Export and Import Programs as Related to Domestic Price and Income Policies: An Appraisal

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The situation paper presented by Messrs. Myers and Palmby brings together and explains important details about our agricultural export and import programs. This should be a helpful basis for an appraisal of these programs. Yet evaluation is not at all easy. For one thing, not much useful research has been done on this. A more basic problem lies in the difficulty of deciding against what policy goals we may appropriately judge these programs.

The topic assigned for this session suggests strongly that the goal to be considered is higher domestic farm prices and incomes. We might start with this. Then what can we say about the effects of our farm export programs on farm prices at home?

The effects of expanded exports on prices will vary from commodity to commodity. We can best discuss this if we consider them in two categories: (1) those commodities which we export that are not covered by price supports or for which support prices are lower than prices at which they can move into world trade, and (2) those commodities which are covered by price supports and for which domestic support prices are above world prices.

The first category includes many livestock and livestock products, fruits and vegetables. Lately soybeans have also been in this group. Domestic prices of all these products are directly affected by the volume of exports. How much, in each case, depends somewhat on the elasticity of demand for the product abroad but to a greater extent on the demand elasticity at home, since exports of most of these commodities represent a rather small part of world consumption.

In the second category are a long list of our major products. This includes: wheat, rice, cotton, soybeans, feed grains, dairy products and tobacco. Price support programs have resulted in the accumulation of large surplus stocks of some of these products. For these commodities to move into export channels, some subsidy is usually necessary. A few of these may at times move into world trade at prices above their support levels as soybeans are doing now, but normally they remain in this second category. However, as long as CCC stocks are substantial, they serve to insulate domestic prices from the effects of exports.¹

Export commodities in this second (surplus) category make up by far the bulk of our export trade. It is in these commodities that much of the increase in exports in the last year has taken place. According to Myers and Palmby's figures, 50 percent of the increase was in cotton and 12 percent in wheat and flour. It seems fair to say that trade promotion programs that led to these increases contributed

¹ The effects of the exports depend on how exports are handled. If drawn entirely from surplus stocks, there may be no effect. If drawn from current supplies, the effect depends upon the corresponding storage operations.
very little, directly at least, to domestic price or income increases; the domestic prices were the result of price support programs and quite independent of exports. We can say the additional exports may make the price support programs easier to live with, to the extent that they reduce the cost of handling the large stocks in storage spawned by the price programs. Since commodities in this category make up the larger part of our export business, we can say that the export program has no effect on prices of most of our agricultural products. Justification for these programs will have to be in terms of other goals.

It seems that to some people the alternative goal is simply surplus disposal. But to most Americans, value systems are such that any surplus disposal program that does not lead to consumption by someone somewhere will be repugnant. Surplus disposal by destruction would not find acceptance. Surplus disposal that serves at the same time some nobler end is quite another thing. "Food for Peace," famine relief, and surpluses for economic development all have wide appeal. Similarly, disposal programs which may build defensive strength of friendly countries are acceptable.

There is also, of course, the objective of earning dollars. This is one which we have been made well aware of recently because of the government's concern over the rate at which gold has been flowing out of the country. My guess is we would like to export to earn dollars as a primary objective and dispose of additional surpluses with a view to doing "as much good as possible" in feeding hungry people, aiding development of underdeveloped areas, and promoting their defensive strengths. We want to do this, of course, in ways that are consistent with other important values, among which are the cultivation of good relations with other nations that may be our competitors in foreign trade. The basic rules of GATT, as summarized in the situation paper, express, I believe, ethical norms for behavior in foreign trade that most of us would find it easy to endorse.

It is hard to make any very objective evaluation of programs in terms of all these goals and values, which probably all of us favor but in somewhat different combinations. Nevertheless, we can examine our export programs to see how they appear to affect these various goals.

COMMERCIAL DOLLAR SALES

Last year commercial dollar sales of agricultural exports amounted to $3.2 billion; of this, $1.3 billion moved under CCC payments. Only $1.9 billion moved into export without assistance. Many of these unassisted exports were of price supported products, including soybeans, tobacco and some feed grains for which the domestic prices were, at times during the past year, competitive with world prices.

The $1.3 billion worth of products which went into commercial dollar exports on the basis of export payments of cash or in kind was accounted for almost entirely by cotton, $.67 billion; feed grains, $.35 billion; and wheat and rice, $.26 billion.
These dollar sales did earn dollars; they helped our balance of payments situation. They helped to reduce our surpluses—for some commodities quite significantly. We can make no pretense that these exports contributed to the humanitarian objectives. There is a question as to how they affected our relations with nations producing these commodities for export in competition with us. Can we contend that these exports are consistent with the spirit of the GATT principles? I think we can for those commodities moving into export without assistance. There may be some reservations about the $1.3 billion worth which goes out under export payments. One of the GATT principles is that "Commodities should be free of subsidies which materially interfere with traditional trade patterns." Applying this principle, we would need to justify increases in exports on the basis that this represented our "fair share" of an expanded demand for these products. Our commercial dollar sales of farm products abroad increased by 30 percent over a year earlier (18 percent higher than the previous record year of 1957). Volume of sales increased even more. It is difficult to believe that none of this represents diversion of trade from competitive suppliers. I confess I don't know. I don't understand fully the basis used in deciding how much our exports under export payments will be in any period. Is it whatever we can get by without provoking retaliation by competitors? The situation report is not clear on this, and I don't find the answer spelled out anywhere else.

EXPORTS UNDER TITLE I, P.L. 480

We are having some success in ridding ourselves of substantial amounts of surpluses under Title I of P.L. 480.

These sales are for local currencies so they can do little to help our balance of payments problem. They do help to the extent that some of the proceeds are used to pay for U.S. government costs within the receiving country that otherwise would require dollar outflow, but this is at the expense of inconsistency with our foreign aid objectives. We receive other benefits from the proceeds when they are used for strengthening defense forces within the recipient countries; at least a portion of this we presume to be in our interest. We may also, eventually, realize some returns from loans made from proceeds of the surplus sales. But all in all, the monetary returns to us from Title I of P.L. 480 sales are likely to be very small. T. W. Schultz estimates it will be no more than 10-15 percent of the cost to CCC. Clearly, payments to us for P.L. 480 exports will be small. But it was not the purpose of the P.L. 480 program to earn dollars. Rather it was adopted to help dispose of surpluses and to serve at the same time humanitarian ends. The humanitarian and economic development objectives have been emphasized. Nearly half of all local currency proceeds are reserved for loans to the foreign countries for economic development. Some portions of the proceeds are also designated for grants for economic development.

There is some disagreement as to how effectively the exports under this act contribute to economic development. Some argue that the programs have been of little value to the receiving countries and may even have hindered agricultural development in the receiving countries. Schultz 3 has argued that the real value of these goods to the receiving countries is probably no more than 37 cents for each dollar of CCC costs. That figure is arrived at in this way: the market export value of wheat, for example, is about 75 percent of the cost to CCC. The actual value of the grain to the receiving countries is only about 50 percent of the market export value, based on the guess that if these countries had been given dollars and free choice in what they bought with them, their preference for alternative goods, such as industrial machinery, is so high that they would only buy wheat if it were obtainable at half the market export value. This would be 37 percent of CCC costs.

The assumption that food imports have such low priority is a weak one that I believe would be difficult to defend. It seems quite apparent that India, which has been the principal importer of P.L. 480 goods, would have placed a high priority on food grain imports during the past four years, notwithstanding the very strong pressures for acceleration of industrial imports. Throughout the past four years, the shortages of food and accompanying inflation in food prices have been a serious concern of the Indian government. If some of the food deficit had not been met by P.L. 480 imports, which amounted to more than 10 million tons, I feel sure that much of this would have been made up by either (1) diverting foreign exchange from other purposes to food imports or (2) a reduction in the pace of economic development.

Another controversy centers around the contribution of the P.L. 480 program to economic development in the recipient country. Some people try to measure the contribution to economic development in terms of how the local currency proceeds have been spent (when lent or granted to the recipient country). The fact that a very large part of this has been allowed to accumulate in our bank accounts in those countries is sometimes taken to mean that there has been little contribution to economic development. Such a view stems from a misconception about the roles the food imports and our resulting local currency funds can play in a country's development.

The contribution of the P.L. 480 aid to the recipient country does not occur at the time we spend our proceeds but at the time the surplus commodities move into that country's markets.

In an underdeveloped country such as India, there is much idle or underemployed labor. Much of this can be converted directly to capital in the forms of roads, irrigation canals, and drainage systems. However, employment of these otherwise idle labor resources for such purposes, except on a very limited basis, is possible only if the workers are paid. This payment of wages gives rise to an increased demand for food. If there is no additional food produced and, in the short-run, these capital producing projects will not contribute to higher food production, food prices will rise sharply—they will unless the increased demand is matched by increased imports of

3 See T. W. Schultz, ibid.
foods. The P.L. 480 surpluses are intended to take care of this. Thus the imports of these commodities make possible additional development investment without inflation of food prices.

When the P.L. 480 products are delivered to India, the U.S. government is paid in rupees which are held on deposit with the State Bank of India. The rupee payments made to the U.S. account are created money, raised by issuing treasury bills to the Government of India. When the wheat is sold, usually through government fair price shops, the proceeds are used to redeem the treasury bills. The increased food supplies from the P.L. 480 imports make possible additional development expenditures without inflation. The added development expenditures can be financed out of additional investments in government securities by the state bank on the basis of our deposits. The problem arises later, when and if we spend the accumulated deposits for still more development projects. The disbursement of these funds then will likely increase the money in circulation.

It is not surprising that our local currency deposits remain largely unspent in those countries where we have had sizable P.L. 480 operations. But the fact that this is so in no way means that they have not served well to finance economic development in that country. The real resource is added when the food imports arrive and are distributed—not when we spend our proceeds. This food is what makes possible the added investment in development projects. Contribution to economic development depends upon the extent to which the recipient country takes advantage of the added food supply to accelerate the pace of the development programs. In a country such as India, where there is a great deal of underemployed labor and where food is the major item in the cost of living, there are opportunities for substantial increases in capital formation by expanding labor intensive development projects. However, while ditches, roads and irrigation channels can be constructed with the barest of tools, even for such projects there are great returns to small investments in capital for the labor to work with. A small amount of dollar aid accompanying the food imports would make much greater development possible. We need to be careful in not thinking that P.L. 480 aid can be substituted for dollar aid. To be successful it needs to be accompanied with dollar aid. Here it should also be pointed out that by substituting the local currency proceeds of P.L. 480 for dollars in meeting our costs within a country for military aid, embassy operations, etc., we reduce the dollar exchange that would otherwise have been available to that country.

There has been some concern about the effects P.L. 480 imports might have on the recipient country's agriculture. Does it depress farm prices in that country? Does it reduce the incentive for agricultural improvement?

If we can assume that the food supply in a country is an important factor limiting the rate at which development programs can proceed without intolerable inflation, then we can argue that if P.L. 480 imports had not come in prices would have been no higher but development would have been that much slower.
Regarding the incentive to improve agricultural productivity, it is conceivable that a country might take the view that investments to improve domestic agricultural output can be reduced and P.L. 480 imports relied on to meet food needs. I think there is little evidence that this is being done. What seems more likely is that the P.L. 480 imports are making it possible to divert resources from short-run expediences to longer run investments in agriculture—relying on the food imports to meet deficits until the effects of the longer run programs are felt. Thus, instead of having to buy fertilizer to meet this year's food needs, they can invest in a fertilizer factory that will meet next year's needs. They can invest in irrigation facilities, agricultural colleges, experiment stations and educational services that lead to high productivity in the long run.

There is next the question of the effect of the P.L. 480 program on relations with competitive producers of these surplus products. Other nations producing wheat, rice or cotton for export might well be concerned at our sales on such concessional terms. The law, of course, requires that "reasonable precautions be taken to (1) safeguard U.S. usual marketings and (2) assure that such sales will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries." It appears that we have conscientiously adhered to this policy. Criticism of the P.L.480 program by competing countries has been directed mostly at exports under Title III of the act, involving barter of surplus food grains for strategic materials. Canada, in particular, has been critical of our barter program but has indicated approval of sales under Title I.

It is argued convincingly that P.L. 480 Title I exports, rather than replacing purchases from other sources, have actually led to an expanded demand for these products which has been beneficial to our competitors. There is some evidence to support this. Total commercial sales of wheat in the world market have not declined with the increase in P.L. 480 sales. In India, wheat imports were only .28 million tons in fiscal year 1955-56, prior to imports under P.L. 480. Since then, India has imported more than 10 million tons of wheat under P.L. 480; yet average annual wheat imports outside this program have been .44 million ton. With economic development and increased population, total wheat consumption has increased by about 20 percent without any decline in consumption of other cereals.

It is not easy to measure very accurately how much additional per capita consumption has been generated in the recipient countries, but there seems to be agreement that there has been this effect. Dr. Sen cited one study of the effects of P.L. 480 operations in 25 recipient countries that shows that per capita consumption of wheat for the period 1955-59 averaged 7.4 pounds more than for the period 1951-54. Of this, it was concluded 4 pounds could be said to be due to P.L. 480 imports. 4

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It appears to me that exports under Title I of P.L. 480 have provided very little direct returns to us but have served well to reduce our surplus stocks, have helped meet food needs abroad and contributed to economic development in recipient countries. They have done this without adverse effects on our commercial exports or those of other exporting countries. In fact, there is reason to believe that these exports have helped to expand commercial markets in these commodities.

Exports under Titles II and III of P.L. 480 for emergency assistance and relief to needy people have also succeeded in meeting most objectives except the earnings of dollars. These programs have not been unmixed blessings, however. There has been some reluctance on the part of underdeveloped countries to accept gifts of milk powder which would admittedly raise nutritional standards just because they could not be certain that such relief programs would add enough to growth of national income that they could continue at the acquired standard when the gifts stopped. Where the surplus imports are integrated with the country's development program, this is not a problem.

**MUTUAL SECURITY ACT, SEC. 402, P.L. 665**

The effects of this program should not be essentially different from those of exports under Title I of P.L. 480. Sales are for local currency, and the proceeds are designated to be used for advancing the mutual security programs within those countries.

**FOREIGN MARKET PROMOTION**

One could well question the wisdom of spending much on promotion of expanded foreign markets for U.S. farm products. Are our agricultural products differentiated enough that we can hope to significantly develop in the foreign consumer a preference for American wheat or milk or eggs? If not, can we hope to increase the demand for food in the developed countries where this program is concentrated to any appreciable extent? I don't know how we have measured the results of this effort. To succeed, it seems that our products would have to be distinctly different from similar products from other countries—not only different but better. From some reports, it seems our products do not measure up to products of our competitors—due to minimum grade standards.

**IMPORT POLICIES**

How do our import programs relate to our domestic agricultural price and income policies?

Our total agricultural imports come close to matching the value of our total agricultural exports at about $4 billion each. According to the definitions used, about 50 percent of these imports are "complementary"—products which are not grown commercially in this country. The other one-half are referred to as "supplementary"
imports. The implication might be that these products compete with our home-produced commodities.

The complementary products imported probably have little direct effect on our domestic prices. On the other hand, the $2 billion worth of supplementary products imported may in some cases have important effects on domestic prices. Sugar, which is the largest single commodity in this category, is imported in amounts of around $.5 billion annually. As pointed out in the situation paper, domestic sugar prices are established by limiting the supplies of sugar in the market through import quotas and production restrictions. Sugar prices, therefore, are a very direct result of import restrictions.

Wool is another commodity imported in substantial quantity for which the domestic price is directly related to our import policy. The domestic market price is essentially the world price plus the tariff. However, the farmers' net prices and incomes are quite independent of the imports. The National Wool Act of 1954 provides for the government to set an incentive price level and make deficiency payments to wool growers to make up the difference between this and the market price. We import about $100 million worth annually of wool types that compete with our own wools. We import another $110 million worth of wools considered complementary.

Aside from wool and sugar, it is not easy to see how import programs relate to domestic prices and incomes for the products in the supplementary category. Between $300 and $400 million of these imports are livestock and livestock products for which we have no price support programs. We export nearly as much livestock products, but the composition is considerably different. For example, last year we imported $208 million worth of beef and veal and exported only $11 million of beef and veal. We imported no tallow but exported $109 million worth. We imported $110 million worth of pork and exported $62 million worth of lard. In these commodities, it appears that the relatively free movement of goods permits us to use the cuts and qualities of meats we prefer and dispose of the jointly produced types of products for which we have less use.

Imports of hides and skins of about $70 million are about equal to our exports of these products. The explanation presumably lies largely in the differences in kinds and qualities, which make the imported goods essentially different products from the domestic ones. Imports probably have little influence on our domestic prices.

We import about $150 million worth of vegetable oils and copra. This may seem odd in view of our large exports of fats and oils. We can compete in the world market with oils and yet attract imports, we suppose, largely because of the imperfect substitutability between various fats and oils for certain purposes. If so, the imported oils are actually more in the nature of complementary products to our own oils.

We also have some imports of products of which we have abundant surpluses in storage as a result of price support programs. However, imports of these products are very minor. The escape clause in the GATT principles permits us to restrict imports of those commodities for which we have restrictions on production or marketing. We take
full advantage of that. In addition, we also have obtained concessions from the GATT countries to restrict imports under provisions of Section 22 of the old Agricultural Adjustment Act. Between the two of these concessions, we very effectively restrict imports of commodities that might interfere with our price support programs.

SUMMARY

A very large part of our farm export trade is in commodities for which we usually have sizable stocks in CCC storage as a result of price support programs. Our exports of these commodities bear no direct relation to their domestic prices. These exports serve other objectives such as earning dollars, relief and foreign economic development as well as reducing the costs of our price support and storage program. But as far as having any significant effect on our domestic prices and incomes, we don't believe they do. Put the other way, though, it's a different matter. Our price and income programs have most certainly had a very important effect on our export policies. The P.L. 480 program, the CCC export payment program and the export promotion programs are the direct consequence of the surplus stocks accumulated by our farm price programs.

Import policies, too, which are very restrictive on imports of price supported commodities are also directly the consequence of these price policies.