

The Challenge in Building Market Demand

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I want to concentrate on an issue that is virtually overlooked in our current discussions of our agricultural policy. We primarily hear that almost everything that is wrong is the result of our domestic **agricultural** programs, which need to be changed drastically, and that almost everything that is wrong is the result of unfair competition, which should be stopped. I believe that these two issues are not the major cause of our problems and that by concentrating on them we are almost certain to be frustrated and disappointed because we will find that attempts to solve the problem through either of these paths do not bring a satisfactory solution.

I want to concentrate on what I believe to be the central **problem**: the state of our markets. I want to step back from individual government programs. To the extent possible for one trained as an economist, I want to avoid the use of economic jargon and talk about markets and what we can do about them.

This approach makes certain assumptions that I think are reasonable. One is that we are competitive producers of a wide range of commodities at the farm level and that our internal capability of physically moving products from farm to export is second to none. A second assumption is that our ability to process raw products into more usable products—wheat to flour, feed to broilers, soybeans to meat and oil—is unsurpassed. Even so, I will concentrate much of my discussion on bulk commodities because that is where the "farm problem" is concentrated (Table 1). I say this because the decline in value of exports of wheat and products and **oilseeds** and products accounts for **\$8.1 billion** of the **\$8.5 billion** in export value from **1980** to **1985** and cotton for another \$1 billion. In terms of volume, **30.6 million tons** of the **33.8**

million ton decline in export volume are accounted for by grains, oilseeds, and oilseed products. In other words, 94 percent of the loss of value and 91 percent of the loss of volume are accounted for by the grain-oilseed complex. Indications are that this trend will continue in 1985-86.

TABLE 1
U.S. Agricultural Exports by Product Group,
Value, and Volume, Fiscal Years 1978-85

Product	Fiscal Year								Change 1980-85
	1978	1979	1980	1981	1982	1983	1984	1985	
	<u>Value in billion dollars</u>								
Grain and feed	11.7	13.6	18.7	21.9	17.6	15.2	17.4	14.3	-4.4
Oilseeds and products	7.5	8.7	10.0	9.4	9.7	8.8	8.8	6.3	-3.7
Cotton	1.7	1.9	3.0	2.2	2.2	1.7	2.4	2.0	-1.0
Tobacco	1.1	1.3	1.3	1.3	1.5	1.5	1.4	1.5	+0.2
Fruits, nuts, and vegetables	1.9	2.1	2.7	3.1	2.9	2.7	2.6	2.6	-0.1
Sugar and tropical products	0.6	0.7	0.9	1.4	0.8	0.7	0.8	0.8	-0.1
Livestock and products	2.4	3.2	3.1	3.1	3.2	3.0	3.5	3.3	+0.2
Dairy	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.4	+0.3
Poultry	0.3	0.4	0.6	0.8	0.6	0.5	0.4	0.4	-0.1
TOTAL	27.2	32.0	40.5	43.0	39.1	34.0	30.0	22.0	-8.5
	<u>Volume in million metric tons</u>								
Wheat and flour	32.8	32.2	36.9	43.5	45.3	38.0	42.7	31.4	-5.5
Feed grains	55.5	59.5	71.2	69.1	58.2	53.8	55.6	57.2	-14.0
Feed and fodders	---	4.3	5.6	5.8	6.0	6.9	6.8	6.5	+0.9
Rice	2.1	2.4	2.9	3.1	2.9	2.3	2.3	2.0	-0.9
Soybeans -	19.7	20.2	23.8	20.0	25.5	24.5	19.2	16.6	-7.2
Vegetable oils	1.5	1.5	1.8	1.7	2.5	2.4	1.0	0.8	-1.0
Oilcake and meal	5.8	6.2	7.6	6.5	6.5	6.7	5.1	4.7	-2.9
Cotton	1.4	1.4	2.0	1.3	1.6	1.2	1.5	1.3	-0.7
Tobacco	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	-0.1
Fresh fruit	1.3	2.8	3.1	3.4	3.1	3.0	3.2	2.7	-0.4
Animal fat	1.3	1.3	1.5	1.5	1.5	1.4	1.4	1.1	-0.4
TOTAL	121.7	137.5	163.8	162.6	157.9	144.8	143.6	129.0	-33.8

A review of the situation

The U.S. farm sector was internationalized in the 1970s as an increasing proportion of our farm output became dependent on export markets. The various components of the U.S. agricultural systems responded beautifully to growing demand for U.S. exports and our market share of a rapidly expanding world market for imports expanded rapidly as well. Our exports grew by leaps and bounds, measured both in volume and in value. Both the farm sector and the agribusinesses that sell to it and buy from it made investment decisions based on assumptions that the export market growth rate of the late 1960s and early 1970s would continue.

Suddenly all these assumptions went wrong. Starting in 1981–82, our exports began to fall in both volume and value. And the end of the fall is not yet in sight. But our farm output—apart from the decline induced by weather and Payment-in-Kind (PIK) of 1983—has not fallen. The result has been a major overcapacity problem in both the farm sector and in the agribusinesses serving it. The overcapacity in the farm sector has been manifested in falling farm prices and incomes, falling land prices, a farm financial crisis, and in sharply rising farm program costs. The agribusiness sector has seen huge financial losses, spectacular business failures, and substantial restructuring of all kinds of agribusinesses from local farm machinery dealers to farmer cooperatives.

This is all too familiar. As I indicated at the outset, our response has been to blame the problem on either our farm programs or our competitors. I shall attempt to prove that our problem is primarily markets and that, until and unless something improves in that regard, pursuing other issues will prove fruitless.

Some market concepts

Since terms are sometimes used loosely and this leads to misunderstanding, I think it is useful to define some terms that I believe will be useful. The concept of market is a concept that fits market economies with free consumers able to express their consumption preferences within the limits of their purchasing power. However, in the world of internationally traded goods, especially foodstuffs, this cannot be measured because there are so many interferences between foreign consumers and U.S. exporters, not the least of which are governments.

The best means I think we have to measure a market is utilization. The farmer in Illinois who raises corn and soybeans does not care

whether the world utilization of feed grains goes up because farmers in Japan feed and market more chickens or because the United States Agency for International Development (**USAID**) buys cornmeal and soy oil for foreign emergency food aid. Therefore, I will use utilization statistics as a market measure and avoid some of the problems of certain other measurements.

The link between utilization within a country and its imports is that imports are the difference between utilization and domestic production. Thus, in terms of our export interests, the export market is affected by both what happens to utilization and what happens to domestic production in importing countries.

Thus, the key variable to our export markets is world market growth. World trade in different goods grows as the market grows and our exports do especially well when world trade expands. Somehow we tend to believe that our exports are a direct function of foreign crop failures or competitor pricing, but they really are a function of trade growth.

There is also a matter of pricing involved in marketing. Again, we tend to think of affecting markets by varying prices to consumers, but in the case of international trade there is often a government or two between the U.S. exporter and the foreign consumer. Therefore, when we talk of pricing policy we need to be sure who the price changes affect. In all centrally planned economies, where exports are a function of the state import agencies, a cut in export price rarely gets passed on to the consumer. Since state trading is used in many market economies also, a high proportion of the world's consumers is isolated from world market prices, and from the individual country's internal farm prices.

There are several methods of cutting prices, and each has a different effect in terms of marketing strategy. One way of cutting prices is to cut prices to everyone. This is what changing price support levels or changes in exchange rates does. Another way of cutting prices is through the offering of below-market rates of credit to certain buyers but not to others or on certain models at certain times of year. A third type of price cutting is where different prices are charged to different buyers, as under the BICEP program. This causes resentment among the buyers that do not get the lowest prices. In an open pricing system like the U.S. system, it is clear to everyone who is getting a special price. Of course, the ultimate in price cutting is grant-type food aid, which is given on the basis of need of the recipient. In this case, the price is zero to the country but not necessarily zero to the ultimate consumer.

What has happened to our foreign markets?

Let us start with a global picture and work backward to major markets or types of markets in looking at the situation. In doing this, there are one or two important things to remember. One is that for most products there are some carryover stocks, held either by governments or by the private sector. Thus, utilization measures the state of market demand and is only constrained by supply in unusual situations. (It may be constrained by supply in the case of individual countries because of government intervention in trade.)

One of the surprising facts about world grain utilization is that it goes up almost every year. In fact, total world grain use has only fallen in three of the last 25 years—in 1963–64, in 1974–75, and in 1981–82. The 1963 decline was due to a large decline in the Soviet crop, which was not offset by imports, and the 1974–75 decline was due to a major decline in the U.S. output in the absence of ample stocks. As we shall see, the 1981–82 decline had a different cause.

Given the rarity of declines in use, what we are really looking at are rates of gain in use and the extent to which they are the result of trade. Let us examine four five-year periods beginning in 1965 (Table 2).

TABLE 2
Changes in Annual Wheat and Coarse
Grain Use by Five-Year Intervals, 1965–85

	<u>1965–70</u>	<u>1970–75</u>	<u>1975–80</u>	<u>1980–85</u>
World	147.4	72.4	186.4	113.1
United States	13.9	-9.1	14.7	30.9
World—United States	133.5	81.5	171.7	82.2
Centrally Planned	68.2	31.3	98.4	28.6
World—United States and Centrally Planned	65.3	50.2	73.2	50.0
European Community Total	9.5	4.3	2.1	-1.9
Japan	5.0	3.6	5.4	2.0
Competitor	7.0	1.5	5.4	4.8
All Other	43.8	40.8	60.3	48.7
OPEC	4.5	5.8	12.6	8.8
All Other	39.3	35.0	70.9	39.9

There are some surprising results in these figures. One is that until recently (the 1980–85 period), the United States had not contributed to increased world grain use. Since 1980, however, the increase in U.S.

grain use has accounted for over one-fourth of the increase in world use. A second surprise is that the Soviet Union and Eastern Europe have not contributed to increased world grain use since 1975. China increased grain use substantially from 1975–80 by increasing imports, and from 1980–85 use was further increased by expanded domestic output. The European Community has contributed little to grain use. Use has remained stagnant in the European Community since 1975.

In the 1965–70 period, the centrally planned economies accounted for about as much of the large increases in use as did all of the rest of the world outside the United States. From 1970 to 1975, the centrally planned economies accounted for three-fifths as much expansion as the rest of the world. In the 1975–80 period, the centrally planned economies were again a source of expanding use, accounting for half the total.

In terms of market growth, this has one very simple straightforward meaning. Since 1975 the market growth (outside of the United States) in the world market for grains has been increasing in the developing countries of the world.

In the period 1965–70, the centrally planned economies were one and one-half times as important in growth as the developing countries. The developing countries almost equaled the centrally planned economies in market growth in the 1970–75 period, and they have become the dominant factor in this decade.

Now let us look at the last five years, when things have gone badly for U.S. exports, to see if the market problem can be isolated. First, the market growth outside the United States, China, and the European Community is down markedly. Both the China market and the European Community market have been lost to internal production and, to make matters worse, both have now become significant competitors in the export markets for some products. The internal market growth of our traditional competitors (Canada, Australia, and Argentina) also is down, leaving exports to absorb more of their production growth. Therefore, what has happened is that high-growth developing countries become even more crucial to us and our export outlook.

Food and feed use

It is widely recognized that the world market for grain is two markets that interact—the market for grain for food and the market for grain for feed. Some grains are used almost completely in the feed market and some others, notably wheat, are used in both, depending on the

price ratios between wheat and feed grains. However, the relationship between market, incomes, and prices is different. The grain for food market is relatively insensitive to price—in other words, food consumption changes little over a wide range of prices. At certain per capita income levels, it is sensitive to income—the market expands as income grows. But above certain income levels the direct use of grain for food declines as income rises and a higher proportion of calories comes from poultry, dairy, and meat products.

The market for grains for feed is highly responsive to income because almost all poultry, dairy, and meat products require some grain to produce. Thus, the income-related response to consumption of these items is directly reflected in increased use of feed **grains**.

If we look at market growth (outside the United States and the centrally planned economies) in the context of food and feed we see some interesting patterns. In the rapid growth period of the late 1960s, food use grew more rapidly than feed use—and almost all of the growth in food use was in the developing countries but only one-third of the growth in feed use was there (Table 3). That pattern persisted during the 1970–75 period, except that the developing countries suddenly became the main source of growth in feed use while continuing their dominance in growth in food use.

TABLE 3
Changes in Annual Use of Grain For Feed
By Five-Year Intervals, 1965–85

	<u>1965–70</u>	<u>1970–75</u>	<u>1975–80</u>	<u>1980–85</u>
World	n.a.	n.a.	n.a.	n.a.
United States	12.1	- 15.4	7.9	20.4
World—United States	n.a.	n.a.	n.a.	n.a.
Centrally Planned	n.a.	n.a.	n.a.	n.a.
World—United States and Centrally Planned	27.3	23.1	39.7	24.2
European Community Total	8.7	0.6	0.9	1.9
Japan	4.4	2.6	4.3	1.0
Competitor	4.8	2.2	4.2	4.5
All Other	9.4	—	—	—
OPEC	0.4	1.5	5.8	8.5
All Other	9.0	16.2	24.8	8.1

Starting about 1975, the world grain market suddenly changed in a major way. For the first time in two decades the world markets for feed use of grain started to grow faster than the markets for food use of grains (Table 4). This was due largely to the surge in growth of feed use in the developing countries that, along with China, also accounted for almost all of the growth in the food use market.

TABLE 4
Changes in Annual Use of Grain for Food
By Five-Year Intervals, 1965-85

	<u>1965-70</u>	<u>1970-75</u>	<u>1975-80</u>	<u>1980-85</u>
World	n.a.	n.a.	n.a.	n.a.
United States	1.8	6.4	6.7	10.4
World—United States	n.a.	n.a.	n.a.	n.a.
Centrally Planned	n.a.	n.a.	n.a.	n.a.
World—United States and Centrally Planned	38.1	27.1	33.5	25.8
European Community Total	0.8	1.6	1.3	-1.1
Japan	0.6	1.0	1.1	1.0
Competitor	2.1	-0.7	1.2	0.3
All Other	34.6	---	---	---
OPEC	3.3	4.1	6.8	0.3
All Other	31.3	21.1	23.1	27.3

If we now turn to the period since 1980, we begin to see what has happened to our markets. The market growth has slowed appreciably and a major portion of the slower growth occurred in the feed market. The feed market in the European Community went from slow growth to negative growth. The growth in the Japanese markets fell to one-quarter the level of the previous five years and was the lowest in 25 years, and the growth rate in non-OPEC developing countries fell drastically to levels about the same as the late 1960s.

That, I think, is the overall market dilemma. Our market in the centrally planned economies essentially stopped growing in the late 1970s, except for China. China, however, has been amazingly successful in increasing domestic output and, thus, in filling their needs while reducing imports. Thus, the imports of the centrally planned economies now depend largely on the extent of the Russian crop shortfall.

The European Community has developed a policy that accomplishes what is hard to do. It has a policy that has brought its total grain

use to a negative growth rate, meaning that as internal production rises an increasing share of the production must find a market outside the European Community.

It is not surprising that the rate of growth of food use of grain is declining in Japan. It is somewhat more surprising to find the growth rate in feed use declining to the lowest level since the 1960s. Part of the answer, however, may be their increased imports of beef, which slowed the growth rates in their domestic beef and dairy industry.

But the biggest decline in market growth for food use is in OPEC, which had been a significant factor in the growth of world market for food grains. But most important of all is the sharp drop in the non-OPEC market growth of lesser developed countries (LDC's) for feed grains, which fell by more than one-half.

Can we get markets to grow again?

Let us examine the major markets of the world, one by one, and see what might be done to make them grow again. At this point, we will talk about U.S. government policy, about U.S. agricultural policy, and about private sector U.S. policy.

The centrally planned economies

In my view, the United States has overrated centrally planned economies as a growth market in recent years, especially the Soviet Union and Eastern Europe. Moreover, we vastly overrate our effect on their internal policies.

One of our mistakes was to believe that the Soviet Union and Eastern Europe made a fundamental policy change regarding dependence on outside imports in the late 1960s and early 1970s. In retrospect, what they actually did was to use imports to compensate for domestic crop shortfalls, not to increase total grain utilization and meat consumption substantially. In other words, they have not made use of imports to increase the rate of growth in consumption, as China did in the last half of the 1970s.

China did use imports to increase domestic consumption during the 1970s but now has replaced imports with domestic output. I would guess that as domestic use grows in China, as it will with higher consumer income, China will withdraw from the world feed grain export market and eventually return to imports to sustain domestic poultry and livestock expansion.

It appears there is little we can do that will cause the Russians, East

Europeans, or Chinese to change their basic strategies regarding imports. Price cutting will save the Soviets some foreign exchange, but it is unlikely to get them to buy more. The one exception to this is Poland, which might return to its 'import now and default later' policy of the late 1970s, if the West would provide the credits for grain imports. However, it is not clear that Poland would revert to a policy of domestic poultry and meat production based increasingly on imported grain.

Japan

Japan is a case where there is not much we can do to increase our market, but there are many things we can do to hurt it. We could lose our dominant market share of that grain market. We can lose that market if, as many now want, we impose heavy trade penalties on the Japanese economy to offset our immense trade deficit with them. This is not to say that we should not demand that Japan open its domestic markets to U.S. products. Of course, in the case of beef this cuts two ways, since if we sell more U.S. beef we will sell less U.S. feed grains and soybeans. (Since the United States is more efficient in providing beef, total world demand for grain will decline.)

Japan does not need either credit or lower prices to buy U.S. farm products. All that lower grain prices accomplish is that Japan's balance of payments is improved. Income growth and changes in habits have driven changes in Japanese food consumption and are likely to in the foreseeable future.

Developing countries

Developing countries have become the main source of growth in world use of grains now that growth has faltered. We must look at the reasons and what we might do about the situation.

The basic reason for the sharp decline in growth rates of grain use in developing country markets is the major slowdown in economic growth in most of those countries as a result of a series of external circumstances (Table 5).

The story of developing countries is somewhat akin to the story of U.S. agriculture over the last five years. It goes back to the mid and late 1970s. The problem started with the first oil shock of 1973. This created huge OPEC balance-of-payments surpluses and threw the foreign accounts of the oil-importing developing countries into huge deficits.

But since commercial banks had huge amounts of OPEC money to recycle, they were willing to make huge loans to developing countries,

TABLE 5
Population and GNP Per Capita, 1980, and Growth Rates, 1965-84

Country Group	1980 GNP (billions of dollars)	1980 Population (millions)	1980 GNP Per Capita (dollars)	Average Annual Growth of GNP Per Capita (percent)					
				1965-73	1973-80	1981	1982	1983*	1984+
Developing countries	2,059	3,119	660	4.1	3.3	0.8	-0.7	-0.1	2.1
Low-income countries	547	2,098	260	3.0	3.1	2.0	2.8	5.2	4.7
Asia	495	1,901	260	3.2	3.5	2.5	3.4	6.0	5.3
China	284	980	290	4.9	4.5	1.6	5.8	7.6	7.7
India	162	687	240	1.7	1.9	3.5	0.4	4.2	2.0
Africa	52	197	270	1.3	0.0	-1.7	-2.6	-2.6	-1.5
Middle-income oil importers	962	579	1,660	4.6	3.1	-0.8	-2.0	-1.6	1.1
East Asia and Pacific	212	162	1,310	5.6	5.7	3.7	1.9	4.5	3.4
Middle East and North Africa	25	31	830	3.5	4.3	-2.5	2.6	0.5	-1.3
Sub-Saharan Africa	26	33	780	2.0	0.5	4.1	-4.8	-5.4	-5.4
Southern Europe	214	91	2,350	5.4	2.9	0.2	0.3	-0.5	0.2
Latin America and Caribbean	409	234	1,750	4.5	2.9	-4.1	-4.8	-4.5	1.1
Middle-income oil exporters	550	442	1,240	4.6	3.1	1.5	-2.3	-3.6	0.1
High-income oil exporters	229	16	14,050	4.1	6.2	-1.1	-7.8	-14.1	-6.4
Industrial market economies	7,477	714	10,480	3.7	2.1	0.7	-1.0	1.5	4.3

*Estimated
+Projected

Source: World Development Report 1985

and this capital flow was used to offset the non-oil LDC deficits. Non-oil LDC external debt rose from \$130 billion in 1973 to \$612 billion in 1982. These new loans were in dollars, relatively short term, and had floating interest rates tied to U.S. prime rates or London Inter-Bank Offer Rate. Then, all of the things that might go wrong did. The United States and Western Europe entered the worst recession in history and total world trade fell for the first time since World War II. Real interest rates rose as the monetary authorities slammed on the brakes to halt inflation. The value of the dollar rose sharply and world commodity prices plunged.

Thus, you had huge debts that were rising in non-dollar terms, real interest rates rising, and export earnings and debt-servicing ability falling. Poland was the first to admit it could not service its debt in 1981. The world financial structure trembled when Mexico joined in August 1982, followed shortly by Brazil.

As country after country joined the list of those unable to service their debts, the International Monetary Fund and the bankers holding the loans began to impose tough economic conditions on these borrowers as the price of extending loan periods and deferring interest payments. Those conditions almost always included reduced imports, increased exports, and reduced domestic government spending and lower budget deficits.

Not surprisingly, this produced recessions and stagnant or falling real per capita incomes in countries that had enjoyed high rates of real per capita income growth in the 1960s and 1970s. And these are economies that have no safety nets for the poor or unemployed.

Then, to further confuse the situation, many of the oil exporters also got into trouble beginning in 1983, and continuing to today. They too had gone on a borrowing binge in the heyday of OPEC power, and when oil markets in the United States, Japan, and Western Europe contracted, many or most of them began to face the same problems as the oil-deficit countries. Venezuela, Nigeria, and Indonesia joined the list of countries with huge debt problems. The World Bank now estimates that the total debt of developing countries was \$895 billion at the end of 1984, up from \$610 billion in 1980.

Given all of this, it is not surprising that the market growth in feed grain markets in these countries has dropped sharply. The only surprise is that the growth in OPEC countries has not slowed as much as might be expected. The food grain market growth in those countries has continued, but a good share of the improvement has been due to

the increased output and consumption in India and thus has not led to increased trade.

Thus, the problem with our markets in the developing countries seems relatively easy to understand but may be very difficult to fix. Market growth has stopped because real income growth has stopped and many countries are having serious balance-of-payments problems. Both of these need to be considered because each creates its own problem.

The balance-of-payments constraint created by the external debt problem puts a limit on the amount a country can import. That constraint has been reduced by the use of CCC export credit. However, that does not remove the internal income constraint, which means that the internal market for the products may not exist unless the importing government subsidizes internal food consumption. But one of the demands of the International Monetary Fund and foreign lenders is that these governments reduce or end their consumer food subsidies. Thus, additional CCC credit, including intermediate credit, does not solve the problems unless there is excess demand for food internally despite the lower incomes.

This means that the only true solution is to get higher income growth in these developing country markets. But, that is not so easy and it is not entirely within our control. There are, however, a number of things within our control that would help.

- Some additional approaches to reducing the drag on these economies created by their debt burdens. These might include writing off some of the debt, changing the terms of the debt, which also writes down its value to the lender, and other measures to change its terms.
- Reduction in the value of the dollar. Since the debt is largely denominated in dollars, this would reduce the local currency costs of debt servicing. Moreover, since the price of oil is also denominated in dollars, it would cut the local currency cost of oil imports for oil-importing countries.
- Reduction in U.S. interest rates, which reduces the cost of debt servicing.
- Maintaining an open market for the exports of these debt-burdened countries. The recent moves to restrict imports of such goods as shoes, textiles, and steel will reduce the export earnings

of the developing countries and their ability to maintain debt service and grow again.

- Developing measures (public and private) to increase flows of new capital to developing countries.

Some or all of these are very complicated economically and, as we have seen in recent months, even more difficult politically. There appears to be increasing agreement that balancing our federal budget would be a major step in bringing down interest rates, lowering the exchange rate, and stopping the drain of world capital into the United States. However, achieving a balanced budget has proved to be beyond our political grasp. Ironically, one of the increasing strains on our federal budget is the federal farm programs to offset the adverse price and income impacts of our declining foreign markets.

Low-income developing countries

Most of the market growth we have seen in the last decade has been in the middle-income developing countries—now called the newly industrializing economies (NIC's). But there is another group of poorer developing countries that have not done well. This has included most of Africa south of the Sahara. In almost every country in this vast region—outside of Nigeria—real per capita income has declined, food production has declined, and per capita food supplies have declined.

The continued existence of this painfully obvious situation is known to us all. It has led some persons to suggest we ought to use much larger amounts of our surplus grains to push forward on a massive food-for-development program. I think, however, that this view is misleading because it represents a misreading of the conditions that made it possible for some large amounts of food aid to be used effectively in the 1960s and 1970s.

The USDA now estimates that 69 developing countries will require some 11.4 million tons of food above their normal commercial imports to maintain consumption at current levels.¹

However, in 1984–85, donor countries will ship an estimated 11.7 million tons of cereal food aid, surpassing for the first time the 10 million ton target set by the World Food Conference in 1974. The USDA also estimates that an additional 19.4 million tons of food would be

¹*World Food Needs and Availabilities, 1985*, Economic Research Service, U.S. Department of Agriculture, July 1985.

required to bring all of the people in these 69 countries up to a minimum nutritional standard. However, this figure is down sharply from a year earlier when it was 26 million tons. Much of the decline is due to improved conditions in India.

This illustrates part of the problem. India will be a net exporter of food grains this year because its surplus stocks are too high. Yet, there are clearly still large numbers of people in India with inadequate income and, therefore, inadequate diets.

We could and should increase the use of food aid to reduce the still-widespread malnutrition in many developing countries. But the solution to the problem is more nearly a food stamp program than a food aid program. As we saw in the 1960s and 1970s, in some countries, there is a limit to the food aid that can be absorbed in a country without destroying local agricultural markets and incentives. My guess is that we are pushing close to that limit in some African countries now, despite the continued prevalence of hunger and malnutrition.

The concept of food aid as a development tool, as contrasted to strictly famine relief, has worked in the past. However, it requires some conditions that do not appear to exist in many of the poorest countries, especially in Africa. It requires a stable functioning government with a reasonable degree of honesty and efficiency. It requires a minimum infrastructure to move products to and from the population — roads, railroads, and trucks. It requires an indigenous management capability to plan and execute development programs. And it helps if you have a disciplined, literate population.

Our two best examples of food aid contributing to economic development are Korea and Taiwan. They had all of the **above characteristics** and more. Most countries lack one or more of these characteristics and, thus, it is unrealistic to assume that they will become the Koreas of the 1990s. This does not mean we should abandon the idea. It merely means we should view it with caution and approach it on a case-by-case basis.

Many of these very poor developing countries also face external debts that are burdensome, but they were too poor to get commercial loans. Too much of their debt is owed to bilateral and multilateral lending institutions. In many ways, this can be handled easier than the problems of the NIC's.

The main need for many of these countries is an increased flow of multilateral and bilateral development aid. Development aid is not very popular these days, either in the United States or in other devel-

oped countries wrestling with domestic budget deficits. As a result, developing assistance is declining in real terms at a time when income growth in poor countries is lagging and private capital from around the world is flowing to the United States to finance our budget deficit.

Thus, in summary, there are a lot of poor countries with a lot of poor people, many of them with inadequate diets. We could do better on our food-aid both for emergency and development purposes. But apart from the continuing crisis in Africa, most of these countries need more and better capital investment—in people, research stations, transport facilities, manufacturing, and structure. Some, but not all of this, could come from food for development. But to do that without the necessary underpinning in other development aid invites other problems.

I know of no good estimate of how much more grain could be used if we expanded food aid to improve nutrition and increase development. However, it does not even come close to the 18 million tons per year decline in growth in grain use we have seen in the world outside.

Price cutting and building markets

Cutting prices is a common marketing device. Across-the-board price cutting can expand the total market and this may be a good strategy, regardless of what your competitors do. It is an especially good strategy if you can pick up market share because your competitors cannot or will not match your price cuts.

There are several methods of price cutting. One is an across-the-board cut, such as we would achieve today if we sharply lowered our support prices. However, that may cost total revenue in some markets where they do not respond to price cuts and there may not be enough market gain elsewhere to keep your income up. Another method of price cuts is selective through such devices as subsidized credit and special export pricing. This has the advantage of targeting markets where you may both expand total use and pick up market share.

It is important to look at whose price is cut when you talk of price cuts. Is it the price to the ultimate consumer or just to a government import agency that then charges consumers the same? The latter would be the case for the Japanese Food Agency, which buys all Japanese wheat imports. I suspect it would be true in almost every country that imports through a government agency. Therefore, price cuts will save the purchaser's foreign exchange but may not expand the underlying real market at all. Therefore, given the structure of world wheat markets, where 90 percent of the imports are through governments,

price cuts are not likely to expand the market much.

Price cuts that actually reach the consumer would probably expand the feed grain market most if they are passed on to the consumers. Since less of the world's feed grain imports are controlled by governments, we could expect some market expansion there.

Will price cuts be matched by competitors? I would guess they would have to be and that any pickup in market share will come slowly as competitors found it less profitable to continue to expand output. Our own domestic experience with lowering prices to reduce farm output is not very comforting in that regard. You tend to lower land prices more than output.

Therefore, the best and least expensive way to do across-the-board price cuts is by lowering the value of the dollar. That produces no pain on the federal budget or on the domestic farm producers but it has all the positive effects you want abroad in terms of both markets and competitors.

If you cannot get the dollar exchange rate down the next best strategy is to use targeted subsidized credit. It may both expand markets and improve competitive position in those markets. The BICEP program apparently had this same concept in mind, but it has not been a smashing success and might even give price cutting a bad name.

Because of the way both world consumers and world producers are heavily isolated from international agricultural markets, I would predict that price cutting will prove a disappointment to those who believe it will substantially expand markets. For the record, it should be noted that the traded real prices of wheat, rice, cotton, sugar, and corn have all fallen appreciably since 1980, and despite all this, the U.S. use is one of the few that has increased.

Summary and conclusions

Think how much different this world of farm exports, farm income, and farm programs would appear today if world markets were 80 million tons a year higher than they are now and if much of the market growth that has occurred had not been met from increased domestic output in China. We would have a far different view of our domestic farm programs and, probably, even of our competitors.

This loss of market growth has occurred in the face of falling real prices of our exported products. Unfortunately, it also has occurred when both the European Community and our competitors have increased output at rates far exceeding their internal market growth.

Thus, we have intense competition for nearly stagnant import markets. This competition is one in which farm incomes and various treasuries are both suffering.

We have focused our attention on the competition and have paid almost no attention to the problems of market growth, but as almost any business can tell you, when markets are shriveling and overcapacity is growing, things are tough.

I believe we should do more to stimulate market growth than we are now doing. It will require selective price cutting at least, but mainly it involves getting the economies of the developing countries and Eastern Europe growing again. We cannot do much about how they handle their internal affairs, but we should be able to do something about ours. How we handle our internal affairs affects the world economic scene within which these markets must grow. In this matter, as in many others, the famous saying of the cartoon character Mr. Dooley would seem to apply: "We have met the enemy and they are us."