CHAPTER 9

Role of Grain Reserves in an International Food Strategy

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When cereal prices rose with the coincidence of events around 1972/73, as described in Chapter 1, greater attention began to be given to the problems of maintaining grain reserves. At the World Food Conference, held in Rome in November 1974, proposals were advanced for an international system of nationally-held grain reserves. The place of such a system in an international strategy for broaching the "disarray in world agriculture" has been discussed in Chapter 8. In this chapter the problems posed by a system of reserves will be explored in more detail. In one way the problems are a restatement of the problems of shortages.

If, by luck or good management, there had been a higher level stocks in the world at the time, many of the problems of 1973-74 would have been less acute. The balance-of-payments problems of importing developing countries would have been eased by the greater availability of grain at less onerous prices and the aid authorisations of developed countries would have covered a larger physical quantity of food aid. Inflationary pressures would have been reduced in the world as a whole and concerns about the political power of grain exporters would hardly have arisen.

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But all these desirable consequences would have followed equally if 1974 had yielded bumper harvests. A case for reserves has to rest on more than an ex post desire for an alternative source of supply when crops have failed. In particular, it must take into account the implication of stocks in years when current production is adequate, and be argued as an alternative to other forms of policy for security of supply and for price stability. The costs must be assessed in relation to the benefits both in total and in their distribution. And the management of such stocks has to be considered as explicitly as the level of reserves. Stocks are not a panacea for the ills of the world's food-
situation. But they may have an important part to play in the smooth operation of national and international agricultural markets.

By their nature, stocks are a part of short-term stabilisation policy; they do not correct any long-run imbalance between food needs and available supply. Some level of reserves or stocks is necessary to even out the natural discrepancy between the time path of production and that of consumption. Within a year, normal marketing channels will perform this function; that is, of matching availability to demand. The more refined the distribution system, the less likely there is to be a serious problem of seasonal supply. Access to credit will enable both producers and users to spread the seasonality of the harvest cycle. In developed countries, therefore, stocks should not need to be held by government, or some official authority, to even out seasonal or regional fluctuations in supply. World grain stocks are likely to be a rather blunt instrument with which to tackle problems of market systems which have not allowed the basic functions of place and time distribution to be performed. At this level, there is doubtless a need for further measures, especially in developing countries, to improve the smooth operation of marketing systems.

Of more direct relevance in the present context is the role of carry-over stocks which attempt to smooth the fluctuations in production from year to year. Stocks of this type are likely to be more costly, relative to benefits, no matter how sensible the operation of the stocks themselves. If, at a particular time, current consumption has to come from crops harvested in earlier years, as well as in the preceding harvest, then the maintenance of consumption levels will be more expensive by the extra cost of storage in the interim. A private market system will weigh this extra cost against the consumers' willingness to pay – and an easily storable commodity with price-inelastic demand will tend to be stored quite extensively because the cost can be passed on to the customer.

Price inelasticity, in a commodity market based on cereals, is presumably likely to be found in the very rich countries (for whom the income effect of price changes is negligible) and in the very poor (for whom physical consumption levels are a matter of necessity in the absence of income to buy substitutes). In the latter case, that of poor countries, a humanitarian argument can be made for governmental or inter-governmental action to absorb some of the cost of evening out consumption patterns. Hence a prima facie case for government stocks might exist even when market institutions are performing adequately. The corresponding argument in affluent societies would presumably be based on the objective of price stability. Governments might wish to hold themselves, or induce traders to hold, stocks at a level higher than the market would choose in order to support prices when supplies are in excess so that these can be put back on the market in times of shortage.