

P L 480: An Appraisal

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IT is important to distinguish between the two purposes of receiving external assistance in the form of foreign farm surpluses: (a) to meet conditions of acute food shortage, and (b) to use this type of assistance as a source of finance for long-term economic development of a densely populated underdeveloped country like India. While there cannot be any dispute about the desirability of accepting such assistance to forestall starvation, the latter aim merits consideration. It is important to note, moreover, that of the total U S authorizations under P L 480 for all countries since the programme was initiated in 1954 (amounting to \$7.6 billion, mid-1954 to December, 1958), only 7 per cent has been utilized for alleviating the conditions of distress. ('International Financial News Survey', February 6, 1959.) In what follows, I shall be concerned only with the second aspect, assuming that in a country like India the primary aim is to have a surplus-generating domestic agriculture to feed a programme of industrialization, and in turn be fed by it at a rising level. Relevance of P L 480 in such a programme is a matter of great interest.

A great merit claimed for P L 480 assistance is its capacity to (fill the wage-goods gap in the simplified Nurksian model of capital formation for a densely populated underdeveloped country. (Ragnar Nurkse. 'Problems of Capital Formation in Underdeveloped Countries', Pp 32-47.) Nurkse was concerned with the increased consumption of those who remain on land, so that it is not possible to fully mobilize the concealed saving potential and turn the capital construction project into a self-financing one. Those who have left for such projects may have to be fed from outside the system; and one such outside agency is P L 480 assistance. The question whether it can be so used on any considerable scale depends entirely on the tenability of the Nurksian premise that surplus manpower can in fact be withdrawn in substantial numbers, in the way he suggests. This raises the question of the nature

of the manpower surplus in agriculture. Is it what may be called an absolute surplus, in the sense that agricultural production will not decline if this surplus is withdrawn leaving the organizational set-up and techniques in agriculture basically the same? Or is it of a type which has first to be transformed into another type, and then be withdrawn from agriculture? This is a vital issue which is at present being ignored.

This surplus, owing to the extreme seasonality of agricultural operations enforced by nature, exists mainly in the form of seasonal underemployment. As a result of petty holdings, most of the agricultural working force is kept semi-idle during the slack season. This practically universal underemployment during slack seasons cannot be converted into a substantial source of capital formation. By way of illustration, take a community of 100 cultivators (and their families) having one acre each, which is not enough to keep them busy during the slack season. If it be thought, that 20 cultivators (with given techniques) are able to look after the land during the slack season, the surplus 80 cannot be withdrawn without in some way making the other 20 responsible for the land and other resources owned by those who are to be withdrawn. This responsibility they can either purchase (if they can) or assume as a social obligation, and till the land of the 80, say, after forming a cooperative. In case the 80 are withdrawn without transferring the responsibility, their land will go fallow and production will fall. In other words seasonal underemployment for all has to be converted into seasonal unemployment for some (in agriculture) in order to mobilize the concealed saving potential.

The problem of labour shortage during the busy season can be solved by gradually introducing relatively simple mechanical devices and bringing back some of the manpower from the relatively simple capital construction projects (minor irrigation works etc). Other-

I am indebted to Dr K S Gill for this clarification.

wise, "withdrawal of portions of the labour force may be expected to reduce total output (in the sense that insufficient ploughing, inadequate planting, and untimely harvesting will diminish the size of the final crop)". (Harry T Oshima. 'Underemployment in Backward Economies: An Empirical Comment'. 'The Journal of Political Economy', June 1958, p 261.) Organization and planning are basic to what has been said above, and the problem becomes rather easy with a phased programme of transforming agriculture into an organized activity, and withdrawing the SO not at once, but gradually. It will be recognized that in the present Indian conditions such transformation is possible only on cooperative lines. While recognizing that the people who remain on land cannot continue to cultivate it in quite the old way, Nurkse allowed for "changes in the manner and organization of work, including possibly a consolidation of scattered strips and plots of land." Anyone familiar with the history of the consolidation of holdings in India will agree that, apart from several other weaknesses, this process does not reduce the number of holdings but only brings scattered strips together. So long as the problem (from the point of view of withdrawing surplus manpower) is basically one of the large number of petty holdings, consolidation will be of no avail: it will not transform the basic nature of agriculture. In a country like India, the essence of which is individual small-scale farming.

The above example is rather over-simplified, but it does not distort reality, as is clear from NSS '8th Round data. Of all the rural households (this includes non-agricultural rural households) numbering 65-66 million, a little over 20 per cent did not own any land; and 25 per cent owned plots under one acre each. The share of a little less than half the rural households in the total area owned was a little over 1 per cent. About 75 per cent of all rural households had either no land or held less than 5 acres each, their share in the total being about 16.6 per cent. At the upper end about 12 per cent of rural

households owned more than 10 acres each, their share in the total being about 66 per cent of the whole area; and about 1 per cent of the households owned more than 40 acres each, their share being 20 per cent of the total. (The National Sample Survey, Eighth Round; July 1954-March 1955; 'First Report on Land Holdings', Rural Sector. Government of India, 1958) What may be called the Nurksian Withdrawal Effect does not apply even to those who are recorded as having no land, since many of them are attached to their handicraft enterprises and shops etc. In any case they cannot be included in the Burplus agricultural manpower. The pressure on the landless during the peak season makes their substantial withdrawal impossible.

What is crucial is the genuine, voluntary and gradual cooperative sation of agriculture (after land redistribution) as a condition precedent for withdrawing substantial portion of manpower surplus. In the light of this premise, the irrelevance of P L 480 is brought out very clearly. Firstly, there is every possibility of local food production being considerably stepped up as a result of increasing doses of co-operativisation, as has been seen in China. Food will thus be available for workers who leave the land. Secondly, even if due to some frictions and rigidities, food production does not respond to cooperativisation immediately, P L 480 assistance cannot be expected, on any considerable scale, because of the political considerations. (It should be remembered that P L 480 assistance to Poland in 1956 was strictly of a marginal nature, given in the face of an emergency, and, most important of all, for the then paramount political considerations.) Thus P L 480 is rendered economically unnecessary and politically impossible.

II

This leaves what, in my view, are relatively less important aspects of P L 480. It is obvious that, when foreign farm surpluses are received on any considerable scale and over a long period (as in the case of India) either a state of perpetual emergency or a sense of permanent resignation is created, both of which are undesirable and require radical solutions. Local effort at self-sufficiency is dampened. Except when received in the face of an

emergency, it is likely to push down prices in the local market, thus acting as a disincentive for greater production, given the present set-up. Such assistance assumes a deficit economy in the recipient country.

There seems to be an irreconcilable dichotomy between self-sufficiency and such assistance. As it is, P L 480 is sometimes taken to be an answer to a prayer, since it relieves food shortages in a country like India, and also helps the U S Government to reduce a part of its excessive agricultural surpluses. In a recent Presidential message to the U S Congress it was pointed out that even if not a single bushel of the forthcoming crop is harvested, the accumulated stocks will be enough to meet the needs of US and her commitments abroad as well as the necessary carryover for the next year. Farm support is costing the U S Administration \$ 6 billion annually. Whatever its utility to U S A, P L 480 numbs local effort in the recipient country. Paradoxically, the price of receiving the bulk of U S aid (over 56 per cent of U S aid authorized for India is in the form of farm surpluses, if one includes the 1951 wheat loan) is by no means negligible. Indeed, some of the objectives of P L 480, indicated in Section 104, are "To develop new markets for United States agricultural commodities on a mutually beneficial basis; To purchase or contract to purchase strategic or critical materials within the applicable terms of the Strategic and Critical Materials Stockpile Act." An example of the latter is the recent barter deal exchanging U S farm surpluses for Indian manganese.

III

The accumulation and use of the counterpart funds also need to be studied. As soon as a U S ship (since it must be a U S ship) touches port, the Government of India 'pays' for the entire consignment by handing over the rupee amount involved to the U S Embassy account with the State Bank of India. Later, with the release of foodgrain stocks to the State Governments and of cotton to the mills, the Central Government balances are recouped. These accumulating counterpart funds in the U S Embassy account are re-lent to India according to specific allocations. In view of the considerable delay

between the accumulation of the counterpart funds and their allocations, the Interest accruals to the U S Embassy account during the intervening period may be said to constitute perverse external assistance.

Moreover, according to the Cooley amendment to Section 104, a quarter of the counterpart funds shall be loaned to US firms or foreign affiliates of such firms which undertake projects approved by the Export-Import Bank and to foreign firms "for the establishment of facilities for aiding the utilization, distribution or otherwise encouraging the consumption of, and markets for, United States Agricultural Commodities," subject to the proviso "that no such loans shall be made for the manufacturing of any products produced in the United States or for the manufacture of any commodity to be marketed in competition with United States agricultural commodities or products thereof." What degree of Industrial development such a programme will encourage even in the private sector remains to be seen.

IV

A well-known F A O pilot study in India ('Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries'), which starts with the assumption of the usability of farm surpluses for projects of economic development in the sense of filling the wage-goods gap, points out the several practical difficulties in the way of effective utilization of such surpluses. Abstracting from all that has been said above, these difficulties alone render P L 480 assistance of doubtful value. It is pointed out, for example, that if a country is doing all that it possibly can, "there is nothing that surplus products could do to help speed the progress or to increase the levels of consumption and of production" (Emphasis added). It is clear that, given the present institutional framework with dissipated and unorganised economic units in agriculture and industry, a country like India in fact cannot 'do' any more than what she is doing. P L 480 assistance is, therefore, redundant even in the present conditions. But since a transformation of the institutional framework is a condition precedent for 'doing' more, such assistance will either not be needed or not be given,

The F A O study point' out, further, that the additional consumption resulting from additional projects must be as large as quantities added by farm surplus assistance. If it is not so, either the incomes of domestic farmers will decline or food exports will have to be resorted to, thus nullifying the avowed

purpose of such assistance. Further, in a big country like India, this condition must be fulfilled not only for the country as a whole, but in each local market area. Considering the degree of efficiency with which the administrative machinery in an underdeveloped country is generally credited, the feasibility

of such an accomplishment can well be questioned.

In conclusion, I may say that, since P L 480 assistance adds to a country's debt liabilities without in any way stimulating her industry or agriculture, dependence on such assistance should be of a strictly marginal and cautious nature.

Fall in Raw Material Prices in World Markets

Adam Szeworski

AT the beginning of 1956 there was a general tendency of decreasing raw material prices in world markets. After a short interval in the second half of 1956, when prices of certain raw materials rose slightly during the Suez Canal conflict, the downward trend continued, so that the general price index of raw materials reached its lowest level in 7 years.

This was the third drop in raw material prices in the postwar period. The two former drops which had taken place in 1918-1949 and 1951-1953, were merely fluctuations—a normal reaction to the soaring prices of the respective preceding periods. In these two instances, the lowest point of decline of the latter was above the lowest point of decline of the former, so that the general line showed an upward trend in raw material prices in world markets.

The latest overall price decline occurred early in 1956, after nearly two years of a relatively stable market. Notwithstanding the temporary rise in the second half of 1956 which compensated the initial fall, in the second quarter of 1957 the general price level fell below the lowest point of the 1953 decline, and toward the end of 1957, it dropped even below the level which had preceded the raw material boom of 1950-51 brought about by the Korean War. It is for these reasons that the present decline in world prices of raw materials is generally interpreted as a break in the steady upward tendency of the postwar period, and as the beginning of a new downward trend comparable to the one experienced between the two world wars.

The purpose of the present study is to ascertain the causes, the sour-

ces, and the character of the present decline in world prices of raw materials. As will be seen below, this decline is due, on the one hand, to a shrinking demand for raw materials brought about by cyclical and extra-cyclical factors and, on the other, to a growing supply of many basic raw materials which is a direct result of an increase in production stimulated by large capital investments undertaken in the preceding periods.

Before going any further, we must remember that changes in market demand are a decisive factor affecting raw material prices over short periods of time. This is due to a certain lack of flexibility in production of raw materials which makes it difficult to adjust the supply of raw materials to the changing market demand.

As a rule, it takes a relatively long time to increase the production of raw materials. In agriculture, results depend on weather conditions, on the process of ripening of the crop, conditional upon the season and upon the time-lag required for fertilizers to produce their full effect. Similarly, the mining industry cannot closely follow the ups and downs of the market, for it takes capital investment well in advance to increase production. For these reasons an increase in the demand causes the available stocks of raw materials to shrink, and this in turn leads to higher prices. On the other hand, as world commodity prices are listed on the stock exchanges, a price rise usually calls forth additional demand of a speculative nature, which brings about a further boost and which at the same time makes it more difficult for production to readjust itself to demand within a short period of time.

Moreover, as the production of raw materials is usually carried on at full capacity, it is rather difficult to reduce it to match falling demand. In the case of agricultural commodities it is due, among others, to two factors of considerable importance, namely, competition and the dependence of the yield on proper fertilization. The important factors in mining are the expenses involved in the maintenance and safety of idle mines. Under these conditions a decline in the demand leads first to an accumulation of stocks of these commodities in the hands of the producers, and then to a fall in prices, accelerated further by speculative sales made by the buyers to get rid of stocks on hand.

II

Up to 1955 the postwar period was characterised by a strong and steadily rising demand for raw materials in the world market. This was primarily due to the boom which prevailed in the leading capitalist countries, interrupted only by relatively slight recessions which did not take place in all countries simultaneously and did not therefore, cause any important breakdown in demand on a world scale. Thus, the increased demand was a result of the postwar boom of 1946-1948 when the vast 'back-log' of orders was being filled; of the 1950-1953 armaments boom in the United States; of a vigorous activity in the field of capital investment in west European countries in 1953-1955; and of a short period of similar activity in the United States, in 1955.

A very important factor of an extra-cyclic nature, which influenced the commodities market was the stock-piling of strategic raw materials by the imperialist countries,