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Saturday, September 16, 1967
6:20 p.m.

Pres file

Mr. President:

Herewith Bill Leonhart's
report on rice prices and rice
strategy in Viet Nam, with charts
I recommended he include.

W. W. Rostow

WWRostow:rln

Mr. Boston

8/6/67

September 16, 1967

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Rice Prices and Rice Strategy in Vietnam

1. The three basics in the Vietnam rice situation seem to us:

a. Rice price is probably the single most important variable for economic strategy in Vietnam. It is critical for inflation vs. stabilization, for direction of scarce manpower, and for government policy toward its rural and its urban constituents.

b. Our PL-480 rice dominates the market. Total commercial sales of rice in 1967 will amount to about 960,000 tons of which over 75 percent (740,000 tons) will be PL-480. The proportion will be as large or larger in 1968. Thus the price we set for PL-480 controls the price of domestically produced rice. We can raise it, roll it back or hold it constant.

c. Prices fell about 12 percent last April and have remained virtually constant since. This six months of price stability followed a 200 percent increase in the previous year. (See chart.) The 1965-66 spurt contributed to the inflation that gave us much trouble. But it helped spread urban prosperity to the countryside, redressing prices for the grower and adding incentive to produce.

2. The pros and cons of alternative price policies have been argued extensively for the past year and a half -- here and at Saigon. Some -- notably the Department of Agriculture -- have favored, and continue to contend for, increasing rice prices substantially above present levels. Agriculture believes that this would:

- induce Vietnamese farmers to grow more rice and thus reduce PL-480 needs;
- increase rural incomes and presumably improve peasant attitudes toward the GVN;
- move Vietnam toward post-war economic self-sufficiency.

3. Our recent PL-480 negotiations were deadlocked for a time on Agriculture's price policy. Embassy Saigon, State, AID, and this office resisted the effort to write new price increases into our PL-480 agreement, because:

a. The main reason for low rice production is rural insecurity. Even a large price rise might not yield much additional output against the constraints of VC terror and rice levies, military combat operations and population movements from the countryside to the cities.

b. Higher rice prices mean more inflation, the main burden of which falls on the GVN civil servants and military.

c. Laying too much stress on economic inducements to rice growers would draw manpower away from other high priority uses, such as armed forces, police and RD teams, or growing vegetables and other necessary crops which, unlike rice, cannot be imported.

d. Finally, the GVN is opposed on political grounds to raising rice prices now. To force them far along this road would require much pressure -- more than the results would justify -- in a situation in which we need to relate our leverage carefully to our priorities.

4. While the case for price increases was unconvincing, the opposite policy of sharp price reductions now would also have serious disadvantages:

a. Consumers would clearly benefit but, granted higher urban prosperity, they seem to have adjusted to present levels without major political repercussions. Rice prices have not been a significant issue in the election campaigns, and the GVN has not sought our help in lowering local selling prices for PL-480 rice.

b. Growers would be seriously hurt, just at the time economic benefits have begun to spread in the countryside and rural pacification is moving ahead faster. Producers have based this year's fertilizer and insecticide purchases on present price levels. A roll back now, just as the harvest is beginning, could cause them losses; leave them unwilling to invest in fertilizer, etc. next year; and cut 1968 production.

c. We have tried out with the GVN a number of subsidy schemes and "rice stamp" proposals to keep grower prices high and consumer prices low. There is a case for increasing supplies of subsidized rice in ARVN and GVN commissaries which we are actively exploring with our Mission. But the GVN has been negative to any general subsidy program because of its desire to avoid complex administrative schemes open to graft and corruption.

5. Present and Recommended Rice Strategy. With all the above in play, the main elements of our 1968 strategy have been worked out over the past year here and in Saigon as the best balance between rural and urban interests. It has the concurrence of Embassy Saigon, State and AID -- and the reluctant acquiescence of Agriculture:

a. Plenty of Imported Rice. Our PL-480 projections for 1968 (800,000 tons) should, on all present estimates, permit us to maintain adequate stocks and avoid rice crises like that in the first quarter of 1967. We will keep these estimates under close review and submit a revised PL-480 budget for your approval in November.

b. Stable Uniform Prices. We aim to keep Saigon retail prices within the range of the last six months and well below the levels of last March. We can hold within this range, make necessary minor upward adjustments for higher milling standards to adapt PL-480 to Vietnamese tastes, and maintain farm prices at no less than ten percent above the average of last harvest season.

c. Higher Rice Productivity. We will continue to encourage the use of fertilizer and machinery by keeping prices of these items low, providing farm credit, and removing administrative bottlenecks to distribution and marketing in the countryside. We want to maintain strong grower incentive to use modern technology to increase yields.

d. Post-War Planning for Rice Exports. Vietnam will be dependent upon imported rice as long as the countryside is insecure and the war demands large local manpower inputs. But our aid programs are developing and distributing improved strains of rice and adapting modern methods to Vietnam's environment to make the country again a major rice exporter after the war.

6. If you approve this strategy, we will continue on these lines. If you would like to hear more discussion of the pros and cons of alternative price strategies, we would be glad to set up a meeting with State, AID and Agriculture.

OK on present lines 9/18/67

Set up a meeting

See me

William Leonhart

Enclosure:

Chart on Price Indexes.

86b.

ALL INDICES
(1965 = 100)
January 1, 1965 = 100

