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THE INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



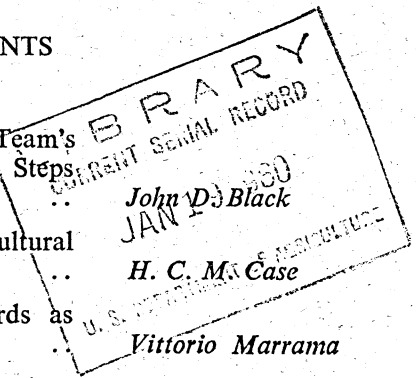
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NOTES

WORLD AGRICULTURAL SITUATION*

This paper reviews the agricultural situation in the present world economy, and emphasises some of the broad aspects of the problem. The treatment is divided into four sections. First, agricultural production and food consumption situation; second, the two paradoxes facing world agriculture; third, the balance between prices of agricultural and industrial products; and fourth, the effects of this balance on terms of trade and balances of payments, and on possibilities for continuing world economic development.

Trend of Agricultural Production and Food Consumption

Agricultural production continued to expand in 1958 and seems likely to have good crops in 1959. The increase in output in 1958 was most marked in the Soviet Union and in China, where increased acreages were apparently reinforced by unusually favourable weather conditions. For the world as a whole, agricultural production reached a peak in 1958. Over the past decade output has shown a general upward trend, although not as rapid recently as in the years immediately following the war. For the world as a whole, food production has been increasing slightly more rapidly than population has grown. In two important regions, however—South-East Asia and Latin America—food production has not yet regained the position compared to population that it had before the war, so that in these regions food production per capita has not yet reached even its inadequate pre-war level.

The continued rise in agricultural output has reflected rapid improvement in technology and expanded productivity per farm worker, especially in the more highly developed countries. In North America since the war and in Western Europe, productivity has been rising more rapidly in agriculture than in industry, and in the U.S. at least this has been true for more than a quarter of a century, while yields have increased per acre and per animal.

With this rapid technological improvement in agriculture, surplus stocks continue to accumulate in exporting countries as a whole, despite efforts in some of them to reduce acreages and output. By mid-summer 1959, carry-over stocks of wheat will reach 50 million tons in exporting countries, and carry-over stocks of maize and other coarse grains will reach 70 million tons—an all-time high record in both cases. The size of these stocks can be visualised from the fact that this is about twice as much wheat as an entire year's crop in the United States or in Western and Southern Europe. These heavy stocks have accumulated despite continuing large disposals of surpluses for economic development and better nutrition. Further expansion in the use of surpluses for such purposes has been proposed for the United States under its "Food for Peace" plan. At the first meeting on wheat in connexion with this plan, held in Washington in May and attended by representatives of the major wheat exporting countries, it was recognized that a substantial increase in such surplus disposals would be needed

* Based on the statement made by Dr. Mordecai Ezekiel, Head, Economics Department, F.A.O., in the Economic and Social Council on 6th July, 1959.

merely to prevent further increase in the accumulated surplus stocks, unless there are major changes in national policies affecting wheat production and distribution.

Supplies of food for consumption, however, have been somewhat better in the less developed parts of the world than production alone would indicate, since food imports have increased relative to pre-war, aided by surplus foods supplied on concessional terms. Even so, levels of nutrition have remained low, especially in South-East Asia and Latin America, and far below desirable levels for health and strength in such protective foodstuffs as meat and dairy products, fruits and vegetables.

Paradoxes Affecting Agriculture

Under its Constitution, FAO is responsible for the welfare of farmers and rural populations as well as for increasing food production and raising levels of nutrition. In studying welfare of farmers, however, we find this paradox: viewed from the welfare side farm prices and incomes are too low, but viewed from the volume of production side, they are too high. In almost every country in the world incomes per capita and per family are materially lower among the farm population than among the rest of society. Further, in almost every country the actual living conditions of farmers are lower than for those of other groups in the population. This is true whether we compare levels of food consumption, of clothing, of housing and medical care, or of other facilities and services. But viewed from the point of view of incentives to produce, farm prices in most highly-developed countries appear to be too high. Many countries, as in the United States, are seeking ways to modify their farm price and income support policies so as to reduce the incentive to over-production. We thus face a dilemma. How can the farmers achieve a more equitable income without further intensifying the lack of balance between production and consumption?

The second paradox relates to surpluses and hunger. Despite the surpluses piling up in the highly developed parts of the world, millions of people continue to suffer from hunger and mal-nutrition in other parts of the world. That is one of the problems to which FAO is giving continuing attention.

Balance Between Agricultural and Industrial Prices

The World Economic Survey has pointed out that the prices of farm products have tended downward over the last half-dozen years, while prices of industrial products have tended to rise and this increasing decline in international terms of trade has created difficulties for all the raw-material exporting countries. Behind this lack of balance appears to lie a fundamental difference in economic organization in agriculture and industry. In almost every country farmers represent the last stronghold of atomistic competition, with hundreds of thousands or millions of individual producers competing with one another. Trading with them on the industrial side are great corporations and great labour unions where prices are set by oligopoly rather than by competition. This weak bargaining position of farmers in contrast with that of other groups in the economy, seems to result in their economic position and that of their products being chronically low in spite of all the government efforts to support prices or income.

This peculiar position of the prices of farm products was shown sharply in the record of the recession of 1958/59. When business activity in the industrialized countries declined in the recent recession, although prices of farm products and other raw materials dropped more or less sharply, prices of industrial products showed no decline or even continued to increase—for the first time in the world's economic history. During the subsequent recovery period, consumers' buying power increased in the highly-developed countries, but had relatively little effect upon consumption of farm products in these countries despite the continued downward trend in prices of farm products. This failure of farm prices to respond to better business conditions seems to reflect three facts. These are, (1) in the more highly developed economies of western Europe and North America, per capita incomes are now so high that the elasticity of consumption with respect to both income and price has become much lower for most food products at retail than it is in the less developed countries; (2) domestic markets for farm products in most countries in western Europe are now generally insulated from world markets, so that declines in world prices do not mean decline in domestic prices; and (3) the tendency of distribution costs to rise as farm prices fall, in the U.S.A. and some other highly developed countries, so that declines in prices to the farmer do not serve to stimulate increased consumption through declines in prices to the consumer at retail. Finally, the pressure of continued expansion of agricultural production on world markets tends also to prevent improvement in farm prices.

The instability in prices of exports of farm products has been exaggerated by the tendency of inventory accumulation and de-accumulation to exaggerate world-market price changes for storable commodities far beyond the extent justified by changes in basic supply-demand conditions. For such commodities, prices tend to remain fixed at given levels, even if supplies are gradually accumulating beyond current consumption. When the pressure of accumulating supplies finally becomes evident, prices start to decline. The falling price has a perverse effect on demand. Instead of stimulating increased purchases, it starts a rush by holders to work down accumulated stocks and to sell supplies, and an unwillingness to buy on the part of usual purchasers until prices stop falling. In consequence prices fall to a point far below those justified by the supply-demand conditions, and after they have stabilized at the new levels, remain at that exceptionally low level for sometime until increasing awareness of shortages of supply start a 'move' in the opposite direction.

When prices start rising the reverse development takes place with the rising price itself tending to stimulate purchasing demand and to dry up supplies until prices have been driven to a new unduly high level, by an upward 'move.' This type of exaggerated response affects prices of many raw materials, such as cotton (in the absence of government interference), cocoa, coffee, sugar, etc., and makes the destabilizing effects of price changes on raw material producers all the more serious. For commodities with a long lag in production response, such as coffee or cocoa, unduly high prices may stimulate over-planting of new trees, and additions continue to be made to the new and non-bearing trees for several years before the resulting increase in output finally begins to come on the market, and marketings expand more and more for several years thereafter almost regardless of concurrent prices. This long lag between the price changes and the resulting production tends to produce long term cycles of over and under production in

such commodities. On the other hand periods of short supplies and high prices such as have prevailed at times for coffee and cocoa tend to encourage processors to use manufacturing processes (such as for making instant coffee or candy) so as to economize on the use of these raw materials. These economies tend to remain in force and to permanently depress the level of demand for some time thereafter, even after supplies become more freely and cheaply available.

Public policies affecting the production of farm products are now in a state of flux in the U.S.A., with efforts under way to find modifications in the price support system that will offer less incentive to increase or sustain production. In western Europe, however, which used to be the chief importer of agricultural products, there seems no prospect of a change in the prevalent policies of agricultural protectionism. For example, in wheat, commercial exports to western Europe have been declining for some time, while they have been rising to the underdeveloped world, and especially in South-East Asia. This has gone to the point where even the commercial exports of wheat to non-European importers are larger than taken by all European importers combined. So far as can be judged from indications as yet available, the movement toward European integration under OEEC seems likely to intensify this trend rather than to reverse it, for all food products except the tropical ones. Thus, the emphasis on self-sufficiency in food production in Europe, and the heavy exportable supplies from North America, seem likely to continue to limit market opportunities for temperate-zone exports from less-developed countries.

Effects of Terms of Trade and the Balance of Payment on Underdeveloped Countries

The impact of these developments has been very great in both the highly developed raw material importing countries, and in the under-developed raw material exporting countries. With continuing economic development in both groups, and rising national incomes, the need to import food and raw materials increases relatively slowly in the more highly developed countries, except for a few special tropical products. On the other hand the need for imports for capital goods for economic development, and of other industrial products for consumption, expands more and more rapidly in the developing countries with economic development, and with a divergence of terms of trade already noted. In their efforts to finance their continuing economic development, the raw material exporting countries seek to expand materially their exports of food and other raw materials, at a rate greater than that needed by the importing countries. This tends to progressively drive down prices of raw material exports and sometimes even their total import proceeds. Last year this resulted in transferring balance of payment difficulties from European countries to exporters of raw materials, and making possible moves to free convertibility in many of the former countries.

Facing this situation there seems to be two possible approaches to the problem. One which is emphasised strongly is joint action by highly developed countries to help stabilize markets and ensure expanding world demand for the export products of less developed countries, by some form of commodity action, buffer stocks, or other market support arrangements. Efforts by FAO over the years to develop commodity agreements and international commodity action for agricultural products, and the reviews of various proposed steps show that no early or easy success is likely from this approach. Further, highly developed

countries might consciously readjust their own production policies, and their taxes on exotic imports, in such ways as to encourage their consumption and leave more opportunity for imports from the less developed countries.

The alternative solution over the long term is for industrial development in the less developed countries to grow to a point where they can ultimately expand their own industrial production and diversify their output to a position where they can not only meet their own needs, but also can develop some specialized industrial exports to other parts of the world. On the food side, this would enable countries of very heavy populations on limited areas of land to meet part of their food needs by continuing imports of grain and other cheap foods from countries with more abundant agricultural resources elsewhere, and to pay for those imports by industrial exports. In fact a movement of this sort is in part already taking place, with much of South-East Asia now a net importer of wheat where formerly it used to be a net exporter. This has been made possible in part by purchases of surpluses on concessional terms. If such a long term industrial expansion is to take place in the less developed parts of the world, continued heavy international financing, both public and private, will be needed at much more substantial rates than up to this time. Total external financing to these areas in cash and in kind has been growing, however, and there seems no reason why it cannot be expected to continue to grow. As industrial exports begin to appear from these countries, suitable readjustments might be made by more highly developed countries to help provide markets for them.

Anything that can be done toward stabilizing markets and improving the terms of trade for the raw material exports of the less developed countries will help. However, on the evidence now available, the ultimate solution seems much more likely to be found by continuation and intensification of the trends already in existence, toward financing agricultural and industrial development of these regions by the more highly developed countries, including among that financing the use of surplus farm products as long as they are available.

To conclude, accepted economic theory—classical, neo-classical and even institutional—was basically a theory of *national* economics. Attention was centred on the domestic repercussions of specific policies or events, with scant interest or attention given to possible repercussions on other countries. Even today, in many countries discussions of changes in policies or legislation on such matters as protection of domestic producers, or farm price or income supports, tend to be approached primarily in terms of domestic results and consequences, with little thought of effects on other countries.

Studies and discussions in the U. N. family of organizations are gradually evolving a new truly international theory of economics, while looking at national policies to see whether they add up to sensible and mutually-consistent results on a world-wide progressing and expanding economy. In FAO work, it has been proved that among the most useful and widely-appreciated results of such international discussions have been the FAO Principles for the Disposal of Surplus products, which have been accepted as a code for action by all the major countries concerned, and the Principles for Measures to Stabilize and Support Farm Prices, which are now in the process of development through parallel international discus-