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In his latest book, Colin Clark has asserted that the problems of distributing 'the fruits of the world's abundant productivity' are 'political and administrative rather than economic or scientific'. This suggests that imbalances in supply and demand could be eliminated by the combined effort of economists and agricultural scientists, if political and administrative restraints did not intrude. Though it would be comforting to sheet home the entire blame for surpluses in this way, I do not believe that, in practice, our profession can so easily dismiss its responsibilities in this matter.

Judgments about the long-term significance of the so-called 'green revolution' vary, but there is no doubt that it has served recently to bring the problem of commodity surpluses on to the agenda of more and more governments. It is a measure of the intractability of the problem that, for most of the period since World War II, we have had surplus disposal programmes running parallel with 'freedom from hunger' programmes and oftentimes in the same agency.

This anomalous situation highlights the difficulty of arriving at a satisfactory definition of a surplus, because in the absence of institutional constraints such as price-support programmes, many so-called surpluses would disappear. I do not propose to discuss surpluses in terms of the relation between production and estimated nutritional requirements but rather in terms of commercial trade. In practice, a surplus is that part of the product of an industry or a country which cannot be sold in the normal competitive channels of trade at an acceptable price, in the absence of any subsidy. Even so, understandable uncertainty about the appropriate size of the contingency reserves necessary to provide protection against future shortfalls in production often precludes precise identification of the size of a national commodity surplus.

The definition given above implies a geographical frame of reference. A serious surplus within a national border may not be a surplus when considered in a supranational market context. The feasibility of such a transmutation occurring depends on such factors as the availability of

transport, the ability of the product to bear the freight costs involved, the dietary patterns of people in the deficit areas, as well as the recurring problem of price. In some of the less developed countries, regions of surplus production can co-exist with regions of deficit production because of the sheer magnitude of the logistic problem involved in moving the commodity between regions.

In the international arena, preconceptions about remunerative price levels tend to be a major stumbling block to the dissipation of surpluses. Many nations (and also indeed industries within a country) prefer to store a surplus or savagely restrict supplies by administrative means, rather than accept what appears to them to be a depressed price, even though it may be a realistic price in economic terms and even though a reduction in price would not hurt the majority of producers.

Occasionally the notionally 'acceptable' price is sanctified by international collusion or a governmental imprimatur. The parties, who are reluctant to lower prices themselves, can be devastatingly critical of competing suppliers who do attempt to move their surpluses under such conditions. The explanations given for refusal to allow what might with justification be called 'artificially created' surpluses of commodities to move to consumers at lower prices make use of political slogans, such as 'remunerative prices to producers' and 'costs of production'. However plausible these slogans may sound superficially, they usually reflect an underlying reluctance to adapt the industry concerned to the potentialities of advancing agricultural technology, particularly if this implies a shift to areas which have greater comparative advantage in the production of the commodity concerned. Autarkic policies, especially if they are associated with an appeal to tradition, can be a very real obstacle to the elimination of surpluses.

There is, nonetheless, some substance in the view that surpluses, in a long-run context, are virtually unavoidable. Given the low income and price elasticities of demand for food, the ebullience of agricultural technology, and the inelasticity of agricultural supply, surpluses may be as Arthur Lewis once said in a related connection, 'inevitable in the arithmetic'. 3 Personally, I hesitate to accept such an all-embracing fatalistic view of the inevitability of surpluses. However, the refusal of many farmers, their organizations and their governments to come to terms with rapid technological advance in agriculture must, as I have already indicated, appear prominently on any list of the causes of surpluses.

If one seeks the reasons for the farmers' reluctance to adapt (and the parallel reluctance of governments to modify existing policies), they can be found in the social and institutional characteristics of agriculture itself—the burden of fixed assets, capital rationing, low standards of education, ignorance of alternative employment opportunities, and restraints on farm aggregation. To this might be added (or alternatively it might be regarded as an outcome), a propensity to seek political solutions to economic problems.

rather than ‘grass-roots’ solutions in terms of farm reorganisation. This is particularly true of the less commercial segment of agriculture, often the majority in a political sense, but a minority in terms of its contribution to aggregate production. This situation consequently becomes the political justification for the commission of folly in legislatures as they agree to support prices at uneconomic levels, with the object of making welfare payments to the less viable farms via the price mechanism. The incentive thus provided to the economic producers generates surpluses, unless restrictions on output are simultaneously imposed. This is an area where one looks, too often in vain, for courageous and statesman-like legislators. Problems of this kind are most unlikely to be solved without leadership from the top.

In the period immediately after World War II, farm prices in a number of countries were set at incentive levels to stimulate domestic food production, but by the time downward adjustment became economically necessary, welfare considerations assumed dominance and surpluses resulted. Later, there was a further re-orientation of the philosophy of farm policy in some countries, particularly the United States. National agricultural policy became geared not only to meeting effective commercial demand, but also to concessional sales and the provision of food aid generally. Such policies could, in one sense, also be regarded as productive of surpluses. Certainly such changes in attitude towards that section of production which is the subject of non-commercial trade raise questions as to the relevance of the definition of surplus posited earlier. Where does one draw the line between commercially-acceptable discriminatory pricing and the concessional sales of surplus commodities on the one hand; and between production for sale and production for purposes of public benevolence on the other?

Even if we set aside the problem of the low-income farmer, there is no denying the generally low elasticity of agricultural supply, particularly in the case of perennial crops and livestock with long production periods. We cannot hope that the organisation of production in these cases can ever become as flexible as the manufacture of secondary products with short production periods. In the absence of long-range planning of planting and breeding, production cycles and the associated possibility of recurrent surpluses are virtually unavoidable.

There are also the short-term surpluses springing from yield variability of seasonal or biological origin. The biological basis of agricultural production, with the associated inevitability of inter-seasonal yield fluctuations, means that even in the most expertly planned economy today, years of relative or actual surplus are going to be interspersed with years of relative deficit. On the other hand, more widespread use of chemical and biological agents for the control of animal and plant diseases should in time reduce yield fluctuations of pathogenic origin to minor proportions.

A situation particularly productive of difficulties for exporting countries is one in which a small producing country aims to organize output so that it is virtually self-sufficient even in relatively adverse seasons, and expects the international market to provide the safety valve, by absorbing seasonal surpluses when they appear. The simultaneous occurrence of a good season in a
number of countries pursuing such policies can produce chaotic marketing conditions for regular suppliers of the international market. The fact that such a small proportion of the aggregate world production of most primary products is traded internationally aggravates this problem.

Surplus situations can also have their origin on the demand side. Short-term curtailment of consumption, associated with economic recessions, was a major problem of the thirties. However, thanks to more astute monetary and fiscal management since World War II, agricultural surpluses of this kind are not the ogre they once were. Arbitrary governmental action to curtail imports on quarantine and like grounds can have an effect on exporters not unlike a major recession. Technological progress operating to develop new or better quality products, competitive with natural products, can set in motion a longer-term contraction of demand, potentially leading, in the absence of production adjustments, to surplus problems. The development of new fibres, the advent of detergents, and the longer-standing production of margarine, are examples of this phenomenon. The forces previously described as inhibiting structural change in response to technological advances on the supply side operate equally here.

What can be done to mitigate the problem of surpluses? So far as the longer-term problem is concerned, stemming fundamentally as it does from the seemingly limitless bounty of science and strictly limited capacity of the human stomach, I believe that the solution lies in the direction of structural adjustment, coupled with an acceptance of the necessity to pass on to the consumer the economies which science makes possible. Many countries are beginning now to make slow and halting progress towards structural reform. It is clear that these programmes must be accelerated. The distressing fact is that not only are most national price and income policies not attuned to programmes of farm reorganisation, but, worse, that they serve to neutralize the pressure for structural reform and even positively encourage action contrary to these reform policies. In 1970, it is futile to have a policy of structural reform as a mere well-intentioned appendage to a country's agricultural policy. It should be the central focus to which other policies, including individual commodity policies, should be subsidiary and complementary.

The prevailing mood in the majority of current national and international discussions is to use direct controls, whether on inputs or on the volume of marketable products, as a means of restraining surpluses. Given the persistence of the underlying technological forces at work, these administrative solutions are destined to become progressively onerous. Their use means that opportunities for improving production efficiency are increasingly foregone. It is regrettable that latter-day pressures for national 'discipline' in commodity policy (for instance with respect to wheat) are currently interpreted to mean specific supply control, rather than structural adjustment. If the weight of international pressure could be re-directed towards more fundamental measures, it could prove a powerful aid to individual countries endeavouring to introduce more realistic price and adjustment programmes. To the extent that countries procrastinate in modifying their price policies to
encourage voluntary structural adjustment, and also procrastinate in adopting major programmes of governmentally-sponsored adjustment, on the grounds that this is a ‘long-term solution’ or ‘too difficult’ or ‘not quick enough’, so long will surpluses be a persistent worry.

In the last twenty years, two-price schemes and concessional sales programmes have become part of the paraphernalia of international surplus disposal. An F.A.O. committee recently recognised some twentydistinctively different types of transactions on special terms. These schemes have been rationalized by economists in various ways, but they remain, in my view, politically-acceptable administrative solutions, rather than economic solutions to a nagging problem. Moreover, they represent, for the most part, feasible solutions more or less peculiar to relatively affluent economies producing agricultural commodities primarily for a home market. A recent article in *Nature* referred to the necessity to find alternatives “to the ‘costly policies’ which have been developed for the management of food surpluses in the countries which have in the past been able to enjoy such luxuries”.

The potential effect of these schemes in interfering with normal patterns of production and in undermining regular commercial trade of both developed and developing countries is a matter of continuing international concern. Involved administrative procedures have been developed for exercising collective oversight of such transactions. The preoccupation with the historically-based ‘usual marketing requirements’ of the recipient countries means that virtually no cognisance is taken of the normal development of markets which would undoubtedly occur if continued concessional transactions did not take place.

In individual countries, comparable two-price schemes designed to promote increased consumption by low-income groups have been used on occasions in an effort to ease domestic surpluses. Improvement of the quality and presentation of food and fibre and associated promotion programmes are sometimes attempted as means to the same end. But in the nature of the case, the leverage potential of such measures is usually minimal. The major hope for the expansion of demand, apart from population increase, lies in the raising of purchasing power, domestically and internationally, but this falls in the province of general economic policy.

As for the short-term surpluses arising from inter-seasonal weather variability or from demand fluctuations, storage, buffer-stock and buffer-fund schemes remain the most satisfactory prescriptions to safeguard producers’ interests in the face of what are to them the uncontrollable. I personally believe that we are on the threshold of a breakthrough with respect to long-term rainfall prediction. To the extent that progress is made in this area in the years to come, and producers have confidence in the predictions, then short-term surpluses, at least in respect of annual crops, should become less of a problem.

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As intimated earlier, the agricultural policy most conducive to the production of surpluses is a price-support or stabilization scheme with a built-in welfare component. If it is politically necessary to maintain such a welfare-oriented policy, and it is desired to do so without the usual undesirable side-effects, it is necessary to find a scheme which will discover and provide short-term assistance to those in financial trouble, due to circumstances beyond their control, and terminate such assistance when the emergency passes or within a reasonable period. In February last I proposed such an income stabilization scheme for Australian primary products. The proposal is that, if the income from a commodity in a particular region falls by more than, say, 10 per cent below the income of the three preceding years, the producers in the region would be entitled to compensation amounting to a specified proportion, say, three-quarters of the income deficiency.

Being based on income movements, this scheme does not provide assistance to farmers in regions in which there are ample opportunities for economic adjustment, as evidenced by improvement in income. On the other hand, operating as it does by reference to a moving-average, the scheme automatically terminates assistance in areas where it has been given, if income subsequently improves, and tapers it off if income is persistently falling. In brief, it provides some offset to short-term fluctuations in income, leaving the longer-term welfare problem to be taken care of by programmes of structural reform.

Any resolution of the problem of surpluses would seem to imply a necessity to put economic argument before political pressure, to put long-term economic advantage before short-term political advantage and to put a world perspective before a national or regional perspective. It may be that this is too much to expect of any government.

SPECIAL GROUP J REPORT

Two main opposite views on the causes and cures of food surpluses were confronting each other in the discussion, one advocating the advantage and necessity of surpluses in order to meet hunger and malnutrition in poor countries and the other stressing the need of cutting down surpluses because they distort the functioning of commercial markets and an effective allocation of production resources.

In view of the fact that the majority of mankind is lacking adequate food intake and the probability that this situation may get worse in the future,
surpluses should not be cut down but rather enlarged and distributed on concessional terms to those mostly in need. Further, food surpluses could be combined with labour surpluses for economic development purposes, as is done in the World Food Programme. Surpluses could also be used to cure malnutrition, e.g. increasing the protein standard by processing cereal surpluses into animal products. The need of more vegetables was also mentioned.

On the other side it was argued that surpluses not only arise in developed countries but also are likely to occur in developing countries because of rapid technological development (the so-called 'Green Revolution') and increased price support. The dumping of surpluses on the world market deteriorates the prices for exporting countries which have specialised in commodity exports or cannot afford a remuneration to their producers of price losses on the world market. It was admitted that the surpluses were caused by too high support prices. A rapid downward adjustment of the domestic support in order to remove surpluses was, however, considered as incompatible with the incomes goals for the farming population. The low mobility of the rural labour retards the speed of the adjustment process. If the price support is reduced too fast, the farm income problem will be seriously aggravated. However, the outflow of labour may be accelerated by special labour market and farm restructuration programmes timed with a successive reduction in the price support. It was admitted that there exists an agricultural over-population (in relation to the needs of an efficient use of labour) not only in developing economies but also in developed economies, socialist as well as un-socialist. In this connection the crucial role of the small farmers predominating in number in the industrial economies of the Western type was stressed. It was said that their income problem due to low volumes of sale, cannot be solved by higher prices. Instead, higher prices encourage large farmers to expand their production and increase the risk of surpluses. Because of the small farmers' bonds to their enterprises, both psychologically and financially, the costs of helping these farmers out of business are, however, considerable. None the less such efforts were considered as necessary to cut the surpluses.

Some participants in the discussion felt that there was a need of compromise between the two views. In the short term surpluses have to be used as efficiently as possible as long as they exist. Temporary surpluses are more or less unavoidable, because of weather variations and market imperfections, but their harmful effects should be minimised by stabilisation schemes, nationally as well as internationally. A global cost/benefit analysis of the surpluses could offer guidelines to optimal long term production policies. It was said that the economic problems of food deficits and surpluses have reached a stage, at which it is recognised that farm policies no longer can be conducted completely on a domestic basis, leaving the international organisations with impossible tasks of clearing world market distortions. On the contrary, because of the inter-dependencies, physically demonstrated by the surpluses occurring on the world market, price support levels as well as other farm policies have to be negotiated between nations in order to reach