AUTHOR'S NOTE

The paper, "Lessons to be Learned from Agricultural Policies of Other Countries," presented an opportunity to take my biases regarding price support programs of the United States to the horse's mouth. It is interesting that my discussion did not include Japan, which was then just becoming a major factor in U.S. agricultural trade.

Lessons to Be Learned from Agricultural Policies of Other Countries

Chapter 19

In contemplating the subject "Lessons to be Learned from Agricultural Policies of Other Countries," two broad categories of lessons come to mind. The first has to do with the transfer and application of policies and programs to U.S. agriculture, and the second with the impacts of policies and programs of other countries on the competitive position of U.S. agriculture.

Many countries have had extensive experience with agricultural programs, and these programs have met with varying degrees of success. In view of the problems that beset U.S. agricultural programs and the great difficulty that we have had in solving our problems, it seems reasonable to look at what other countries have done. Perhaps we can find some successful things that can be applied to our own problems. They also have made mistakes. Examination of some of these mistakes should make it possible to cast new light on some of our problems so that our own mistakes come into focus more accurately.

A substantial share of U.S. agricultural products are sold abroad. The amount of the total U.S. production is now on the order of 14 percent. For some commodities, the export share amounts to more than half of the total disappearance. The protection of these markets is of prime importance to U.S. agriculture.

The size of our export markets is affected by the agricultural programs of other countries. The impacts are of two general kinds: (1) the restriction of imports to protect domestic markets for home producers; and (2) the stimulation of production, both in countries that are importers of U.S. farm products and in countries that compete for export markets with the United States. American farmers have a stake in the agricultural programs and policies of other countries.

The world is large and there are many countries. Each one has an agriculture, and, for the most part, they have specific agricultural policies and programs. To examine each and seek out its application to U.S. agricultural policies and programs is an unmanageable task. What I shall try to do here is to classify the kinds of countries involved and pick out specific countries in each group that can serve to illustrate kinds of policies and programs.

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The four general classifications that I should like to use are (1) industrialized, import countries; (2) developed exporters; (3) "underdeveloped countries"; and (4) communist countries.

Industrialized, Import Countries

The countries of the world whose agricultural policies and programs are most like those of the United States are the highly industrialized, high-income countries of western Europe and the United Kingdom. Important similarities are that (1) relatively small proportions of their populations are engaged in farming; (2) by the world's standards their agriculture is highly productive; (3) they enjoy high dietary levels; (4) they have great concern for the welfare of their farm populations and can afford to indulge this concern; and (5) a substantial proportion of their farm units are of less than optimum size in terms of area or volume of production.

There is one major difference: The United States is an agricultural surplus-producing country, whereas the others are major importers of agricultural raw materials. The import position of western European countries makes the implementation of a high price-income policy relatively easy. By restricting imports, domestic prices can be easily maintained.

United Kingdom

The specific example among the industrialized countries that I would like to look at is the United Kingdom, the world's largest importer of agricultural raw materials. About one-half, by value, of food materials consumed are imported. All tobacco and cotton requirements come from abroad. The United Kingdom is usually first or second in importance as a customer for U.S. farm products.

The exports, which pay for the imports, consist mainly of manufactured goods. Britain is a trading nation. She can survive only by importing raw materials and exporting manufactures. Much of the exports are re-exports of imported raw materials that have been processed. Exports must be made at competitive prices. Therefore, raw materials and labor costs must be competitive. The import cost of industrial raw materials and foodstuffs is an important part of the costs of manufactured export items. A cornerstone of British agricultural policy must be a moderate cost of food.

A second major consideration of British agricultural policy is a concern for the incomes of farmers. That farm income be maintained is an accepted national goal.

Third is a goal of maintaining a minimum domestic agricultural production. The islands have been nearly isolated twice in this century. During the post-World

War II period, there has been a policy of maintaining food production at 60 percent above prewar levels. A second facet of this policy has been the conservation of foreign exchange. The more food that is domestically produced, the more exchange can be used for the import of raw materials for manufacture and subsequent re-export.

Unfortunately, the goals of income support and maximum self-sufficiency get muddled together so that it is difficult to identify the precise reasons for the payment of various subsidies.

Fourth, British agricultural policy is in part directed toward support of Commonwealth agriculture. British off-take of Commonwealth agricultural surpluses is very great, and the United Kingdom has an interest in maintaining its Commonwealth relationships.

Within the framework of these policy considerations, the United Kingdom has developed an agricultural program that consists primarily of direct treasury payments. The first of these is a system of guaranteed prices. After conferences with agricultural organizations, forward prices for a long list of agricultural prices are established. The primary considerations involved in establishing these prices are the effects on farm income, effects on production of the various products, and the cost to the treasury. Market prices prevail, and the difference between market prices and guaranteed prices is made by direct payments.

Import restrictions are kept at relatively low levels so that the interior price level is very close to the world price level.

The second system of direct payments is in production allowances. These subsidies have the effect of reducing input costs.

In addition to what I identify as commodity subsidies, there is indirect aid to agriculture in the form of credit, special tax treatment, education and extension, and land reclamation.

The cost of programs can be identified readily because it is a matter of treasury payments. In recent years, this cost has been held fairly constant. Sometimes, they miss their estimates of cost, but not badly. It is my impression that the United Kingdom has come very nearly to the point of setting aside an amount of money that can be paid out to agriculture. The way it is divided up is left to negotiation with farm organizations.

This system has much that is commendable. It results in relatively inexpensive food and is, therefore, desirable from a consumer point of view. It leaves a great deal of flexibility in the kinds of product so that inputs are used fairly efficiently. The cost is readily identifiable and so can be kept in reasonable bounds. It tends to maintain the status quo of agriculture and guarantee a minimum food supply level for whatever social values these things may have.

There are certain drawbacks to the system. If the subsidies did not exist and there were the same small import restrictions, the cost of food would be very little, if any, higher. Imports would be greater, and the size of the agricultural plant would be smaller. Resources would be freed for other uses. This more nearly optimum allocation of resources would increase the total economic output of the United Kingdom.

Further, the system of guaranteed prices results in a different production pattern than would a system in which competitive prices directed the use of resources. There is some deviation from optimal output.

It goes without saying that the cost to the treasury would be less. The cost is large, amounting to about 75 percent of the net income of farm operators.

On balance, we must conclude that if there is to be subsidization of agricultural income and production, the British have worked out a pretty manageable system for doing it.

Germany

For a contrast to the British system, we turn to Germany. Germany has lots of very small, unproductive agricultural units as well as some large, efficient units. Her agriculture, as a whole, is not as rationally organized as Britain's. Land is badly fragmented so that production tends to be inefficient. There is a small agricultural population that is politically quite potent. Germany is heavily dependent upon imports of agricultural raw materials, particularly food and livestock feed for making food. She has felt the squeeze of food shortage during two great wars.

The agricultural policy of Germany is to work toward an agricultural income that is at parity with the incomes of other economic groups. The most important segment of this policy is to increase agricultural income through a system of favorable price-cost relationships. The second segment is to improve, through technical rationalization, the productivity of German farmers so that they will more nearly earn the incomes that they get.

There are two devices by which agricultural income in Germany is maintained. First is a system of production subsidies. These subsidies include rebates on fertilizers; purchase of seed, particularly potatoes; improvements of orchards; improvement of milk quality; purchase of machinery for cooperative use and for land consolidation and settlement. These several things are done at a considerable cost to the treasury, but the share of net farm income that they represent is not large.

The primary device for the maintenance of farm income is import restrictions. Germany maintains very high import restrictions on many agricultural products, particularly feed. As the import restrictions on feed grains are high, the interior price of barley is high. As the price of barley is high, the price of feed potatoes is high. As the price of feed potatoes is high, livestock product prices are high, etc.

A country that is a net importer can maintain almost any price level desired by simply restricting imports. It can also make quite a profit on the operation out of which it can pay subsidies to agriculture. This is the essence of the German system.

This system has not solved the German farm problem. Many of the production units are so small and inefficiently organized that no feasible level of prices can result in parity income. The large, efficient units do very well, but they are not really a part of the German farm problem. It is a system whereby the poor stay poor because they are not productive, and the rich live off of the fat of the land.

The system has two things to commend it. It is of little cost to the treasury, and it raises farm income substantially above levels that would otherwise prevail. The real cost is borne by the German consumers. The prices of foodstuffs are a great deal higher than they would be in the absence of import restrictions. To what extent the raising of food costs to consumers for the benefit of the more productive farmers is social justice is a moot question. It is certainly worthy of consideration.

We must again raise the question of economic efficiency. Clearly, the overall productivity of Germany would be raised if they imported more, consumed more of the high preference foods, and diverted some of the resources now going into agriculture to pursuits in which Germany enjoys a comparative advantage.

German agriculture is currently confronted by a considerable problem as a result of the implementation of the Common Market. When fully implemented, the Common Market will present a common exterior tariff structure and equalization of agricultural prices and will allow the free exchange of agricultural products and flow of agricultural resources within the Common Market area. The effective protection of some countries will be increased. For others, it will be decreased. In the main, the protection of German agriculture will be decreased.

The decrease of protection of Germany is now causing important changes in the organization of German agriculture. In a capsule, many German farmers must either increase total production and productive efficiency or retire from the field. This is causing considerable political repercussion as well as economic change. It goes without saying that the change is to the benefit of German farmers.

Common Market

A word on the Common Market seems appropriate. This is a large area that may increase further and that will have a common agricultural policy. The system is to maintain a uniform set of target prices within the area and realize these target prices with variable import duties. There is also to be a uniform system of direct subsidies and somewhat uniform indirect aids.

The level of protection is considerably above current world prices for some important commodity groups. Most important of these are the food concentrates.

The consensus at this time is that the level of support and the freer trade within the area will result in a near balance of production and use of foodstuffs within the area. The position of the Common Market area as a major net importer will be greatly changed.

On the one hand, the system will result in greater agricultural output, greater farm income, and the retention of more resources in agricultural production, particularly people, than would be the case in the absence of such protection.

From a narrow agricultural point of view, one must rate these results favorably. It again points out the simplicity of supporting agriculture in a situation in which an area is a net importer of food.

There are, however, disadvantages. In the first place, it will increase the cost of food above levels that would exist if the Common Market countries had unrestricted access to the world's food supply. One must sometimes marvel at the tolerance (or political ineffectiveness) of consumers.

Second, the total resource allocation is different than would exist were prices at world levels. It is less efficient. The total productivity of the Common Market will be less than would exist in the absence of agricultural protection.

Third, this restriction policy invites criticism and retaliation from countries outside the Common Market. There is little question that agricultural imports from the United States will be reduced. The United States is not happy about this. This displeasure may well take a more potent form than conversation.

The Developed Exporters

Among the leading agricultural surplus nations of the world are Canada and the Argentine. The exports of agricultural products play an important role in their national economies. What are their policies and programs?

Canada

Canada is heavily dependent upon agricultural exports and must necessarily relate her domestic farm progress to the need to export. The United Kingdom and the United States are the two most important destinations of Canadian exports. In addition, Canada is one of the import destinations of U.S. agricultural exports.

Canada has several types of assistance to agriculture, but Canadian agricultural production is essentially a free-enterprise operation. Programs have been designed with a view to maintaining maximum freedom of choice in land utilization. An important policy goal is the improvement of the quality of products, particularly those destined for export.

There is not parity legislation, but costs and incomes are taken into account in determining the amount of assistance to agriculture.

The primary device for intervention is the marketing board system. The wheat marketing board is the most suitable example. It is the buyer and seller of wheat, having complete control over transactions and shipments of wheat from delivery to the local elevator until the time it is sold to the domestic processor or until it is delivered for export.

The board sets a minimum price early in the season—which it pays out promptly on delivery. As the crop is gradually sold, supplemental payments are made until the total realized is paid out. On occasion, this has taken several years.

Other marketing boards are operated by the provinces and cover a long list of commodities including dairy products, hogs, fruits, and vegetables. The general pattern of the schemes is to gain control of the marketing of a commodity with a view to maximizing returns. They are, in effect, compulsory pooling schemes. They can bargain, regulate quality, divert surpluses outside of usual channels, including destruction, and require set-asides of funds to finance diversion schemes. These schemes involve virtually no direct production controls.

There are no federal government subsidies on acreage or production and no direct production control regulations. However, the payments on quality produce, grain freight subsidies, and losses on price-support operations amount to very substantial sums of money. There are indirect aids that include farm credit, insurance, education and extension services, and land improvement.

Canadian farm programs have been disciplined by the need to export into a pattern of prices that reflect world market values. They have been further disciplined by the inability of Canada to pay out large sums for the benefit of agriculture. The amounts have been held to known and manageable levels.

Canada has quite wisely avoided restriction of its agricultural production. At the same time, she has not maximized agricultural production. In the United States, we have had acreage restrictions on wheat but have encouraged the maximum implementation of technology by holding price supports at incentive levels. Canada has avoided such contradictory programs by holding wheat prices at world levels. The result is much higher wheat yields in North Dakota and Montana than in neighboring Saskatchewan.

It is important that Canada not restrict agricultural production. Here is where her comparative advantage lies. This is one of the basic sources of wealth out of which she must finance further industrial development.

The marketing board system of control of quality and marketing is interesting. It evolved from problems associated with selling in international markets, particularly wheat and hogs. The marketing boards have not met with notable success for most other commodities.

ARGENTINE

The Argentine is a rich agricultural land that has not succeeded over time in using this potential for industrial development. This nation gains its international livelihood from its agricultural exports of grains, vegetable oils, meats, hides, wool, and dairy products.

The articulated policies have been aimed at revitalizing agriculture to gain foreign exchange. In practice, the programs have had a contrary effect, and agricultural exports have tended to decline.

In years past when international commodity prices were high, the government collected products at rather low fixed interior prices and sold them as high as possible. While this yielded a profit for a time, it did not tend to call forth maximum production. At the present time, there is a retention of 10 percent levied on exports of most agricultural products other than meat. Meat producers pay a 4 percent tax on sales.

A further handicap to the agriculture of the Argentine is a price control system designed to hold down the cost of living in the rampant and chronic inflation that the country has experienced. This has been harmful to the effective organization and technological improvement of agriculture and the development of an efficient marketing system.

On balance, these policies have been exploitative of agriculture. In view of the need to develop the country out of agricultural wealth, this may be desirable, but certainly not to the point of strangulation.

There is a generally accepted school of thought that the agriculture of the Argentine is organized in too large units. The owners can live well as matters now stand and so have little incentive to improve. Behind this again lies the problem of inflation. Property is the thing of great value, not money or, for that matter, productivity.

The most important lesson to be learned from the experience of the Argentine is that national monetary, fiscal, and price policies are of very great importance in the development and welfare of agriculture; that is, the most important agricultural policies do not relate directly to agriculture. In my opinion, if monetary and fiscal programs that would eliminate inflation were implemented, if competitive market prices were allowed to function, and the tax structure were changed to deemphasize the value of holding tangible property, the agriculture of the Argentine would grow, prosper, and serve as a base for industrial development.

"Underdeveloped Countries"

The term is not very accurate, but I would include in "underdeveloped countries" those areas that have recently gained independence from colonial rule. They fall into two broad categories: densely populated and fairly sparsely populated.

The countries south of the Sahara and north of South Africa are generally in the second category. These areas have a well-organized commercial agriculture and, with the exception of some mineral deposits, little else. Their agriculture has been developed out of trade with the European colonial powers. The acute nationalization that has developed now endangers the progress that has been made over most of this century.

If there is a road up for these countries, it is through education and agriculture. One of the most promising countries is Nigeria. Nigeria is putting a very high proportion of its governmental revenue into education and emphasizing agricultural productivity and exports.

These situations are very different than that of the United States. What lessons are to be learned? I see only one: To the extent that these nations succeed in developing, they will present export competition to the United States.

Another great "underdeveloped" area is India. At the top, it is a fairly advanced country. It falls in the densely populated category, but at the level of the masses it is very poor and uneducated. It has rather sophisticated schemes for development. India is trying to develop on three fronts: industry, agriculture, and education. To date, it has been a slow and discouraging process.

The primary emphasis in agriculture now seems to be in the education of individual farmers. The people most closely associated with this can see progress.

The lesson to be learned here is that the advancement of a nation rests on individual productivity and, further, that individual productivity rests upon the knowledge of new technology, a climate that encourages the application of knowledge, and upon the judicious availability of capital.

Communist Countries

It is currently popular for Russia to learn something from capitalism. So we should look at the communists as well. Our lessons, however, are more in terms of what not to do rather than what to do.

Russia has a severe agricultural problem. She cannot get her agricultural productivity up to desired levels. The European satellite countries have the same problem in greater or lesser degree.

So long as Russia must hold a high percentage of the population—about 40 percent—on the farms and the United States can release nearly all of its population from farming, Russia will fall further and further behind the United States in total productivity. One of the great sources of strength in the development of the United States during the last 150 years has been the ability to reduce the agricultural population from 75 percent down to its current low level.

Russia has three agricultural problems. First, her agricultural resources are limited. The combination of soil and climate that exists in Russia is not conducive to a high level of productivity. At best, it is a hard go.

Second, she has starved her agriculture for capital. Through state planning and direction, a disproportionate amount of capital has been allocated to industrial development and an insufficient amount to agriculture. In part, this appears to have been deliberate, intending to force rapid industrial development at the cost of a fairly low dietary level (in terms of quality). It also seems to have been, in part, a planning error. Getting the right things to be in the right places at the right times to maximize productivity is a very complicated matter. The Russian system of decree prices leaves them without a meaningful guide for allocating resources.

Third, the Russian system has not provided incentives to produce. From an American point of view, one of the more satisfying aspects of the Russian experience is the high proportion of output that is produced on the small plots allowed individuals. These are highly productive. The output is sold at good prices.

The Russian agricultural productivity could be significantly increased if resources could more readily flow to the places where they are in greatest demand and if the incentives to produce were increased. State socialism has proved to be a rather poor way to organize and operate agriculture.

However nasty a bone to swallow the change might be, the Russian agricultural situation is not beyond recall. It may be that China's situation is. The Chinese went through the classical communist procedure of destroying the peasant agriculture and establishing a collective system. This was designed to free resources for industrial development. However, the effect has been to decrease agricultural production; the strength of the population is so sapped that the whole program has come to a standstill.

The agricultural troubles in China were accompanied by a rapid increase in population. It appears at this time that the Chinese are moving back toward a peasant agriculture. Whether or not this will come in time to cope with the population problem is not clear. At any odds, this lesson is clear: Here is another example of the failure of state organization and operation of agriculture.

Lessons and Their Application

By this point, we have explored the agricultural policies and programs of eight countries and the Common Market. This runs the gamut of possibilities. My negative reaction to most of these is readily apparent. They all have one thing in common: They interfere with the effective operation of a competitive pricing system. These two things together point to the first and most important lesson: A competitive pricing system is a very effective means of generating economic efficiency, and for every group helped by modification of competitive pricing system, another group is injured.

The second lesson is that the general monetary, fiscal, and price policies are important considerations in agricultural productivity and welfare.

Third, there are many agricultural export areas of the world. These countries are heavily dependent upon such exports for the revenue out of which industrial development can take place. They are hungry exporters. If we are to hold our export place, we must be competitive. And, competition is in terms of price. Further, if we are to maximize agricultural exports, we must oppose the restrictions that other countries place on imports from the United States. We cannot effectively do so if we maintain an artificially high price level within our own country.

Fourth, only wealthy countries can afford real farm income-supporting programs. Note that only Britain, western Europe, and Canada do anything that is directly and immediately effective. This support is done in one or both of two ways—by direct payment from the treasury in the form of deficiency payments or production subsidies, or by operating a monopoly system that charges consumers higher food prices than would otherwise exist, an income transfer from consumers to farmers. We have further seen that this latter system is effective for importing countries, but it is not effective for exporting countries because of the need to meet world competition.

Fifth, programs that modify a competitive pricing system tend to direct productive resources in other than an optimal manner. This, in some cases, reduces agricultural productivity. In all cases it reduces the total productivity of the economic system.

Sixth, programs that interfere with the operation of a competitive pricing system tend to reduce agricultural adjustments to changed technology and to changed market conditions. If we assume that adjustments in line with economic efficiency must finally be made, it follows that the delay of adjustment increases the violence of adjustments when they are finally made.

Seventh, most price interference schemes have to do with increasing prices. This can have no effect other than to limit consumption. Such limitations must also limit production, reducing the size of the agricultural plant and the number of people engaged in farming except for importing nations.

Finally, what I have done is look at nine different ways to contravene the effective operation of a competitive pricing system and find them wanting. Thus, the burden of my remarks is that price supports should be eliminated. I leave the matter there.