FOREIGN TRADE—IS THE CRUNCH COMING?

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Just three short years ago I sat in two meetings in Washington on issues relating to our discussion today. The first was a meeting to discuss expansion of grain output to meet the world food emergency facing developing countries. The second related to the same issue, and to how we might avoid domestic inflationary pressures generated by rising world food price levels. But the rains came, and so did the new tube wells, the "green revolution," and the common agricultural policy. Thus the task of facing the conflicts in our long-run development policy and our domestic export interests is upon us again. Frankly, I would rather worry about the present problems than about the possibility of mass starvation.

A BRIEF HISTORY

Some perspective is needed on the great threat of famine in 1965-67 and the rising surplus of grains in 1968 and 1969. First, from 1961 on, the United States has been trying to reduce its excessive stocks of wheat and feed grains to manageable levels through a variety of programs. In the early 1960's the Soviet Union had two poor crops in three years and entered the international market in a significant way. Finally, Australia suffered a major drought, so that when India had two successive years of serious drought, the stage was set for a world-wide panic about the impending famine. World grain prices rose appreciably. The United States increased acreage allotments in 1966, and in 1967 the weather improved markedly in Australia, Western Europe, and the USSR. In 1968, India had a huge increase in grain ouput, as did Pakistan and the Philippines, These latter increases coincided with a rapid expansion of new wheat and rice varieties, of fertilizer usage, and of irrigation. But since no one knows how much of the increased output resulted from these new varieties and practices, it is easy to attribute all of it to them. This, together with the "green revolution," now is producing a panic of the opposite sort. Nations heavily dependent on farm exports are worrying about markets, and former importing nations are viewing export markets as a way of earning foreign exchange.

If, as most now assume, the prospect of world-wide starvation is not imminent, we must look at the new policy issues that face us in a world of increasing grain surpluses. This leads to the question of whether the

U.S. foreign aid programs to increase agricultural output in less developed countries may not conflict with our interest in expanded export markets for U.S. farm products. Like most important policy issues, this one does not have an apparent Pareto-better solution; thus, our simple economic tools will not suffice to bring a solution satisfactory to all.

SOME FACTS

First, the bulk of all our foreign aid goes to a relatively few countries. About 90 percent of all country program funds go to fifteen countries (Table 1). Of these, Brazil, Chile, India, Pakistan, Turkey, and Vietnam

TABLE 1. FOREIGN AID TO FIFTEEN MAJOR COUNTRIES, FISCAL YEARS 1961-67

	Foreign Aid Programs						
Country	Economic Assistance	Public Law 480	Military Assistance	Social Progress Trust Fund	Export-Import Bank	Other	Total
	Millions of Dollars						
Bolivia	196.6	48.8	15.4	14.6	10.1	11.1	296.6
Brazil	1,041.4	528.8	146.4	62.0	242.8	20.8	2,042.2
Chile	489.0	124.1	78.8	35.4	376.8	11.3	1,115.4
Colombia	416.8	96.0	59.9	49.9	112.0	22.8	757.4
Dominican Republic	254.9	48.0	10.9	10.3	23.5	5.5	353.1
India	2,175.9	2,458.1	....	...	251.0	21.3	....
Indonesia	101.9	174.0	49.3	...	0.8	0.6	326.6
Korea	893.7	581.8	1,103.2	...	3.8	1.9	2,584.4
Laos	290.6	4.7	....	...	...	...	....
Pakistan	1,175.5	821.3	....	...	43.1	7.3	....
Peru	127.8	50.4	80.7	45.2	90.7	15.4	410.2
Thailand	199.2	1.2	308.2	...	36.3	11.0	555.9
Tunisia	168.3	207.5	16.5	...	4.2	5.8	402.3
Turkey	941.0	313.1	842.0	...	7.1	11.2	2,114.4
Vietnam	1,803.3	425.1	1,031.4	...	...	...	3,259.8

SOURCE: Foreign Assistance and Related Agencies Appropriations for 1969, Hearings Before Subcommittee of House of Representatives, 90th Congress, 2nd Session, p. 74.

are by far the major recipients. And, within the total foreign aid going to these countries, economic assistance to the agricultural sector has been small. For instance, in 1955 the economic assistance to agriculture amounted to $54 million, by 1960 it was $204 million, and by 1969 it had reached almost $800 million. Thus, even today U.S. technical aid to agriculture is modest.

Second, it should be recognized that the fifteen major recipients of our foreign aid have not been significant commercial customers for U.S. farm products. Those fifteen countries accounted for *$9 billion* of U.S. agricultural exports during the period 1961-69, but only *$1.2 billion* were in commercial sales (Table 2). India, far and away the biggest food importer of this group, accounted for $3.4 billion in exports during the period with only $158 million in commercial sales. Thus, to argue that the loss of these markets as a result of the agricultural revolution is a major loss is to fail to recognize that these were major markets only as a result of P.L. 480. The American taxpayer was the real purchaser.

Third, the greatest barrier to higher food consumption levels in less developed countries is the low income of the population. Thus, the key to higher consumption is a higher per capita income in underdeveloped countries—so distributed as to increase the purchasing power of the very poorest. The major barrier to these countries becoming major commercial markets is their lack of foreign exchange to buy more food.

Fourth, the bulk of the working population in the underdeveloped countries is engaged in peasant agriculture, involving large labor inputs, little capital, and relatively low levels of technology. The farms are small, and the land is often poor and in need of water and fertilizer.

Economists use a principle called comparative advantage. Since by almost any standard, U.S. agriculture is better organized, is capital intensive, and uses advanced technology, we should have a comparative advantage in the production of food and feed grains. Thus, as the theory goes, the good people on farms in the EEC, India, Nigeria, Taiwan, etc., all ought to give up farming and go to villages and cities and produce labor intensive goods to exchange for U.S., Canadian, and Australian grains.

There is, of course, one small hitch in all this. In most of the very poor countries the bulk of the population is comprised of peasant farmers. These economies are not generating enough monies to employ their natural population increase, let alone enough to absorb one-half or more of their present population from farm into nonfarm employment. Thus, mass urban underemployment and unemployment commonly exist side by side with a subsistence peasant agriculture. Comparative advantage assumes alternative opportunities, therefore, an opportunity cost for the labor used raising farm products, a dubious assumption in many poor agricultural countries. Indeed, most realistic estimates project increases in farm populations in these countries for at least a decade or two.

TWO ALTERNATIVES

As a result of these realities, the United States was faced with two

TABLE 2. U.S. AGRICULTURAL EXPORTS TO FIFTEEN MAJOR COUNTRIES RECEIVING U.S. FOREIGN AID, FISCAL YEARS 1955-66

	Public Law 480						Total Agricultural Exports		
Country	Sales for Foreign Currency	Emergency Relief	Foreign Donations	Barter	Long-Term Supply and Dollar Credit Sales	Mutual Security AID Programs	Government Programs	Commercial Sales	Total
	Thousands of Dollars								
Bolivia	29,320	12,255	10,738	9,058	4,080	29,657	95,108	25,668	120,776
Brazil	475,985	18,889	75,053	105,500	....	1,539	676,966	118,477	795,443
Chile	76,498	2,038	52,267	10,226	32,440	7,612	181,081	103,786	284,867
Colombia	60,145	301	47,797	41,842	5,655	1,740	157,480	117,408	334,888
Dominican Republic	......	3,313	18,832	5,003	12,232	8,295	47,675	84,205	131,880
India	2,903,658	17,708	184,449	65,606	....	67,603	3,239,024	158,395	3,397,419
Indonesia	199,726	1,511	12,765	7,684	687	1,212	223,585	58,570	282,155
Korea	469,782	36,597	114,611	17,569	....	256,596	895,155	149,674	1,044,829
Laos[1]	......	14	1,980	74	....	1,294	3,362	1,387	4,749
Pakistan	892,671	53,541	36,541	56	....	16,130	999,041	47,216	1,046,257
Peru	38,305	13,129	17,201	50,358	1,765	142	120,900	145,872	266,772
South Vietnam[1]	202,971	29,724	31,025	82	....	68,794	332,596	−2,112	330,484
Thailand	4,116	31	683	4,536	....	[2]	9,366	126,197	135,563
Tunisia	48,747	65,009	6,736	2,291	....	4,157	126,940	22,203	149,143
Turkey	466,399	14,529	19,202	20,095	....	34,402	554,627	15,766	570,393
Vietnam, Laos, Cambodia[3]	......	2,623	25,474	....	....	36,891	64,988	19,116	84,104
							7,727,867	1,196,052	8,979,722

[1]For fiscal years 1959-66.
[2]Less than $500.
[3]For fiscal years 1955-58.

SOURCE: "12 Years of Achievement Under Public Law 480," ERS-Foreign 202, Economic Research Service, USDA, Table 10.

alternatives for feeding the growing population of these countries. One was continuing to expand our ouput, shipping it abroad under P.L. 480, and trying to get food distribution systems organized that would reach from ports of entry to the vast population in the villages and farms. The other alternative was to increase output of foodstuffs in the less developed countries.

Three major short-run problems were connected with the first alternative. They were: (1) the increasingly heavy cost of providing ever larger quantities of grains through P.L. 480, (2) the difficulty of getting the grains distributed to remote areas, and (3) the effects upon local producers' incentives and incomes.

I am not certain that careful cost estimates of substantially expanding P.L. 480 were ever made, but I suspect some were floating around Washington. One effort to get help on these costs was embodied in the International Grains Agreement growing out of the Kennedy Round, in which other developed countries, whether grain deficit or surplus, were asked to put resources into an international food program. Even with this help the potential burden of feeding much of the underdeveloped world would have fallen upon U.S. taxpayers, and it is not clear whether they would have accepted this burden at higher levels.

A large part of the prospective costs in many countries relates to the building of port facilities and the storage and distribution systems necessary to feed these countries with imported grains. Distribution in the large cities is relatively easy, but most of the population lies outside them. I heard figures of $8 to $10 billion for such facilities in India alone during the recent food crisis. This would have to be multiplied severalfold if we added many other countries to the list.

As for the effects upon local producers, the large-scale P.L. 480 shipments necessary to fill the future food gaps would have depressed the income of those peasants dependent upon food grain sales for cash income. The program would have retarded rather than improved the number one problem in these countries, that of raising the real per capita income for the majority of the population.

In addition to the short-run problems, a major problem over the long run, twenty years or more, was that even the total farm productive capacity of the developed world would not be sufficient to feed the expanding population without a substantial expansion in output within the underdeveloped countries themselves.

As a result of all these considerations, the second alternative was selected as a basic policy for our foreign aid, including food aid. It was decided that major emphasis would be put upon improving the output of foodstuffs in the underdeveloped countries, with new emphasis upon the supporting input industries and infrastructure to move these countries toward self-sufficiency. This development was helped by the availability of the new varieties of wheat and rice.

This policy change, plus many other factors, has led to a major change in the situation from that faced four years ago. Food grain production in India, Pakistan, and several other countries has risen markedly, hopefully on a permanent basis. We now see some countries that were importing grains just three years ago looking around for possible export markets for grain surpluses above their domestic needs. In effect, we are subsidizing export competition with our own foreign aid, and coming at a time when some of our traditional cash markets are shrinking, this brings the whole program into question. To add insult to injury, there are indications that some less developed countries think we should pull out of export markets where they would like to sell their farm products to increase their foreign exchange earnings.

THE CRUNCH

Three important questions now face us: (1) What should our foreign aid policy be in the future? (2) What should our commercial export price policy be in the future? (3) What is the future of U.S. exports?

If the question is whether our foreign aid has subsidized an increase in world food production, I would have to answer, I hope so, because that is what we tried to do! If the question is whether it has hurt our commercial markets, I think the answer is, very little so far, and it can continue to be little if we follow the correct aid and commercial export policy. As I view it, our aid policy has largely removed the need for an extensive permanent food aid program, but it has had little effect upon our commercial markets. Historically, we should remember that many of the food deficit countries today were major exporters of food in earlier years, and even if they do not return to that status, we should recognize they never have been major commercial export markets for U.S. farm products. Thus, the major victim of the rise in food output is likely to be our P.L. 480 program, that temporary, fifteen year old emergency program. Even it will be required for special emergencies and to meet the world's need for some kind of storage and distribution program to deal with natural and other catastrophes.

Future Aid Policy

Looking to future aid policy it seems to me that we must continue to support the development and adoption of modern technology in the underdeveloped countries. But, more important, we must move beyond this to what are now called "second generation problems." These involve planning and adjustment in the agricultural sector, a better integration of agriculture with other economic activities in the economy, the development of improved internal marketing and distribution systems, and the other measures that are needed to start the transition from isolated peasant economies to modern world economies. It will involve more U.S. research and advisory emphasis and less emphasis on dams, machinery, and hardware. Accordingly I would see our aid programs moving toward the involvement of more people and less things than in the recent past. If this occurs, I believe the potential conflict with our export interests will be reduced rather than increased.

Future Commercial Export Policy

Perhaps the most important area is our future commercial export price policy. It is almost certain that the pressures for international price fixing for world grain markets will increase, for now some of the underdeveloped countries will join those developed countries pressing for such arrangements. As before, I think such arrangements are unwise and unworkable, and they are especially unwise because they are unworkable. It seems to me it would be as equally faulty economically to give the producers of the world the impression that the marginal value of grain to world consumers is higher than it is, as it was to use P.L. 480 to allow the poor countries to believe the marginal cost of food grain was zero. If producers in poor countries want to enter export markets, they should have to do so on the basis of their real comparative advantage in world markets, and the same should hold for producers in developed countries. If we are to transfer income from rich to poor countries, as I believe we should to the extent politically feasible, then let us transfer it for products or services that will be consistent with long-run economic realities rather than subsidize overinvestment in food grain capacity.

A second important part of our commercial policy must be to accept imports of foreign agricultural products. We are in no position to tell another country that its policies toward our exports are unfair so long as we bar imports of products to protect our own producers who are not competitive in world markets. This is especially important if we try to help underdeveloped countries move away from concentrating on food and feed grain production toward labor intensive export crops. We hardly expect them to use our imported grains if we refuse to let them export crops to us in which they have a clear comparative advantage.

Long-Run Prospects

Finally, a few comments on our long-run prospects for commercial exports of farm products. I am not as optimistic as many a few years back —for theirs was a false optimism based on noncommercial demand.

Neither am I as pessimistic as some now are, for as the people of the world become wealthier they will upgrade their diets from grains to animal products, and the animal products will require feed grains. This is the area in which I believe the United States had and will have a great comparative advantage, and we should do everything possible to protect and exploit it. This is not going to be easy because the serious food shortage problems of the past few years have made it relatively easy for governments to get by with some extraordinarily uneconomic programs. Now the true costs have become apparent, and there will be a great scramble to minimize these costs by exploiting the export market. This is a game that is virtually impossible to win. I hope we do not invest many of our chips in it.

SUMMARY

In summary, I believe we are making too much of the potential conflict between our foreign aid programs and our export interests. It appears that the major loss will be in P.L. 480 exports, which may have been nice for U.S. producers, but are a very expensive way to maintain producers' incomes. Our major competitors for cash markets continue to be the developed countries, not the poor countries. And, for a long time to come, it is doubtful that most of the underdeveloped countries can afford the expensive luxury of competing in the heavily subsidized commercial export markets.