

Matzke, Otto

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Intereconomics

*Suggested Citation:* Matzke, Otto (1975) : Planned production of agricultural surpluses?, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 10, Iss. 6, pp. 190-192, <https://doi.org/10.1007/BF02928866>

This Version is available at:

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# Planned Production of Agricultural Surpluses?

by Dr Otto Matzke, Rome \*

**In recent times, the EC-Commission has developed the opinion that, contrary to present practice, food for the purpose of aid ought to be produced systematically. From the point of view of development policy, such notions must rouse serious doubts in their soundness, which would be virtually superfluous in the case of food aid drawn from "unplanned" agricultural surpluses.**

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In one of its recent Information Papers<sup>1</sup> the European Commission has dealt with "Community Food Aid". This Paper states that the EC is confronted with agricultural surpluses, on the one hand, and the demand for aid by the countries of the Third World, on the other hand. According to the same document the Commission is convinced of the "need" for "making the Community's food aid independent, to a certain degree, of the fluctuations in the size of the available stocks of farm produce". Therefore, the Commission "occupies its mind with hammering out a comprehensive policy in this field, which would be designed to make possible the execution of continuous aid programmes for a varying selection of agricultural products". In this way the Commission hopes to be able to "meet the needs of LDCs adequately both in quantity and quality" better than in the past.

## Resolution of the World Food Conference

The World Food Conference of November 1974, too, has adopted a resolution about an "improved policy of food aid", which makes it clear that "(food aid) should be granted in a reasonable degree of continuity in terms of quantity". The resolution counsels all the potential donor countries to adopt the "conception of advance planning for food aid", and to strain all their energies in order to keep ready food and financial funds to make available, from 1975 onwards, annual aid volumes of, at least, 10 mn tons of food grains. For the same purpose that resolution demands that "adequate quantities of other foods" should be provided for.

\* Correspondent of Neue Zürcher Zeitung. For the past five years he was Director of the Project Management Division of the UN/FAO World Food Programme.

<sup>1</sup> No. 72/74 without date, but probably published in November, 1974.

This means that the World Food Conference has adopted the concept of *supply management* for food aid. The EC-Commission played a major part in the enunciation of the mentioned resolution. Already during the FAO conference in November 1973, P. Lardinois, the member of the EC-Commission in charge of agricultural issues, advocated a fundamentally new approach to food aid. On that occasion he laid down that, in his view "Food aid cannot and should not be the more or less arbitrary result of surpluses created by accident in the developed countries". According to him, food for the purpose of aid must be produced systematically.

In March 1974, the Council of Ministers of the EC received official notice of Lardinois' new concept through a "communication" and a memorandum<sup>2</sup>. In essence this concept has been summarized in the "communication" (under Points 17 and 18): "...17. *The Community's Policy of Food Aid: If the Community desires to meet its responsibilities, it must be able to adopt, at least for the coming five or ten years, an adequate policy of food aid. Keeping in mind the FAO's forecasts, the Community can hardly refuse to mobilize funds for building up a generous and consistent policy of food aid, the more so since European farmers are capable of supplying produce which, for a number of years, could contribute to meeting the need for food of the developing countries in many fields.*

18. The Community is capable of practising a generous policy of food aid, which

□ should safeguard a certain degree of continuity in food aid by drawing up a three-year pro-

<sup>2</sup> Document S/349/74 - COMER 66 - of March 13, 1974.

gramme of guide lines which would have to be based on annual commitments to deliver fixed quantities;

ought to cover a wide variety of different products, to be selected reflecting both the food needs of the developing countries and the normal supplies on the Community's market;

ought to induce an increase of aid deliveries made so far."

#### Aid in Kind or in Cash?

Even if one shares the opinion that food aid has to continue for many years as an important form of *bridging assistance*, one may harbour grave doubts in the concept of deliberate production of surpluses ("supply management"), which would more or less fade away in the case of food aid based on unplanned surpluses. In this context, a crucial question will arise: whether it would not be wiser, from the point of view of development policy, to put the funds needed for the procurement of food at the direct disposal of the LDCs instead of using them in the developed countries to finance the production and transport of deliberate surpluses. The transfer of monetary funds could be tied to the obligation that they must be used (under supervision) for buying the food from those producers, who are the cheapest ones with reference to freight expenses. LDCs themselves may well be candidates for such a selection. Dominant considerations would have to be:

#### Change of Cost Calculation

While structural agricultural surpluses — which, by definition, are unplanned — have to be valued, from the overall economic point of view below their market prices, frequently even considerably below their production costs, deliberately created surpluses cannot be treated in this way. From the point of view of rational use of world resources, they claim a value that is at least equal to the convertible cash value used for their production. In the interest of recipient countries, to whose advantage the entire effort will have to be mounted, it would seem much more expedient to "monetize" food aid to a decisive extent. Instead of channelling aid via the detour, as it were, through the agricultural sector of donor countries, LDCs would enjoy its benefits directly.

It is true that there are some signs that the advocates of deliberate surplus production fundamentally wish to kill two birds by one shot: to provide food aid to LDCs by opening a new "market" for the farmers of their own countries. While talking of food aid, they also mean to give additional aid

to their own agricultural sector. The concept does not become, through this, less prone to criticism.

#### Dual Effect of "Monetarized" Food Aid

As far as insufficient food production in certain countries is due to a lack of purchasing power, the employment of financial funds for buying food would provide a stimulus to agricultural production. No other single measure of help from the outside could be more effective in such cases than the utilization of hard cash for buying food in certain LDCs, which is given as aid to other LDCs. To weld this type of food aid with the provision of a stimulus to higher food production in other LDCs would have the highly desirable dual effect to provide needed aid to a starving LDC population but also to the food-growing LDC: directly through foreign currency earnings, indirectly through the catalyst and multiplier effects on its own agricultural sector, e.g. structural improvements, marketing, etc.

There might be cases in which the country that needs food aid is the same as that which produces foodstuffs. The "injection" of purchasing



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power could induce growth of production in parts of the country whose production potential has so far not been fully utilized. There are more LDCs than usually believed where "injections" of new purchasing power from the outside might lead to a growth of food production. Experiences in African countries, among others, have shown that many farmers (even subsistence farmers) will react positively to clear incentives. Food aid in kind, if mounted according to the genuine needs of a recipient country, should be restricted to the use of unplanned production surpluses. The continuity of food aid – which is desirable for a certain bridging period – is frequently called indispensable now, both within and without the EC, but it could best be secured by the provision of financial means (which would have to be provided as well in cases of deliberately created production surpluses). This kind of food aid, however, will be less attractive to those agricultural policy makers who plead the case for funnelling the corresponding funds to their own farmers, which means that they basically mask their own motivations under the veil of development aid.

#### **Difficulties in Mobilizing Unplanned Surpluses**

Up to now, neither the EC as a whole nor its individual member countries have ever managed to get rid of their unplanned surplus production, even if these stocks consist of food types that are particularly appropriate for purposes of food aid. It is characteristic that even a product like skimmed milk powder, essential and urgently needed in virtually unlimited quantities for filling the protein gap in LDCs, cannot be fully mobilized for the purpose of food aid.

In order to get rid of stocks of an order of more than 350,000 tons (end of January 1975) in a different way, serious consideration is being given to the possibility of increasing the bonus to be paid for feeding the stuff to livestock. To support such intentions, official German sources (falsely) argue that neither the EC countries nor LDCs "need" skimmed milk powder (thus a written answer of the Parliamentary Secretary of the Federal Ministry of Food and Agriculture to the question of a member of the German Bundestag). On the contrary, it is on record that the World Food Programme of the UNO/FAO suffers from a considerable deficit of skimmed milk powder for its purposes, and that the same programme, as well as other aid proposals, could use huge quantities of it for feeding the hungry in the famine areas of the world. Hundreds of thousands of human beings might be saved from starvation or from permanent harm done to their health if skimmed milk powder would not – and with considerable subsidies – be fed back to the maws of European livestock.

There are some European ministers of agriculture who never tire to boost the importance of their own farming community for overcoming the present world food crisis, and who reject any suggestion of cutting down their countries' farm output with indignation. However, when they are being asked to mobilize existing *unplanned* surplus production for the purpose of aid, they will tell the public that there is a disastrous lack of financial means that blocks this approach. Under such conditions, it is hard to see how it will be possible to mobilize the additional finance for growing planned surpluses of farm produce.

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ISBN 3-87895-132-9

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