THE ECONOMICS OF SURPLUS DISPOSALS*

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The major piece of legislation in the field of surplus disposal is the U.S. Agricultural Trade Development and Assistance Act of 1954 (P.L. 480—83rd Congress) as amended. As the Act stands today it comprises four parts :—

Title I authorises the President to enter into agreements with friendly nations, providing for the sale at competitive prices of surplus agricultural commodities for foreign currencies.

Title II authorises him to make urgent relief donations to foreign countries.

Title III covers two programmes. Section 302 expands the authority in Section 416 of the Agriculture Act of 1949, enabling the C.C.C. to donate commodities to various public and private welfare agencies for the assistance of needy persons in the U.S. and abroad. Section 303 establishes a policy of encouraging the barter of surplus commodities for strategic materials or for goods required in the foreign assistance programme or for construction in overseas countries.

Title IV, added more recently (Sept., 1959), provides for sales of surplus agricultural commodities on a long term dollar credit basis.

Disposals of U.S. agricultural surpluses are made also under other legal authority :

(a) Commodity Credit Corporation's charter powers.

(b) Section 32 of the Agricultural Adjustment Act of 1954.

(c) Mutual Security Act of 1954 as amended.

This paper confines attention to the economics of Title I type surplus disposals. Title II and Title III Section 302 are essentially welfare programmes which, despite some leakages, do not conflict with normal commercial trade. Title III Section 303 (barter) and M.S.A. Section 402 transactions have much in common with Title I ; part of the analysis would apply directly to these programmes also. Title IV operations are still in the pilot stage.

If we are to judge whether the benefits from surplus disposals outweigh the disadvantages, it will be necessary to find criteria against which the benefits and defects can be measured. It will emerge that any single economic criterion is inadequate for this purpose.

For each possible criterion, the effects of the surplus disposals programmes must be considered in respect of 4 groups of countries :

(a) countries with surpluses (donors).

(b) exporters of competitive products.

(c) the recipient countries (most of which are under-developed).

(d) commercial importers.

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It is also necessary to consider the programmes themselves from two points of view—one in its function as a vehicle for aid ; the other its commodity aspects.[1]

The criteria fall into two groups :—

Economic :

A. Allocative efficiency.
B. Marginal utility.
C. Income distribution.
D. Internal stability.
E. Rate of development.
F. Other.

Non-economic :

A. Humanitarian (nutritional) considerations.
B. Political (domestic policy) considerations.
C. Strategic (foreign policy) considerations.

Economic Criteria

A. Allocative Efficiency

The first criterion considered is the efficiency of resource use. The question is whether surplus disposal programmes improve, or make feasible improvement in the pattern of resource use within and between nations. In technical terms, will the transfer of a resource in a particular form (consumer good) assist in bringing about a state of affairs where for each nation the marginal cost of resource use tends to equate to the marginal value produced ?[2] It will be observed that a set of values for factors and for products is implicit in this question, i.e. the values actually ruling at the time.

In the case of the United States, production of the excess agricultural commodities is irrational. The dollar return to the nation from their disposal is zero and hence the marginal return is zero also. Some qualification is necessary. In the short-run there may be some immediate indirect receipts from the increased capacity of the assisted countries to buy from the U.S. but such returns would not be great. There are of course, political, strategic and other non-economic returns not easily measurable for marginal calculations. In the long-run there is also the hope that expansion of population and economic activity will occur in the underdeveloped nations to the point where present or potential production of U.S. agricultural commodities can be sold on commercial terms. But as will be suggested there are quicker ways to achieve this than through P.L. 480.

It continues to be sensible for the individual U.S. farmer to expand production so long as support prices are only remotely related to world prices, since he himself does not have to accept a zero dollar return for

1. See A. C. B. Maiden, " Some Aspects of Commodity Policy ", *Australian Journal of Agricultural Economics*, Vol. 4, No. 1 (July, 1960).

2. In this connection, Heady's remark may be noted :

" Analysis of agricultural efficiency from the aggregate or national standpoint centres on labour and capital . . . Land simply provides a physical base over which other resources can be deployed."

E. O. Heady, *Economics of Agricultural Production and Resource Use* (New York, Prentice-Hall, 1952) p. 708. The same reference gives the 8 technical conditions defining the most efficient allocation of resources.

part of his product or wait indefinitely in the faint expectation that some recipient countries might ultimately repay in dollars rather than local currency. For the nation as a whole, unless it is thought that the resources now being utilised in agriculture could not find profitable employment elsewhere, it would be better from the point of view of allocative efficiency to transfer them into the production of goods having value on the domestic or export market.

For the recipient, surplus disposals may have a dual effect as far as resource allocation is concerned. On the one hand the addition to total resources may be employed by the Government to enable it to alter the pattern of resource use in directions thought desirable. On the other hand there is a danger that unless the additional supplies are restricted to quantities that can be absorbed by growth in demand, distortion of the resource pattern may ensue in a manner harmful to the farm sector.

What of the allocative efficiency of other suppliers ? If the surplus disposals interfere with commercial marketings (and since both donor and recipient have an incentive to enlarge surplus disposals, the surpluses will generally tend to interfere to an increasing extent as time goes on), then the need for adjustments are *forced* upon the other suppliers. Attempts by the other suppliers at protection to counter the damage means only that the necessity for adjustment is transferred to some other sector or to the economy as a whole, depending on what technique of protection is adopted and how it is financed.

Commercial importing nations benefit whenever the existence of surpluses and surplus disposal operations (even though these countries do not participate in them) means cheaper commercial supplies than would otherwise be the case. The terms of trade move in their favour. But farmers who produce like products in these net importing countries are affected in the same manner as farmers in other supplying countries (unless the Government accords some form of protection). In industrialized countries the adjustment should logically take place in such a way as to shift resources from agriculture into those export industries supplying goods to recipient underdeveloped countries. Such a shift would maintain allocative efficiency. There is, however, nothing to say that the change would necessarily improve the efficiency of resource use—and no adjustment is costless.

B. Marginal Utility

It is obvious that the increment of utility from the receipt of surplus disposals is greater than the loss of utility suffered by the donor. For the donor it may even be held that there is an improvement in the level of utility by virtue of the disposal of the surplus, since the surplus commodities are a disutility because of the storage costs involved (over $1 million per day) and because the very existence of the stocks causes embarrassment to Government and farm organisations.

Maximum utility for the recipient can be attained by shifting production out of lines for which surpluses are available and concentrating on producing other goods. But this increases the dependence of the recipient country on the goodwill of the donor for continued provision of surpluses, helps create conditions that perpetuate the need for surplus disposal operations, and so provides added excuse for the deliberate production of surpluses by the donor country. This dependence may prove deleterious to the underdeveloped country in two ways :

(a) from the consumption side, there is the fear of disruption to nutritional levels and possibly unrest if for any reason the surpluses cease to be available. The problem faced by U.N.I.C.E.F., the voluntary agencies, school lunch programmes, etc., in 1958 when supplies of surplus milk powders became scarce illustrates the dangers of undue dependence. This defect is being overcome to some extent by the negotiation of multi-year agreements.

(b) from the investment side, there is the reluctance to begin a long-term developmental project on the basis of commodity aid, when that aid may be unexpectedly cut off.

The question thus arises whether provision of surplus foodstuffs, more particularly food-grains, is the best method of increasing utility. In theory, a rise in utility will be facilitated if the consumer is provided with a greater range of choice. However, since at low levels of diet, more satisfaction is gained from an increase in the quantity of food than from an improvement in its quality or balance, the provision of readily available wheat will in many underdeveloped countries enable a gain in utility in the short-term. But this gain should be accompanied by a recognition that the problem of *balance* in the diet may have been aggravated and that as incomes rise there is likely to be a need to shift to provision of a greater mixture of surplus commodities with less emphasis on foodgrains alone.

As far as other suppliers and commercial importers are concerned, if the returns from wheat sold on world markets are depressed by the existence of surpluses, then the utility effects are the usual admixture of substitution and income effects that result from any change in the price of a consumer good. The level of utility will not change although the combination of products providing that utility will alter. If there is any loss of utility in supplying countries it will be more than offset by a gain in utility on the part of the commercial importers.

In total then, surplus disposals add to consumers' utility.

C. Income Distribution

Surplus disposals and the policies that bring about the need for surplus disposals undoubtedly serve to improve income distribution. In the less developed countries, the real income of consumers is improved by the greater availability of foodstuffs and/or by the stabilising effect on food prices that this makes possible. The poorer sectors of the community in particular benefit. In addition Title III enables assistance to be given to vulnerable groups, such as school children.

The surplus disposal operations themselves do not improve the pattern of income distribution in the donor country. However the support given to agriculture, which in the case of the U.S. is given predominantly through the price mechanism, represents an income transfer from the rest of the economy to the farm sector.[3] Even with the price support assistance, the distribution of incomes in the farm sector is more heavily weighted towards lower income ranges than in the non-farm sector.

3. If price supports and acreage controls were abolished, payments of about \$5b. would be required to restore aggregate net income to its 1959 level (\$11b.). See Geo. E. Brandow, " Direct Payments Without Production Controls ", in *Economic Policies for Agriculture in the* 1960'*s : Implications of Four Selected Alternatives*, Materials prepared for the Joint Economic Committee, Congress of the United States, U.S. Government Printer, Washington, 1960.

Nevertheless this policy of assistance lessens the pressure on farm operators to transfer to other lines of activity and so retards adjustments that economic theory would suggest as desirable.

For other exporting countries, the incomes of farmers producing like or substitute commodities would be adversely affected initially (i.e. with the emergence or intensification of surplus disposals) but as farmers adjust e.g. by shifting to alternative forms of land use, if available, and as the effects of lower farm incomes are transmitted through the economy, the pattern of income distribution is not likely to be altered to any marked extent. The greater the proportion of rural production in the gross national product and the greater the proportion of rural production coming from commodities similar to those in surplus, then the more likely it is that the *shape* of the income distribution curve will remain unchanged although the position of the curve as a whole may shift.

Income distribution is unaffected in commercial importing countries.

D. *Internal Stability*

It is about the effects of the surplus disposal technique on the internal stability of the recipient that a considerable amount of controversy has centred. The device of the counterpart fund creates the illusion that a double benefit can be obtained through the provision of surplus commodities—first an immediate benefit by adding to market supplies of consumer goods and then again when the counterpart funds are spent for developmental purposes.

Inflationary and Deflationary Effects : Consider an underdeveloped country (prior to receiving surpluses) having a development plan with a total expenditure (public and private) of 100 million monetary units,[4] and utilising fully its external resources.

The Government concerned proposes to finance the plan *internally* through taxation, loans and private capital formation of say 75 million units and by central bank credit (i.e. deficit financing) of 25 million units. Such a situation is typical of many of the developing economies. The effort to increase capital formation in an economy at subsistence or near-subsistence level leads usually to inflationary pressures on the prices of available supplies. Even though the foreign exchange cost of economic development can be greatly reduced by loans and grants (whether in the form of money or surplus commodities, from more developed countries or through international sources) the domestic costs of development generate strong inflationary pressures.

Suppose now through surplus disposal, commodities worth 3 million units are obtained *that would not otherwise have been imported.* Sale of these commodities by the Government absorbs part of the excess purchasing power and so tends to offset some of the inflationary pressure within the economy. The receipts from the sale are placed in the counterpart fund and are then available back to the recipient Government according to the terms of the surplus disposal agreement. For simplicity let it be postulated that the counterpart funds are entirely available for economic development purposes.

Obviously, expenditure from the counterpart fund nullifies the counter-inflationary effect of the original sale, unless the Government reduces the central bank credit used to finance the development programme by

4. I am indebted to Sir John Crawford for the form of presentation used in this Section.

a similar amount. If the recipient Government does reduce the extent of its deficit finance then the overall plan will be met by :

Taxation, etc.	75 m. units
Central Bank	22 ,, ,,
Counterpart funds	3 ,, ,,
	100 ,, ,,

In such a situation there would be a *lesser* degree of inflation than before the surpluses were offered.

Alternatively, the Government may be willing to allow a measure of inflation to the same extent as previously existed, if it could obtain some economic or political advantage in another direction. For instance, there may be good reasons why the Government would wish to reduce taxation ; by doing so by the same amount as the expenditure from the counterpart fund, the Plan can be financed :

Taxation, etc.	72 m. units
Central Bank	25 ,, ,,
Counterpart funds	3 ,, ,,
	100 ,, ,,

Any attempt to *expand* the Plan by the amount of the counterpart funds will bring about additional inflation. For let the surpluses be made available and consumed in period 1, then in period 2 when the counterpart funds come to be spent, the enlarged Plan becomes :

Taxation, etc.	75 m. units
Central Bank	25 ,, ,,
Counterpart funds	3 ,, ,,
	103 ,, ,,

But there are no additional goods available to match the 3 million expenditure from the counterpart fund, so that inflation will be to that extent greater than before the surpluses were offered.[5]

In practice, of course, there is usually a *flow* of surpluses so that the inflationary effect of expenditures from the counterpart fund is masked by the counter-inflationary effects of further sales of surpluses with its accompanying deposit of local currency into the funds.

Account must also be taken of the effects that the programme of development projects will have on the productive ability of the economy. After a period of gestation there will be increased output which will also contribute to the supply of goods for final consumption (with beneficial counter-inflationary effects) and/or raise the ability of the economy to save for further investment purposes. The shorter the gestation period and the higher the output-investment ratio,[6] the greater will be the offset to the inflationary pressures.

5. Expenditure by the donor of funds retained for its own use, for purposes not already allowed for in the recipient's Plan, is in effect a compulsory enlargement of the Plan.

6. Following the usage adopted by Ezekiel in his Indian pilot study for F.A.O., the more familiar capital-output ratio has been inverted. See F.A.O., " Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries ", *Commodity Policy Study No.* 6 (Rome, 1955), Appendix 3.

Using Counterpart Funds : Local currencies have been accumulating in counterpart funds throughout the world to an extent embarrassing to Congress. The extent of this accumulation is not generally realised. At 31st March, 1960, the United States was the willing or unwilling possessor of over $2 billion worth of local currency, with another $1.3 billion to come.[7]

The accumulation of counterpart funds is embarrassing to the recipient also. A leading Indian economist recently stated :

> " So long as the use of these counterpart funds is fitted into the overall programmes for economic development of these countries in a general way, there may not be much difficulty. But if the impression gets round that these funds may be available for projects outside such overall programmes, serious difficulties are likely to follow. It will not be easy to convince the interested parties that these funds do not represent any additional real resources. Pressure will develop both in the recipient and donor countries for spending these counterpart funds on various types of new projects and, to the extent that these pressures may prove successful, there will be a diversion of material resources from the projects included in the balanced programmes of economic development already prepared by the countries concerned. On the monetary side that would lead to inflation. On the material side it would lead to maldistribution of scarce resources. On the operational side it would lead to serious political and economic difficulties to the extent that the decisions about spending the counterpart funds at the first stage when they are lent to the recipient governments and, especially, at the second stage after they have been repaid by these governments, differ from the investment programmes and policies of the authorities of these countries themselves. The latter, in particular, is likely to become a serious source of friction in future, unless some satisfactory solution is found right now."[8]

What should be done by the donor country with these holdings of local currencies that have accumulated in counterpart funds around the globe ? One sensible thing to do would be to burn them !

The same effect would be achieved in a way that does not offend one's sense of propriety, by granting the counterpart funds back to the central bank of the recipient country. This will enable the central bank to carry out its function of controlling the volume of money with greater exactitude. It would certainly enable the central bank to do so without the time lags and distortion involved in the present procedure. If it will help make the grant more politically acceptable to the Government of the donor country, the recipient Government could (and possibly should) be required to give an assurance that the grant will be used in such a manner as will tend to promote internal monetary stability and/or facilitate the development programme.

Programme versus Project Approach (and the " Placard fallacy ") : At present, the emphasis is predominantly upon loans and grants for specific economic development *projects*. Somewhat naturally the leaders of the country supplying the surplus commodities prefer to be able to demonstrate that their actions are contributing " directly " rather than " indirectly " to help develop useful projects. The desire to be able to point to this or that project as being built with the aid of surplus disposal funds may be termed the " Placard " fallacy. A recipient country with a

7. *Data from Twelfth Semi-Annual Report on Activities Carried on Under Public Law* 480, U.S. Congress, August, 1960 (U.S. Government Printing Office, Washington), Table V.

8. S. R. Sen, " Impact and Implications of Foreign Surplus Disposal on Underdeveloped Economies—The Indian Perspective ". Paper delivered at the *Conference of the American Farm Economics Association*, Ames, Iowa, August, 1960. Dr. Sen is Joint Secretary to the India Planning Commission.

reasonable overall plan for development,[9] with responsible fiscal and monetary policies and with a sophisticated understanding of the role of surplus disposals in assisting economic development, would meet this desire on the part of donors by choosing *from within its developmental plan* some spectacular projects on which it would erect large placards stating that the project was being erected with the assistance of Communist or Capitalist aid funds as the case may be.

Undue emphasis by donor countries on individual projects carries the danger of distorting the overall development plan. As pointed out by Sen, it opens the way for the donor country to press for the inclusion in the plan of projects that appeal to the donor even though such projects may have a lower priority in the scale of values of the recipient Government.

On the other hand, certain underdeveloped countries do not satisfy the conditions mentioned above : a satisfactory overall development plan may not exist, or a plan may exist on paper but not in practice ; or there may be reasonable doubts about the integrity of fiscal and monetary policies being pursued by the Government concerned. In such cases there may be no alternative to the " project " approach in the use of counterpart funds, in lieu of the more preferable "programme" approach.[10]

The question of surplus disposals affecting internal stability does not arise for the other 3 groups of countries that have been considered for this analysis.

E. Rate of Development

Surplus disposals provide goods without the need for payment in external currency. This is equivalent to an improvement in the recipient's terms of trade. The development of the country will be furthered, either directly by enabling more of the available foreign exchange to be concentrated on capital imports,[11] or indirectly through improved diet for the nation's labour force, greater stability in food prices and as a stimulus to mobilising under-employed resources. The question is not whether surplus disposal aids the economic development of underdeveloped countries. It does.[12] The question is whether this is the best way to do so.

For any particular amount of aid, the rate of development cannot be a maximum or be capable of being a maximum, unless the aid is given in the form of either convertible credits, or as goods that the recipient would have sought so as to advance projects that come within the highest order of priority for its development programme. Commodity aid can achieve an equivalent effect only if it is *used to displace commodities that would otherwise have been imported commercially.*

Thus, in a developmental plan with a total expenditure of 100 m. units, the external requirements may be :

9. Reasonable in the sense that the plan will stand up to critical inspection by the international institutions and/or creditor countries who will be asked to contribute essential external support.

10. For a summary of the advantages of the programme approach see F.A.O., *Commodity Policy Study No.* 6, op. cit., pp. 11-13.

11. Which implies displacement of food imports. Alternatively, increased demand for food due to rising population and growth in economic activity can be satisfied without reducing the quantity of food imported commercially.

12. See F.A.O., *Commodity Policy Study No.* 6, op. cit.

Capital goods	20 m. units
Foodstuffs	10 ,, ,,
	30 ,, ,,

If surplus disposals of 3 m. units are granted and are used to displace commercial imports, the available external resources may be allocated :

Surpluses	3 m. units
Foodstuffs	8 ,, ,,
Capital goods	22 ,, ,,
	33 ,, ,,

So the Plan can be expanded to 110 m. units, provided complementary internal resources can be organised. By definition, since external resources are the limiting factor, additional internal resources previously not fully utilised do exist. It will be noted that in the above calculation provision has been made for the additional foodstuffs (consumer goods) that would be required to be imported to satisfy the derived demand generated by the expansion of investment.

If, however, no displacement occurs the allocation of the external resources remains :

Surpluses	3 m. units
Foodstuffs	10 ,, ,,
Capital goods	20 ,, ,,
	33 ,, ,,

So the Plan cannot be expanded unless *additional non-food aid is also available.*[13]

Further, because of the time required for development projects to become productive, recipient Governments will quite reasonably want assurance of continuity of both the surplus disposal and the other non-food support.

By no means all of the surplus commodity is a gain to the recipient country. Any counterpart funds retained by the donor country for its own use represents a claim on the goods and services of the recipient country. In the absence of a P.L. 480 agreement, the U.S. would have had to transfer dollars to the recipient country to pay for those goods and services.[14] By offering a P.L. 480 agreement the United States in-

13. In this connection the findings of the Wheat Utilization Mission may be noted :—

" 2. The concessional supply of wheat may be vital to India's welfare, but wheat alone is not enough. In order to make optimum use of the supplies of wheat received, India will require substantial assistance in terms of foreign exchange for essential goods and services. Only if such assistance is available will she be able to implement her program for economic development, improve the purchasing power of her people and utilize effectively large quantities of wheat for the objectives which the ' Food for Peace ' Program has in view."

Report of the Wheat Utilization Mission to Japan, India, and Indonesia (Washington, May, 1960), Part III, Recommendations. See also paras. 114-124 dealing with Non-Food Deficit.

14. See also F.A.O., *A Note on the Utilization of Agricultural Surpluses for Economic Development in Japan : Study prepared by the Economic Commission for Asia and the Far East,* Document E/CN11/L60 (Bangkok, 1958), p. 46.

duces (compels ?) the country concerned to accept payment in surplus commodities. The U.S. thus causes goods of lower utility to be accepted in lieu of goods of higher utility. It may be inferred that to the extent that counterpart funds are spent to meet U.S. obligations of one kind or another (including military procurement) then the rate of development of the recipient country will be less than it would have been if these obligations had been met in normal settlement.[15]

If other countries supplying the same or substitute commodities are themselves engaged in development programmes up to the limit of their external resources, then aid in the form of surplus disposals given to the recipient country (with whom they expect to trade) will prevent any stepping-up in their rate of development and may even retard it. Where the surplus disposals displace commercial imports, then clearly an added restraint is imposed on the ability of commercial supplying countries to expand. If commercial imports are not displaced in volume but prices are depressed, there will still be a brake placed on the other suppliers' development programmes because of the lower foreign exchange earnings.

Even if the surpluses are disposed of as additional consumption without effects on market prices, the rate of development of the other supplying countries would be less than if the aid were given as cash or convertible credits ; for, were the aid given in the latter ways, other suppliers would have been able to earn a share either directly through additional commercial imports by the recipient country or indirectly through enhanced demand for food and raw materials by industrialised nations producing the additional non-food items for the recipient. On the other hand, if current surpluses were thrown onto world markets, the effects on the development programmes of other supplying countries would be more serious than any retardation they might suffer through a system of surplus disposals.

For the donor country, the problem is somewhat different. Irrespective of whether the aid is given as cash (or convertible credits) or as commodities, it represents a claim on the output of the donor country. Where given as cash, the choice of how the claim is to be met does not rest with the donor country ; it is in the hands of the recipient or of other countries with whom the recipient has traded. Where given as commodities the choice rests with the donor country. The rate of development of the donor is less likely to be affected in the latter case.[16] There are obviously advantages to the donor in giving " tied " aid even if this means, as it does in the case of U.S.S.R., foregoing capital goods that are still scarce within the donor country itself. These advantages need not be economic in character.

F. Other

Some other economic criteria such as labour absorption, agricultural expansion and perpetuation of agricultural protectionism have been subsumed in the economic criteria already analysed.

15. But not necessarily less rapidly than would have been the case if no P.L. 480 agreement had been effected at all.

16. But note the possibility in the case of the United States that the limiting factor in its own economic development may be the rate of development of the rest of the world, especially of the underdeveloped nations. In this case, it would pay the U.S. to give aid in ways that will maximise the rate of development of other nations, even if it does not minimise the immediate call on U.S. resources, i.e. to give the aid as convertible credits or capital goods rather than as commodities.

Non-Economic Criteria

A. Humanitarian Considerations

Some two-thirds of the world's population is underfed. Previously, starvation, famine and malnutrition stirred the conscience of individuals ; today they stir the social conscience of nations. In the face of widespread poverty and undernourishment, policies which deliberately set out to curb food production are somehow felt to be wrong. It is not a question of economics ; it is rather an atavistic reaction to the fear of hunger, together with the knowledge that with modern technology, hunger could be abolished from the world in our lifetime.

The humanitarian effects of P.L. 480 provide one of the strongest arguments in its favour. But surplus disposals cannot provide a lasting answer to the problem of low nutritional standards. The average annual increase in C.C.C. food stocks over the past six years had a calorie equivalent of the order of 40 trillion (40×10^{12}) calories.[17] Spread over the 2 billion people in areas with inadequate diet, these surpluses would provide an average of approximately 55 calories per person per day. To a family at subsistence level even this would be an appreciable increase. In India at present food availability *averages* 2050 calories per person per day. The 4 million tons of wheat to be provided annually under the current P.L. 480 Agreement will provide about 90 calories daily for her 415 million people, if all the wheat is put into consumption and none retained for reserves.

This increase, desirable as it is on humanitarian and nutritional grounds, will go only part of the way to the target of 2350 calories per person per day which it is proposed to have available by the end of the Third Five Year Plan (March, 1966). It is clear that in India—and the same is true in other underdeveloped regions—the great bulk of the increase in foodstuffs needed to raise diets to adequate levels will have to come from within the region itself.[18] Outside aid in the form of surplus disposals can make a significant contribution to provide food and improve health of the people during the crucial stages before these economies become self-sustaining, economically and nutritionally ; but with the best will in the world, surplus disposals cannot be a complete or satisfactory answer.

The related problem of malnutrition, i.e. lack of balance in diet, has already been mentioned. Surplus disposal programmes relying heavily on foodgrains aggravate rather than alleviate this problem.

B. Domestic Policy Considerations

There is no intention in this paper of presuming to enter into the delicate field of politics or to consider the pressures that beset the President, the Secretary of Agriculture and Congress in determining agricultural policy. But, since the policies concerning supports, stockpiling and disposals are interrelated, we may look at the choices themselves, to see whether any one of them offers the possibility of a stable pattern of production, trade and disposal.

Stockpiling and support policies are not necessarily linked. A decision

17. Based on a communication from Mr. R. Hefford, Australian National University.

18. See also Sir John Crawford, " World Factors that must influence Australian Policy ", *Address to the 32nd Annual Summer School of the University of Western Australia*, January, 1960.

to stockpile is essentially a decision to act as a strong holder selling only at recognised prices, which in the present situation means prices more or less related to the Canadian Wheat Board selling price. It is separate from a decision to guarantee farmers some specified level of returns for their wheat. This analysis may be extended further to take account of the possibility of surplus disposals. Consider for example a policy which involves high price supports,[19] stockpiling and a surplus disposal programme. This is the choice that the U.S.A. has adopted at the moment. It results in overproduction and requires large Government subventions, but enables export prices to be held firm, although only at the cost of a commercial sector[20] diminished by the extent that the excess stocks disposed of under surplus programmes would otherwise be bought commercially.

Choice among possible alternative policies is a politico-economic decision and no one policy is advocated here. What is suggested is that the present set of policies in respect of production, stockpiling and disposals is unstable. However, the alternatives likely to lead to a stable situation all seem to imply an average level of farm income lower than at present, and bring in their train a further series of domestic policy issues. Should resources be moved out of agriculture ? If so, whence, where and how ? Should direct transfer payment be made to maintain income in the farm sector during transition ? If so, how much and for how long ?

It may well be that the present inherently unstable situation is more attractive politically (i.e. minimises the political resources required) than any feasible alternative policy. If this be the case then both the problem of U.S. agricultural overproduction and the programmes of surplus disposals are likely to be with us for a considerably extended period.

C. International Considerations

It is a stated objective of P.L. 480 that surplus disposals should be used to further U.S. foreign policy. Since World War II ended the United States has given aid on a magnitude new to history. Its actions have been a policy of enlightened generosity. But the world's needs exceed U.S. means. Aid cannot be unlimited. Marginal theory applies to foreign aid as to any other economic resource.

For the United States, commodity aid is the easiest to maximise while it is of little consequence as far as the external payments problems of the recipient is concerned, in what form the aid is given. Commodity aid has certain defects, however, in achieving the goal of strengthening the economy of the recipient and improving goodwill towards the United States—the normal goals of foreign aid. Foodstuffs do not have a lasting impact and even after massive commodity aid is given the need for non-food aid remains.

A programme of surplus disposal of secondary goods might well be of greater benefit to the recipient and yet not increase the cost for the donor to any extent. For example, the United States has an unused capacity at the moment to produce nearly 2 million extra motor vehicles. It has large unemployed labour resources in Detroit and other industrial cities. Why not a massive disposal programme of trucks to help India renew her overworked and overage road transport system ?

19. I.e. high in relation to export market levels.
20. Including the commercial wheat exporting trade of the U.S. itself.

For other supplying countries like Australia, the foreign relations considerations create a dilemma. On the one side is the desire to maintain goodwill with both the recipient and the U.S. ; on the other is the need to protect normal trade. Reconciliation of these conflicting interests calls for a nice measure of firmness and diplomacy.

Recipient countries fall into 2 classes : those directly threatened by Communist force, and those where the battle is ideological, not military. For the first category surplus disposals form an adjunct to military aid although of limited usefulness except after a conflict, e.g. Korea. In dealing with the second category of countries, surplus disposals provide a powerful tool in circumstances where, from the donor's point of view, the foreign policy considerations may be described as gaining time and political stability while the country concerned makes economic progress (as in South America) and/or Cold War competition for the goodwill of the Government and peoples of low-income countries (as in Asia).

Conclusions

Surplus disposals operations have been evaluated against eight criteria, five economic and three non-economic. The results may be summarised as follows (leaving aside the many qualifications mentioned in the text) :

A. Allocative efficiency : Surplus disposals cannot be said to improve the overall efficiency of resource use throughout the world ; rather they retard the adjustments that would bring about equi-marginal production patterns in the donor country and create an otherwise unnecessary need for change in the resource allocations of other supplying countries.

B. Marginal utility : Surplus disposals add to total utility. The benefits for consumers in the recipient country far outrank any possible loss of utility to other groups in the analysis.

C. Income Distribution : The disposal operations improve income distribution in underdeveloped recipient nations, while the price support measures do so in the donor country although these price support policies tend to inhibit adaptations that the first criterion would suggest are desirable.

D. Internal Stability : On the vexed question of inflationary and deflationary effects, the present analysis suggests that the Title I operations themselves are neutral. The actual sale of the surpluses is deflationary, but the ultimate consequences depend on the way the proceeds from the sale of the surpluses are used by the *recipient* Government.

E. Rate of Development : The economic development of the country will be furthered but not as effectively as would result from the provision of convertible credits or capital goods, *unless* the surpluses are used to displace commodities that would otherwise have been imported. Even the rate of development that is possible through surplus disposals is dependent upon the provision of non-food (capital) aid to an extent greater in most cases than the value of the surplus provided. Surplus disposals clearly retard the economic development of other supplying countries, especially when the other supplier is itself underdeveloped.

Turning to the non-economic criteria the analysis suggests :

A. Nutritional Considerations : Valuable as surpluses may be from a humanitarian point of view, they cannot form a lasting solution. They can make a significant contribution toward more adequate diets during the period required for nations to become economically self-sustaining. However, surplus disposal programmes relying heavily on foodgrains worsen rather than improve the balance of the diet in these countries.

B. Domestic Policy Considerations : A study of the decision choices open to wheat exporting countries indicates that the present U.S. pattern of high price supports, stockpiling and surplus disposals is unstable. But adoption of a stable pattern has problems of its own and appears to be a difficult choice politically, with the result that overproduction and heavy disposal programmes may persist.

C. Foreign Policy Considerations : Donors will prefer to give those forms of aid that are least costly to provide, which in the case of the United States is agricultural products. This forces other supplying countries into a dilemma—the need to protect their commercial markets from the encroachment of surplus disposals conflicts with the desire for good foreign relations with both donor and recipient.

Looking over these conclusions, it appears that the economic criteria yield conflicting results. Production economists, in whose eyes the efficiency of resource use and the maximising of the rate of development would have highest priority, might be expected to damn surplus disposals. Consumption economists on the other hand would probably praise them because of their effects on consumers' utility and on income distribution. Judgment on the worth of these programmes rests then on non-economic considerations. From the viewpoint of either the donor or the recipient (but not from that of other supplying countries), these criteria tend to favour continuation of surplus disposals.[21]

If this assessment is valid, then the defects of P.L. 480 programmes become even more significant. The main weaknesses appear to be :

1. P.L. 480 disposals may impair efforts for agricultural adjustment within the United States.
2. The possibility that expenditure to expand P.L. 480 programmes will divert attention from the adequate provision of other forms of aid.
3. The ever present temptation to try to alter the development plans of the recipient country in ways that suit the donor, a pressure that the recipient finds hard to resist because of the desire for continued assistance.
4. The serious problems that are created when what is essentially balance of payments assistance is concentrated too heavily on one or a few commodities only.

21. At least to that point in the future where all underdeveloped nations cease to require external aid, i.e., the new-developed nation either produces sufficient food for an adequate diet or can afford to buy sufficient food without impairing its own further development.

5. The repercussions of surplus disposals on the economies of underdeveloped nations (apart from the recipient) who are themselves endeavouring to advance their development by expanding agricultural exports.
6. By no means least, the damage to relations between the United States and other friendly supplying countries because of the interference with their established commercial export markets.

From Australia's point of view, the major problem is preservation of commercial marketings. Surplus disposals have cost Australia markets both directly as in India and indirectly by making it necessary for this country to engage in a series of Trade Agreements,[22] under which, in order to secure assured outlets for wheat, Australia had to offer concessions in return to U.K., Japan and other countries. The United States does seek to protect normal commercial trade in two ways—firstly through general programme policy and secondly through specific requirements (global quotas). She has also shown willingness to consult with other interested countries and as experience has shown, these consultations have, not infrequently, resulted in modifications of original proposals in the light of objections raised by Australia.

However, a major change is required in one aspect of our thinking about the future of surplus disposal programmes. There has been a belief in the past both in the United States and here that these programmes were only a temporary expedient, that they would " phase-out " in a few years. We can no longer allow ourselves even this small crumb of comfort. Surplus disposal programmes are not self-cancelling ; they are self-perpetuating. They retard internal adjustment in the United States. They create a demand among the recipients not so much for the surplus commodities (although these are undoubtedly welcome) but for the concession that accompanies the surpluses—freedom from foreign exchange payments. In the competition between East and West for the goodwill of the newly independent nations, food is now more than ever an implement of foreign policy. To all intents and purposes then, surplus disposals have become permanent.

In the longer term, the rise in the economic level of these developing countries will mean an end to any need for surplus disposal programmes and then or sooner, an end to the fear of hunger throughout the world.

22. The Trade Agreements have intrinsic merit in their own right in encouraging trade with the countries concerned.