per- centage of total	26	20	19	18	14	13
SOURCE: FAO.						

Qualitatively, the mixture of motivation is a mixed blessing. If it led to dependence upon USA food help, there might either be complacency about domestic production or a feeling of frustration and resentment about such dependency - to wit the attitude of the Government of India over the last five years. These ambivalent attitudes may change abruptly, causing misunderstanding again in the American press or among the humanitarian-minded public. Most likely, the commercial interests and the politicians are least ruffled by changing sentiments abroad.

5 Consequences of Food Assistance

Domestically, they are a corollary to national policy as well as foreign trade policy. These are remarkably interwoven in the hierarchy of the Department of Agriculture and domestic group interests. For some products, notably the carbohydrates and cotton, subsidized exports are an important stabilizer of stocks and prices. They help the Government, the Commodity Credit Corporation and private industry to finance and regulate agricultural production and marketing. For other products (meat, poultry) these policies seem to have little political impact ¹⁾, perhaps because stability in fodder prices is everybody's interest.

Abroad, the USA Government shows a "fatherly" interest that irregularities in food distribution do not disrupt the benign "climate" at home. It has shown little interest in good, indifferent, or bad effects on agricultural production and marketing in the receiving countries of various alternatives in treating concessional food imports. This aspect will be treated in more detail below.

Internationally, subsidized exports are technically "dumping" and from the beginning Australia and other commercial exporters have insisted on "consultations", as required under GATT. Generally they are organized in Washington under the auspices of the Food and Agriculture Organization. Already in 1953/54, Dr. Mordechai Ezekiel and I tried to "rationalize" the subsidized food exports as developmental aid. Obviously, the transaction and the use of the food would have to meet specific criteria. Essentially, they should not interfere with "normal trade-channels", of donor, recipient and third countries. More recently, the term "food for work" has become the connotation for developmental surplusdisposal deals. Aside from these, emergency-relief grants or transactions also have generally been recognized as being legitimate and "not harmful to normal international trade channels".

6 The Nixon Administration's Agricultural Policies

No administration has been able to extricate itself from the heavy financial burdens of agricultural policies claimed to be as high as \$ 4 billion annually. This is the logical result of a special set of circumstances:

- (a) as years went by, new weapons were added to the arsenal of governmental agencies to pursue the widely diversified domestic and international goals,
- (b) farmers, or groups of farmers (dairy farmers for instance) maintain well-organized lobbies in Washington,
- (c) many members of the House of Representatives depend for re-election on rural votes - the "green front" is bipartisan,
- (d) as a result, many measures, introduced as "emergency" and "temporary" became long-lived.

1) The rapidly rising prices of meat and related products in early 1973 suddenly made them politically a liability of the administration.

But gradually, other political issues have become more important. The Nixon administration wished to leave more to private initiative (read powerful agricultural big business and cooperatives), with the "social pieces of poverty" being picked up by the States and local government. In this line of thinking, the maintenance of sub-efficient farming for social or even political reasons became less compelling. This had already been expressed by the Secretary of Agriculture, Ezra Benson. As from the mid-fifties, the administration started to become critical of its own activities, although private interests tended to keep them in force.

At one point, of course, private big agricultural and processing business and the administration see eye to eye - the sale of American products at commercial rates in convertible currency. It found these markets in Europe, in Japan, in Soviet Russia, but also - more or less as a surprise - in developing countries.

And indeed, these exports have risen rapidly, in many directions and for many products, over the last 10 or 15 years. It is in this direction, that the Nixon administration wants to score with the farming community. The occasional or persistent diatribes against the Common Market for protective measures are easily explained on the domestic scene.

The developing countries have, so far, not suffered too much from the debate. In many cases, a mixture of "hard" and "soft" selling made the deal palatable or desirable for a developing country. Thus, the "food for peace and for work" program could be defended as export promotional beyond its immediate scope.

Of course, this has made USA agriculture trade policy an important factor in domestic agricultural policy. It also has made trade in agricultural products highly vulnerable to political influences (including regional interests), and governmental managerial manoeuvres. For instance, a notable drop in wheat prices in February 1973 could to a large extent be attributed to unannounced but very effective sales from government held stocks or refusal to refinance stocks in private hands.

Therefore, the policy of leaving decisions on production more in private hands (without production quota) does not mean less interest in agricultural policies. Primarily, the means and methods have changed.

7 Consequences of the Bad Harvests, 1972

A large sale to the USSR, suffering from a major crop failure in 1972, seemed to offer many advantages. It would defuse the military threat, especially in the Middle East and Vietnam, it would pave the way for an ongoing barter of food for fuel. It also would relieve the Government of "surplus-stock" of wheat and endear the Government to private industry in agriculture and a long range of industries, related to agriculture.

When the deal was made, few people foresaw the worldwide implications of the crop failures, coinciding in a large number of countries.

In Asia, contrary to expectations of the "green revolution" a serious rice shortage developed in the second half of 1972. As rice and wheat prices are closely correlated in countries where food-handling and processing are simple, all prices rose by 50 - 70 % or more.

8 Prospects for USA Agricultural Policy

The Administration is torn by two conflicting trends. It wants to keep the cost of living down, but has excluded "primary products" from price controls throughout Phases I, II and III. Therefore it makes every effort to picture a near future with prices decreasing, even during 1973.

On the other hand, it considers the high prices a vindication of its policy to reduce subsidies to agriculture and quotes with pleasure the 1971 - 73 increase in sales for domestic consumption and export.

Obviously, two different objectives clash. If - as may be expected - it takes a few years to create a substantial surplus on world markets, commercial demand will remain high, at least in dollars, even from the side of developing nations. At the same time, the American public expects - and the government cannot deny - a plentiful supply of agricultural products at low prices. Even with the hassle about meat prices in 1973, these are relatively low at least in comparison to Europe and other importing countries.

9 Impact on the Developing Countries

The value of concessional exports of the USA's agricultural products amounted to roughly \$ 1.5 billion annually in 1961 - 65 and \$ 1.0 billion in later years. The importance of the "concession" in the form of grants and sales for "frozen accounts" of local, inconvertible currency would vary from year to year and country by country. These transactions undoubtedly have cushioned the impact of natural catastrophes (drought, floods, earthquakes) to a considerable extent. Also, distributing food to "vulnerable groups" through UNICEF and many non-government agencies has alleviated human suffering and has contributed to the general well-being.

The internationally accepted theory, supporting these actions has always been that the food would not interfere with "normal market channels", both nationally and internationally. Only the latter one, however, was covered by the implicit or explicit arrangements with competing exporters, mainly Australia, Canada and New Zealand.

However, considerable arguments have arisen about the indirect obstacles to trade between "developing countries" and to domestic trade in the receiving country. There are some focal points on the first issue, centered around rice in South and South East Asia and wheat in South America. Would Burma and Thailand have had a better market in India or Indonesia, if there had been less concessional sales to the importing countries? Would Taiwan have converted to wheat (bread consumption), whilst exporting rice - earlier and even more decisively, if the concessional sales to Asian countries had not kept rice prices down in crucial years? Similarly, would Argentina have sold more wheat to its customers, or would it have produced more, if market prices had not been influenced by concessional sales or export subsidies? Most likely, the answer is affirmative. But USA agricultural policy as we saw - has important domestic roots and the competition in the world market would most likely have been less controlled (if there had been no government interference) 1). Perhaps the policy of financing stocks was the most influential single tool of controlling world markets.

The impact on internal trade in food and on governmental policies by a developing country has largely centered on India and some other Asian countries. Concessional sales brought in the ports of entry inexpensive food. This greatly widened the options for a domestic agricultural policy. Would the domestic sale be left to domestic competing commercial interests (Indonesia) or would the imported food be distributed to preferred customers (governmental officials, army, etc. - again Indonesia), or would the additional supply be used to bring food prices down in the large metropolitan coastal cities (India). In general, the "donors" were not overly concerned.

The consequences, of course, depend upon circumstances. In the mid-fifties, the government of

1) This applies a fortiori to the concessional sales by the Common Market Countries to developing countries, or by concessional Japanese rice exports.

India was not convinced that the average Indian peasant would react to higher prices by increased production. Rather, there was a belief in a fixed-target-monetary income and a backward sloping supply curve 1). In pre-war Indonesia we had met with a positive response of rice growers to price support or stabilization, provided there were goods or services available to be sold to the peasant after the harvest. This "normal" economic reaction of small farmers is at present generally accepted by agricultural economists and governments.

During some periods, the large imports of food-grains into Indian ports have resulted in low or even negative price differentials between the big coastal cities and supply-areas in the interior and must have had a deterring effect on domestic supply. I would also venture to hypothesize that farmers and merchants have a long memory of what they call "vascillating governmental policies", "broken promises" (or thwarted expectations of a big profit). When restrictions are lifted - like in the case of lowering export levies on rice in Thailand - it takes time to regain confidence in the operation of a "free market".

Thus sales at concessional prices to countries in need of food imports may have had an ambivalent effect - it relieved suffering, brought prices down from an emergency level, but might have stalled the much needed national effort to produce more food for domestic use or regional exports.

One of the more distressing happenings has been the "drying up" of burdensome milk-surpluses in North America and Western Europe. Milk distribution schemes of various agencies and governments heavily depended on inexpensive sources of supply of dried milk powder.

I must admit that generalizations are dangerous and case studies may lead to conflicting testimony. However, it seems that the lessons are clear - the handling of such emergencies requires unusual skill on the side of importing countries. It also requires a concerted, coordinated medium term international policy, rather than a series of emergency actions.

One of the elements in such a policy would have been part of a variety of FAO proposals to institute a worldwide or a set of interrelated regional food supply programs. The lack of such consultative arrangements and the vague lines of distinctions between "relief" and "economic assistance for development" may have been one of the root causes of the serious disagreements between the governments of India and the USA in the last two years. What one party considered a well meant effort to assist, was considered by the other an intrusion into a coherent promising national policy.

10 General Comments

What would be needed to avoid disturbing effects or side effects, is a world-agricultural policy in which the USA (with Canada and Australia) would play a dominant role as the major supplier of carbohydrates on the world market. This policy would have to be integrated with meat, dairy products, of which there is a long-term world shortage.

It would have to be integrated or at least related to the agricultural policies of the European Nine. It would have to include plans for structural changes in America's agriculture, by regionalizing the integrated measures.

It would have to synchronize its exports policies to the developing world (flexible mixtures between commercial and concessional) to liberal importation policies from the developing continents, in close consultation with parallel policies in the European Economic Community.

1) Private communication, by the former Minister of Agriculture, the Rt. Hon. P. Munshi, to the author.

This may seem to be a Fata Morgana, but there must soon be a serious comparison, even if this were a temporary confrontation, between American and European approaches.

Much is at stake, not only in the North Atlantic zone but also in the developing nations.

Finally, but this still may be further off, it would be highly desirable to survey periodically the world export and in participation for basic products like food grains, rice, fodder grains, as a whole and draft supply demand projections, linked to productivity, import needs and export availabilities. Internationally held stocks, long a dream of agricultural planners, might be indispensable 1).

Developmental change, if it is to become persistent and positive, must combine dynamism, flexibility and stability. Farmers everywhere respond more rationally if they can trust Governments to have a persistent longterm policy.

11 Post-Scriptum

Since this discussion paper was written in the Spring of 1973, much has happened.

A threatening shortage of a variety of basic food became apparent. The warnings by the Food and Agriculture Organization at first might not have been taken seriously, but more recently the interrelationship of diverse food and fodder supplies, on a global scale has proven to be very close.

For instance, the decline in Peruvian-Ecuadorian fisheries and fish meal production aggravated the soybean situation. And high prices for soybean meal caused farmers to use more cereals, and even wheat as cattlefodder.

Exporting countries, one by one, put restrictions on the export of vital commodities, aggravating the situation. When the United States in June started with soybean and soybean cakes, it had on very short notice to expand the list to 44 items. Such is the substitutibility of products.

Europe and Japan were hardest hit by the shortage of protein for fodder. For the developing countries protein, both vegetable and animal, is too scarce and expensive to be imported except as food for vulnerable groups. Concessional deals were abruptly curtailed. It was reported that India had to sacrifice half of its hard currency reserves in order to import wheat and other food-stuffs.

At the moment of writing, wheat prices are over \$ 4.50 per bushel, tripled in about a year. And corn (maize) doing over \$ 3.00, with soybeans at \$ 10.00 per bushel likewise were three to four times as expensive as early 1972. There is little or no indication of planning on a national or international scale to allocate world-wide scarce resources on a rational basis, or stabilize prices, or finance the necessary imports into low-income countries with international funding.

In Asia, where Governments often were caught by disappointing crop results, an effort to improve agricultural production statistics (especially yields) has been strongly advocated. This need would apply almost world wide, even in so-called developed countries. In order to implement a world-food distribution network, FAO would need an immediate warning system, similar to WHO system on contagious diseases. Sometimes, Governments know that serious trouble is coming, but international suspicion and national pride make them reluctant to release the facts. "There is no

1) This idea coincides with the recent report of dr A.H.Boerma, director general of FAO, to ECOSOC although the present FAO proposals stress the national responsibility to hold minimum stocks.

(famine) (hunger) (food shortage) (etc.) in this country" - it is below our dignity.

It is my suspicion that since mid 1972 the various production estimates of the USDA have been "on the optimistic side". This may have been an effort to dampen price increases, but also it would fit nicely in overall national and international policies for the USA. Of course, when the shortages appear on the surface, reactions by traders, processors and consumers are very pronounced. Unfortunately, such deceptive forecasts are not conducive to a rational even medium term production policy.

The August, 1973 "farm bill" goes a long way in acknowledging that the period of burdensome surpluses and low prices is over, at least in medium term perspective.

The new "floor prices" on wheat, soybean and cotton mark the end of that period.

Hopefully, this also may mean that farmers in many parts of the world have a chance to improve their income relative to that of wage earners. The fact that there is little hope that international cooperation will mobilize the required tonnage of food products to bring nutritional standards in the developing countries to a more acceptable level, means that "as a group", the LDCs must produce their own food, including the proteins. This is an enormous challenge. It means doubling the recent rate of growth over a 10 - 20 year period. In the meantime, the DCs could intensify their efforts to act together for emergency cases (like the drought in Sahelian Africa) and for supplementary food for vulnerable groups. This also is a great challenge. It means, most likely, doubling the present effort of food aid. Obviously, a prerequisite for such an achievement is the closest cooperation among the DCs and a major shift in national (or community) food export policies.

Last but not least, to make the combined tasks bearable for mankind as a whole, there must be an adjustment downward of the rate of population increase in the LDCs from the present average of 2.5 % per annum to 1.0 - 1.5 % - the sustainable rate of increase is directly correlated to the rate of increase in food production.

It is no small set of requirements, and it involves a change from short term tactical national or "Community" moves to long term strategic global approaches.