Farm Surplus as Source of Development Finance

THERE was a time when countries suffering from a shortage of foodstuffs, especially those in the ECAFE Region, had to look to countries with surpluses to spare for getting allotments. But, with a change for the better in the agricultural picture of such countries, the position has so altered that countries with large surpluses are now trying to seek the aid of the FAO. for the disposal of their farm surpluses. Although the prosperity of agriculture in the ECAFE region is partly due to favourable weather, it is equally the result of sustained efforts at improving agricultural practices. In the result, many of the countries in the region have themselves surpluses to spare, and as the latest report of the ECAFE has revealed, countries such as Burma and Thailand are faced with the problem of marketing their farm products. In such a situation it Is only natural that there should be frequent international discussions regarding the disposal of farm surpluses and the FAO should strive to suggest a constructive approach.

The FAO Committee on Commodity Problems, entrusted with the task of laying down the principles for surplus disposal, has placed emphasis on three methods of using surplus, viz., (1) to aid additional effort on economic development in under-developed countries; (2) to improve the nutrititive standards through direct feeding programmes for special underprivileged or vulnerable groups and (3) to help relieve famine conditions caused by crop failure or other disasters. With a view to assessing the possibilities of using surpluses for aiding economic development, a pilot study was conducted by the FAO staff in India last year. The report of this specialist group*- which was considered by the Committee on Commodity Problems at its last session In May, 1955—examines the problem in certain terms. The Report has illustrative projects. For this purpose, it has selected projects which have not been Included in India's First Five Year Plan.

The idea behind the use of surpluses for development purposes, is very simple: the under-developed countries abound in underemployed and unemployed resources. These could be put to profitable use, provided a number of additional development projects are undertaken. Increased outlays on such projects would, however, increase the demand for food, clothing, etc. from the people newly employed. Unless sufficient supplies of food are available, inflationary pressures are bound to appear. It is here that surpluses come in and help in catering for a large part of the increased demand, until domestic production increases. They will also be useful in providing a part of the finance for the project by saving current expenditure on the part of the Government, provided they could be obtained either as grants or as long-term loan on concessional terms.

However, two main conditions must pre-exist in the recipient country for using the surpluses in this manner. First, the limiting factors for a more rapid economic development in the country concerned must be the scarcity of resources including finance. In such a case, surplus farm products would provide a part of the resources either through providing finance obtained by their disposal, or through their direct use in training programmes for labour or in paying for labour in kind. Secondly, the use of surpluses should bring about a net increase in consumption, and not act as substitute for domestic supplies. The increase in consumption should be as large as the sale or distribution of surpluses. Otherwise, the latter will be added to domestic supply and would either bring down the prices of such products on the internal market or effect their international prices by encouraging exports.

According to the pilot study, both these conditions exist in India. An assessment of the progress made in the first three years of the Five Year Plan indicates that finance and skilled manpower are limiting factors in accelerating the pace of development, and there Is need for quickening the tempo of activity through larger Investments. However, the issue whether foreign farm surpluses could be used in speeding up development, and if so, how much of resources this would provide, is not equally clear. In view of the fact that currently, supply of farm products in India is plentiful, leading to a fall In prices, and the Government is considering the question of price support, it is feared that the utilisation of surpluses might affect prices of domestic farm products—a result which the FAO is keen on avoiding. Nevertheless, it is suggested that the surpluses, if used for additional projects, might not make the situation worse; thus, if the projects selected put some of the poorest people to work, they and their families would eat better and consumption would rise. While the problem of price would still be there, the country would be better off through higher levels of employment and consumption and through additional real capital having been created by the new projects. It is also possible that the surpluses may help the country to build up reserves for future contingencies.

The Report describes three different types of individual development projects wherein surpluses could be utilised. There are. first of all, projects where wages to labour are to be paid in kind, i.e., the food is moved directly into consumption where the recipients the labourers employed on the project—add all of it to their own consumption. It should be ensured that the surpluses are not resold by the labourers. It is also necessary, if there is to be a net increase in consumption, that the surpluses distributed should not substitute the food formerly bought by the labourers. If these are taken care of, then the amount of surplus that could be utilised depends on the income elasticity of demand for food; but in any case it cannot be larger than what would be bought by labourers as a result of the increase in their income. Illustrative projects of this kind described by the study include village community and other development projects, milk marketing schemes etc. It must, however, be noted that the direct use of surpluses in this manner involves sizable administrative costs and the use of scarce administrative personnel for implementing the scheme of distribution of wages in kind.

Secondly, there are projects where additional workers are put to work and a part of their consumption is covered by surplus food, such as road construction, irrigation projects etc. A portion of the surplus allotted for any particular project would be used for paying wages in kind and

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the balance would be sold and the proceeds used for financing the rest Of the outlay on the project. In this event, the extent of increase in consumption of food as also the amount of finance that the sale of surpluses could provide depends on a number of considerations. If there do not already exist pockets of unsatisfied demand for the surplus farm products, the increase in consumption and the finance that could be obtained through sales, will be related to the direct and indirect effects on the demand for food of (a) the expenditure on the project other than on labour, (b) the expenditure of employees on items other than food and (c) the expenditure on transport and marketing of surpluses. This would mean that each expenditure item will have to be traced at least some two or three 'rounds' ahead- and the derived demand for food-grains estimated. If this could be done, it may be possible to know the amount of increase in food consumption brought about by the use of surpluses in financing the project. Clearly the extent to which the outlay on the project can be covered by the surplus, depends on the proportion of labour coat to total, and the proportion of the additional income spent in that particular commodity. In most cases, only a part of the outlay can be so met. For the balance, reliance will have to be placed on other external sources such as the International Bank for Reconstruction and Development. Alternatively, the projects should be such that they are productive in an unusually short time, and help cover part of investments from their own earnings, e,g., where some additional marginal equipment or construction Is needed which can be quickly procured and installed.

According to the Report, the utilisation of surpluses would, perhaps, be more effective in financing an increase in the development programme as a whole, than when it is concentrated on a particular project or set of projects. In such a case, it would be easier to take note of the difference that surpluses' make to total investments and the rate of capital formation, the consequent Increase In incomes etc., if the surplus is made available over a period of years. It is also possible to administer the sale or distribution of surpluses through a central organisation. Above all, In a unified programme approach, It will be possible to balance carefully the various projects to be included and their phasing. The requirements of external finance may also be more easily assessed—how much of It in surplus foods and how much in complementary foreign exchange, etc., and a careful examination of all these factors will provide the basis for "package deals" of foreign exchange and surplus foods.

After examining the current economic situation in the country, the Report suggests that there are numerous projects potentially suitable for financing in whole or in part, with the help of surplus foods, e.g. educational food scholarships, village community and other local development projects, milk marketing schemes, construction of district roads, hydel projects, forest roads etc. It cites more than half a dozen schemes of this type involving about 536 million over a four-year period, of which $292 million could be provided by food surpluses.

While no doubt the idea behind the utilisation of farm surplus for financing development projects is simple and the objectives with which the surpluses are offered are laudable, there are certain obstacles in the way of effective implementation of such a policy. Perhaps the most important of these is the price factor. Any commercial disposal of surplus farm products is bound to affect the price of these products on the international " markets, and also depress the price of domestic supply of such products in the recipient country. It is well known that surplus countries such as Australia and New Zealand have always been apprehensive of the US policy of disposing of its farm products. The fear has been so grave that at the Gatt, the United States has had to give positive assurances to these countries that its export of agriculture products would be as orderly as possible. In its reply to the FAO regarding the "principles" governing the disposal of surpluses, Australia has drawn attention to the 'principle' that governments undertaking or proposing to undertake large scale releases should, wherever practicable, consult with other countries interested in the possible effects of such transactions, Disposals of surpluses at concessional terms would not cause much worry provide ed they formed a small part of the normal exports. Australia considers that the placing of large additional quantities of a commodity on the world market even at ruling world prices will depress the markets.

It is perhaps because of such opposition which the U. S. expects from these surplus countries that she is trying to offer her surpluses through the FAO as a recipe for the problems of the under-developed countries for financing their development plana. But these latter have their own points of view. In the first place, the possibility of implementing the scheme would be limited if an under-developed country itself has a surplus in any commodity. Any international arrangement for surplus disposal would make it obligatory on its part to part with its surplus; but in fact the country concerned may find it difficult to do so unless it receives some form of compensatory assistance from outside. Secondly, the under-developed countrieB which have had bitter experience of obtaining food from the surplus countries during emergencies such as famine, are trying to become self-sufficient in food and even build up reserves. In such a situation they may not view with favour a scheme which might encourage dependence on foreign imports of food.

As regards the use of surpluses for financing development projects, there are a number of difficulties. Using such surpluses for paying wages in kind involves heavy administrative costs. The effect of these surpluses on the domestic supplies, and the possibility of obtaining finance for the balance of the costs of the project have also to be carefully assessed. It is estimated that even in the most labour intensive projects, labour costs form not more than sixty per cent of total costs of development projects. And of the amount of outlay accruing to labour as wage income, about 35 per cent would be spent on foodgrains. To take an illustration, in a development programme involving, say, Rs. 500 crores labour costs would account for Rs, 300 crores. Of the latter, about Rs 100 crores or so, would be the expenditure on food, i.e., about 20 per cent of the total costs of the project concerned. On this basis, surpluses could provide about 20 per cent of the total costs of a project. Therefore, unless it is possible to secure the balance of the finance from abroad, It will be difficult to consider additional projects based on such surpluses. It would be more useful, perhaps, if these surpluses are available as free grants for utilisation in programmes such as provision of school lunches, providing better nutrition to voluntary labourers in Community and other local development projects, free scholarships to indigent students, training programmes for labourers etc.