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India's Food Problem and US PL 480

by Professor Dr M. R. Kumara Swamy, Doha

India's participation in US Public Law 480 food program has been active since the inception of India's economic planning. The agreement is based on the joint collaboration of the Governments of India and of USA, in that PL 480 wheat is purchased in the US by representatives of the Indian Government. From the time the purchase is made in USA, it is the responsibility of the Indian Government to take care of its transportation from USA to India, storage, handling concerning its distribution, etc.

Increasing Import Requirements

The handling and distribution of PL 480 foodgrains by the Indian Government is extremely unsatisfactory. In spite of development planning since 1951, the country has been facing serious problems especially on the front of agriculture. The Indian Government has taken control of every aspect of economic activity in the country and the fact that the food problem has been seriously aggravated by the hoarders of food grains is one of the worst results of the frustration of private enterprise. The hoarders of rice and sugar are working on the psychology of the people of India by taking undue advantage of imperfect market behavior. According to Government rules and regulations, there is no mobility of food grains from one state to another beyond 5 kgs. In actuality one finds large scale movement of food grains from one state to another. The hoarders are providing the people with required grains and cereals only on payment of excessive prices. People with a small family and earning more than 300 to 400 rupees (Rs) a month can afford to pay such high prices and meet their demands. But more children are born in the moderate and lower middle income groups. Therefore, the sufferers of today are the middle class and the lower middle class people who account for more than 60 per cent of India's population. The reason for the enormous hoarding by private enterprise, resulting in high prices of foodgrains, whose demand is inelastic, may be considered as severe punishment to the Indian Government for planning too much and, thereby, spoiling the initiative and responsibility of the private sector. As a result of excessive government control of every facet of economic activity especially with regard to foodgrains production and distribution, India's import requirements for food are going up.

A quantity of 10.16 million tons of foodgrains valued at Rs 523 crores¹ was imported in the year 1966 as against 7.46 million tons in 1965 and 6.2 million tons

¹ 1 crore = 10 million.

in 1964. It is obvious that imports of food are increasing. The widespread impression that food imports under US PL 480 do not entail India's foreign exchange reserves is not essentially correct. It may be noted that PL 480 deposits made or to be made under existing agreements will total Rs 1,828.57 crores. Under the existing agreements, 21.9 per cent of the sale proceeds is reserved for grants to the Government of India for development projects, 57.5 per cent for loans for the same purpose. Another 6.8 per cent is designated for loans for private enterprise under the Cooley Agreement and the balance is reserved for US Government uses.²

Balance of Payments Effects

India's overall foreign exchange burden arising out of the import of foodgrains is no less than Rs 2,728 crores. The country has so far secured only Rs 352.39 crores of foodgrains without any repayment liability. Otherwise, the PL 480 reserves used by the US Government in India and by the private enterprises—made available through the USAID, under the Cooley Amendment of the PL 480 Agreements, to some American firms and their subsidiaries operating in India, indigenous firms having an affiliation with an American firm or indigenous firm facilitating the disposal of American agricultural products—do represent indirect pressure on India's foreign exchange reserves. It is true that India does not have to pay in dollars for the import of food grains under these agreements, but the very fact that the US Government and some private firms can use the PL 480 reserves actually means that India's dollar earnings are eaten away by the extent of such uses. The Cooley Amendment, moreover, provides that up to 25 per cent of the local currency proceeds from the sale of American agricultural commodities can be made available for lending to the above categorised private firms which, if implemented, will lower the percentage of the sale proceeds available to the Government of India as loans for development projects. Besides, more than Rs 30 crores of the PL 480 reserves has been used as US aid to Nepal and Burma. Lastly, the American tourists and technicians can use these reserves, and the inflow of dollars to India is appreciably lowered. PL 480 agreements have enabled us to import foodgrains without any immediate liability in foreign currency but they have actually reduced our capacity to earn dollars. Aid connected with this agreement is thus smaller than the considerable amounts spent for wheat supplies that the Americans seem to have in mind, when

² U.S. I.S., Fact Sheet on US Economic Assistance to India, Sept. 15, 1966.

they consider the volume of development aid given to India. Naturally they are rather prone to reduce the quantum of development aid on the grounds that their country is already bearing the heavy burden of feeding India for the last sixteen years. The reduction of American development aid obliges India to purchase some of its capital goods and spare parts in foreign currencies, which might have been received as aid in case the country had avoided the import of foodgrains from the USA.

A Call for Canadian Collaboration

One should therefore look for possibilities of increasing development aid for imports of investment goods

and of covering the demand for food supplies rather by ordinary foreign trade. Owing to India's 1966 rupee devaluation, we expect a change in the direction of export trade from America and Europe to Canada as well as African and Asian countries. Canada is able to produce wheat of good quality at lower costs than the USA or Australia. The obvious thing to do would be to intensify trade relations with Canada and to import Canadian wheat. Of course, it would be helpful, if, in the present circumstances, India might import wheat on a deferred payment basis. This would help our country to obtain self-sufficiency in food supplies by 1971 as it is planned.

Latin America

The Dark Side of Technical Progress

by Manfred Rucker, Mexico City

Since the end of World War II, there is no doubt that the countries of Latin America have made remarkable progress towards industrialisation. Apart from setbacks due to political or monetary causes or periods of stagnation in certain countries, there has been enormous growth over the last twenty years in Latin American industry, and industry has made a constantly rising contribution to the GNP.

Apart from the direct effects of World War II, however, (development of synthetics which have replaced many of Latin America's traditional exports, increased competition from the young nations of Asia and Africa, etc.), it is primarily the rapid increase in population—at 2.8 to 3.6 per cent p.a. this is the highest in the world—the deterioration in the terms of trade and the demand for a definite improvement in the social structure which make even faster and more effective industrialisation a necessity.

Although a large part of the new factories are equipped and organised in accordance with the latest discoveries of international technology, only a few Latin American countries (Mexico, for instance) have succeeded in decreasing the gap between themselves and other industrial nations; on the whole, most countries have difficulty in preventing this gap from increasing.

Little Progress in spite of Modern Technology

What is the reason for this unsatisfactory development? Apart from the fact that Latin America is faced simultaneously with a variety of problems, which industrialised countries were able to solve about 60 years ago, one of the reasons is probably too great a dependence upon knowhow from industrial countries.

This knowhow is used for very varied purposes and based upon a completely different set of circumstances than in industrial countries. Whereas industrial countries have to cut down on manpower by automation, thus incurring heavier capital costs, Latin America is forced to employ as much manpower as possible, with a relatively low level of education, thus saving capital.

The purchasing power of the population in individual industrial countries and the expansion of markets due to supra-regional arrangements or company goodwill built up over many years, together with a good horizontal industrial structure, means that industries can specialise locally, thus making good use of economies of scale by exploiting large, well-employed capacity and a limited production programme.

On the other hand, Latin American countries have a much smaller domestic market and, as a rule, only about one third or, at the most, one half of the population can be considered as real consumers. In addition, there are practically no export markets since these countries—when applying technology, which is aimed at large quantities of a small number of products—cannot keep pace with the already established competition from industrial countries, with its lower prices; for, with greater specialisation and more involved techniques the minimum economic capacity rises because of high fixed costs.

It is, of course, possible on the domestic market to create a defence against competition from imports by adopting a policy of protectionism, and this is what has largely happened in Latin America. But such a policy has considerable disadvantages: for one thing, the consumer has to 'fill the hole', i.e. when the product is assembled in the country, he has to pay a