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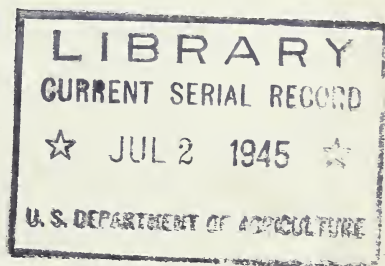
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A POST-WAR FOREIGN TRADE PROGRAM

for
UNITED STATES
AGRICULTURE



UNITED STATES DEPARTMENT OF AGRICULTURE
INTERBUREAU COMMITTEE ON POST-WAR PROGRAMS

CONTENTS

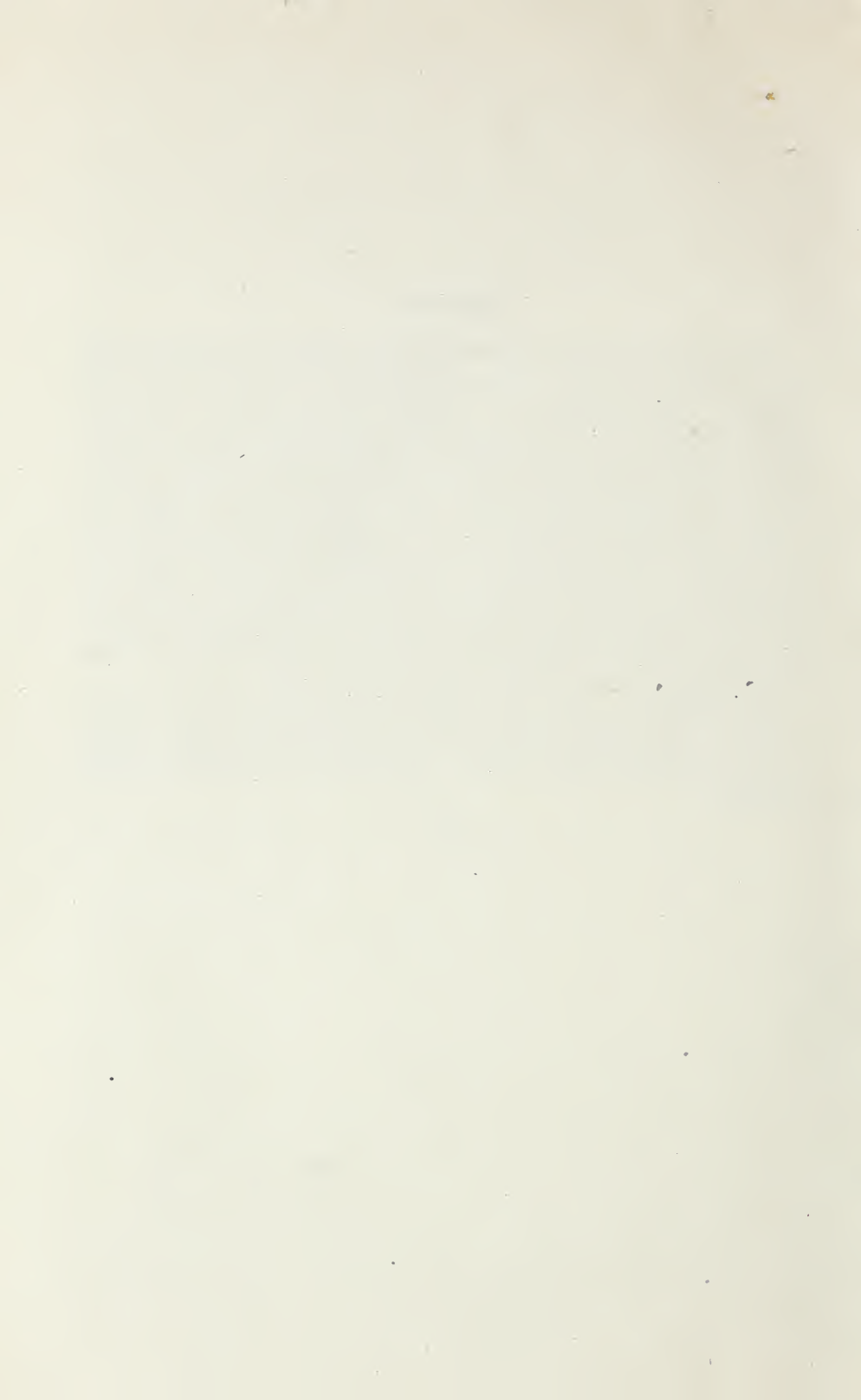
	Page
Conclusions and Recommendations:	
A. Elements of the Problem.....	1
B. A Recommended Program.....	2
Analysis of the Problem:	
I. Importance of Foreign Trade to United States Agriculture.....	3
II. Post-war Agricultural Surpluses.....	10
III. Prevalence of Government Intervention in Agricultural Pro- duction and Trade.....	12
IV. Relaxation of Government Intervention Affecting Trade as a Means of Facilitating Trade Expansion.....	16
V. Relaxation of Private Intervention Affecting Trade as a Means of Facilitating Trade Expansion.....	19
VI. Commodity Arrangements To Coordinate Intervention as a Means of Facilitating Trade Expansion.....	19
VII. Improvement of Diets and Living Standards as a Means of Trade Expansion.....	22
VIII. Efforts to Create an Expanding World Economy and World Peace.....	24

PREFACE

This report represents a consensus of the views of a working group chosen from the agencies within the Department of Agriculture most concerned with foreign trade. Members of the group are: Robert B. Schwenger, Office of Foreign Agricultural Relations, Project Leader; Budd A. Holt and Frederick V. Waugh, Office of Marketing Services; O. C. Stine and Frederick L. Thomsen, Bureau of Agricultural Economics; and Oscar Zaglits, Office of Foreign Agricultural Relations.

The report has been approved for publication by the Department's Interbureau Committee on Post-war Programs. An early draft was distributed not only to colleagues in the Department of Agriculture but also to members of the staffs of agricultural colleges and various State agencies and to Federal workers in the field. Many of them were extremely generous and helpful in their response.

The following pages merely suggest lines of action which might be followed in the field of foreign trade and discuss the merits and the limitations of these lines of action. They do not constitute an official program.



A Post-War Foreign Trade Program For United States Agriculture

Conclusions and Recommendations

A. Elements of the Problem

1. A high level of international trade after the war is of vital importance to United States agriculture because—

a. As in the past, we will be producing more of many farm products than can be sold to United States consumers at fair prices, and export markets will continue to be needed for such farm products;

b. Exports of factory products provide employment here and thus broaden the domestic market for farm products;

c. Imports will make for a high domestic standard of living, for farmers as well as other people; moreover, imports will provide dollars for foreigners to use in buying from the United States; and

d. The expansion of foreign trade is necessary for the achievement of maximum productive efficiency in a prosperous world.

2. Unless economic activity is maintained at a high level throughout the world, world surpluses¹ will characterize the post-war markets for many farm products. Those surpluses will tend to depress farm prices and income, particularly in the exporting countries, threatening to spread depression to other parts of the world economy. Even with a high level of world economic activity, some farm products will probably be in world surplus, at least until measures are taken to shift to other uses some of the resources being employed in their production.

3. Governments in practically all important agricultural producing countries stand ready to support the post-war prices or incomes of their farmers, at least for some time after the war,

¹ A world surplus is assumed to exist when, at a price sufficient to secure adequate returns to efficient producers, importing countries will not purchase the quantities of a commodity exporting countries offer for sale.

through types of intervention which in the past not only have failed to eliminate but have even increased surpluses and contributed to trade decline and international trade war.

4. Under these circumstances, United States farmers must decide as to the type of program relative to international trade relationships that will safeguard their interests, as well as those of the country as a whole, and that will lead to that expansion of trade which is a condition of world prosperity and peace.

B. A Recommended Program

1. Work toward international agreements to reduce government barriers to international trade and to eliminate trade discrimination (but in such a way as to permit the use of government income supports in connection with agricultural adjustment), which will include both—

a. A multilateral convention, to be concluded as soon as possible, binding private-enterprise countries to reduce tariffs, quotas, and other barriers to international trade, binding countries with foreign trade monopolies to make equivalent arrangements for trade expansion, and establishing an international trade (and commercial policy) organization to supervise the operations of the convention and advance its objectives; and

b. Bilateral most-favored-nation agreements, such as the Hull Reciprocal Trade Agreements, to advance the reduction of trade barriers pending the coming into force of the provisions of the multilateral convention and, thereafter, to deal with barriers not eliminated by the multilateral convention.

2. Support national and international efforts to eliminate private barriers to international trade arising from monopoly (and cartel) controls of prices, production, or marketing.

3. Actively promote the establishment of a system of coordinating international commodity arrangements; and, as regards agricultural products of which the United States is a substantial exporter and of which post-war world surpluses are expected, urge the early conclusion of international commodity agreements (of the type referred to in the Final Act of the United Nations Conference on Food and Agriculture) for the expansion of consumption and trade, the maintenance of adequate reserves (buffer stocks), and the orderly disposal and eventual elimination of surpluses.

4. In connection with the disposal of surpluses, promote in particular their utilization for the improvement of the diets and living standards of low-income groups, in foreign countries as well as in the United States.

5. Support national and international measures aimed at creating an expanding world economy and world peace and cooperation in all fields, and, in particular, support—

a. The program (begun at Dumbarton Oaks) for the establishment of an effective method of assuring national security and international peace, as of basic general importance and also in order to prevent the resurgence of self-sufficiency policies in importing countries;

b. Measures for assuring a high level of employment and economic activity in the United States, which will result in large imports and thus will make possible expanded exports of products in which we have a comparative advantage;

c. The program (begun at Bretton Woods) for international monetary and financial cooperation to facilitate the expansion and balanced growth of international trade, and, in particular, designed (1) to provide a system of stable, orderly, and free exchange arrangements which would prevent countries from arbitrarily enhancing their international competitive position by currency manipulation, and (2) to encourage loans for the economic reconstruction and development of foreign countries; and

d. An International Food and Agriculture Organization, as recommended at Hot Springs and proposed by the United Nations Interim Commission on Food and Agriculture, designed to promote adequate standards of living throughout the world and promote the integration of world agriculture.

ANALYSIS OF THE PROBLEM

I. Importance of Foreign Trade to United States Agriculture

United States agriculture, as an integral part of the United States economy, has an important stake in the post-war expansion of foreign

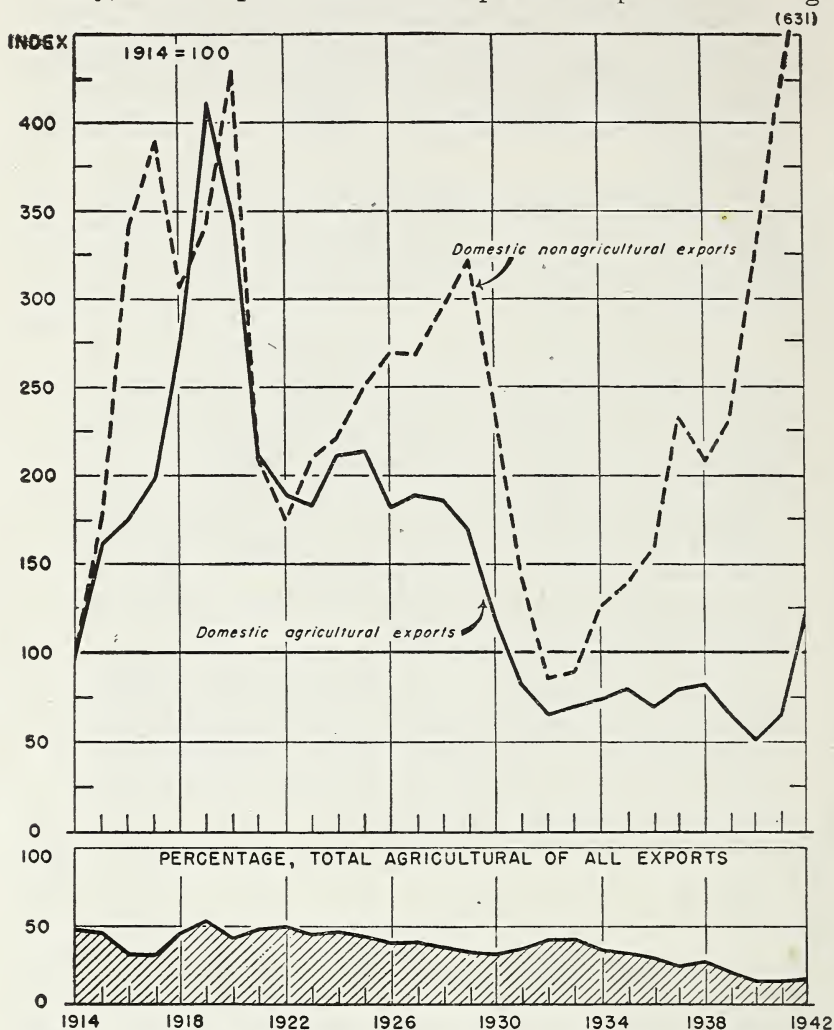


FIGURE 1.—INDICES OF THE VALUE OF DOMESTIC AGRICULTURAL EXPORTS AND DOMESTIC NONAGRICULTURAL EXPORTS, 1914-42

Agricultural products made up a smaller and smaller portion of the value of United States exports in the interwar period. The trend was especially pronounced during the two periods of rising economic activity of the late twenties and the middle and late thirties. While exports of nonagricultural products were increasing rapidly, largely as a result of technical progress in mass-production industries, agricultural exports were hit by such factors as self-sufficiency policies in importing countries, the expansion of production in other exporting countries, discriminatory trade practices, and (at least in the thirties) measures preventing United States farm prices from falling to depressed world market levels.

trade, since such expansion is necessary for the achievement of maximum productive efficiency and a high general standard of living. Moreover, trade expansion is a necessary condition of the peaceful development of the economies of foreign countries; in the past, some of them have resorted to military development to utilize resources put out of employment by the loss of foreign markets.

Specifically, United States agriculture is interested in: (1) Foreign markets for the portions of its output which cannot be sold at a fair price in the United States, (2) exports of the products of industrial workers, whose wages are an important factor in the domestic market for United States agricultural products, and (3) imports of both industrial and agricultural products that cannot be produced in the United States relatively economically and efficiently in quantities sufficient for our needs.

1. Agricultural Exports

Foreign markets are needed for domestic agricultural products produced in excess of domestic requirements, if we are to have reasonably full utilization of our developed agricultural resources.

Even under the adverse conditions that prevailed prior to this war, we exported about 40 percent of our cotton, about one-third of our tobacco, nearly one-tenth of our wheat, and considerable portions of our lard, prunes, raisins, apples, pears, oranges, and rice. (See table 1.)

During the war, while commercial agricultural exports fell to very low levels, lend-lease shipments caused the volume of our total agri-

TABLE 1.—United States production and domestic exports of specified agricultural products, average 1935–38, and 1939, 1940, 1941, and 1942

Crop year beginning August	Cotton			Rice		
	Domestic production	Exports		Domestic production	Exports	
		Quantity	Percentage of domestic production		Quantity	Percentage of domestic production
	1,000 bales	1,000 bales	Percent	1,000 bushels	1,000 bushels	Percent
1935–38 average.....	13,482	5,361	40.0	48,800	6,838	14.0
1939.....	11,817	6,501	55.0	54,062	10,489	19.4
1940.....	12,566	1,174	9.3	54,433	13,357	24.5
1941.....	10,744	1,162	10.8	51,323	15,049	29.3
1942.....	12,817	1,498	11.7	64,549	16,193	25.1

Crop year beginning July	Wheat and wheat flour			Tobacco		
	Domestic production	Exports		Domestic production	Exports	
		Quantity	Percentage of domestic production		Quantity ¹	Percent of domestic production
	1,000 bushels	1,000 bushels	Percent	1,000 pounds	1,000 pounds	Percent
1935–38 average.....	762,984	65,122	8.5	1,354,869	508,119	37.5
1939.....	714,180	54,274	7.3	1,880,793	390,054	20.7
1940.....	813,305	40,557	5.0	1,462,080	204,776	14.0
1941.....	943,127	35,833	3.8	1,262,049	318,069	25.2
1942.....	974,176	33,401	3.4	1,408,717	321,430	22.8

¹ Export figures converted from a declared weight to a farm sales weight so as to be comparable with production figures.

TABLE 1.—United States production and domestic exports of specified agricultural products, average 1935–38, and 1939, 1940, 1941, and 1942—Continued

Crop year beginning September	Beans (dry edible on cleaned basis)			Raisins		
	Domestic production	Exports		Domestic production	Exports	
		Quantity	Percentage of domestic production		Quantity	Percentage of domestic production
	1,000 bags	1,000 bags	Percent	Tons	Tons	Percent
1935–38 average.....	13,439	125	0.9	230,500	70,244	30.5
1939.....	14,271	793	5.6	245,000	62,079	24.4
1940.....	15,732	1,545	9.8	171,000	49,349	28.9
1941.....	17,047	1,562	9.2	209,000	52,561	25.1
1942.....	17,547	2,870	16.3	254,000	84,952	29.9

Crop year beginning July	Apples			Pears		
	Domestic production ²	Exports		Domestic production	Exports	
		Quantity ³	Percentage domestic production		Quantity ⁴	Percentage domestic production
	1,000 bushels	1,000 bushels	Percent	1,000 bushels	1,000 bushels	Percent
1935–38 average.....	124,328	15,489	12.5	28,546	6,671	23.7
1939.....	139,247	6,244	4.5	29,279	4,138	14.1
1940.....	111,439	1,410	1.3	29,771	681	2.3
1941.....	122,585	4,100	3.3	29,530	1,621	5.5
1942.....	128,273	2,070	1.6	30,717	561	1.8

Year	Prunes			Milk, evaporated (unsweetened)		
	Domestic production ⁶	Exports		Domestic production	Exports	
		Quantity ⁷	Percentage of domestic production		Quantity	Percentage of domestic production
	Tons	Tons	Percent	1,000 pounds	1,000 pounds	Percent
1935–38 average.....	747,225	260,643	34.9	1,972,348	25,590	1.3
1939.....	673,200	162,997	24.2	2,170,601	27,497	1.3
1940.....	543,100	53,027	9.8	2,464,668	118,748	4.8
1941.....	582,700	256,386	43.9	3,246,547	593,398	18.3
1942.....	543,300	129,971	23.9	3,518,504	358,537	10.2

Calendar year	Lard			Cured Pork ⁸		
	Domestic production	Exports		Domestic production	Exports	
		Quantity	Percentage of domestic production		Quantity	Percentage of domestic production
	1,000 pounds	1,000 pounds	Percent	1,000 pounds	1,000 pounds	Percent
1935–38 average.....	1,528,500	137,727	9.0	2,031,988	64,180	3.2
1939.....	2,037,000	277,272	13.6	2,561,433	89,211	3.5
1940.....	2,343,000	201,314	8.5	2,947,131	47,313	1.6
1941.....	2,281,000	392,870	17.1	2,888,336	208,674	7.2
1942.....	2,455,000	651,590	26.5	3,183,183	346,062	10.9

² Commercial crop.³ Includes dried and canned in terms of fresh.⁴ Includes dried, canned, and in fruit salad, in terms of fresh.⁵ Crop year beginning July for prunes; calendar year for milk.⁶ Includes canned and dried in terms of fresh.⁷ Includes dried, canned, and in fruit salad, in terms of fresh.⁸ Comprises bacon, sides, hams, shoulders, and other pork pickled and salted (federally inspected).

Office of Foreign Agricultural Relations.

cultural exports to increase substantially. This and other unusual wartime demands, such as the needs of the armed forces and the great increase in purchasing power of industrial workers, caused substantial expansion in the production of many important commodities (including pork, lard, dairy products, eggs, dried fruits, tomatoes, and more recently soybeans). In the case of products the export of which declined during the war (such as cotton, tobacco, and wheat), the decline was offset, or more than offset, by other wartime demands.

The total post-war output of United States agriculture will probably tend to remain high, as was the case in the decade following World War I. Even with some decline, our output of a number of important products, including some which we did not export to a significant extent before the war, probably will still exceed domestic demand at fair prices. This appears probable even if economic activity and domestic consumption remain substantially above pre-war levels. To meet this situation, the downward adjustment of production of some farm products will have to be extraordinarily severe unless we can maintain and expand our pre-war export outlets.

2. Industrial Exports

The importance of industrial exports to United States agriculture arises out of the fact that many of our large industries, such as automobiles and machinery, are on an export basis. The maintenance of full employment in these industries—and thus of a high level of consumption among their workers—is associated with a substantial sale of their products in foreign markets. This factor will presumably be of increased importance in the future because United States exports of industrial products may, thanks to technical progress, be able to compete in foreign markets relatively more successfully (by comparison with the pre-war situation) than will United States agricultural exports. Hence, agriculture's adjustment to this situation may involve a relatively greater dependence on the domestic market and on a flourishing foreign trade in industrial products as a means of expanding the domestic demand for agricultural products.

Dollar for dollar, industrial exports result in less increase of farm markets than do agricultural exports. Hence, they are not a complete substitute for exports of those agricultural products in which the United States enjoys a comparative advantage (i. e., those which farmers can profitably produce and export at normal world price levels).

3. Imports

There are three principal reasons for agriculture's interest in the development of post-war imports: (a) The needs of farmers for imported products, (b) the dependence of exports on imports, and (c) the problems of adjustment that might result from the undue expansion of competitive agricultural imports.

a. *Basic need for imports.*—Both for their own consumption and for use in production, farmers need products that are not produced in the United States or cannot be produced here economically in sufficient quantities for our needs. The need for nonagricultural imports, including certain fertilizers and insecticides, wood pulp and wood-pulp products, tin, nickel, manganese, chrome, tungsten, and other metals, and handicraft products such as embroidery and tooled leather, is widely appreciated by farmers. The same is true for agricultural

products not produced in the United States (the so-called complementary agricultural imports) such as coffee, tea, cocoa, bananas, and certain insecticides. Some of the principal agricultural products produced in the United States in insufficient quantities (the so-called supplementary imports) are: Sugar, wool, and hides and skins. (See table 2.)

b. *Dependence of exports on imports.*—Over any considerable length of time, we must have large imports if we are to have large exports, since our payments for imports are the most important source of dollars to foreigners who want to buy our products.

Another source of dollars to foreigners is the expenditures of American tourists, which may be fairly substantial after the war. Foreigners can also sell us gold for dollars, which may be another important item. They may be able to get some dollars by selling us more shipping and freight services than they buy from us. Finally, they can borrow dollars from us, and such borrowings would be facilitated under the arrangements proposed at Bretton Woods, but they must eventually pay these dollars back with interest. Except for the period of transition, when the rate of loans may approach the level of imports, none of these ways for foreigners to get dollars is apt to be as important as imports, even at the relatively low import levels that prevailed prior to the war.

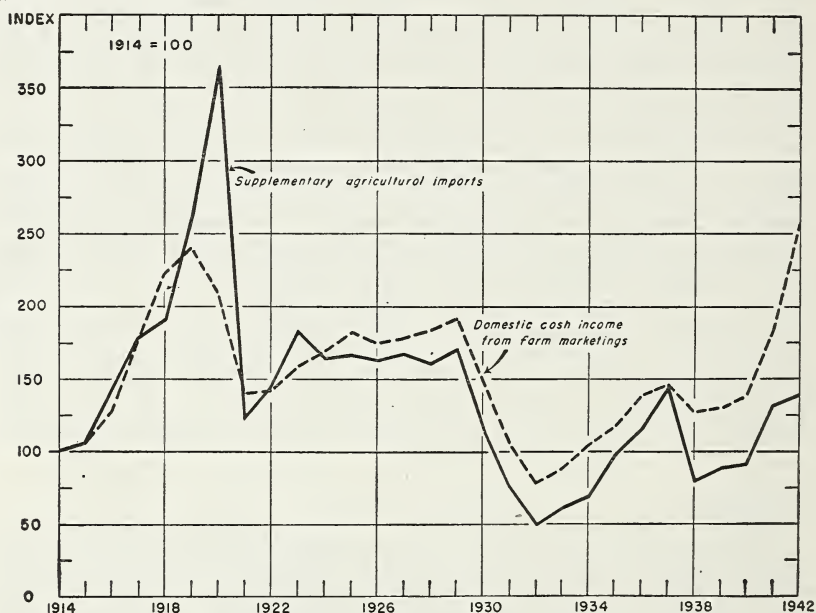


FIGURE 2.—INDICES OF THE VALUE OF SUPPLEMENTARY AGRICULTURAL IMPORTS AND DOMESTIC CASH INCOME FROM FARM MARKETINGS, 1914-42

Imports of agricultural products of kinds produced in the United States have been large when United States farm income has been high and small when income has been low, since both have moved with changes in United States domestic demand. Imports have declined more than farm income in periods of low demand.

c. *Possible problems of adjustment to expanded imports.*—While coffee, tea, and the other complementary imports do not appreciably

TABLE 2.—United States consumption and supplementary imports (excluding reexports) of specified agricultural products, average 1935–38, 1939, 1940, 1941, and 1942

Year ended Dec. 31	Sugar			Molasses (edible)		
	Domestic disappearance	Imports		Domestic disappearance	Imports	
		Quantity	Percentage of domestic disappearance		Quantity	Percentage of domestic disappearance
	<i>1,000 short tons</i>	<i>1,000 short tons</i>	<i>Percent</i>	<i>1,000 gallons</i>	<i>1,000 gallons</i>	<i>Percent</i>
1935–38 average.....	6,648	3,024	45.5	16,685	13,027	78.0
1939.....	6,908	2,903	42.0	13,817	11,564	83.7
1940.....	6,763	2,915	43.1	13,531	12,261	90.6
1941.....	7,445	3,738	50.2	12,491	11,653	93.3
1942.....	6,526	2,007	30.8	11,158	7,758	69.5
	Vegetable oils (crude basis)			Flaxseed		
	Apparent domestic disappearance	Imports		Apparent domestic disappearance	Imports	
		Quantity	Percentage of domestic disappearance		Quantity	Percentage of domestic disappearance
	<i>Million pounds</i>	<i>Million pounds</i>	<i>Percent</i>	<i>1,000 bushels</i>	<i>1,000 bushels</i>	<i>Percent</i>
1935–38 average.....	3,992	1,356	34.1	27,782	19,080	68.7
1939.....	4,032	960	23.8	33,157	16,028	48.3
1940.....	3,853	848	22.0	40,502	11,825	29.1
1941.....	4,668	879	18.8	47,931	21,122	44.1
1942.....	3,921	265	6.8	55,615	13,691	24.6
	Cattle hides			Sheep and lamb skins		
	Domestic consumption	Imports		Domestic consumption	Imports	
		Quantity	Percentage of domestic consumption		Quantity	Percentage of domestic consumption
	<i>1,000 pieces</i>	<i>1,000 pieces</i>	<i>Percent</i>	<i>1,000 pieces</i>	<i>1,000 pieces</i>	<i>Percent</i>
1935–38 average.....	21,497	2,413	11.1	34,895	15,311	43.9
1939.....	22,095	3,246	14.7	39,384	28,729	72.9
1940.....	21,070	4,583	21.8	37,920	24,426	64.4
1941.....	28,121	8,733	31.1	51,915	42,143	81.2
1942.....	30,801	6,104	19.8	53,646	37,324	69.6
	Wool (apparel)			Cattle and beef		
	Mill consumption of domestic and foreign wool	Foreign wool		Federally inspected slaughter of cattle and calves ²	Imports ³	
		Mill consumption ¹	Percentage of total mill consumption		Quantity	Percentage of inspected slaughter
	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>Percent</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>Percent</i>
1935–38 average.....	550,270	78,414	14.3	5,472,266	342,299	6.3
1939.....	630,150	78,868	12.5	5,362,515	440,092	8.2
1940.....	639,861	153,601	24.0	5,539,115	350,131	6.3
1941.....	997,075	483,141	49.5	6,338,309	510,112	8.0
1942.....	1,077,180	536,588	49.8	7,013,658	442,417	6.3

¹ For 1935–41 consumption for apparel of duty-paid and duty-free wool. For 1942 all consumption of duty-paid wool.

² Dressed-weight basis.

³ Includes cattle (dutable), canned and other beef, on dressed-weight basis.

Office of Foreign Agricultural Relations.

affect the domestic markets of United States farm products, the amount of the supplementary agricultural imports that can enter the country without undue injury to our agriculture depends largely upon the level of domestic consumption.

When per capita consumption is maintained at a relatively high level (as in periods of prosperity), we need, and in fact we usually have, very high imports of these products as well as other products produced in foreign countries more advantageously than here; and our domestic market can absorb these large imports as well as all that domestic producers turn out. On the other hand, should there be periods of relatively low general domestic-consumption levels, our farmers will face great adjustment problems; under such circumstances, unrestricted supplementary agricultural imports, even though their absolute level might be below normal, would cause market pressure for greater downward adjustment in domestic farm output than necessary to offset the temporary drop in domestic consumption levels.

The long-run goal should be an expansion in the imports of those goods and services that foreign countries can produce more cheaply than we can, and thus increase the opportunities for the employment of our domestic resources in the production for export of goods that we can produce more efficiently than foreign countries.

II. Post-War Agricultural Surpluses

At pre-war levels of world agricultural production, the quantities of many agricultural commodities that importing countries were willing to purchase, at a price sufficient to secure adequate returns to efficient producers, were considerably smaller than the quantities exporting countries wanted to sell; this situation persisted year after year. The net result of the war and the rehabilitation period will be a substantial increase in world agricultural-production levels.

With a vigorous and continuing expansion in economic activity throughout the world, effective demand might grow to match this expanded farm production capacity. Even in that case, some products (such as wheat, cotton, and fats and oils) would probably be in world surplus for a considerable period unless downward production adjustments were effected. There may be a short period, before European agriculture is reestablished on a peacetime basis, when most exporting-country production will be needed; but thereafter, unless economic activity is maintained at a high level throughout the world, there will be many burdensome agricultural surpluses tending to depress farm incomes and prevent trade expansion. Commodities in which world surpluses are apt to be particularly severe, in addition to the three groups just mentioned, are wool, rice and certain other grains, several of the fruits, and a number of tropical products such as cocoa and probably coffee.

Such surpluses may persist for some time because of the difficulty (1) of adjusting world agricultural production and (2) of maintaining and expanding effective world demand.

1. The Problem of Adjusting World Agricultural Production

Agricultural production, particularly crop production, tends to respond substantially (as it has done during the war in areas accessible to the United Nations) to an increase in demand, however temporary.

Once expanded, however, it responds only slowly and inadequately to subsequent contractions in demand. Hence the great demand shifts of the two world wars have developed a larger and larger world agricultural production capacity.

Agriculture's relative inability to adjust to declining demand is due to a number of factors. A large proportion of total costs is fixed; most of the capital investment is attached to the land and cash expenses per farm are relatively rigid because of the importance of such items as debt service and taxes. In the United States and in most other countries, small enterprises predominate in agriculture. Hired labor is unimportant in agriculture in comparison with industry and mining. In many cases the family is tied to production on a certain area and has a limited choice of products to raise. Where only one or two products suffer declining demand, some shift to other agricultural products often takes place, but there is nothing to shift to in the face of an over-all decline in demand. Livestock production may be reduced, but the resources thus released will be added to those already employed in crop production for market. The application of recent technological improvements will militate in the same direction. Another factor tending to increase agricultural production in periods of declining demand associated with industrial depression is the movement of unemployed industrial laborers to rural communities. In a number of countries, the entire economy centers around the production of a few agricultural commodities for export, so that there is a great reluctance to decrease output.

Almost nowhere in agriculture can the individual operator increase his profits or cut his losses (as the businessman so often can) by decreasing the scale of his operations when his market price falls.

2. The Problem of Maintaining and Expanding Effective World Demand

It is not yet clear what post-war world demand for agricultural products to expect, since there are a number of uncertain factors which will affect the demand situation.

Among the favorable factors is the effort of the United Nations to forge a mechanism capable of maintaining a high level of economic activity. International conferences have been held on food and agriculture, on monetary and financial problems, and on security. These conferences have projected international arrangements intended to help in the enormous task. Preliminary negotiations under the lend-lease agreements have been pointed in the same direction. Further discussions are planned, and it is to be anticipated that they will add up to a tremendous world effort to prevent future collapse of demand. Some of the circumstances of the post-war period may favor this effort. Thus, increased industrialization in such countries as the Soviet Union, France, China, Australia, and the countries of Latin America may result in expanded demand by these countries both for consumption goods and for capital goods to use in further industrialization. The widespread belief that it is the responsibility of government to maintain full employment may also be a factor.

There will, however, be other factors which may curtail post-war world demand. Except as the agricultural importing countries involved in the war obtain loans or other financial assistance, they will probably find their capacity to pay for imports substantially reduced. The reduction will be due to such factors as war damage to their

export industries, loss of their foreign markets, wartime liquidation of their foreign investments, increased competition in the field of international services, and (in the event that they are imposed on defeated countries) reparation obligations. The demand for certain agricultural products, such as cotton, may be further curtailed by wartime progress in the development of substitutes.

We in the United States will experience a special deterrent to the foreign demand for our agricultural products if, as is quite possible, a general shortage of dollars develops. Foreign governments are then likely to reserve the bulk of their countries' supply of dollars for the purchase of industrial products, especially capital-goods items, in which we have a great comparative advantage, and they will tend to direct purchases of needed agricultural products to exporting countries whose currencies are not scarce. This will be aggravated if our prices are above those of other agricultural exporting countries. It is possible, however, that a shortage of dollars may be averted if our tariffs are effectively reduced, the foreign-exchange value of the dollar is not set too low, and a satisfactory solution is found for the problem of loans and capital movements. A start in this direction was made at the Bretton Woods Monetary and Financial Conference.

It is as yet too soon to foresee the net effect of the favorable and unfavorable factors affecting post-war demand and world consumption levels. It is probably prudent to think both in terms of supporting measures to maintain a high level of demand and in terms of dealing with surplus situations.

The post-war agricultural policies foreshadowed in announcements already made by the governments of important agricultural producing countries indicate general preparation against the possibility that the favorable factors in the post-war supply-and-demand picture may not, at least for some time, be strong enough to outweigh the unfavorable factors and, therefore, that some world agricultural surpluses may prevail.

III. The Prevalence of Government Intervention in Agricultural Production and Trade

Since 1914, government intervention on behalf of agriculture has greatly affected the conditions of international trade. Such intervention was extended and intensified during the interwar period. During the present war, it has been applied to practically all commodities in most countries. There is almost conclusive evidence that it will continue on an extensive scale in the post-war period, not only because surplus situations will make it necessary but also because of a trend which many important governments are now committed to continue.

1. Prior to 1914

In the period of relatively low trade barriers and of expanding world markets for farm products that preceded the first World War, governments confined their assistance to agriculture largely to certain aids in the development of production and marketing (e. g., by quality premiums, freight concessions, and provision of credit at favorable terms) and to relatively moderate import duties and occasional export subsidies for the purpose of creating artificial cost differentials favoring domestic producers over foreign producers.

Government intervention was used, however, to bring about a considerable distortion of the pattern of international trade in sugar, where there was a bitter struggle during the last part of the nineteenth century between cane-sugar producers and continental beet-sugar interests. While this intervention was limited by the International Sugar Convention of 1902, which abolished all export subsidies and placed a ceiling on the tariff rates for sugar, means were found for maintaining a large volume of uneconomic production in beet-sugar areas.

2. World War I

During the first World War, the disorganization of European agriculture and the consequent need for control of consumption led to extensive government intervention in the entire production and distribution process for a number of agricultural staples. However, the degree and effectiveness of the controls exercised were not nearly so great as during the present war.

In this period the production of basic agricultural staples in exporting countries, particularly those of North America, expanded greatly to meet the temporary increase in European demand.

3. The Interwar Period

At the end of World War I, most direct government controls were removed rapidly. In the ensuing decade, however, and even more during the thirties, far-reaching measures of government intervention were introduced in an effort to maintain or expand domestic production without regard to repercussions on other countries or the world as a whole. Hence they tended to aggravate rather than reduce the world-wide maladjustment between production and effective demand.

In the agricultural importing countries, the relatively inefficient production of staple foods was raised to new high levels, usually on the grounds of the need for self-sufficiency in case of attack; this tended somewhat to retard the production of the protective foods which these countries produce relatively efficiently. The production of artificial fibers was greatly stimulated in some countries.

Meanwhile, the exporting countries did not greatly recede from wartime production levels, even during the years of world depression. In many cases, those levels were maintained and even substantially exceeded. Currency manipulations and export subsidies were employed in an effort to capture as large a share as possible of the dwindling market in the importing countries, while in a number of cases domestic prices were supported at relatively high levels. In a number of cases preferential trade arrangements were made between importing countries and groups of exporting countries in order to keep more efficient exporting countries from obtaining their share of the importing-country market.

a. *Agricultural importing countries.*—Most of the importing countries of continental Europe (such as *France, Germany, Italy, Czechoslovakia, Sweden, and Switzerland*) not only used tariffs to stimulate production of agricultural staples in their relatively inefficient areas but also resorted to more rigid import limitations, such as milling regulations, import quotas, licenses, embargoes, and exchange discrimination.

Some importing countries made less extensive use of direct trade restrictions but protected their producers by other means, which had a similarly restrictive effect on trade. The United Kingdom, for example, paid her farmers the difference between the market price and a goal price on the bulk of the domestic marketings of grains and sugar, thus enabling them to undersell foreign producers and to increase their share of the British domestic market.

b. *Agricultural exporting countries.*—The increase of import restrictions and other government aids to agriculture in importing countries seriously affected the markets and prices of farm products in exporting countries. In many of them, this became an important reason for currency depreciation and exchange manipulation. Direct export subsidies were also employed.

In addition, the agricultural exporting countries found it necessary to resort to specific agricultural price and income supports. Some of these price-supporting measures centered around the maintenance of domestic prices above world-market levels (e. g., in the *United States*, the offer of government loans and purchase; in *Argentina*, the offer of purchase of wheat, linseed, and corn at fixed prices; in *Brazil*, the cotton-loan program; and, in *Australia*, the regulation of the domestic price of wheat flour and the restriction of the quantities of domestic dairy products and dried fruits salable in the home market). In other cases, the government stepped in as a monopoly buyer, reselling at a loss where that was considered necessary to assure an adequate price to the producers. This is in essence the method used in *New Zealand* in a comprehensive program of controlling prices of export products, butter in particular.

c. *The growing importance of state trading.*—Price supports involved an increasing amount of outright state trading in the latter part of the interwar period. An example in an exporting country was the New Zealand butter control just mentioned. Outstanding examples in importing countries were the wheat monopolies established in a number of countries, including *France*, *Germany*, *Italy*, *Czechoslovakia*, *Switzerland*, the *Netherlands*, and *Norway*. Partial state trading (nonmonopolistic in character) developed in a number of countries because governments assumed the obligation of disposing of surpluses without reducing domestic prices.

Many of the State trading monopolies were established for reasons other than agricultural price support. They lend themselves easily to political and military use. Sometimes they served primarily fiscal purposes, as in the case of most of the tobacco monopolies.

Even where established for other reasons, however, state trading monopolies almost invariably were also used for the purpose of supporting domestic farm prices.

The all-inclusive import and export monopoly of the Government of the *Soviet Union* attained some importance in the agricultural trade of the interwar period (e. g., through monopoly exports of wheat and other grains, butter, tobacco, and flax, and monopoly imports of cotton and wool).

d. *Preferential trade arrangements.*—Some agricultural exporting countries used intergovernment arrangements to increase their foreign marketings at the expense of their competitors (including United States agricultural exporters). For example, the *Danubian countries*

concluded bilateral clearing agreements with Germany under which their farm products obtained a preferred position in the German market in exchange for concessions to German manufacturers. Under the *Ottawa Agreements*, the Dominions secured preferential treatment from the United Kingdom as well as from one another. Similar preferences for Hungarian wheat were secured from Italy and Austria under the so-called *Rome Protocols*. *Cuba* secured an increase in the margin of preference enjoyed by her sugar in the United States market.

4. Government Intervention During the Present War

The current war has greatly increased the extent and degree of government intervention in agriculture, particularly the use of government trading monopolies.

As distinct from pre-war intervention, wartime government intervention has in most cases been caused by shortages resulting from demand increases and trade interruptions. It has therefore been aimed primarily at expanding production, not only of the former surplus products but also of a number of others. It has been extended to almost all important commodities and has affected not only production and trade but also the various stages of the distribution process.

5. Post-war Prospects for Extensive Government Intervention

Governments in all important countries, including those members of the British Commonwealth usually thought of as favoring freedom of trade, have made commitments of one sort or another to support post-war agricultural prices or incomes; apparently they recognize the prospect of new world surpluses and of consequent price slumps in the world market. In general their commitments go further than did pre-war measures. *Canada* recently established a board with fairly general authority to support agricultural prices in the post-war transition period either by purchase from producers and resale (in many instances presumably at a loss) or by paying farmers the difference between market prices and goal prices. In the *United Kingdom*, the Minister of Agriculture has announced that the Government will guarantee to producers of milk, fat cattle, calves, sheep, and lambs an assured market for practically their whole output during the 4 years up to the summer of 1948 at price levels not below those now prevailing. Here in the *United States*, Congress has made agricultural price supports at 90 percent of parity or more mandatory on a number of products for a period of 2 years after the year in which hostilities are declared to have ceased.

In many cases, state trading in individual commodities has been directly or indirectly envisioned by government programs, and it is likely to obtain greater importance in the post-war period than it did prior to the war. *Canada* (in the case of wheat) and *Great Britain* (in the case of various essential foods) appear to contemplate maintaining government trading monopolies for at least some time after the war. Moreover, the British Ministry of Food has entered into contracts (by their nature tending to set up preferences) with the governments of the British Dominions and Iraq giving guarantees as to the quantities and prices of some major farm products that the United Kingdom will take for future periods of up to 4 years. Other

countries anticipating balance-of-payment difficulties may also resort to preferential buying practices. Finally, it is possible that a number of countries will adopt something similar to the over-all import and export monopoly of the Soviet Union.

Plans for government intervention in agriculture depend to a considerable degree upon expectations relative to the trend of general economic activity and employment in the post-war period. While every government is more or less dedicated to the maintenance of a high level of employment, few, if any, appear to consider it prudent to count on continued widespread success in that effort. Hence, governments are planning to keep available to themselves what they consider adequate means of dealing with the conditions that accompany low levels of economic activity. Since one of the earliest undesirable phenomena accompanying a fall in economic activity is a sharp decline in agricultural prices, governments are particularly insistent on having the authority and means to intervene in support of those prices.

The outstanding lesson of the past is that such price supports, if they are used widely and without regard to their effects on other countries, tend to lead to trade wars and to aggravate world-surplus situations. The leading proposals for avoiding this in the future involve (1) relaxation of government intervention and (2) international arrangements to coordinate intervention.

IV. Relaxation of Government Intervention Affecting Trade as a Means of Facilitating Trade Expansion

A widely advocated method for expanding international trade is the elimination or reduction in the private-enterprise countries of tariffs, quotas, preferential systems, and other forms of government intervention affecting international trade.

The relaxation of trade intervention could successfully promote expansion of trade and readjustment of production in articles the volume of output of which responds reasonably well to price changes, as is the case for many industrial products and nonagricultural raw materials. In the case of such articles, the effective relaxation of intervention would presumably result in reliance on the most efficient producers and in the production of the maximum quantity consistent with effective demand relative to the demand for other articles. (This assumes, of course, that a satisfactory means can be found for obtaining an equivalent production and consumption adjustment in countries with government foreign-trade monopolies, including not only those with a complete state-enterprise system, such as the Soviet Union, but also those where foreign trade in only certain commodities is a state monopoly.)²

Relaxing trade intervention can have little of the desired effect, however, at least for a considerable period, on the volume of trade and (particularly) production of commodities whose output responds in-

² Under government monopoly the direction of foreign trade is a matter of arbitrary administrative decision and price-cost relationships are obscured, to a greater or lesser degree. Hence, short of complete abandonment of the monopoly (which is extremely unlikely in most cases), trade expansion can be achieved only by administrative decision; relaxation elsewhere might be matched, however, by specific agreement as to the policies to be pursued in the administration of the monopoly.

adequately to price changes (e. g., most crops, as was pointed out under II, 1, on p. 10). It certainly could not remedy a serious world-surplus situation, nor could it prevent widespread agricultural depression. Moreover, for commodities in world surplus, it seems unlikely that either the United States or other important producing countries would abandon, or even relax significantly, the measures of intervention in favor of their producers discussed under III, on page 12, at least so long as the difficulties giving rise to the intervention continued.

The approach to the relaxation of intervention in international trade could be unilateral, bilateral, or multilateral.

1. Unilateral Action

The term "unilateral action," refers to measures taken by a country without regard to what is done by other countries.

The outstanding example of the use of unilateral action to reduce intervention as a means of expanding international trade is that of the United Kingdom in the middle of the nineteenth century. The venture was accompanied by a remarkable degree of success due to a singular combination of circumstances favorable to an expansion of Britain's international trade. Among these circumstances were her outstanding technical superiority in industrial production, her large merchant marine and dominant navy, and her recognized leadership in international banking, insurance, and investment. Her expanding industrial economy made it possible for those of her agricultural producers who were displaced by cheap imports to find employment opportunities in the cities (although these population shifts were brought about more by rural distress than by urban opportunities). Other governments that tried to pursue a policy of unilateral tariff reduction met with less success and returned to the policy of protectionism. Great Britain herself reestablished a trade-intervention policy when it became evident, in the interwar period, that the singularly advantageous circumstances of her period of foreign trade expansion no longer prevailed.

It is improbable that any governments other than that of the United States, even the United Kingdom, will resort to unilateral reduction of intervention in the post-war period, except for the liquidation of controls designed primarily for war purposes. Especially in the case of agriculture, as is pointed out in III, 4, on page 15, it is anticipated that such unilateral action as may be taken with regard to trade barriers will be directed primarily toward their increase in order to support farmers' prices and incomes.

As regards the United States, it might be argued that a unilateral reduction of tariffs on products responding adequately to price changes would result in a net gain to our economy as a whole, since it would promote shifts of our resources to more efficient uses and thus promote higher living standards and higher real incomes in this country. A unilateral reduction of our agricultural tariffs, however, would reduce our domestic market by admitting imports (many of them subsidized in their countries of origin) without enabling an expansion of our agricultural exports to the rigidly protected markets of the importing countries.

Some unilateral action, both here and abroad, may be directed toward increased government control of trade, regardless of the re-

sponse of output to price change, where the commodities (1) are affected (as are certain drugs) with a large measure of public interest, (2) have a strategic military significance, (3) are traded in to a substantial extent by foreign governments which might put individual United States traders at a disadvantage, or (4) are affected by a substantial degree of control by international cartels.

2. Bilateral Agreements—The United States Reciprocal Trade Agreements Program

Under bilateral agreements, one party to an agreement between two countries makes reductions of certain specified trade barriers in exchange for specified reductions in trade barriers by the other party. Such agreements can lead to general trade expansion only if the two parties grant most-favored-nation treatment to each other and to most other countries (i. e., if, in the application of a lowered duty or any other relaxed trade barrier, there is no discrimination in favor of the other party to the agreement).

This is the approach employed in the United States Reciprocal Trade Agreements Program. Unfortunately, that program was not launched until the practice associated with trade intervention had become an inseparable part of the complex of events which led up to the present war. Even under those conditions, the program proved a useful instrument for the gradual reduction of trade barriers. It helped to expand our international trade in agricultural products in the years preceding the present war. Its continuation in the post-war period would appear to be desirable. Moreover, it involves no conflict with other forms of international arrangements for the expansion of desirable trade. However, since it requires time to achieve significant results, it cannot be relied upon for a quick and comprehensive reduction in trade barriers.

3. A Multilateral Convention

A multilateral convention refers to an agreement open to signature by all of the countries of the world.

In view of the limitations of the bilateral approach, there is an important body of opinion in favor of a multilateral convention for a simultaneous reduction in the trade barriers of as many private-enterprise countries as are willing to participate, with some general accompanying arrangement with the Soviet Union and with any other state-control countries. Since international commercial and financial transactions balance normally on a multilateral basis and since even the trade between two countries is influenced by measures taken by the governments of third countries, a multilateral convention for a reduction of trade barriers should bring about a considerable expansion in the volume of desirable international trade.

As in the case of bilateral agreements, however, time will be required to achieve an effective multilateral convention. It might prove more difficult to achieve agreement on modification in the general trade policies of many countries than to achieve specific concessions between only two countries. If a multilateral convention could be concluded in the near future, it would be an important restraint on the use of intervention as a means of dealing with the adjustment difficulties of the early post-war period. The recognition by the various United

Nations of their economic interdependence has created a favorable atmosphere in which to hold a conference for this purpose.

V. Relaxation of Private Intervention Affecting Trade as a Means of Facilitating Trade Expansion

A corollary of any proposal to expand trade by relaxing government intervention is the proposal to outlaw certain types of private action not considered consistent with the rules of operation of a private-enterprise economy. Chief among these are the restrictive operations of private monopolies and international cartels. By eliminating or greatly curtailing competition in their fields of operation, monopolies and cartels put themselves in a position to control prices, production, or marketing and thus to affect trade in the same way as do similar controls established by government action. As with intervening governments, the practices of monopolies and cartels include supporting prices at arbitrary levels, controlling quantities entering international trade, setting special export prices, and restricting production.

Private monopolies and cartels, by restricting international trade in many important nonagricultural commodities, have a direct tendency to restrict trade in agricultural commodities, particularly because a substantial part of the world's trade consists in the exchange of raw products for finished goods.

The elimination or control of objectionable cartel and private monopoly activity in the fields where such activity is significant is an essential accompaniment of the relaxation of government intervention if trade expansion is to result.

VI. Commodity Arrangements to Coordinate Intervention as a Means of Facilitating Trade Expansion

A means advocated for the expansion of trade in commodities affected by world surpluses (and, therefore, not susceptible of successful treatment through the relaxation of intervention) is the adoption of multilateral intergovernmental commodity arrangements. Representatives of the countries having a substantial interest in the production or consumption of such a commodity would reach agreement each year (or as often as might be required) on a production and marketing program.

1. Expanded Consumption

Principal emphasis would be placed on the expansion of consumption, particularly of foodstuffs for which requirements are rarely, if ever, satisfied among large groups of people. New industrial uses would also be sought. The representatives of the various countries on the Commodity Council (which would be the negotiating body under a commodity arrangement) would consider the potential demand for the period being considered. They would explore possible ways of translating into effective demand the requirements of low-income populations and others whose need for the commodity was not being satisfied. They would compare data on per capita consumption. This would focus attention on the relative levels of consumption in the different countries and stimulate action directed

toward raising these levels where they were disproportionately low. Such action might be aided by some of the international surplus-disposal measures discussed under VII on page 22.

2. Adjusting Production

Production programs would give consideration to relative efficiency and comparative advantage of producing various commodities. To the extent that the consumption of a commodity, even with such expansion as could be achieved through the implementation of low-income demand, fell short of expected production, agreement would be sought on readjustments in production by the least efficient producers (both as concerns countries and areas within the countries). An effort would be made to facilitate the shift of the resources of these relatively inefficient producers to more efficient uses. In such cases, the various governments would have to find effective ways to induce such production shifts wherever the price mechanism was not adequate for the purpose. On the other hand, should the expected levels of demand exceed the amount of production anticipated on the basis of controls in effect, agreement would be sought providing for the necessary increases in production in the most efficient producing areas (both as concerns countries and areas within the countries). As far as possible, production adjustment would be in the direction of such patterns as those envisaged at Hot Springs and would be carried out within the long-term, internationally coordinated production plan which it is expected the permanent Food and Agricultural Organization will aid nations to develop.

In this connection, it might be noted again that, in the absence of a relatively high level of economic activity, shifting agricultural resources from the production of surplus commodities to other commodities will be extremely difficult. To shift out of one line of production, a producer must have a reasonable opportunity to find employment for his resources in another line of endeavor. (See the discussion of agricultural adjustment problems in II, 1, on p. 10.)

3. Prices

While market prices would in general remain free to adjust to current changes in supply-and-demand conditions, agreement would be reached on extremes beyond which fluctuations in world prices would be prevented as being detrimental to both consumers and producers. The upper and lower limits of the range of permitted fluctuations might be varied from year to year as might be necessary because of such factors as (1) reductions in marginal costs, due to improved production techniques or concentration on the more efficient sources of supply, (2) increases in demand, requiring production expansion into areas of somewhat higher costs, (3) reductions in demand, such as those due to changing consumer preferences or the development of substitutes, and (4) changes in the general level of world market prices.

4. Buffer Stocks

Agreement would also be reached on a desirable average level of world stocks of a commodity dealt with. Purchases for stocks and sales from stocks would help keep prices from going beyond the limits

agreed upon. Increases and decreases in the stock piles would be important considerations in reaching agreement on production-distribution programs.

Nationally held stock piles could be supplemented by international holdings. An international agency would accumulate stocks in the years when production exceeded average consumption or consumption was significantly below the average (e. g., because of low consumer purchasing power); if necessary, it would carry these stocks through a series of large crops or prolonged depressions. In years when production was short of average requirements or consumption was above average, the agency would gradually reduce its stocks, but not below quantities which, together with the national stock piles, would be large enough to meet emergencies such as crop failures, possible losses due to deterioration and natural accidents, and the requirements of national security put forward by the various countries.

International buffer-stock operations of this type might also be used, even without commodity arrangements, in connection with commodities not in world surplus.

5. Organization

The system of international commodity arrangements of the type here discussed represents a new approach and would require the development of appropriate administrative technique. Although many details would have to be solved as they arose, it is clear that an international apparatus for the successful operation of such a system would have to include the following elements: (1) A council for each commodity (or commodity group) that is the subject of a commodity arrangement, with a secretariat to serve it; (2) an over-all organization to coordinate the work of the various councils and secretariats; and (3) an international agency to manage the buffer stocks.

Each council would consist of representatives of all countries—consuming countries as well as producing countries—having a substantial interest in the commodity. It would meet at least once a year. Its principal function would be to reach agreement on a world supply-and-distribution program that would as nearly as possible achieve the objectives outlined above, and on such modifications in the program as might from time to time become necessary. The secretariats of the various councils would do the detailed work involved in carrying out the decisions of the councils, maintain and publish full information relative to world production, stocks, and utilization of the commodity with which they were concerned, and prepare material for meetings of the councils. They and the over-all organization should all be located at one place. They might well be integrated as the secretariat of the over-all organization.

The principal function of the over-all organization would be to coordinate the work of the individual commodity councils and their secretariats and to bring considerations of general interest to bear on the programs arrived at by the individual councils. Therefore, in setting up this organization there must be taken into consideration both (1) the need for developing a well-rounded and flexible over-all organization that can become an effective instrument for this new type of international action and (2) the need for integrating the activities of the system of commodity arrangements with those of other interna-

tional organizations (such as the Food and Agriculture Organization or the proposed commercial-policy organization).

The agency managing buffer stocks would operate under the guidance of the over-all commodity organization, both as concerns price policies and the size of stocks held. It should probably have a corporate form to facilitate its carrying on commercial and financial transactions. As is pointed out in VII, 2, on page 23, this agency might also function in connection with the utilization or disposal of surpluses.

The representation of the United States on each of the commodity councils would presumably be decided upon not dissimilarly to its representation on the present International Wheat Council, that is, through the appointment by the executive of one or more representatives. There should, however, be worked out a system of reporting to the legislative branch that would permit it to follow this phase of our international relations more closely than can be done through regular reports to Congress and committee hearings. This problem is not peculiar to commodity arrangements but is inherent in the entire conduct of the international relations of the United States. Presumably it will be dealt with in that larger framework.

6. Relationship to Previous Commodity Agreements

The proposal for international commodity arrangements as a means of trade expansion differs from the approach employed in connection with the commodity agreements concluded prior to the present war. These agreements were not concluded under any general international arrangement. Few of them included any consumer-interest representation, and there was little opportunity to enlist support under them for efforts to expand consumption. They were for the most part made in periods of low consumer purchasing power when the burdensome agricultural surpluses against which they were directed were largely due to the prevalence of underconsumption in spite of disastrously low prices. Hence, they had to be primarily "restrictive," although it must in fairness be admitted that in only rare cases were they as restrictive of production as were the actions taken at that time by private entrepreneurs in manufacturing and mining.

The proposal calls for the incorporation of the existing agreements as international commodity arrangements under the new system, with such modifications in their set-up and principles of operation as would be required in order to accomplish the necessary reorientation. It may be noted that some steps in this direction have already been taken in connection with the International Wheat Agreement of June 1942, which was approved by the four principal wheat-exporting countries and by the principal wheat-importing country.

VII. Improvement of Diets and Living Standards as a Means of Trade Expansion

It would appear logical to utilize surpluses for human good by channeling them into consumption in such a way that prices in regular markets will not be depressed and huge stocks will not be accumulated, instead of destroying them or diverting them to inferior uses. The potential demands of the less privileged people of the world might thus

be tapped for whatever returns could be obtained. The principle of such an approach will be readily recognized by many commercial concerns that have followed it to their advantage.

This approach to commodity disposal has been applied in some producing countries, notably the United States. A variety of commodities have been made available to low-income groups either without payment or at special prices. Examples in the United States are the school lunch program, the food stamp plan, and the surplus milk program.

1. Need for Supplementing National Action With International Action

The promotion of better diets and living standards among low-income groups is the responsibility of the national government of a country. Moreover, a country ought to use its surpluses first to satisfy the needs of its own people. It is anticipated that all countries will be stimulated to take action of this type by the Food and Agriculture Organization and the proposed international commodity organization.

In a number of agricultural importing countries, however, it is to be anticipated that domestic resources, even if used most advantageously, will not be adequate for this purpose. At the same time, some exporting countries will produce more foods and fibers than they need at home or can sell abroad at fair prices. Under such circumstances, international action might be taken to use these exporting-country surpluses for the expansion of world consumption by making them available to the food-importing countries below world-market prices, on condition that the latter establish effective procedures for distributing them among low-income groups exclusively. Special safeguards would have to be set up to insure that such low-price surpluses did not compete in the regular trade channels with commercial imports.

2. Relation to the Proposed Commodity Arrangements

The orderly disposal of commodities in world surplus under such a program would require the existence of international commodity arrangements covering the commodities involved in order to avoid underbidding by the various supplying countries, as well as to determine the magnitude of surpluses and how the losses resulting from this procedure should be shared.

An equitable basis for such sharing might be the ratios between the total foreign sales of the various countries participating in the international surplus-disposal plan. The terms at which a surplus commodity might be offered for the improvement of nutrition in deficit countries would depend on various circumstances, such as (a) the returns obtainable for alternative nonfood uses such as that of wheat for feed, and (b) the paying capacity of the several deficit countries desiring to obtain quantities for disposal to their low-income groups.

The machinery provided in connection with the commodity arrangements might well be used in carrying out such an international surplus-disposal program. The operating agency would acquire not only the part of world food surpluses to be held as "buffer stocks" or an ever-normal granary, but also additional amounts for disposal under this program.

3. Commodities Not Subject to Commodity Arrangements

It might be desirable to extend this program to commodities not in world surplus for which the war has resulted in a production-consumption disequilibrium. This probably could be done without great difficulty. The buffer-stocks agency or other operating agency might have a general commodities section to handle commodities not covered by specific international commodity arrangements. This general commodities section would be in a position to acquire food from one country and make it available to low-income groups in other countries. If, for example, the United States should want to get rid of certain quantities of dried eggs or dried milk after the war and could not find a foreign market for them, these quantities could be turned over to the general commodities section of the buffer-stocks agency, which could attempt to arrange a suitable outlet at less than the regular world-market price.

4. General Considerations

The cost of this international disposal program would, of course, depend both upon the quantities to be disposed of and upon the price reductions which might be necessary to move them into consumption. However, no program would be carried out unless the costs to the exporting countries were smaller than the losses which would result from destruction, deterioration, or alternative use of the commodity. Any further subsidization by the importing country would be on the basis of the social gain in the living standards of their low-income groups.

Essentially, the program outlined here is a form of export subsidization, or dumping; that is, it contemplates selling part of the food supplies abroad at less than the domestic market price. Yet it is quite different from the usual competitive dumping (which tends to demoralize world markets and to invite retaliation) because it would be carried out by exporting and importing nations in close cooperation. For example, if there should be a world surplus of wheat after the war, the wheat commodity council could determine how much of the surplus was to be taken over by the buffer-stocks corporation and how much of this would be supplied by Canada, the United States, Argentina, Australia, and other exporting countries. It could also work out suitable arrangements for disposing of part or all of the surplus stocks to undernourished groups in various deficit countries. Such a program would tend to strengthen and to stabilize world food prices, and it would encourage the immediate consumption of surpluses rather than the accumulation of excessive stocks.

As these operations would be restricted to the disposal of quantities not salable in regular markets at fair prices, there would be a minimum of interference with private business enterprise and with commercial trade between exporting and importing countries.

VIII. Efforts to Create an Expanding World Economy and World Peace

The healthy development of United States foreign trade depends not only on post-war policies directly affecting international trade

but also on national and international policies that affect trade less directly. In addition to policies facilitating economic rehabilitation and reconstruction (such as those associated with the United Nations Relief and Rehabilitation Administration), this would include more permanent policies such as those aimed at (1) the establishment of security and peace, (2) the maintenance of employment and economic activity, (3) the assurance of monetary stability and adequate investment policies, and (4) the assurance of adequate nutrition and high standards of living.

1. National Security and International Peace

After the experience of two world wars, the need to safeguard national security and international peace is widely recognized. Less generally recognized is the dependence of the expansion of international trade upon the success attained in this field. Experience in the interwar period has demonstrated that conditions of political insecurity cause people to turn to policies of self-sufficiency in regard to such basic goods as food and clothing. Since countries that pursued an ardent agricultural self-sufficiency policy in the interwar period have been able to maintain their domestic food supplies far better in this war than in the last war, it is probable that the tendencies toward such self-sufficiency will be even stronger after this war than they were before its outbreak. These tendencies, and their unfavorable effect on international agricultural trade, can be countered only by establishing peace on so firm a basis that people in small as well as in large countries will consider their security and their access to commodities produced in other parts of the world assured at least for this generation.

It is, of course, recognized that the two are interdependent, and that the expansion of desirable international trade will in turn aid in the maintenance of international peace.

2. High Levels of Employment and Economic Activity

The maintenance of high levels of employment and economic activity tends to stimulate demand for imported as well as domestic products. In the interwar period, the volume of United States imports fluctuated closely in proportion to the changes in domestic economic activity. Foreign countries are conscious of this and are greatly concerned lest the United States fail to maintain its domestic economic activity. This may be a decisive factor in determining their willingness to cooperate in policies aimed at expanding international trade.

Of course, full employment also stimulates exports. Since a large volume of imports supplies to foreigners with a relatively large amount of dollar exchange with which they can buy American products, the larger such imports the more opportunity there is for producing and exporting the types of goods in which the United States has a comparative advantage. Without a high level of employment, on the other hand, the resources of our natural export industries search for employment elsewhere. For example, skilled workers who would, under full employment, be helping to manufacture automobiles for export are driven to occupy themselves with less efficient

mechanical operations, to go into subsistence farming, or to work at other things.

Discussion of measures designed to ensure full employment and economic activity has already begun, not only in the United States but also in most foreign countries. The nature of the measures taken will probably vary from country to country. The efficient use of resources and a high standard of living will be promoted by adopting measures consistent with a high level of international trade and world prosperity. The degree to which preference is given to measures of these types, rather than to those of the self-sufficiency variety, will depend upon the success that is achieved in concomitant efforts to obtain active international cooperation for trade expansion.

3. Monetary and Investment Policies

The monetary and financial policies of the interwar period were progressively nationalistic, and, as is now generally recognized, they contributed substantially to the economic and political difficulties that developed in that period and finally culminated in the second World War.

The need to prevent a recurrence of such developments has been recognized by the leaders of the United Nations, and delegates of these nations agreed upon plans for an International Monetary Fund and an International Bank for Reconstruction and Development at the Bretton Woods Conference in July 1944. While these plans still wait for approval by the legislative bodies of the various countries and may be changed in detail, it is to be hoped that the two main objectives of the Bretton Woods Conference will be upheld by all nations in the post-war period, namely, (a) the provision of a system of stable, orderly, and free exchange arrangements which would prevent the use of monetary policies as a means of artificially enhancing the competitive position of domestic producers or as a means of establishing different exchange rates for trade with different countries or the trade in different commodities, and (b) the provision of international capital for the post-war reconstruction and the economic development of undeveloped areas, which would facilitate a large volume of trade.

4. Adequate Nutrition and High Standards of Living

During the interwar period, in spite of large surpluses of food and fiber, there continued to be malnutrition and even starvation among great numbers of the world's population.

At the Hot Springs Conference on Food and Agriculture, it was agreed that this paradox ought not to be permitted in the future. As a result, there has been recommended to the governments of the United Nations the formation of a permanent Food and Agriculture Organization to help member nations solve their technical and economic problems in connection with food production and food consumption. The expansion of international trade will be facilitated if such an organization succeeds in outlining and securing international acceptance of programs for a wider distribution of agricultural products and for the improvement of the nutrition of low-income groups. Hence it is to be hoped that all the United Nations will ratify the proposal for a Food and Agriculture Organization as soon as possible.

