INTERNATIONAL RELATIONS AND THE DISPOSAL OF UNITED STATES AGRICULTURAL SURPLUSES

Thesis for the Degree of M. A.

MICHIGAN STATE UNIVERSITY

Martin T. Pond

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INTERNATIONAL RELATIONS AND THE DISPOSAL OF UNITED STATES AGRICULTURAL SURPLUSES

by

Martin T. Pond

AN ABSTRACT

Submitted to the College of Business and Public Service
of Michigan State University of Agriculture
and Applied Science in partial fulfillment
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MASTER OF ARTS

Department of Political Science

1960

Approved Bruce Lannes Smith

Martin T. Pond

The purpose of this study is to examine the source, effect, and possible means of resolution of a conflict between United States domestic agricultural policies and foreign economic policies.

United States agricultural policy has been implemented by a price-support program which maintained high prices for American agricultural products. These high price guarantees resulted in large stocks of surplus agricultural commodities, held by the government. High prices also increased the attractiveness of the American market to foreign exporters while, at the same time, reducing the opportunities for selling United States agricultural products abroad. The attractiveness of the United States' high-priced market was removed by a variety of import restrictions, and government subsidies reduced the disadvantages of marketing American agricultural exports abroad.

It was in this framework that United States agricultural interests hoped to retain high price-supports, and to reduce surplus stocks by subsidizing agricultural exports through Public Law 480, the agricultural surplus disposal provisions of the Mutual Security Act, and multiple price programs.

Exports of wheat and cotton were appreciably increased by the above legislation but had adverse effects upon many free world exporters of the same or closely related commodities. Evidence indicates that, in many cases, the United States increased its agricultural exports of wheat and cotton at the expense of its free world competitors. Examples include a well developed country, Canada, and a number of underdeveloped nations: Burma, Thailand, Mexico, Egypt, Syria and the Sudan.

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The resolution of conflict between agricultural and foreign economic policy could be accomplished by relinquishing the price-support program. This proposal, however, lacks political acceptability in the United States at the present time. Thus, in view of the probable continuation of price-supports, various degrees of cooperation among the affected nations are proposed. These include an international agency handling surplus disposal, a series of international commodity agreements, and a continuation of the present unilateral programs. Each of these possesses political and economic advantages and disadvantages.

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INTRODUCTION

This thesis investigates the formulation of United States surplus agricultural export programs and their possible impact upon the free world. It is concerned with goals and implementation of these programs formulated by agricultural interests and their relation to the goals, both in the United States and abroad, of United States foreign economic policy. Directing attention exclusively to foreign agricultural export competitors of the United States, the thesis is concerned with the possible impacts of the two major surplus agricultural commodity exports of the United States upon other major world exporters of these and related commodities. It then seeks various courses of action for harmonizing United States domestic agricultural interests with the foreign interests held both in the United States and abroad.

United States Government holdings of surplus agricultural commodities reached an all-time high of more than nine billion dollars in February, 1959. The prodigious size of such a program and the mounting costs of handling it have brought the farm surplus problem sharply to the public's attention. The Detroit Free Press recently carried a series of articles informing the public of the ills of the government storage programs. The captions contained the point of the articles: "Our $9 Billion Headache," "'Little Farm Plan' Helps Rich Instead," "Firm Gets Millions for Idle Wheat," "Grain Storage Is Profitable."[1]

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[1] Detroit Free Press, May 10-14, 1959.

These surpluses could be handled in various ways. First, they could be destroyed. This, however, is repugnant to the values held by most farmers; they feel that the farmer's product should be used, not destroyed, and there should be no hungry people in the world while there is surplus food available.[2] Second, the stocks could be held as an insurance against unforseeable needs. This has been recognized as a legitimate objective, particularly as a means of mitigating the effects of a fluctuating supply.[3] However, even though war and widespread natural disaster are not impossible, no responsible individual has seriously suggested developing a permanent storage program of the present magnitude, as far as the author knows. Third, commodities held by the government could be sold in the nation's domestic market. Since it is obvious that rapid reduction of enormous stocks on the home market would lead to a drastic decline in prices, there appears to be no likelihood that Congress would agree to any measure that would relax the tight restrictions governing domestic sales of Commodity Credit Corporation (CCC) holdings.[4] Fourth, the United States could sell its excessive holdings abroad. With insufficient food supplies abroad and the complex, misunderstood nature of international commercial operations, "the impression is left that large quantities of wheat, cotton,

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[2]Lawrence Witt, Department of Agricultural Economics, Michigan State University, "Increasing the Foreign Demand for Farm Products," a paper presented at the Agricultural Adjustment Center, Iowa State College, April 6, 1959, p. 1.

[3]U.S., Congress, House of Representatives, Tenth Report of the House Special Committee on Postwar Economic Policy and Planning, Report No. 2728, 79th Cong., 2d Sess., 1946, p. 50.

[4]Bruce F. Johnson, "Farm Surpluses and Foreign Policy," World Politics, Vol. X, No. 1., October, 1957, p. 1.

tobacco, etc., shipped abroad must somehow do some good."[5] Moreover, coupled with these impressions is the fact that many of those — especially those abroad — who are burdened with maladjustments created by United States disposal programs are not represented in Congress.[6] In view of this fact and the above alternatives, it is understandable why the United States has placed the major emphasis upon liquidating excessive stocks in the international market.

In July, 1954, the President signed a bill creating Public Law 480 — the major legislation governing the sale abroad of surplus United States commodities. The law authorized the sale of United States farm surpluses for local currencies in countries that needed such commodities but lacked dollars to pay for them. It also provided for grants of CCC stocks "to meet famine or other urgent relief requirements," and for bartering agricultural commodities for strategic materials. Under this authorization the United States has disposed of about four billion dollars worth of products during the past four years. Jack Richardson, an Australian delegate to a meeting of the General Agreement on Tariffs and Trade (GATT), declared that the "noncommercial transactions by the United States [surplus disposal programs] represented something like 40 per cent of total world trade in wheat in 1956-57."[7]

Not only has Australia[8] complained, but also Canada,[9] the Nether-

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[5]Lawrence Witt, op. cit., p. 2.

[6]Theodore W. Schultz, "Coping with Agricultural Abundance," Social Order, Vol. 8, No. 8, October, 1959, p. 371.

[7]New York Times, Nov. 26, 1957, p. 49.

[8]Ibid., April 17, 1958, p. 52; Nov. 13, 1957, p. 10; Nov. 3, 1956, p. 33; Oct. 28, 1956, p. 29; Oct. 23, 1956, p. 23.

[9]Ibid., Nov. 15, 1958, p. 12; Dec. 3, 1957, p. 53; July 7, 1957, p. 1; July 20, 1956, p. 9.

lands,[10] Denmark,[11] New Zealand,[12] Argentina, Egypt,[13] Great Britain,[14] Burma and Thailand.[15] These complaints have been made directly to the United States, before the Commission on International Commodity Trade, the United Nations Food and Agricultural Organization (FAO), and the GATT. The various objections are well summarized in a study by the National Planning Association for the United States Senate.[16]

> The reaction of other surplus-producing countries is consistently one of criticism. They argue that agreements made under title I [acceptance of local currencies for commodities] actually amount to unfair trading practices. They maintain — for example — that an offer to lend important parts of the proceeds of the sale to the purchasing country for economic development is a special inducement, which makes it all but impossible for the purchasing country to refuse. If it is pointed out that their countries could make similar proposals, they reply that their treasuries are not rich enough to underwrite this type of foreign aid.
>
> Other exporting countries express particular resentment over the provision in the law that title I sales must "safeguard usual marketings" — that is, be an addition to normal United States exports to the purchasing country. They feel that if the United States makes a title I deal, it should be willing to take its chance in competition with

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[10] Ibid., Apr. 17, 1958, p. 52; Nov. 3, 1956, p. 33.

[11] Ibid., Nov. 26, 1957, p. 49.

[12] Ibid., Nov. 13, 1957, p.20; June 7, 1956, p. 3.

[13] Ibid., May 10, 1956, p. 25.

[14] Ibid., Dec. 25, 1955, p. 15.

[15] Ibid., Jan. 10, 1955, p. 23.

[16] National Planning Association, Agricultural Surplus Disposal and Foreign Aid, Study No. 5, prepared under the direction of a Special Subcommittee to Study the Foreign Aid Program, U.S., Senate, 85th Cong., 1st Sess., Senate Document No. 52, March, 1957, p. 12.

> other surplus-producing countries for whatever additional markets exist.

Two examples will illustrate the above objections. An agreement was made with India in August, 1956, for a total sale of $360 million. Two hundred million dollars was to finance exports of some 130 million bushels of United States wheat. India's payments for imports under this agreement were to be made in rupees. Twenty per cent of these would be used to defray expenses of the United States Government in India, 15 per cent could be made available to India as a grant, and the balance would be loaned to India for 40 years at low interest rates. Competitors of the United States in the international wheat market began to howl. The chairman of the Australian Wheat Board, Sir John Teasdale, charged, "The United States is using the powers granted by Congress' Public Law 480 to dump primary products in other countries. The terms of sales, financial considerations and ethics of fair trade are being made subservient to the desperate desire to shift the responsibility for the caretaking and storing of products onto countries other than the U.S.A."[17]

All Public Law 480 agreements include this statement of intention:[18]

> The Governments agree that they will take reasonable precautions to assure that sales or

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[17]Quoted in Bruce F. Johnson, op. cit., p. 7.

[18]Quoted from Agreement and Exchange of Notes Between the United States of America and Brazil, Signed at Rio de Janeiro, Nov. 16, 1955, Department of State Publication 6200, p. 14.

> purchases of surplus agricultural commodities pursuant to this agreement will not unduly disrupt world prices of agricultural commodities, displace the usual marketings of the United States in these commodities or materially impair relations among the countries of the free world.

As the staff study directed by the Interagency Committee on Agricultural Surplus Disposal pointed out, such an "undertaking is, of course, very general and is subject to a wide range of interpretations."[19] Precisely what constitutes the "usual marketings"?

Public Law 480 marketings are essentially agreed upon by the United States Government, which is eager to export burdensome surpluses, and a foreign government pleased to pay for such commodities in its own currency, much of which may be used as a development fund at low interest rates.

In an agreement with Brazil in 1955, Brazil was to furnish the United States information on "provisions for the maintenance of usual (United States) marketings." According to Canadian reports, the provisions gave the United States a guaranteed share of Brazil's normal imports.[20]

Bruce F. Johnson, Associate Professor at the Food Research Institute, Stanford University, summarizing the advantages of Public Law 480, particularly with respect to its contribution to economic development in the underdeveloped areas, stated, "We are attempting to do the right thing for the wrong reason."[21] He concluded his article by saying:[22]

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[19]Quoted in Bruce F. Johnson, op cit., p. 9.

[20]Ibid.

[21]Ibid., p. 21.

[22]Ibid., p. 23.

> It appears that the present approach may be best characterized as one of finding suitable euphemisms (e.g., "competitive," "safeguarding usual marketings," "contribution to the dollar problem") to gloss over the overriding goal of inventory reduction. Although it may not be feasible for countries harmed by such a policy to retaliate, owing to the great disparity in their economic power vis-a-vis the United States, the damage to our international position will nonetheless be real and substantial.

Of the chapters that follow, the first concerns itself with the conflict between United States agricultural and foreign economic policies. The second chapter describes the political development of agricultural surplus exporting programs. Chapter three suggests the impact of these programs upon some of the major competing exporters abroad. The last chapter investigates possible solutions for resolving the conflict between United States agricultural and foreign economic policies and mitigating or resolving the resentment of foreign countries which has been created by the United States agricultural export policies.

CHAPTER I

CONFLICT OF GOALS

It is important to establish and compare goals, in the U.S. and abroad, of the United States farm and foreign economic policies.

D. Gale Johnson, Associate Professor of Agricultural Economics, University of Chicago, listed the domestic objectives of the U.S. Government agricultural policies as of 1950 as follows:[23]

> 1. Achieving a productive pattern that will make the most efficient use of farm resources, including labor, in meeting the demands and needs of consumers.
>
> 2. Attaining a level of real income for farm labor equal to that earned by comparable labor in other segments of the economy.
>
> 3. Attaining equality of economic and social opportunity for farm people.
>
> 4. Achieving increased price and income stability and general economic security.

In a statement before the Senate Foreign Relations Committee on January 21, 1959, C. Douglas Dillon, Undersecretary of State for Economic Affairs, outlined the main objectives of the United States foreign economic policy:[24]

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[23] D. Gale Johnson, _Trade and United States Agriculture_, Wiley, 1950, p. 7. For a similar statement by the Department of Agriculture, see, _What Peace Can Mean to American Farmers_, "Agricultural Policy," U.S., Dept. of Agr., Misc. Pub. 589, pp. 4-5.

[24] C. Douglas Dillon, "A Review of U.S. Foreign Economic Policy," _Department of State Bulletin_, Vol. 40, No. 1024, Feb. 9, 1959, p. 206.

> <u>First</u>, to strengthen the economy of our own country — the traditional purpose of foreign economic policy. We wish to assure the availability of needed foreign materials, to enlarge the market for our own products, and to make it easier for Americans to do business and visit abroad. . .
>
> <u>The second main objective</u> of our economic foreign policy is of more recent origin — to promote the economic strength and cohesion of the free world. We know, of course, that prosperity and rising living standards in other nations help to strengthen our own prosperity.

Dillon goes on to state that the basic tool for accomplishing these two objectives is trade.

The objectives listed by Dillon are to raise the standard of living both in the United States and abroad. This corresponds to the first domestic objective of farm policy as stated by Johnson — achieving an efficient production pattern. Only by specializing in production where the United States has the advantage and exchanging where it has not, will it be possible to utilize world agricultural resources most efficiently.

The foreign economic policies listed by Dillon are also consistent with the last three domestic objectives of agricultural policy listed by Johnson. Whether farm labor receives an income level comparable to labor in other segments of the economy depends largely upon the mobility of labor from agriculture as the returns to farm labor drop. Other things being equal, free worldwide trade would contribute toward a higher level of real national income in the United States. This would create greater nonfarm employment, encouraging the mobility of labor from agriculture. By increasing access to education and health services, an increased national income would also make it easier for farm people in the United States to obtain greater economic and social opportunity. Increasing international trade might help stabilize prices and income. With broad markets and supply areas, the effects of supply changes in any one area are frequently offset by opposite changes in other areas. Similarly, although possibly to a lesser degree, demand changes may tend to balance out as markets encompass larger areas.

The two programs' objectives do not necessarily conflict with each other. In fact, they may well prove to be complementary. However, they conflict because a price-support policy is used to implement the farm program objectives. The United States has provided price-supports on various farm products and other aids to agriculture for the past two decades. They were first used during the Great Depression of the 1930's to raise farm prices and incomes. Later, during World War II, they were used to provide incentives for all-out farm production. After the war, price-supports remained at high fixed levels until 1954, when they became flexible but remained relatively high.

The levels for price-supports are determined by applying the concept of "parity." "Parity" is a ratio between prices received by farmers for farm products and prices paid by farmers for other goods during a base period in which agricultural prices were considered favorable. For most commodities, the base period used by the U.S. Government for purposes of price-supports is 1909-14.

During most of the period after World War II, the government maintained prices at 90 per cent of parity by means of commodity loans and storage, production control, marketing agreements, and government purchases.

These programs attempted to give real gains to the farmers by raising the domestic prices of farm products above world prices of those products. This has led to a high domestic price regardless of quantities produced or of prices abroad.

The Staff Papers presented to the Commission on Foreign Economic Policy, February, 1954, described various repercussions:[25]

> Once a specific set of prices has been established as a goal, domestic programs come into sharp conflict with international aims whenever world prices fall below those in domestic markets. In this situation, our products tend to be priced out of world markets and any excess of supply above domestic requirements is accumulated as surplus stocks.
>
> Such withdrawal from world markets invites other areas to expand output to fill the void. This was evident in the 1930's, for example, on cotton.
>
> Domestic production meanwhile may need to be controlled in order to provide some limit to the cost of the price-support program.
>
> Imports are attracted by the high domestic prices. If allowed to enter they tend to increase domestic stocks, thereby adding to the difficulties and/or cost of making the support program effective. Objection arises also to allowing imports to share in the supported market. This leads to demands for added restrictions on imports. . . .
>
> As domestic surpluses accumulate, interest in expanding exports to dispose of them grows.
>
> This brings resort to subsidies to make export sales below domestic prices. Such a program of dumping often is viewed with disfavor by producers in receiving countries and may lead to retaliatory action. . . . Nor is the adverse reaction to dumping limited to countries receiving the surpluses. Other exporting countries may feel that

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[25] Staff Papers, presented to the Commission on Foreign Economic Policy, Washington, D.C., Feb., 1954, pp. 159-161.

such action encroaches unfairly on their markets. This can engender ill will and result in a proliferation of retaliatory action in respect to other goods and markets.

Thus, domestic programs which result in attempts to insulate them against imports, bring into use practices which the United States has been urging other nations to abandon in the interest of an expanding multilateral trade of mutual benefit to all participants.

This brings the conflict into the clear. To make our European aid program effective in strengthening the economies of overseas countries and to enable them to acquire the dollar exchange they need for buying commodities from us, we have urged them to increase their productivity, to integrate their production more effectively, to adapt themselves to exporting, and to remove some of their trade barriers to imports.

The position of the United States as the leader of the free world focuses the spotlight on this conflict between our domestic agricultural programs and our international objectives, particularly overseas. It is not yet apparent that Americans generally appreciate its extent or seriousness. There is an evident tendency to view our domestic programs as paramount and to underrate the tremendous stake which our Nation has in effective international cooperation to maintain the peace and to build a successful mutual security program to protect the free world.

In summary, the State Department and others promoting freer trade are in conflict with the Department of Agriculture and the agricultural bloc in Congress. The State Department says it is U.S. policy to develop a well-integrated free world economy that will form a strong bulwark against Communist political, economic, and military aggression. It also says it is U.S. policy to maintain channels of trade that will (1) provide sources of raw material not available in the United States, (2) satisfy the nation's expanding requirements and (3) enlarge markets for products from the United States. Contrariwise, certain agricultural interests in the U.S. are attempting to insulate the domestic agricultural market, maintain high prices in that market, and protect it from adjustments necessitated by outside competition. However, when the domestic market is unable to consume the resultant production of high-priced farm products, these agricultural interests have little compunction about offering or dumping the surplus output abroad at prices below the world market prices.

CHAPTER II

POLITICAL DEVELOPMENT OF PUBLIC LAW 480

Public Law 480 was a device for exporting an accumulating surplus. It was formulated under two economic pressures: (1) a condition of mounting surpluses, (2) a decline of agricultural exports.

In 1952 the United States farmers harvested their second largest crop in history. Acreage restrictions had not been used during 1952, nor were they established for the basic crops for 1953. The CCC's holdings of the basic crops increased (Table 1).

TABLE 1

CCC'S STOCKS OF THE BASIC CROPS, AS OF JUNE 30, 1951-54 (In Millions of Dollars)

	1951	1952	1953	1954
Corn	823.1	555.1	839.4	1,236.0
Cotton (upland)	16.7	48.7	322.8	1,154.2
Peanuts	10.3	23.1	21.2	7.9
Rice	2.7	1.6	.04	13.0
Tobacco	114.9	195.2	219.8	255.3
Wheat	505.3	411.1	1,284.2	2,169.1

Source: Commodity Credit Corporation, Report of Financial Condition and Operations. USDA. As of June 30, 1951-1954.

Increased supplies were forcing prices down, but the government increased its activity to maintain the high desired price level. The high guaranteed government price fixing helped to perpetuate increases in production. Farmers were producing about 6 to 8 per cent too much each year at the supported prices and, therefore, government storage had to be increased.[26]

TABLE 2

CCC OBLIGATIONS RESULTING FROM PRICE SUPPORT PROGRAMS, AS OF JUNE 30, 1948-58
(In Billions of Dollars)

Year	Inventory	Other*	Total
1948	0.2	0.1	0.3
1949	1.1	1.6	2.7
1950	2.6	1.0	3.6
1951	1.4	0.4	1.8
1952	1.1	0.3	1.4
1953	2.3	1.3	3.6
1954	3.7	2.5	6.2
1955	5.0	2.2	7.2
1956	2.3	6.0	8.3
1957	2.0	5.3	7.3
1958	1.6	5.4	7.0

*Loans Outstanding

Source: Commodity Credit Corporation, <u>Report of Financial Condition and Operations</u>. USDA. As of June 30, 1948-1958.

It is evident from Table 2 that the total CCC holdings of all agricultural commodities had sharply increased by June 30, 1953, and fur-

[26]Arthur Mauch, Department of Agricultural Economics, Michigan State University, "Agriculture at the Crossroads," paper presented at the Wisconsin Convention of Real Estate Brokers, Oct. 23, 1958, p. 5.

ther increased by June 30, 1954.

While farmers were overproducing, agricultural exports were more or less constant (See Table 3). The Secretary of Agriculture's statement to the Senate Committee on Agriculture and Forestry on April 9, 1953, included the following table:[27]

TABLE 3

UNITED STATES FOREIGN TRADE

(In Billions of Dollars)

Exports	Average 1935-39	47-48	48-49	49-50	50-51	51-52	est. 52-53
Agricultural	.7	3.5	3.8	3.0	3.4	4.0	2.9
Nonagricultural	2.0	10.2	8.9	7.1	9.2	11.5	11.5

Secretary Benson explained the estimated drastic decline for 1952-53 as follows:[28]

> Our nonagricultural exports have not declined. They totaled about $11.5 billion last year and are estimated at about the same amount this year. The reduction in exports of farm products, while exports of nonfarm products were maintained, was due primarily to generally larger farm supplies of commodities competing with United States exports.

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[27] U.S., Congress, Senate, Committee on Agriculture and Forestry, Hearings on Exports and Imports of Farm Commodities and Their Effects on Prices and Programs for Agricultural Products in the U.S., 83rd Cong., 1st Sess., 1953, p. 34.

[28] *Ibid.*, p. 4.

> Since the war, our total exports (both agricultural and nonagricultural) have been considerably larger than our total imports, resulting in a so-called favorable trade balance. This situation has been possible only because the United States has financed many of the exports through loans and grants. . . . A considerable but declining portion of our agricultural exports since the war has been financed by foreign-aid funds. In 1951-52, these funds financed 14 per cent of our cotton exports, 18 per cent of our tobacco exports, and 45 per cent of our wheat exports. These estimates relate onlyto direct foreign aid. They do not include shipments that may have been financed by dollar exchange created by military aid or other grant funds.
>
> Gold and dollar assets held by foreign countries increased nearly one-fifth during fiscal 1950-51 following Korea. But with a drop in the value of United States imports during 1951 while exports held at high levels, foreign gold and dollar assets held abroad declined. At the beginning of 1953, foreign gold and dollar assets were up moderately from mid-1952. By the end of February United Kingdom holdings were up approximately one-fourth from midyear.

In other words, exports declined because: (1) nations importing United States agricultural commodities were increasing their agricultural production, as were export competitors of the United States; (2) the United States was emphasizing military aid and reducing economic aid which previously supplied dollars abroad to purchase agricultural commodities from the United States; and (3) the shortage of dollars abroad was forcing nations to increase production of foodstuffs (or to do without), so as to conserve exchange. When purchases were necessary for agricultural supplies, they were obtained outside the dollar area to conserve dollars needed for industrial goods available only in the dollar market.

In the presence of mounting surpluses and a decline of agricultural exports, Congress, in late 1953, rather than grapple with high, fixed price-supports, searched for methods to increase the movement of agricultural commodities abroad. In view of the dollar shortage, it is understandable why Congress turned to a program of accepting foreign currency.

The concept of exchanging foreign currency for agricultural commodities was not a new one. A few cases of this had occurred during the war, but it was never practiced on a large scale. It had been proposed during the Truman Administration but never materialized into legislation.

With a new administration in 1952, Gwynn Garnett, Director of International Trade Development, American Farm Bureau Federation, began working relentlessly for a program that would incorporate the principle. He conceived it as a means of obtaining double value on American dollars. The United States was paying dollars to its domestic farmers under the price-support programs for their production and storing it. It was also sending dollars abroad for foreign economic aid. Why not give dollars to the United States farmers for their excessive production, loan the produce the government received to a foreign government in need of aid, and, in turn, let the foreign government sell the produce to its own citizens for their own currency? Thus, the foreign government, to which the United States wished to provide assistance, would have a capital fund in its own currency, payable to the United States over a long period of time, but immediately available for programs of economic development.[29]

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[29] Interview June 5, 1959, with Stanley Andrews, Director, National Project in Agricultural Communications, Michigan State University.

The first attempt of any magnitude to accept foreign currency for agricultural commodities appeared in the provisions of the Mutual Security Act of 1953. It authorized the President to contract with friendly foreign nations, eligible for United States aid under the Mutual Security Program, for the sale and export of farm commodities produced in the United States and to accept foreign currencies in payment. The foreign currencies would be used for aid and loans.

Also in 1953, Public Law 480's provisions for the expanded acceptance of foreign currencies began to take form. Public Law 480 was introduced as Senate Bill 2475 sponsored by Senators Schoeppel (R) Kansas, Anderson (D) New Mexico, Clements (D) Kentucky, Eastland (D) Mississippi, Hoey (D) North Carolina, Johnston (D) South Carolina, Mundt (R) South Dakota, Aiken (R) Vermont, Thye (R) Minnesota, Welker (R) Idaho, and Young (R) North Dakota, all members of the Senate Agriculture and Forestry Committee. Six were Republicans, five were Democrats. With wheat, cotton, and tobacco generally comprising about two-thirds of the United States agricultural exports, it is interesting to note that Senator Schoeppel, the chief sponsor of the bill, is from Kansas, the largest producer of wheat in the nation. With the exception of Aiken from Vermont and Welker from Idaho, the others represent states forming parts of the wheat belt, the cotton belt, and tobacco growing areas.

Spokesmen of agricultural interests have long tried to influence the Congress, for very good reasons. Charles Hardin, Department of Political Science, University of Chicago, states:[30]

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[30] Charles M. Hardin, "The Politics of Agriculture in the United States," Journal of Farm Economics, Vol. 32, Nov., 1950, p. 576.

> I think that farm leaders are wrong in emphasizing Congress above the parties, the electorate, and the Presidency with respect to _emergent_ developments in methods of forming policy. But the farm leaders' position squares with analysis of agriculture's _immediate_ interests and _present_ strength. Two Senators for each state regardless of its population exaggerates farm influence in the Senate. Allocation of Representative seats among geographical districts within states likewise creates disproportionate representation in favor of rural and small town America in the House. The continuous migration from farms to cities makes each reapportionment progressively uneven, at best. More important, state legislatures which make apportionments within the states are commonly dominated by rural and small town voters. Legislators often discriminate against metropolitan areas in assigning Congressional seats. From all this it is obvious that agriculture finds its main support in the Congress.

Within Congress, it is the agricultural committees that hammer out proposals for United States farm programs. Senators and Representatives with agriculturally-oriented constituencies tend to locate in these committees in an effort to maintain their farm support. Thus, within the Agricultural Committees of both Houses of Congress resides much of the political strength of agricultural interests. Senate Bill 2475 was to authorize the President to use agricultural commodities to improve the foreign relations of the United States. It is significant that the bill was referred to the Senate Committee on Agriculture and Forestry rather than to the Senate Foreign Relations Committee.

No hearings were held specifically on the Senate bill, but, according to Senator Schoeppel, the substantive features came from hearings on _Exports and Imports of Farm Commodities and Their Effects on Prices and Programs for Agricultural Products in the United States_ held April

through June, 1953.[31]

During these hearings a conflict of goals was apparent between the Department of Agriculture and the State Department. On April 9, 1953, the Secretary of Agriculture appeared before the committee and requested a revision of section 22 of the Agricultural Adjustment Act. The section provided for the establishment of import quotas or fees whenever imports of any agricultural commodity interfered with the price-support program. As the section then read, investigations were to be conducted by the Tariff Commission upon recommendation of the Secretary of Agriculture. Action to impede imports could be taken only after completion of Tariff Commission's investigation. The Secretary was seeking powers to impose quotas or import fees prior to the completion of the investigation, because such investigations had been quite lengthy. Section 104 of the Defense Production Act granted immediate powers such as the Secretary desired, but these powers were limited by the number of commodities specified in the section.

The next day Harold F. Linder, Assistant Secretary for Economic Affairs, Department of State, appeared before the Committee and the following exchange took place between Senator Williams and Mr. Linder:[32]

> Senator Williams. What is the opinion of the State Department with regard to section 22?
>
> Do I understand correctly that you are opposed to it?

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[31]U.S., Congress, Senate, Agricultural Trade Development Act of 1953, Report No. 642, 83rd Cong., 1st Sess., 1953, p. 1.

[32]U.S., Congress, Senate, Committee on Agriculture and Forestry, Hearings on Exports and Imports of Farm Commodities and Their Effect on Prices and Programs for Agricultural Products in the United States, op. cit., p. 55.

Mr. Linder. We are opposed to any amendment of section 22 at the present time, subject to the study which the President has asked for, which we are sure will include a complete review of our domestic agricultural situation in relation to our foreign situation.

Senator Williams. You are opposed to it?

Mr. Linder. We are opposed to any amendment now, but we are not committing ourselves before the fact that some alteration may be necessary as a result of that study.

Senator Williams. But as of today, you are opposed to section 22?

Mr. Linder. We are opposed to any amendment now.

Senator Williams. How about section 104?

Mr. Linder. We recommend that section 104 be allowed to lapse.

When Senator Mundt questioned Mr. Linder on the same day, the variance of interest was also pronounced:[33]

Senator Mundt. My precise feeling is that in this totality you have a great vacuum in your shop so far as the farmer is concerned. If you do not have a vacuum if you would give me the name of the individual that I could consult within your Department.

Mr. Linder. There is not such an identifiable person and we do rely on the Department of Agriculture.

Senator Mundt. Do you not think it would be helpful to you, and I am sure it would be helpful to us, if there were such an individual in the Economic Affairs Department of the State Department, because it is confusing and difficult for a committee, confronted with a problem like section 22 or section 104, to get one kind of counsel from the Department of Agriculture and a different type of counsel from the Department of State, all part of the same Govern-

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[33] Ibid., p. 64-65.

ment, part of the same country, all very sincere I am sure, but they look at the problem with different backgrounds, different view points, different objectives. Each says they consider the totality of it. I am sure they do. But there is a point of departure which leads to a difference in conclusion.

Senator Mundt finished his questioning as follows:[34]

Senator Mundt. Do you agree with what Secretary Benson said when he said:

"I am sure the congress would not enact a statute making mandatory the support of the world price of agricultural commodities at 90 percent of American Parity. Yet that is what the present mandatory supports mean if we do not have a readily available and effective method of controlling imports of those commodities or products whose prices are maintained here above world levels by price-support or market-order programs."

In other words, I think then you recognize that if we are going to maintain American farm price levels by one device or another, higher than the price that people get for farm products in other sections of the world, we either find Agriculture supporting the world economy or we have to have embargoes or agreements or imports or something to keep out that flood of foreign farm products.

Mr. Linder. We do need some protection under such circumstances, but I ask, in broad considerations with which this committee is concerned, that these two points that I have tried to make again and again are recognized: (a) that on the whole, American agriculture is more concerned with exports than imports; (b) that a careful study be made of the price factors in this study on exports of dairy products alone; and lastly, that any dollar that is earned by an outsider as a result of a shipment into the United States — and I am not talking about cheese specifically or milk specifically — must in the final analysis be spent in the United States for something else, or relieve the United States from having to grant or lend a dollar, which we do only to the extent that we really believe necessary in our national defense.

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[34] Ibid., p. 68.

It is evident that the Senate Agriculture and Forestry Committee and the Department of Agriculture were primarily interested in the mechanics of protecting the American farmer and preserving the price-support program. The State Department was concerned with the repercussions abroad if a foreign vessel docked in a United States port with a cargo of agricultural imports and the Secretary of Agriculture denied permission to unload the cargo pending an investigation by the Tariff Commission.

Senator Mundt never questioned the necessity of a price-support program for American agriculture. Mr. Linder, on the other hand, questioned it at least with respect to dairy products, as is evidenced by his second point. However, what was to be done to increase exports?

During the early stages of Senate Bill 2475, the Committee emphasized accepting foreign currencies for surplus commodities. The Secretary of Agriculture, in a letter to Chairman Aiken, said that the farm products section inserted in the foreign aid bill "gives us an opportunity, on a trial basis, to see whether we can effectively sell our agricultural surplus for foreign currencies. . . . Lacking experience in this type of operations, it cannot yet be determined to what extent they can be effectively utilized in expanding agricultural exports. If we find this feasible, we will support broader programs of this kind."[35] The Committee contended that what was needed was a larger test which the pending bill would provide.

During debate on the floor of the Senate, it was emphasized

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[35]U.S., Congress, Senate, Agricultural Trade Development Act of 1953, op. cit., p. 3.

that the bill was not designed as a "give-away" program but to promote trade and reduce the necessity of aid. According to Senator Humphrey (D) Minnesota, the bill provided an opportunity to sell farm surplus abroad for foreign currencies and, by careful trading, to convert them into dollars.[36]

With a minor clarifying amendment, the bill passed the Senate by a voice vote July 28, 1953. It was then referred to the House for consideration, but no hearings were held before the first session of the 83rd Congress adjourned.

The Senate Committee on Agriculture and Forestry began hearings January 18, 1954, on the Administration's farm program. The Secretary of Agriculture, Ezra Taft Benson, was the first witness. He began his statement by quoting, in advance of the President's presentation, a section of the President's Budget Message to Congress.[37]

> I plan to request authority soon to use a part of our accumulated surpluses of agricultural products to assist in strengthening the economies of friendly countries, and otherwise to contribute to the accomplishment of our foreign policy objectives.
>
> Authority will be requested to use for this purpose over a 3-year period up to $1 billion worth of commodities held by the Commodity Credit Corporation. This budget anticipates a request for a supplemental appropriation of $300 million for the fiscal year 1955 to reimburse that Corporation for commodities used.

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[36]U.S., Congressional Record, 83rd Cong., 2nd Sess., 1954, XCIX, Part 8, pp. 10077-10088.

[37]U.S., Congress, Senate, Committee on Agriculture and Forestry, Hearings on the Agricultural Outlook and the President's Farm Program, 83rd Cong., 2nd Sess., Jan. 18-19, 1954, p. 2.

> This program for use of agricultural surpluses is designed to complement our general program of economic and technical development and must be closely coordinated with it. The program for use of surplus agricultural commodities involves the use of stocks held by the Commodity Credit Corporation. No additional budget expenditures will be required for these commodities.
>
> It should be emphasized in connection with this program that it is purely temporary, predicated upon adoption of our domestic agricultural program which should not involve the continued accumulation of large surpluses. Special safeguards will be provided which will require that commodities furnished must be in addition to amounts which otherwise would have been imported and must not displace the usual marketings of the United States and friendly countries.

A little later in his testimony, the Secretary of Agriculture developed the principles of the Administration's flexible price-support program. It was, essentially, setting the support level on a sliding scale. As supplies became overabundant, the support price would fall to 75 per cent of parity. The program was based upon the assumption that as the price level fell the farmer would shift into production of a commodity which was not in abundant supply.[38] As the abundant supplies became more equal to demand, the support-price level would be increased.

It was contended that for the flexible price system to work existing surpluses had to be removed from the market. Secretary Benson stated:[39]

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[38]It was argued by the opposition that to lower the price received would only force the farmer to produce more to meet his high fixed cost.

[39]U.S., Congress, Senate, Committee on Agriculture and Forestry, Hearings on the Agricultural Outlook and the President's Farm Program, op. cit., p. 7-8.

> It would be impossible, however, for this or any other new program to function effectively at the outset with several billion dollars worth of Government-owned commodities hanging over the free markets. The very weight of these Government holdings today is offsetting to a considerable degree the factor of the price-support loans.
>
> For this reason, I believe that the President's recommendation for setting aside up to \$2.5 billion worth of surplus commodities in a special reserve stockpile is an essential part of the entire program.

The \$1 billion mentioned in the President's message was considered an essential portion of the \$2.5 billion set aside. In other words, before the Administration's program would begin reducing surpluses, a portion of the present holdings had to be removed from influencing the market. This was to be accomplished by the establishment of reserves for disaster relief and liquidation through such operations as school lunch programs and the provisions of Senate Bill 2475. Thus, Senate Bill 2475 became an essential part of the Administration's farm program. The previous reservations as to the size of the program to accept foreign currencies were forgotten.

Public Law 480 becomes more meaningful when viewed as a means for accomplishing the primary objectives of the Department of Agriculture.

Secretary Benson expressed the Department's overall objectives: "We emphasize marketing rather than production control as the best answer to agriculture's long-range needs. Our aim is to expand markets for farm products, both at home and abroad, on an enduring basis."[40]

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[40] U.S., Department of Agriculture, Report of the Secretary of Agriculture, Washington, D.C., 1954, p. 9.

The Department began to implement the objectives of expanded salesmanship in January of 1952. The Department of Agriculture was reorganized with the old Office of Foreign Agricultural Relations changed to the Foreign Agricultural Service. No longer purely an informative agency, it was now to provide a positive service.[41]

> The Foreign Agricultural Service has the responsibility of developing offshore markets for excess reserves of agricultural commodities and reviewing the whole problem of imports and exports. We count on this agency to play an important role in reducing some of the excess reserves which are so burdensome at the present time.

The new agency, with the emphasis upon expanding sales, had limited contacts abroad. It was true that the Department of Agriculture had its own agents, but they were under the jurisdiction of the State Department. To some, this greatly reduced the potentiality for expanding sales of United States agricultural commodities into foreign markets. Note the questioning of Secretary Benson by Senator Holland (D) Florida before the Senate Committee on Agriculture and Forestry on January 19, 1954:[42]

> Senator Holland. One more question. We in Florida have been distressed by the fact that apparently the Department of Agriculture is being seriously handicapped by the State Department in having agricultural products included within the purchase under section 550 of the MSA by the consuming trade of foreign countries which we are helping under MSA. Is the Secretary aware of the fact

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[41] Ibid., p. 12.

[42] U.S., Congress, Senate, Committee on Agriculture and Forestry, Hearings on the Agricultural Outlook and the President's Farm Program, op. cit., p. 100.

> that his own agents have been handicapped, that their reports have been held up sometimes for months, that they have found themselves unable to start the rebirth and redevelopment of foreign trade which had existed before the war and which has been strongly recommended by his agricultural attaches in various embassies in Europe?
>
> Secretary Benson. I think probably, Senator, I would not care to comment in any detail on that. I do not know that I have all the details. We feel very strongly in agriculture, as I think you realize, that it would help us a great deal in our foreign marketing work if we could have representatives of the Department under our supervision and direction in the foreign countries of the earth, particularly in Europe and the Near East.

During 1954 pressure mounted to bring the agricultural attaches under the direct control of the Department of Agriculture. On February 22, 1954, Representative Hope (R) Kansas, Chairman of the House Agriculture Committee, introduced a bill "to promote the agriculture of the United States by acquiring and diffusing useful information regarding agriculture in foreign countries and the marketing of American agricultural commodities, and the products thereof, outside of the United States; and to authorize the creation of an Agricultural Foreign Service in the Department of Agriculture."[43]

Six other bills, aimed at the same purpose, were introduced into the House between February 22 and March 22, 1954.

The transfer was completed with the passage of the Administration's farm program on August 28, 1954, a little more than a month after the passage of Public Law 480.

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[43] Commerce Clearing House, Inc., Congressional Index, 83rd Cong., 1953-54, p. 4499.

On March 22, 1954, the New York Times announced that the President was organizing trade missions to explore the possibilities of expanding international markets for American surplus farm commodities. They were to be sent to Europe, Asia, and South America. The Administration was desirous of getting them underway in advance of congressional action on farm legislation to provide some concrete information on the prospects for foreign sales. It was reported that the mission idea had met with little enthusiasm in the State Department. They believed that their representatives abroad were more capable of handling the survey.[44]

The missions, as organized by the President, were made up of specialists in agricultural trade including representatives of such commodities as wheat, cotton, livestock, dairy products, soybeans, rice, fruit, and tobacco.

The New York Times reported that in the missions reports the missions advised the United States "to resort to some type of government export pricing program" to get a fair share of world markets for farm products. They deplored the need for such a device even as a short-range measure, but said since others were doing it the United States must in order to compete. The long-range solution would be found only in "adjustment of our agricultural pricing and production programs in such a way that supplies will be brought into balance with the effective domestic and foreign demand. We wish to emphasize, however, that we do not favor using such export pricing programs as a dumping device

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[44]William M. Blair, New York Times, March 22, 1954, p. 12.

to usurp the normal markets of friendly countries." They urged the restoration of currency convertibility and strongly favored the sale of farm products for foreign currencies.[45]

The Department of State resisted agricultural efforts to increase exports of surplus commodities. William M. Blair, in an editorial of the New York Times, described the friction between the Department of Agriculture and the State Department:[46]

> The friction between the State and Agriculture Departments appears to be one of approach. Those concerned with both the farm price and surplus disposal problems look upon the State Department's approach as more or less that of "striped pants diplomacy" and as one that is not as tough and realistic as it should be.
>
> The Agricultural Department's concern is whether what is proposed interferes with normal channels of trade and is based on past performances. This stands in contrast to the State Department's views.
>
> These views are that any surplus-disposal operation must not be permitted to disrupt normal American markets for the commodities involved, that it would not be in our interest to interfere with the markets of friendly foreign countries. To this is added the contention that the United States has international obligations that compel her to consult with other Governments on the question of surplus disposal.
>
> Agriculture officials object to this "straitjacket" view. They want to get out and promote, within reason, American farm products in the same way that General Motors or General Electric promotes its products.

Senate Bill 2475 was also a means for increasing the sales of American surplus agricultural commodities abroad and thus faced possible

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[45] *Ibid.*, June 29, 1954, p. 14.

[46] *Ibid.*, January 24, 1954, Sec. 4, p. 4.

opposition from the Department of State. The House Agriculture Committee approved the bill on June 8, 1954. Representatives amenable to the State Department in the House attempted to seize control of the bill. On June 10th John M. Vorys (R) Ohio, attempted unsuccessfully in the House Rules Committee to shift the bill from the Agriculture Committee to the Foreign Affairs Committee; however, the Rules Committee reported favorably for the Agriculture Committee.[47]

On June 11th the House Foreign Affairs Committee unanimously approved a $1.3 billion disposal program as an amendment to the Mutual Security Control Act.[48] This bill was almost identical with the measure passed by the Agriculture Committee on the 8th of June. There was one very important distinction — administration of the disposal program would be under the control of the State Department. Disposal could thus be made in the regular channels of trade and the excessive amounts could be carefully handled as foreign aid.[49]

The Agriculture Committee's bill was triumphant on the House floor, but not before it was amended. Most of the amendments were for clarification. Two are significant.

The bill as reported from the House Agriculture Committee stated, "the President shall take reasonable precautions to safeguard usual marketings of the United States or friendly nations and insure insofar as practicable that sales under this act will not disrupt world

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[47] Ibid., June 11, 1954, p. 17.

[48] Ibid., June 12, 1954, p. 36.

[49] Ibid., March 22, 1954, p. 36.

prices of like commodities of similar quality."

Representative Thomas G. Abernethy, (D) Mississippi, proposed an amendment to delete everything after the words "United States." He argued:[50]

> Why should we continue to follow this crazy philosophy of the State Department, the one-worlders, to lean over backward in the interest of everyone but ourselves? Why should we continue to insist that the farmers of our country cannot export their own surpluses in world trade until all of the other nations of the world have exported and sold the surpluses they have?

The amendment was passed by a voice vote.

The Senate-House Conference Committee later replaced some of the language removed by the Abernethy amendment but not the reference to the marketings "of friendly nations." The law states: "The President shall take reasonable precautions to safeguard usual marketings of the United States and to assure that sales under this Act will not unduly disrupt world prices of agricultural commodities."[51]

The other significant amendment was the change of the title. It was amended to read: "An act to increase the consumption of United States agricultural commodities in foreign countries, and for other purposes."[52]

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[50] U.S., Congressional Record, 83rd Cong., 2nd Sess., op. cit., p. 8361

[51] Congressional Quarterly, Vol. 16, Part 2, July-December, 1959, p. 890.

[52] U.S., Congressional Record, 83rd Cong., 2nd Sess., op. cit., p. 8380.

Senate Bill 2475, as signed by the President, included the following provisions. Title I authorized the President to use up to $700 million worth of surplus agricultural commodities for sales to friendly nations for foreign currencies. Title II authorized the President to make grants of up to $300 millions worth of surplus stocks of CCC commodities "to meet famine or other urgent relief requirements" to friendly nations and "friendly but needy populations without regard to the friendliness of their government." Title III amended the Agriculture Act of 1949 to authorize the CCC to make surplus commodities available to any area in the United States declared by the President to be an "acute distress area" if there was no interference with "normal marketing." It also provided for surplus disposal through barter agreements and authorized the CCC to donate surplus food to private relief organizations for distribution overseas.[53]

The $700 million authorized for foreign currency by Title I was to be distributed over the three-year duration of the law. However, it was raised to $1.5 billion in July, 1955, and then to $3 billion during July of 1956. Title II appropriations were also raised to $500 million in 1956. In 1957 the act was renewed for one year with $4 billion allocated for Title I operations and $800 million for Title II provisions. The President signed a bill in July, 1958, extending Public Law 480 until December 31, 1959, allocating $2.25 billion for foreign currencies exchanges.

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[53] Congressional Quarterly, Vol. 10, 1954, p. 120-121.

CHAPTER III

IMPACT ON FOREIGN MARKETS

Clearly indicated in the foregoing analysis of Public Law 480 is the desire to remove excessive agricultural supplies from the United States by expanding exports through government programs.

Using only Public Law 480 and the surplus disposal provisions of the Mutual Security Act of 1954 under the heading of government programs, government programs have played an increasing role in expanding exports and have grown faster than nongovernment exports with the exception of 1957. At the peak in 1957 "government" exports amounted to 40.4 per cent of total United States exports (Table 4).

TABLE 4

U.S. AGRICULTURAL EXPORTS: VALUE UNDER SPECIFIED GOVERNMENT PROGRAMS AND NONGOVERNMENT EXPORTS, YEAR ENDING JUNE 30, 1953-58 (In Billions of Dollars)

Year	Nongovernment[a]	Government[b]	Total Exports
1953	2.3	0.5	2.8
1954	2.3	.6	2.9
1955	2.3	.8	3.1
1956	2.1	1.4	3.5
1957	2.8	1.9	4.7
1958	2.8	1.2	4.0

[a]The term "nongovernment" exports includes, in addition to regular commercial transactions, the following: CCC credit sales (1957 and 1958), Export-Import Bank Loan sales, and CCC sales at and below domestic market prices outside the specified Government programs. These less-than-domestic-market-price CCC sales are designated "nongovernment" because (1) the portion of the "nongovernment" exports attributable to CCC sales cannot be accurately determined, (2) the exports are arranged and handled entirely through commercial channels, and (3) the nonsubsidy amounts of such exports (the only portion entering into the official trade statistics) are paid for by the buyer and not the Government.

[b]The term "government" exports includes those financed under specified Government export programs as provided in Public Laws 480 and 665.

Source: Foreign Agricultural Trade Outlook, USDA, Foreign Agricultural Service, Washington, D.C., November, 1958, p. 45.

How have the increased United States exports compared with foreign exports (Table 5)?

TABLE 5

WORLD AGRICULTURAL EXPORTS: VALUE AT CONSTANT PRICES OF COMMODITIES COMMERCIALLY PRODUCED IN THE UNITED STATES AND PER CENT UNITED STATES OF WORLD ANNUAL 1952-57 (In Billions of Dollars[a,b] except as indicated)

Year	U.S. Exports	Foreign Exports	World Exports	U.S. Share of World Exports (Percentage)
1952	2.5	14.0	16.5	15.2
1953	2.5	15.0	17.5	14.3
1954	2.6	15.5	18.1	14.4
1955	3.1	16.1	19.2	16.1
1956	4.7	16.6	21.3	22.1
1957	4.0	17.8	21.8	18.3

[a]1952-54 average prices.

[b]Year beginning Aug. 1 for cotton; July 1 for wheat, rye, oats, corn, barley, and sorghum grains; Jan. 1 for other commodities.

Source: Foreign Agricultural Trade Outlook, USDA, Foreign Agricultural Service, Washington, D.C., November, 1958.

United States exports, with the exception of 1957, have taken an increasing share of the world market since 1953. Has the United States obtained this increase through its ingenuity in creating new markets, or, as foreign criticism maintains, has the United States taken over foreign markets formerly supplied by its competitors in agricultural export?

The Food and Agricultural Organization recommended to its member governments a set of principles aimed at maximizing the beneficial and minimizing the harmful effects of surplus disposal programs. Its criteria for determining if sales on concessional terms or grants to a given region caused any harmful interference with normal patterns of production or with international trade and prices included the followings:[54]

> (1) the extent to which commodities supplied on concessional terms are likely to be absorbed by additional consumption (i.e., consumption which would not have taken place in the absence of the transaction on special terms); (2) to the extent that sales of the commodities supplied on special terms may constitute some danger of displacement of commercial sales of identical or related commodities, that danger will have to be assessed in the light of relevant factors, particularly the following: (a) the exporter's share in the region's imports of the commodity concerned during a representative base period, due allowance

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[54]Gerda Blau, "Disposal of Agricultural Surpluses," Commodity Policy Studies No. 5, FAO, Rome, Italy, June, 1954, p. 41.

> being made for factors which lessen the significance of such historical comparisons; (b) whether the exports on special terms are likely to form so small (or large) a share of the region's imports of the commodity that the effect of special terms on such trade is likely to be of minor (or major) significance; (c) the degree of importance of trade in the commodity to the economy of the exporter concerned, to the economies of competing exporters of the commodity concerned and of closely related commodities, and to the importing region's economy; (d) the character and extent of the concessions offered and their probable effect on (i) the region's usual total imports of the commodity concerned and related commodities, (ii) the exporters' share in the region's imports of the commodity concerned and (iii) the interference with implementation of treaties or agreements which deal with world trade in these commodities; (e) the degree to which commercial market prices are, or are likely to be, affected in the importing region and in world trade; (f) the degree, if any, to which effects of the kind mentioned under (d) and (e) above are likely to affect the stability, or desirable expansion, of production and trade of the commodity concerned and of closely related commodities in both exporting and importing countries.

These FAO principles are not easily applied to specific situations. The following questions may be raised.

(1) How is the purely additional consumption to be determined in view of the fact that transactions under Public Law 480 agreements are handled by private traders?

(2) What and who is to determine the representative base period of an exporter's share in a region's imports?

(3) What are the factors that modify such historical comparisons and how are they to be measured?

The author does not propose to answer these questions nor to conduct a complete analysis of the impact of United States agricultural

surplus export programs upon the world's trade and production patterns. The problems encountered are extremely complex. However, there appears to be some evidence that foreign criticism of United States agricultural surplus export programs has been justified. It is to the most pronounced cases, viewed in terms of price changes and possible export displacement by total United States exports since 1954, that the discussion now turns.

The supply and demand for many agricultural commodities are believed to be such that small changes in the supply on the market will lead to large changes in price. If the United States is greatly increasing the supply on the world market, and if demand is substantially constant, there should be a decline in world prices (Table 6).

TABLE 6

INDICES OF AVERAGE EXPORT UNIT VALUES (PRICES) IN WORLD MARKETS (Indices: 1952-53=100)

Year	all agricultural products	food and feeding stuffs	beverages and tobacco	cereals
1947	87	105	73	108
1948	97	114	76	126
1949	90	102	72	101
1950	95	92	89	86
1951	118	103	100	93
1952	102	101	99	100
1953	98	99	101	100
1954	100	91	126	83
1955	94	87	107	80
1956	92	87	101	77
1957[a]	95	91	100	76

Source: The State of Food and Agriculture, FAO, Rome, 1958, p. 34.

[a]preliminary

Although price fluctuation of specific commodities within the four major divisions is not shown, there appears to have been no great disruption in world prices, except for cereal prices, for the years 1947 through 1957. The National Planning Association has stated, "Looking at the disposal programs as a whole, it would seem that they are interfering to some unmeasurable extent with other exports, but without harmful effect to ordinary commercial exports either from this country or from foreign countries because of generally strong world demand."[55]

Although overall agricultural prices remained relatively stable, there appears to have been some displacement of exports by the United States in the cases of wheat and cotton.

American wheat exports have increased sharply in recent years, both in absolute volume and as a percentage of world wheat trade. During 1948-56 wheat exports averaged roughly twice those of the 1920's and more than seven times those of the 1930's. In 1957 United States net wheat exports accounted for 50 per cent of the world's net exports. Indicating the extent to which increased wheat exports are subsidized, Helen C. Farnsworth, Economist for the Food Research Institute, stated: "During 1953-57 virtually all American wheat was exported under some type of subsidy or concession associated with official efforts to keep domestic wheat prices at artificially high levels by reducing the associated

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[55]National Planning Association, op. cit., p. 22.

excessive domestic stocks."[56]

Wheat has been the major commodity moved abroad under Public Law 480. During the four-year period ending June 30, 1958, $1.7 billion of United States wheat was sold under Title I. This accounted for 40 per cent of the total value of all commodities exchanged for foreign currencies under the law.

A. CANADIAN WHEAT

Canada is one of the chief wheat exporting countries in the world. It accounted for an average of 41 per cent of the world market from 1939/40-1947/48. As stated previously, Canada is perhaps the most vocal critic of the United States disposal programs, with good reason. Wheat is relatively more important, both to agriculture and to the economy, in Canada than it is in the United States. During 1956 wheat accounted for 19.6 per cent of the cash income from farm marketings in Canada but for only 5.9 per cent in the United States.[57] Also, a smaller percentage of annual production is absorbed by the domestic market in Canada than in the United States, which means that Canadian producers are more dependent upon export markets than are United States growers. Thus any displacement of Canadian wheat markets will have a greater effect upon Canada's economy than a similar displacement would have in the United States.

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[56] Helen C. Farnsworth, Multiple Pricing of American Wheat, Food Research Institute, Stanford University, California, 1958, p. 12.

[57] W.E. Hamilton and W.M. Drummond, Wheat Surpluses and Their Impact on Canadian-U.S. Relations, Canadian-American Committee, January, 1959, p. 7.

It is also significant that large-scale subsidization of Canadian wheat would be much more difficult in Canada than in the United States. While the total sum involved in subsidizing United States exports may be large, it represents a relatively small part of national income and consequently is a "fairly minor national burden."[58]

Various assessments have been made of the actual damage to Canadian exports, Gwynn Garnett, Administrator, Foreign Agricultural Service, USDA, stated:[59]

> With few exceptions, other countries have been able to market their production and have no agricultural surpluses. . . .An exception is Canada, which has large stocks of wheat. Canada's wheat exports, however, are being maintained close to the 270 million bushel average of the past 10 years. An examination of Canada's agricultural statistics would lead us to conclude that Canada's greatly increased wheat production, rather than unfair marketing competition, is primarily responsible for its large stocks.

Thorsten V. Kalijarvi, Deputy Assistant Secretary for Economic Affairs, Department of State, before the Senate Agriculture and Forestry Committee, explained the State Department's concern and efforts to prevent injury to the normal trade of friendly countries as a result of Title I agreements. He stated that the State Department has not been completely successful, and some of the United States "best friends" have been injured the most, Canada serving as a case in point:[60]

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[58] _Ibid_., p. 10.

[59] Gwynn Garnett, "The Stake of American Agriculture in U.S. Foreign Policies," reprinted in _Increasing Understanding of Public Problems and Policies_, Farm Foundation, 1957, p. 61.

[60] U.S., Congress, Senate, Committee on Agriculture and Forestry, _Hearings on the Policies and Operations under Public Law 480_, 85th Cong., 1st. Sess., June 11, 1957, pp. 89-90.

Although Canada is rapidly becoming industrialized, she is still dependent upon her wheat exports for an important portion of her foreign exchange earnings. She cannot afford, as we can, to sell for nonconvertible currency and loan a major portion of that currency, at low interest rates, to the country concerned for periods up to 40 years.

Neither can Canada afford to give much of her wheat away, either directly in the form of disaster relief or indirectly through private welfare agencies. She must get dollars for her wheat. Canadian and United States wheat are priced alike on export markets, allowance being made for differences in class and grade. However, at the time of export the United States producer has already received a considerably higher price from the Commodity Credit Corporation. The Canadian wheat farmer, on the other hand, can receive no more for his export wheat than the Canadian Wheat Board can get for it on world markets, and if the Canadian Wheat Board can't sell it at all, he must hold his wheat and wait for his money.

Now neither Canada nor the United States has cut wheat prices, but the other concessions which the United States is able to offer, such as sales for local currency and long-term credit, have resulted in the current wheat marketing year in a marked increase in United States wheat exports in relation to Canadian wheat exports. It looks now as if our exports during the current wheat marketing year will be on the order of 520 million bushels as compared with 345 million bushels last year, while Canadian exports will apparently be about 260 million bushels compared with 300 million bushels exported last year.

These quantities must be compared with the averages for the past 6 years of approximately 330 million bushels for the United States and 300 million bushels for Canada. This situation is causing the Canadians considerable concern, particularly since the total world trade in wheat this year will apparently be about 1,150 million bushels, 10 percent larger than last year's 1,033 million bushels. Canada's failure even to hold last year's export level, to say nothing of sharing in the in-

> crease in world wheat imports, is attributed by the Canadian Government and people almost entirely to the aggressive disposal policies of the United States of which our title I programs, aggregating about 291 million bushels of wheat in agreements signed since July 1 last year, [1956] are a major part.

Helen C. Farnsworth, in her study of the present program for wheat compares the changing percentages of the world market, held by Canada and the United States, and the relative increases and decreases of carryover stocks (Table 7).

TABLE 7

CHANGES IN THE PERCENTAGE OF THE WORLD MARKET AND CARRYOVER STOCKS FOR CANADA AND THE UNITED STATES, ANNUALLY 1953-57

	% World Market		Carryover Million Bushels	
	Canada	U.S.	Canada	U.S.
1953/54	33	28	619	934
1954/55	28	30	537	1,036
1955/56	31	35	580	1,033
1956/57	24	50	723	908

Source: Helen C. Farnsworth, Multiple Pricing of American Wheat, Food Research Institute, 1958, p. 10.

Farnsworth maintains:[61]

> Political emphasis on the great wheat export "achievements" of the United States in 1956-57 and on the associated reduction of 125 million bushels in the United States carryover has tended to obscure some of the less cheerful underlying features. Of these, the most dis-

[61] Helen C. Farnsworth, op. cit., p. 14.

> turbing is the increase in the Canadian wheat carryover by 143 million bushels, associated with a decline in Canadian wheat exports from 309 million bushels in the preceding year to a below-average (1949-56) figure of 263 million in 1956/57. This meant that the total North American stockpile of wheat actually expanded during the year of America's "great export achievement." It pointed up the implication that a significant part of the record United States exports had been won at the expense of Canadian shipments.

With reduced crops, Farnsworth claims, Western Europe became an open market for North American wheat exports. The fact that Canada did not share in the increased market was due primarily to the American wheat-export programs and to a probable secondary factor, the rigid pricing policy of the Canadian Wheat Board. The Board maintained prices about 25 cents above the International Wheat Agreement minimum. This price was considered by most market experts as unreasonably high. Farnsworth pointed out that, though a 25-cent reduction in the Board's basic wheat price would increase Canadian exports only moderately, such a reduction would correspondingly reduce the world price, making wheat production less attractive to producers whose prices were tied to the world level. This "price umbrella" maintained by the Canadian Wheat Board was the only plausible basis for the contention of American officials that their heavy surplus-disposal sales neither pushed down "world" prices nor interfered with the export marketings of other countries.[62]

The Congressional Quarterly Weekly Report in July, 1958, referring to the Report of the Special Study Mission to Canada of the House Foreign Affairs Committee, extracted the data comprising Table 8. Their

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[62] *Ibid.*, p. 14-15.

interpretations appear below the table.[63]

TABLE 8

TREND IN WHEAT EXPORTS FOR CANADA
AND THE UNITED STATES
(In Million Bushels)

Year	Canada	United States	
		Total	Under P.L. 480
1954	252	273	85
1955	309	346	178
1956	263	549	310
1957 (Estimate)	300	395	200

These figures indicate that from mid-1954, when Public Law 480 went into effect, through mid-1957, when it reached its peak, United States exports doubled while Canadian sales lifted slightly, then dropped. The estimated figures for 1957 indicate that as Public Law 480 operations slackened, United States exports slumped and Canadian sales increased.

B. THE RICE BOWL

In a summary presentation of the United States Mutual Security Program, fiscal year 1960, the Far East is recognized as vital to the United States security program. This area constitutes the free world's west Pacific defense line and is an important source of raw materials for military and civilian industries of the free world. Therefore, a $1.2

[63] "Farm Surplus Disposal," Congressional Quarterly, Washington, D.C., No. 28, July 11, 1958, p. 889.

billion aid program is proposed for 1960 to support Far Eastern defense forces and to assist the economic life of the area. Within the region are such well developed nations as Japan, Australia, and New Zealand. However, many of the Far Eastern countries are among the most under-developed in the world, and their governments are under severe pressure to achieve economic progress. At present, the export of primary commodities is the major means by which these countries can maintain and expand economic viability. Burma and Thailand are both cases in point.

Burma was the leading exporter or rice until wartime devastations and the political unrest that followed seriously reduced both the area cultivated and the amount of rice produced. However, by 1954 Burma had regained the lead in rice export, which accounted for 70 per cent of her total foreign trade. Government revenues also depended largely on these exports, since the government acquires rice from the country's producers at a price well below that for which the State Marketing Board of Burma has sold the rice abroad.

Rice plays almost as great a part in Thailand's economy. While there have been some fluctuations in rice production, Thailand was spared wartime and postwar disruptions. Thus, cultivation and production increased considerably. Thailand was the world's leading exporter from 1949 to 1953. In the latter year rice provided about 50 per cent of Thailand's total export earnings and was a major source of government revenue, provided by levies such as export taxes.

In view of United States interests in the region, and the heavy dependence upon rice trade, any displacement of rice exports by United States disposal programs would be in direct conflict with the United States

defense interests in the area.

In some areas of Asia the consumption patterns of rice and other cereals overlap. Consumers in Japan, for instance, can and do switch their expenditure for wheat and barley or rice. Various factors determine which commodity will be selected. Farnsworth explained the shift to wheat immediately after World War II by the shortage of rice supplies, which sharply increased the price of rice over wheat. The increase in wheat consumption was later stimulated by the concessional sales and barter terms of United States surplus disposal programs. It is suggested that the increased consumption of wheat does not reflect a growing preference but is necessitated by the existing price differential.[64] Bronfenbrenner indicated that shifts from rice have been, to some extent, coerced by stipulations that American surplus stocks be imported by the Japanese as a condition for receiving American aid.[65]

Japan has entered into two agreements with the United States, one in 1955 and the other in 1956, to procure $150.8 million of wheat, barley, rice, cotton and tobacco, in exchange for yen under Public Law 480, Title I. These agreements have increased the consumption of American products by the Japanese. Table 9 gives the total importation of rice, barley and wheat by Japan.

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[64] Helen C. Farnsworth, "Imbalance in the World Wheat Economy," Journal of Political Economy, Vol. LXVI, No. 1, Feb., 1958, as quoted in a paper by Jim Goering, "Some Conjectures Concerning the Impact of Surplus Disposal Programs Upon World Trading Patterns of Agricultural Commodities," unpublished, June 15, 1959, p. 24.

[65] Martin Bronfenbrenner, "A Modest Proposal for Surplus Disposal," American Economic Review, May, 1955, p. 251.

TABLE 9

JAPANESE RICE (PADDY) PRODUCTION PLUS TOTAL MILLED RICE BARLEY AND WHEAT IMPORTATIONS, 1951 to 1958 (Million Metric Tons)

Year	Rice Production	Milled Rice Imports	Barley Imports	Wheat Imports
1951	11.3	.8	.4	1.5
1952	12.4	.9	.7	1.5
1953	10.3	1.1	1.2	1.6
1954	11.4	1.4	.8	2.5
1955	14.8	1.2	.5	2.0
1956	13.1	.8	.7	2.2
1957	13.6	.4	.9	2.4
1958	12.5	[a]	[a]	2.4

[a]Not available

Source: FAO, Commodity Reports, Rice, No. 1-9, Rome, Italy, and FAO, A Note On the Utilization of Agricultural Surpluses for Economic Development in Japan, Economic Commission for Asia and The Far East, Bangkok, 1958.

It can be observed that after 1955 wheat and barley imports increased as the importation of rice decreased. United States exports accounted for 50.8 per cent of Japan's barley imports during fiscal year 1955/56. It is important to note, however, that the Japanese had a bumper crop of rice in 1955 and that part of the decline in rice import can be attributed to increased home production.

Other exporters to the Japanese market felt the shift away from rice (Table 10). Burma and Thailand had been the principal suppliers of the Japanese market since before 1950.

TABLE 10

BURMA AND THAILAND'S TOTAL MILLED RICE EXPORTS AND THEIR RICE EXPORTS TO JAPAN (In Thousand Metric Tons)

Year	Burma		Thailand	
	Total Exports	Exports to Japan	Total Exports	Exports to Japan
1950	1,189	141	1,508	325
1951	1,268	164	1,612	373
1952	1,261	135	1,413	312
1953	970	200	1,342	424
1954	1,461	327	1,009	380
1955	1,636	236	1,228	341
1956	1,857	267	1,239	130
1957	1,753	100	1,570	116

Source: FAO, Commodity Reports, Rice, 1-9, 1950-57, Rome, Italy.

The drop in Thailand's rice exports to Japan is clearly indicated. Burma was less affected because of a rice agreement with Japan. According to the FAO, Commodity Report, Rice No. 9, September, 1958, Thailand was supplying Japan with less than 50,000 tons during 1958, only about 15 per cent of the average 1950-56 quantity. Burma was providing only 40,000 tons compared with 100,000 tons in 1957 and 200,000 to 300,000 tons annually in 1954-56 under the five year agreement which expired at the end of 1957.

Although exports to Japan declined, total exports generally expanded from 1954 to 1957 for both Burma and Thailand (Table 10). The reduction in Japanese purchases coincided with a sharp expansion of rice imports by India, Indonesia, and Pakistan (Table 11).

TABLE 11

IMPORTS OF RICE (MILLED) INTO SELECTED COUNTRIES 1950-57
(Thousand Metric Tons)

Year	India	Indonesia	Japan	Pakistan
1950	379	332	671	--[a]
1951	941	409	792	--
1952	734	766	979	--
1953	193	372	1,079	--
1954	654	259	1,432	--
1955	286	127	1,246	--
1956	330	814	760	440
1957	748	680	400	410

[a]Unavailable

Source: FAO, Commodity Reports, Rice No. 1-9, 1950-57, Rome, Italy, and FAO, The State of Food and Agriculture, 1958, Rome, Italy.

Burmese and Thailand rice markets have been displaced to some degree by grain exports from the United States. However, these producers have expanded their total rice exports by locating new markets. How much expansion they might have experienced had the Japanese market remained open to them is difficult to assess. Meanwhile, the United States now has Public Law 480 agreements with India, Pakistan, and Indonesia, which may well reduce Far Eastern exports to those countries. The rapid change in the trading pattern for rice introduces an element of uncertainty which can prove very harmful to an economy under pressure to grow, and relying heavily on rice exports for economic sustenance and governmental revenues.

C. COTTON

The second ranking commodity to be exported under the special provisions of Public Law 480 is cotton. For the four years of operation up to June 30, 1958, cotton exports accounted for 17.5 per cent of the total commodities moved under Title I and, in terms of costs to the CCC, amounted to $700 million.

TABLE 12

TOTAL COTTON (LINT) EXPORTS BY SELECTED COUNTRIES, 1950-57
(Thousands Metric Tons)

Year	U.S.	Mexico	Egypt	Syria	Sudan
1950	1,341.2	162.6	386.5	19.0	66.5
1951	1,162.6	178.0	254.9	24.1	95.5
1952	922.9	228.7	270.4	37.8	55.2
1953	644.5	234.5	346.5	53.9	90.2
1954	940.8	259.4	287.7	42.2	60.4
1955	563.6	352.4	277.4	89.1	94.7
1956	1,032.4	421.9	234.8	56.2	113.8
1957	1,572.6	264.1	264.1	81.6	49.9

Source: FAO, Yearbook, Trade, 1950-58.

Cotton exports for the United States indicate that although Public Law 480 was initiated in late 1954, sharp increases occurred in 1956 and in 1957 (Table 12). These are explained by the Agricultural Act of May, 1956, which directed the CCC to dispose of all surplus stocks as rapidly as possible. Cotton stocks were offered on the world market about 25 per cent below the United States domestic price.

The effects were most pronounced in Latin America. The Latin American cotton industry, to a very great degree, is the result of United States price policy for cotton. Between 1934-38 and 1952-55, Latin America's average output of cotton increased by 90 per cent and exports increased 75 per cent. Latin America's contribution to total world cotton exports, which in the prewar period had been only 10 per cent, was a little over 23 per cent in 1952-55 and about 30 per cent in subsequent years. The United Nations Survey of Latin America, 1957, summarized it thus:[66]

> Latin America achieved this expansion at the expense of other traditional exporters, especially the United States, which was the most important of these. The latter's policy of fixing guarantee prices at levels which encouraged production but at the same time prevented its exportable surpluses from competing on the world market brought about a contraction of its exports, which were to some extent superseded by those of Latin America.

Mexico's export trade in cotton had grown from an average of 22,000 tons during the prewar period, 1934-38, to an average of 268,800 tons in 1952-55, an increase of more than ten times the average prewar exports. Mexico had developed its cotton export enterprise, selling just under the United States prices.

Prices for Latin American cotton began falling in 1955 as a result of the sale of one million bales of short fiber cotton from United States government stocks. The initiation of United States competitive prices in August, 1956, further lowered world market prices for Latin

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[66]United Nations, Economic Survey of Latin America, Dept. of Economic and Social Affairs, New York, 1957, p. 253-4.

American cotton through 1956-57. Mexican cotton prices declined 22.5 per cent, comparing the 1951-54 average with the average of 1955-58.

Mexican cotton exports dropped 138,000 tons in 1957 (Table 12). Disregarding the high level in 1956 and comparing 1957 with an average for 1953-55, Mexican exports were down 11 per cent. The high in 1956 was due (1) to a virtual stagnation of United States exports during the first six months of 1956, (2) Mexico adopted a sales system by which imports of motor vehicle parts were made contingent upon the sale of given quantities of exportable cotton surpluses and (3) the Mexican government lowered export duties on the fiber.

The loss in exports is clearly demonstrated by direct exports from Mexico to the principal raw cotton markets (Table 13).

TABLE 13

MEXICAN COTTON EXPORTS BY COUNTRY OF DESTINATION, 1955-57
(Thousands of Tons)

Country	1955	1956	1957	Per Cent 1956/1955	Difference 1957/1956
West Germany	18.3	17.8	7.5	-2.7	-57.9
France	0.9	9.4	4.5	1044.4	-52.1
Japan	62.1	82.6	44.9	33.0	-45.7
United Kingdom	6.9	10.8	5.5	56.6	-49.1
Total	352.4	421.9	283.9	19.5	-32.7

Source: The United Nations, <u>Economic Survey of Latin America, 1957</u>, p. 43.

The United Nations summarized the effects of the United States programs as follows:[67]

> The drop in prices and the unusually favorable conditions for sales effected pursuant to Public Law 480 undoubtedly stimulated the cotton trade, since they both encouraged consumption and induced the major importer countries to replenish their stocks which had fallen to very low levels in the preceding year. But the success of the United States programme meant a fall in Latin American cotton prices in 1956 and a substantial reduction in its volume of exports in 1957. In Brazil and Mexico also, it meant a reduction in cotton production and in the area sown to this crop.

The subsidization of cotton exports by the United States sharply increased importation of the fiber into Western Europe (Table 14).

TABLE 14

UNITED STATES COTTON EXPORTS TO SELECTED COUNTRIES IN THOUSANDS OF RUNNING BALES

(Year Beginning August 1)

Country	Average 1950-54	1955	1956	1957	1958
Belgium and Luxembourg	121	30	337	182	49
France	431	178	433	367	199
Germany (West)	382	74	1,061	623	103
Italy	379	105	722	572	154
Spain	142	143	174	217	279
United Kingdom	434	153	1,050	709	210
Total Europe	2,306	881	4,700	3,512	1,376

Source: USDA, Cotton Situation, November, 1954-1959.

[67] United Nations, Economic Survey of Latin America, 1957, Department of Economic and Social Affairs, New York, 1958, p. 43.

Increases occurred in the European total and in all countries listed in 1956. These countries have traditionally been the market for cotton exported from the Middle East. As the United States increased its cotton sales in the European market, cotton imports from the Middle East decreased. In 1957 and 1958 Egyptian trade with continental Western Europe fell considerably, and that with the United Kingdom was reduced to negligible proportions. Egyptian cotton exports to France, West Germany, Italy and Spain from August 1, 1956, to August 1, 1957, dropped 88.9, 56.3, 60.0 and 88.7 per cent respectively under the 1950-54 average. Exports to Belgium and Luxembourg were up 68.8 per cent. In both Syria and Sudan, exportation of cotton to continental Western Europe and the United Kingdom in 1957 was also reduced.[68] The reduction of Middle East exports to the European market took place despite an increased cotton importation by the United Kingdom, France, and West Germany by 11, 10, and 22 per cent respectively in 1957 over 1956.

Regardless of the decreases in European trade, the total exports of Egypt and Syria increased in 1957, and only the Sudan's dropped (Table 12). The buoyancy of Egyptian and Syrian export levels during the period in which these countries were losing ground in European markets, is explained by their cotton exports to the Soviet bloc. The Egyptians sent 34 per cent of their cotton exports to the Eastern bloc in 1956, 57 per cent in 1957. In Syria, more than half of the cotton exports in 1958 were going to the Soviet bloc.[69] Sudan, on the other hand, with 1957

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[68] United Nations, Economic Developments in the Middle East, 1957-1958, Department of Economic and Social Affairs, New York, 1959, p. 43.

[69] Howard K. Smith, The Ruble War, A Study of Russia's Economic Penetration versus U.S. Foreign Aid, Smith, Keyres and Marshall, New York, 1958, p. 16.

cotton production at 35 per cent above the 1956 level and exports decreasing, experienced a significant rise in stocks. The contrast between the Sudan's export plight and the increase for Syria and Egypt is partially due to the fact that the Sudan did not seek new markets in Eastern Europe and did not enter into barter agreements with mainland China and Hungary until the end of 1958.[70]

Cotton comprised 72 per cent of Egypt's total exports in 1957 and thus was the principal means by which Egypt could acquire exchange to purchase western manufactures. From April, 1957, until March, 1958, Egypt granted subsidies on cotton exports to specific currency areas by a system of multiple exchange rates with the advantageous rates given to western buyers.[71] This was an effort to maintain its position in the western market.

Certainly not all the shifting in the direction of trade in the Middle East can be blamed on United States agricultural export policies (events prior and subsequent to the Suez crisis appear to be important influences), but these have contributed to the reorientation. They have given the Soviets an opportunity to increase greatly their economic ties with the Middle East by providing a new market for Middle East cotton stocks accumulated as lower-priced American cotton replaced Middle East exports to the Western European market.

Not only do United States agricultural surplus export programs affect foreign export competitors, but recipient nations may be affected as well. This impact of the agricultural surplus programs was not considered

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[70] United Nations, Economic Development in the Middle East, 1957-58, op. cit., p. 8.

[71] Ibid., p. 44-5.

because of the nonavailability of the data.

In summary, the foregoing indicates that the increased volume of United States exports under the disposal programs of the past four years has not been entirely due to additional consumption, since the United States has displaced competitors in the world grain and cotton markets. Mexico experienced a price decline for its cotton as well as a notable decline in its export level. Canada and the Sudan increased their holdings of surplus stock, partially as a result of reduced export volume. Burma, Thailand, Egypt and Syria maintained their exports by shifting to new markets.

Despite the impact upon competitors in wheat and cotton export, surplus commodity carryover in the United States has not been significantly reduced.

In the specific case of cotton, carryover in 1958 was 40 per cent below the record of 1956 and 1 per cent below the 1954 level. The reduction resulted from a smaller production and larger exports. The decline of United States domestic use since 1955 did not help to reduce cotton carryover (Table 15).

The carryover in wheat is expected to be about 1,300 million bushels at the end of the 1958-59 marketing year — the largest in United States history. Exports in 1958 were below the high of 1956 but were above the 1954 and 1955 levels. The significant factor for the expected increase in carryover in 1959 is the greatly expanded production for the year 1958 (Table 16).

Regardless of expanded exports, carryover for all agriculture commodities held by the CCC, both inventory and loans outstanding, since 1953 remained high when compared with the pre-1953 levels (Table 2).

TABLE 15

COTTON, 1954-58
(Million Running Bales)

Year	Carryover	Production	Domestic Use	Exports
1954	9.7	13.6	8.8	3.4
1955	11.2	14.7	9.2	2.2
1956	14.5	13.0	8.6	7.6
1957	11.3	10.9	8.0	5.7
1958	8.7	11.6	8.0	4.5

Source: USDA, <u>Agricultural Outlook Charts</u>, 1959, p. 24.

TABLE 16

WHEAT, 1954-58
(Million Bushels)

Year	Carryover	Production	Domestic Use	Exports
1954	934	984	611	275
1955	1,036	935	601	346
1956	1,034	1,004	587	550
1957	909	947	584	410
1958	881	1,449	610	430
1959[a]	1,300			

[a]Projected

Source: USDA, <u>Agricultural Outlook Charts</u>, 1959, p. 22.

CHAPTER IV

POSSIBLE SOLUTIONS[72]

There is no easy solution to the conflict between United States domestic price-support protectionism and foreign interests in the United States and abroad in international agricultural trade. The various interests involved are difficult to reconcile. On the one hand, foreign interests maintain that if the United States is to continue its price-support activities, it should withdraw from the world market until world prices reach the support price in the United States. Its products would then enter the world market at the domestic price-support level. The tendency of United States agriculture, on the other hand, is to maintain high price-support levels for the domestic market and move unutilized commodities into the world market at whatever price they can bring. In both of the above events, price-support operations create disparity between the two interests. A solution to the problem may be approached through the abandonment of price-support techniques or, if the price-support mechanisms are retained, through developing methods of cooperation to effect a balance between the two interests. It is important to note that a close relationship exists between the support level and the amount of cooperation required.

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[72] Lawrence Witt, "What Are our Alternatives?", Farm Policy Forum, Spring, 1957, pp. 27-33.

If the price-support level is high, greater cooperation is needed. As price-fixing activities become more closely aligned with the prevailing supply and demand situation, cooperation will not be as essential to mitigate the conflict of interests.

Four approaches to solutions are proposed here. The first three are applicable under generally high domestic price-support programs, and the last removes the price differential between the domestic and foreign markets. These are not the only possible solutions, for any number could be devised between the extremes. However, these four, in various aspects, possess qualities that have some promise of acceptance. The four proposals, which will be considered in this order, are (1) continuation of the present programs, (2) the use of international commodity agreements, (3) the establishment of an international agency, and (4) aid to farm income without the use of price-supports.

A. PRESENT PROGRAMS

The present programs come close to transposing all the economic instability of the United States agricultural market into the world market. Criticism has not been directed at aid and relief programs which provided for increased consumption. The major faultfinding has been with barter transactions, provisions for accepting foreign currencies, and export price subsidies to enhance saleability which have displaced competing exports. Since 1954 changes have been instituted in the various surplus disposal programs to avoid displacement of foreign markets. The greatest alteration was in barter agreements.

During 1956/57 barter agreements under Title III, Public Law 480, amounted to $401 million at export market values. In 1957/58 the amount was $86 million, a reduction of 79 per cent.[73] Although foreign export interests were assisted by this reform, the changes were made probably not so much for that reason as to avoid the displacement of regular dollar markets.

Conversely, the provisions for foreign currency exchanges have expanded. Foreign currency sales and grants for all commodities amounted to $737 million in 1954/55 and reached a high of $1.5 billion during 1956/57. It is in these sales and special export pricing that displacement has occurred.[74]

The major disadvantage of the present approach to surplus disposal is uncertainty. The concern abroad is not nearly so much for what has been done but for what may be done in the future. United States carryover stocks of wheat on July 1, 1957, were 87 per cent of the size of total world imports during 1957. That same year, cotton stocks amounted to 95 per cent of the total volume of the world's cotton trade. The very size of these holdings, plus an uncertainty as to congressional intentions to liquidate them fosters instability. The erratic programming for surplus disposal activities is demonstrated by the use that has been made of Public Law 480, the principal instrument in the past. Secretary Benson's quotation from the President's Budget Message before the Senate Agriculture and Forestry Committee in early 1954 emphasized that the

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[73]FAO, The State of Food and Agriculture, 1958, Rome, Italy, p. 28.

[74]Ibid.

program was temporary, predicated upon the adjustment of United States domestic agriculture. Its temporary nature has been emphasized further by the short terms of congressional renewals since its passage in 1954.

The need for cooperation under such circumstances is great. However, international consultations by the United States have been of a cursory, informal nature. It is contended by the National Planning Association that many of the consultations came only after the major decisions had been made.[75]

Under these conditions, economic decisions are made on the basis of protectionism rather than efficiency. Each nation adopts measures to insulate its economy from outside disturbances. Rather than operating as a coordinated whole, to further the free world economy, nations attempt to become economically independent. The fact that none can become wholly independent means that disturbances from the outside which do occur serve as irritants. Thus, other nations who do not possess the economic power of the United States despise and resent economic maladjustments forced upon them by American programs designed to solve United States domestic problems in the world market. The result is political ill will and economic instability in less developed countries whose competitive agricultural exports are major sources of revenue.

The advantages gained by the United States are small compared with the effect upon underdeveloped countries whose economies depend upon international trade in primary commodities. To displace their economic base by American disposal programs negates the advance attained through technical aid and assistance. In conclusion, the present

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[75]National Planning Association, <u>op. cit</u>., p. 12.

programs develop and foster economic inefficiency, create political ill will, and tend to perpetuate division of the free world.

B. INTERNATIONAL COMMODITY AGREEMENTS

International commodity agreements are not a new device for controlling surplus disposal. The stated objective of the 1949 wheat agreement was to "overcome the serious hardship caused to producers and consumers by burdensome surpluses and critical shortages of wheat and to assure supplies of wheat to importing countries and markets for wheat to exporting countries at equitable and stable prices." Like the wheat arrangement, other commodity agreements would provide that each exporting country supply a certain quota of a commodity at a fixed maximum price and that each importing country undertake to purchase a fixed quota of the commodity at a price not lower than the fixed minimum. The total of exporters' quotas would equal the total of importers' quotas. Thus, in effect, each exporter is assured of a market for his quota at not less than a given minimum price and each importer is assured a supply equal to his quota at not more than a given maximum price.

The success of such a program would depend upon several factors. In the first place, exporters are interested in obtaining high prices; on the other hand, importers desire low prices. The problem is to find a price range for the guaranteed transactions that is satisfactory to both exporters and importers and is near the true average of the market prices expected to prevail in the absence of an agreement, so that neither side feels it is paying an excessive price for the stability provided by

the agreement. Establishment of such a price would be difficult at best.

A successful program of commodity agreements would also involve a consideration of the commodities to be covered and the extent of coverage. If only one commodity falls under an agreement, the impact upon commodities which are close substitutes both in consumption and production could be great. For example, an agreement on wheat, limiting the amount to be supplied by an exporter, could easily shift producers in the exporting country to the cultivation of maize which, not falling under the agreement, could be substituted in the world market when wheat quotas are filled. Also, the effectiveness of international commodity agreements to reduce surplus trade in world markets would depend upon the ratio of commodity quotas to the total trade in that commodity on the world market. To be effective, an agreement must cover virtually all international trading of the commodity. Finally, domestic production would have to conform to the requirements of the home market plus the total export quota under international commodity agreements. If production is not controlled, the agreement would break down sooner or later under the growing pressure of inequalities between supply and demand.

There would be both advantages and disadvantages to this approach as a means of surplus control. Its greatest advantage would be the agreement between both exporters and importers concerning trade of commodities between them. The "fair share" of the market, both past and newly developed, would be determined by mutual consent. Political ill will, attendant to unilateral action, would be reduced as a result of the agreement. Likewise, economic uncertainty would be removed by the assurance of a market and, within limits, of the price prevailing in that

market. However, as is indicated above, production would have to be controlled to supply the markets available. This has not been done successfully on a national basis by the United States in the past.

The major disadvantage of such a solution is that economic decisions tend to be made on the basis of political power. A nation awarded a large quota of the available market for a commodity may not be the most efficient producer of the commodity but rather the one possessing the greatest bargaining power. Economic efficiency and changing competitive advantage would receive, at best, only an indirect consideration in the allotment of quotas.

International commodity agreements would probably prove to be economically inefficient. However, they could provide a high degree of international cooperation, reducing trade tensions among nations. Such agreements could be implemented only if the member governments were ready to control their trade in the commodity concerned, to purchase and sell agreed amounts within the agreed price limits.

C. INTERNATIONAL AGENCY

The creation of an intergovernmental agency to acquire excess stocks of agricultural commodities and to handle and distribute them to the mutual benefit of both exporting and importing countries has been under consideration by the United Nations for a number of years. Several proposals have been made — a World Food Board in 1946, an International Commodity Clearing House in 1949, a World Food Reserve during 1954, and two United States Senate Resolutions in 1956.

All of these programs contain two objectives: (1) to stabilize world prices of primary products and (2) to absorb temporary market surpluses and direct their orderly distribution.

The provisions to implement objective (1), stabilization of world market prices, are usually based upon the international buffer stock principle. That is, an international agency would have the power to buy commodities during periods of low prices and to liquidate them at high prices, thereby indirectly controlling prices by providing a stable supply in the market. For the purposes of surplus disposal, the initial supply to build the commodity holdings of the international agency would relieve, but not deplete, national stockpiles. With this initial supply, the international agency can enter the market, buying and selling as necessary to stabilize the price. It cannot be expected to absorb any additional surpluses. To increase its holdings above those required for market stabilization would increase costs by maintaining excessive stocks and thus destroy its ability to be self-financing.

To dispose of the remaining national surpluses not absorbed in the buffer stock is the second objective of all proposals for international cooperation of some kind. Proposals to satisfy objective (2) have attempted to implement a large food fund for distribution in underdeveloped areas on the basis of grants or low-interest, long-term loans. The food fund, of course, cannot be self-financing as is the international stabilization reserve.[76] However, the economic development of those countries utilizing the food fund may be aided materially.

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[76]U.N., Functions of a World Food Reserve — Scope and Limitations, FAO, Rome, 1956, p. 33.

The need for food to make economic growth possible for underdeveloped areas is considered to be great.[77] Thus, with proper controls, the possibilities for surplus disposal are considerable. However, the major problems confronting an international agency are precisely those faced presently by the United States economic development loans under Public Law 480 — to offer food supplies, either free or on special terms, which will be used solely in additional consumption and thus not displace national commercial exports.

International control and administration of surplus stocks would have the advantage of multinational coordination of decisions pertaining to the distribution of surpluses, provisions to avoid displacement, and, in the event of displacement, the adjustment of the burden suffered by the affected nations. The international approach would also help alleviate apprehension on the part of underdeveloped areas against accepting assistance from the industrially developed western nations. Surplus food and fiber could be given without creating fears of imperialistic designs. It would also insure food supplies for development over an extended period of time, an assurance which is vital if true economic progress is to occur. Also, such a program would tend to reduce psychological feelings of resentment generated by a grantee's sense of dependence upon the grantor. This would be accomplished by avoiding any suggestion of imperialist domination, avoiding invidious distinctions between grantor and grantee countries, and engendering a spirit of

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[77] U.S., Senate, Subcommittee of the Committee on Foreign Relations, On S. Res. 85 and S. Res. 86, Hearings on Proposals to Establish an International Food Bank and International Raw Materials Reserve, 84th Cong., 2d Sess., 1956.

international cooperation in a common constructive task.

Apprehension on the part of export nations also would be greatly reduced by international administration of surplus disposal. Rather than subjecting all nations to the unilateral actions of one possessing large surplus stocks, the disposing agency would represent each nation and would consider the interests of all exporters.

To conclude, the major advantage of this alternative is the international cooperation in surplus disposal. However, difficulties negotiating the intergovernmental agreement, setting up the new international institution, providing finances, and establishing effective administrative procedures present some real barriers. These technicalities have been the stated reasons the United States executive, in the past, has felt an international agency could not be an effective instrument for surplus disposal. The unstated reasons may well be that a nation possessing surplus stocks can further its own interests by retaining control over its stockpiles better than by turning them over to an agency with a multiplicity of conflicting interests.

D. REMOVAL OF PRICE-SUPPORTS

This solution removes the price differential between domestic and foreign markets. It is implemented by providing assistance to agricultural producers through means other than price-support operations. It has been suggested that such assistance could be provided by a direct grant given independent of the market. That is, supply and demand would determine the price in the market, and the additional income required for producers to attain a level considered "fair" or in "parity" with

other segments of the economy would be paid, directly, by the United States Treasury.

This alternative would remove the need for import controls used presently to protect the price-support programs; however, export subsidies might remain, depending upon the form of the grants. If producers are given aid in a form which can be used for increasing production, farmers, with an assured total income, would produce irrespective of the market demand, with the resultant supply reducing the market price. Thus, the government payment would become progressively a greater proportion of the farmers' income. In other words, the supply dislocations of the present price-support program, which are now held by the Federal Government, would move, under the direct payment program, directly into both the domestic and foreign markets at lower prices. These lower prices would be advantageous for consumers and consumption would increase, but foreign producers would be required to compete with the taxing powers of the United States Treasury. These possibilities would probably prove to be as offensive to foreign producers as are the present programs.

Foreign competitors have not objected to the increased output that results from nonprice subsidies such as rural electrification, rural free mail service, farm credit, agricultural research and education. The reason seems to be that governments and nations have considered such utilization of national resources reasonable on the basis that the objectives underlying such programs are not, primarily, to improve the competitive position of the farmers in world markets.[78]

[78] D. Gale Johnson, op. cit., p. 122.

D. Gale Johnson develops proposals for a farm program designed to remove the ill effects of pricing policies and yet satisfy farm program objectives. His recommendations are as follows:[79]

> 1. A national food and fiber program to expand and stabilize the demand for agricultural products. This program could consist of measures to create new outlets for farm products, to promote the efficiency with which agricultural products are marketed, and to increase and stabilize the demand for farm food products by a nutrition program designed to insure all citizens an adequate diet.
>
> 2. A system of compensatory price or income payments to protect farmers from the impacts of depression upon prices and income and to compensate farmers for the maintenance of production during depression periods. This specific program would be secondary to a general monetary-fiscal policy to prevent depressions and would be an integral part of a monetary-fiscal policy to reestablish prosperity if a depression has commenced. The payments involved should not significantly discriminate in favor of agriculture as compared to other sectors of the economy.
>
> 3. A system of forward prices to aid farmers in making their production plans during periods of full employment. The forward prices would represent advance estimates of the anticipated level of prices which would prevail. The techniques for meeting the commitments involved should be such as to have little or no direct market-price effects.
>
> 4. A storage program to reduce the impact of weather fluctuations upon the supplies of livestock and crop products available to consumers and to reduce somewhat the repercussions upon farm prices and incomes.
>
> 5. A conversion program for any area in which the supply of labor is in excess and the level of labor returns per person or family is seriously below that of other sectors of agriculture or the rest of the economy. Such a program is required to ease the inevitable transition period before the supply of labor has been sufficiently reduced to permit the desired increase in labor income.

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[79] _Ibid._, pp. 94-95.

It can be noted that Johnson's price or income payments suggested under (2) would be made only to protect farmers from depression prices and income fluctuations. Thus, rather than being offensive to foreign governments, which are greatly influenced by United States economic climate, such a program, designed to maintain domestic economic activity, would be very much in the interests of other governments. His fifth proposal is derived from what he conceives to be the reason for low income returns to agriculture. "Farm family incomes are low because too many families have been attempting to derive a livelihood from agriculture."[80] Income payments would be provided to further the mobility of labor out of agriculture and to reduce the impact of such an adjustment. Once the adjustment was complete, Johnson feels agriculture would not require additional income payments to maintain a "reasonable" portion of the national income.

The political possibilities for such a program are remote. Direct payments have not been acceptable to farm groups.[81]

> Farm groups have looked upon a system of price or income payments with disfavor. Such disfavor seems to be generated by the feeling that all income should be earned and the erroneous assumption that any income received through the market place is earned. . . . The more important reason for disfavor is that larger income transfers can be achieved by indirect than by direct means. In other words, smaller appropriations are required and greater returns are realized by the farmer for a program based on commodity loans, production control, export subsidies, and surplus disposal than for a program requiring all income transfers to come directly from the treasury.

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[80] _Ibid_., p. 45.

[81] O. B. Jesness, et al., _Readings on Agricultural Policy_, Blakiston, 1949, p. 266-67.

Because of high birth rates, and rapid technological changes in agriculture, labor transfer would have to be large and continuous in order to be effective. An adjustment of this magnitude, and directed at the low-income segment of agriculture, would be difficult to implement politically. This fact is well demonstrated by the present programs. The low-income farmer, who needs income assistance, receives very little benefit from price-supports. The politically influential, commercial farmer is receiving the lion's share. Although low-income farmers benefit from farm credit, soil conservation, rural electrification, and other such very general measures, with the exception of the Rural Development Program, no program has been designed specifically for the low-income segment of agriculture.

The proposed transfer of labor from agriculture would, in all probability, greatly accelerate the disappearance of the so-called family farm. This, also, would involve political difficulties.[82]

There is one advantage of the present farm programs which the above solution does not possess and which has not been recognized by foreign governments criticizing United States agricultural policies. The large surplus holdings of the United States have served to stabilize world prices. The eventual removal of these government holdings by a direct payments program would remove this influence and, in the absence of an international agency to cushion price fluctuations, world prices would be left to the full impact of a free market.

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[82] U.S., House of Representatives, The Family Farm, Report of the Subcommittee on Family Farms to the Committee on Agriculture, 84th Cong., 2d Sess., August 1, 1956.

In the absence of government stockpiles under a direct payments program, surplus commodities would not be available for use as foreign aid. However, in the event that dollar aid were not considered adequate, the government could enter the market to obtain the food and fiber required to satisfy United States foreign aid objectives. Thus, the present useful purposes of surpluses to develop new consumption or economic development would be retained without the government's maintaining large stockpiles for which no use could be found.

In summary, the solution proposed by Dr. Johnson would reduce the subsidization of the American farmer through price policies and would remove the sources of irritation to foreign governments and the conflict between United States agricultural price and foreign economic policies. Under his program the American farmer would maintain a position in the world market on the basis of economic efficiency. Although Dr. Johnson's program has provisions for stabilizing agricultural prices in the United States market, it is doubtful that his program would be effective in stabilizing the world market. In fact, he suggests additional measures for stabilizing world prices. Thus, the adoption of the direct payments program in the United States would not be as influential in stabilizing world prices as are the present price programs.

Despite the ability of Dr. Johnson's proposals to harmonize domestic and foreign interests, they would face strong political opposition in the United States.

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