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OVERSEAS DEVELOPMENT NEEDS AND  
THE WORLD WHEAT PROBLEM TODAY

Paper prepared for delivery at the International Wheat  
Surplus Utilization Conference, July 20-August 2, 1958  
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I

Currently, year-end wheat carryovers in the major exporting countries, essentially world carryovers, stand at or near record levels, absolutely and relative to annual wheat utilization. The present imbalance, against a long background of past imbalances, justifies the complaints that basic factors of production are somehow misallocated within a nation, perhaps among nations; that consumers in these countries bear an oppressive, unnecessary economic burden. All this warrants continued study of world wheat problems and their possible solution. However, the bulk of the burden of the imbalance falls upon the people of two countries, the United States and Canada, with the highest per capita incomes in the world. What if the same statistical picture weighed upon the people of South East Asia, the usual major supplier of basic agricultural and raw materials to the world? How much more able are our industrialized countries to bear these burdens than are nations which are primarily agricultural, with per capita incomes less than one-tenth ours, at the maximum!

This anomaly of huge agricultural surpluses in the economically most advanced lands allows a better perspective on the imbalances in the world wheat picture. For it is precisely these imbalances which have made possible some of man's noblest deeds of recent times. It was the product of

an imbalanced wheat economy of the early forties which provided strength to liberated peoples throughout the world, which nurtured the postwar rehabilitation of important parts of Europe and Asia. Today's imbalanced wheat economy plays a vital role in the development struggle of the poor lands of the world.

Without these imbalances we seek so hard to remedy, postwar world economic and political development may have taken a different course --and I would argue one which was less satisfactory to us as citizens of great democratic nations. Admittedly, granting all this scarcely justifies the precise way that the wheat surpluses have been allowed to develop and the precise way their burdens have been distributed. Still, I'm hard pressed to see, ex post, just how we could have met these postwar problems had we been more successful in dealing with the prewar and wartime political and economic problems of wheat in the United States and Canada.

Nor am I saying that the Marshall Plan, to say naught of today's requirements for overseas development, can be dealt with through our wheat surpluses alone. Wheat was and is of great economic importance, but the need exists not only for other food products, but for a large variety of raw materials and products of industry. In the present context, it is more relevant that wheat is of the greatest psychological import. As a nation of people, we are fortunately more humane than rational. Thus our wheat surpluses do constitute a real spur to international action, while a general economic recession scarcely provides a comparable stimulus.

Today, the world is confronted with a crisis of underdevelopment -- the nature, intensity and import of which we are only beginning to recognize. In my view, it is fortunate that the degree of wheat imbalance is

greater than ever, both because our wheat surpluses can play a significant economic role and mostly because they may provide the spur to action of the requisite kind and order of magnitude. I would like here to expand these ideas to some extent (IV). Finally, (III) I would like to suggest that we give some further thought to the problems of "institutionalizing" the imbalanced wheat economy, rather than rectifying it. Perhaps there is some parallel for a world wheat foundation (or a "surplus" food bank, or the like) in the Rockefeller Foundation or in the Ford Foundation. Would the world today be better off if John D. Rockefeller or Henry Ford had been less successful in amassing millions? If it is relatively easy to overproduce wheat, and if we as nations can afford to bear the costs involved, why not continue? The special, unpredictable needs of our world seem to have been of growing importance; who can know what is yet to come?

## II

Most of the world is poor. Based essentially on UN statistics, almost 60 per cent of all the people live in countries where average annual incomes are less than \$100 per capita. These countries are all in Asia and Africa. After generous adjustment to take account of the difficulties of international comparison of levels of living, it is safe to say that these people conduct their lives on the basis of a current flow of material goods and services which averages below, well below, 10 per cent that of the people in Canada and the United States. Were comparison made by income groupings rather than by national averages, the low income population ratios would mount significantly -- to include millions of people more in Latin America, and even Europe, as well as those in Africa and Asia. It is a familiar paradox that the majority of these

low income people-- perhaps 70 per cent to 80 per cent-- are farmers and mostly grain farmers. The nations where the bulk of the working population is in agriculture-- where agriculture is devoted principally to the production of basic energy foods-- fill the lower rungs of the world's national income ladder. There one finds concentrated the broad and continuing nutritional deficiencies of the world.

This brief statement of the present world income position is quite a familiar one. What is less familiar, however, is the great probability that the present pattern of world income distribution is significantly more favorable to the poorer lands than it will be 20 to 25 years from now-- given the present policies in the world's nations, both poor and rich. Efforts are indeed being made to mitigate hunger and starvation; the provision of foreign aid, including wheat shipments, is making some contribution to economic growth and industrialization. But the actions taken to date have not even begun to deal with the problem, especially in Asia and Africa. Some progress has taken place in Latin America, although this is confined to a few countries.

It is realistic to expect national income in the countries of North America, Australia and New Zealand, Western Europe, the Soviet Union and most of its European satellites-- all together and indeed in each of them separately-- to grow at a rate of 3-4 per cent, or even more per year, as they have in the recent past. With present and probable rates of population growth, this more developed part of the world-- say with 25 per cent of its people today-- can continue to look forward to a growth in per capita income averaging between 2 and 3 per cent over the next few decades. There

is no basis for assuming that a 4 per cent annual growth rate will apply to the rest of the world's countries, or indeed to many of them, given present trends and policies. Moreover, while these countries together may today have about the same rates of natural increase in population as do the wealthier lands, this can be expected to be less true from now on. The patterns of birth and death rates underlying the present equality are very different in the two groups of lands. With today's trends in death rates in the poorer nations, population there will begin to increase at correspondingly greater rates, at least for a period. Taken together, present forces shaping output and population growth are tending to widen the relative gap between per capita income levels in the two groups. This does not of course preclude the possibility that per capita incomes will grow in today's underdeveloped countries, albeit at lower rates than in the wealthier lands.

I won't develop this argument further here. I find it hard to visualize resource discovery or new process development or application anywhere, even with a time-horizon of at least 20 to 25 years, which would alter this gloomy prospect, at least without major new lines of action. But there will be some such new lines, and this is why we cannot afford not to be highly motivated to the rates of growth elsewhere. For, while population and output growth hold these prospects for stagnation, political developments will inject forces for change. So rapid and thorough has become the international transmission of ideas that we can increasingly expect demands from the poorer lands for rectification of these "unjust" trends. These are not apt to arise spontaneously from popular "revolutions of rising expectations": people long inured to suffering and privation are not readily moved to revolt.

Rather, pressures for change will come more pointedly from the elites in these countries, in the governments themselves, or in the would-be governments. More rapidly than will the rest of the people, these leaders can be expected to become aware that present output trends are not bringing the hope and promise available elsewhere.

Where will they turn to find their models for change? Less to the more developed countries, I submit, than to areas where progress is in fact occurring among themselves. Certainly less in the democratic nations which have so long talked of development assistance, but which can provide few evidences of development progress from this assistance. Vast millions of dollars in goods and services have been provided in aid, but there is little indication that forces have been set in motion that will result in continuing expansions in per capita product in the recipient countries of Africa or of West and South and South East Asia. Perhaps some leaders will seek lessons from the few nations of Latin America which do give some evidence of a break-through from stagnation to growth. While these may indeed be relevant for a few other lands in Latin America, the models will mostly be those provided by the break-through struggles now in process in India and China. These two countries alone account for 40 per cent of all the world's people, for 55 per cent of those in the poorer lands. Both have announced their determination to begin to expand -- one by obviously totalitarian methods, the other by procedures involving popular consent.

The record in this "competition" is not yet fully available of course. But there is by now a strong presumption that the Chinese communists are in fact fulfilling their development aims more effectively. To date, China

seems much more nearly embarked upon a path of growth than India. The reasons lie less in the application of communist, as distinct from democratic, processes; they lie more in the common-sense, empirical approach to the problems of transition, in the degree to which the people in charge have begun to look at their position and at the types of things which will improve it. In any case, I think we can expect more and more that leaders in poor lands will be leaning toward China-type programs in order to start the development ball rolling.

In this possibility certainly lies the greatest threat confronting the free world today. It is essential that we recognize the problem soon and gear ourselves to resolving it. The fact of our super abundance of bread-grain, with its obvious importance to the poorer countries, can make us more receptive to a recognition of this major problem. What can we do to solve it? Can wheat imbalances somehow contribute to actions involving wheat but far more--which will help?

U. S. and Western democratic policy objectives will be served only when nations in whose economic growth we have taken interest do begin to show progress--or at least begin to manifest changes in savings levels or sources, in investment patterns or production efficiencies that give promise of more rapid rates of output increases in the future. There are few if any underdeveloped countries--excluding again some in Latin America but not excluding India--where this can be anticipated today even were the countries provided with very much larger amounts of foreign aid. This is certainly so if we are interested, as we must be, in such manifestations of economic change in a reasonably short period.

These countries do need a significant expansion in net imports from



abroad; estimates which speak of a doubling of the present level of U. S. loans and grants to underdeveloped countries are certainly not unrealistic as to need. Of equal importance with increased resources from abroad, however, is the way available resources are used -- the precise allocations and the techniques applied. I believe that the United States, for example, needs to take a responsibility in these programs far beyond what we have yet done. We must somehow identify ourselves with the foreign country's desire to grow. These lands must recognize us as a people fundamentally seeking their economic advance. Insofar as possible our concern needs to extend to the entire program in the country and to its broad objectives -- not only to those particular phases of it in which we apply financial assistance. Clearly, this would constitute not a marginal change in present U. S. policy implementation in this field, but a major break with past policy and practice. Perhaps of greater relevance, however, it would require, on the part of the underdeveloped countries, a degree of cooperation and faith in our activities which few could politically or would in any case justifiably manifest. Unless there can be a real pooling of resources of understanding and analysis of the economic processes associated with change, progress -- to say naught of progress in appreciable magnitude in the near future -- is not likely. These tasks require resources available in a magnitude and at time intervals which only the great potential of wealthy nations permits. More significantly, perhaps, they require an objectivity in prescription, a boldness of attack, in which more experience and detachment are required than can be found in these poorer countries. (And my remarks about India and China were simply to say that the Chinese seem to be looking at their problems with that degree of detachment.)

Perhaps I can give these general remarks specific content in the case of India. While this can serve as a convenient illustration, given my own familiarity with the nation and its economy, it is more than just an illustration. In many ways, the success of India's present development efforts is essential if there is to remain the hope of relatively free and open societies among the new countries of Asia and Africa. Over the next few years, India's current efforts, under democracy, will be made against the background of a program in mainland China which seems to have taken hold.

For India to achieve anywhere near the output targets specified in its Second Five Year Plan, now at about halfway mark, India will need from abroad at least twice the level of net imports (at least \$3 billion) which India has officially requested for the remainder of the Plan period (\$1.5 billion to April 1, 1961). This last sum, it may be observed, is not readily related to the original \$2.3 billion deficit of the Plan. India has already been able to finance, in less than  $2\frac{1}{2}$  years, a net import surplus which is about as large as the amount originally scheduled for five years. As these facts suggest, there has been, and still is, ample scope for more careful appraisal of India's needs for growth than were presented in the Plan and in subsequent official materials. Apart from levels of foreign aid, India will need to make a much more concentrated effort than is now in practice or in prospect to induce rural change, to expand the utilization of resources where they are now available, and to adapt its program to its labor endowments. The reasons for these gaps -- in resources and in methods -- lie deep in the character and institutions of an excolonial land with a leadership elite trained away from the country. Under these conditions, U. S. policy interests may require more than what the Government of India and its Planning

Commission alone can do. Nor can the U.S. or other wealthy countries simply make such recommendations for shifts in emphasis of the requisite order and character, and expect that their recommendations be adopted. However, given full cooperation on the part of an India convinced of our desire actually to assist in India's growth, and on the part of the U. S. and other nations actually committed to this end, the needed shifts in emphasis and scope can be appraised and implemented. It was precisely such an approach to the problem of Indian development which Senators Kennedy and Cooper had in mind in their recent resolution. You will remember the emphasis upon overall support by the U.S. for the achievement of India's original plan objectives; the reference to significantly larger sums for aid than are currently being presented by India; and the initiation of multilateral discussions about the best "next steps."

Our Congress has chosen over the past weeks to pass over this opportunity to become seriously involved in our overseas development objectives. It is perhaps sufficient, in a country like ours, that responsible leadership has begun to recognize the need for a task so different from what we've ventured in the past. We can expect that the Senators involved will still resume their pressure for U.S. action. And it is relevant that the lessons have not been lost on our administration. Some action can be taken without congressional action-- and there may well be beginnings of a new approach in our aid to India when its officials come here for discussions in the fall.

Once we decide to move ahead-- as I've argued above, we must decide in our own foreign policy interests-- this will have a direct bearing upon the

utilization of world wheat surpluses. (Parenthetically, I might also mention that there is the possibility that the unfolding orders of magnitude for growth in carryovers during 1958/1959 may themselves be an important psychological stimulant to our decision to make a broader attack upon the problems of growth.) There will be a need for normal imports, but perhaps on a more generous scale. More interesting will be the expanded needs which are intimately related to the process of accelerating overall growth. Here, grain requirements are part of the direct development assistance. Thus, in such a cooperative program in India, we might well discover that 1/4 to 1/3 of India's need for net imports to spur development over the years to 1961 would be in the form of wheat. This means at least 300 million bushels of extra shipments in the next  $2\frac{1}{2}$  years or so. Added to additional requirements in other countries where the development task will also be tackled, we get a more realistic perspective on the adequacy of our carryovers. "What can we do with our surpluses?" becomes "Will there be enough to meet our essential needs?"

### III

So much then for my views on basic foreign policy developments that will inevitably bear on our wheat problem. I won't even venture what total orders of magnitude might be involved; others here have examined this problem with more care and competence than have I. But I would like to explore, in a general way, the relevance of such special needs to the basic and continuing imbalance in our wheat economy. Clearly, they can provide the opportunity for a significant reduction in our carryovers. But there may also be some aggravation of what has now become the "normal" wheat problems. Special needs in such large magnitudes may well inject another price, or type-of-sale, category into the wheat marketing structure. They raise anew the contrast with normal imports, and thus provide new opportunities for international

misunderstandings (as well as domestic differences between our own Departments of Agriculture and State) as to whose additional market, as to sales of surpluses and dumping, as to foreign trade policy generally. The case for the special uses of wheat to meet demands which the market mechanism simply cannot handle is a strong one. This situation is, moreover, apt to continue for many years. And so large is the amount involved relative to normal international shipments that it seems wise to seek some way through these troublesome issues -- for they are side issues, really, despite the heat and intensity with which they can be waged.

The world wheat problem may be characterized as one in which production seems to outrun effective economic demand for wheat. Consumption has been increasing, even on a per capita basis. World shipments have grown markedly. But some consumption increases and much expansion in trade were "ex-market". There seems to be broad agreement that effective economic demand in the foreseeable future will not expand vigorously enough to absorb production, even if output were to come to market at the lowest costs permitted by modern technology. In this situation, one important prescription calls for production declines, especially in the major exporting countries and particularly in the United States. Lines of policy to this end are reasonably clear cut on the economic side, but have remained essentially insoluble from the political point of view.

Despite a long history of ex-market disposition programs, and despite an increasingly complicated system of marketing and price arrangements, production continues to outpace utilization. This situation has long prevailed. Without disparaging continued efforts toward some adjustment, I think some degree of

acceptance of the inevitable is in order. Primary focus must be shifted to more systematic utilization of the ex-market supplies. Again, who knows but what these may continue to expand--and to our great advantage as citizens of the world's greatest power as well as people intimately concerned with the wheat economy.

There are three categories of demand which need to be considered in this regard. The first we have already discussed above--the special ex-market demands arising in the process of accelerating growth. By providing important parts of total aid in the form of these essential consumption goods, we are providing key components of the external assistance needed for development. Now it is true that the poorer areas of the world, our underdeveloped countries, are pre-eminently those where per capita consumption of wheat is very low; it is generally of an order less than one bushel per capita per year. Despite the boon which additional wheat shipments can be for development and for expanded consumption during the initial stages, a key development objective will usually be the expansion of indigenous agricultural output. It is inconceivable that these lands (with the usual exceptions in such a broad observation) become significant market demanders of imported wheat. Apart from a very small group of well-to-do urban consumers, very few persons in these lands will have personal incomes that permit significant purchases on the world market. Nor are governments' foreign exchange resources apt to warrant large expenditures for food, particularly in any hard currency. It is in the fuller exploitation of the agricultural output possibilities in most of these nations that their international economic comparative advantages lie, at least in the years immediately ahead. Their

consumption of foodgrains may well expand, but principally from their own expanded output or from the growth of output in some other underdeveloped country. In total, therefore, while surplus wheat to meet demands arising directly from the process of development may permit some liquidation of large carryovers, such demand seems to hold limited promise for providing new markets.

Second, in the case of some more developed countries--the U.K. and Italy in Europe, Japan in Asia, for example--installed industrial capacity would permit larger output if export demand could be increased. But these countries need to have this increase in demand from hard currency areas, at least in part, since the expanded output will require various purchases of foreign inputs in such currencies. In particular, more output will increase domestic incomes and thus the demands for imported wheat. A considerable contribution can therefore be made to the imports of industrial products by the underdeveloped areas from these countries, if the latter could afford to import breadgrains for this expanded domestic demand at substantially lower costs in hard currencies than the market now permits.

There may well be greater promise for long-term gains in the economic demand for wheat in such less direct efforts directed at achieving our development policy objectives. There has, in fact, been some experience with special financing of wheat for this purpose, in our government's efforts "to multilateralize aid." These activities have recognized the importance of using more fully the productive capacity of such European and Asian industrial countries; they recognized the greater future complementarity in the trade flows between underdeveloped countries, on the one hand, and Japan and

the countries of Western Europe on the other. It will certainly be easier for these countries to absorb imports from underdeveloped areas than is apt to be true for the United States especially. With programs which emphasize these multilateral possibilities it is likely that the expansion in trade and income will eventually contribute to an actual growth in the international market demand for wheat. The long run picture in this regard is certainly more favorable than in the case of direct demand from the underdeveloped countries themselves.

Finally, there is the demand for wheat imports from regular participants in present normal commercial international wheat trade. Involved here are some high income countries which consume relatively low amounts of wheat per capita--Norway, Sweden, Denmark, Germany--primarily because they are still important consumers of nonwheat grains largely produced indigenously. Other such countries--France, Belgium and Italy, for example--are high-level wheat consumers but import less than they might because they prefer to maintain what tends to be rather expensive domestic grain output. There are clear long term advantages for the world economy generally and to the wheat economy particularly from any program that would provide real encouragement to these countries to shift their domestic resources into other activities and gain from the more efficient production abroad. This objective has of course long been sought, but the actual (or presumed) economic advantages of greater self-sufficiency in grains have prevailed. A bolder approach seems warranted--involving perhaps some long-period assurances of import supplies at very attractive prices.

These three important categories of demand for wheat--and jointly they encompass most of the world's present international wheat shipments--need to



be considered as a whole. None of them is well served by the present division of world wheat trade between countries competing to dispose of their own surpluses (notably Canada and the United States), nor by the general division between commercial and ex-market demands. After all, the so-called normal imports of poorer areas are "commercial" only so long as we forget that these countries are areas where economic growth is a fundamental policy concern to us. Once we recognize, in the case of such a country, the need for a balance of international accounts at levels which permit it to pursue its development targets, the characterization as "commercial" becomes an arbitrary one. The more of its own foreign exchange resources the country uses for these commercial purchases, the more development aid it will need from abroad. Just as a country like India should seek increasingly to provide for its extra consumption needs through its own food production, it should be able to replace in the same way much of what we now consider its normal imports of grain. Actually, there is little reason to distinguish in the wheat trade with these poorer areas, in a total amount running about 450 million bushels in recent years, the 200 million bushels (and prospectively much larger quantities) of extra shipments as against what are considered the normal imports of 250 million bushels.

I suggest that there may be real advantages in further consideration and study of the possibilities for placing all international wheat trade under public international control, perhaps initially on the part of the wheat exporting nations alone. The objective should be to provide such shipments, perhaps at a single low price relative to domestic prices, as a real inducement for expanded wheat trade and consumption.

Such pooling would of course put formidable tasks upon the exporters and importers -- tasks which have in part already been assayed in some of the past discussions bearing on world wheat agreements. Yet, when we recognize that it is rich countries which are primarily involved in the control and ownership of wheat carryovers, countries which have a great stake in furthering economic progress elsewhere, these problems should be resolvable. There may be parallels in the blended class prices of milk marketing arrangements. Nor should we forget the extent to which wheat in the world and particularly in the United States has already moved away from being the model product of a free enterprise economy. It now is primarily the child of government. Public control of international shipments by the governments involved need not introduce new domestic rigidities, while it could contribute to an improved international flow and use of wheat.

There is little reason to expect that such action would eliminate wheat's proclivity toward an imbalance between supply and demand. After all, the producing nations could separately fix domestic prices, or could otherwise adopt procedures which would determine the return to their producers. Pooled international trade will thus not assure the steps which could prevent the further emergence of new record levels of wheat surpluses. But it could well make more systematic and meaningful the international disposition of these surpluses. It should improve significantly the role they play in creating expanding economies in a world in which most societies remain free and open.