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IMPROVING THE DEVELOPMENTAL EFFECTIVENESS OF FOOD AID

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## IMPROVING THE DEVELOPMENTAL EFFECTIVENESS OF FOOD AID

G. Edward Schuh

Food aid is an income transfer in kind. As an important policy instrument its origin dates to the 1950's. (Public Law 480 was passed in 1954, formally establishing a U.S. program of food aid.) The United States had excess production capacity at prevailing domestic price ratios and consequently accumulated large stocks of agricultural commodities in government hands. These stocks were costly and burdensome and, given political realities, had essentially zero value to the domestic economy. A logical way to dispose of them was to ship them abroad, as food aid. This option seemed especially attractive in light of the prevailing Cold War struggle, and the double payoff these resources were perceived to offer in the form of food itself and the counterpart funds which would be generated by the sale of this food. These counterpart funds were used to further economic development, and to develop overseas markets.

The original legislative mandate for food aid assigned it four main purposes: (1) humanitarian aid in the case of emergencies worldwide; (2) to further the development of low-income countries; (3) the development of markets for U.S. farm products; and (4) to further our international political or foreign policy interests. In the beginning, food aid was implemented primarily as a surplus disposal operation. Prior to 1965, PL 480 exports amounted to 25 percent or more of all U.S. agricultural exports. During the period covered by fiscal years 1956 through 1965, about two-thirds of all U.S. wheat exports and nearly one-half of all U.S. rice exports were shipped under PL 480 auspices.

The relative importance of food aid shipments as a share of our total agricultural exports has since declined dramatically. During fiscal years 1973 through 1977, PL 480 exports were only about 5 percent of total farm exports.

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From primarily a disposal activity, food aid has shifted to become an important component of our foreign aid budget. It now makes up from 20-25 percent of our total foreign assistance budget.

Starting with the commodity boom and crop shortfalls of the period 1973-76, the U.S. food aid program has fluctuated dramatically. Prior to 1973, the PL 480 program averaged 13 million tons of agricultural commodities per year and, as noted above, was an important channel of export for U.S. wheat, feedgrains, and rice. In 1973, only 7 million tons were shipped, and in 1974 the total was only 3 million tons. Needless to say, there was no reduction in need in these years of scarcity and high prices. With more abundant supplies in the period 1975-77, total shipments averaged 5 million tons -- up from the low point of 1973, but still far below the peak of the pre-1973 period. With rising prices and a tight budget, total shipments in 1979 are again estimated to be around 4.8 million tons (\$785 million).

Associated with the change in circumstances surrounding U.S. food aid, many low-income countries are increasing their imports of agricultural products. Some observers believe a considerable proportion of the cereal imports of the poorer developing countries represents a structural deficit which cannot be financed on commercial terms. If this is the case, the U.S. and other developed countries face some major policy choices and challenges in the future.

The 1975 Foreign Assistance Act mandated that a larger share of food aid be used for development purposes. This was a reaction to the heavy use of the food aid program for foreign policy purposes during the Vietnam War. Contrary to what some appear to believe, it was not an attempt to channel it away from market development objectives. President Carter has also directed that development priorities be emphasized in the PL 480 program. Despite these shifts in emphasis,

the original Congressional mandates still apply, and at least the Agricultural Committees of Congress are still sensitive to market development objectives.

A final point to note by way of background is that food aid has an inherent defect. As an income transfer in kind, it is generally viewed to be inferior to income transfers in monetary form. Whether this argument is valid depends, of course, on the fungibility of food aid. This in turn depends on the conditions on which the aid is extended, and the institutional arrangements by which it is handled in the recipient country. Income transfers in kind, however, tend to be more subject to controls on the part of the donor.

Related to this issue, of course, are all the questions about foreign aid in general. Harry Johnson<sup>1/</sup> has referred to aid as the soft option. It is soft for the recipient because it enables policy-makers to avoid the hard choice of a more rational policy. It is soft for the donor because it enables them to rationalize trade restrictions which preclude imports from the recipient country. As a form of foreign aid, food aid is subject to all these criticisms.

Despite these problems, food aid is likely to be an important form of international assistance into the foreseeable future. The desire to use food as a form of aid or income transfer is quite robust, as can be seen in our domestic feeding programs. Despite all the caveats against such programs, they persist. The same will probably be the case at the international level as well. Despite all the reservations we may have about food aid, countries will continue to use it. Hence it behooves us to do what we can to improve such assistance. To improve it we need to understand it, and the effects it might have.

There is a rather sizeable literature on food aid. It is of variable quality, however, and the lack of uniformity in how the studies were done makes

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<sup>1/</sup> Johnson, Harry G., Economic Policies Toward Less Developed Countries. Washington, D.C.: The Brookings Institution, 1967.

it difficult to draw strong conclusions either about its effects in the past or about how it might be improved. Controversy still abounds about some of the key aspects of food aid.

Congress has given a strong mandate that food aid be used for developmental purposes. To this end, it created a new title to the original legislation - Title III - which is dedicated to food aid for developmental purposes, and at the same time mandated specific targets in terms of the share of the food aid program that is to go for this purpose.

Similarly, the Carter Administration has also been committed to strengthening the developmental impact of food aid. This is part of its larger goal of increasing foreign assistance flows in general, and of improving the effectiveness with which that aid is used.

This paper is directed to the issue of how food aid can be used more effectively for developmental purposes. There are at least three aspects to this issue: (1) how can the generally recognized disincentive effects of food aid be reduced or eliminated entirely; (2) how can food aid be used more specifically for developmental purposes; and (3) how can the decision-making and bureaucratic processes with respect to food aid be improved.

The paper has a number of different themes. The first is that although food aid may have had some rather serious disincentive effects on the agriculture of other countries in the past, when it was used primarily as a means to dump excess production abroad, these effects have now been reduced substantially. Moreover, with sound policy, they can probably be totally eliminated.

Second, despite its limitations as an income transfer in kind, food aid is still a rather flexible policy instrument and can be used in various ways and for various purposes. Third, in the past, not enough attention has been given

to using food aid for what is most likely its high payoff activity - the formation of human capital. Further use of food aid for this purpose will increase its overall contribution to longer-term developmental goals.

And finally, perhaps the greatest deficiency in managing the food aid program and enlarging the contribution of food aid to development goals is the lack of qualified people in the right places in the bureaucracy. To put it succinctly, the use of food aid to improve the lot of the poorest of the poor requires that a major share of it be used for strengthening agriculture, or for agricultural development. Yet the Agency for International Development has few agricultural specialists, and the Department of Agriculture has few development specialists. More generally, the strong analytical capabilities of the Department of Agriculture are brought into the decision-making process only marginally. Mobilizing greater technical and analytical capability in support of food aid programs is an imperative if the developmental impact of these programs is to be enlarged.

In assessing the possible means of improving the effectiveness of food aid, a number of important points should be kept in mind. First, food aid can serve multiple goals even though the major policy goal may be for developmental purposes. Preserving these multiple objectives and multiple uses is probably the key to sustaining the political support for food aid.

Second, the Congressional mandate that foreign assistance in general be used to assist the poorest of the poor commits the United States to working in countries about which it knows very little, and on which there has been little empirical research. Similarly, it commits this nation to attempt to deal abroad with problems that have proven to be rather intractable here at home. Although few would quarrel with this goal on equity grounds, it also needs to be recognized that this commitment also lowers the total impact that our foreign assistance program has. If stronger efficiency considerations were introduced

into our foreign assistance programs, we would make a larger contribution to world development with our foreign assistance dollar, and ultimately have a larger impact on the poor.

More generally, we need to be realistic about deficiencies in our present state of knowledge. At a conference on food aid held in Princeton in January 1979, it was generally recognized, for example, that in many cases we simply do not know how to proceed in devising programs that will meet policy objectives. This knowledge gap is most severe in our efforts to link up the food aid programs with the really poor.

Similarly, we have yet to devise means whereby we can help feed the poor and hungry while at the same time making the longer-term investments that lead to sustained development. Our humanitarian instincts drive us to assist in feeding the poor and hungry. Realistically, however, we realize that unless self-sustaining development can be initiated, we have done little to improve the welfare of the poor over the longer run.

Finally, we need to be realistic about what can in fact be achieved with foreign assistance, and with food aid in particular. In relation to the scale of the problem, our budget for foreign assistance is miniscule. If it were put on a per capita basis and viewed as an investment, one could see how small it really is. Moreover, direct foreign assistance in most instances is swamped by other economic policies, by private capital flows, and by "natural" events.

None of this is to depreciate the potential significance of food aid, nor to make us defeatist in our attitudes. Rather, it is to recognize that there are very real limits to what we can attain and that we do both ourselves and others a disservice if we promise too much. Moreover, realism about the relative size of food aid programs should cause us to be even more concerned about

improving their overall effectiveness and to search out the complementarities that obviously exist with other programs and policies.

### Managing the Disincentive Effects of Food Aid

Food aid as it originally began on a regular basis was little more than a euphemism for dumping, despite the political rhetoric that surrounded it and the admirable development objectives that were assigned to it. It is for this reason that only a few years ago food aid was almost universally condemned by academic economists.

Unquestionably, much of the early food aid had rather serious deleterious effects on the producers in other countries. However, many of these negative effects have been attenuated or eliminated as program managers have responded to criticisms and as experience has grown with the program. These improvements in policy and the improved understanding of food aid and its possible effects on the host country have given rise to a more differentiated view of the possible effects of food aid. However, mistakes are still made in program implementation and in policy decisions on country allocations. For these reasons the issue of the disincentive effects of food aid is a continuing one.

We will see below that the ultimate disincentive effects of food aid depend on how it is used, the terms or conditions on which it is given, and the institutional arrangements that govern it. The analysis in this section is divided into six parts: (1) a discussion of direct disincentive effects; (2) a discussion of indirect effects through the balance of payments; (3) a discussion of indirect effects through induced changes in domestic policy; (4) a discussion of the issue of supply displacement versus demand augmentation; (5) a discussion of the importance of institutional arrangements; and (6) recommendations.

### Direct Disincentive Effects

Direct disincentive effects from food aid arise as a result of the concessional aid in kind being introduced into the local economy in competition with output produced by local producers. At one level, the food aid may represent an increase in supply which may benefit low income groups. At another level, it may represent unfair competition at low prices by virtue of its entering the country through the public sector.

Whether there is a negative effect on agricultural prices in the recipient country will depend on at least five factors: (1) the conditions which gave rise to the food aid shipments in the first place; (2) the relative importance of food aid compared to the domestic supply; (3) whether food aid displaces commercial exports or represents additional supply to the local economy; (4) how the food aid is introduced into the local economy; and (5) the institutional arrangements that prevail. The following paragraphs are devoted to a discussion of these factors.

The U.S. food aid program arose at a time when U.S. agriculture was losing its competitive potential in international markets. This decline in competitiveness was associated in large part with the overvaluation of the U.S. dollar in international monetary markets, a phenomenon which appears to have started in 1949 but which was masked for a time by the events of the Korean War.<sup>2/</sup>

In conjunction with the overvalued dollar (an implicit tax on exports), food aid can be given at least two interpretations, one that is fairly straightforward and the other that is somewhat more sophisticated. The simple interpretation is that the overvalued dollar was in effect causing prices of agricultural

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<sup>2/</sup> See Schuh, G. Edward, "The Exchange Rate and U.S. Agriculture," American Journal of Agricultural Economics, Vol 56, No. 9, February 1974, pp. 1-13; and Schuh, G. Edward, "The Exchange Rate and U.S. Agriculture: Reply," American Journal of Agricultural Economics, Vol. 57, No. 4, November 1975, pp. 696-700.

products to be higher than they otherwise would have been (i.e., the export tax which it represented could be passed on to consumers in other countries, with direct benefits to producers in other countries). The effect of the food aid was to offset or annul this price-augmenting effect. Hence, in the aggregate, the food aid program may not have constituted a net export subsidy, and in the aggregate there may have been no negative price effects.

A more sophisticated view is that the U.S. was operating as a discriminating monopolist and charging two prices in two (differentiated) markets. On this interpretation, the U.S. was extracting a monopoly rent from the world economy, and in the process imposing serious deleterious consequences on the producers in countries that were major recipients of food aid.

Unfortunately, we do not know which of these two views is appropriate, or the extent to which food aid and other explicit export subsidies offset the distortion in exchange rates. However, it seems clear that in the absence of an overvalued dollar, world prices for U.S. agricultural exports would have been lower than they in fact were, and the U.S. would have been selling abroad a great deal more of its output. It also seems clear that in the aggregate the discrimination against the agriculture of other countries as a consequence of the food aid program was less than is generally believed to be the case. And finally, it seems clear that some individual countries may have suffered serious negative effects from food aid, even though in the aggregate the program may have done little more than offset the effects of the implicit export tax.

The second factor that determines whether food aid creates disincentives to producers in the recipient country is the relative importance of the aid compared to the domestic supply. If aid is small compared to the total supply, the negative price effect will be small, other things being equal. If it is large, the reverse will apply.

There have been cases where food aid has been sufficiently important compared to the domestic food supply to lower prices, especially for individual commodities. Carole Lancaster,<sup>3/</sup> for example, documents the cases of Egypt, Jordan, and Bangladesh where PL 480 made up 19, 21 and 24 percent, respectively, of total domestic wheat consumption. When food aid is that important, it obviously can have a sizeable negative effect on price if it is just sold into the market. Dudley and Sandilands<sup>4/</sup> also document the case of Colombia, in which PL 480 wheat virtually eliminated the domestic wheat industry.<sup>5/</sup>

To the extent that food aid merely displaces commercial imports, of course, prices would be no lower than they would be in the absence of the food aid, if other things remain equal. This is the third factor affecting the disincentive effects. In principle, of course, food aid is supposed to be above and beyond regular commercial imports. It is for that reason that a "usual marketing requirement" (UMR) condition is imposed on food aid.<sup>6/</sup> However, most authorities will admit that fulfillment of this requirement is tenuous at best. The fact that this requirement is not rigorously adhered to tends to reduce the potential disincentive effect.

Perhaps the most important determinant of the disincentive effect of food aid is the manner in which the food aid is introduced into the economy. If it is simply sold into commercial markets, the likelihood of a disincentive effect is rather strong. However, if it is distributed by other means, especially in such

<sup>3/</sup> Lancaster, Carole, "The Economic Impact of Food Aid on Recipient Countries" (mimeographed).

<sup>4/</sup> Dudley, Leonard, and Roger J. Sandilands, "The Side Effects of Foreign Aid: The Case of Public Law 480 Wheat in Colombia," Economic Development and Cultural Change, Vol. 23, No. 2, January 1975, pp. 325-326.

<sup>5/</sup> A more favorable view of food aid is given in Paul J. Isenman and H. W. Singer, "Food Aid: Disincentive Effects and Their Policy Implications," Economic Development and Cultural Change, Vol. 25, No. 2, January 1977.

<sup>6/</sup> It should be noted that the UMR condition was imposed to protect export markets of third countries and the commercial export sector in the United States. At the time it was developed, there was little concern for the producer in the importing country.

a way as to go to those who would not otherwise be purchasing food, its disincentive effects can be minimized or eliminated entirely. One such mechanism is the fair price shops of India, where in principle only the poor have access to food aid, and at prices lower than in commercial markets. In this case there is an income transfer to the poor, and this can produce an income effect that may either partially compensate or completely negate any disincentive effect. The principle, of course, is that the more food aid can be introduced into the system as direct income transfers to the poor, the less likelihood that there will be negative price effects.<sup>7/</sup>

An important issue in this case, of course, is whether the food aid does in fact get to the targeted groups, and in the form of income transfers. With institutional arrangements such as the fair price shops, there can be a great deal of "leakage." To the extent that the more well-to-do co-opt the system, and they often do when the institutional mechanism is pseudo-market in nature, the aid can displace production of local producers, and be an income transfer to the upper income groups rather than to the poor.

Finally, institutional arrangements are important. The use of systems such as the above example of fair price shops in India is an important example. Another example occurs when governments operate particular kinds of procurement policies. Under such a policy, a government procures a certain amount of grain at prices lower than those prevailing in the open market. Once procurement needs have been met, the producer can sell his remaining surplus at the higher market price. The availability of food aid will reduce the amount of grains the

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<sup>7/</sup>Providing the food aid as income transfers to the poor in effect vitiates the partial equilibrium conclusion that an increase in supply will lower sectoral prices. The point is that "all other things" are not being held constant, and the increase in income, at least in part, counters the supply effect.

government has to procure, which in turn will increase the amount the producer can sell at the higher world price. Under these circumstances the food aid may actually result in higher average prices to the producer than would otherwise be the case.

#### Indirect Disincentive Effects Through the Balance of Payments

The indirect or policy effects of food aid are now well recognized. In its simplest form the argument is that the availability of food aid enables governments to avoid facing up to the development problems of its agricultural sector. Rural people therefore fail to receive their appropriate share of development resources, and the sector lags behind the rest of the economy.

One rather neglected means by which this inducement effect operates is through the balance of payments. The point is that food aid is often provided as a means of helping a country deal with its balance of payments problems. Less often do food aid policymakers ask the question "why is this country having a balance of payments problem in the first place?"

Balance of payment problems may occur as a result of a natural disaster affecting agriculture or other sectors of the economy. More frequently, especially among the low income countries, they occur as a result of inappropriate policies. An overvalued currency is a convenient means to tax the agricultural sector in low income countries.<sup>8/ 9/</sup> The consequence of an overvalued currency is to make domestic prices lower than they otherwise would be. This increases the quantity

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<sup>8/</sup> For insights into this issue, see Lopes, Mauro, and G. Edward Schuh, "The Mobilization of Resources from Agriculture: A Policy Analysis for Brazil," Presented at the 17th Conference of the International Association of Agricultural Economists, Banff, Canada, September 2-13, 1979; and Thompson, Robert L. and G. Edward Schuh, "Implicit Taxes and Agriculture: The Case of Corn in Brazil" (mimeographed).

<sup>9/</sup> Other barriers to exports often exist in such countries, including export quotas, licensing provisions, marketing boards, and explicit export taxes. To simplify the exposition we will discuss primarily the overvalued currency, but the other policies are often equally as important.

demand of agricultural products in the domestic economy, but reduces the quantity supplied, since the overvalued currency under a wide range of conditions is an export tax which is paid by the domestic producer.

It should be noted that an important reason why many countries shift from being a net exporter of agricultural products to being a net importer is because of the pursuit of such policies. Pursuit of such policies is also why many countries get into balance of payments difficulties.

The important point in the present context is that the provision of food aid enables the government of the recipient country to continue to tax its local producers by this means. Since the bulk of the poor in most low income countries is located in the agricultural sector, the policies in effect transfer income from the low income groups in the society to the upper income groups. Ironically, the effect of food aid - which may with good intentions be dedicated to improving the lot of the poor - may in fact make their lot worse off, while at the same time enabling policymakers to continue to err in their decisions.

The moral, of course, is not necessarily to do away with food aid. The moral is to recognize that food aid can have these indirect and subtle effects, and to be sure that sufficient analytical capability is at hand to avoid these indirect consequences.

#### Indirect Effects Through Induced Changes in Domestic Policies

This is the more widely recognized way in which food aid is believed to lead to disincentive effects for producers. There are various versions of the argument and, of course, various means by which policy changes can be induced (or motivated) by the use of food aid. For example, Carole Lancaster<sup>10/</sup> postulated an especially devious line of logic whereby dependence of the country on counterpart funds for budget support causes them to fail purposely to develop their agricultural sector in order that they can continue to receive this "cheap" form of budget support.

<sup>10/</sup>Op. cit.

One does not have to be that devious to imagine other forms of linkage between food aid and domestic policies. The availability of food aid enables the governments of many recipient countries to deal with the food problems of their urban constituents.<sup>11/</sup> Because they can deal with these problems by this means, the government can neglect its agricultural production sector. Rural people therefore fail to receive a socially efficient share of development resources, and the sector tends to lag behind the rest of the economy.

A completely contrary view can be taken to this problem, with food aid providing the means whereby improved policy can be obtained for local producers. It is somewhat surprising that this perspective has not been more widely recognized in the literature.

The point is that discriminatory policies towards agriculture are often motivated by income-distribution considerations, such as in the case of the desire to keep food prices low to urban consumers. The availability of food aid could reduce or eliminate the need to make such implicit income transfers, and therefore reduce or eliminate the need for such discriminatory policies. To be effective in this sense the food aid would have to be channeled directly to the targeted groups, and not just sold into the market. Something like a food stamp program or fair price shops would probably be needed.

There is great merit in disconnecting price and trade policies from their popular use in attaining income distribution goals. Prices and price policy are an efficient means of guiding the allocation of resources. In general, they are an inefficient means of redistributing income. It is not that price (and trade) policy is ineffective in redistributing income. To the contrary, it is a powerful means of redistributing income from one group in society to another. The problem

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<sup>11/</sup> These groups typically have the most political clout, if for no other reason than that they are highly concentrated and close to the center of government power.

is that it frequently takes income away from unintended groups (for example, the local producer), and at the same time transfers it to unintended groups (in this case the upper income urban consumer).

Experience with U.S. farm price policy should have taught us an important lesson. That policy helped the rural poor only marginally at best, while benefiting substantially the large efficient producer - those least in need. Price policies designed to help the urban poor in many countries have many of the same counterproductive effects.

When used as suggested above, food aid can lead to an improvement in economic policy rather than to serve as the means of discriminating against the local producer. Unfortunately, not enough attention has been given to the creative use of food aid for such purposes.

#### Supply Displacement Vs. Demand Augmentation

An important conclusion from the above analysis is that the nature and size of the disincentive effects of food aid are closely associated with whether the food aid is used only to augment domestic supplies, in which case it often serves merely to displace local supplies and reduce domestic prices, or whether it is used to increase the incomes of target groups and thereby augment demand, perhaps with positive price incentives to local producers. In general, if food aid is to be used effectively for development purposes, its use in ways that lead to displacement of domestic supplies in the recipient country should be avoided. Instead, it should be used in ways that lead to an increase in the quantity of agricultural output demanded.

Demand can be augmented in two ways. The first is by means of direct income transfers, as when food aid would be distributed, for example, by means of a food stamp program. To the extent the income transfer is channeled to lower income groups, the demand augmenting effect will be larger.

Second, to the extent that food aid is effectively used to promote development, it also will lead to increases in per capita income and hence to demand augmentation. Suggestions as to how food aid can be used to promote longer-term development without displacing local supplies will be provided in the next section.

### The Importance of Institutional Arrangements

A second important conclusion from the discussion above is the significance of local institutional arrangements. Whether food aid has negative or positive incentive effects depends in large part on the institutional means through which it is implemented. More importantly, if food aid were used in a constructive way to develop improved local institutions, its contribution to policy may indeed be great.

Important examples of the relevance of the local institutional arrangements on the disincentive effects of food aid are the fair price shops in countries such as India, and procurement policies designed to acquire stocks of food for urban consumers at less than market prices. Fair price shops may provide a means of channeling food aid to low income groups without disrupting local markets. Similarly, the availability of food aid may reduce procurement needs, thereby enabling the local producers to sell a larger share of their output at the higher market prices.<sup>12/</sup>

On a still more positive note, food aid can be used to promote institutional change which will lead to improved policy and more rapid development. The example cited above was the use of food aid to develop institutional means of transferring income to low income groups (such as the food stamp system), thereby freeing price and trade policies from their rather common income distribution objectives and permitting their use for more effective resource allocation objectives.

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<sup>12/</sup> Perspective on the role of procurement policies can be obtained by understanding them as a system of taxation. Often, they are in lieu of more formal income or land tax systems.

The use of food aid to facilitate such institutional change and developments requires an adequate understanding of the local economy, close integration with local policymakers, and a considerable degree of expertise and ingenuity. Such uses of food aid would not be appropriate in all countries, or in all situations. Where possible, however, institutional changes which lead to improved economic policy can be a powerful force for economic and social development.

### Recommendations

The challenge to policymakers is to avoid negative incentive effects, whether they be direct or indirect, to use food aid to induce appropriate changes in policy whenever that is possible, and to use the food aid for demand augmentation and developmental purposes. More specific recommendations are as follows:

1. The starting point in avoiding disincentive effects of food aid is to understand the conditions giving rise to food aid in the United States. If it arises as a means of offsetting domestic export taxes, either explicit or implicit, it may have only minimal disincentive effects. If it represents dumping, and thus an implicit export subsidy, the tendency to use food aid for this purpose should be resisted unless disincentive effects in the recipient country can be avoided.
2. The next point is to understand why a flow of food aid is needed in the recipient country. If it is because of inappropriate policies in the host country, the food aid should be used either to induce appropriate changes in policy, or it should be withheld until such policies change.
3. Recommendations (1) and (2) imply the need for a strong analytical capability to guide the use of food aid, with part of that analytical capability needed in the Washington bureaucracy and part needed in-country. (See a later section for a more ample discussion of this problem.)

4. Avoid the simple selling of food aid into the local economy. The likelihood of strong disincentive effects in this case will be great.
5. To the extent possible, channel the food aid into the hands of low income groups, as income supplements.
6. When appropriate, use food aid as a displacement for domestic procurement policies in the recipient countries. It will then provide a means of alleviating the disincentive effects of domestic policies, while at the same time providing food that can be supplied to low income groups.
7. Use food aid as balance of payment support only to offset domestic shortfalls created by natural disasters such as hurricanes, typhoons, earthquakes, and droughts.
8. Avoid the use of food aid to deal with inadequate domestic production, and to provide a politically easy means of supplying urban consumers. This does not mean that self-sufficiency should be the policy goal. It does mean that care should be taken to avoid the use of food aid to support and sustain price and trade policies that discriminate against the agricultural sector.
9. Use food aid positively to induce the development of institutional arrangements that will reduce the incentive to use price and trade policies as a means to redistribute income. The development of food stamp programs is an important example. But not all countries will have the administrative talents and arrangements to manage effectively such a program. Discretion will be required.
10. Recognize the diversity in level of development and in institutional arrangements among countries. This means that simple-minded panaceas and fads should be avoided, since in general, different programs and policies will be required for different countries. It also means that adequate knowledge of the economy and system in the recipient country is required as a basis for sound policy.

11. Finally, recognize that there is a great deal we don't know about the economies of recipient countries, and about how food aid can be effectively used. The support of research that adds to our knowledge will have a high payoff in terms of improved policies.

#### FOOD AID FOR DEVELOPMENT PURPOSES

In contrast to the previous section, in which the issues were disincentive effects and how food aid could be used to induce more appropriate price and trade policies, in this section we discuss how food aid can be used more directly for developmental purposes. These objectives are not completely independent, of course; in fact, in some cases they are highly complementary. It is only for expositional purposes that they are treated separately.

#### Food Aid as Balance of Payment Support

The original "magic" of food aid, of course, was that it could alleviate balance of payments constraints, thereby freeing up foreign exchange for development purposes; that it could do this with resources that had essentially zero value to the donor country; and that in addition it would generate counterpart funds in the recipient country that would have a double whammy. Our current thinking, of course, has moved substantially beyond that original conception.

One of the key issues under this heading is the question of additionality. As typically posed from the donor side, this question has to do with whether the food aid represents an additional transfer of resources that would not occur in its absence. In the case of the U.S., the answer to this question would appear to be in the affirmative. With the exception of the food crisis in 1973-75, the political support for food aid has held up better than for other kinds of foreign assistance.

The additionality question also needs to be applied to the recipient country, although in a slightly different form. In this case, the question revolves around the nominal terms on which the food aid is offered. If food aid and financial aid are offered on the same terms, financial aid is obviously preferable. That happy state of affairs rarely prevails, however. The key issue for the recipient, therefore, is whether it is able to use food aid in place of more "expensive" financial aid, in whatever terms "expensive" is defined. A useful hypothesis, however, is that the softer loan terms that generally prevail for food aid are in effect compensation for the disadvantages of aid in kind.

Tweeten and Pinstруп-Anderson<sup>13/</sup> point to a somewhat different problem. They argue that the concessional terms on which food aid is provided cause the recipient government to place a lower value on the resources so acquired, and in turn to use them less productively. If that is the case, then whatever additionality there may be is frittered away, at least in part, in poor policies and programs, thereby leading to a lesser contribution to development than the nominal value of the resources might suggest.

An important strength of food aid as a form of foreign economic assistance is that political support is easier to sustain than for financial assistance. If one believes that upper income countries should provide resource transfers to the low income countries, then food aid can be an effective means of doing it, especially for countries with an efficient agricultural sector that tends to be in a natural exporter status.

For reasons outlined above and in the previous section, the general use of food aid for balance of payments support would appear to be ill-advised. Its one advantage is that it is simple to administer and to manage, and therefore

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<sup>13/</sup> Tweeten, Luther and Per Pinstруп-Anderson, "Value, Cost, and Efficiency of American Food Aid," American Journal of Agricultural Economics, May 1971, pp. 431-440.

requires a minimum of bureaucratic infrastructure. But when used primarily for this purpose, it can reward inappropriate domestic and trade policies, and at the same time induce laxness in the use of foreign assistance resources. The more appropriate guideline would appear to be to use food aid to alleviate balance of payments problems only in the case of natural disasters that cause a domestic shortfall.

Realistically speaking, the amount of food aid now available is not adequate to provide very general balance of payment support. To pursue such a policy as a general rule would limit the number of countries to which food aid could be provided.

#### Food Aid as Domestic Budget Support

A second contribution that food aid can make to development is the greater command over domestic resources it gives to the recipient government. The counterpart funds generated by the local sale of the commodities become a potentially important source of budget support for the local government. For example, it has been estimated that U.S. food aid alone financed 25 percent of the Bangladesh budget in 1976.<sup>14/</sup> And of course food aid financed a significant share of the Indian budget during the 1960's.

The view one takes on this issue depends importantly on the ideological perspective one takes with respect to how much control over local resources should pass to the control of the public sector, and how those resources are used. Clearly, food aid that goes through government hands does give the recipient government more control over local resources. If one believes that government

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<sup>14/</sup> Cited in Lancaster, Carole, op. cit.

programs are necessary in order to obtain a higher rate of development, then this may be a positive gain. If one believes in a more market-oriented development policy, with less direct government intervention, the conclusion may be rather different.

An institutional question does arise here, however. Dependence on this relatively easy way of mobilizing local resources can result in a failure to develop an effective fiscal system. This in turn can have longer-run deleterious consequences, and create serious political and economic difficulties if and when food aid should be shut off.

Beyond these issues, the effect of the food aid on development depends on how the resources are used. If they are used to support a bloated bureaucracy, for example, their contribution to development is likely to be small. If they are used for high payoff investments, their contribution can be substantial.

Past experience with food aid programs would suggest that the counterpart funds can lead to complacency in developing appropriate domestic fiscal instruments for mobilizing domestic resources, and that they can and are often used to support bloated bureaucracies. If they also induce an excessive dependence on counterpart funds for domestic development programs, these programs may become dependent on the vagaries of food aid flows, and the donor country may find itself entangled in political difficulties if for other reasons it is forced to reduce the flow of food aid.

The main point here would appear to be to avoid justifying food aid on the basis of the value of the counterpart funds. Moreover, some attention should be given to avoiding dependency (see below), and to assuring that the resources provided in this form are used for productive purposes.

### Food for Work

The idea behind the food-for-work program was that food aid would mobilize resources (labor in particular) that would not otherwise be employed or used, that it would result in physical infrastructure that would promote development, and that it would do all of these things while providing income transfers to the really poor, since the food would be distributed directly to target groups. The growing skepticism about these programs suggests that they have been less than successful in attaining these multiple objectives. This may be because they have not focused on alleviating the key bottleneck. It may also be because one policy instrument can seldom satisfy multiple policy objectives.

Without depreciating the considerable effort that has gone into developing successful food-for-work projects, it would appear that high payoff investments for food aid would be those that lead to the production of human capital, not physical capital. The social rate of return to the formation of food aid is demonstrably high. Moreover, food aid lends itself well to the formation of human capital if it is used to improve the nutrition of the nutritionally disadvantaged, and if it is used to increase participation of low income groups in formal schooling and in vocational training programs. This use of food aid will be discussed in more detail below.

### Food Aid To Improve the Distribution of Income

The recent emphasis on basic needs and income distribution has given rise to a more favorable attitude toward food aid. In fact, this new emphasis has helped to bring food aid back to respectability from the depths of skepticism that resulted from the academics' criticisms of disincentive effects. As with the issue of disincentive effects, however, the contribution of food aid to improving the distribution of income depends in large part on how the food aid is used.

Unfortunately, the popular image is that it is the rich and wealthy that benefit from food aid, and not the poor. This image appears to have come in large part from the episodic events associated with the use of food aid for emergency purposes. Under these circumstances, the lack of local administrative and institutional capability to handle the large inflow of food results in it either not being used, or being channeled to those less in need. This does not deny, of course, the existence of corruption at the local level in the administration of the food aid programs.

Interestingly enough, the simple dumping of the commodities in the local market, with sizeable negative price effects and large disincentive effects to producers, may lead to an improvement in the distribution of income.<sup>15/</sup> Low income families spend a larger fraction of their budgets on food, and therefore would benefit in a relative sense from food aid programs. In this case there is a clear tradeoff between efficiency and equity goals.

Such a proposition has to be qualified with a number of caveats, however. It depends a great deal on the product, who consumes it and who produces it, and on the distribution of income between producers and consumers and among each of the two groups individually. One can easily imagine circumstances in which the distribution of income can even be worsened by such a simple policy, especially if rural incomes are substantially less than those in urban centers, as they generally are.

Greater emphasis on improving the lot of the poor and on improving the distribution of income caused there to be a greater emphasis on targeting food aid and a shift from program uses to project uses of food aid. Although well-intentioned, this shift in emphasis has a number of difficulties with it. First,

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<sup>15/</sup> Since food is a wage good, such a policy can have direct developmental effects as well, since it enables the producer sector to maintain low nominal wages, thereby increasing the profitability of their enterprises.

the data base in the really poor countries is usually inadequate to do much by way of fine tuning the programs. Second, there is generally a lack of administrative and professional capability in such countries to make the programs very effective. And third, such targeted programs typically require complementary non-food aid resources.

The food-for-work program evolved in part as a means of assuring that food aid reached the really poor, as did school lunch programs, food for pregnant and lactating mother, etc. The recent literature suggests that there is a certain amount of frustration with each of these programs. Stevens,<sup>16/</sup> for example, argues that it may be worthwhile to abandon the official goals of both MCh and food-for-work (nutritional improvement and creation of physical infrastructure) and to consider both schemes simply as methods of providing income in kind to poor people. The frustration with school lunch programs is that they often do not reach the really poor, since these population groups typically are not in school.

The effect of food aid on income distribution is obviously tied to its use as development investments. A distinction does have to be made, however, between strict income transfers to the poor and the use of food aid in development programs designed to improve the longer-term income potential of these groups.

A more efficient use of food aid would appear to be to maximize its developmental impact, with the focus of the developmental programs on low income groups, and in particular kinds of investments. There is little doubt that food aid can be used to alter the distribution of income. However, well-intentioned programs often have effects counter to those expected.<sup>17/</sup> In the final analysis,

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<sup>16/</sup> Stevens, Christopher, "Food Aid: Good, Bad, or Indifferent? Evidence of Four African Case Studies," Presented at Expert Meeting on the Scope and Conditions for Improved Use of Food Aid for Development, Development Center, OECD, March 30-31, 1978 (mimeographed).

<sup>17/</sup> Schuh, G. Edward, "Approaches to 'Basic Needs' and to 'Equity' That Distort Incentives in Agriculture," Presented at the Workshop on Constraints on World Agricultural Production with Special Reference to Distortions of Incentives, University of Chicago, September 26-28, 1977.

appropriate development policies can improve the distribution of income without explicitly attempting to alter the distribution of income. By the same token, programs that have explicit income distribution goals often have strong disincentive effects, and therefore deleterious consequences for development.

#### Food Aid in Support of Stabilization Programs

Food aid can contribute to stabilization in at least two ways, both of which are important in furthering developmental objectives. In the short run, food aid can attenuate inflationary pressures that arise due to a crop shortfall. To attain this goal, timeliness is an important criterion. Bureaucratic delays and red tape make this criterion difficult to satisfy through regular food aid channels.

Recently, however, a number of innovative ideas have been suggested with respect to how food aid might be used as a means to build stocks for use when a country suffers a shortfall in its domestic agricultural output, or when prices are high in international markets.<sup>18/</sup> In fact, D. Gale Johnson would restrict the use of food aid only to offsetting crop shortfalls in recipient countries.<sup>19/</sup>

To date, there has been little practical experience with such programs. They appear to offer considerable potential, however, especially in the absence of more general commodity agreements that might help to stabilize international grain markets. In the absence of more general stabilization programs, they might enable individual low income countries to isolate themselves from the vagaries of international markets.

Food aid can also be used to help stabilize longer-term development efforts. The most obvious case is when it is used to offset an annual crop shortfall. In

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<sup>18/</sup> For example, see Johnson, D. Gale, "Increased Stability of Grain Supplies in Developing Countries: Optimal Carryovers and Insurance," in J. N. Bhagwati, ed., The New International Economic Order: The North-South Debate, Cambridge, Mass., 1977. The International Food Policy Research Institute in Washington has also been a strong advocate of such a policy.

<sup>19/</sup> Johnson, D. Gale, World Agriculture in Disarray, Fontana, London, 1973.

the absence of the food aid, foreign exchange would have to be channeled to commercial imports, thereby reducing the imports of raw materials and capital goods used for development purposes.

The use of food aid for general balance of payment support appears to have declined in importance over time. The reduction in availability of food aid in the 1970's has itself reduced the resources for such purposes. In addition, the increased emphasis on development objectives has given more impetus to longer-term commitments of food aid. Moreover, there are a growing number of financial facilities to provide short-term balance of payment support, and an increasingly well-developed international capital market to which countries can turn in times of stress.

For these reasons it appears useful to restrict the use of food aid for balance of payments support to those cases in which the balance of payment problem is due to a domestic crop shortfall caused by a natural disaster. The decision variable will be more obvious in this case, and the potential for reinforcing and sustaining inappropriate policies will be less.

The various formal insurance schemes for the use of food aid to offset balance of payments problems have typically proposed to use the reserve stocks accumulated as part of the program both as a means to offset fluctuations in domestic output and to assist countries when prices in international markets are quite high. It is questionable whether food aid should be used for this more ambitious purpose. The definition of an appropriate decision variable will be difficult, in part because in the context of international markets it is difficult to distinguish between a short-term phenomenon and the beginning of a longer-term trend.

### Food Aid and the Formation of Human Capital

One of the major challenges in making more effective use of food aid is to discover means whereby the poor and hungry can be fed, while at the same time the longer-term investments that lead to sustained economic and social development can be made. Providing food for the poor and hungry is consistent with the motivations of those who provide political support for food aid programs. Promoting longer-term development goals is the key to solving the problems of the poor and hungry over the longer term. It is also in our best national interests in an international economy that is increasingly interdependent.

Unfortunately, food aid programs are still dominated by a short-term perspective, despite the mandates of the Title III programs. Moreover, the use of resources provided through food aid are still strongly oriented towards the formation of physical capital and the construction of infrastructure.

In taking such perspectives, both practitioners and analysts of food aid programs have neglected two important bodies of economic literature: the new household economics and the theory of human capital on which it is based. The lesson from the theory of human capital is that such forms of investment are as important, or more important, as investments in physical capital. Moreover, the stock of human capital is increased by investments in improved nutrition, health, formal schooling, and training programs. The lesson from the new household economics is that what goes on in the household is as important to a society, even for developmental purposes, as is what goes on in private firms and in terms of the physical infrastructure a society may develop.

Food aid lends itself especially well to the development of human capital. Moreover, food aid is a striking example of means whereby the short-term use of food to deal with problems of human hunger can in fact lead to the formation of human capital that will yield benefits into the future.

In reviewing past programs, improved nutrition has been an important program goal. School lunch programs have also been an important use of food aid, as have day care centers and the use of food for pregnant women and lactating mothers. Paradoxically, such uses of food aid have been viewed primarily as forms of humanitarian aid, with the programs perceived as vehicles for getting the food aid to the poor. Seldom have these uses of food aid been perceived as means of increasing the stock of human capital in the society.

As long as such uses of food aid are perceived as welfare programs, they will not likely be effective in efficiently promoting the formation of human capital. The theory of human capital provides a useful guide to policy and to program development. Until we use food aid for this purpose, we will not really capitalize on what is unique about food aid as a form of development assistance.

The payoff from food aid in furthering development objectives could be quite high if as large a part of it as is feasible were shifted to making investments in human capital. This need not imply the abandonment of a concern for basic needs. What it does require is that the welfare mentality behind such programs be abandoned, and the emphasis shifted towards the formation of human capital, with this viewed as the investment decision that it most certainly is. If the relevant programs are focused on the poor, they will improve both the distribution of income in the recipient country and provide the basis for a more rapid rate of growth. In effect, the frequently presumed dichotomy between equity and efficiency disappears.

Two lessons from the new household economics provide additional guides for making effective use of food aid for development purposes. The first is that children are often required to earn income for the family, thereby making the opportunity costs of schooling and training programs quite high to the family. School lunch programs provide an important means of dealing with this problem.

The income transfer it represents in effect pays the family for sending the child to school or to training programs.<sup>20/</sup> Rather than a welfare transfer, it becomes a longer-term investment both for the family and for society.

The second lesson from the new household economics is the importance of the woman in influencing the development of the child. This suggests that food aid programs can contribute to the formation of human capital if it is structured so as to relieve the wife from work activities, giving her more time to work with the children. The particular form such programs take will depend on the individual country and on the role of women both in the household and in society. This is an important gap in our knowledge in most countries.

To summarize, if food aid is to be used for the formation of human capital, it should be directed to improved nutrition of the young, pregnant women, and lactating mothers, to creating the means whereby children can participate in formal schooling and training programs, and to enabling mothers to withdraw from the labor force, especially in the formative years of their children. Although some of these uses of food aid are recognized in the food aid literature, they should be put on center stage for policy purposes and the emphasis shifted from welfare to investment in human capital if food aid is to be used more effectively to attain its developmental objectives.

#### Food Aid and Market Development

Although not generally considered in assessments of the effects of food aid, market development is an important expected effect, at least in the case of U.S. food aid. Market development is an important source of the political support for food aid and is one of the reasons that domestic support for this form of foreign assistance has been sustained in the face of declining support for other forms of foreign assistance.

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<sup>20/</sup> Past frustrations with this use of food aid may have arisen because school lunches were not designed specifically to reduce the opportunity costs of schooling and training programs.

Bureaucratic wrangling in Washington would suggest that there is a sharp conflict between the use of food aid for market development purposes and its use for development purposes per se. This perceived conflict is more imagined than real, and represents more of a squabble over turf than a judgment about programmatic effects.

A look at the naked data would leave little doubt as to the efficacy of food aid as a basis for market development. Since the 1960's, almost all major PL 480 recipients have substantially increased their commercial purchases of U.S. farm products. Five developing countries - Taiwan, Republic of Korea, India, Egypt, and Indonesia - and two developed countries - Japan and Spain - are examples of former PL 480 Title I sales recipients that have become good U.S. commercial customers. In Fiscal Year 1977, Taiwan was the ninth major commercial market for U.S. farm products. Since FY 1972, Korea has been one of the 10 leading commercial customers. In FY 1976, India was the eighth leading commercial market for U.S. farm products. For several years, of course, Japan has been our leading commercial farm market, and Spain has been among the top 10.

Convincing as these data are, the case need not rest solely on the observed correlation. There are good analytical reasons for expecting a strong association. The point is that expanding markets are associated with increases in per capita income. To the extent that food aid as a form of development assistance helps the recipient country to grow at a faster rate, it is logical to expect that large beneficiaries of food aid would eventually become strong commercial markets.

In this regard it is sometimes argued that food aid causes a shift in tastes which in turn causes the recipient country to become "hooked" on U.S. agricultural products. The implication is that there is something immoral about such a development, somewhat along the lines of the alleged immorality of advertising.

This argument is at least in part naive. It is true that there have been significant shifts over time in the product mix consumed by the recipient countries. But at least part of this shift may be due to increases in per capita income, and to the rising value of human time as development proceeds. At least part of the observed shift to wheat in many countries can be explained by this means, which in the final analysis is a natural corollary of economic development.

To conclude, the alleged conflict between development and market development is in large part a red herring. Those interested in market development should also be interested in economic development. Although there may be disagreement over which countries have the most potential for realizing both goals, and over the appropriate means to attain development, the longer-term objectives in fact converge.

#### Food Aid and Dependency

A frequent criticism of food aid is that it nurtures dependency on the part of the recipient country. Presumably, this is more likely with food aid than with regular financial assistance because of the institutional arrangements which evolve around payment-in-kind programs, and because of the perceived disincentive effects of food aid. If food aid does in fact enable a country to put off the development of its agricultural sector, clearly the country will continue to be dependent on food aid.

Countries also may become dependent because of the contribution that counterpart funds make to the domestic budget. It is well recognized, for example, that in the 1960's India became concerned about its growing dependence on this budget support, and that as a consequence it was failing to develop its own taxing instruments.

An evaluation of dependency is rather difficult. About all that one can say is that the list of graduates from food aid is rather long. That at least suggests that whatever dependency there may be is not overpowering.

It should also be noted that there is another form of dependency that is less recognized in the literature. Interestingly enough, donor countries can also become dependent on food aid programs. Food aid becomes a substitute for domestic adjustment policies. One need go back no further in time than late 1978 when Senator Dole introduced a bill to raise the U.S. food aid commitment to 7 million tons a year. The objective of that bill, of course, was to expand exports and thereby to raise prices to farmers. More generally, support for food aid strengthened in 1977 and 1978 as agricultural prices plunged from their commodity-boom peaks of 1973-76.

#### Recommendations

1. Food aid should be used to alleviate balance of payments problems only to offset the effects of natural disasters that cause a shortfall in domestic agricultural output.
2. Food aid should not be justified on the basis of the counterpart funds which it provides. Moreover, care should be taken that the recipient country not be dependent on these funds in lieu of a domestic fiscal capability, and that the resources provided in this form be used for productive purposes.
3. The use of food aid in food-for-work programs should be deemphasized unless it is tied to means of increasing the investments in human capital in the recipient households.
4. The use of food aid should clearly be directed to improving the lot of the poor in low income countries. Programs based on simple income transfers should be deemphasized, however, and the emphasis shifted to improving the productivity and income-earning potential of low income families. Improving the lot of the poor is not inconsistent with high-payoff investment programs if the programs are well conceived.

5. The use of food aid to offset shortfalls in domestic output caused by natural disasters can help to stabilize domestic development programs in the recipient countries and thereby help to promote more sustained development. The use of food aid to offset fluctuations in international commodity markets is more questionable. Other institutional means should be found for dealing with that problem.
6. As large a proportion of food aid as is possible should be shifted to the formation of human capital. That means that food aid should be used for improved human nutrition of the young, pregnant women, and lactating mothers, for enabling children to participate in formal schooling and training programs, and to enable mothers to withdraw from the labor force in the formative years of their children. Moreover, the existing welfare mentality of many programs consistent with these objectives should be changed to an investment mentality and the programs altered accordingly.
7. The use of food aid for developmental purposes should not be viewed as in conflict with market development objectives. The best means to longer-term market development for U.S. producers is the sustained economic development of low income groups in the world economy.

## IMPROVING THE DECISION-MAKING PROCESS

### Statement of the Problem

The decision-making process for food aid has been inherently complex. The program has historically had multiple objectives in the field, while at the same time representing multiple constituencies in the United States. Operationally, it draws on talents that are widely scattered throughout the federal bureaucracy. And program goals have shifted from time to time in response to changing fads in the development community, changing perspectives on the part of Congress, and changes in the economic situation both at home and abroad.

Recent mandates from Congress have severely complicated what was already an overburdened decision-making process. The goal of providing developmental assistance to the poorest of the poor means that development aid in general is to be directed to countries about which there is little knowledge, and in which there is little indigenous capability or data. In addition, resources are to be used to alleviate poverty, when it is not clear that we know how to do that in our own society, even with more abundant resources.

Working with the poorest of the poor, combined with a concern about the world food problem, has shifted the programmatic emphasis from urban groups and industrialization to rural groups and agricultural development. The problem with that, of course, is that USAID has very limited capability in agriculture, either in the field or in Washington, while the Department of Agriculture has very limited development expertise.

The use of food aid for developmental purposes is hamstrung by traditionalism, bureaucratic rigidities, and the lack of qualified people with the new developmental perspective mandated by Congress. Moreover, what qualified people there are in government agencies are often not brought into the decision-making process in an effective way.

Unfortunately, the bureaucracy is still dominated by the policy objectives of an earlier era in which the food aid imperative was to dispose of surplus agricultural commodities abroad. Bureaucratic perspectives, bureaucratic processes, and even bureaucratic staffing are still a reflection of that earlier day. Yet after the two discrete devaluations of the dollar and the shift to floating exchange rates, the need for food aid as a disposal mechanism has virtually disappeared. In recent years little more than 5 percent of our agricultural exports has been moving on concessional terms. The challenge is to reform the food aid system so as to reflect these changes in perspective.

Improvement in the decision-making process will require strengthening two aspects of the process: (1) the analytical capability to provide guidance on policy choices, and (2) the process by which talent in the various agencies is brought together to provide decisions on program and implementation. The next two sections deal with these issues. Later sections make suggestions on how food aid can be better coordinated and better integrated with other forms of foreign assistance, and on how Title III procedures might be simplified.

#### The Need for Greater Analytical and Technical Capability

The bureaucratic procedures for food aid differ among the respective Titles of the program. For most purposes herein it is useful to consider Titles I and III together, with Title II treated separately. In the discussion of need for greater analytical<sup>and technical</sup> capability which is to follow, however, this sharp distinction will not be made. Most of what follows pertains to the Title I and Title III programs. Unique differences associated with the Title II program will be noted in the text. At the end of this section a few remaining comments pertinent to the Title II program will be made.

Perhaps the most serious deficiency in developing a more effective use of food aid for developmental purposes is the lack of qualified people in the right places. USAID has a very limited capability in terms of people who are knowledgeable about the agriculture of the countries in which it works, or about agricultural development. The Department of Agriculture, on the other hand, has very little developmental expertise, especially in the field. Unfortunately, neither of these imbalances is made up by other agencies that participate actively in the decision-making process, such as the Office of Management and Budget or the Department of Treasury. Combined with these staff deficiencies are policy perspectives that are no longer relevant to the new development initiatives, and a reward system in all agencies that does not reward those committed to agricultural development and the use of food aid as a developmental tool.

Some insight into the nature of these problems can be had from a more detailed look at individual agencies:

1. Office of the General Sales Manager (OGSM)

The Office of the General Sales Manager is in some sense a remnant of past policies. It was created when the Commodity Credit Corporation was an important actor in domestic commodity markets, and acquired large stocks of agricultural products in support of domestic commodity programs. The OGSM was created to help dispose of those stocks. From the perspective of food aid and international markets, its interest has traditionally been on market development. Hence, within the Department of Agriculture it has had the responsibility for PL 480 and for CCC credit programs.

The staff of the OGSM are knowledgeable, capable, and experienced - given their original mandate. But their main concerns are protecting

and promoting U.S. markets. They have limited interest in or capability to promote agricultural development in other countries.

Kelley Harrison has brought in a few key people at the top level of the OGSM who have developmental interests and skills. With the support and developmental perspective of Under Secretary Hathaway, these developments in staffing have given OGSM a somewhat more developmental orientation in its programs. But the developmental capability is still quite limited.

There currently is a proposal to fold the OGSM back into the Foreign Agricultural Service, from which it was once separated. This proposal is tacit recognition of the fact that the Commodity Credit Corporation no longer has large stocks of agricultural commodities to dispose of and that it needs a new mission. The goal is to more fully integrate the market development activities of the Office of the General Sales Manager with the market development activities of the Foreign Agricultural Service. This proposed reorganization provides an excellent opportunity to strengthen the developmental perspective in both agencies, and to staff up with new people who have the appropriate skills.

## 2. Agricultural Stabilization and Conservation Service (ASCS)

The ASCS has traditionally performed a number of service functions pertinent to the food aid programs. In the past it certified the availability of commodities for shipment abroad. It has handled certain of the shipping functions associated with the Title II program. It has handled certain fiscal operations - the dispersal of funds. And (through the Commodity Credit Corporation) it extends invitations for bids,

selects bidders, does the actual buying, and arranges shipping for the Title II program.

The ASCS became involved in these activities primarily because of its organizational association with the Commodity Credit Corporation. Its perspective, of course, was one of commodity disposal. Although the determination of commodity availability for Title I and III programs has now passed to the World Board, the ASCS still plays a role in determining commodity availability for Title II. In this role they continue to carry a strong surplus disposal mentality.

The ASCS has let its general analytical capability deteriorate in recent years. There have been halting efforts to rebuild at least some of this by the establishment of a small secretariat to serve the CCC Board. In the short term, at least, this proposed reform offers little potential for providing a stronger analytical input into food aid programs, since their interests will tend to focus on domestic commodity programs.

### 3. Foreign Agricultural Service (FAS)

The Foreign Agricultural Service is the main international arm of the Department of Agriculture. Its primary mission to date has been to protect U.S. producers from foreign competition and to promote the sales of U.S. agricultural products abroad. This agency has a large staff capability on international commodity markets in Washington, and a foreign presence in the form of the agricultural attaché service, with representatives located in some 65 countries. It also has a trade policy division which provides staff work on trade policy, and a strong market development thrust.

The FAS is a strong agency which aggressively pursues its goals. It has strong traditions, and an unusual economic intelligence capability on world agriculture. Most agricultural attaches become quite knowledgeable about the agriculture and agricultural actors in their respective countries. They also typically become quite knowledgeable about and well integrated with the local power structure. Their forte is knowledge about local agricultural and trade policies and short-term forecasting.

The most serious deficiency of this group in terms of the food aid program is that they have very little capability in agricultural or economic development, with a number of important exceptions. For the most part staff have been systematically recruited and oriented in their work programs so as to avoid development issues, in part on the grounds that the development of agriculture in other countries poses a threat to U.S. producers. Similarly, there is very little integration of the agricultural attaches with members of the AID staff in the local countries, nor is there much involvement of the Washington FAS staff with AID on the food aid decision-making processes.

The agricultural attaches also tend to lack an in-depth knowledge of the agriculture in the countries they serve, and to lack an understanding of the economic, social, and political forces at work in and on it. This is not unexpected in light of the large demands on their time for market development activities and economic intelligence. Moreover, the reward system within the agency provides little incentive for the attaches to produce deeper, more analytical studies of the local agriculture, or to concern themselves with development problems.

#### 4. The Economics, Statistics, and Cooperatives Service (ESCS)

The economics component of this agency (the old Economic Research Service - ERS) is the main analytical capability of the Department of Agriculture. It has a foreign or international division (formerly called the Foreign Demand and Competition Division) which has developed a country capability to complement the commodity capability of the Foreign Agricultural Service. Analysts specialize in individual countries, and attempt to understand what is happening in these individual countries both in terms of policy and in terms of agricultural output and growth.

A limitation of the ESCS is that the staff, contrary to FAS, has fairly limited first-hand knowledge of other countries. They seldom have an opportunity to get out in the field, and do most of their research with secondary data and library materials.

This agency is also undergoing a reorganization. This could be a positive step in developing a stronger international capability. The challenge of providing their staff with first-hand overseas experience will still remain, however.

Despite these limitations, the ESCS has a unique capability. In fact, few countries in the world have the professional capability and knowledge on the agricultural sectors of other countries that the U.S. has in the combination of the FAS and the ESCS. (The two agencies combined are a major source of data on world agriculture.) Yet this capability is brought to bear only in a very limited way on either the decision-making process vis-a-vis food aid or on the development of programs in individual countries. One of the reasons for this is that neither agency has much of a developmental perspective. Because of that, of course, their developmental capability is quite limited.

##### 5. Office of International Cooperation and Development (OICD)

The OICD is a new agency, officially created only in 1978. It is a reflection of the concern and interest that Secretary Bergland and Under Secretary Hathaway have in international agricultural development. It was created by bringing together individual pieces from various parts of the Department of Agriculture.

This agency conducts a number of activities. First, it manages the AID participant training program for agriculture. Second, it coordinates and manages the various bilateral agricultural agreements the Department of Agriculture has with other countries. And third, it engages in technical assistance and other agricultural development programs, with funding provided primarily through USAID. In this latter activity, however, the OICD depends primarily for staff from other agencies and the university community.

The OICD has some capable people and considerable experience in the practicalities of agricultural development. However, it is still in the process of establishing itself, and to date it has not had any direct funding from Congress. Funding of almost \$3 million was provided in the 1980 budget. A further increase is provided for in the 1981 budget.

##### 6. USAID

The U.S. Agency for International Development has long had an interest in agriculture and agricultural development. However, until recent years agriculture has not, with a few exceptions, been the main thrust of their programs. Moreover, in the reorganization of the agency in the early 1960's, the emphasis was on recruiting generalists -

people who could see the "big" picture and move loan programs. There was little attempt to develop an in-house capability in technical fields. Technical expertise was acquired primarily through outside consultants, and on a temporary basis.

Unfortunately, this dependence on generalists became institutionalized. To this day the USAID has only limited in-house technical expertise in the fields pertinent to development. The limited capability it does have is located in the Regional Bureaus. But relative to the needs, even that capability is limited, and much of it is absorbed in the labor-intensive review process through which its loans and grant projects are put. The net effect is a bureaucratic approach which involves programming money rather than to achieve development.

Similar problems apply with respect to the field staff. There is only limited developmental capability in the field offices, and most of that has only limited in-depth knowledge of the country in which they are working. Moreover, field people generally have little real incentive or mandate from mission management to give much attention to food aid development programming. In fact, the field staff seldom get involved in food aid programming, and there is little in the reward system of the agency to encourage them to do so. The point is that the tradition of food aid has long been to get rid of the commodities, and both the Departments of State and Agriculture worked aggressively to that end.

The local staff have the capability to program the aid and to assist in implementing the programs. But unless these staff are matched or reinforced with people who know something about agricultural development and the agriculture of the individual countries, we will continue to realize little or no development clout from our food aid programs - independently of whether it is Title I or Title III.

These problems have been complicated by the fact that budget support for foreign assistance has been reduced at the very time that Congress was mandating major changes in program thrusts. Administrators were constrained by the need to reduce staff at the same time they needed to change the staff mix. Clearly, that provided very few degrees of freedom to develop a new cadre.

On the positive side, the AID, through its Technical Assistance Bureau, has funded a substantial amount of research pertinent to agricultural development. However, it is my impression that a major share of these research activities has gone for sector modeling and sector analysis, and a much smaller amount to understanding development and development processes.

To summarize, at no place in the bureaucracy is there anything approaching an adequate capability in agricultural development, either in the field or in Washington, to effectively use food aid for development purposes. The Foreign Agricultural Service has an excellent capability in gathering economic intelligence on the agricultural sector, in monitoring agricultural trade policies in those countries, and in making short-term forecasts for the agricultural sector. The bulk of this capability is in the field. The ESCS has some capability on the agricultural economies of individual countries, with that capability located in Washington and sorely lacking in field experience. The staffs of both these two agencies have in the past been only marginally related to or associated with the food aid programs. Moreover, their primary interests to date have been in promoting the interests of U.S. agriculture, and not in furthering agricultural development in the less-developed countries. The reward system in both agencies still works in that direction.

The AID is staffed with generalists both in Washington and in the field offices. What limited technical capability it has is located in the Regional Bureaus, but even there much of the skills is absorbed in complicated internal review procedures. The emphasis in Washington is to program money, not development, and this mentality extends to the field offices. Field staff have little involvement in the programming of food aid, and are members of a system which provides few rewards for such an involvement.

The Office of the General Sales Manager has a limited staff with capability on agricultural development and with the individual countries. It has a major capability (albeit with a small staff) in knowing how to keep food aid funds and resources moving and in making country allocations. Its disadvantage is that to date it too has not had much of an interest in developing the agriculture of other countries, and has instead been motivated primarily by the desire to dispose of U.S. agricultural products abroad.

To conclude this section, a few additional comments on the Title II programs are relevant. First, the Title II programs are managed almost independently of Title I and III programs. The Title II decision-making process is almost exclusively in the hands of the Washington Food for Peace Office. Field staff are drawn primarily from the private voluntary organizations and/or the world food programs. The voluntary organizations are expected to come up with the proposals. When present, a Food for Peace officer will coordinate and oversee these activities in the field, but there are few remaining Food for Peace officers.

As noted in an earlier section, Title II programs tend to be viewed as welfare programs. We believe these programs might better be directed to the formation of human capital if more developmental impact is to be realized. If such a shift in policy should come about, it might be appropriate to replace the Food for Peace officer with a human resource specialist. Similarly, the

Title II programs should be more closely integrated with Titles I and III. The same analytical capability would be pertinent to all three Titles.

To strengthen the analytical and staff capability, it clearly seems desirable to bring new staff into the process, while at the same time finding ways to take better advantage of existing capability within the bureaucracy. The following paragraphs are directed to a discussion of how these changes might be accomplished.

First, lead responsibility for the food aid programs should be placed in the Department of Agriculture. The Congressional mandate to work with the poorest of the poor in effect implies that the bulk of food aid will be used for rural and agricultural development purposes. The Department of Agriculture has the technical capability in agriculture, and in food economics as well, for that matter, if food aid is directed to urban consumers. To build a comparable capability elsewhere in the bureaucracy would be too costly.

The proposed reintegration of the Office of the General Sales Manager into the Foreign Agricultural Service provides an excellent opportunity to develop a stronger capability for managing the food aid program and to change the perspectives of the pertinent institutions. A special division responsible for food aid should be created within FAS when this reorganization takes place. Politically, it would make sense for this division to be an integral part of the market development arm of FAS. But the leadership and program thrust of the group should recognize the importance of economic development as a means to market development, rather than to view market development narrowly as the selling of commodities that for whatever reason are in excess supply.

This division would provide leadership to the field staff on developmental and food aid issues. It would also provide the substantive leadership in the Washington bureaucracy, both in the country-allocation process and in the programs pertinent to the individual country programs. The division should be

able to draw on the commodity work of FAS, and the country-capability of ESCS. The staff should be agricultural development specialists, and be able to translate the implications of recent developments in theory into program implications.

The development of a developmental capability in the field staff of either the Foreign Agricultural Service or the Agency for International Development should be given high priority. Logically, this capability should be developed in the FAS, but if they are reluctant, the AID should develop it by hiring more agricultural development specialists. In the case of FAS, not all agricultural attaches (counselors and ministers) need have this capability. Countries logically group themselves into three groups: (1) the advanced countries, where direct conflicts over agricultural trade issues tend to dominate; (2) the middle income countries where per capita incomes are increasing and where conventional market development activities are pertinent; and (3) the low income countries, where development has to be encouraged so as to provide the increase in income on which longer-term market development can be based. It is to these latter countries that the bulk of food aid will be allocated; and it is in these countries that FAS needs to strengthen its developmental capability.

In the short term, staff in these countries can be upgraded by taking AID's course or courses in economic development. In the longer term, specialists in development should be recruited and assigned to these countries.

Even with these staffing changes, food aid development programs will continue to be impeded by the lack of knowledge on agricultural development and on the individual countries that receive development assistance. The problem is that little is known about the economies of most low income countries, especially those classified as the poorest of the poor.

ESCS can reinforce the development capability of the FAS if it develops expertise on the countries identified as actual or potential beneficiaries of

food aid. ESCS staff need to have in-country experience. To be effective, this should be a long-term commitment to individual countries, and the reward system should be such as to encourage such a long-term commitment and specialization.

More generally, AID should encourage the development of expertise on the low income countries on as broad a scale as possible. The new ISTC should be encouraged to address these problems, as should BIFAD with the Title XII programs. To date, social science research has been sorely lacking in the Title XII programs.

Like it or not, food aid programs can be no better than the technical knowledge and expertise on which they are based. To use food aid effectively for developmental purposes, we need to capitalize on existing expertise and capability, we need to add to that capability, we need to make organizational changes which will enable it to be brought to bear on the decision-making process, and we need to provide an incentive system that will reward those who further these developmental goals.

#### Coordination of the Decision-Making Process

Coordination problems exist at two levels: (1) in Washington, and (2) in the field. If the changes suggested above are put into effect, the problem of coordination in the field may become more important.

There is nothing in the above recommendations that leads to simplification of the bureaucratic processes in Washington. Such simplification is difficult (and perhaps impossible) because of the multiplicity of interests involved in food aid and because of the multiplicity of food aid goals. The better course to follow is probably to recognize that there are real strengths in the continued involvement of multiple agencies. If effectively managed, the differences in perspective which each agency brings to the dialogue promote a competition of ideas and a healthy need to defend and justify one's actions.

Staff changes and development of staff along the lines suggested above could, however, reduce some of the bureaucratic struggling that at times has characterized the inter-agency dialogue on food aid. A stronger technical and analytical capability should sharpen the issues and reduce areas of greyness. Moreover, if FAS and the Department of Agriculture more generally can recognize the potential of economic development as the key to market development - as some people in these agencies now do - the potential for conflict will be further reduced.

The procedures developed by the Development Coordinating Committee in mid-1978 to improve the coordination of development assistance seems to have worked reasonably well. That procedure involves primarily the Title I program, with the Department of Agriculture being the lead agency. Title II decisions are made on a different track, with AID in the lead. Title III has been left somewhat in limbo, although the DCC mechanism has provided an important mechanism for resolving difficulties as they arise.

More effective use of food aid expenditures could be made if the coordination of these three Titles were integrated. Title II should be much more developmental, for the key to improving the lot of the poor is to enable them to participate in self-sustaining development processes. And Title III should ultimately be differentiated from Title I by the degree of concessionality (see below) and the level of development of the country. With a stronger staff capability in the FAS/USDA, the review process for all of these three programs should be coordinated through the DCC mechanism, with Agriculture the lead agency.

The key coordination problem at this time, however, is probably not in Washington, but in the field. To reform the procedure at that level, a first step is to encourage the country missions to think of each of the food aid Titles as different development instruments and then to orchestrate them as

part of a broader development policy. For the most part, they now tend to focus only on Titles I and III, and to leave Title II to the voluntary organizations.

The country mission also needs to bring the agricultural attache into the local program and review process. In principle, of course, the agricultural attache will be independent of the mission director. However, if he has developmental capability, as proposed above, he will be easier to incorporate into the ongoing process. To the extent ESCS people are located abroad, they also should be involved in program discussions.

#### Strengthening Interactions of Food Aid with Other Development Assistance

The failure to take a sufficiently broad perspective to development aid is probably one of the more serious deficiencies of the U.S.' foreign assistance programs. All too often food aid needs are programmed independently of other development assistance, and in general insufficient attention is given to the role of trade and trade policy as the means for promoting resource flows for developmental purposes. Similarly, insufficient attention is given to international capital markets and to capital flows channeled through those markets.

Again, so far as it goes the sub-committees of the Development Coordinating Committee have provided a useful mechanism for coordinating the various assistance programs and for strengthening the interactions of food aid with other developmental assistance. In particular, the country studies that were undertaken this past year provide in principle a reasonably effective mechanism for program coordination. It is not clear, however, to what extent similar mechanisms are used at the mission level, or whether the country studies have had any impact on decision making at the country level.

Perhaps the most serious deficiency of the DCC sub-committee process is the lack of attention given to trade policy of both the U.S. and the recipient

country in programming developmental assistance. This probably reflects in part the lack of trade policy analytical capability in the U.S. government, and the fragmentation of trade responsibilities among multiple agencies. The currently proposed reorganization of trade functions may provide a more central focus for this work, and provide a means of linking trade considerations into the development sub-committees. In the particular case of agricultural trade issues, placing the technical and analytical responsibility for food aid in the Foreign Agricultural Service provides an important means of linking the trade capability of the FAS to the food aid program. At least from that perspective it should lead to an improvement.

Somewhat more effective coordination of food aid with other development assistance probably takes place at the mission level. My impression, however, is that various forms of aid tend to be viewed as substitutes at the local level, rather than as the complements they may be under a wide range of circumstances. This mentality has been fostered by the disposal approach that has traditionally been taken to food aid. With a new developmental approach for food aid, the actual and potential complementarities of different forms of aid will probably come to the fore.

Trade and international capital market considerations also fail to receive the attention they deserve at the local level. One reason for this, of course, is the lack of trade specialists on mission staffs, and the tendency to view trade as a one-way street, with promotion of our own exports the major goal.

The immediate need here is to develop a trade capability in the mission staff. In many cases, the replacement of political specialists, who tend to be process oriented, with substantive trade specialists will probably further our political and economic interests. Once these specialists are on board, they need to be integrated with the other aid specialists, with attention given to possible changes in trade policy by both the U.S. and the recipient countries.

### Simplification of the Title III Procedures

Title III appears to suffer from a self-inflicted wound. The bureaucratic procedures for receiving Title III assistance are so complicated as to effectively impede the development of projects. In fact, at the Princeton seminar earlier this year, some participants raised the question of why any country would want a Title III program when they could do virtually the same thing with Title I.

These bureaucratic restrictions were mandated by Congress, perhaps erroneously so. At the time the legislation was written it was believed that since Title III was offered on concessional terms, and with the promise of a long-term commitment to food aid flows, there would be a scramble to get on the band-wagon. This was viewed as a means of exercising more leverage on policies in the recipient country. This expected demand for Title III programs has not come about. And as more and more countries learn what they can do with Title I programs, the demand for Title III will probably decline even further.

One way to resolve this problem is to reorient all three Titles of the food aid program. All three Titles should have a developmental perspective. Even Title II, which is now viewed primarily as for humanitarian purposes, can be used more positively for developmental purposes without diverting the benefits it provides to the poor.

If this approach were taken, the main difference among the three Titles would be in the degree of concessionality and the time horizon with which assistance is provided. The prevailing dichotomy between developmental assistance and humanitarian goals is false, as is the dichotomy between Titles I and III. Moreover, bureaucratic restrictions which cause us to meddle in the affairs of other countries are counterproductive. In the first place, such restrictions can and generally are ultimately subverted. Along the way, however, they absorb

a lot of staff time and are a source of counterproductive bureaucratic conflict and potential tension between donor and recipient.

The important point, however, is that if our technical and analytical capability to guide and manage the development process, together with the knowledge on which decisions are based, are improved, there will be little need for tight bureaucratic regulations. To the contrary, the AID missions will be sought out for their technical expertise, and eventually the technical expertise may be as valuable to the recipient countries as the commodity flows themselves.

From this perspective, Title II would remain fully concessional as it now is, and a major role could still be provided by the voluntary organizations. Their continued participation is important in sustaining the political support for food aid, and their "outsiders" perspective is important to the ongoing policy and program dialogues. Two changes should be made in the program, however. First, the commodities should be used to promote the formation of human capital, both through improved nutrition and health and through making it possible for children and young people to gain formal schooling and participate in training programs. Second, multi-year commitments should be permitted to these programs, just as is now provided with Title III. New legislation would probably be needed to bring about these changes.

My own instincts would be to fully merge Titles I and III, and to recognize explicitly that they both are for developmental purposes. Practically, however, it may make sense to differentiate the two programs, with Title III being somewhat more concessional than Title I and with the possibility of longer-term commitments retained. Title I would then be used for short-term balance of payment support, while Title II would be used more directly in support of development programs in the recipient countries. Humanitarian relief in response to natural disasters could still be provided through Title II, of course.

If this approach were to be taken, technical expertise would be substituted for bureaucratic regulations in programming and implementing Title III, as well as other Titles of the food aid program. Such regulations as would remain would be to assure accountability, not to force some illusory set of developmental goals.

The danger with this approach, of course, is that it runs the risk of weakening political support for food aid. But that danger can be reduced by proper leadership and educational goals. Moreover, it is important that we recognize the changed circumstances in which we now find ourselves. Our domestic commodity programs and our trade and exchange rate policies no longer require that we subsidize the export of agricultural commodities, either implicitly or explicitly. Similarly, the development of other economies is in our own political and economic interests, and except for natural disaster-caused needs for humanitarian relief - the best use of welfare money is to help create self-sustaining development processes that benefit the lot of the poor. It is time we begin to articulate these new perspectives, and to implement programs consistent with them.

#### Recommendations

##### A. To strengthen technical and analytical capability

1. Place lead responsibility for the food aid programs in the Department of Agriculture.
2. Take advantage of the proposed reintegration of the Office of the General Sales Manager into the Foreign Agricultural Service to develop a stronger capability for managing the food aid program and to change the perspectives of the pertinent institutions. Among other things, this requires the creation of a special division responsible for food aid within the FAS

structure, probably in the market development area. This division would provide intellectual and program leadership on food aid both in Washington and in the field.

3. The Foreign Agricultural Service should also develop a stronger development capability in its field staff, especially in those countries identified to be major food aid recipients.
4. Take steps to develop our knowledge base on the recipient countries by funding additional research.
5. Take advantage of the current reorganization of ESCS to develop careers around extended commitments and presences in selected low income countries. Change the reward system so that such long-term commitment and specialization are permitted, and see that these people are closely integrated with the field staffs of FAS and USAID.

B. To strengthen coordination of the decision-making process

1. Continue to use the DCC sub-committee on food aid as a mechanism for inter-agency coordination, essentially as now handled.
2. Integrate discussions of Titles II and III into that process.
3. Encourage country missions to view each of the food aid Titles as different development instruments and to coordinate them as integral parts of a broader development policy.
4. Integrate the agricultural attache and the resident representative of the ESCS (if one is available) into their policy and programming deliberations.

C. To strengthen interactions of food aid with other developmental assistance

1. Encourage an approach to food aid planning, both in Washington and in the missions, which views foreign assistance as all-encompassing, to include trade policy of the U.S. and recipient countries and international capital markets.
2. Add a representative from the newly proposed trade organization to the DCC and encourage him to view trade policy in a developmental perspective.

3. Continue the series of country studies. Involve mission staff in the preparation of these studies and encourage their use at the mission level.
4. Add a trade specialist to the mission staff to assure that trade perspectives are taken into account in local programming. This need not require an increase in staff.

D. To simplify Title III procedures

1. Substitute on-site technical and analytical capability for bureaucratic regulations. (The means of developing this capability are outlined above.)
2. Reorient the food aid programs so that all three Titles take on a developmental perspective, with the primary distinction among them being the degree of concessionality and the commitment to longer-term funding.

Finally, recognize that aid programs of any kind are not likely to return to the size of previous years. The quality and developmental impact of these programs can be improved, however. The way to do this is to strengthen the technical and analytical input going into program development and implementation. In fact, the comparative advantage we as a nation have may be in providing just such inputs. Realistically speaking, such inputs will come from the agricultural establishment, not the AID establishment.

CONCLUDING COMMENTS

The potential contribution of food aid in promoting economic development is inherently modest. The amount of resources provided in this form is relatively small, and the uses to which it can be put are fairly limited. Above all, policymakers as well as informed lay people should dissuade themselves of the notion that food aid from the advanced countries can fill the deficit in food production that is projected for the latter part of this century.

Food aid does have an important role to play in improving the lot of the poor in other countries. To realize its potential, however, its use will have to be managed so that it does not reward policymakers for policies that discriminate against agriculture. The welfare mentality which recently has dominated its use also needs to be changed, and the emphasis shifted away from physical capital and towards human capital. And bureaucratic structures need to be changed so that improved analytical capability and technical expertise is associated with the programmatic uses of food aid.

#### SUMMARY OF RECOMMENDATIONS

##### Improving the Developmental Effectiveness of Food Aid

The challenge to policymakers is to avoid negative incentive effects, whether they be direct or indirect, to use food aid to induce appropriate changes in policy whenever that is possible, and to use the food aid for demand augmentation and developmental purposes. More specific recommendations are as follows:

1. The starting point in avoiding disincentive effects of food aid is to understand the conditions giving rise to food aid in the United States. If it arises as a means of offsetting domestic export taxes, either explicit or implicit, it may have only minimal disincentive effects. If it represents dumping, and thus an implicit export subsidy, the tendency to use food aid for this purpose should be resisted unless disincentive effects in the recipient country can be avoided.
2. The next point is to understand why a flow of food aid is needed in the recipient country. If it is because of inappropriate policies in the host country, the food aid should be used either to induce appropriate changes in policy, or it should be withheld until such policies change.

3. Recommendations (1) and (2) imply the need for a strong analytical capability to guide the use of food aid, with part of that analytical capability needed in the Washington bureaucracy and part needed in-country. (See a later section for a more ample discussion of this problem.)
4. Avoid the simple selling of food aid into the local economy. The likelihood of strong disincentive effects in this case will be great.
5. To the extent possible, channel the food aid into the hands of low income groups, as income supplements.
6. When appropriate, use food aid as a displacement for domestic procurement policies in the recipient countries. It will then provide a means of alleviating the disincentive effects of domestic policies, while at the same time providing food that can be supplied to low income groups.
7. Use food aid as balance of payment support only to offset domestic shortfalls created by natural disasters such as hurricanes, typhoons, earthquakes, and droughts.
8. Avoid the use of food aid to deal with inadequate domestic production, and to provide a politically easy means of supplying urban consumers. This does not mean that self-sufficiency should be the policy goal. It does mean that care should be taken to avoid the use of food aid to support and sustain price and trade policies that discriminate against the agricultural sector.
9. Use food aid positively to induce the development of institutional arrangements that will reduce the incentive to use price and trade policies as a means to redistribute income. The development of food stamp programs is an important example. But not all countries will have the administrative talents and arrangements to manage effectively such a program. Discretion will be required.

10. Recognize the diversity in level of development and in institutional arrangements among countries. This means that simple-minded panaceas and fads should be avoided, since in general, different programs and policies will be required for different countries. It also means that adequate knowledge of the economy and system in the recipient country is required as a basis for sound policy.
11. Finally, recognize that there is a great deal we don't know about the economies of recipient countries, and about how food aid can be effectively used. The support of research that adds to our knowledge will have a high payoff in terms of improved policies.

#### Food Aid for Development Purposes

1. Food aid should be used to alleviate balance of payments problems only to offset the effects of natural disasters that cause a shortfall in domestic agricultural output.
2. Food aid should not be justified on the basis of the counterpart funds which it provides. Moreover, care should be taken that the recipient country not be dependent on these funds in lieu of a domestic fiscal capability, and that the resources provided in this form be used for productive purposes.
3. The use of food aid in food-for-work programs should be deemphasized unless it is tied to means of increasing the investments in human capital in the recipient households.
4. The use of food aid should clearly be directed to improving the lot of the poor in low income countries. Programs based on simple income transfer should be deemphasized, however, and the emphasis shifted to improving

the productivity and income-earning potential of low income families. Improving the lot of the poor is not inconsistent with high-payoff investment programs if the programs are well conceived.

5. The use of food aid to offset shortfalls in domestic output caused by natural disasters can help to stabilize domestic development programs in the recipient countries and thereby help to promote more sustained development. The use of food aid to offset fluctuations in international commodity markets is more questionable. Other institutional means should be found for dealing with that problem.
6. As large a proportion of food aid as is possible should be shifted to the formation of human capital. That means that food aid should be used for improved human nutrition of the young, pregnant women, and lactating mothers, for enabling children to participate in formal schooling and training programs, and to enable mothers to withdraw from the labor force in the formative years of their children. Moreover, the existing welfare mentality of many programs consistent with these objectives should be changed to an investment mentality and the programs altered accordingly.
7. The use of food aid for developmental purposes should not be viewed as in conflict with market development objectives. The best means to longer-term market development for U.S. producers is the sustained economic development of low income groups in the world economy.

#### Improving the Decision-Making Process

##### A. To strengthen technical and analytical capability

1. Place lead responsibility for the food aid programs in the Department of Agriculture.

2. Take advantage of the proposed reintegration of the Office of the General Sales Manager into the Foreign Agricultural Service to develop a stronger capability for managing the food aid program and to change the perspectives of the pertinent institutions. Among other things, this requires the creation of a special division responsible for food aid within the FAS structure, probably in the market development area. This division would provide intellectual and program leadership on food aid both in Washington and in the field.
  3. The Foreign Agricultural Service should also develop a stronger development capability in its field staff, especially in those countries identified to be major food aid recipients.
  4. Take steps to develop our knowledge base on the recipient countries by funding additional research.
  5. Take advantage of the current reorganization of ESCS to develop careers around extended commitments and presences in selected low income countries. Change the reward system so that such long-term commitment and specialization are permitted, and see that these people are closely integrated with the field staffs of FAS and USAID.
- B. To strengthen coordination of the decision-making process
1. Continue to use the DCC sub-committee on food aid as a mechanism for inter-agency coordination, essentially as now handled.
  2. Integrate discussions of Titles II and III into that process.
  3. Encourage country missions to view each of the food aid Titles as different development instruments and to coordinate them as integral parts of a broader development policy.
  4. Integrate the agricultural attache and the resident representative of the ESCS (if one is available) into their policy and programming deliberations.

C. To strengthen interactions of food aid with other developmental assistance

1. Encourage an approach to food aid planning, both in Washington and in the missions, which views foreign assistance as all-encompassing, to include trade policy of the U.S. and recipient countries and international capital markets.
2. Add a representative from the newly proposed trade organization to the DCC and encourage him to view trade policy in a developmental perspective.
3. Continue the series of country studies. Involve mission staff in the preparation of these studies and encourage their use at the mission level.
4. Add a trade specialist to the mission staff to assure that trade perspectives are taken into account in local programming. This need not require an increase in staff.

D. To simplify Title III procedures

1. Substitute on-site technical and analytical capability for bureaucratic regulations. (The means of developing this capability are outlined above.)
2. Reorient the food aid programs so that all three Titles take on a developmental perspective, with the primary distinction among them being the degree of concessionality and the commitment to longer-term funding.

Finally, recognize that aid programs of any kind are not likely to return to the size of previous years. The quality and developmental impact of these programs can be improved, however. The way to do this is to strengthen the technical and analytical input going into program development and implementation. In fact, the comparative advantage we as a nation have may be in providing just such inputs. Realistically speaking, such inputs will come from the agricultural establishment, not the AID establishment.