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WHY FOOD AID?

Surplus Disposal, Development Assistance and Basic Needs

Edited by

Vernon W. Ruttan
Regents Professor
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Department of Agricultural and Applied Economics
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St. Paul, Minnesota
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PREFACE

This book had its origins in an attempt to understand the impact of development assistance and the economic and political sources of development assistance policy.

My research during the 1980s on the impact of development assistance left me with a number of disturbing questions about the evaluation of U.S. development assistance policy.[1] As that work was completed I initiated a research program designed to help understand the domestic economic and political forces that had shaped U.S. development assistance policy. The first chapter in this collection, "The Politics of U.S. Food Aid Policy: A Historical Review," was a product of that effort.

Responses to the initial draft of the chapter from colleagues in the administration, among congressional staff and professional colleagues were very positive and helpful. As I was revising the material Jon O'Rourke of the Agency for International Development Bureau for Food for Peace and Voluntary Assistance asked me if I would be interested in assembling a set of the "classical" papers on food aid for the agency's use.

In assembling the papers I have attempted to provide insight into the evolution of thought, the controversies surrounding the food aid program and the trends in food aid policy.

Vernon W. Ruttan
December, 1990

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[1]See Anne O. Krueger, Constantine Michalopoulos and Vernon W. Ruttan, Aid and Development (Baltimore: The Johns Hopkins University Press, 1989).

WHY FOOD AID?

Surplus Disposal, Development Assistance, and Basic Needs

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Chapter 3. Mordecai Ezekiel, "Apparent Results in Using Surplus Food for Financing Economic Development," Journal of Farm Economics 40:4 (November 1958), pp. 915-923.

Chapter 4. Willard W. Cochrane, "Farm Technology, Foreign Surplus Disposal, and Domestic Supply Control," Journal of Farm Economics 41:5 (December 1959), pp. 885-899.

Chapter 5. Theodore W. Schultz, "Value of U.S. Farm Surpluses to Underdeveloped Countries," Journal of Farm Economics 42:5 (December 1960), pp. 1019-1030.

Chapter 6. Peter Singer, "Reconsidering the Famine Relief Argument," in Peter Brown and Henry Shue (eds.), Food Policy (New York: Free Press, 1977), pp. 36-53.

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Chapter 9. Lawrence W. Witt, "Development Through Food Grants and Concessional Sales," in Carl Eicher and Lawrence Witt (eds.), Agriculture in Economic Development (New York: McGraw-Hill, 1964), pp. 339-359.

Chapter 10. Paul J. Isenman and H. W. Singer, "Food Aid: Disincentive Effects and Their Policy Implications," Economic Development and Cultural Change 25 (January 1977), pp. 205-237. (1977 by the University of Chicago. All rights reserved.)

Chapter 11. E. J. Clay, "Rural Public Works and Food for Work: A Survey," World Development 14:10/11 (October/November 1986), pp. 1237-1252.

Chapter 12. Raymond F. Hopkins, "The Evolution of Food Aid: Toward a Development First Regime." This article was first published in Food Policy 9:4 (November 1984), pp. 345-362, and is reproduced with permission from Butterworth-Heinemann Ltd., Guildford, UK.

Chapter 13. Simon Maxwell, "The Disincentive Effect of Food Aid: A Pragmatic Approach," (University of Sussex, Institute of Development Studies, 1990, mimeo).

Chapter 14. Ross B. Talbot, "The European Communities Food Aid Program." This article was first published in Food Policy 4 (November 1979), pp. 269-284, and is reproduced with kind permission from Butterworth-Heinemann Ltd., Guildford, UK.

Chapter 15. John W. Mellor, "Food Policy, Food Aid and Structural Adjustment Programmes." This article was first published in Food Policy 13 (February 1988), pp. 10-17, and is reproduced with permission from Butterworth-Heinemann Ltd., Guildford, UK.

Chapter 16. E. J. Clay and Hans Singer, "Food Aid as a Development Resource," (Rome: World Food Programme, Public Affairs and Information Unit, 1985, mimeo).

Chapter 17. Shlomo Reutlinger and Willis Peterson, "How to Really Reform Food Aid: Two Proposals," These articles were first published in Food Policy 13 (February and August, 1988), pp. 56-66 and 235-239, and are reproduced with permission from Butterworth-Heinemann Ltd., Guildford, UK.

Chapter 18. Raymond F. Hopkins, "Reforming Food Aid for the 1990s," (Statement before the U.S. House of Representatives Select Committee on Hunger, June 22, 1989).

Chapter 19. John W. Mellor, "Alleviating Hunger While Building Markets," in Wayne E. Swegle and Polly C. Ligon (eds.) Aid, Trade, and Farm Policies (Morrilton, Arkansas: Winrock International, 1989).

Box 1. Michal Kalecki, Essays on Developing Economies (London: Harvester Press, 1976), pp. 65, 78, 79.

Box 2. James Bovard, "How American Food Aid Keeps the Third World Hungry," The Heritage Foundation Backgrounder (Washington, DC: The Heritage Foundation, August 1, 1988).

Box 3. John Cathie, Food Aid and Industrialization: The Development of the South Korean Economy (Brookfield, VT: Gower Publishing Company, 1989), pp. 176-195.

Box 4. Edward Clay and Charlotte Benson, "Acquisition of Commodities in Developing Countries for Food Aid in the 1980s." This article was first published in Food Policy (February 1990), pp. 27-43, and is reproduced with permission from Butterworth-Heinemann Ltd., Guildford, UK.

Box 5. G. Edward Schuh, Improving the Development Effectiveness of Food Aid, St. Paul, Department of Agricultural and Applied Economics, Mimeo, September 1979 (Prepared as a report to the U.S. Agency for International Development).

Box 6. Independent Group on British Aid. Real Aid: What Europe Can Do (London: Independent Group on British Aid, 119 Fentiman Road, 1989), pp. 55-57.

Box 7. John Cathie, "European Food Aid Policy, A Review and Assessment, 1968-1988." (Paper presented to the Agricultural Economics Society Annual Conference, Wye College, University of London, April 6-9, 1990), pp. 17, 29, 30, 33, 38.

Box 8. Patricia J. Vondal, The Development Impacts of Program Food Aid: A Synthesis of Donor Findings and Current Trends and Strategies (Washington, DC: U.S. Agency for International Development Program Evaluation, Discussion Paper No. 30, June 1990), p. 2.

Box 9. World Food Program, 1990 Food Aid Review (Rome: World Food Program, 1990), p. 21.

Box 10. Board on Science and Technology for International Development, Food Aid Projections for the Decade of the 1990s (Washington, DC: National Research Council, 1989), pp. 5-7.

Box 11. Amartya Sen, "Food Entitlements and Economic Chains," in Lucile F. Newman (ed.), Hunger in History: Food Shortage, Poverty and Deprivation (Cambridge, Mass: Basil Blackwell, 1990), pp. 375, 379-381.

ABOUT THE AUTHORS

Charlotte Benson is a professor at the Relief and Development Institute, London, England.

Kai Bird is a former Guggenheim Fellow and a contributing editor to The Nation.

James Bovard is with the Heritage Foundation, Washington, DC.

John Cathie is Assistant Director of Research, Agricultural Economic Unit, Cambridge University Fellow, Tutor and Director of Studies in Economics, Wolfson College, Cambridge, England.

Edward J. Clay is a professor at the Relief and Development Institute, London, England. His research has been on issues of agricultural development, appropriate technology and food policy.

Willard W. Cochrane is a professor emeritus in the Department of Agricultural and Applied Economics, University of Minnesota, St. Paul, Minnesota. His research has been in the field of agricultural prices and policy. He was elected a Fellow of the American Agricultural Economics Association in 1965.

Mordecai Ezekiel was Deputy Director, Economics Division of the Food and Agriculture Organization of the United Nations. He was elected a Fellow of the American Agricultural Economics Association in 1958.

Raymond F. Hopkins is Director, Program in Public Policy, and Professor, Department of Political Science, Swarthmore College, Swarthmore, Pennsylvania.

Paul J. Isenman is Director, Program and Review Department, International Bank for Reconstruction and Development.

Simon Maxwell is a Fellow and Head of the Food Security Unit, Institute of Development Studies, University of Sussex, Brighton, England.

Donald F. McHenry is University Research Professor of Diplomacy and International Relations, School of Foreign Service, Georgetown University, Washington, DC.

John W. Mellor is with the International Food Policy Research Institute, Washington, DC. He was formerly Chief Economist at the Agency for International Development and is a Fellow of the American Academy of Arts and Sciences and the American Agricultural Economics Association.

Willis Peterson is a professor in the Department of Agricultural and Applied Economics, University of Minnesota, St. Paul, Minnesota.

Shlomo Reutlinger is a senior economist in the International Bank for Reconstruction and Development, Washington, DC.

Emma Rothschild is a senior research fellow at Kings College, Cambridge, England. She has been a critic of agricultural and food policy.

Vernon W. Ruttan is a Regents Professor in the Department of Agricultural and Applied Economics and Department of Economics, and an Adjunct Professor at the Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, St. Paul, Minnesota. His research has been in the field of agricultural development and agricultural research policy.

G. Edward Schuh is Dean of the Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, Minneapolis, Minnesota. He has written extensively on agricultural development, and on international trade and exchange rate policy.

Theodore W. Schultz is a professor in the Department of Economics, University of Chicago, Chicago, Illinois. He was a recipient of the 1979 Nobel Prize in Economics.

Amartya Sen is a professor in the Department of Economics, Harvard University, Cambridge, Massachusetts. He has made important contributions to our understanding of the implications of food entitlements during periods of food scarcity and famine.

H. W. Singer is an emeritus professor at the University of Sussex and a Fellow of the Institute of Development Studies at the University of Sussex, Brighton, England. He has been a leading figure in the field of development economics. He was the Chairman of the Expert Committee setting up the UN World Food Programme and an author of the initial report, "Development through Food."

Peter Singer is Director of the Centre for Human Bioethics, Monash University, Clayton, Victoria, Australia. He has written extensively on the ethical aspects of research and policy.

Ross B. Talbot is a professor emeritus in the Department of Political Science, Iowa State University, Ames, Iowa. His research has been on the politics of agricultural policy.

Patricia J. Vondal is with the United States Agency for International Development, Washington, DC.

Lawrence W. Witt was a professor in the Department of Agricultural Economics at Michigan State University. His research was in the field of agricultural trade. He was elected a Fellow of the American Agricultural Economics Association in 1978.

Part I -- Introduction

In the first chapter in this section, "The Politics of Food Aid Policy," I trace the domestic economic and political forces that gave rise to and have shaped the Public Law 480 Program--the program under which most US food aid and other agricultural commdity assistance has been programmed. During the first two decades of the program it was difficult to separate the history of food aid from the autobiography of Senator Hubert H. Humphrey. During the last two decades the evolution of the program has been characterized by a growing divergence in objectives among the several domestic interest groups that have cooperated, often around mutually inconsistent objectives, to assure the continuation of the program.

In the second chapter, "Professionals and Populists," I attempt to trace the evaluation of professional thought and popular opinion on issues related to food aid. Comments on the specific papers selected for enclosure in this set are also contained in the introductory remarks for each section.

Vernon W. Ruttan

[1990]

Chapter 1

The Politics of Food Aid Policy: A Historical Review

Vernon W. Ruttan

> "We have got to look upon America's food abundance, not as a liability, but as a real asset. . . . Wise statesmanship and leadership can convert these surpluses into a great asset for checking communist aggression. Communism has no greater ally than hunger; and democracy and freedom no greater ally than an abundance of food."
>
> (Hubert H. Humphrey, July 16, 1953)

> "It is easy to rationalize our farm surpluses into international assets. But thoughtful people and informed leaders abroad are not deceived by what we say; they see clearly that we have been making our foreign economic policy fill our internal convenience.
>
> (Theodore W. Schultz, August 10, 1960)

Food aid has been one of the most popular and most controversial of United States assistance programs. The feeding of hungry people appeals to the most fundamental humanitarian instincts of the American people. It represents a natural expression of generosity on the part of a nation blessed--or burdened--with surplus food production capacity. While appearing to do good for others, we also are doing good for ourselves--or at least for the producers and handlers of the surplus agricultural commodities.

In contrast to other foreign assistance programs alternative legislative and administrative channels are involved in both food aid program authorization and administration [redacted]. The Senate rules provide co-equal status to both the Foreign

Relations and the Agriculture, Nutrition, and Forestry Committees. In practice there has been overlapping membership between the two committees. In the House of Representatives food aid legislation is considered by the House Agriculture Committee, the Foreign Affairs Committee, and the Select Committees on Hunger. Administration of food aid is even more complex. The Department of Agriculture (USDA) determines the commodities and quantities that are available; the Treasury Department sets the terms of the loans; the Office of Management and Budget determines if funding is available; the Department of State assesses the political ramifications, and the Agency for International Development implements the programs in the field. Interagency disagreements are worked out in the Food Aid Subcommittee of the Development Coordinating Committee (DCC).

The division of program responsibility has lead to continuing tension among the several agencies and their patrons, clients and constituencies in the Congress, in the farm organizations and in the development assistance interest groups. These tensions and inconsistencies have been driven, since the beginning, by the need to dispose abroad the agricultural commodities generated by failure to resolve the contradictions in domestic farm policy. This divided responsibility, both in the Congress and the Administration, has contributed to lack of coherence among program objectives--surplus disposal, market development, humanitarian relief and strategic and development assistance.

The evolution of the United States food aid program can most conveniently be discussed under four headings: (a) surplus disposal and market development; (b) food for peace; (c) food power; and (d) food aid for basic needs. In this section I attempt to review and interpret the events and forces that lead to the initial design and subsequent modifications or reform of the United States food aid program.[1] Although I do not attempt

to evaluate the substantive accomplishment of the United States food aid programs, the relationship between program impact and support for food assistance is discussed in the final section of the chapter. The reader is urged to keep in mind that the motives of the donor in giving food aid, or any other form of aid, do not determine the benefits realized by the recipient. Aid given with the best intentions of the donor for the recipient does not assure that it will be used effectively and aid given with little concern on the part of the donor for recipient welfare may be effectively used by the recipient.

Surplus Disposal and Market Development

The passage of the Trade Development and Assistance Act in the summer of 1954 (PL-480) committed the United States to a program of food assistance. The passage of the Act was precipitated by the collapse of agricultural commodity prices following the Korean war. It was preceded by a number of less comprehensive humanitarian assistance and surplus disposal activities.

The resort to an enlarged program of food aid reflected the continuing inconsistency between the economic views held by the dominant policy officials in the Eisenhower administration and the economic and political environment with which they were forced to come to terms. The Eisenhower administration was committed to a liberal international trading order based on trade expansion for the United States and "trade not aid" for the developing countries. Its commitment to a liberal international economic order was, however, confronted by a domestic agricultural policy that, in spite of deeper intervention in agricultural commodity markets, generated mounting surpluses of agricultural commodities. The Congress and the administration, at cross purposes over how to resolve

the contradictions of the agricultural commodity programs, turned to subsidized disposal of agricultural surpluses in the international market as a partial solution. The export subsidies took several forms--direct cash subsidies, payment-in-kind subsidies, competitive bid sales, sales for foreign currencies and direct grants justified by mutual security and humanitarian assistance criteria. The passage of the Trade Development and Assistance Act in 1954 and the evolution of food assistance policies and programs can only be understood in the context of the broader debate over farm and trade policy during the 1950s.[2]

Before PL-480

The PL-480 legislation was preceded by a much longer history of humanitarian assistance and surplus disposal that extends back to World War I and the interwar period. The provision of the Act incorporated both the objectives and instruments used in these earlier programs. The United States had provided emergency food aid for the relief of survivors of an earthquake in Venezuela in 1812 and to Ireland in response to the famine of the mid-1800s. During and immediately after World War I food aid was provided to western Europe and the U.S.S.R. under a succession of agencies culminating in the American Relief Administration.[3] During the interwar period, the Export-Import Bank established in 1934, had been used to promote American exports by providing loans, at concessional rates, to foreign governments and businesses for purchase of commodities from the United States. The Agricultural Adjustment Act of 1935 (Section 32) had authorized the use of up to 30 percent of yearly custom revenue for use by the Secretary of Agriculture to subsidize exports of agricultural commodities. The Surplus Property Act of 1944 and the Agricultural Act of 1949 authorized the CCC to sell stockpiled surplus commodities on the

international market at below the market price. A 1949 amendment to the Commodity Credit Corporation (CCC) charter authorized the CCC to barter agricultural products for strategic materials to be added to the national stockpile. Supplies had also been made available for disaster relief under special legislation, such as the Indian Emergency Food Act of 1951 and the Pakistan Relief Act of 1953, that included sale of surplus agricultural commodities for local currencies. The Mutual Security Act of 1951 (PL-82-165) contained a new aid budget category "defense supporting assistance" under which food aid was programmed.

The American Relief Administration that was set up after World War I to provide assistance to Western Europe and Russia had utilized private voluntary agencies to distribute food and other supplies. Before and during World War II the President's Committee on War Relief Activities and the President's War Relief Control Board acted to support and coordinate (and sometimes to limit) the efforts of private voluntary agencies. After World War II these were replaced by an Advisory Committee on Voluntary Foreign Aid to assure that activities of the private voluntary agencies receiving government assistance were consistent with official policy. The agencies registered with the Advisory Committee played an expanded role in the implementation of the Marshall Plan (1949-1951).

In 1948 the relationship with the Private Voluntary Organization (PVO) community was further institutionalized when the Congress passed legislation authorizing the government to pay transport costs in voluntary relief supplies. The Agricultural Act of 1949 contained a provision (Section 416) authorizing the Secretary of agriculture to donate

surplus agricultural commodities in danger of spoilage to voluntary agencies registered with the Advisory Committee. This was the beginning of the channeling large-scale surplus disposed through the PVO's. During the Korean War, however, the government curtailed food and reduced its cooperation with the PVO's. When farm prices collapsed after the Korean War, the stage had already been set for the development of a more comprehensive food assistance program. A political constituency for food aid, consisting of farm commodity groups, shippers and handlers, and private relief agencies was already in place. And there was considerable bureaucratic experience with program design and administration.

Packaging Food Aid

The main impediment to passage of a larger and more comprehensive program was an administration that had little sympathy for the commodity programs that had resulted in surplus accumulation as markets weakened. The economic philosophy of the Secretary of Agriculture Ezra Taft Benson reflected his training as an agricultural economist, his service as an elder of The Church of Jesus Christ of Latter-day Saints (Mormon), and his role as a former secretary of the National Council of Farm Cooperatives. He "held conflicting ideals of individualist competition, cooperation, and humanitarianism. The desire to help the farmer tempered the belief that the government must leave him the "freedom to farm". The humanitarian impulse to share America's agricultural technology with other nations contradicted the fear that increasing foreign production would decrease American exports. The conviction that the hungry must be fed confounded the conviction that it was morally preferable to sell rather than to donate."[4]

Secretary Benson and his colleagues in the Department of Agriculture, particularly Assistant Secretary Earl L. Butz and economic advisor Don Paarlberg, were more ready to use food aid to resolve the food surplus problem than most members of the Eisenhower cabinet. Secretary of Treasury George Humphrey had adopted a strong "trade not aid" posture. Secretary of State John Foster Dulles viewed a larger aid program as a useful instrument of foreign policy. But he was troubled by the foreign relations implications of subsidized exports of agricultural commodities.[5]

During 1953 the Administration initiated a series of studies designed to examine how the surplus disposal problems might be resolved. This included a presidential Commission on Foreign Economic Policy (the Randall Commission) and a subcabinet-level Interagency Committee on Agricultural Surplus Disposal (ICASD) chaired by Under-Secretary of Agriculture True D. Morse. In the meantime, at Secretary Benson's urging, the major farm organizations--the Farm Bureau, the Grange and the National Farmers Union--were holding local discussions with their membership on future farm policy directions. The Randall Commission report urged elimination of "inflexible price-support programs which result in fixed prices, open or concealed export subsidies, import quotas at home and abroad, exchange restrictions, and state trading."[6] In the meanwhile, Secretary Benson had out-flanked the Randall Commission by securing a commitment, in the president's 1954 agricultural message to the Congress, to propose a "set aside" of $2.5 billion in Commodity Credit Corporation stocks to be "insulated" from commercial markets and used for disaster relief, foreign aid, domestic school lunch programs, and stockpile reserves.[7]

The Interagency Committee was experiencing a good deal of internal stress on its attempts to resolve how food aid would be administered. "Agriculture and the Foreign Operations Administration (FOA) each believed it was the correct agency to administer the program (Agriculture because it held the commodities; and FOA because of its Mutual Security Administration (MSA) experience; State wanted to regain its authority over foreign policy and to be in a position to safeguard established trade relations; Treasury hoped to ensure that at least part of the funds derived from sales were earmarked for the account of the United States, and the Office of Defense Mobilization was interested in using the commodities in its defense stockpile barter program."[8]

By March it appeared that the Administration was losing control over the food aid agenda. Political pressure had been building in the agricultural community for a program of sales for foreign currencies since 1952.[9] The Congress was critical of the State Department for failure to make full use of the provisions of the 1953 Mutual Security Act (Section 550) that authorized "not less than $100 million and not more than $350 million for the export and sale of surplus commodities to be paid for by foreign currencies." During 1953 numerous bills containing surplus disposal proposals were introduced in both the Senate and the House. Senator Hubert H. Humphrey (D-Minnesota) proposed a comprehensive program of food aid that included donations, sales at world market prices, sales at concessional prices, long-term loans, sales for local currencies, trade for strategic materials, and grants to voluntary agencies.[10] At the urging of the Bureau of the Budget, the White House brought Charles Francis, Chairman of General Foods, into the White House to serve as surplus disposal coordinator. The incredibly naive Francis assured the

president, given a free hand to "get rid of surpluses", the burdensome stocks could be reduced in about ninety days.[11] Francis attempted to move aggressively to dump surpluses on the world market with little concern for Humphrey's sensibilities about trading with the Soviet Block or Dulles concerns about relations with our trading partners.

The threat that the House Agriculture Committee might draft its own legislation spurred the administration to paper over its internal differences. In May a draft bill was presented to the Congress. A slightly revised bill was introduced in the House in early June. The Congressional debate reflected considerable disagreement over two issues. One was whether the program was in the general interest or only the interest of agriculture. The second issue was whether the costs of the program were appropriately charged against the agricultural or foreign aid budgets. Both issues are reflected in an exchange in which House Agriculture Committee Chairman Harold Cooley (D-North Carolina) insisted, "I do not think that foreign aid should be saddled on the back of agriculture." Congressman Walter Judd (D-Minnesota) responded, ". . . neither should agricultural losses be saddled on the back of foreign aid."[12] This would not be the last time these two issues were debated.

The Agricultural Trade and Development Assistance Act of 1954 (PL-480) was passed by both the House and the Senate in mid-June. When President Dwight D. Eisenhower signed the bill on July 10, he commented that the legislation would "lay the bases for a permanent expansion of our exports of agricultural products, with lasting benefits to ourselves and peoples of other lands".[13] The Act had three titles. Title I authorized sales of surplus agricultural commodities for foreign currencies to "friendly" nations. Title II authorized government to government donations of food for famine and other urgent relief

programs for both friendly nations and "friendly but needy populations without regard to the friendliness of their government." Title III provided authority for donation abroad through non-profit voluntary agencies and the barter of surplus agricultural commodities for strategic materials. It also provided the donation of commodities to several domestic assistance programs such as school lunch and disaster relief.[14]

Managing Food Aid

Following a period of intense bureaucratic infighting between Agriculture, State, and the Foreign Operations Administration, an executive order was issued on September 9 establishing the responsibility of the several agencies. The Department of Agriculture was given primary responsibility for the administration of Title I--the sale of surplus commodities for foreign currency. The Foreign Operations Administration was given responsibility for foreign famine and related relief programs. The State Department was given the responsibility for negotiating agreements with foreign countries; Budget and Treasury were responsible for allocation and management of foreign currencies. The Interagency Committee on Agricultural Surplus Disposal (ICASD), now chaired by Charles Francis, would deal with policy issues. Actual program direction would be handled by an Interagency Staff Committee on Agricultural Surplus Disposal (ISC) composed of one representative from each agency on ICASD and chaired by William Lodwick of the USDA Foreign Agricultural Service.

Among the issues that remained unresolved by the passing of PL-480 were: (a) what commodities would be programmed; (b) what nations would receive the commodities; and (c) how would the foreign currencies accumulated under the program be used.[15] State,

Treasury, and Budget preferred to restrict the eligible commodities to those already in surplus. Agriculture wanted to include all commodities that were judged to be in surplus supply in order to prevent further accumulation of surpluses. The Foreign Operations Administration preferred as broad a menu as possible in order to meet the diverse food needs of the recipient countries. The political reality that programming non-CCC commodities strengthened support for the program both at home and abroad assured that the agriculture position would prevail.[16]

The issue of which nations would receive PL-480 commodities became the focus of the efforts by Treasury and State to limit the size of the program and of Agriculture and the Congress to move increasingly large quantities of commodities. The pressure to move commodities dominated policy--even to the extent that some recipient countries were pressured into taking commodities that they did not want--tobacco for Greece and cotton for India--in order to obtain commodities that they could use. The concern by Agriculture that food aid should not displace commercial sales and by State that it should negotiate a more liberal international economic order gave way to pressure from the Congress and its agricultural constituencies. "The major farm and commodity interests made it clear that as long as surpluses disappeared, they were largely uninterested in the political ends they served."[17]

The issue of how to use the foreign currencies obtained as payment for Title I sales emerged as an unexpectedly difficult problem. Proposals were made to finance agricultural development projects with the soft currencies. Many of the proposed uses ran into objection from the host country. Others were excessively cumbersome to administer. In the 1957

extension of the Act an amendment introduced by Chairman Cooley authorized up to 25 percent of the proceeds from PL-480 Title I sales to be made available as loans to domestic and foreign enterprises for market development and facilities investments in recipient countries (Cooley loans). Soft currencies continued to accumulate to the point where concern was expressed over United States control over money supply in recipient countries.[18]

By the late 1950s the PL-480 program accounted for approximately one-third of United States grain exports and over one-fifth of foreign aid commitments (Tables 1 and 2). Yet it was apparent that the disposal programs were not going to resolve the problem of domestic agricultural surpluses. The short-run impact on export demand of market development activities carried out under PL-480, by inducing changes in consumer preferences (from rice to wheat, for example) or by assisting American agribusiness to establish a foreign presence (livestock feed in Korea, for example) was relatively small. The stocks of agricultural commodities being accumulated by the Commodity Credit Corporation (CCC) continued to grow. Bureaucratic battles over the program objectives and size remained unresolved and farm organizations and the Congress were increasingly critical of what they perceived as excessive bureaucratic delays in program administration. It also became apparent to the administration that the Congress, prodded by Senator Humphrey, was prepared to extend the program on a long-term basis.

Food for Peace

Beginning in the late 1950s a serious effort was made to move the PL-480 program from its limited surplus disposal and market development objectives and to make the use of United States agricultural surpluses into a more effective instrument of foreign policy.[19] This transition was consistent with a trend away from the narrow security orientation that had dominated foreign assistance in the early and mid-1950s to a greater emphasis on development assistance. Both the late Eisenhower and the early Kennedy administrations attempted to transform narrow security concerns into support for development assistance by urging the view that a more prosperous and democratic world would also be a more secure world.[20]

New Clothes

The effort to reform food aid was set in motion when, in 1957, Senator Humphrey secured the authorization of the Senate Committee on Agriculture and Forestry Chairman Allen J. Ellender, to initiate a study of PL-480 operations and policy. The study lasted more than a year and included ten days of public hearings. The committee report, titled Food and Fiber as a Force for Freedom, was issued in February of 1958. Its major criticisms of the existing program were that (a) it was administered as a surplus disposal program with little attention to humanitarian and foreign policy goals; (b) friendly countries often thought they were doing the United States a favor by taking surplus commodities; (c) the program was viewed as a temporary effort because of the annual authorization process; (d) the machinery for administering the program was inadequate and the administrators uninterested.[21]

On April 16, 1959, Senator Humphrey introduced a bill (S.1711), titled International Food for Peace Act of 1959, that was designed to reflect the results of the earlier studies. The Humphrey bill called for a revision of PL-480 to emphasize its humanitarian aspects, establish a long-term credit sales program, grants of food for building reserves in developing countries, grants of local currencies to foundations to be used for social development in developing countries, and a number of administrative reforms. In retrospect, the Humphrey proposals shaped the future of the U.S. food aid program. But they were not warmly received by either the administration or the Congress.

Somewhat similar reforms had been proposed in 1958 by former assistant Secretary of Agriculture John H. Davis in a study commissioned by the State Department. Davis urged a five-year "comprehensive food-fiber program, which might be called the Food for Peace Program, to be announced by the President and designed to utilize and adopt our agricultural productive capacity for the advancement of peace in the free world."[22] There were numerous objections within the administration particularly within the cabinet level Council on Foreign Economic Policy (CFEP) and the ICASD to the Davis plan. The CFEP Chairman Clarence R. Randall, was worried that it would provide an excuse to postpone reforms in the domestic agricultural commodity programs. Perhaps the most damaging criticism, from the administration perspective, was reflected in a comment by Secretary Benson--if the administration adopted the Food for Peace idea, "it might be accused of embracing a proposal favored by Senator Humphrey."[23]

By late 1958, however, Benson was shifting his position. He managed again to outflank both Randall and the ICASD by arranging for President Eisenhower to announce,

in his January 29, 1959 message to Congress on agricultural policy, that he was "setting steps in motion to explore anew with other surplus-producing nations all practical means of utilizing the various agricultural surpluses in each in the interest of reinforcing peace and the well being of friendly peoples through the world--in short, using food for peace."[24] Benson's efforts were supported by the State Department and the International Cooperation Administration (ICA).[25] But Randall was so incensed that he had not been consulted in advance that he considered resigning.[26]

The Humphrey bill provided for an extension of Titles I and II for five years, long-term credits, grants of CCC stocks to establish food reserves abroad and a White House post of food for peace administrator. Benson, again working around the objections of Randall and the Council on Foreign Economic Policy (CFEP), arranged for the White House legislative office to forward a bill to the Congress on May 20 providing for a three-year renewal of PL-480. When the CFEP met on June 4, it recognized the inevitable. After some minor modifications, the White House forwarded a revised bill to the Hill (introduced as S.1748).

The reception in the Congress to the Humphrey proposals were not much more enthusiastic than in the White House. Support for PL-480 in the Congress was split among those congressmen interested primarily in surplus disposal and a second group (led by Humphrey) hoping to transform the program into a major instrument of foreign policy.[27] The first group was lead by Senate Agriculture Committee Chairman Ellender and by House Agriculture and Forestry Committee Chairman Cooley. Cooley made his position abundantly clear when he responded to testimony from the State Department. "We are

primarily interested in getting rid of these surpluses and we don't care how you do it and under what authority. We have told you we want the commodities sold for dollars first and then for foreign currencies, or then donate them."[28]

The Committee effectively killed the Humphrey proposal by taking up the administration proposal. Anticipating a negative reaction from the Senate Agriculture Committee, Humphrey arranged for hearings to be held by the Senate Foreign Relations Committee of which he was also a member. The Foreign Relations Committee reported the bill (S-1711) favorably in early August. Humphrey then adopted a strategy of introducing his proposals a section at a time both at the Agricultural Committee hearings and on the floor of the Senate.

The "Food for Peace" bill that was finally passed and sent to the president was the result of a long series of compromises both within the Senate Committee and between the Senate and House members of the Conference Committee. The new bill, the 1959 Agricultural Trade Development and Assistance Extension (PL 86-341) extended Titles I and II for two years--less than the three years recommended by the CFEP or the five proposed by Senator Humphrey. The provisions for a more aggressive barter program, the food reserve proposals, and the food for development grants were eliminated. Humphrey was successful in getting a new Title IV provision which incorporated a large grant element in dollar sales (ten-year supply contracts with dollar payments spread over twenty years). At the White House the "Food for Peace Coordinator" title was added to Don Paarlberg's other White House responsibilities. Humphrey succeeded having the short title of the new bill changed to the "Food for Peace Act of 1959."

What inferences can we draw from the 1957-1959 efforts to amend PL-480? There was growing acknowledgement, first at Agriculture and later at State, that food assistance could no longer be viewed as a short-term program that would be phased out as surpluses disappeared. As this view began to prevail, there was recognition that its image as little more than a surplus disposal activity should be repaired. With foreign assistance becoming increasingly subject to more careful Congressional oversight, the State Department (and its ICA) began, at first grudgingly and later with more enthusiasm, to welcome its access to the resources of food aid which were less subject to legislative restrictions.[29] There remained a large gap in perception, however, between those members of Congress and the Department of Agriculture, who saw the "Food for Peace" label as a convenient public relations device to paper over the reality of surplus disposal, and the members of Congress, the ICA and the State Department who were concerned that food aid make a genuine contribution to development.

New Directions

President John F. Kennedy entered office with a much more activist orientation toward the role of economic assistance in foreign policy and toward the role of food aid as an instrument of foreign policy. He appointed a committee of distinguished citizens, including Senator Humphrey and CARE President Murray D. Lincoln, to advise him on food aid. During the campaign Kennedy had committed himself to stronger aid efforts in both Latin America and South Asia. He was strongly committed to both a stronger aid effort and to a change in the objectives of food aid. The administration also embraced a strong "supply management" perspective in its approach to domestic farm policy and viewed

the availability of food surpluses as an opportunity to relieve domestic poverty and malnutrition.

The first executive order signed by President Kennedy following his inauguration directed the Secretary of Agriculture to initiate a pilot Food Stamp Plan and expand the school lunch program. His second executive order created the Office of Food for Peace within the White House. Former Congressman George S. McGovern (D-South Dakota) was appointed director of the Food for Peace program. In their study of the legislative history of PL-480, McLellan and Clare assert, in an excessive burst of enthusiasm, that the establishment of a Food for Peace Agency attached to the White House in the early weeks of the Kennedy Administration marked the formal evolution of PL-480 from an instrument of farm policy into an instrument of foreign policy.[30]

Secretary of Agriculture Orville L. Freeman and his chief economic advisor Willard W. Cochrane were even more committed to reducing farm surpluses and to the humanitarian and developmental objectives of food aid than the President.[31] In 1962 the administration, anticipating the reduction of surplus stocks, attempted to obtain authorization to purchase commodities that were not in the federal stockpile in the open market. Freeman urged the restructuring of food aid policy geared to meeting recipient needs rather than to surplus availability.[32] This commitment was reinforced by convening, in cooperation with the UN/FAO, a World Food Congress to commemorate the 20th anniversary of the founding of the FAO. The Congress was designed to mobilize public opinion and voluntary agency support for the U.S. "Food for Peace Program and the U.N. "Freedom from Hunger Campaign." The Kennedy Administration also moved to broaden

the domestic constituency for its foreign assistance policy by bringing the private voluntary agencies into a more active dialogue over food aid policy and their role in the Food for Peace program. When McGovern resigned from his position to run for the Senate, he was replaced as Food for Peace director by the president of CARE, Richard Reuter.

One consequence of the changes in foreign assistance policy during the Kennedy administration was that leadership in food aid policy and administration was beginning to shift away from the Department of Agriculture--with State assuming greater responsibility for determining the direction and amount of food aid flows and Agriculture managing food aid financing and logistics.[33] It was not until the first year of Lyndon B. Johnson's presidency, however, that major changes were made in food aid legislation. As the Kennedy administration agricultural policies began to achieve some initial success in slowing the growth of agricultural production concern about commodity surpluses began to recede. The agricultural interests in Congress became increasingly critical of the shift toward institutionalizing the humanitarian, development assistance, and strategic uses of food aid.

In 1964 the Administration, in the hope of obtaining a quick passage, asked only for a simple extension, with relatively few amendments, of the Food for Peace legislation.[34] In retrospect, it appeared to be less than fully sensitive to the criticisms that were emerging in the Congress. When the administration transmitted the proposed extension of PL-480 to the House Committee on Agriculture on February 18, 1964, it clearly did not anticipate the serious difficulties it would face in either the House or the Senate. The criticism in the House focused on three issues. One was what was viewed as an excessively strong foreign assistance orientation and AID role in PL-480 programming and operations. A second was

criticism of food aid to the Soviet Union, the centrally planned economies of eastern Europe and to countries considered to be within the Soviet sphere of influence such as Egypt.[35] The third concern, closely related to the first, was that excessive foreign currency sales were having the effect of depressing world prices for agricultural commodities. The House first voted to eliminate Presidential authority to use soft currencies for economic development grants and a day later reversed itself when Congressman John J. Rooney (D-New York) reported that 90 percent of the soft currencies held by the U.S. in Vietnam were used to support the war effort.

Discussion on the Senate side was complicated by the fact that the Chairman of the Senate Committee on Agriculture and Forestry showed many of the concerns expressed in the House. There was on the Senate side, however, strong support, particularly from Humphrey and McGovern for giving even stronger weight to the humanitarian, developmental, and strategic objectives of food assistance. The debates on the floor of both the House and the Senate were both emotional and acrimonious. Humphrey, sensing the political tide, played a less active role than he had in earlier PL-480 debates. The Chairman of the Senate Foreign Relations Committee, William Fulbright, was so incensed about the use of food aid to support administration policy in Vietnam that he attempted to have the bill that emerged from the Conference committee referred to his Committee to consider its foreign policy implications.

The bill that emerged from Congress differed very substantially from the legislation proposed by the Administration. Among the most significant changes were: (a) a requirement that PL-480 expenditures be classified under international affairs and finance

than under agriculture in the President's budget; (b) restrictions on Title I sales to communist countries; (c) authorization of the use of Title I currencies in support of counter-insurgency programs.

The 1964 legislation was particularly important not only in terms of the changes in the legislation but also in terms of the relationship among interest groups, the Congress, and the administration. The Farm Bureau and the Grange, both supportive of food aid in the 1950s, opposed the extension of food aid. While the National Farmers Union and four commodity groups did support the program, the strongest support was from the private voluntary organizations. In the 1950s an aggressive Congress had been pressing a disposal program on a reluctant administration. The 1964 legislation clearly reflected a determination by the Congress, particularly the House, to exercise greater Congressional control and supervision of Public Law 480 operations.[36]

On October 20, 1965 President Lyndon B. Johnson transferred the Food for Peace office and Director Reuter, from the White House to the State Department where it was placed under the Agency for International Development.[37] This set in motion a period of bureaucratic infighting during which Secretary Freeman attempted to recapture greater control over Food for Peace. In December 1966 Reuter resigned for "personal reasons." The position of director was left vacant and on March 16, 1967, President Johnson signed an executive order that confirmed the role of the State Department as the lead agency for Food for Peace. Reuter's departure reflected a trend that had begun two years earlier to dampen the role of the PVO's in both food aid policy and administration. The allocation

of Title III resources would, in the future, bear a closer relationship to foreign policy objectives.

Self Help

In a February 10, 1966 message to Congress President Johnson proposed additional changes as part of the legislation to extend the PL-480 act. The proposal included changing the name of the program to "Food for Freedom" and several new features "(1) to make self-help an integral part of the food aid program; (2) to eliminate the 'surplus' requirement for food aid; (3) to expand the magnitude of food aid shipments; and (4) to authorize the CCC to enrich nutritionally the food shipped under the program."[38] These proposals represented an attempt to obtain the authorization needed to strengthen the foreign economic assistance purposes of the program during a period of declining food surpluses. They also reflected President Johnson's intense concern with food shortages in South Asia. The "self help" concept was particularly important to President Johnson and his advisors. It signaled an attempt to end earlier Congressional constraints on assistance for expansion of agricultural production in recipient countries. It served, in particular, to legitimize the pressure that the Johnson Administration was putting on India to increase its investments in agricultural research, in irrigation, and in the fertilizer industry and to liberalize its controls over investment and prices. In addition to the Administration's bill, other proposals were introduced in both the House and the Senate. The House Agriculture Committee merged the several proposals into a single bill (HR 14-929) which was substantially amended by the Senate. After being twice considered by the conference committee, it was passed by both houses on October 21 with considerably less tension and recrimination than the 1964 Act.

The 1966 Act was the most significant food aid legislation since the initial passage of PL-480 in 1954. It contained a number of provisions that culminated almost a decade of effort to transform the food aid from an instrument of surplus disposal to an instrument of development assistance.[39] The most significant change was the authorization to utilize commodities that were not in surplus. The Act also limited Food for Peace shipments to commodities that recipient countries could not obtain with their own resources. Another major change made continuation of Food for Peace assistance conditional on the recipient nation's progress toward self-sufficient agricultural production. The President was also directed to conduct the program to assure a progressive transition from foreign currency sales to dollar sales or other convertible currencies by the end of 1971. The authority of the Secretary of Agriculture to designate recipient countries was withdrawn. In addition, Title I combined old Titles I and IV by providing for sales both for foreign currencies and for dollars. The new Title II program include the foreign donation programs previously unauthorized under Titles II and III. The new Title III provide for the barter transactions and the new Title IV contained the general provisions and definitions.

Multilateral Food Aid

In addition to legislative efforts, the Kennedy and Johnson Administration also undertook two major initiatives to institutionalize multilateral food assistance.[40] Interest in multilateral approaches to food aid had been building since the mid-1950s. A FAO Consultative Subcommittee on Surplus Disposal was formed in 1954 to attempt to deal with complaints by developed and developing country grain exporters about United States "dumping" under the cover of food aid. The Subcommittee also attempted to formulate

acceptable rules governing surplus disposal. In 1958, the FAO Committee on Commodity Policies conducted a staff study on multilateral uses of food surpluses.

There was little interest on the part of the United States in multilateral approaches until, in the 1960 presidential campaign, Richard M. Nixon urged that the United States should support the creation of a multilateral surplus food aid mechanism. In spite of opposition by the Department of Agriculture, President Eisenhower proposed, in an address to the U.N. General Assembly on September 22, that the U.N. study the possibility of multilateral food assistance. The Nixon and Eisenhower initiatives were made in part to counter Kennedy's campaign proposals to strengthen the U.S. foreign assistance effort. In October 1960 the U.N. General Assembly authorized the FAO to initiate a study of possible multilateral arrangements for the mobilization of available foodstuffs and their distribution in areas of greatest need. FAO Director General B. R. Sen appointed an expert group, chaired by Professor Hans W. Singer, to study the proposal.

Although the incoming Kennedy Administration found it somewhat awkward to support the Nixon proposal, their embarrassment was lessened by the fact that neither the State or Agriculture Departments had made any effort to staff out or translate the proposals into policy. At the April 1961 Rome meeting called to consider the findings of the FAO expert group that had been set up to study Eisenhower's proposal, the U.S. delegation, headed by Food for Peace Director McGovern, attempted to move the negotiations forward by proposing a multilateral fund of $100 million with the U.S. to contribute 40 percent. This proposal, which had not been included in the terms of reference of the U.S. delegation, was cleared with the White House in a series of telephone conversations.

In 1961 the proposals were debated by the U.N. Economic and Social Council (ECOSOC). In December 1961 the General Assembly approved a resolution authorizing a three-year experimental program. After further discussion by ECOSOC and the FAO Council, a governance structure and policies were agreed on. Pledging sessions were held in 1962 and the World Food Programmes (WFP) got underway in 1963 with initial pledges of $91 million out of an indicative target of $100 million for the three-year program. In spite of the fact that multilateral food aid has grown at a rate of about four percent per year since the mid-1950s, it has declined from over 20 percent to less than 10 percent of total aid.[41]

A second United States multilateral initiative was made during the "Kennedy round" GATT negotiations (1962-1967). As the negotiations were being completed Undersecretary of Agriculture John A. Schnittker introduced, as the U.S. price for agreeing to a new international wheat agreement, a proposal for wider burden sharing in the area of food aid. As a result of these negotiations, the 1967 International Wheat Agreement included a Food Aid Convention (FAC) that committed the United States and eleven other developed country (including EEC) exporters and importers to a 4.5 million ton annual program of food aid. The U.S. pledged contribution of 1.9 million metric tons represented food aid that it would have provided in any case. The convention provided that the non-exporting donor countries could provide the value equivalent of their quantitative commitments in the form of another cereal grain, or the cash equivalent in wheat purchases from one of the exporters. This had the effect of removing grain from the international market at European expense thus opening up the market for increased commercial sales by the United States. The Food

Aid Convention was renewed,in 1971 and 1974, 1980 and 1986. In 1980 the minimal annual contribution was increased to approximately 7.8 million tons, with the U.S. commitment set at about 4.5 million tons.

In spite of the U.S. role in the development of the multilateral food aid institutions, its commitment to them has continued to be somewhat conditional. The strength of the U.S. commitment has depended to a substantial degree on the extent to which the WFP and the FAC could be viewed as an extension of the U.S. bilateral program. The U.S. interest in burden sharing stopped short of the point where the multilateral programs might be large enough to interfere with the use of the bilateral program for political leverage. At that point, the United States interest in burden sharing has tended to shift toward the use of a country specific consortia of bilateral donors. The United States has, however, at times found it useful to channel food aid through the WFP to assist refugee groups or provide emergency assistance to countries that domestic political pressures would make it difficult to assist directly. The U.S. has also expressed its leverage to weaken the role of the FAO in WFP policy and to provide WFP greater autonomy in program management.[42]

The success of the Administration in its effort to achieve multilateral burden sharing and to incorporate greater emphasis on "self help" in meeting food needs must be read against the changes in the world food situation in the mid-1960s. Massive transfers of food grains were made to India in response to the food deficiencies resulting from the South Asian drought of 1965 and 1966. Concern over global food shortages, was beginning to replace concerns about the burden of food surpluses. Rapid growth of commercial exports stimulated by lower prices and rising incomes combined with initial success in achieving

closer links between commodity production and demand under the Food and Agriculture Act of 1965 created confidence that the period of uncontrolled domestic food surpluses had ended. Secretary Freeman stressed that it was dangerous to the developing countries to continue to rely on United States food surpluses to meet food deficiencies.[43] From the mid-1960s until the end of the Johnson administration, the "self-help" provisions of the 1966 Act were used as a "short tether" to encourage developing countries to devote a larger share of assistance and domestic resources to agricultural development.

Food Power

President Kennedy did not hesitate during his campaign or his tenure as President, to draw attention to the threat of Soviet expansion in the Third World. During the 1950s food aid had been used in an attempt to weaken the dependence of Poland and Yugoslavia on the Soviet Union and to strengthen the governments of Korea and Taiwan. The Eisenhower and Kennedy Administrations had emphasized the strategic role of India and the importance of food aid as a guarantee of political stability in justifying the massive amounts of food aid to India beginning in the mid-1950s. In retrospect, it is clear that the Kennedy Administration's positive attitude toward food aid was due even more to the flexibility it gave the administration in pursuing foreign policy objectives than its value as an instrument of humanitarian assistance and economic development. The use of food aid as an instrument for political and strategic leverage would be refined and intensified in the Johnson and Nixon Administrations.[44]

An initial opportunity to use food aid to counter Soviet influence occurred when Algeria faced a major famine immediately after gaining independence, in the winter of 1962-

63. The Kennedy Administration responded rapidly with the largest infusion of food aid that had yet been received by any country. In 1962 the Administration also attempted, with rather limited success, to use Food for Peace to blunt Egyptian antagonism toward Israel. A troubled food assistance program to Egypt continued during the Johnson Administration until 1967. When Egypt went to war against Israel in the June 1967 war, the flow of PL-480 grain stopped. It was not resumed until 1974 when Secretary of State Henry A. Kissinger saw an opportunity to again use food aid as a bargaining chip to advance his peace proposals.[45]

The "Short Tether"

By the mid-1960s, the Johnson Administration "short tether" policy was rapidly evolving from an instrument to induce greater agricultural development efforts in India (and elsewhere) to use as a lever to induce closer adherence to U.S. political objectives.[46] During the 1965 Kashmir border conflict President Johnson suspended financial assistance to India and Pakistan but did not stop the flow of food aid. But he did order that food aid be placed on a month-to-month basis and that all program loans of over $5 million and project loans of over $40 million be submitted to him for personal review and approval. Johnson and Freeman used the short tether policy as an effective "lever" to induce the government of India to reallocate both foreign and domestic resources toward the agricultural sector. In retrospect, it is clear that the Indian Minister of Agriculture Chidambaram Subramanian welcomed the external pressure since it provided him with the leverage he needed to convince his colleagues in the cabinet and Prime Minister Shastri to shift development resources in favor of agriculture. During 1966 and 1967 relations between

the United States and India, and between President Johnson and Prime Minister Indira Ghandi, worsened as Ghandi attempted to blunt domestic criticism of excessive dependence on the United States by establishing closer relations with the USSR and criticizing United States policy in Vietnam. Food shipments were delayed and reduced--even during the tight food supply situation that prevailed in India in 1967. During this period Johnson was, in effect, his own "Food for Peace" officer.[47]

Security Assistance

Small amounts of food aid had been provided to South Vietnam since the mid-1950s. In the early 1960s both military and food assistance to Vietnam began to escalate. PL-480 shipments were used to evade the ceilings in the dollar amount of aid to Vietnam that had been agreed to in Geneva in 1954. By the mid 1960s something in the neighborhood of 80-90 percent of the soft currency generated by food aid was utilized to support the counter-insurgency effort. The 1964 extension of the Act, as noted above, contained an explicit provision to permit the use of Title I currencies to support counter insurgency efforts. Under the "common defense" interpretations of the Title, proceeds from sale of the commodities by the Vietnamese (and Cambodian) governments "could be used as foreign exchange to purchase war material. For a number of years this new food for war strategy went virtually unnoticed--or at least, unchallenged--by the Congress and by the citizen anti-war movement."[48] The only significant change in the 1968 Act to extend the PL-480 program was a provision that 5 percent of Title I local currencies be made available for voluntary population programs. Population control programs became one of the self-help programs to be considered in Title I programming.

Although President Nixon had promised, during the 1968 election campaign, that he had a "secret plan" to end United States involvement in the war in Vietnam, he was not able to conclude negotiations prior to the 1972 election. Under Nixon a "shell game" designed to evade Congressional oversight replaced Johnson's "short tether". As the Congress began to impose more severe restrictions on aid to Vietnam the attractiveness of food aid to the Administration was enhanced. The Congress had no direct means of controlling either the target recipients or the specific value of food aid for any given country. If the Congress chose to cut back the dollar levels budgeted for PL-480, the dollar resources under the control of the Commodity Credit Corporation meant that the impact on flexibility of Presidential action would not be felt for some time.[49]

The situation remained unchanged in the extensions of the PL-480 program in the Agricultural Act of 1970 or in the Agricultural and Consumer Protection Act of 1973. However, a provision was inserted in the Foreign Assistance Act of 1973 prohibiting the use of foreign currency funds for common defense and internal security unless Congress explicitly authorized such use.[50] Although this provision was a clear reflection of Congressional intent it had little practical significance since the proceeds from sales of PL-480 commodities are fungible. In the Foreign Assistance Act of 1974 a more meaningful restraint was added which limited to not more than 30 percent the U.S. concessional food assistance that could be allocated to countries not appearing on the U.N. "most seriously affected list. The Nixon Administration attempted to evade this provision by increasing the total level of PL-480 budgeted for 1975.

During the late 1960s the relationship between the Johnson Administration and the private voluntary organizations involved in the distribution of humanitarian assistance under (new) Title II had steadily worsened. The resignation of Food for Peace Coordinator Reuter reflected his concern that as the strategic uses of food assistance expanded the voluntary agencies were being arbitrarily excluded from the dialogue on food policy that they had enjoyed during the Kennedy Administration. At the same time the PVO's were being pressured by the Administration to expand their activities in Vietnam. The relationship deteriorated further during the first Nixon Administration (1969-73). The volume of PL-480 grain available for distribution declined by almost half between 1969 and 1973 and an increasing share of both Title I and Title II shipments were directed toward Vietnam. While cooperating with the government the PVO's voiced their dissatisfaction with the increasing politicization of their programs. In spite of their reservations they allowed themselves to be "used" because of their dependence on government money and supplies. Because of this dependence most were willing to do whatever was necessary--including the distribution of food in situations that were at best questionable and at worst harmful to recipients.[51]

Declining Surpluses

During the 1950s and well into the 1960s, there was little difficulty in simultaneously attempting to pursue the surplus disposal, development assistance, humanitarian assistance, and foreign policy objectives of food aid. The existence of the surpluses obviated the need to make difficult choices. As the burden of surplus commodities began to decline the weight

placed on the disposal objectives could be reduced without serious offense to the agricultural constituency for food aid.

In the early 1970s this situation was beginning to change. By the beginning of the first Nixon Administration, surpluses had been substantially reduced. The Johnson Administration's aggressive use of food aid in South and Southeast Asia, combined with steady growth of commercial sales during the 1960s, had sharply reduced domestic food stocks. Beginning in 1966 food aid came under increasing criticism from the same Congressional, commercial agriculture and agribusiness constituencies that had welcomed it in the 1950s.

In the early 1970s a series of events occurred that severely tested the commitment of the United States economic development and humanitarian objectives of "Food for Peace."[52] The U.S. dollar had become increasingly over-valued. The over-valued exchange roles had contributed to the dampening of external demand for United States commodity exports since at least the mid-1950s. It was in effect a tax on exports and a subsidy to imports.[53] This resulted in a widening deficit in the U.S. balance of payments. The Nixon Administration devalued the dollar in 1971 and then let it "float" in 1973. There was a sharp decline in world wheat production, due largely to poor harvests in the Soviet Union in 1972 and a drought-induced decline in wheat and rice production in South Asia. The Organization of Petroleum Exporting Countries (OPEC) quadrupled the price of petroleum in late 1973 and early 1974. The combination of rising agricultural, fuel, and other commodity prices triggered a worldwide concern about impending resource scarcities. It also precipitated a period of great instability in United States food policy (Table 3).

One effect of the U.S. devaluation and the decline in food grain production was to stimulate the commercial demand for U.S. agricultural commodities. The USSR entered the world market on a massive scale in the winter of 1972-73. The impact on commodity stocks and prices was dramatic. The price of wheat more than doubled between 1972 and 1973. The carryover of United States stocks of wheat, which stood at 209 million bushels at the end of 1972 (down from over one billion bushels a decade earlier), fell to less than 20 million bushels by the end of 1973. Land diverted from wheat production dropped from the all time high of 20.1 million acres in 1972 to 7.2 million acres in 1973.[54]

The response of the Nixon Administration officials to these events can only be characterized as inept. "In the summer of 1972 the Nixon administration pursued food policies that seemed almost calculated to fuel the price inflation that followed. Massive wheat sales were encouraged both through direct intergovernmental negotiations and through export subsidies. And even after the magnitude of the Russian purchases were known, the Administration persevered with a wheat program aimed at reducing production in 1973, a program developed before it was known that Russia would buy one-fourth of the 1972 crop."[55] The effect was to stabilize the Russian food economy and destabilize the United States and the world grain and livestock economies.

Within a matter of months food aid was severely competitive with commercial sales -- and at a time of intensive concern about the United States balance of payments. Thus "at the very time when the global demand for U.S. food aid had reached its highest point since the Second World War, a combination of Butz-dominated farm policy and Kissinger-dominated foreign policy resulted in both a substantial reduction in the size of the overall

food assistance program and a growing tendency to allocate such supplies as were available on the basis of immediate U.S. political interests."[56] A "freeze" on food aid shipments in the spring and summer of 1974 contributed to a decline from 7.3 to 3.3 million metric tons between 1973 and 1974 (down from approximately 10 million metric tons in the early 1970s and the over 15 million metric tons shipped annually in the early 1960s). From 1957 through 1971 India had been the largest food aid recipient. By fiscal 1973 South Vietnam, Cambodia, and South Korea accounted for 67 percent of Title I food aid. This percentage rose to over 70 percent in fiscal 1974. During the height of the 1974 famine, when world food grain prices were at an all time peak, Bangladesh was forced to cut back on commercial imports because of foreign exchange constraints. At the same time, U.S. food aid to Bangladesh was delayed under the "trading with the enemy" provisions of PL-480, in order to force Bangladesh to discontinue its exports of jute bags to Cuba.[57]

While Kissinger, in his role as National Security Advisor, was attempting to direct the flow of "Food for Peace" commodities to support the Administration's strategic objectives Secretary Butz was somewhat belatedly attempting to respond to the opportunities for commercial sales of food and feed grains by dismantling the constraints on agricultural production and reducing food aid. Under the Agriculture and Consumer Protection Act of 1973 intervention to influence commodity price levels was authorized only when prices fell below "target levels." Butz sent the annual USDA budget request to the OMB with a "zero" figure for PL-480. Butz took the position that, with commercial agricultural exports at an all-time high, he no longer needed the food aid outlet, "If Henry needs it, let the money come out of his budget!"[58]

By this time the coalition of "cold war liberals" in the Congress was disintegrating. As noted earlier the Foreign Assistance Act of 1973 prohibited the use of foreign currency funds for common defense and internal security as of July 1, 1974. The 1973 Act also contained what came to be known as the "basic human needs" mandate. It directed the President to focus United States assistance efforts on the functional categories of food production, rural development, health and nutrition, population planning and human resource development.[59] This orientation was reinforced in the Foreign Assistance Act of 1974 which directed that in fiscal 1975 not more than 30 percent of concessional food aid could be allocated to countries other than those designated by the United Nations as "most seriously affected" by food shortages unless the President certified that the use of such food assistance was solely for humanitarian purposes.

The World Food Conference

The tensions that had been building between Agriculture and the State Department, between the Administration and the Congress, and between the government and the food assistance constituencies were further precipitated by the 1974 World Food Conference. In his first major address after becoming Secretary of State, Kissinger proposed before the UN General Assembly on September 23, 1973 that a World Food Conference be convened in 1974 under UN auspices in order to coordinate global action on the food needs of the developing countries.[60] At the same time that plans for the World Food Conference were going forward, Kissinger was engaged in "shuttle diplomacy" over the ending of the October 1973 war between Egypt and Israel. As a "sweetener" he made commitments that substantial increases in food aid would become available on successful completion of the

negotiations. This commitment was particularly compelling because of the high prices for grain in the commercial markets during the 1973-75 food shortages. The negotiations were completed during the World Food Conference.[61]

In the summer of 1974 the United States suffered a major drought that resulted in a further decline of grain, production, and stocks. "By the time of the opening of the World Food Conference, the United States was caught in an awkward conflict among four competing factors: (1) the absolute supply of grain available for export either in trade or aid was limited by the reduced size of the U.S. crop and depleted government-owned reserves; (2) a World Hunger Action Coalition, composed of church groups, voluntary agencies, and congressional leaders had coalesced around the American Freedom from Hunger Foundation demanding that the U.S. increase its food aid contributions; (3) the poor world harvests had placed a tremendous demand on U.S. wheat and soybean crops and forced the temporary and controversial imposition of export controls on soybeans in 1973, causing growers and exporters alike to exert heavy pressure on the Administration to avoid at all costs any further restrictions on free market trade; and (4) inflation had continued to increase in the U.S. causing consumers to be vocal in their demands that the Administration hold the line on further food price increases."[62]

These circumstances intensified the conflicts between domestic and foreign policy considerations in food policy. Failure to resolve these conflicts resulted in considerable tension among members of the United States delegation at the World Food Conference. Butz was designated chairman of the U.S. delegation, but Kissinger was scheduled to deliver the keynote address. The Kissinger speech was prepared in the State Department, with no

input from the Department of Agriculture, and cleared directly with the President. In spite of opposition by a coalition of the Office of Management and Budget (OMB), the Council of Economic Advisors (CEA), the Council for International Economic Policy (CIEP) and Treasury, Kissinger had succeeded, on the basis of expectations that commodity prices would decline, to obtain a commitment from President Ford in the spring of 1974 that the United States would maintain its financial commitments and increase the volume of food aid shipments. Commitments of food aid to Egypt, Syria, and Jordan were an important component of Kissinger's Middle East peace strategy. By mid-summer, during the worst drought since the 1930s, commodity supplies were down and prices sharply up. The spring commitment was reversed. Dollar commitments would be retained but the volume of food aid shipments would be reduced. As a result Kissinger was unable, in his address to the Conference, to go beyond acknowledging that "an expanded flow of food aid will clearly be necessary" without making an explicit United States commitment."[63]

At the conference itself delegates from developing countries took turns "blistering the U.S. government and the Soviet Union for 'rationing' the world's food supply." The U.S. delegation, including members of the World Hunger Action Coalition and the Inter-religious Task Force on U.S. Food Policy, Senators Richard Clark (D-Iowa) and Humphrey, pressured Secretary Butz to cable the President to approve a minimum volume increase in food aid of one million tons in 1975. Bolstered by his Budget and Treasury officials, Ford again refused. Commenting on the disorganization of the United States delegation Conference Secretary-General Sayed A. Marei, speaker of the Egyptian parliament,

commented in a classic diplomatic understatement, "I must say the Americans did their part to make the world aware of food problems."[64]

Events soon dominated both ideology and policy. Grain prices began to decline during the winter of 1974-75. In February 1975 Secretary Butz was able to announce a fiscal 1975 U.S. food aid budget of $1.6 billion--the largest (in current dollar terms) since the late 1960s.[65] Although both Butz and Kissinger continued to refer, somewhat loosely, to the use of "food power" more sober considerations suggested that the longer term political costs, both at home and abroad, of such a policy would outweigh any short-term benefits. American agricultural interests, in particular, were vociferous in their objections to any actions based on strategic and political considerations that would interfere with commercial sales.[66]

The major actions to emerge from the World Food Conference were (a) a commitment to an annual food aid target to 10 million tons; (b) the establishment of a Committee on Food Aid Policies and Programs (CFA) to develop guidelines for bilateral food aid within the World Food Program; (c) the organization of a U.N. World Food Council; and (d) the creation of an International Fund for Agricultural Development (IFAD).[67]

The Council was conceived as an institution that would function as a political forum in which global food issues, including food aid, could be resolved and action implemented and coordinated. It was established over the active opposition of the FAO leadership and was, in effect, a vote of no confidence in the FAO and its Secretary-General A. H. Boerma.[68] In retrospect, the Council has clearly not lived up to the expectations that

were held by its sponsors. The issues that it was intended to address became less immediate as the world food crises of the early and mid-1970s receded. It has been subject to continuing guerrilla warfare from the FAO Secretary General's office. The stature of its leadership has declined. It has been unable to command either the political or bureaucratic resources that would be necessary to fulfill its mandate - to inform and coordinate international efforts to alleviate world hunger.

The organization of the IFAD as a UN specialized agency in December of 1977, after three years of painful negotiations, represented a successful effort by the OCED countries to tap the resources of the Organization of Petroleum Exporting Countries (OPEC). The United States, which took the position that "we give through the AID and the World Bank," was coerced into participation. In 1977 an agreement was reached under which over a three year period (1978-1980) OECD members pledged $566 million, OPEC members pledged $435 million, and several less-developed countries pledged $16 million in voluntary contributions. The IFAD rapidly established a reputation for operational efficiency. Its projects, largely co-financed with the multilateral banks and FAO, were selected with a strong emphasis on relief of rural poverty. In spite of the generally high regard in which its efforts were held the IFAD experienced increasing difficulty in its fund replenishment efforts. The decline of world petroleum prices reduced OPEC enthusiasm. The Reagan administration was hostile to multinational initiatives. IFAD has continued to function, at somewhat lower levels of funding, largely because of the enthusiastic support of other OECD countries and an increasingly favorable reputation in the U.S. congress.[69]

Redesigning Food Aid

The same public and Congressional pressure that lead to the United States withdrawal from Vietnam also lead to both popular and Congressional pressure for reform of U.S. assistance policy. There was strong criticism of assistance for large infrastructure and industrial development projects--condemned as a "trickle down" policy--and support for programs of direct poverty alleviation. The Foreign Assistance Act of 1973 directed that the development assistance component of the AID program place greater emphasis on meeting the basic needs of the poorest people in the poorest countries.[70] The 1974 Act directed that during 1974 at least 70 percent of Title I concessional sales be allocated to those countries "most seriously affected" by the current economic crisis. In his 1976 campaign and in his inaugural address, President Jimmy Carter stressed the assurance of human rights as a major foreign policy objective.

The Congressional perspective was not shared by the Nixon and Ford Administrations. As noted above Secretaries Butz and Kissinger were involved in aggressive interagency rivalry over the objectives, the size and the budgeting of food aid. With the Congress continually escalating its "micro-management" of the security supporting assistance component of the AID budget, Kissinger, in line with his policy that nations that voted against the United States in the United Nations could expect to experience cutbacks in American aid, continued to seek ways of using "food power" as a policy instrument. Aid to Tanzania and Guyana was suspended in 1976 because of the votes against U.S. policy toward Israel and Korea.

A sense that the Food for Peace program was being abused--devoted to ends that were not appropriated--led the Congress to press for program reform. In order to obtain greater leverage, Senator Humphrey directed the staff of the Committee on Agriculture and Forestry to initiate a comprehensive review of the Food for Peace program. The review involved extensive field inspections, consultation with experts and Committee hearings. In May of 1975 Humphrey introduced a bill (S.1654) which provided for a comprehensive restructuring of PL-480.

Food Aid for Basic Needs

This time Humphrey was more successful in achieving legislative success than he had been in the mid- and late-1950s. A number of the proposals contained in S.1654 as well as several other reforms designed to direct a higher proportion of food aid to the poorest countries were included in the International Development and Food Assistance Act of 1975 (PL 94-161):[71]

- A minimum requirement of 1.3 million tons of commodities distributed through Title II donations was established. Of this 1.0 million tons were reserved for distribution through the World Food Program and voluntary agencies.
- A provision that not more than 25 percent of Title I aid could be allocated to countries having a per capita income of above $300.
- Authorization for the President to waive repayment of up to 15 percent of annual Title I concessional credit loans in cases where the recipient agreed to use the funds generated for population control or food self-sufficiency programs.
- The President was directed to seek an international agreement, subject to Congressional approval, for an international system of nationally held food grain reserves.

- The President was urged to maintain a significant United States contribution toward the annual 10 million ton food aid target established by the World Food Conference.

The 1977 International Development and Food Assistance Act (PL 95-88) strengthened the provisions of the 1975 Act, added a requirement that Title I food aid be denied to any country that engaged in gross violation of human rights (unless such aid would directly benefit needy people), increased the minimum tonnage of commodities available to the World Food Program and the voluntary agencies, and extended the Act for four years. A provision was added that food aid should not be authorized until it was determined that it would not act as a disincentive to local production (the Bellman Amendment). The 1977 Act also amended the Food for Peace Program by adding a new Title III labeled the "Food for Development Program." The objective of the new title was to encourage food-deficient countries to undertake development projects and policy reforms that would stimulate agricultural production. The "debts to grants" conversion mechanism provided to achieve this objective was multi-year agreements in which a "relatively least-developed" country could receive forgiveness of debts incurred under PL-480 if it implements the reforms specified in the Title III agreement.[72]

The 1977 Act also required the Secretary of Agriculture to appoint a task force to review and report on the administration of Food for Peace. The House and the Senate also passed resolutions (H. Res. 784 and S. Res 271) calling on the President to establish a commission to study how the United States should deal with domestic and international hunger and malnutrition. The USDA study provided an excellent review of the history of United States food aid policy and administration.[73] The report of the Presidential

Commission on World Hunger, chaired by Ambassador Sol M. Linowitz and directed by Daniel E. Shaughnessy, included a comprehensive analysis of hunger both at home and abroad and of the U.S. efforts to combat hunger.[74] Neither report, coming in the last years of the Carter Administration had any significant impact on the United States food assistance program. They were more reflective of the poverty oriented basic needs perspective of the previous decade than a guide to the future. During the last two years of the Carter Administration, foreign policy moved toward a stronger security orientation--a direction that would be reinforced during the first Reagan Administration.[75]

Return to Surplus Disposal

During the 1970s American farmers had rapidly expanded their productive capacity encouraged by favorable prices and the expectation that the world would need and would be able to pay for the commodities that could be made available from North America. The developing countries had become the major source of growth in demand for American agricultural commodities. But in the early 1980s, a combination of debt crisis in the developing world and a heavily over-valued American dollar resulted in a sharp decline in agricultural exports from the United States.[76]

The restrictions that the Congress had placed on the share of PL-480 Title I committees that could be shipped to middle income and centrally planned economies had begun to reduce the number of countries eligible to receive food aid. As resources declined allocations were limited primarily to lower income countries that had the institutional support of AID missions. By the late 1970s, the supporters of export enhancement and surplus disposal programs were finding other disposal alternatives more attractive than PL-

480. The PL-480 Title I and Title II programs have been supplemented by AID grants and loans for the purchase of agricultural commodities. These loans, primarily to countries such as Israel, Egypt, and Sudan, were rationalized in terms of mutual security interests (see Column 7, Tables 1-A and 1-B.)[77]

The Agriculture and Food Act of 1980 (PL 97-98) was developed before the implications of the changes in agricultural commodity prices and exports of the early and mid-1980s were fully anticipated. The price support provisions of the bill reflected continued optimism about the future. The high target price levels established in the Act encouraged the production of surpluses and left the United States as a residual supplier in world markets and contributed to subsequent accumulation of surpluses. The Food for Peace provisions of the Act were extended through 1985 with very few amendments.[78] The Act did authorize use of PL-480 commodities to support health and literacy programs for the rural poor. The foreign assistance act of 1981 (PL 97-113) reduced the minimum Title II volume requirements for commodities allocated to PVO's and the World Food Program.[79]

As exports declined and surpluses mounted in the early 1980s, however, the agricultural constituencies were again putting pressure on the Congress to develop other export enhancement programs that would offset the export depressing effects of the declining demand for U.S. commodities in world markets. The agricultural constituencies also became increasingly critical of efforts by U.S. bilateral assistance and by the multilateral assistance agencies to stimulate agricultural production in developing countries that might compete with United States agricultural exports. The Bumpers Amendment to the Foreign

Assistance Act of 1986, instructed the US/AID to avoid any support for agricultural development that would contribute to expansion of production competitive with United States agricultural exports.[80]

These pressures resulted in the most significant changes in food aid policy since the Food for Peace Act of 1966.[81] In the 1985 farm bill--the euphemistically titled Food Security Act of 1985--Title I was amended to again permit sales of commodities for nonconvertible foreign currencies.[82] The local currencies are to be used to promote private sector agribusiness, particularly credit, input, and marketing organizations,in the recipient country (Sections 106 and 108).[83] At the initiative of the White House, a new "Food for Progress" provision (Section 1110) was added that provided for grants of either PL-480 or Section 416 commodities to countries that have made commitments to introduce or expand free enterprise oriented policy reforms in their agricultural economies through changes in commodity pricing, marketing, input availability, distribution, and private sector involvement. The minimum tonnage to be programmed under Title II was raised to 1.9 million tons with the requirement that at least 1.425 million tons be programmed through PVO's, cooperatives, and the World Food Program. The 1985 Act also authorized both private voluntary organizations and cooperatives to monetize (that is, sell or barter) not less than 5 percent of donated commodities in recipient countries. The foreign currency acquired by the PVO or cooperative would be used to carry out food distribution activities or development projects. In authorizing monetization, the Congress was apparently seeking ways to enable the PVO's to serve as a more effective channel for disposal of surplus commodities. Critics view monetization as a further step toward complete dependency by

the PVO's on government patronage. Shippers and suppliers succeeded, over the objections of the agricultural interests, in obtaining a requirement that 75 percent of non-emergency minimum tonnage be bagged, processed or fortified commodities and that the portion of food aid shipped on U.S. vessels (cargo preference) be raised from 50 to 75 percent.

Other export enhancement programs were also included in the Act. In 1982, under pressure from the dairy industry to expand surplus disposal, the Congress had resurrected Section 416 of the Agricultural Act of 1949 and authorized the USDA to make available for donation to foreign countries dairy products acquired by the CCC through price support operations [see Tables 1(a) or 1(b)]. This reopened a door to CCC that had been closed since Congressmen had tightened control of food aid during the Vietnam war. The Food Security Act of 1985 extended the program to include grains and oilseeds and directed that, while the Section 416 program should be managed as part of Title II of the PL-480 program, its costs should be charged to the CCC rather than PL-480 and not considered as part of the international affairs budget (the 150 account). By 1988 over 40 countries were receiving food aid under the Section 416 program.

The 1985 Act also included several forms of "non-concessional" export assistance. These include the Export Enhancement Program (EEP), the Targeted Export Assistance Program (TEA) and the Commodity Credit Corporation (CCC) short term (GSM-102) and intermediate term (GSM-103), credit guarantee programs.[84] Under the EEP the Department of Agriculture markets government owned commodities available to Untied States exporters that are then combined with commercially purchased commodities to enable the exporters to offer lower prices to the foreign buyers in countries that are being offered

commodities at subsidized prices by other exporting countries. The EEP has been used extensively to counter heavily subsidized wheat exports from the EEC. It has largely been targeted toward North Africa, the Middle East, and the centrally planned economies. Under the TEA the USDA uses surplus stocks from the Commodity Credit Corporation to provide partial reimbursement for export promotion activities undertaken to offset the adverse effects of "unfair" trade practices by other exporters.[85] Under the CCC program support is provided to assist exporting firms in making sales to foreign buyers who have difficulty obtaining commercial credit. With CCC loans guaranteed, private lending institutions provide short or intermediate term credit for purchases of U.S. farm commodities. The CCC guarantees repayment. Major destinations under the CCC credit guarantees have been Latin America, the Middle East, South Korea, and Eastern Europe.[86]

In retrospect it may turn out that the most important legislation affecting the future of food aid, also passed in 1985, was the Balanced Budget and Emergency Deficit Control Act (the Gramm-Rudman--Hollings Act). The effect of the Gramm-Rudman-Hollings (G-R-H) has been to make food aid less of a "free good" to the Agency for International Development. Prior to 1985 authorization and oversight of PL-480 was the province of the Senate and House agriculture committees and PL-480 appropriations were the province of the agricultural appropriation subcommittees of the House and Senate committees. This meant there was almost no trade off between the volume of food aid and financial aid--they came out of different "pockets". Even if food aid was less valuable than financial aid, either in terms of U.S. foreign policy and economic assistance objectives or to the recipient country one could argue that it contained a very large amount of "additionality" to the general

foreign affairs budget (the 150 account). The total aid package was larger than if there were no food aid. Since the passage of G-R-H this somewhat less true. By setting a ceiling on the total budget G-R-H forces a trade-off among food aid, financial aid and other budget components.

The pressure by the agricultural community for export enhancement programs outside of the PL-480 umbrella represented an effort to get around (a) the program restrictions that the Congress had imposed on PL-480 since the 1966 Act in order to push the program in the direction of greater emphasis on development and humanitarian objectives; and (b) an attempt to avoid the financial constraints of the foreign assistance budget (the 150 account). In hearings before the House Subcommittee on Government Operations, a wheat producers representative commented:

> During the 1970s and early 1980s, the PL-480 and Export Credit programs were looked upon by most of the industry as important but not terribly significant factors in total wheat marketing. However . . . all of the export programs have become more and more important in terms of total export marketing. During the 1985-86 marketing year, more than 50 percent of all wheat exported from the United States was sold under PL-480, GSM credit, or the Export Enhancement Program.[87]

The evolution of U.S. food aid policy in the late 1980s was also beginning to reflect the effects of several changes in the international economic and political environment. By the late 1980s large amounts of food aid were accounted for by Egypt and a number of strategically important countries. In contrast the countries that were severely impacted by the African Food Crisis of the mid-1980s were relatively minor recipients. The African Food Crisis of the mid-1980s was the first severe test of the international food aid system that had emerged following the food crises of the 1960s and 1970s (see pp. 24-27 and 35-39). In 1980 the international Food Aid Convention was re-negotiated. It contained provisions

designed to avoid the sharp declines in food aid levels that had occurred in 1972-74 and strengthened the provisions for burden sharing. Yet the response to the African crisis was hardly more effective than response to the earlier crisis. Early warning systems were slow in triggering food aid flows. The flow of commodities lagged relative to the onset of crisis situations and delivery was plagued by logistical problems. In retrospect it appears "fortuitous that the African Food crisis coincided with a period of overhanging surpluses. The response might have been more limited and possibly even more tardy if there had been a tighter market situation than prevailed during 1983-86.[88] It seems also apparent that while the African crisis was very severe the relatively small number of people involved meant that undue pressure was not placed on the capacity of the U.S. and other developed countries to respond. The capacity simply did not exist to respond to an emergency of the magnitude of the South Asian Food Crisis of the mid-1960s.

Several other trends that have influenced the future of U.S. food assistance have also become apparent since the mid-1980s. One has been a somewhat surprising rise in project food aid relative to emergency and program food aid. A second has been the rise in the share of multilateral food aid relative to food aid by the United States. The decline has been accompanied by a decline in the grains component and a rise in dairy products as a share of total food aid--a reflection of massive dairy surpluses in the EC.[89] By the end of the decade food surpluses were becoming a less important source of food aid commodities. Triangular food aid transactions, in which a donor provides food aid from another country, had risen substantially. A positive consequence has been a rise in donor acquisition of

commodities in developing countries--rising to 8-10 percent of total food aid--to meet food aid commitments.[90]

Reforming Food Aid--Once Again!

During the fall of 1989 and into the spring of 1990 the economic environment for reform of farm legislation, including food aid legislation, was sharply different from that in 1985. Growth in U.S. agricultural production had been slowed as a result of the very expensive acreage reductions provided for in the 1985 Act and a severe drought in 1988. Stocks had been further reduced by a resurgence of agricultural exports in response to decline in the value of the dollar relative to other major currencies. By the fall of 1989 U.S. and world wheat and feed grain stocks had declined to levels that had not been seen since the mid-1970s.

The political environment for food aid, and foreign economic assistance more generally, had also changed. Farm commodity organizations had developed an almost paranoid obsession that the self-help provisions of PL-480 were contributing to the growth of grain and oilseed production in countries that were potential competitors with the United States. An exceedingly critical review of U.S. foreign assistance programs during the last weeks of the Reagan Administration (The Woods Report) and proposals for reform by the House Foreign Affairs committee (The Hamilton Committee Report) also helped create a general atmosphere favorable to the reexamination of food aid policies. In addition, the Chairman of the House Agriculture Committee, E. (Kiki) de la Garza (D-TX), the Chairman of the House Foreign Affairs Subcommittee on International Economic Policy and Trade, Sam Gejdenson (D-CT), the chairman of the House Select Committee on Hunger, Tony Hall (D-

OH), and the Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry, Patrick Leahy (D-VT), and the ranking minority member, Richard G. Lugar (R-IN) and their staffs, had expressed strong interest in revising the food aid legislation. There was also an anticipation that provisions of the 1985 Balanced Budget and Emergency Budget Control (Gramm-Rudman-Hollings) Act would force a trade-off between food aid and other components of economic assistance (in the 150 account).

Between late summer in 1978 and early fall of 1990 the AID Bureau for Food for Peace and Voluntary Assistance (FVA) sponsored a series of workshops, in association with various university and "think tank" organizations, to examine food aid accomplishments, needs, and policy reforms. By the summer of 1989 memoranda outlining the weaknesses of the existing programs and the reforms that should be considered were circulating furiously among the members of the Interagency Food Aid Subcommittee and staff members of the several House and Senate committees. The State Department was, as usual, nervous about any changes. In retrospect, it seems clear that the process of food aid reform was primarily staff driven, both in the Congress and in the Administration. In general, staff at the Department of Agriculture adopted a "don't fix it if it isn't broken" approach while AID staff were more active in criticizing the existing program and proposing policy changes. Administration leadership in both the Department of Agriculture and the Agency for International Development appeared too inexperienced or preoccupied with other issues to be able to resolve the interagency disagreements or to exercise leadership in food aid reform.

Among the proposed changes that attracted a good deal of support in the Senate Agriculture Committee, particularly at the staff level and among some members of the food Aid Subcommittee was a proposed revision that would organize the activities under the several titles by objective rather than by form of assistance (loans or grants). Under this proposal Title I would include export promotion; Title II would include humanitarian and development assistance and Title III would include emergency food relief. The State Department, particularly Deputy Secretary Lawrence S. Eagleberger, interpreted the proposed changes as a power play designed to limit the President's flexibility in the management of food aid. Eagleberger's argument was summarily rejected by Senators Leahy (D-VT) and Lugar (R-IN), who responded that "flexibility is not the problem, a lack of accountability is!" As work on the legislation progressed, the Administration's position was advanced by the Office of Management and Budget (OMB). OMB staff supported reform that would reduce the need for interagency coordination. OMB also pressed for a provision that would return dollar inflows from loans to Treasury rather than the Commodity Credit Corporation. The USDA allied itself with the House Agriculture Committee. AID regarded the reforms proposed by the Senate Agriculture Committee and supported by the House Foreign Affairs Committee as most consistent with its interests.

Action on the 1990 Farm Bill was delayed until late October because of disagreements between the Administration and the Congress, and within the Congress, over provisions of a tax and debt reduction package. The legislation that eventually emerged from the conference committee was remarkably close to the version that had been advanced by the Senate Agriculture Committee staff.

Title I was rewritten to give USDA primary responsibility for concessional sales. The new title, labeled Trade and Development Assistance, authorizes a concessional loan program to finance the sale and export of commodities to developing countries that are experiencing a shortage of foreign exchange and having difficulties meeting their food needs through normal commercial export channels. The loans can be repaid with local currency, and the currencies used to carry out market development, agricultural business development and agricultural research. These local currencies would be exempt from the appriation process.

Title II was rewritten to give AID primary responsibility for direct food grant or donation activities. This title, labeled Emergency and Private Assistance, authorizes the donation of commodities for use in emergency relief, to combat malnutrition, to promote economic development and encourage sound environmental policies. Food provided for emergency relief may be distributed through public or private agencies; food provided for non-emergency assistance may be distributed through PVOs, cooperatives and inter-governmental organizations. The PVOs and cooperatives that distribute the commodities are required to work with indigenous organizations in making the assistance available at the local level. The new law raises the minimum requirements for shipments under Title II to 1.925 million metric tons in fiscal year 1991 (and to 2.025 by fiscal year 1995) and provided that 75 percent of the commodities programmed under Title II be in the form of processed, fortified or bagged commodities. Cash grants will be made to PVOs and cooperatives to strengthen their capacity to manage the grant programs. A Food Aid Consultative Group (to be chaired by the USAID Administrator and consisting of the Undersecretary of Agriculture for International and Commodity Programs, representatives of U.S. and LDC PVOs and cooperatives participating in Title II activities, and the USAID Inspector General) was established.

Title III, Food for Development, was completely rewritten. The old language was deleted and replaced by a bilateral food AID grant program to be administered by AID. It provides for the donation of commodities to the "least developed" countries for direct feeding programs, emergency food reserves, and economic development. The commodities donated under this Title may be provided through the Commodity Credit Corporation or through private trade channels. If the commodities are sold in the recipient countries, the local currencies generated by the sales are to be jointly programmed for economic development purposes by the recipient country and AID.

Title IV, which covers General Authorities and Requirements includes provision for continuation of the "Bellmon amendment" requiring that food aid not result in substantial disincentives or disruption in domestic production or marketing in the recipient countries. It also continues the requirement that the local currencies generated under the Act not be used to finance the production for export of agricultural commodities the would compete in the world market with similar items

produced in the United States if such competition would cause "substantial injury" to U.S. producers. Programming on a multi-year basis, with some exceptions, is mandated for all food aid programs (Titles I, II and III). The "docket" authority of the Secretary of Agriculture was modified to require determination of commodity availability prior to the beginning of the fiscal year for the programs. Under some situations, it will be possible for AID to purchase food not included on the "docket" for distribution.

- The Food For Progress provisions of the Agricultural Act of 1949 (Section 416) was amended to make middle income countries and newly "emerging democracies" eligible to receive food aid. The commodities can be channeled through PVO's and cooperatives in addition to recipient governments. There had been some interest on the part of the State Department and the Administration in bringing the Food For Progress title under PL480, but a number of technical issues were not worked out in time.

What were the political and economic conditions that made it possible to bring about the changes in the PL-480 provisions of the 1990 Act? One of the most important factors was an exceedingly effective working relationship between the Chairman of the Senate Committee on Agriculture, Nutrition and Forestry, Senator Patrick Leahy (D-VT) and the ranking Minority Member, Senator Lugar (D-IN) and their staffs. In addition, The bargaining power of the Senate Agriculture Committee was strengthened, relative to the House Agriculture Committee, when Congressman Sam Gejdenson, the Chairman of the House Foreign Affairs Subcommittee on International Economic Policy and Trade, was able to line up the House Foreign Affairs Committee behind the Senate Committee reforms. Kiki de la Garza, Chairman of the House Agriculture Committee, decided to accept rather than fight the House Foreign Affairs committee position and concentrate his political resources on the agricultural commodity programs. The new division of responsibility was also supported by the agricultural commodity and the basic human needs interest groups. Agricultural interests wanted the USDA to be free to aggressively develop markets for U.S.

agricultural exports. The PVOs and others concerned with hunger issues wanted to see a higher share of PL-480 resources directed to the poorest countries and away from the use of food aid for strategic or political purposes. At an April 1988 Congressional Research Service Workshop on The Effectiveness of Food Aid the charge was made by a proponent of the use of food aid for market development that the PL-480 budget had been "hijacked" by agricultural development interests. A PVO representative countered that the development of export markets bears no essential or necessary relationship to satisfying human needs and creates a dependency on imported foods.[91]

What significance should one attach to the changes in the 1990 Act? Perhaps the most important is that program responsibility is more clearly identified and the need for interagency coordination is sharply reduced. Under the previous arrangements the de facto authority to decide on food aid shipments rested in the Interagency Food Aid Subcommittee of the Development Coordination Committee (DCC). If the new legislation operates as intended the Food Aid Subcommittee will be abolished or its functions sharply reduced. But it is hard to imagine, given the traditions of the federal bureaucracy, that a new committee will not emerge to coordinate programming and resolve disagreements among USDA, AID and OMB.

What does this new assignment of responsibility mean for the USDA and AID? The USDA now has even greater flexibility in pursuing market development objectives. It will be able to use commodities programmed under Title I, along with Commodity Credit Corporation commodities programmed under 416(b) and the Market Promotion Program

(formerly the Targeted Export Enhancement Program) to defend existing markets and to pursue surplus disposal and market development objectives.

The advantages of the new program to the AID are less clear. A larger share of the food aid budget will now be programmed directly by USAID as grant food aid under Titles II and III. The cash grants to PVOs may induce them to continue programming of food aid in areas where logistical problems or civil unrest impose high costs on their operations. It remains to be seen whether the establishment of the new Food Aid Consultative Group will strengthen or weaken AID's Title II programming role. Its role had already been substantially eroded by its PVO and cooperative constituency. The new Title III might, depending on the size of budgetary support it is able to attract, open up new possibilities for achieving greater consistency between food aid and the other development assistance activities of AID.

It is somewhat surprising, given the very large amount of political energy devoted to the 1980 revisions of the food aid legislation, to be forced to conclude that the revisions appear to have greater significance for process rather than for program. It seems clear that USDA and AID now have greater freedom to pursue program objectives in which they are primarily interested with less bureaucratic interference from other agencies. But it is less clear that the reforms will do very much to resolve the continuing contradictions among the multiple objectives of the US food aid program.

ENDNOTES

[1]In writing this section, I have been able to draw on several exceptionally useful studies: Trudy Huskamp Petersen, Agricultural Exports, Farm Income, and the Eisenhower Administration (Lincoln: University of Nebraska Press, 1979); Peter A. Toma, The Politics of Food for Peace (Tuscon: The University of Arizona Press, 1967); Mitchell Bruce Wallerstein, The Politics of International Food Aid: U.S. Policy Objectives in an Evolving Multilateral Context (Cambridge, Mass.: Massachusetts Institute of Technology, Ph.D. thesis, May 1978); Mitchell B. Wallerstein, Food For War--Food for Peace: United States Food Aid in a Global Context (Cambridge, Mass.: The MIT Press, 1980); Hans Singer, John Wood, and Tony Jennings, Food Aid: The Challenge and the Opportunity (Oxford: Oxford University Press, 1987). Useful summaries of the objectives and provisions of agricultural commodity and food aid legislation are found in Willard W. Cochrane and Mary E. Ryan, American Farm Policy, 1948-1973 (Minneapolis: University of Minnesota Press, 1967), pp. 131-174; Susan B. Epstein, "Food for Peace, 1954-1986: Major Changes in Legislation" (Washington, DC: Congressional Research Service, April 30, 1987); The United States Food for Peace Program, 1954-1984: A Compilation of International Materials on the United States Public Law 480 (Washington, DC: International Trade and Development Foundation, Spring 1985).

[2]Trudy Huskamp Petersen, Agricultural Exports, pp. 137-151.

[3]For greater detail on the earlier programs, see Kathleen Ann Cravero, Food and Politics: Domestic Sources of U.S. Food Aid Policies, 1949-1979 (New York: Fordham University, Ph.D. Thesis, 1982), pp. 31-39, 234-252. Also Ann-Marie Bairstow, "A History of United States Food Aid: 1812-1954" (Washington, DC: U.S. Agency for International Development, August 1988, mimeo). United States assistance during the 19th century, with the exception of a relief appropriation of $50,000 for Venezuela in 1912 and assistance in the transport of gifts to Ireland in 1880 by the Navy, was entirely voluntary. Both the Congress and the President generally adhered to a view that the use of public funds for charity was unconstitutional. Even the bulk of post-World War I relief to Belgium and Russia, administered by Herbert Hoover, came primarily from private sources. Daniel J. Boorstin, The Americans: The Democratic Experience (New York: Random House, 1973), pp. 570-574.

[4]Quoted from Trudy Huskamp Petersen, Agricultural Exports, p. 9. Secretary Benson regarded PL-480 as one of his major accomplishments. See Ezra Taft Benson, Cross Fire: The Eight Years with Eisenhower (New York: Doubleday, 1962).

[5]Whenever the subject of food aid came up "Dulles had a nervous tremor", Sherman Adams, First-hand Report: The Story of the Eisenhower Administration (New York: Harper and Brothers, 1961), p. 389.

[6]Trudy Huskamp Petersen, Agricultural Exports, p. 38.

[7]Ibid., pp. 39-40.

[8]Ibid., p. 40.

[9]Political pressure for an expanded program of sales for foreign currencies is usually traced to a resolution adopted at the 1952 National Conference of the American Farm Bureau Federation in Seattle, Washington urging the government to expand the use of surpluses by selling them for foreign currencies. Support was reaffirmed at the 1953 National Conference. When the Farm Bureau was unable to obtain support for its proposal from the Department of Agriculture or from the leadership of the House and Senate agriculture committees, it turned to two junior members, Representative Robert D. Harrison (R-Neb.) and Senator Andrew F. Schaeppel (R-Kan.) to introduce the proposal. By the summer of 1954, rising surpluses had created a more favorable climate for passage of the legislation. See David S. McLellan and Donald Clare, Public Law 480: The Metamorphosis of a Law, Eagleton Institute Cases in Practical Politics, Case 36 (New York: McGraw-Hill, 1965), pp. 2-4.

[10]Senator Humphrey had been the chief sponsor of the India Emergency Food Act of 1951. In 1952 he made a speech before the Grain Terminal Association in St. Paul urging the use of U.S. surplus commodities as aid to impoverished countries. He presented testimony in support at hearings held on July 16, 1953 by the Senate Committee on Agriculture and Forestry to consider a bill (S.2249) to give the President emergency authority to use surplus agricultural commodities for foreign assistance. This was followed, on February 25, 1954 by introduction of a bill (S.3020) to use American agricultural surplus to promote peace. The bill died in committee. These early efforts by Humphrey are important for two reasons. They represented his initial involvement in food aid policy--an area in which he would play an active and sometimes dominant role through his career. It was also an important early expression of his pragmatic approach to legislative action--proposal of a comprehensive approach to a problem and be satisfied with whatever parts of the proposal are eventually realized. See Elmer L. Menzie and Robert G. Crouch, Political Interests in Agricultural Export Surplus Disposal Through Public Law 480 (Tucson: University of Arizona Agricultural Experiment Station, Technical Bulletin #161, September

1964); and Albert Eisele, Almost to the Presidency (Blue Earth, MN: The Piper Company, 1972).

[11]Ibid., p. 11.

[12]Quoted from Menzie and Crouch, Political Interest in Agricultural Export Surplus Disposal, pp. 17, 21.

[13]Ibid., p. 50.

[14]Title I required that (a) reasonable precautions be taken that PL-480 sales not disrupt domestic commercial sales or upset world prices; (b) private trading channels be used as much as possible, (c) special consideration be given to using the act to expand markets for American goods abroad; and (d) make sure purchasing nations do not resell goods brought from the United States for profit. The law authorized the Commodity Credit Corporation to handle the transportation and transfer of funds. The funds could be used by the Agriculture Department to develop markets and by the State Department to make economic development grants, finance educational exchange, and for a number of U.S. government purposes. Gilman G. Udell, Agricultural Trade Development and Assistance Act of 1954 and Amendments (Washington, DC: U.S. House of Representatives Document Room, 1971, p. 12; Menzie and Crouch, Political Interests, pp. 42, 43. The provisions for donations abroad through nonprofit voluntary agencies in Title III was the result of a continuing campaign by private relief organizations to expand the commodities distributed under their auspices and to obtain government funding to cover inland and ocean transport of the commodities that they distributed. See Robert R. Sullivan, The Politics of Altruism: A Study of the Partnership Between the United States Government and American Voluntary Relief Agencies for the Donation Abroad of Surplus Agricultural Commodities, 1949-1967 (Baltimore, MD: Johns Hopkins University Ph.D. Thesis, 1968), pp. 34-59.

[15]Menzie and Courch, Political Interests, p. 50.

[16]Ibid., p. 52.

[17]Cravero, Food and Politics, p. 239.

[18]Since the sales for foreign currencies program were, in effect, an elaborate deception to obscure the true nature of the food aid transaction, it is useful to trace through how they worked. The first step was for the United States government and the foreign government to reach an agreement that enabled that government to pay for some farm product imports with its own currency rather than with dollars. The agreement specified the quantity of the product involved, the price and, usually, the uses that could be made of the foreign currency acquired by the United States. The farm products were usually sold to the foreign government by a private exporter who was paid in dollars by the United States government. The foreign government in turn usually sold the imported commodities in its domestic market to recoup the funds paid to the United States for the imported commodities. Under the PL-480 legislation, the United States was authorized to lend the funds back to the country for use in its development program. In effect this meant that the foreign government found itself borrowing its own currency, and paying interest on it, when it could just as easily have printed additional money. The primary reason the United States government engaged in such "fictional" transactions is that they appeared more acceptable to the Congress and American people than outright grants of food or of dollar aid. The primary reason the importing countries were willing to engage in the "fictional" transactions is that they realized that it was unlikely that they would be forced to repay the loans or that the United States would ever find a way to use for its own purposes a significant share of the countries' currency that it controlled. For an excellent analysis of the effects of counterpart funds, see Michael Roemer, The Macroeconomics of Counterpart Funds (Cambridge, MA: Harvard Institute for Economic Development, February 1988).

[19]The opportunity to use food aid to Poland was an important initial motivation. Following the emergence of Wladyslaw Gomulka as First Secretary of the Polish Communist Party after the outbreak of riots in Poznan in October 1956, the State Department certified the new Polish government as "independent" thus making it eligible to receive surplus food. In May of 1957 Senator Kennedy, in a speech in Omaha, criticized, the Eisenhower Administration for its lack of progress in making food aid available to Poland. George Zacher, A Political History of Food for Peace (Ithaca, NY: Cornell University Department of Agricultural Economics Staff Paper, #77-18, May 1977), pp. 12, 13.

[20]James M. Hagen and Vernon W. Ruttan, "Development Policy Under Eisenhower and Kennedy," The Journal of Developing Areas 23 (October 1988), pp. 1-30. Between 1952 and 1956 military assistance, primarily to Greece, Turkey, and China, accounted for over fifty percent of all U.S. aid. Much of the economic assistance budget was justified as defense support.

[21]Susan B. Epstein, Food for Peace, p. 10.

[22]Quoted from Trudy Huskamp Petersen, Agricultural Exports, p. 87. Davis was apparently the first to suggest the "Food for Peace" label.

[23]Ibid., p. 88.

[24]Ibid., p. 89.

[25]The ICA succeeded the FOA as the U.S. aid agency in 1954. The ICA urged a shift from sales to grants with foreign policy rather than disposal in mind. It argued that it was "a most undignified spectacle for a great power like the U.S. to have to press other countries to accept 'loans' of the proceeds of these 'sales' in order to perpetuate the fiction that they were really 'sales'. Quoted from Trudy Huskamp Petersen, Agricultural Exports, p. 91.

[26]In the account of his years as Secretary of Agriculture, Cross Fire, Secretary Benson stresses his close personal working relationship with President Eisenhower. But he completely underplays his conflicts with Charles Randall and completely omits any reference to Senator Humphrey's role in PL-480 and Food for Peace legislation.

[27]Ibid., p. 93.

[28]Quoted from Theodore W. Schultz, "Value of Farm Surpluses to Under-developed Countries" Journal of Farm Economics 42 (December 1960), p. 1025.

[29]By the late 1950s the State Department and the ICA (and later AID) were beginning to take advantage of the administrative discretion in the law. They "did not hesitate to pay lip service to the intent of the law while at the same time instigating changes to reduce the inherent contradictions involved in using a surplus disposal program for foreign aid proposes." Toma, The Politics of Food for Peace, p. 71.

[30]David S. McLellan and Donald Clare, Public Law 480, p. 32. They also assert, somewhat more realistically, that "shipments of United states surpluses are almost automatically assumed to exert a favorable influence on foreign policy. No one has really stopped to examine whether this is true or simply a semi-official myth. No one really knows what impact PL-480 sales and grants are having on American foreign policy. Perhaps no one really wants to know" (p. 32).

[31]Willard W. Cochrane, "Farm Technology, Foreign Surplus Disposal, and Domestic Supply Control," Journal of Farm Economics 41 (December 1959), pp. 885-899. Cochrane had contributed a Kennedy campaign position paper on agricultural policy and had been closely associated with Orville Freeman while Freeman was governor of Minnesota.

[32]Wallerstein, The Politics of International Food Aid, pp. 206-209.

[33]This was acknowledged by Secretary of Agriculture, Orville Freeman in 1964 hearings on extension of the PL-480 program. See Toma, The Politics of Food for Peace, pp. 70-73.

[34]I have drawn very heavily on the excellent history and analysis of the amendment and extension of the 1964 Act (PL 88-638) in Toma, The Politics of Food for Peace, pp. 67-110; 148-154.

[35]See Trudy Huskamp Peterson, "Sales, Surpluses, and the Soviets: A Study in Political Economy" in Richard M. Frankel, Don F. Hadwinger, and William P. Browne (eds.), The Role of U.S. Agriculture in Foreign Policy (New York: Praeger, 1979), pp. 56-79 for the debates over grain sales to the USSR and eastern Europe during the late 1950s and early 1960s. A decision to remove the 1948 embargo on sales to the USSR was finally made in October of 1963.

[36]It strikes me as politically naive, however, to argue that by shifting the PL-480 budget from Agriculture to State that the 1964 Act stripped "the last vestiges of the surplus disposal facade from PL-480." Wallerstein, The Politics of International Food Aid, p. 213.

[37]Johnson is reported to have felt that "there was no reason to maintain within the White House a bureaucratic structure which was created primarily to elect George McGovern to the Senate." Wallerstein, The Politics of International Food Aid, p. 597.

[38]Toma, The Politics of Food for Peace, p. 133.

[39]Ibid, pp. 133-139.

[40]For greater detail on the origin and history of multilateral food aid, see Wallerstein, The Politics of Food Aid, pp. 307-407, 532-551. For an exceedingly useful review and evaluation of the history and policies of the agencies involved in multilateral food aid see Ross B. Talbot, The Four World Food Agencies in Rome (Ames, Iowa: Iowa State University Press, 1990).

[41]For a discussion of the assistance efforts initiated under the World Food Program in its initial three-year trial period, see A. Dawson, "Food for Development: The World Food Program," International Labor Review 90 (August 1964), pp. 100-129. For a retrospective view see Hans W. Singer, "Development Through Food: Twenty Years' Experience," in World Food Program (Government of the Netherlands, Report of the World Food Program of the Government of the Netherlands Seminar on Food Aid (Rome: World Food Program, 1983).

[42] The WFP often acts more as a coordinating than an implementing agency, particularly with respect to U.S. contributions. Talbot, The Four World Food Agencies, p. 63

[43]Orville L. Freeman, "Malthus, Marx and the North American Breadbasket," Foreign Affairs (July 1967).

[44]In the discussion of food aid during the Kennedy and Johnson administrations, I draw very heavily on Wallerstein, The Politics of International Food Aid, pp. 409-477, 584-634; Cravero, Food and Politics, pp. 177-207, 252-315.

[45]Raymond F. Hopkins and Donald J. Puchala, Global Food Interdependence: Challenge to American Foreign Policy (New York: Columbia University Press, 1980), pp. 88-91. Although Israel's food imports under PL-480 ended in 1976 as a result of the Congressional requirement that 75 percent of title I food aid must go to poor countries, funding for food imports was made available to Israel under the AID Commodity Import Program which goes to countries receiving Security Supporting Assistance.

[46]For a very careful analysis and assessment of the use of "food power" toward India by the Johnson administration, see Robert L. Paarlberg, Food Trade and Foreign Policy: India, the Soviet Union, and the United States (Ithaca: Cornell University Press, 1985), pp. 143-169.

[47]Wallerstein, Ibid., pp. 551-574. See also Arthur A. Goldsmith, "Policy Dialogue, Conditionality and Agricultural Development: Implications of India's Green Revolution, " Journal of Developing Areas 22 (January 1988), pp. 179-198. The depth of Johnson's involvement is suggested by Rostow: "I helped him follow the fall of rain in India and Pakistan as closely as he did along the Pedernales. He knew the dates of shipment from American ports of grain required for timely arrival in Calcutta and the state of Indian grain stocks. He personally guided the negotiation of each tranche of food aid." Walt W. Rostow, The Diffusion of Power (New York: MacMillan, 1972), p. 423.

[48]Wallerstein, The Politics of International Food Aid, p. 609.

[49]"The P.L. 480 annual congressional appropriate is deposited with the Commodity Credit Corporation (CCC), which finances Food for Peace sales, agreements, and donations. If the amounts appropriated are greater than actual needs in any one year, the excess is used to reduce future appropriate requests. If the appropriations are less than actual needs, other CCC funds may be used temporarily to finance the balance of the costs. P.L. 480 budgetary costs and program levels for any one year may not be identical. Title I sales are made on credit, and repayments reduce P.L. 480 budget costs by partially financing the program level of subsequent years. In addition, commodities shipped under Title II may have been acquired under the domestic price support program. The P.L. 480 program pays the CCC the export market price for these commodities. The amounts of commodities shipped under P.L. 480 depend not only on actual funding levels, but also on domestic commodity prices. If P.L. 480 funding levels remain constant but domestic commodity prices rise, the quantity of commodities shipped will decline." Susan B. Epstein, Food for Peace, p. 47.

[50]Epstein, Food for Peace, p. 22. There was a growing tendency in the 1970s to use the annual foreign assistance acts as vehicles for modifying food aid programs.

[51]Cravero, Food and Politics, p. 305.

[52]The definitive analysis of U.S. food policy in the early and mid-1970s is I. M. Destler, Making Foreign Economic Policy (Washington, DC: The Brookings Institution, 1980), pp. 19-128. For a shorter treatment see I. M. Destler, "United States Food Policy, 1972-1976: Reconciling Domestic and International Objectives" in Raymond F. Hopkins and Donald J. Puchala (eds.), The Global Political Economy of Food (Madison: The University of Wisconsin Press, 1978), pp. 41-77. I also draw very heavily on Wallerstein, The Politics of International Food Aid, pp. 409-477, 584-634;

[53]See G. Edward Schuh, "The Exchange Rate and U.S. Agriculture," American Journal of Agricultural Economics 56 (February 1974), pp. 1-13.

[54]Willard W. Cochrane and Mary E. Ryan, American Farm Policy, 1948-1973 (Minneapolis: University of Minnesota Press, 1976), p. 203.

[55]Destler, Making Foreign Economic Policy, p. 37. Where Destler, writing from a "realist perspective" interprets the events associated with the Soviet Union grain sales of 1972 and 1973 as incompetence reinforced by conservative ideology, scholars working in a more "radical" tradition have interpreted the same events as a clever conspiracy by the leadership of the U.S. Department of Agriculture to create a worldwide shortage of agricultural commodities in order to drive up commodity prices and help resolve the U.S. balance of payment problem. See John Henry Frundt, American Agribusiness and U.S. Foreign Policy (New Brunswick, N.J.: Rutgers University Ph.D. Thesis, May 1975), pp. 275, 276. While rejecting Frundt's "conspiracy view", I find it a bit difficult to credit Secretary Butz and his senior associates at the USDA as inept or naive as Destler implies.

[56]Wallerstein, The Politics of International Food Aid, p. 71.

[57]In an effort to raise foreign exchange in 1974 Bangladesh sold Cuba approximately $3 million worth of jute gunny sacks. The reduction in food aid shipments was in part an effort to stop trade between Bangladesh and Cuba. After Bangladesh canceled further exports of jute the U.S. did agree to increase its food aid shipments but no wheat arrived in Bangladesh until after Christmas when the worst effects of the famine were over. Wallerstein, The Politics of International Food Aid, pp. 488-489. See also Donald F. McHenry and Kai Bird, "Food Bungle in Bangladesh," Foreign Policy 27 (Summer 1977), pp. 72-88. During 1973-78 I visited Bangladesh several times. I mistakenly attributed the delay in shipments to bureaucratic inefficiency.

[58]I. M. Destler, United States Food Policy, 1972-76, p. 58. In retrospect the zero budget can be interpreted as part of the bureaucratic infighting to determine whether the PL-480 budget should be charged against Agriculture or State.

[59]Rolf H. Sartorius and Vernon W. Ruttan, "The Sources of the Basic Human Needs Mandate," Journal of Developing Areas (forthcoming, 1989).

[60]As usual in issues of food policy the influence of Senator Hubert H. Humphrey was involved. There was considerable opposition in the Senate to Kissinger's appointment as Secretary of State. It has been reported that Humphrey dropped his opposition to Kissinger's appointment on condition that Kissinger endorse the World Food Conference. See Lee Egerstrom, "74 World Food Conference Resembled a Roman Circus," St. Paul Pioneer Press Dispatch (December 4, 1983).

[61]Wallerstein, The Politics of International Food Aid, pp. 457-460.

[62]Wallerstein, The Politics of International Food Aid, pp. 75, 76. For a useful analysis of the world food situation as perceived just prior to the World Food Conference, see U.S. Senate Committee on Agriculture and Forestry, The World Food Conference: Selected Materials for the Use of the U.S. Congressional Delegation to the World Food Conference (Washington, DC: U.S. Government Printing Office, October 30, 1974).

[63]Ibid., p. 627.

[64]Lee Egerstrom, "War on Hunger at a Standstill," St. Paul Pioneer Press Dispatch (December 4, 1983).

[65]Destler, Making Foreign Economic Policy, p. 125.

[66]Ibid., p. 107.

[67]Thomas G. Weiss and Robert S. Jordan, The World Food Conference and Global Problem Solving (New York: Praeger Publishers, 1976). The authors note that "It was generally believed that Secretary-General Marei was appointed at least in part because his Egyptian nationality facilitated negotiations with Arab nations whose oil wealth made them . . . the logical contributors to a new fund." (p. 60). For a review of the more recent history of The World Food Conference and the International Fund for Agricultural Development see Ross B. Talbot, The Four World Food Agencies, pp. 75-129.

[68]Don Wallace and Helga Escobar, The Future of International Organization (New York: Praeger, 1977), p. 13.

[69]Ross B. Talbot, "Implications of the World Food Conference Resolutions: U.S. Government Policy with Respect to the Internatioal Grain Reserve Issue" in Richard M. Fraenkel, Don F. Hadwinger and William P. Browne (eds) The Role of U.S. Agriculture in Foreign Policy (New York: Praeger Publishers, 1979), pp. 109-136; Ross B. Talbot, The Four Food Agencies, pp. 99-130.

[70]Rolf H. Sartorius and Vernon W. Ruttan, "The Sources of the Basic Human Needs Mandate," Journal of Developing Areas 23 (April 1989), pp. 331-362.

[71]This discussion of the events leading to the International Development and Food Assistance Act of 1975 draws primarily on Wallerstein, The Politics of International Food Aid, pp. 230, 231; Epstein, Food for Peace, pp. 27-34; Thomas R. Saylor, "A New Legislative Mandate for American Food Aid" in Peter G. Brown and Henry Shue (eds), Food Policy: The Responsibility of the United States in Life and Death Choices (New York: Free Press/Macmillan, 1977).

[72]For a discussion of the difficulties encountered in getting the "Food for Development" program underway, see Jose M. Garzon, "Food Aid as a Tool of Development: The Experience of PL-480, Title III." Food Policy 19 (August 1984), pp. 232-244.

[73]Task Force on the Operation of Public Law 480, New Directions for U.S. Food Assistance: A Report on the Special Task Force on the Operation of Public Law 480 (Washington, DC: U.S. Department of Agriculture, May 1978).

[74]Presidential commission on World Hunger, Overcoming World Hunger: The Challenge Ahead (Washington, DC: Presidential Commission on World Hunger, March 1980).

[75]Mark McGuire and Vernon W. Ruttan, "Lost Directions: U.S. Foreign Policy Since New Directions," (St. Paul: University of Minnesota Department of Agricultural and Applied Economics, April 1989), mimeo.

[76]G. Edward Schuh, The United States and the Developing Countries (Washington, DC: National Planning Association, 1986), pp. 11-16.

[77]The growth of food aid under the mutual security rubric since the early 1970s reflects the common Congressional practice of making symbolic reforms in response to pressure from the "basic needs" constituency while simultaneously responding to the administration's concern that resources be available to meet needs justified under a security rationale. A similar shift in financial transfers, from development assistance, to supporting assistance, occurred in the US/AID budget following passage of the new directions legislation in 1973. (See Chapter 6.)

[78] Where is this note?

[79]Susan B. Epstein, Food for Peace, pp. 41-48.

[80]The U.S. Congress included in the Foreign Assistance Appropriations Act of 1987 a provision that, "None of the funds appropriated by this or any other act to carry out Chapter 1 of Part I of the Foreign Assistance Act of 1961 shall be available for any testing or breeding feasibility study, variety improvement or introduction, consultantcy, publication, conference, or training in connection with the growth or production in a foreign country of an agricultural commodity for export which would compete with similar commodity grown or produced in the United States" (Section 550). The combined effect of the Bellon and the Bumpers amendments comes very close to insisting that food aid not be used to either discourage or encourage agricultural production in recipient countries.

[81]For discussion of the changes in the Food Security Act of 1975 see Charles E. Hanrahan and Susan B. Epstein, Foreign Food Aid: Current Policy Issues (Washington, DC: Library of Congress Congressional Research Service 87-923 ENR, September 14, 1987). For the administration and programming of food aid under the 1975 Act, see Donald S. Ferguson, Improving the Effectiveness of PL-480 Food and Agricultural Assistance (Washington, DC: U.S. Department of Agriculture, Office of International Cooperation and Development, January 1988).

[82]Sales for dollars and convertible local currencies under Title I also contain a large concessional element. In addition to the large interest rate subsidy the repayment provisions provide an additional element of concessionality. "Agreements may be signed for either dollar credit with up to a 20-year repayment period or convertible local currency credit with up to a 40-year repayment period. The grace period before interest for dollar credit agreements may go up to 2 years, and for convertible local currency agreements, it may be as long as 10 years," Foreign Agricultural Service, Food for Peace: 1986 Annual Report on

Public Law 480 (Washington, DC: United States Department of Agriculture, April 1988), p. 3.

[83]Donald S. Ferguson, Food Security and Private Sector Lending Under Sections 106 and 108 of PL-480 (Washington, DC: U.S. Department of Agriculture, Office of International Cooperation and Development), March, 1988.

[84]For further discussion of the EEP and TEA and Export Credit Guarantee Programs, see the testimony by Undersecretary of Agriculture Daniel Amstutz and others in Committee on Government Operations, U.S. Agricultural Exports. There was strong support among the interest groups and some interests who presented testimony urging the expansion of the EEP as a generalized subsidy program. Amstutz argued that such an extension would weaken the U.S. bargaining position in the "Uruguay Round" GATT negotiations. Most interest group testimony also supported expansion of the PL-480 program. The programs have been reviewed in several General Accounting Office reports. See (a) Implementation of Agricultural Export Enhancement Program (Washington, DC: GAO, March, 1987); and (b) Commodity Credit Corporation Export Credit Guarantee Programs (Washington: GAO, June 1988).

[85] The extent to which the Export Enhancement Program (EEP) has actually increased sales is debatable. Robert L. Paarlberg argues: "EEP hasn't added much to foreign sales because nine out of ten EEP bonus baskets simply displace sales that would have been made anyway". Choices 5 (Second Quarter 1990), p. 15.

[86]For somewhat greater detail see World Food Institute, World Food Trade and U.S Agriculture, 1969-1987 (Ames, IA: Iowa State University, by World Food Institute, October 1988).

[87]Testimony by Winston Wilson, President of the U.S. Wheat Associates, an export market development organization funded by wheat producers and the USDA Foreign Agricultural Service in U.S. Agricultural Exports: Does Administration Effort Match Potential? Hearings Before a Subcommittee on Government Operations, U.S. House of Representatives (Washington, DC: US/GPO, 1980), p. 112.

[88]Edward Clay, "Food Aid, Development, and Food Security in the 1980s," (London: Relief and Development Institute, July 1989), p. 39.

[89]See Martin Doornhas, Manoshi Mitra and Pieter van Stuijvenberg, "Premises and Impacts of International Diary Aid: The Politics of Evaluation," Development and Change 19 (July 1988), pp. 467-504.

[90]Edward Clay, op. cit.

[91]Charles E. Hanrahan (ed.), The Effectiveness of Food Aid: Implications of Changes in Farm, Food Aid, and Trade Legislation (Washington, DC: Congressional Research Service 88-493 ENR, June 1, 1988), pp. 21-23.

[1990]

Chapter 2

Professionals and Populists: A Literature Guide

Vernon W. Ruttan

The United States food aid program has been a source of considerable self-congratulation by the interest groups, politicians and bureaucrats involved in program development and management. It has been denounced by populist critics from both the left and the right. Development scholars and policy analysts have been skeptical of the blurring of program objectives. Among the several objectives only emergency food aid has received general approval--but critics have been highly vocal about blunders and inefficiency in program management and operation.

Agricultural and other development economists have been particularly active in the debates about food assistance. In the early 1950s Ragnar Nurske had argued that food aid could provide an important stimulus to industrial development. In the presence of an inelastic supply of domestic food it could prevent the domestic terms of trade from turning against the emerging industrial sector.[1] In 1954, the same year that PL-480 was passed, the FAO initiated a series of studies of the potential impact of FAO under the direction of Mordecai Ezekiel. The study employed an early vision of what later became known as "the two gap model"--in this case a foreign exchange gap and a food gap--to simulate the effects of food aid. The study concluded that, if food was used to put underemployed labor to work building infrastructure, it could contribute as much as one-fourth of the investment cost. It could also ease the foreign exchange gap resulting from the responsiveness of domestic supply to rising demand during the initial stages of development. The FAO study was

An argument was also made by a number of agricultural economists that the imperatives of rapid technical change and slow growth of demand in the U.S. economy, which virtually guaranteed that surplus disposal programs would continue, created an opportunity to employ the surpluses to achieve development objectives. The argument was made in its most sophisticated form by Willard W. Cochrane of the University of Minnesota in a presidential address to the American Farm Economic Association in 1959.

> "Advancing technology in American agriculture is forcing, first, the acceptance of foreign surplus disposal, and second, the acceptance of comprehensive supply control. The logical result must be the integration or the marriage of these seemingly opposing lines of action into a unified policy. And it is the purpose of the paper to record--to legitimize--this marriage of foreign surplus disposal and comprehensive supply control, however distasteful it may be."[3]

Cochrane went on to argue and illustrate the potential uses of food aid in human and physical capital formation.

The Ezekiel-Cochrane "marriage of convenience" argument was the target of an iconoclastic paper by Professor Theodore W. Schultz of the University of Chicago at the following year's meeting of the American Farm Economic Association.[4] Schultz was sharply critical of the gap between the potential impacts outlined in the Ezekiel study and program operations--"what has been happening bears little or no resemblance to the assumptions on which the study was based."[5] The Schultz critique can be capsuled in four points:

(a) The financial cost to the Commodity Credit Corporation (CCC) of the commodities distributed by the PL-480 program have been in the neighborhood of twice the value of these products had they been sold on world markets. Thus it is a serious error to treat the costs to the CCC as a valid measure of our food

aid efforts. Approximately 50 percent of the cost should be charged against the costs of the agricultural commodity programs.

(b) The value of the PL-480 commodities to the countries receiving them was in the neighborhood of 37 cents for each dollar of CCC costs in the mid and late 1950s. Thus even charging 50 percent of the costs to the foreign aid program would overstate the value of the assistance to the receiving countries except in times of severe food shortages.

(c) The cost to the United States of the commodities distributed abroad under the PL-480 program, measured in terms of the marginal revenue forgone from foreign sales, is probably close to zero--but only if it is assumed that the programs that generate the surpluses must be taken as a "fact of life."

(d) The receipt of PL-480 commodities can be expected, except during periods of food emergency, to have a negative impact on incentives of the governments of recipient countries to invest in agricultural development and on the incentives of individual farmers to expand agricultural production.

The tone and the agenda for much of the academic debate and the research on food aid over the next decade was set by the Cochrane-Schultz argument.

Professional dialogue over the costs and the impact of food aid in the 1950s and early 1960s was heavily conditioned by the disposal orientation of the food assistance programs. A good deal of effort went into attempts to test the disincentive hypothesis with largely inconclusive results. It is almost impossible at this stage to know whether the professional dialogue had any impact on food aid policy or program. By the early 1960s, however, there

had been a number of attempts to both target food aid to have a more direct impact on the poor and to design projects in which the food aid made a direct impact on development.[6] While a large specialized literature emerged, development economists tended to avoid the issue largely because of a presumption that it was a disposal program rather than a development assistance program. A casual reference to the Schultz critique was usually adequate to sustain their distaste for the topic.

In retrospect, it is surprising how much effort was devoted to attempting to identify the direct price and agricultural production impacts of food aid. This was a relatively minor theme in the Schultz critique. Much less attention was devoted to attempts to evaluate the more important impacts of food aid on government decisions to make the investments in land and water development, fertilizer production capacity, and in the capacity of the agricultural research and extension systems to invent and diffuse more productive agricultural technology. By the mid-1970s the evidence that had been assembled was being interpreted to imply that under conditions of food scarcity or effective program management the direct disincentive effects on agricultural production could be quite small.[7] In India, for example, distribution of food aid through "fair price" shops was highly effective in reaching the poor. The income effect of the lower prices at the fair price shops also contributed to higher consumption. As a result the food aid was almost entirely absorbed by additional consumption with the result that any effect on prices received by Indian producers was negligible. It should be noted, however, that very few other countries either attempted or were able to realize the effectiveness in directing food aid to the poor that was achieved by India.

The simultaneous threat of energy and food crises in the early and mid-1970s widened the professional dialogue about food aid and agricultural development. The agricultural and development economists who had dominated the debates since the 1950s were forced into the background. There was a burgeoning professional and populist literature on "The World Food Problem" by new participants on the policy debate--many of whom did not feel it important to become more than superficially familiar with the technical or institutional aspects of food production, distribution, or policy. Philosophers asserted a moral responsibility by those who were blessed with abundance for food aid to the poor--both at home and abroad.[8] Metaphors such as "spaceship earth," "tragedy of the commons," "lifeboat ethics," and "triage" were introduced into the popular vocabulary in order to capture concerns about resource scarcity, environmental degradation, and food scarcity.[9]

The contradictions, which Paul O. Isenman and Hans W. Singer have noted in the economics literature on food aid, also applies to much of the other professional and populist literature of this period.

> Many economists appear to view food aid and non-food aid from remarkably different perspectives. Most economists believe that aid recipients should use (non-food) aid receipts to increase investment, employment, and output in accord with a well-thought-out development plan and/or the signals provided by market forces; they would be terrified if the aid were used instead for short-term consumption increases or for low priority development projects with an uncertain impact. . . . While it is inconsistent to insist that food aid not be used for investment and to criticize food aid for not contributing to investment, both of these views are well established in the 'conventional wisdom' of food aid.[10]

An additional disturbing aspect of the "food crisis" literature of the 1970s was its exposure of the poverty of much of the formal economic analysis of resource scarcity and food security. In the 1970s, the analysts who were responsible for the construction and

interpretation of futures trends and models were unable to insulate themselves from the short-run trends and events that dominated the intellectual and policy environment. They were dominated by the pervasive climate of "technology pessimism" and "food pessimism". It seems quite clear that the model builders and futures simulators were strongly influenced by an intellectual environment that would have regarded a more optimistic view of the future as "out of touch with reality."[11]

The favor with which food aid was regarded during the food crisis of the early 1970s was relatively short lived. During the late 1970s and early 1980s a new populist "advocacy journalism" emerged that focused on the regressive distributional effects of program food aid (under Title I) and the continuing failure of project food aid (under Title II) to achieve program objectives.[12] This new criticism was quite different, both in its rhetorical style and its concern, from that of the development and agricultural economists of the 1950s and 1960s which had focused primarily on production disincentives and trade displacement. The populist critics of both the left and the right have confronted the proponents of food aid with the challenge of demonstrating uses of project food aid that have had a positive impact on families or communities that has extended beyond the period when the assistance was rendered. The response, like the criticism, has typically relied on case studies of selected projects, some of which have demonstrated moderately high internal rates of return, rather than a comprehensive evaluation of the bilateral and multilateral food aid system.

The most serious effort to assess the populist literature has been a series of studies by Singer, Edward J. Clay, and several collaborators.[13] They addressed the three major criticisms of food aid: (a) food aid is inferior to financial aid; (b) food aid acts as a

disincentive to recipient country food producers; and (c) food aid provides an incentive for recipient governments to slacken effort to promote domestic food production. Their response is that the distinction between the incentive and disincentive effects of food and financial aid has been overdrawn. Effective program management can avoid the problems stressed by the critics. Furthermore, efforts to use food aid as a development tool have been with us now for the last thirty years and, are likely to be with us for another thirty. "It is time to stop debating whether food aid is better or worse than other forms of aid or income transfer and . . . to make it more effective."[14]

During the mid and late 1980s a number of trade and development economists were attempting to counter the criticism by farm commodity groups, noted earlier, that aid--including food aid--in support of agricultural production was taking markets away from American farmers. They argued that, because a high proportion of the total population in the poorest developing countries is dependent on agriculture, growth in agricultural productivity and in rural incomes is necessary to sustain growth in the total economy. Once the growth process gets underway high income elasticity of demand for the preferred food grains, for cooking oil, and for animal protein produces an explosive growth in agricultural demand. The result is rising demand for agricultural imports, particularly the feed grains needed to sustain rapid growth in animal production. Thus the long run effect of technical assistance and other aid to "get agriculture moving" is an expansion in demand for imports of the United States agricultural products.[15]

There has been a number of creative suggestions for the reform of food aid programs in the late 1980s. John W. Mellor has proposed the use of food aid to mitigate the

unfavorable effects of structural adjustment programs on the poor.[16] He notes that the restrictive monetary and fiscal policies associated with the structural adjustment process are both likely to reduce the employment and purchasing power of the poor. Efforts to remedy government budget imbalances and trade deficits during the initial stages of the adjustment are likely to limit commercial food imports and force domestic food prices upward. As the adjustment process proceeds the growth of income and employment will contribute to rapid growth in food demand. If food aid is targeted to low income people, through food-for-work and food subsidies, it can both ameliorate some of the regressive effects of the structural adjustment program and contribute directly to rural development. Since bilateral food aid is "inherently unstable" Mellor urges that an international device such as the cereal import facility of the International Monetary Fund be activated for the purpose.

Among the more creative suggestion for reform of the food aid programs have been the proposals to introduce greater flexibility into food aid programs by the use of "food money" or food stamps by Shlomo Reutlinger and Willis Peterson. [17] Peterson showed that it would be possible to design a food stamp program that would avoid disincentive effects on agricultural production in recipient countries while simultaneously expanding the demand for agricultural exports from the donor countries. The objective would be achieved as a result of the demand enhancement aspects of the program.

Aid donors would, in effect, issue food stamp coupon books through the auspices of the recipient government to poor people. Food vendors in the recipient nations could redeem the coupons from the donor country aid agency for convertible currency. The recipient country would be required to maintain freely convertible currency and free trade in food

commodities. The recipients of the food stamps would, therefore, be indifferent when purchasing food with the stamps as to whether the food was produced domestically or imported. Food would be imported only if it was available at lower cost than domestic supplies. Peterson estimated the effect of the food stamp program on consumption, by lowering the cost of food to the poor, would increase world demand for food on the order of 16 percent and demand for exports by over 50 percent. His calculations suggest that the cost of the program to the developed countries would be no more than was currently being spent by the OECD countries on food aid and farm price support programs. Peterson suggested initiating the program in a few countries on a pilot basis in order to gain experience with operational aspects of the program.

But it would be hard to demonstrate that the large literature generated by the professional scholars and the populist critics has exerted more than a marginal impact on food aid policies and programs. If there has been one constant in the professional debates about food aid, it has been the failure of the proponents and the critics to confront each other on common ground. The proponents have focused on the modeling of schemes that, if properly managed, could have a positive impact on recipient welfare and economic development. The critics have used case studies of projects that were unsuccessful or positively harmful to attempt to discredit the arguments of the proponents. Even an exceedingly attractive proposal, such as the international food stamp program, has only a slight chance of receiving serious consideration. Program change is an evolutionary rather than a revolutionary process.

Perhaps the major impact of the professional literature on food aid has been to narrow the range of controversy about food aid impact. It is difficult for anyone who has limited familiarity with the literature to continue to argue that food aid has a pervasive negative impact on the growth of agricultural production; or that supplementary feeding programs have had a widespread and measurable positive impact on the nutritional status of children; or that economic growth has been significantly advanced by food-for-work programs; or that food aid does not displace commercial exports. The literature is also clear that food aid has been important in meeting emergency food needs, in meeting the subsistence needs of poor people, and of providing budgetary support for fragile governments.

What about the future of research on food aid? What should be the priorities? My response to this question is that while a more effective dialogue between professionals, populists and politicians might be able to bring about further convergence on food aid policy and programs, research on food aid no longer represents a high priority. This does not mean that all research on food aid should be discontinued. As long as we have food aid programs there will be need for operational research directed to achieving greater efficiency in the use of food aid resources.

Food aid represents a very limited component of a much larger issue. That issue is how to eliminate or, at the very least, how to reduce hunger among the poor in the poorest countries. There continues to be much confusion about this issue. Some argue that supply-side constraints imposed by resource endowments and lack of appropriate technology are

the primary sources of poverty and hunger. Others argue that the primary constraints are on the demand side--that hunger could be overcome by more equitable distribution of income or other forms of entitlements.

But, of course, both arguments are half right and half wrong. It is true that today's food supply, if entitlements were more equally distributed, would be adequate to more than meet the needs of the world's poor. But greater equity in the distribution of income could not in the future prevent shortages in a world in which the supply of food remained at or even near present levels. To meet future demand arising out of population and income growth, technical advances that will facilitate more intensive use of agricultural resources will be necessary. Furthermore, the only reliable source of entitlements for the majority of families in poor countries must come from more productive work. And for the poor majority in the poorest countries this means enhancing their capacity to produce marketable surpluses of agricultural commodities.

But there are also other sources of hunger in addition to those arising out of either supply-side constraints or inadequate distribution of entitlements. The most serious of these arises out of political instability. War and civil strife, associated with ideological, ethnic and religious conflict has resulted in continuous growth in refugee populations over the last several decades. Until the conflicts that give rise to the displacement of peoples are resolved, there will be need for direct transfer of food and other resources.

The fundamental issue that confronts national societies and bilateral and multilateral assistance agencies is not food aid. Rather it is how to create opportunities for the poor to make productive contributions to the development of their societies and how to reward the

contributions made by the poor in a manner that gives them equitable entitlements to the dividends from economic growth.

It is much more important that research efforts be directed to the broader issues of how to enable the people who live in poor countries to become more productive and how to create the economic and political institutions that release and reward productivity than to continue to turn out more studies of food aid policy and programming.

ENDNOTES

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[5]Ibid., p. 1027.

[6]Lawrence W. Witt, "Development Through Food Grants and Concessional Sales," in Carl Eicher and Lawrence Witt (eds), Agriculture in Economic Development (New York: McGraw Hill, 1964), pp. 334-359.

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[8]See particularly Peter Singer, "Reconsidering the Famine Relief Argument" in Peter Braun and Henry Shue (eds.), Food Policy (New York: Free Press, 1977), pp. 36-53. See chapter 8 in this book for an evaluation of the ethical or moral responsibility arguments for foreign economic assistance.

[9]See for example, Garrett Harden, "The Tragedy of the Commons," Science 162 (1968), pp. 1243-1248; "Living on a Lifeboat," Bioscience 24 (October 1974), pp. 561-568.

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Part II -- Disposal or Development

This section contains three papers that captured the main issues in the debate over food aid in the mid- and late-1950s. They also established the agenda for research on food aid in the 1960s and beyond.

The paper by Mordecai Ezekiel, "Apparent Results in Using Surplus Food for Financing Economic Development" (1958) reflected the perspective that emerged from a series of FAO studies on food aid initiated in the mid-1950s. the FAO studies suggested that in food deficit countries a well concerned program of food aid could make a significant contribution to both easing the foreign exchange gap and, if used to put underemployed labor to work, make a significant contribution to infrastructure investment.

The paper by Willard W. Cochrane, "Farm Technology, Foreign Surplus Disposal and Domestic Supply Control" (1959) was more ambitious. It attempted to establish the complementarity--"a marriage of convenience"--between expanding agricultural surpluses in the United States and other grain exporting countries, which Cochrane attributed to the progress of agricultural technology, and the opportunities for surplus disposal in food deficit poor countries. Cochrane went on to insist, however, that even a food aid program large enough to satisfy the "caloric gap" in the developing world would not resolve the surplus problem in the absence of effective supply control.

The paper by Theodore W. Schultz, "Value of Farm Surpluses to Underdeveloped Countries" (1960) represented a frontal attack on the Ezekiel-Cochrane arguments. Schultz argued that in attempting to rationalize our farm surpluses into international assets, "we deceive no one but ourselves." He argued further that: (a) the value of food aid to the countries receiving the commodities amounted to no more than 37 cents on each dollar of

US Commodity Credit Corporation costs; (b) that the value to the US of the foreign currencies received for the commodities would be no more than 10 cents on each dollar of CCC costs; and (c) that the impact of food aid shipments would have long run adverse effects on agricultural production in the recipient countries.

Vernon W. Ruttan

[1958]

Chapter 3

Apparent Results in Using Surplus Food for Financing Economic Development

Mordecai Ezekiel

During the past four crop years, movement of U.S. agricultural surpluses under Title I of Public Law 480 has become the principal means of disposing of farm surpluses abroad. Nearly 4 billion dollars worth of surpluses have been disposed of altogether in this way, and this has contributed materially to some decline in stocks still held by the Commodity Credit Corporation. An additional 2¼ billion dollars for such disposals over 1½ years ahead has just been authorized by Congress.

Title I of Public Law 480 authorizes sales of surplus commodities for payment in local currencies, with a major part of the local currency proceeds to be loaned back to the recipient countries to help finance their own economic development. An exploration by FAO of how such disposals could work indicated that they might under certain conditions lead to increased consumption in the recipient countries, thus aiding their economic development and helping move surpluses into consumption abroad, without harming markets for usual commercial producers in those countries or in other exporting countries.[1] In view of the importance of such operations, efforts to determine their effects in practice have been discussed for some time. This paper summarizes the results thus far available from such studies.

Since Public Law 480 was passed, agreements have been signed by the U.S. for disposals under Title I with a substantial number of countries. These included 616 million bushels of wheat (and flour) under all phases of Title I made during the four crop years 1954-55 through 1957-58.[2] Large quantities of wheat and other surplus products have been shipped to recipient countries. Among the agreements specifying economic development as a major objective, and reserving a major part of the foreign currency proceeds for loans for this purpose, five are especially important--those with India, Spain, Brazil, Pakistan and Yugoslavia. The largest was the initial three year Indian agreement (360 million dollars), with two-thirds of the proceeds for such loans. The Brazilian agreement (180 million dollars) had over four-fifths of the proceeds for loans. The Pakistan agreements (186 million dollars), however, had less than one-third of the proceeds for loans, and almost half for military procurement. The series of agreements with Yugoslavia totalled 276 million, but only the last two agreements, for 171 million dollars, had a substantial proportion (three-quarters) for loans to the government.[3] The Spanish agreement had a little over half for loans.

Smaller but substantial Title I agreements were signed with 35 other countries for amounts of 40 million dollars or more, including Austria, Burma, Chile, Greece, Indonesia, Israel, Italy, Japan, Korea, Poland, Turkey and United Kingdom. In most of these latter agreements half and frequently two-thirds of the local currency proceeds were planned for loans to foreign governments. Exceptions were the agreements with Korea, Poland, Turkey and United Kingdom, where the foreign currency went, in major part, for military procurement or for payment of U.S. obligations. Many smaller agreements with other

underdeveloped countries, as for example 39 million to Columbia, 25 million to Peru, and 20 million to Egypt, had from half to three-quarters of the local currency proceeds scheduled for loans to governments.

Parallel, though smaller, agricultural disposal arrangements for grain have been entered into by Canada under the Colombo Plan commitments. Smaller dry skim milk contributions to the development of improved milk marketing facilities in India have been made by several countries under arrangements worked out through a subgroup of the Washington FAO Subcommittee on Surplus Disposal; similar proposals are pending final acceptance for Pakistan.

Only 40 per cent of the total funds set aside for local currency loans for economic development had been approved for expenditure for specific projects by mid-1958, and no doubt actual expenditures are lower still.[4] It is therefore too early to make any clear appraisal of the specific development projects financed from such local funds, or of the impact of these projects on the economy of the countries concerned. Deliveries under these agreements have thus run far ahead of drawings on these specific funds. The sale of these surplus products internally has, however, already withdrawn a part of the local currency from internal expenditure. In some cases these withdrawals may have reduced internal inflationary pressures and enabled the government of the recipient country to use deficit financing to pay for a larger volume of economic development expenditures than would otherwise have been possible. They may thus have contributed to economic development even though the currency deposited with the U.S. has not been drawn upon.

India is an obvious case where this may have happened. India has had a serious inflationary pressure during recent years. Apparently the planned development programs exceed that country's capacity to finance them from current domestic savings or foreign loans. In addition, with improved income for India's farmers and some increase in real incomes per capita for the whole population, consumption or retention of foodstuffs on the farms has increased sharply, so that gradually increasing crop production has not been reflected in corresponding increased commercial marketings available for feeding the cities. In meeting this situation, India has imported large quantities of wheat commercially and has imported all of the wheat scheduled under the three year agreement ahead of schedule. In the calendar year 1956, it imported 672 thousand tons from other exporters in addition to 423 thousand tons from the U.S. In 1957, however, when U.S. imports rose to almost 2.7 million tons, imports from other exporters fell to 172 thousand tons.[5] However, rice imports in 1957 were twice as large as in 1956, so commercial imports of wheat might have declined that year even if concessional supplies of wheat had not been available. As shown by the detailed figures in Table 2, Indian wheat imports from other countries averaged nearly as much in 1956 and 1957 as during the three years preceding. The import situation in these earlier years, too, had been influenced by large supplies from the U.S. "wheat loan," obtained in the 1951 food crisis.

Thus, the fragmentary data available on India give no clear-cut picture of the effect of Public Law 480 shipments on economic development, or to what extent they have been matched by increased consumption within the country or have replaced supplies which might have come from other exporters. It is clear, however, that with the increasing shortage of

foreign exchange, India probably could not have financed equally heavy importation of wheat by commercial purchases if the U.S. wheat had not been available on special terms--except by greatly reducing its other imports, including essential supplies for current production and equipment for maintenance and expansion of productive equipment. Intensive study of the actual happenings within the country during this period, as well as of the external dollar trade figures, would be necessary to give a more precise appraisal.

Readily available data for Pakistan are still more fragmentary. The Food Reserve study, from which the trade data for India were drawn, unfortunately does not give similar details for Pakistan. The widely separated halves of the country and the great variability of wheat and rice production in the western and eastern halves, respectively, make the necessary analysis still more complicated.

The only formal study published on the effect of food surpluses on economic development is for Japan. It was completed this spring under the leadership of Dr. Ojala, head of the joint FAO/ECAFE Agriculture Division at Bangkok.[6] This report analyzes the distribution and the results obtained under successive U.S.-Japanese agreements for surplus food purchases in 1955 and 1956, covering the sale of 151 million dollars worth of surplus commodities (including ocean transportation), with 125 million dollars of the yen proceeds, or over three-quarters, to be reloaned to Japan for financing economic development projects. In addition, under the 1955 agreement, the U.S. agreed to provide 15 million dollars worth of surplus wheat, dried milk and cotton (at CCC costs) at a Title II grant, to expand children's welfare programs in Japan, with declining amounts in subsequent years.

The cotton part of this grant was subsequently converted to wheat. The Title I agreements covered wheat, barley, rice, cotton, and tobacco.

The Japanese government based its purchases on estimates made by its food agency of the prospective demand and supply of each commodity during the projected period of disposal, its forecast of normal trade development for each commodity during that period, and the need of yen funds for additional development projects previously excluded from the government program of investments and loans. The major additional projects on which the yen funds were used were on electric power, irrigation, agricultural and forestry land development, and a number of smaller projects, industrial, marketing facilities, etc. Up to September 30, 1957, 39 billion yen had been allocated to projects, and 33 billion spent, or about 83 per cent of the loan funds established under the first two Public Law 480 agreements.

An attempt was made to estimate the per cent of these project expenditures which would reappear in additional purchases of surplus goods, following the methods of the Indian Pilot study. With the relatively high level of per capita income in Japan, the income elasticity of demand for wheat is negative. Even when allowance was made for clothing based on surplus products, the per cent covered was materially lower than was estimated for India in the India Pilot study. While no figure was given in the report, the per cent of additional development expenditures reflected in increased purchases of surplus products is probably below 25 per cent in Japan, on this basis.

However, Japan does have major industrial resources which may not have been fully employed. Once essential food and cotton was provided, the Japanese may have been able

to satisfy the other increased demands resulting from industrial development largely by expanded manufacturing and service industries. In addition, expenditures of the yen allocated for additional military housing in Japan and for Japanese goods for export to other countries also may have produced increased internal demands for surplus products.

In any event, wheat imports expanded sharply in Japan during the period surplus supplies were available under Mutual Security and Public Law 480 legislation. Excluding surplus commodities, commercial wheat imports for the three years 1954/55 through 1956/57 totalled 5.4 million tons, compared to 5.0 million for the preceding three years. Commercial imports from the U.S. totalled 2.1 million tons during the last three year period, as compared to 3.1 million during the three preceding years. In this case, then, the imports from suppliers other than the U.S. showed a substantial net gain over 50 per cent. However, the earlier imports had included substantial quantities of U.S. wheat imported under occupied area relief programs which may have depressed purchases from other countries, so even these comparisons are not definitive. Some other commodities, notably barley, did not show as favorable results for other suppliers; apparently the availability of more wheat may have reduced demands somewhat for barley.

In cotton, the surplus supplies were small compared to the total import, and the share of all U.S. imports (commercial and concessional) in total imports averaged smaller during the two years (1955 and 1956) that surpluses were available than during most preceding years, possibly due to price relations. (Tobacco disposals, also covered in the report, are not considered here.)

During the past six years, production of rice has risen in Japan, production of wheat has trended markedly downward, and production of barley has shown little trend. Apparent consumption of rice per capita has increased, while that of barley has declined, and wheat has declined recently. Wheat and barley consumption per capita are both far above prewar; however, rice has not regained prewar levels. Demand for wheat as bread has a marked positive income elasticity, suggesting that still further expansion of wheat and flour consumption may occur in the future with continued economic development and urbanization.

The report also give many other details on considerations which led up to the surplus sale agreement, and on administrative procedures for handling the commodities and the financial arrangements, which cannot be summarized here.

While the picture is confused by wheat-rice competition and by fluctuations in domestic production, the over-all results thus far in Japan appear favorable to the use of surplus products for economic development, with increased development expenditures, somewhat higher imports from other commercial suppliers, and no marked unfavorable effects on domestic producers. The shift from domestic production of wheat to rice also appears to have been in the direction of greater relative advantage.

Japan is not representative of most underdeveloped countries, having much more industrial development, higher levels per capita of income and production, greater dependence on foreign trade, and is probably better supplied with experienced administrators, technicians, scientists, and other skilled manpower. Also, it probably has less unemployed or underemployed labor than most underdeveloped countries, although this

point was not investigated in this report. That similarly favorable results would be secured in less developed countries cannot, therefore, be taken for granted.

Proposals for Other Studies of Surplus Disposal

The FAO Washington Subcommittee on Surplus Disposal has given long study to the research that is needed to determine the effects in practice of surplus disposals, and has prepared two outlines for such research projects, covering, studies of surpluses used for economic development,[7] and of surpluses used for emergency/famine relief and special feeding programs.[8] These outlines provide close study of methods of operating the transactions, including administrative and financial techniques, as well as of the previous situation, the economic effects, and the effects on international trade and on subsequent economic conditions. In both types, detailed investigation would be needed in the recipient country; for best results, concurrent observations of market reactions and behaviour during the time the surpluses were being received and distributed would be needed. Since such studies are beyond the resources of the existing FAO staff, efforts are being made to interest others in the problem, and to secure outside resources with which to conduct additional studies, either by FAO or by other agencies. In the meantime, as opportunity develops, it is hoped that additional reconnaissance studies similar to the one for Japan can be undertaken by FAO staff, probably as part of the joint staff operations in cooperation with the several U.N. regional economic commissions.

Conclusions

While the evidence thus far shows no conclusive proof that the disposal of surpluses for economic development can help recipient countries, and can do so without harming

other exporters of the products involved, neither does it prove the contrary. Rather, it does suggest that under favorable conditions and good administration in the recipient countries, quite good results may be secured in both respects. To what extent other surplus disposal agreements have been equally well conceived and operated, only further study can tell.

TABLE 1. PLANNED USES OF FOREIGN CURRENCY UNDER MAJOR TITLE 1, PUBLIC LAW 480

Agreements Signed 1 July 1954–30 June 1958: Total and Loans to Selected Countries

Recipient Country	Total Amount Programmed (Market Value, including ocean transportation)	Planned Use of Foreign Currency Proceeds as Loans to Recipient Governments
	(in million dollars)	
India	419.4	269.2
Spain	288.1	157.5
Yugoslavia	294.6	135.3
Pakistan	186.1	54.4
Brazil	179.9	149.2
Turkey	162.6	75.7
Italy	152.9	100.5
Japan	150.8	108.9
Poland	138.0	—
Korea	132.0	—
Indonesia	96.7	77.4

Source: Eighth Semiannual Report on Activities Carried on under Public Law 480.

TABLE 2. IMPORTS OF CEREALS ON GOVERNMENT ACCOUNT INTO INDIA, 1950–57[a]

Source	1950	1951	1952	1953	1954	1955	1956	1957
	(thousand long tons)							
	Wheat and Flour (as wheat)							
U. S.	50	1,810	1,763	577	—	129	423[b]	2,674[c]
Other countries	1,357	1,205	748	1,107	197	306	672	172
Total	1,407	3,015	2,511	1,684	197	435	1,095	2,846
	Rice							
U. S.	—	—	—	—	—	—	—	194[d]
Other countries	353	749	722	175	603	265	325	542
Total	353	749	722	175	603	265	325[e]	736
	Other Grains							
U. S.	344	589	540	111	8	—	—	—
Other countries	21	372	91	33	—	—	—	—
Total	365	961	631	144	8	—	—	—

[a] Source: FAO, National Food Reserve Policies in Underdeveloped Countries, Rome, 1958, p. 40, mim. edition (English).
[b] Includes 278,000 tons under Public Law 665; balance, Public Law 480.
[c] Includes 199,000 tons under Public Law 665; balance, Public Law 480.
[d] Received under Public Law 480.
[e] Includes 5,000 tons received from Pakistan as repayment of loan.

TABLE 3. IMPORTS OF SPECIFIC COMMODITIES INTO JAPAN FROM U. S. AND OTHER SOURCES, 1950/51–1956–57

Source	1950/51	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57
Wheat, in thousand metric tons							
U. S.—Commercial	925[a]	999[a]	1,136	964	564	763	766[d]
Surplus	—	—	—	—	584[c]	372[b]	349[b, d]
All other countries	534	531	460	930	988	1,101	1,073
Total	1,459	1,530	1,596	1,894	2,136	2,236	2,188[d]
Barley in thousand metric tons							
U. S.—Commercial	251[a]	499[a]	368	175	103	301	289
Surplus	—	—	—	—	112[c]	57[b]	81[b]
All other countries	152	259	813	598	269	323	566
Total	403	758	1,181	773	484	681	936
Rice—milled equivalent—in thousand metric tons							
U. S.—Commercial	45[a]	102	242	318	175	155	4
Surplus	—	—	—	—	—	97[b]	—
All other countries	648	799	666	1,135	889	1,039	555
Total	693	901	908	1,453	1,064	1,291	559
Cotton, in millions of pounds							
U. S.—Commercial	627	393	464	324	445	225	418
Surplus	—	—	—	—	—	89[b]	52[b]
All other countries	156	444	479	743	634	658	855
Total	783	837	943	1,067	1,079	972	1,325

Source: FAO/ECAFE, A Note on the Utilization of Agricultural Surpluses for Economic Development in Japan, pp. 38–41.

[a] Including those imported under the Government and Relief in Occupied Areas (GARIOA) Funds.

[b] Surplus commodities bought under Title I of Public Law 480.

[c] Surplus commodities bought under Section 550 of the Mutual Security Act of 1951, as amended.

[d] Excludes grants of 92,874 tons.

ENDNOTES

[1]Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries, A Pilot Study in India, FAO Commodity Policy Series No. 6, 1955, 65 pp.

[2]From data compiled by Grain and Feed Division, Foreign Agricultural Service, USDA "1957-58" means the crop year, mid '57 to mid '58.

[3]Eighth semiannual report on activities carried on under Public Law 480, etc. January 1 through June 30, 1958. 85th Congress, 2d session, House of Rep., Public Doc. 431, Aug. 5, 1958.

[4]Ibid., pp. 18, 37.

[5]Data from National Food Reserve Policies in Underdeveloped Countries, FAO Doc. CCP 58/14, 29 May, 1958, p. 40 (English ed.)

[6]A Note on the Utilization of Agricultural Surpluses for Economic Development in Japan, U.N. and FAO Doc. E/CN.11/L.60, Bangkok, 1958, 46 pp.

[7]Report of the Working Group to Expand Pilot Research Study Outline (Use of Agricultural Surpluses in Economic Development), FAO, Doc. CCP/CSD/58/10, 7 March, 1958.

[8]Report of the Working Group to Expand Pilot Research Study Outline (Use of Agric. Surpluses for Emergency/Famine Relief and Special Feeding Programs), FAO Doc. CCP/CSD/58/23, Rev., 9 June, 1958.

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Chapter 4

Farm Technology, Foreign Surplus Disposal and Domestic Supply Control

Willard W. Cochrane*

I

In this paper, I want to do three principal things: (1) describe and dramatize the technological revolution in American agriculture together with its surplus implications; (2) describe the pre-eminent role that foreign surplus disposal has assumed in domestic agricultural policy together with its potential role; and (3) argue the necessary linkage of effective supply control to foreign demand expansion, if good and stable incomes are to be realized on representative farms in the United States. In other words, it is the thesis of this paper that advancing technology in American agriculture is forcing, first, the acceptance of foreign surplus disposal and second, the acceptance of comprehensive supply control. And the logical result must be the integration of--the marriage of--these seemingly opposing lines of action into a unified policy. And it is the purpose of this paper to record--to legitimatize--this marriage of foreign surplus disposal and comprehensive supply control, however distasteful it may be to some friends and relations.

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II

Total farm output increased just about 50 per cent between 1940 and 1958. This is a substantial increase, but not a really spectacular one when compared with some other growth rates in the American economy since 1940. But when this output increase from agriculture is compared with population increases, the shades of the picture change rapidly. During the decade of the 1940s, total farm output increased approximately 2.2 per cent per year, as total population in the United States increased some 1.5 per cent per year.[1] Clearly farm output was outracing population growth in this decade, but since we were fighting a world war and helping the world recover from that war this development turned out to be a blessing. We made the world food and fiber needs our needs during the decade of the 1940s, hence we could use to advantage all the product that we could get.

During the 1950s total farm output has increased approximately 2.5 per cent per year, as total population in the United States has increased some 1.8 per cent per year. Population growth speeded up in the 1950s, but so did the rate of output expansion. At the present writing, the aggregate output of agriculture is outdistancing a very rapid rate of population growth in the United States by more than one-half of one per cent per year. And where the income elasticity of raw farm products approaches zero, as is the case in the United States, this imbalance can be disastrous. Where the income elasticity of raw products approaches zero, the excess rate of output expansion over population growth properly measures the additional pressure of supply on demand each year, hence measures the increased downward pressure on farm prices (or, under price supports, the widening of the annual rate of surplus).

And the surpluses have mounted. Of this development the Secretary of Agriculture has kept us well informed. The U.S. Department of Agriculture's investment in storable stocks has increased persistently--from under 2 billion dollars in fiscal 1952 to an estimated 9 billion dollars in fiscal 1959. And this build-up of stocks has occurred in the face of really massive export programs--programs that have moved between 1.5 and 2.0 billion dollars worth of agricultural commodities, in addition to conventional commercial sales, in each of the last four years.[2] Think where Mr. Benson's stock pile would have been (or where farm prices could have been) without this volume of foreign surplus disposal. Further, this mounting stock pile is not limited to wheat and cotton; it is now heavily weighted with feed grains, which we all recognize as unprocessed livestock and livestock products. In sum and in short the surplus condition is general; the mounting surplus in feed concentrates makes it so.

Now what has pushed the rate of output expansion ahead of population growth by .6 to .7 of a per cent per year? Basically it is the rapid and widespread application of new knowledge to agriculture--new knowledge that is expanding output faster than offsetting adjustments can be made in the way of reducing the employment of other factor inputs in agriculture, notably labor. The rain of new knowledge across the land, the technological revolution sweeping over agriculture, is not a narrow thing tied to machinery and equipment--it is a broad thing involving improved skills in labor and management, the relocation, recombination and area specialization of commodity enterprises, and the farm adoption of new techniques. All of these avenues of new knowledge application, acting and

interacting, are raising production functions, lowering cost functions and expanding output in agriculture.

Preliminary estimates from the U.S. Department of Agriculture suggest that total inputs in agriculture increased about 10 per cent between 1940 and 1958. Total inputs increased 10 per cent, while total output increased 50 per cent. And since I have seen no evidence of increasing returns to scale in agriculture, after the obvious smaller-than-one-man unit is passed (in fact all the evidence that I have seen suggests constant returns to scale) the interpretation of the above data must be (1) that 20 per cent of the increase in total output since 1940 is explained by an increase in inputs and (2) 80 per cent of the increase is to be explained by technological advance in the broad sense outlined above.

There is, however, a new school of thought emerging, or perhaps an old school gaining a new lease on life, with respect to the employment of resources in agriculture. Briefly it says that up to 60 per cent of the increase in output since 1940 is to be explained by an increase in total inputs in agriculture. The disagreement seems to revolve around the different views held with respect to proper rates of depreciation for farm machinery and equipment. Hence, we may anticipate a battle of input indexes in the years to come.

Although this second view of total input behavior in agriculture dampens down somewhat the technological-advance theses of certain earlier writings of mine, it in no way subtracts from the technological-revolution thesis of this paper. In both views the aggregate input of labor in agriculture has declined drastically since 1940--by more than 35 per cent. Inputs of land have held fairly constant. And inputs of new kinds of nonfarm capital have increased dramatically. In both vies, new and improved capital items have substituted for

labor, but in the second view a considerably larger quantity of capital was required to obtain the output increase that did occur than in the first, or Cochrane, view. The only question at issue is--how much additional capital was required?

Thus, the ideal construct that I wish to leave with you is the following--new knowledge flows into agriculture in many ways: in the form of developed machines and techniques to be adopted, in the form of new enterprise combinations (i.e., industry relocation and specialization), and in the form of increased labor and management skills. Now the first two of these will be adopted, or instituted, as rapidly as they become available and as rapidly as labor and management skills permit. They will be adopted in the pure substitutional case of capital for labor to realize the increased labor-management returns to those persons remaining in agriculture. They will be adopted in the pure technological-advance case first to realize the enhanced profits on the part of the early adopters and second to reduce unit costs on representative farms as product prices fall with expanding supplies. And they will be adopted, or instituted, in practice for a combination of the above two reasons. the incentive to apply new knowledge is there: it is powerful and ubiquitous in American agriculture.

The question may be asked at this point--will the new knowledge and the new technologies continue to pour forth at a rate that pushes output ahead of demand? This question is most often asked by persons taking a narrow view of the technological revolution in agriculture--persons who tend to view advancing technology in terms of machines and equipment. But this I would argue is a too limited--in fact an erroneous--view of the technological revolution in American agriculture. A more correct view, I believe, is that of

a broad front of new knowledge flowing into agriculture. Sometimes this new knowledge takes the for of new machines and equipment, but it also takes many other forms. It takes the form of new and improved disease control, improved pest control, improved water control, and new and improved breeds and varieties. It takes the form of upgraded labor skills--labor that can handle the newer practices and that can see the place for still different and improved practices. It takes the form of improved management skills that lead to the relocation, recombination and further specialization of enterprises. And this advancing front of new knowledge is now fed by many streams besides the Land Grant Colleges; it is fed to an increasingly greater degree by private industrial research; and it is becoming an important beneficiary of the large-scale, post World War II research efforts in physics, genetics and biochemistry; this is serendipity on a grand scale. Thus, I can find no reason to anticipate a slowdown in the flow of new knowledge into agriculture. On the contrary, I believe that research and development in agricultural production is running into external economies of scale--is running into and is being fed by the fruits of research in the more basic disciplines (e.g., physics and biochemistry).

In sum, and as I see it, useable knowledge and new and improved production practices and processes are going to flow into agriculture in increasing abundance. I suspect that we are on the threshold of the technological revolution in agriculture, not in the middle or latter stages of it. If given half a chance I can become a real Buck Rogers with respect to the future of agriculture: the feed supply produced in factories employing artificial photosynthesis processes, the sea intensively farmed to yield protein supplies, and animal

products produced under controlled conditions such as we are now beginning to see in poultry.

And as we have observed, the incentive to substitute capital for labor and to adopt cost-reducing practices on farms is there. Unless we destroy asset positions of farmers generally by putting them through the long-run wringer of a free market they are going to continue to substitute capital for labor and to expand output. The twin pressures deriving out of the technological revolution in agriculture--the pressure to move labor out of agriculture and the pressure of the food and fiber supply on population--are going to remain with us and intensify because the technological revolution in agriculture is going to remain with us and intensify.[3] The great policy problem of American agriculture in the 1950s and in the decades to come is that of finding a way to moderate those pressures and make them tolerable to the people living under them--namely, farmers.

III

Agricultural exports moving under some kind of special governmental programs amounted to between 60 and 70 per cent of total agricultural exports from the United States in the post World War II years, and continued at these high levels through the hot Korean action. But in the early 1950s--in the first years of the cold war--agricultural exports under special programs fell off sharply; such exports fell from a dollar value of 1.2 billion in 1950-51 to 0.5 billion in 1952-53. This new low level of special-program exports held, however, for only one year. In 1953-54 agricultural exports underwritten by government began moving up, reaching a peak value of 1.9 billion dollars in 1956-57, but leveling off on a plateau of around 1.5 billion dollars in the late 1950s.

The low level of special-program agricultural exports realized in 1952-53 could not hold for reasons discussed above--namely, the pressure of food and fiber supplies on domestic population. Mounting surplus stocks following 1953 forced politicians and administrators to find a way of disposing of those stocks. And the way was found once again in the acceptance of the World's needs for food and fiber as our needs (or at least the needs of the non-Communist part of the World). The pressure of food and fiber supplies on population in the United States was moderated during the late 1950s by massive surplus disposal abroad. To an important degree we exported our farm problem.

Now the cynic's view of the motives that led the United States to assume the "burden" of meeting the unsatisfied food and fiber needs of much of the world in the 1950s may not be wide of the mark, but recent efforts on the part of some individuals and agencies to analyze away that world need strikes me as being both fallacious and malicious. The need is there. The trained observer traveling through the Middle East and much of Asia cannot miss it; he does not have to await clinical examinations of the population to observe it; he can see chronic undernourishment with his own eyes. And the Food and Agriculture Organization has documented this need many times. Using estimates of per capita food consumption and requirements presented in the Second World Food Survey[4] and world population estimates for 1956 I get a very rough estimate of the caloric gap of the non-Communist world, measured in metric tons of wheat, of some 30 to 35 million metric tons. (This, of course, is not to suggest that the caloric gap should be met with wheat alone; metric tons of wheat is simply used as a meaningful unit of measure here.) This gap compares with annual wheat production in the United States of between 25 and 30 million

metric tons, with the United States stocks of wheat in 1958 of 24 million metric tons and with the foreign surplus disposal of food and feed grains in 1957-58 of 10 or 11 million metric tons. The need is there and it is large, but it is not out of this world.

Further, it is now pretty clear that the caloric gap in the underdeveloped parts of the world is widening rather than narrowing.[5] Per capita agricultural production in the underdeveloped areas of the world in the 1950s has not regained pre-World War II levels. Both the Far and Near East, which were formerly net exporters of agricultural products, are now net importers. This changed position in the underdeveloped countries is, of course, to be explained by the population upsurge in those countries. And the end of this mounting population pressure on food and fiber supplies in these countries is not in sight. Let me sum up and drive home the import of this deteriorating situation with respect to per capita food and fiber supplies in the underdeveloped countries by quoting from the recent Report of the Ford Foundation Agricultural Production Team sent to India to study the food crisis developing there. The Report reads as follows:

> India is facing a crisis in food production....
>
> Five million persons per year were added during the First Five Year Plan, and seven million per year will have been added during the Second Plan Period. Ten million per year probably will be added during the period of the Third Plan ending 1966.... This explosive increase in population will raise the total from 360 million in 1951 to an estimated 480 million by 1966.
>
> Preliminary planning is now under way for the Third Plan. No specific targets have been announced, but discussions indicate that
> from 100 to 110 million tons of food grains will be required by 1965-66....
>
> In order to produce 110 million tons of food grains annually by the end of the Third Plan, the rate of production increase must average 8.2 per cent per year for the next 7 years. This rate of increase compares with an annual average of 2.3 per cent from 1949-53 to 1958-59. The task is overwhelming....[6]

Although the food and fiber needs of the underdeveloped countries are great and becoming greater, and although the United States has acted to meet the most acute of these needs, it does not follow that the foreign surplus disposal programs of the United States have in any fundamental sense been good for the recipient countries, for foreign competitors, or for the United States. Many share this negative view; I share it in part myself. Our first efforts at surplus disposal in the 1950s were very crude. We turned our agricultural attaches into order takers; we sent huckster teams around the world to find new markets; we engaged in barter; we pushed our surpluses hard. How much these concessional sales cut into the export markets of such friendly nations as Canada, New Zealand and Denmark we will probably never know. Probably by not as much as was claimed. On the other hand, we were not careful of third-country positions in the mid 1950s.

But we have learned much with respect to the mechanics of foreign surplus disposal; we have become sophisticated dumpers. We now consult formally with the various export countries through the F.A.O. Consultative Committee on foreign surplus disposal, we consult informally with competing nations in the initiation and modification of disposal agreements with recipient countries, and we are firmly committed, in the Administration at least, to the "additional principal" (i.e., concessional sales, or grants, to a recipient country must represent additions to the regular commercial sales of that country.)[7] In short, we have made great strides in the way of improving the operation of surplus disposal programs vis-a-vis other nations; also the sale of food and fiber supplies for foreign currencies is a bright institutional innovation.

But there remain grave difficulties with our total foreign surplus disposal operation--difficulties that in my opinion must be resolved if this course of action is to be pursued on a sustained basis with beneficial consequences to all parties concerned. These difficulties are highly interrelated, but gain in clarity, I believe, through separation. They are:

(1) The temporary, emergency quality of our foreign surplus disposal operations. Although everyone likes a bargain, there have, as yet, been few lasting benefits to the recipient countries involved. Current consumption levels have been increased; and this can be important to hungry people. But little else has been achieved. Economic development projects, for which currency received from the sale of food and fiber in the recipient countries has been set aside, remain to an important degree in the planning stage; disbursements of funds to finance projects lag far behind the planned use of funds. In short, our foreign disposal programs were conceived by this Administration as expedient, temporary, disposal measures, and they are so treated by all concerned.[8]

(2) The great uncertainty created all around by our foreign surplus disposal operations. We, ourselves, don't know how long we will place primary emphasis on this type of adjustment, what forms the programs will take, the extent of the price concessions and the nature of the side conditions attached to such sales. And foreign competitors are completely in the dark with respect to our plans, as are prospective recipient nations. In this context, rational action is impossible. Plans of economic development of several years' duration based upon agricultural exports from the United States must be based upon either

hope or conjecture, consequently they often are not made. This is the irresponsible aspect of our foreign surplus disposal policy.

The question may then be asked--what do we need to do to make these disposal programs acceptable to friendly competing nations and to contribute to economic development in the recipient nations? I would state the basic need as follows: in the disposal of surplus agricultural commodities in foreign countries, the United States must be prepared to make some policy commitments of long-run duration with respect to program objectives, availability of supplies, means of financing and so on. the specifics of this general course of action can be stated under the following seven points:

(1) Except in famine situations, surplus agricultural commodities in the United States, when disposed of abroad, are to be used exclusively to finance economic development. Economic development is here interpreted broadly to include education and training of the human agent as well as physical capital formation, but all food and fiber shipments must be related to, or integrated into a plan, or plans, of economic development.[9]

(2) Once "surplus" agricultural commodities from the United States become committed to a development plan, or project, of a foreign country, for whatever duration, one year or ten, they cease to be surplus commodities and the whole operation ceases to be a foreign surplus disposal operation. At this point, the committed supplies become "development supplies" and get built into the aggregate demand for the farm products of the United States; they become a recognized claimant on domestic production in the same sense as the School Lunch Program and the International Wheat Agreement.

(3) Food and fiber supplies committed to development plans and projects would be financed by means acceptable to the recipient countries but with the basic objective of speeding economic development; perhaps by grants, perhaps by loans, perhaps by sales for national currencies. The financing principle to be followed here is one that maximizes economic development, not the money return to the United States. The charge that the United States' only concern is that of exporting its farm problem would thus be refuted and the entire program would become a humanitarian program with lasting possibilities.

(4) Recipient countries must in every case provide evidence that these "development supplies" from the United States do not reduce their "normal" acquisitions of food and fiber from other countries. By this and the previous point, criticisms by foreign competitors would lose their force.

(5)Since "development food and fiber supplies" could finance only a part of every plan or project, complementary programs to finance the purchase of hard goods, construction materials, and services would be necessary. In some cases, food and fiber supplies might finance up to 70 or 80 per cent of a project (e.g., road building under an antiquated state of the arts), but in most cases the percentage would be lower. Hence, the financing of non-agricultural supplies must be a part of the total program.

(6) Competing nations burdened with agricultural surpluses (e.g., Canada, Argentina) should be invited to participate in this "food for development" program. And to the extent that competing nations desired to participate, multilateral arrangements could be initiated. This is the way that a formal international program under the sponsorship of the U.N. might come into being.

(7) But until such time as a world program did come into being the F.A.O. (or some other U.N. agency, or set of agencies) should be charged with the responsibility, and be provided with the necessary funds, to aid recipient countries formulate and execute plans of economic development. This provision would speed development where administrative experience and technical know-how are most lacking. Further, it would free the United States of the charge of meddling in other countries' internal affairs.

Now some of you must be saying--"What does this fellow mean by using food to finance economic development; I know what it means to give food away, but how do you use it to finance a 5-year plan, or education?" Since my whole argument rests upon the use of surplus food supplies to create capital, human and physical, in underdeveloped countries it is imperative that I show how this can be done. And let me do it through the use of two illustrations: (1) the simple case of road building or land clearing in a very poor country, and (2) underwriting a part of the costs of a major plan of development in a country such as India (because of time limitations we must forego the important but complex case of vocational education and training).

First let us consider the simple road-building or land-clearing case in a very poor country. The country involved would plan the project, probably with the technical assistance of F.A.O. and mobilize the workers involved, together with their families, into construction camps. The United States would commit itself to provide the kinds and quantities of basic foodstuffs and fiber products required to feed and clothe the workers and their families for the duration of the project. The United States would further grant the country a loan to permit it to acquire the hard goods required on the project--picks and shovels and some

heavy equipment, but not the ultimate in modern earth-moving equipment. The food and clothing costs of the project would probably run to 60 to 70 per cent of the total project costs, and these costs we would defray. The foreign country involved would pay the workers a small cash wage in its own currency.

Now let us consider the use of food supplies in underwriting, in part, a national plan of economic development. Assume that India comes to us with a five-year plan, which she may well do, involving the transfer of thousands, possibly millions, of workers first from low-production jobs in agriculture into some kind of vocational training and second into manufacturing and construction jobs. In the early phases of the plan total output of food would probably decline somewhat; in later phases, the demand for food resulting from the increased productivity of the workers involved would probably increase more rapidly than agricultural production. Thus, to execute such a plan without serious price inflation the country would need to increase its imports of food supplies for 5 or 10 years. But it is already using its scarce foreign exchange to import the hardware central to the execution of the five year plan. Here, then, is where we would step in and offer to provide those food supplies at such prices and under such loan conditions as would not impair the financial structure of that developing country. We would agree to supply a given bill of food and fiber goods on the condition that it did not cut back its normal commercial purchases from us and other national suppliers. This we are doing in sort of an after the fact way with India right now. But we should formalize the procedure and turn it into a forward operating instrument of policy in the case of India and other responsible national governments (e.g., Mexico and Turkey and perhaps Egypt and Pakistan).

There are shortcomings to the above general approach. First, it would cost more than the present program for comparable quantities. Second, many governments in underdeveloped countries are not sufficiently strong, or sufficiently responsible, to effectively administer the development plans and projects envisaged. Third, the substitution of development supplies for regular imports will never be completely satisfactory to all parties concerned. But to recognize that problems would be involved is not to say that we should not give these ideas a try. Any course of action, including doing nothing, involves problems.

Many economists criticize me for this stand, arguing as follows: This course of action will perpetuate the farm surplus problem in the United States, and it is an inefficient way to help the underdeveloped countries to help themselves. It would be better policy, they argue, to move toward freer trade, and make dollar grants, or loans, to these countries and thus permit them to purchase what they need for development purposes wherever in the world they are able to get the best deal. To this I would say they might be right if the economic maladjustments in the world were not so overwhelming. Theirs is an approach that works well when economic sectors and resources are in reasonable adjustment--when we are concerned with inter-firm resource adjustments in an economic world that is functioning smoothly. But there are serious maladjustments abroad in the world--some countries are poverty stricken, others are struggling to keep from falling back into a poverty situation, and still others are cursed with a surplus of agricultural commodities. These kinds of major maladjustments the market does not handle well.

Under the course of action suggested here, two great social complexes, each unstable and unhappy by itself, are made to complement one another. One the one hand we have massive poverty, underemployment, and a revolutionary drive on the part of the peoples involved to improve their worldly lot. On the other we have great opulence, excess agricultural capacity now taking the form of food and fiber surpluses, and a strange mixture of humanitarianism and fear. The transfer of surplus food and fiber supplies from the United States and their conversion into development supplies in underdeveloped countries becomes the policy bridge whereby the pressure of food and fiber supplies on population in the United States is moderated and the pressure of population on food and fiber supplies in the underdeveloped countries is moderated. By this policy bridge we buy the kind of adjustment time required in each social complex; and its construction would constitute political action at its best.

IV

It is one thing to moderate the pressure of food and fiber supplies on domestic population through the sustained use of excess agricultural productive capacity in the United States to finance development in underdeveloped countries, and it is quite another thing to keep that pressure from rebuilding. If we were to run a foreign development program on a sustained basis at the level of current surplus disposal operations, <u>and if the rate of aggregate farm output expansion did not increase</u>, this course of action would reduce by about one half the amount of contraction needed to bring total agricultural output in line with total demand at a level of farm prices slightly above present levels. If further we were to run a foreign development programs on a sustained basis at double the current level of

surplus disposal operations, and if the rate of aggregate farm output expansion did not increase, this course of action would erase the surplus stock situation in a reasonable time and begin to exert an upward pressure on the level of farm prices. If, still further, we were to run a foreign development program on a sustained basis at triple the current level of surplus disposal operations (which is probably all that the non-Communist world could take on a need basis and a good deal more than it could take on an effective development basis) and if the rate of aggregate farm output expansion did not increase, this course of action would very quickly exert a strong upward pressure on farm prices.

But please note that to each of the above situations, which progress from the realistic to the idealistic, I attached the condition if the rate of aggregate farm output expansion did not increase with increases in total demand. But what is to keep the rate of aggregate farm output expansion from increasing in these situations? What is to keep the pressure of food and fiber supplies on domestic population from rebuilding? Nothing so far as I can see, unless farmers accept comprehensive supply control. The total outturn of food and fiber supplies in the United States is currently outracing total market demand (domestic and foreign) plus the current level of foreign surplus disposal. And the rate of output expansion would certainly increase under expanded foreign development programs.

For the doubters let me recall some history. In the late 1930s agriculture was plagued with excess capacity just as it is now. But as the demand for farm products strengthened in 1939-41 with the happy shift from widespread unemployment to full employment that excess capacity was used up, and both farm prices and farm output began to move up. And when the World's food needs were heaped upon this domestic full

employment demand during and following World War II, and the total demand for food and fiber products shot forward, the total output of the United States agricultural plant also shot forward. Despite the huge outflow of human resources from agriculture during the war years, 1942-44, and the limited inflow of capital, aggregate output followed closely behind the great expansion in demand of that period. And aggregate output caught up with demand in 1948-49, and has been pressing against it ever since.

I would argue further that the output-increasing potential of American agriculture is greater today than it was in the late 1930s. First, the excess productive capacity that could be thrown into the breach of expanding demand is greater today than in the late 1930s. Second, total inputs in agricultural production could be easily and readily increased through a slowdown in the rapid rate of outmigration from agriculture. Third, there is no hot war at the present time to limit the inflow of capital, and farmers' asset positions are generally much stronger today than in the late 1930s. Finally, a broad front of new knowledge currently exists to be adopted in agriculture. In sum, it is my considered opinion that an expansion in total demand resulting from a tripling of present levels of surplus disposal would be matched by an increase in aggregate output within two or three years.

Thus I draw the following conclusions: (1) any expansion in aggregate demand from any source that might be contemplated now or in the foreseeable future will be quickly followed by an expansion in aggregate output such that the pressure of food and fiber supplies on population is reestablished, with the consequent depressing effects on prices and/or a buildup of surplus stocks; hence (2) the receipt of good and stable prices and

incomes by farmers generally is dependent upon their widespread acceptance of supply control.

I have recently discussed the mechanics of supply control in some detail[10] and I shall not repeat it here. But we must be clear on terms, and we must share some common ground with respect to general methods, potentialities and problems of supply control. By supply control I mean the conscious adjustment of supply to demand, commodity by commodity, year after year, to yield prices in the market that have already been determined as fair by some responsible agency. And we recognize that numerous avenues of adjustment have been tried, or discussed, in connection with supply control, although most have been conceived as emergency measures and in a half-hearted spirit. But farmers have taken and continue to take some steps in this direction. There are, first, the voluntary efforts of cooperative marketing associations to control marketable supplies. There are, second, the efforts of government to control supplies through the control of one input--usually land, but occasionally the more daring ideas of a planned movement of labor out of agriculture, or a tax on the use of a key input (e.g., fertilizer), are considered. There is, third, the use of sales quotas to limit supplies to some market goal.

The first of these efforts has never proved effective except where linked to the third. The second general method has been employed many times in many forms with varying degrees of success. The third general method has been employed with considerable success in sugar, tobacco and certain specialty crops, but it has not as yet found acceptance among the major problem commodities--not in the great feed-livestock complex, including milk, or in wheat, or cotton.

It is my contention, however, that farmers must come to accept supply control of the rigorous type involving the use of sales quotas. This contention is based upon two strands of reasoning: (1) the general conclusion reached above to the effect that total supplies will quickly adjust upward to match any expansion in demand, and (2) that supply control based upon adjustments in any single input (e.g., land, or labor) is blunt and ineffective. Land retirement and the movement of labor out of agriculture are blunt processes which do not lend themselves to fine adjustments in supplies; only the roughest relation can be established between a planned reduction in the employment of land, or labor, and the output response--and this is not good enough where demand is highly inelastic. And, as the state of the arts advances, our ability to substitute one factor for another increases, hence we can expect the ready substitution of uncontrolled inputs for the controlled inputs under this type of control, and an ineffective supply adjustment. Trying to adjust supplies through the control of one input is like trying to bail out a leaking boat with a sieve; it is next to impossible.

In the world of effective and comprehensive supply control the composition of demand is all important, for remember what we are doing is adjusting supplies <u>to</u> demand-at-a-price. In thinking about this control problem it is convenient to break total demand into four components: (1) domestic market demands, (2) special domestic program demands (e.g., school lunch), (3) foreign commercial demands and (4) special foreign program demands (e.g., to finance economic development). The first component is given to the problem by the level of employment and consumer tastes, the second contains precious little room for expansion, and the third, too, is given to the problem. It is with respect to the fourth component, the special foreign program demands, that real room for decision exists.

Decisions made with respect to this fourth component will determine in large measure the size of the initial bite of supply controls on producers for several years to come--will determine the size of painful downward adjustments required of American agriculture. In this way domestic supply control and foreign surplus disposal are inter-related: the magnitude of the former in the initial stages, at least, depends upon the magnitude of the latter; the latter without the former is of limited value to American farmers; and in operation they fit hand in glove.

The task of this paper is completed; the marriage of foreign surplus disposal and comprehensive supply control has been recorded. The mechanics of this marriage union are sketched in the foregoing paragraphs relating the adjustment of supplies to demand; the logic of the union has been the work of the whole paper.

ENDNOTES

[1]These percentages and the comparable ones in the following paragraphs are simply the 10 year percentage changes divided by 10.

[2]See the outlook issues of the Demand and Price Situation for the relevant data.

[3]The writer was sorely tempted at this point to throw away the topic and outline of this paper, and explore in detail our unconscious policy with respect to the development and dissemination of new knowledge in agriculture--to explore the large and unknown resource commitment in research and education that is propelling the technological revolution in agriculture. But that is clearly the subject of another paper, which is taking shape in the writer's mind.

[4]Published by the Food and Agriculture Organization of the United Nations, Rome, November 1952.

[5]See the discussion in The State of Food and Agriculture 1958, Food and Agriculture Organization of the United Nations, Rome, 1958, pp. 9-33.

[6]Report on India's Food Crisis and Steps to Meet It, issued by the Ministry of Food, the Government of India, April 1949, pp. 11-12.

[7]Strictly speaking, adherence to the "additional principle" is limited to sales for foreign currency under P.L. 480, and there is continued pressure to engage in barter and concessional dollar sales that are competitive; but there is a growing general awareness that the leader of the free world cannot dump at will on its friends.

[8]This emergency view of foreign surplus disposal of the present Administration becomes abundantly clear in the recent testimony of Clarence L. Miller, Assistant Secretary of Agriculture, on the "Food for Peace" Bill, S. 1711. He states that "we do not believe that any greater rate of disposition would result under a five-year extension than can be attained under a one-year extension." But nowhere in his testimony does he give consideration to the needs and problems of the recipient countries in undertaking economic development. On the contrary he voices the fear that the authorization of supply commitments up to ten years would "...provide for programming of certain commodities whether or not they are in surplus supply." For Mr. Miller foreign surplus disposal is simply an avenue of disposing of visible surpluses that happen to be in the hands of the United States government.

[9]This statement is not intended to constitute a rejection of multi-lateral commodity agreements; such agreements must play an important role in a controlled agriculture.

[10]"Some Further Reflections on Supply Control," Journal of Farm Economics, Nov., 1959.

[1960]

Chapter 5

Value of U.S. Farm Surpluses to Underdeveloped Countries*

Theodore W. Schultz

The American perspective on farm surplus disposal seems to take this form: U.S. farm surpluses are a fact of life, they must be disposed of, and the natural place is abroad. Particular underdeveloped countries need these farm surpluses and they need them above all for their economic development; thus, the thing to do is to place them in the hands of the governments of such countries. But private and public motives for disposing of these surpluses are not so clear or cogent. Many a citizen who is motivated by deeply held humanitarian values is far from happy knowing that there are millions of people in the world with all too little food and that his country is beset by a wasteful abundance. What is simpler and more just than to share our abundance? There are some who speak for farm groups who know that these disposal programs are essential to maintain the existing farm policy; their motives are not wholly altruistic. The lot of legislators who enact the law and of public officials who administer Public Law 480 is not an easy one; their choices are

*In revising this paper I have benefited much from a number of critical comments and substantive data and studies that I received from Mordecai Ezekiel, Dale E. Hathaway, Bartlett Harvey, Harry G. Johnson, Sherman E. Johnson, Edward Mason, Don Paarlberg, Herbert Stein, Lauren K. Soth, Walter W. Wilcox and Lawrence Witt. None of them, however, should be burdened with any of the limitations of this paper.

shaped by many conflicting pressures, and they are bound by various policy, legal and technical considerations.

I propose not to dwell either on the aspirations or on the underlying beliefs and values of Americans related to this issue, but on costs and returns related to P.L. 480.

Although I accepted the invitation to prepare this paper with alacrity, I realized then and more poignantly later how difficult it is to discuss this topic and not be misunderstood. It may help to be explicit about these difficulties. No one can blink the fact that the farm surpluses have become vast, nor have they been shrinking. Not so long ago when CCC stocks were still small and still had some connection with supply and demand contingencies, it was the "ever normal granary." Now, however, the prophecy of G. F. Warren has been fulfilled: "a granary easy to fill but impossible to empty"! The more farm surplus we dispose of the larger the remaining surplus becomes! Thus we have invented still another tread mill.

One question can be disposed of promptly: Can the United States solve its farm surplus problem by bigger and better disposal programs? Here I fully concur in the negative answer given by Professor Cochrane in his presidential address a year ago. But on the question: Are these disposal measures a necessary and integral part of comprehensive supply controls (a better term would be "rationing agricultural production")? He was of the view that "they fit hand in glove and should be married forthwith." Some may both nod and wink at so convenient a marriage. But are the pair so happily matched as all that? If these rationing measures can control production there need be no surplus whatsoever. Farm surpluses would disappear <u>unless we wanted them</u>, and that would be quite another matter.

These surpluses have not sprung out of the vagaries of weather or out of fluctuations in demand, nor have they been caused by the slow economic growth of poor countries. They have been a conspicuous consequence of U.S. technological and price policies, and the solution lies in alternative policies to those now in effect. And here I do not rule out "comprehensive supply controls," although I remain skeptical that such controls are politically feasible--not because of an unwillingness of government to try them, but because of their adverse welfare effects and because the public and private costs would be too high to be tolerated politically.

It is easy to rationalize our farm surpluses into international assets. But in doing so, we deceive no one but ourselves. We can go on making a virtue of them, but thoughtful people and informed leaders abroad are not deceived by what we say; they see clearly that we have been making our foreign economic policy fit our internal convenience.

I hold, as do many Americans, that the United States should do much more than it is doing presently to reduce the inequalities in income among the peoples of the world. Whether such a position is based on humanitarian benevolence, utilitarianism, or a long run self-interest raises issues that are not easy to untangle by simple introspection. Lend Lease and the Marshall Plan had special merit under the circumstances of the time. But there is now no Marshall Plan, so we settle for P.L. 480. It is said that whereas the American people wish to do much more to assist underdeveloped countries increase their national income, Congress sees it otherwise and thus Congress on this issue does not represent the will of the people. The argument then proceeds, since a Marshall Plan for poor countries cannot be enacted, and since Congress must cope with farm surpluses, the disposal of these

surpluses abroad permits the American people to contribute more than would otherwise be possible, given the unwillingness of Congress to act directly and decisively in providing U.S. resources for underdeveloped countries. I am not at all impressed by this line of reasoning. On the contrary, one of the major obstacles standing in the way of the United States doing more to assist poor countries is the widely held belief that military aid is good economic assistance and that U.S. farm surpluses are a powerful resource for economic growth in the underdeveloped countries that receive them. Meanwhile, we are drifting even further into an unsatisfactory farm and foreign economic policy, and in the process fail to live up to the will of those Americans who really wish to assist underdeveloped countries win a larger national income.

The reason why I entered into a rather long discussion of the unsatisfactory state of U.S. farm policy in the preface of this paper, was to make explicit my misgivings about any treatment that assumes that the United States does not have better agricultural policy alternatives.

So much then by way of a preface. In the rest of this paper, I propose to examine three related questions: (1) What is the value of P.L. 480 products to countries receiving them, relative to U.S. costs? (2) What do these countries "pay" us for P.L. 480 products? (3) What are the effects of P.L. 480 farm products upon the agriculture of the countries that receive them?[1]

I. Costs and Value of P.L. 480 Products

CCC costs are more than twice the value of these products to the recipient countries. Yet, in terms of marginal revenue foregone from foreign sales of U.S. farm products, if we

treat our farm program and production as given,[2] the cost to us is much less than the value of these products to the countries receiving them; costs to us, treated thus, may be zero.

What, then, are the costs to us of P.L. 480 products? (1) There is a set of costs for which appropriations are made to reimburse CCC. (2) There is another set of costs based on considerations of marginal revenue. To get at these we need to consider what would be the marginal revenue to total U.S. export earnings from agriculture if P.L. 480 products were sold abroad.

Altogether, over $9 billion have been authorized for Title I of P.L. 480.[3] These are dollars to reimburse CCC for its "sales" under this title. CCC costs, however, include many expenditures that do not add to the value of these products to India, Pakistan or to other such countries receiving P.L. 480 products. As a first approximation, I shall take the difference between CCC costs, which are covered by U.S. appropriations, and the "export market value." By this criterion, about 30 cents of each dollar of CCC costs consists of such expenditures.[4] The next step entails an adjustment to world market values.

This export market value is based mainly on world market prices at which the U.S. has been prepared to sell. It would have been substantially lower had the U.S. sold all of its exportable farm surpluses freely at whatever world prices they would have fetched. There are various ways of gauging what such a world price would have been, but at best it would be a guess. My guess is that it would have been in the neighborhood of one half of CCC costs.

What about the marginal revenue test? P.L. 480 exports have been about 27 per cent of all U.S. exports of farm products. Suppose that there had been no P.L. 480 exports and

that all P.L. 480 farm products had entered world markets and had been sold along with the other U.S. exports of farm products, would the total U.S. export earnings from agriculture have been larger than it has been? Inasmuch as wheat and wheat flour have accounted for about half of all P.L. 480 exports, and given the "low price elasticity" of the world demand for wheat, it is hard to believe that the marginal revenue from such additional U.S. exports (taking all P.L. 480 farm products) would have been positive.[5] This view of costs implies that countries like the U.K. that have been importers (e.g. of wheat) have paid a higher price than they would have had we sold P.L. 480 wheat to the highest bidder in world markets. Also, if free world market sales had been the alternative, and if one is prepared to treat U.S. farm programs and agricultural production as given, then even Canada and other countries that export these farm products have "benefitted" from P.L. 480!

Let me now consider the value of P.L. 480 products to the recipient countries. Here, a first approximation would be the value to them at free world prices, or at about half of CCC costs. This estimate, however, would be too high because these particular countries would not have purchased as large a quantity of U.S. farm products at free world prices as they have acquired under P.L. 480. If these underdeveloped countries had had a choice of receiving from the United States either dollars or farm products of equivalent value at world prices, they would with few exceptions have preferred to have the dollars because the dollars would have been worth more to them in achieving economic growth or in serving other purposes that they ranked high among their national goals. If they had received dollars they would have used some of them to acquire producer goods, although no doubt many U.S. farm products would also have been taken, as was the experience under the Marshall Plan.

To illustrate, suppose that India were given a choice of either $1 billion of U.S. farm products at world prices or 750 millions in unrestricted dollars. I believe that the government of India would prefer the dollars.[6] P.L. 480 farm products have been worth less to the countries that have received them than the value of such products would have been at free world market prices.

Let me close this section with a brief summary:

(1) CCC costs of P.L. 480 products appear to me to have been in the neighborhood of twice the value of these products had they been sold freely in world markets.

(2) Costs to the United States of P.L. 480 products measured in terms of marginal revenue foregone from foreign sales may have
been zero, provided we treat our farm programs and agricultural production as a constant.

(3) The value of P.L. 480 products to the countries receiving them has perhaps been about 37 cents for each dollar of CCC costs.

(4) Accordingly, under conditions set forth in (2) and (3) above, there is a substantial range for negotiating P.L. 480 transactions, inasmuch as the value to the recipient countries is about 37 cents per dollar of CCC costs and the cost to us in earnings foregone may be zero, on the shaky assumption that we will not improve our agricultural policies.

(5) It is a serious misconception to treat all P.L. 480 appropriations to cover CCC costs as if these were a valid measure of the true value of these farm products to the underdeveloped countries receiving them. Half or more are simply a consequence of our farm programs. It is also misleading to treat all CCC costs as a "charge" against agriculture because some of these costs represent resources of substantial value to the receiving

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countries and this part should be treated as "foreign economic aid" or as items for which the U.S. government is paid by the countries receiving P.L 480 products.

II. What Do Countries Receiving P.L. 480 Farm Products Pay for Them?

When the foreign currency accounts are once settled, the payment will be, as I read the record, somewhere between 10 and 15 cents per dollar of the CCC costs. Agreements under Title I are sales for foreign currencies. Here "the U.S. attempts to obtain maximum dollar return to the CCC for sales from foreign currencies...for Embassy expenses, procurement of housing for military dependent personnel...," and for more than a baker's dozen of other purposes authorized under section 104(a) through (r) of Title I (and more are being added). Precisely how these sales are treated in any particular negotiation is a matter of law, of bargaining capacities, and of convenience, about which the U.S. government is not so clear that one can see it with half an eye; the legislative mandate on which P.L 480 rests is not a little deceptive.

There is an ample supply of difficulties. The whole affair is beset by a money illusion based on the belief that all foreign currencies are like dollars. There is the misconception that loans in foreign currencies can solve the problem of large balances of U.S. owned foreign currencies in particular countries, although loans in such cases only postpone facing up to an unhealthy situation where they already are a small cloud menacing our relationships with some of these countries. There is no clear conception of the interrelationships between U.S. internal affairs and U.S. external policy objectives.

Much confusion also stems from the essentially unintegrated nature of the U.S. government. Many different agencies become involved, each with its particular domain based partly on its unique relationship to the executive, partly on its relationship to one or more subcommittees of Congress, and partly on its competence, prestige and desire to become more important. The Department of Agriculture is driven to enlarge the surplus disposal opportunities abroad, to transfer the farm products so as not to interfere with the normal U.S. market channels, to acquire foreign currencies to develop farm markets, hold agricultural fairs and engage in some types of research in these countries. The all-pervasive quest for national security gives the Pentagon much leverage to use P.L. 480 funds for military aid. The Treasury insists on a banking and fiscal concept and presses for loans and a performance befitting hard money, and is joined by the Bureau of Budget demanding a stern fiscal procedure. The Development Loan Fund, although weak, is geared to soft money and the existing foreign currency mess. Some U.S. agencies wish to acquire office buildings and exhibition grounds abroad. Funds are authorized for student exchanges, suitcase scholars, U.S. sponsored schools, publications, bi-national centers and for still other activities assigned to the Library of Congress and the National Science Foundation. The Export-Import Bank administers the Cooley loans using some of the P.L. 480 foreign currencies to promulgate the American heritage of foreign enterprise. Meanwhile, the Department of State conducts the sale negotiations and is basically concerned about the foreign policy implications of P.L. 480, i.e. impact on competing exporters and impacts via foreign currencies; but it is much buffetted about. One sees this throughout the Congressional Hearings. To cite one bit of legislative history, the Hon. Harold D. Cooley,

chairman of the Committee on Agriculture of the House, "instructed" a representative of the Department of State as follows: "We are primarily interested in getting rid of these surpluses and we don't care how you do it and under what authority. We have told you we want the commodities sold for dollars first and then for foreign currencies or then donate them."[7]

I do not wish to imply that all of these many desperate purposes and activities are undesirable, or that these agencies are beset by irresponsible people; not at all. My purpose here is to reveal some of the roots of the widespread confusion that characterizes the administration of these disposal programs, whether one examines them from the vantage point of Washington or from New Delhi or any other foreign capital in a country receiving P.L. 480 farm products.

To return to the question, what is paid? The Bureau of the Budget reports that through September 15, 1959, the cumulative sales agreements under Title I had a total value of $4 billions.[8] Of this the Department of Agriculture had $27 millions for utilization research and $35 millions for market development and agricultural fairs. I would treat the first of these as serving the receiving countries (although those who sponsor it would treat it otherwise) and the second item as serving our special interest and thus the latter is a "payment" to us. The Department of State had $44 millions for educational exchanges and $8 millions for American sponsored schools; both of these serve mainly the receiving countries (the $44 millions could be treated 50-50). The U.S. Information Agency had $7 millions for publication and $5 millions for bi-national centers. Whether these serve mainly the United States or the receiving countries is for me an open question. The Department

of Defense had $113 millions for military family housing; this item may be treated as a payment to us. $45 millions appear for exports to third countries and those belong under payments. Assuming now that half of the Information Agency figures are for us, this list of "payments" totals about $200 millions. The common defense column shows $328 millions, nearly all in Korea, Pakistan, Turkey, Formosa, Spain and Vietnam. Allocations and reservations for Treasury uses are $6 millions for scientific activity which I assume serve the receiving countries, and $594 millions for general expenses, a substantial part of which is book credit concentrated in a few countries--Spain, India, Turkey, Yugoslavia and Pakistan--where they have little prospective value for us.

Altogether, then, for the $4 billions of foreign currencies I would treat at most between $700-$800 millions as "payments"; moreover, this estimate is undoubtedly on the high side because most of these foreign currencies are accumulating in a few countries where they will have little value to us under the realities that confront these countries.

It is indeed a serious misconception to treat the vast sums of foreign currencies that have been deposited and are being deposited to the account of the U.S. Embassies abroad as if they were hard money that will eventually be converted into dollars, if only we manage to hold onto them, through loans of various sorts within the countries concerned. It is high time that the United States adopt a policy of reducing very substantially these exceedingly large balances of U.S. owned foreign currencies. I would support the recommendation that when a U.S. balance held in any country exceeds the foreseeable needs of the United States in that currency for the next two or three years, the United States should treat the remainder as a "surplus" and proceed to transfer it to the country as a grant.

Thus, the key "estimates" on which the reasoning in Sections I and II rests are as follows:

	Millions of dollars	Percent of CCC costs (5700 = 100)
1. If CCC costs of P.L. 480 products were	5,700	100
2. Sales for foreign currencies become	4,000	70
3. Value at world market prices equals	2,850	50
4. Value to receiving countries	2,110	37
5. Upper estimate of what the U.S. will receive	855	15
6. Lower estimate of such receipts	570	10

III. What are the Effects of P.L. 480 Products Upon the Countries Receiving Them?

P.L 480 increases the quantity of resources at the command of countries that receive them. To this extent the country is better off. A measure of this over-all gain, according to my "estimates," is that $5.7 billions of CCC costs adds $2.1 billions of real resources to those of the countries that receive P.L. 480 products, and if ultimately they pay at the lower limit of my estimates, the net addition to their resources will be somewhat more than $1.5 billions.

Conceivably, at one extreme, circumstances could be such that internal consumption would increase by an amount that is virtually equal to the flow of P.L. 480 farm products, and at the other extreme, it could be that virtually all of these are transformed into "savings" and additional capital formation. A number of things could be done by means of internal programs to turn the process in favor of additional consumption or towards capital formation. But what is happening on this score is far from easy to determine. I would venture the guess that real income of consumers rises somewhat as a consequence of the availability of P.L. 480 farm products and that they increase their saving by as much as 10

per cent or more of the rise in their real income, and that in a few countries, for example, in India, the increase in the intake of food also acts as a kind of "producer good" in enhancing the energy and strength and thereby the amount of productive work that is done. All of these would seem to be desirable in serving positively both consumption and productivity.

But what are the effects of P.L. 480 imports upon agriculture? Here we can do no more than speculate about what is plausible. Unfortunately, there are few data and no relevant studies.[9] What these effects have been seems to be "nobody's business." In all of the hearings before U.S. Congressional Committees and in the statements and reports of the executive branches, I have found no serious considerations of this aspect of P.L. 480 operations. There are only pious words bespeaking the many virtues of economic growth.

What we do know is that U.S. policy concerning the use of P.L. 480 loans and grants is set against agriculture in the receiving countries. Uses of P.L. 480 foreign currencies that would increase the export availability of surplus farm commodities are virtually prohibited, and so are investments that would significantly increase the production of surplus farm commodities other than food and feed.

As things are going, the effects of P.L. 480 imports upon agriculture are likely to be adverse. Here, however, each country has a policy choice. A country may decide that her agriculture represents only a second best, or less than this, among the major sectors in what each can contribute to her economic growth. If that is so, my comments are not relevant. If, however, it is to the best long-run interest of a country receiving P.L. 480 products to expand her agricultural production along with growth of her industry, then my observations

have a bearing. Let me assume that a country absorbs a substantial volume of P.L. 480 farm products, that they are a grant, so that no payments are made for them, and that the country purchases and imports the same quantities of comparable farm products as formerly, as specified in the P.L. 480 agreement under which she received U.S. farm products. Assume, further, that there are no close substitutes either in consumption or production within the country. Under these assumptions, take the recently announced P.L. 480 agreement with India, which apparently will provide a stream of U.S. farm food product equal to 6 per cent[10] of her domestic production of food. Imports of food from other countries continue at the same rate as before; also, imports formerly purchased from the United States are maintained as before. A price elasticity of the demand for farm foods of no less than unity, implies a reduction of farm food prices of 6 per cent, which will be offset somewhat by the income effects of the rise in real income associated with the receipts of P.L. 480 grants. Clearly, if these were the consequences, nonfarm consumers would be better off. Cultivators in India, however, would be confronted by some decline in the relative prices of the farm products they produce and sell. Here, too, there would be an income effect reducing their consumption. The incentive to maintain or expand agricultural production would have taken the wrong turn.

The climate of opinion presently is such that it is all too convenient to sweep these potentially adverse effects on agriculture under the rug. Most of the leaders of thought and of public affairs in underdeveloped countries are pinning their faith on industrialization and many of them look upon agriculture as a burden in winning economic growth. According to this view, consumer prices in urban and industrial areas must be held down so that a

pressure for higher wages will not choke industrialization.[11] If in the process farm prices decline relatively, this is looked upon as of no economic consequence because of the widely held belief that the price response of cultivators is zero. Lower farm prices by this view will not induce cultivators to reduce production; if anything, it may even cause cultivators to produce more.

I take a dim view of this climate of opinion. Not a few countries presently receiving substantial amounts of P.L. 480 farm products are in danger of impairing their agriculture. If this were to happen, it would indeed be serious for them and I would have thought also for us in the long run. It is a danger that can be averted. But the prospects of doing so are not bright in view of the pressure by Congress for disposal programs, come what may, and given the economic misconceptions that predominate in so many of the countries now receiving P.L. 480 farm products.

I do not want to leave the impression that no one has been aware of this aspect of P.L. 480. No less an authority than W. W. Wilcox, in reporting on discussions in Santiago, noted that "Staff members of FAO attending the Conference expressed the view that there probably was more danger of serious adverse effects on the producers in the receiving countries from continued P.L. 480 exports than on competitive producers in other exporting countries. They are apprehensive that desirable, and in the long run, necessary agriculture development in the receiving countries will not take place if P.L. 480 exports are continued and expanded."[12]

This is <u>not</u> the occasion to outline a program for averting these adverse affects of P.L. 480 imports nor can it be done in a few paragraphs. Even so, one plausible line of

attach must at least be mentioned. One of the difficulties that confront cultivators in India is the many serious price fluctuations that occur. If a program were devised that would reduce substantially this kind of price uncertainty in agriculture, it seems likely that the effect would be to induce an expansion in agricultural production,[13] even if average prices over 3 or 5 year periods were somewhat lower than they otherwise would be.

The burden of this paper has been threefold. First, it shows that half or more of the CCC costs that are being covered by U.S. appropriation are a result of our internal farm programs. Nor would the countries receiving P.L. 480 products take the present volume even at one-half of CCC costs if they could receive from us the equivalent in dollars instead of grants in kind. Second, once the United States has faced up to the fact that foreign currencies deposited with a U.S. Embassy are not dollars and the excessive balance of these U.S. owned foreign currencies have been reduced, say not to exceed U.S. needs for the next two or three years for a foreign currency, we will find that the real payments to us will run between 10 and 15 cents per dollar of CCC costs. Thus eventually, by far the larger part of these P.L. 480 farm products will represent a grant from the United States. It is important, however, that we bring our policy and programs in line with this economic fact. The third part of this paper, which is admittedly speculative, calls attention to the potentially serious longer-run adverse effects of P.L. 480 farm products upon the agriculture of those countries now absorbing substantial amounts of them, unless positive measures are taken to counteract these adverse effects.

ENDNOTES

[1]P.L. 480 is performed under two small tents and one big one (a fourth tent was added in September 1959, but it still stands empty). Under Title II, donations are made to meet famine and other extraordinary relief needs, and under Title III there are barter transactions and donations to nonprofit agencies engaged in distributing such products in foreign countries.

[2]I am indebted to Herbert Stein for raising this issue of "revenue foregone."

[3]The first authorization made on July 10, 1954, was for $700 million. By September 21, 1959, the accumulated total of these authorizations had become $9,250 millions.

[4]In all agreements signed between July 1954 and Dec. 31, 1959, the estimated CCC costs under Title I were $5,351 and the "export market value" was $3,719 million. For agreements signed between July and December, 1959, these estimates were $601 and $387 millions respectively. See House Doc. No. 335, 86th Cong., 2nd Ses., Feb. 11, 1960, Washington, D.C., Tables I and II.

[5]This result is not inconsistent with the cost-price relationships as I have treated them above. Take CCC costs equal to 100 per unit of P.L. 480 products and 70 as the "export market value." U.S. exports of farm products consisted of two parts: 27 per cent through P.L. 480 and 73 per cent, the other such exports. If the 73 per cent sold at 70, we have 5,110 and if all had been sold at 50, we have 5,000, or a total revenue that is actually slightly less.

[6]A highly placed Indian economist in private discussion rated 500 millions in unrestricted dollars as more valuable to India than a billion dollars of P.L. 480 farm products; on the other side, one of our best informed American agricultural economists is convinced that food imports have a high priority in the development program of India, implying that dollars for P.L. 480 products were fully as valuable as dollars made available to India without restriction.

[7]Hearings before the Com. on Agr., House of Repr., Extension of Public Law 480 Ser. X, July 15, 1959, page 207.

[8]See Bureau of the Budget, Special Analysis E, "Foreign Currency Availabilities and Uses," pp. 925-35, Budget of the United States Government for the Fiscal Year Ending June 30, 1960, tables 7, 8 and 9.

[9]I am not unmindful of such studies as Uses of Agricultural Surpluses to Finance Economic Development in Under-Developed Countries, Food and Agriculture Organization of the United Nations, Commodity Policy Studies No. 6, 1955 and 1958. This study analyzes the effects of particular hypothetical uses of such surpluses; it does not attempt to determine the economic consequences, for example in India, of the ways in which India has in fact absorbed and utilized the P.L. 480 products that it has been receiving. What has been

happening bears little or no resemblance, as far as I can tell, to the assumption on which this study is based. Dr. Mordecai Ezekiel in his paper, "Apparent Results in Using Surplus Food for Financing Economic Development," J. Farm Econ., Vol. XL, Nov. 1958, also stresses the fact that the fragmentary data available for India and Pakistan give "no clear-cut picture of the effects of Public Law 480 shipments on economic development." See p. 918.

[10]The new agreement calls for 16 million tons of wheat and about 1 million tons of rice over a four year period, or 4.25 million tons per year. Normal food grain production in India seems to be about 70 million tons. The P.L. 480 foods therefore will add 6 percent to normal internal production. (These are all metric tons.)

[11]This lack of concern about the effects of P.L. 480 imports upon agriculture is also evident in FAO's otherwise excellent study, National Food Reserve Policies in Underdeveloped Countries, Commodity Studies No. 11, 1958.

[12]From a letter dated March 18, 1959, quoted here with the permission of Walter W. Wilcox, Senior Specialist in Agriculture of the Library of Congress.

[13]I wish that those who prepared the FAO study cited in [end]note 11, above, had addressed themselves to this potentially large contribution of larger food reserves.

[1976]

Box 1. The Value of Local Currency

We should discard as fallacious all ideas of assisting a country by putting at its disposal an amount of accumulated local currency, as long it remains unconvertible. Two situations may occur. Either the country concerned has no free productive capacity and, in this case, the additional demand generated by releasing accumulated local funds will lead to inflationary pressures. Or free capacity does exist and then the financing of adtional production by having recourse to deficit financing has the same effect as that of financing it by foreign loans in local currency.

To the extent that utilization of (local currency) counterpart funds finance American activities in the recipient country it amounts to replacing dollar flows from the donor and, therefore, no foreign aid whatever is involved. As to the release of the counterpart funds for loans and grants for development, this has an effect fully equivalent to deficit financing.

Source: Michal Kalecki, Essays on Developing Economies (London: Harvester Press, 1976), p. 65, 78, 79.

Part III -- Food Crisis and Controversy

The simultaneous threat of energy and food crises in the early and mid-1970s widened the professional and popular dialogue about food aid. Attempts were made to examine the ethical responsibility of rich countries toward the poor. The operations of food aid programs also came under greater scrutiny.

The paper by Peter Singer, "Reconsidering the Famine Relief Argument" (1977) confronts the moral argument for food aid. During the 1950s and 1960s political philosophers had found it difficult to find a moral argument in support of foreign economic assistance--for the government extracting money from citizens to give to foreigners. The argument was also made that, since "food handouts only postpone disaster," the developed countries should develop a "lifeboat" approach to food ethics. By trying to save the poorest we only hasten total collapse. Singer attempts to refruit these arguments. He presents a tightly reasoned argument in support of the proposition that "we ought to prevent as much starvation as we can, up to the point at which we can do no more without sacrificing something of comparable moral importance."

But the favor with which food aid was regarded during the food crisis of the early 1970s was short-lived. By the mid- and late-1970s there was a rising body of literature pointing to failures in the management of food aid programs. The paper by Donald F. McHenry and Kai Bird, "Food Bungle in Bangladesh" (1977) represents a case study of food relief efforts in Bangladesh. US political pressure for Bangladesh to reduce exports of jute bags to Cuba led to delay in food aid shipments in the early 1970s. In addition, the budgetary needs of the new government in Bangladesh resulted in a pattern of food aid disposal through the market that largely excluded the poor--McHenry and Bird conclude

that food aid in Bangladesh "was administered by both the American government and local Bengali officials as if it were never intended to benefit the poor."

That same year Emma Rothschild raised the question, in a New York Times Magazine article, "Is it time to End Food for Peace?" (1977). Her answer was that food aid had largely outlived its usefulness. Its surplus disposal and market development objects were no longer relevant. It should be scaled back to a level that would permit it to function effectively in the area of emergency relief.

Vernon W. Ruttan

[1977]

Chapter 6

Reconsidering the Famine Relief Argument

Peter Singer

I first wrote about the obligations of the affluent to those in danger of starvation in November 1971.[1] At that time there was one major crisis on which the attention of the world--or rather, that small part of the world that is concerned with people in faraway countries--had focused: Bangladesh. In refugee camps across the Indian border, 10 million people were subsisting on meager rations that seemed sure to run out before the people could return to their farms; the affluent nations, though possessed of ample stocks of grain, failed to fulfill the requests for assistance made by the Indian government and the World Bank. It was this situation that made me think that my views about the obligations of the affluent to the starving were worth putting into print.

That particular crisis was resolved dramatically by Indian military intervention, and is now history. In the 4 years that have passed we have had major famines in the African Sahel, and in Ethiopia, as well as a number of minor ones; but, fortunately, as I write now there is no single famine of the magnitude of that which was threatening 4 years ago in Bangladesh. Nevertheless, the world food situation is no less urgent now than it was then. Now we face, not isolated crises, but the prospect of protracted food shortages affecting two-thirds of the world's population. In the under developed countries food production, which kept narrowly ahead of population growth in the fifties and sixties, has now fallen behind

the unchecked population increase: in other words, the amount of food available per head has been reduced.[2] Sharply increased fertilizer prices make further reductions probable. Moreover, recent poor harvests in the U.S. and USSR, coupled with increased demand, have meant that the ability of the developed countries to make up the shortfall with gifts or cheap sales of surplus grain has been reduced. The great grain stocks of the United States have virtually gone, and the arable land that until 1974 was held out of production by U.S. government programs is now back in use.

The time is appropriate, therefore, for a review of my earlier article, taking account of the altered situation with which we now have to deal, as well as some objections that have been urged against what I wrote.

It will be best to begin with a brief restatement of the argument, which, essentially, I still hold.

I start from three premises, two moral, the other factual. The first moral premise is that starvation is a bad thing--that is, that a world in which no people are starving is better than a world in which some people are starving, and a world in which few people are starving is, other things being equal, better than a world in which many people are starving. I don't think it is necessary to offer any defense for this premise, other than to point to the suffering, destruction of capacities and abilities, and finally loss of life that starvation involves.

The second moral premise has two versions: the weak version is that if we can prevent something bad happening without sacrificing anything of moral significance, we ought to do so; the strong version is that if we can prevent something bad happening without

sacrificing anything of comparable moral importance, we ought to do so. I think the strong version is defensible, and I shall defend it shortly; if so, the weaker version is of course correct too, as far as it goes. I presented both versions only because the weaker version, modest as it is, is sufficient for a far-reaching moral critique of the way of life accepted almost without question by citizens of the affluent nations.

The factual premise is that we in the affluent nations can do something to reduce the number of people starving in the world. We can do something because we are affluent. This means that we have income that we can dispose of without giving up the basic necessities of life. We can, if we choose, use this income to reduce starvation elsewhere in the world. When I wrote my earlier article, it seemed to me quite obvious that this was the case, and I still think it true; but certain objections now seem to me to require more discussion than they did before, and I shall consider these in due course.

From these premises, the conclusion that follows (using the strong version of the second premise) is that we ought to prevent as much starvation as we can, up to the point at which we can do no more without sacrificing something of comparable moral importance. This means that instead of spending our available income on new clothes, cars, dinners in expensive restaurants, or other items that cannot be compared, in moral importance, to saving someone from starving to death, we ought to give our money to those who can most effectively use it to prevent starvation.[3]

If this is sound, the conventional moral attitude to helping the poor must be rejected. In these circumstances giving away money is not an act of charity, the doing of which is praiseworthy, but the omission of which is not to be condemned; it is a moral requirement,

the fulfilling of which is as important as the fulfilling of the more commonly recognized moral requirements, like those against injuring others, stealing, cheating, and so on.

Henceforth, I shall refer to this argument as "The Famine Relief Argument." This argument is, of course, based on a consequentialist view of morality. The second premise states that the fact that an action would prevent something bad happening is a reason for doing that action. Thus this premise directs our attention to the foreseeable consequences of our acts, and makes these consequences relevant in deciding whether the act is right or wrong. (Most consequentialists, including utilitarians, would add that the fact that an action would bring about something good is also a reason for doing it; but since this claim goes beyond the argument we are now considering, there is no need to discuss it.)

Now it seems to me very obvious that the foreseeable consequences of our acts are relevant to their moral assessment, and that the fact that an action would prevent something bad happening is a reason for doing it; I hope it seems equally obvious to others. Yet there have been moralists who have rejected even such mild forms of consequentialism and have asserted that the whole of morality lies either in the conformity of our actions to certain moral rules--rules like "don't lie," "don't kill innocent human beings," "don't steal," etc.--or else in the accordance of our actions with certain principles, of which the principle of justice has figured most prominently.

So we need to consider two kinds of objection to the Famine Relief Argument: those which reject the consequentialist premise from which it starts, and those which accept at least this limited form of consequentialism, but urge reasons of a consequentialist type against its conclusion.

I shall start with the nonconsequentialist objections.

The most popular alternative to utilitarianism today is a moral theory based on, or giving considerable weight to, some principle of justice.[4] Some theories of justice may be regarded as consequentialist theories insofar as the acceptability of a moral rule or institution (if not an individual act) depends on its tendency to produce a given result that is said to be just, like a more equal distribution of income, or, as John Rawls's theory proposes, an improvement in the position of the worst-off group.[5] The general principles of these consequentialist theories of justice are compatible with, and in some cases even entail, the Famine Relief Argument, so it is not necessary to consider these views in detail.[6] Instead we should consider theories of justice which are not consequentialist, since they do give rise to objections to the Famine Relief Argument.

Perhaps the most widely held nonconsequentialist view of justice is that it involves giving people what they merit, or deserve. It may be held as a corollary that we ought not to give to those who are not deserving, since to do so is to undercut the value of what is given to those who are deserving.

This view of justice does not imply that we should abandon the starving to their fate; only that we must first separate the deserving starving from the undeserving starving, and restrict our aid to the former. What are the criteria for this separation? The Victorians, who seemed more at home with the notion of the "deserving poor" than we are today, thought that the industrious, the thrifty, and those left destitute through accidents or other circumstances beyond their control were deserving; while the lazy, the spendthrift, and the drunkard were undeserving. The rationale for this distinction apparently was that some are

poor "through no fault of their own" while others could have risen from poverty, or not fallen into it, and thus deserve what they get for failing to use their opportunities.

If we use this distinction when allotting famine relief, we shall find that our donations will scarcely differ from those we would have made had we simply accepted the Famine Relief Argument; for the individual Indian peasant in an overpopulated, drought-prone region had no opportunity to be anything other than what he is.

Indeed, if we reflect on ways in which victims of famine might be undeserving, we find that the distinction between the deserving and the undeserving becomes difficult to sustain where famine victims are concerned. The clearest case of people apparently undeserving of help I have come across is the Ik, a tribe living in the arid northern region of Uganda. According to Colin Turnbull, an anthropologist who lived with the Ik during a year of famine, the Ik were so selfish that the stronger members of the tribe would snatch food from the hands of the weak or elderly. Parents would not share their food with children older than three; four-year-olds had to fend for themselves or starve. When relief supplies became available at a village a few miles away, those who were able to walk the distance collected rations for themselves and those unable to come, and then stopped on the way back to gorge themselves, bringing nothing home for the others. Moreover, when in the following year the rains came again, most of the Ik still did not work their fields. Since wild edibles were readily available, they felt no need to work and their habits of immediate consumption gave them no inclination to build up a store against future scarcity.[7]

If we assume, for the sake of discussion, that Turnbull's description of the Ik is accurate, our first reaction may well be that such people do not deserve aid. Should we

help people who will not help their own villagers, or even their own children? Certainly not!

Can we justify this reaction on the grounds of desert? Consider the situation of an individual Ik family. Do the children, too young to fend for themselves, deserve to starve because their parents will no longer provide for them? Obviously not, so they at least should be aided, although it could prove difficult to aid the children and not their parents.

What of the individual adults? Turnbull's description does not suggest that the Ik practice of feeding oneself immediately and neither gathering nor storing a surplus that might have to be shared with others has been adopted by any kind of conscious reflective choice. It seems, rather, that the social and cooperative bonds that existed in this society in better times were unable to withstand conditions of extreme scarcity. The causes of this collapse of Ik society and the retreat into an overwhelming preoccupation with one' own short-term interests are unclear, but what is tolerably clear is that it resulted from a combination of drought and something fairly deeply ingrained in the Ik culture. If this is correct, we cannot pin the blame for their present situation on individual Ik, since they were formed by the culture of their society and cannot, as individuals, be held responsible for its collapse. It appears, too, that no individual could by his own actions have changed the course of Ik society.

Someone might argue that had one man or woman stood up and exhorted his or her fellows to cooperate, share their food, and work for the future, everything would have been different; but even granting this improbable hypothesis, that person would have had to be a remarkable person, someone with more initiative and vision than all the other Ik. (This

follows from the fact that among all the Ik there in fact was no one who actually did this, although, according to the hypothesis, it could have been done.) Can we say that a person deserves to starve because he or she does not have greater initiative and vision than all the other members of his or her society or tribe? This is not at all what the Victorians meant by the undeserving poor.

If we are not clear that famine victims deserve to starve even is so extreme a case as the Ik, as Turnbull portrays them, can we ever be sure that famine victims deserve to starve? I think not. The reason is that since famine, by its nature, affects a large number of people at a given time and place, there is always going to be some cause or combination of causes, whether climate, or overpopulation, or corrupt government, or outdated social customs, or even, to indulge in some Victorian fantasy, innate racial tendencies toward laziness, for which the individual starving person cannot be held accountable.

This conclusion is not, as might first be thought, a piece of armchair anthropology, a factual generalization which should only be made after examining a wide range of actual cases. The point is a conceptual one, resulting from the juxtaposition of the concepts of famine and moral desert. The former, defined by the Oxford English Dictionary as "extreme and *general* shortage of food, in a town, country, etc." (my italics), refers only to situations affecting whole groups of people, and such situations must, if we are to make any sense of them at all, have some general cause or causes. Moral desert, on the other hand, requires individual moral responsibility. When we can ascribe individual acts, however base, to general causes which it is unreasonable to expect an individual to overcome, moral blame becomes inappropriate. Headhunters, for instance, commit acts which, if they were

committed by someone living in Kansas City, would be regarded as evidence of either insanity or the utmost moral depravity. If the theory of desert ever makes sense[8], a sane Kansas City headhunter would deserve harsh punishment, but can the same be said of a headhunter who is a member of a tribe of Amazon Indians, if all the adults of this tribe have been headhunters for as long as anyone can remember? I do not think we can blame such a person, since only a most exceptional person would not be hunting heads under these circumstances, and it would be very odd to blame someone because he or she was not a most exceptional person.

So we should reject criticism of the Famine Relief Argument by those who claim that instead of trying straightforwardly to prevent as much starvation as possible, we should first ensure that the recipients of our aid deserve it. The notion of desert makes little sense in a famine situation. This does not mean that in deciding whom to aid, we should dismiss from consideration factors commonly thought relevant to desert, like the extent to which the group is trying to help itself, or the efficiency and honesty of government; my point is only that these factors are relevant, not to whether people deserve assistance, but to whether assistance is likely to be effective. (For instance, whatever we think about desert, Turnbull's account shows that aiding the Ik by handing out grain rations at a nearby village is a grossly inefficient method of reducing starvation.) This is a point I shall return to when I consider consequentialist objections to the Famine Relief Argument.

There is another nonconsequentialist theory of justice that should be considered: the entitlement theory, proposed by Robert Nozick in his recent book Anarchy, State and Utopia.[9] According to this theory, the way to tell if goods and resources are justly

distributed is not to measure them against some ideal pattern of just distribution, but to look at the manner in which the present distribution was reached and to see if unjust means such as force or fraud were responsible for this distribution. If they were, there is need for reparation, but if goods were originally acquired justly (for instance, someone took a log, which no one else owned, and made it into a chair) and were transferred by legitimate means (voluntary exchange, gift, and so on), then the present distribution is just.

It is obvious that this conception of justice is compatible with an unlimited amount of inequality. If some are unfortunate in their original acquisitions, or trade what they have for goods that prove to have no lasting value, or give to others in misfortune by are not themselves given to, then they may end up with nothing while others accumulate vast fortunes. A man may feast, make himself vomit, as the Romans used to do, and then feast again, while a child starves to death on his doorstep; and all within the bounds of justice, according to the entitlement theory.

Even so, it is possible to exaggerate the opposition between the entitlement theory and the Famine Relief Argument. While the entitlement theory insists on our right to retain property, and rejects the use of compulsory means like taxation to help the poor, it is quite silent on the questions of whether it is good for the rich to give to the poor. In several passages of his book, Nozick suggests that we can achieve the ends we deem morally desirable by voluntary means alone. Implausible as I find this suggestion, it does imply that while Nozick would oppose government aid paid for by taxation, he might well accept the Famine Relief Argument insofar as it applies to what individuals ought voluntarily to do. True, Nozick would reject the claim that rich people have an "obligation" to give to the

starving, insofar as this can be taken to imply that the starving have a right to our aid, but he could still grant that giving is something we ought to do, and that though failing to give is not unjust, it is--since justice is not all there is to morality--morally wrong.[10]

So important parts of the Famine Relief Argument stand, even if we accept the entitlement theory of justice. In any case, though, we should not accept the entitlement theory. To go into all the difficulties that face it would be too much of a digression, but three points can be made very briefly. First, the whole theory starts from a questionable individualistic theory of human rights. Second, the idea of tracing back present holdings through history to their original acquisition from an unowned state is absurdly unrealistic; yet if this cannot be done the theory breaks down, for it seems reasonable to demand that we start all over again from the original position in which nothing is owned. Third, and most relevant to the question of international aid, the theory accepts so many arbitrary outcomes that it can be doubted if it deserves to be called a theory of justice at all. For instance, in the world as it is now, those whose forefathers happened to inhabit some sandy wastes around the Persian Gulf now possess fabulous wealth because oil lay under those sands; while those whose forefathers settled on better lands in parts of Ethiopia are now starving because rains that fell regularly for many years have failed. Can this distribution really be sanctioned by justice? I do not think it can be, because justice, like other moral principles, must be acceptable from an impartial point of view. One way of testing the impartiality of a principle is by asking if we could accept it even if we did not know how it was to affect us--that is, in this case, if we did not know whether we were an oil sheik or an Ethiopian peasant.[11] If we imagine ourselves ignorant of our own identity in this way,

would we accept the principle that oil sheiks are under no obligation to use their wealth for famine relief? I know that I would not, and I doubt that anyone whose choice was not predetermined by a desire to cling to a particular theory of justice would.[12]

Apart from theories of justice, there is one other important nonconsequentialist view of obligations that gives rise to objections to the Famine Relief Argument, and so requires discussion. This is that we have obligations to those near to us, first to our own families, and then to the poor in our own community, which take precedence over our obligations to those overseas. One finds this view both among ordinary people--anyone who has tried to collect money for famine relief, or demonstrated in favor of overseas aid will have encountered the response that we should concern ourselves only with our own poor--and among sophisticated theorists, who suggest that obligations arise out of concrete personal relationships rather than universal moral principles connecting one abstract person with another.[13]

Now it may well be true that we instinctively prefer to help those who are in some sense members of our community, rather than those who are not; but the question we are concerned with is not what we prefer to do, or what we usually do, but what we ought to do; and it is difficult to see any sound moral justification for the view that our obligations cease at the boundary of our own nation or kin.

Consider, for instance, racial affinities. Should we, as whites, help poor whites before we help poor blacks or Asians? Most of us would reject such a suggestion out of hand. If asked to state reasons for rejecting it, we would say that a person's need for food has nothing to do with his race, and if there are blacks who need food more than whites, then

it would be arbitrary to allot the food on the basis of a principle which has nothing to do with need.

The same point applies to citizenship or nationhood. While there are some poor citizens in all the affluent nations, the need is greatest in the poorer countries. Under these circumstances, it would be arbitrary to decide that only those fortunate enough to be citizens of our own community will share in our surplus.

We feel the obligations of kinship, particularly those of parents to children, more strongly than those of citizenship, no doubt because these obligations are supported by love and affection. In a famine situation, there would be few parents who would think of giving their last bowl of rice to others if their own children were starving. Indeed, we might well consider parents who did so to be unnatural, and lacking in basic human feelings. But would it be morally wrong to do so, if the need for food was the same? I am not sure that it would be; and in any case, we are concerned not with that situation, but with the one in which are own children have had an adequate meal, and now would like a second helping; or, more realistically, a situation in which others starve while our children are well clothed, fed, and educated, and would now like a stereo set or a car. In these circumstances any special obligations we might have had to our children have been fulfilled, and the needs of strangers make a stronger moral claim upon us than the wants of those close to us.

Family ties, like communal, national, and racial ties, are based partly on sentiment and partly on the utility of a system of definite, assignable responsibilities. I do not use the word "sentiment" derogatively, as people sometimes do when they describe a novel as being "sentimental." Sentiments like love, affection, and community feeling are a large part of

what makes life worthwhile. But sentiments are likely to lead us astray in moral reasoning, seducing us into accepting positions that are based, not on an impartial consideration of the interests of all involved, but rather on our own likes and dislikes. We can see this clearly enough if we look at racism. One supporting factor behind Nazism was the feeling of brother hood that "Aryan" Germans gained when they felt themselves to be part of a group, a "volk" that was united against "aliens." Since we are not racists,we have no difficulty in seeing, in this instance, that this feeling of volkish unity did not justify discrimination against those outside the group. Once this has been understood, we may also be able to see that our own feelings of affinity with our fellow citizens, or even our family, do not justify discrimination against those outside these groups. It will be objected that, unlike the Nazis, we are not actively killing those who do not belong to our group. True, but we are allowing them to die; and if that's not quite as bad, it's bad enough.[14]

The element of truth to be found in the view that our obligations to members of our family or community take precedence over our obligations to strangers lies not in the sentiments that make this view so hard to give up in practice, but in the utilitarian benefits, in certain circumstances, of a recognized system of responsibilities. To stress this point, however, is to make a consequentialist objection to the Famine Relief Argument, and this can be dealt with in the section on consequentialist objections, to which I now turn.

Suppose we accept that starvation is bad, and that if it is in our power to prevent something bad without sacrificing anything of comparable moral importance, we ought to do it. We have then accepted the core of the Famine Relief Argument, but we might still have doubts about its conclusion. Two of these doubts have already been suggested in the

preceding discussion of nonconsequentialist objections, when I said there were elements of (consequentialist) truth in the views that we ought to aid only the deserving, and that we ought to help those near to us first. I shall begin with these issues and then go on to other problems.

First, might there be advantages, from the point of view of preventing bad things like starvation, in a system of obligations in which members of families take care of each other before they take care of others in the community, and members of the community take care of fellow members of the community before they take care of outsiders? If so, is this a consequentialist reason for retaining this system of obligations, instead of advocating the view that we have obligations to all who are starving?

In earlier times there were obvious advantages in a strictly limited system of obligations. Each locality had to look after its own poor, if they were not to starve, since communications were so poor that people far away would not be able to help, even if they had wanted to.

Today, under normal circumstances, there are still some advantages in allowing families to look after themselves and allowing local communities to take care of their poor. In this way ties of affection and community feeling achieve ends that would otherwise require a large, impersonal bureaucracy. Those who are living with the needy in the same family or the same community may be expected to know their needs better than an outsider; and individual initiative and a sense of responsibility are encouraged.

For these reasons, as well as some others I leave to the reader, it would be absurd to propose that henceforth we are all exactly equally responsible for the welfare of everyone

in the world. But the Famine Relief Argument does not propose that anyway. Its weak version would hardly interfere with our existing system of obligations at all; and even the strong version applies only when some people are starving and others have a surplus. In these circumstances the amount of suffering involved, the impossibility of individual families or local communities caring for themselves, and the improvement in modern communications which makes it possible for people far away to learn of the situation and to do something to help combine to outweigh decisively the utility of restricting ourselves to the usual system of obligations.

Next, what is the significance, on the consequentialist view, of the degree to which people are trying to help themselves, which is usually thought to bear on whether they deserve our aid? What if, for instance, a nation should use the assistance we give it as an excuse for postponing tough population control measures, arguing shortsightedly that as no one is without food now, these measures are unnecessary? I have argued that the notion of desert makes little sense in a famine situation. Does this mean that we should disregard these factors as well?

In my earlier article, I supported the claim that we have obligations to strangers for whose misfortunes we are not ourselves responsible by asking the reader to imagine that a young child had stumbled into a pond and was in danger of drowning. Any passer-by who noticed the child would, I said, have an obligation to wade in and pull him out.

Peter Brown has suggested a modification to this illustration which may serve to clarify the effect of the victim's own actions on our obligations.[15] Winter has come to the little pond and it frozen over; but the ice is thin, and the authorities have erected a sign

saying "No Skating--Thin Ice." Yet a child, 10 years old, has gone skating and fallen through. Do we still have an obligation to rescue him? What if the skater were an adult, and we had rescued him twice before, in similar circumstances?

Intuitively, I imagine most of us would say that we ought to rescue the 10-year-old, despite his disregard of the warning, because death is too severe a punishment for the offense he has committed and the experience will probably teach him a lesson anyway; but in the case of the adult who has failed to learn from his two previous acts of foolhardiness, we may well be less sure.

I suggest that the reason for our hesitation in concluding that we ought to rescue the adult is not that we think he doesn't deserve to be rescued. True, someone who has had to be rescued twice before must be pretty stupid to go skating on the same spot again; but leaving him to drown is, still, unjustifiably harsh treatment for stupidity or recklessness. The problem is, rather, that by rescuing him again, we allow him to escape the natural causes of his stupidity; thus we do nothing to discourage a repetition of the incident; and we can only feel exasperation at the prospect of having to rescue him all over again in the near future. Indeed, the skater may even come to believe that since he will always be rescued, he has no need to heed warnings. So at some point we might properly say that we will no longer rescue him, since this might be the only way to persuade him to be more careful in future.

The example shows, then, that the extent to which a person takes reasonable precautions against being in a situation in which he requires aid is relevant to our obligation to aid him, not because it makes him intrinsically undeserving of aid, but because we can

use our aid most effectively by giving it only to those who do what they can to help reduce their dependence on aid.

(Admittedly, in the real world deciding how to use aid most effectively is not always straightforward. In poor countries there are many who are sick, or old, or infested with parasites, whose need for food is great, but whose digestive systems are inefficient at utilizing the food. Younger, healthier people may be able to survive with less assistance. Another way of increasing the effectiveness of aid may be to direct it to those who are themselves involved in producing food, so that they will be able to produce more, and thus multiply the benefits of the aid given. There is no real dilemma here, however, so long as we bear in mind that our goal is to prevent as many people as possible from starving. If the way to do this is to aid those who are actually starving, then we should do so; but if we can save more by employing other criteria as well, that is what we must do.)

The principle of giving aid only where it is most effective would not apply if we had an unlimited amount of aid to give away, so that we could help everyone, however careless they were, at no sacrifice to ourselves. But we are never in this kind of situation. The amount of aid available is always limited, hence the need to use it as effectively as possible.

Having clarified this, we can now go on to consider the actual situation that faces us as we try to aid those facing famine. Are the people who need aid like the reckless skater, bringing disaster on themselves despite the opportunities to improve their position we have provided for them? In most respects there is no parallel here. The poorer nations try to provide sufficient food for their inhabitants; it is the difficulty of the task, rather than lack of will, that limits their success. Yet there is one respect in which it might be said that the

poorer nations have not heeded warnings, and so have brought their problems on themselves: population control.

Consider India. If India had stabilized its population in, say, 1950, while improving its agricultural methods as it has done since that date, India would have no overall food shortage today, and would have a food reserve sufficient to meet emergency requirements. But India did not curb its population growth in 1950, nor has it done so to a significant extent since then, despite ample warning about the disastrous consequences of continued increase.[16]

Is India now in the position of the heedless skater? Is our continued aid merely putting off the inevitable day of reckoning? Should we actually cut off aid and allow famine to establish a natural balance between population and resources, as some have suggested?

There is no denying the seriousness of the population problem in India and some other poor nations; and there is no denying the fact that efforts to supply these countries with more food, and to enable them to produce more food themselves, will not reduce the long-term risk of famine unless population growth is checked. On the other hand, it does not follow from these facts that we ought simply to cut off aid to India and countries in a similar situation.

Allowing people to starve to death is a brutal way of controlling population. If there were absolutely nothing else we could do, we would, I suppose, have to resign ourselves to it. In that case the factual premise of the Famine Relief Argument--that we can do something to reduce starvation--would be false. But if there is any alternative, anything at all that we can try that may

avoid the horror of widespread and protracted starvation, then we ought to try it.

What else can we do? Let us return for a moment to the problem of rescuing the skater. To make the situation more like the world food problem, imagine that there are a large number of skaters, each of whom, on two or three occasions, has ignored warnings and needed to be rescued. Should we therefore simply give up rescuing them, and let any skaters who fall in drown? Surely it would be preferable to issue a warning, before taking such a harsh step. We could, for instance, agree to rescue a skater only on condition that in future he stay well away from the pond; and if this condition were violated, we might then refuse to carry out a rescue. If the skater did return to the pond and we were forced to carry out our threat, this would, at least, serve as a warning to other skaters that we meant what we said.

This analogy suggests that we might make our offers of aid to countries with rapidly increasing populations conditional on effective steps being taken to halt population growth. I imagine that many people who have agreed with me up to this point will be reluctant to accept this conclusion. It will be said that it would be an attempt to impose our own ideas on other, independent, sovereign nations. And so, in a sense, it would be--but it doesn't follow that this imposition is unjustifiable. I have argued that we have an obligation to prevent starvation if we can; but I have not argued that we have an obligation to make sacrifices that, to the best of our knowledge, will do nothing to prevent starvation. Hence we would seem to have no obligation, of the kind for which I have argued, to give food or other assistance to any country or person if the gift will serve no good purpose in the long run.[17] So long as we are sincerely carrying out a policy of reducing starvation and not

merely using the claim that aid may be ineffective as an excuse to reduce our total amount of aid, no country or person can properly accuse us of acting wrongly. A poor country or person has a legitimate claim to aid only if the conditions are such that the aid will be effective.

We have then a right to attach to our offers of aid conditions designed to make that aid effective; but the practical objections to this plan must also be considered. The fact is that we do not really know how to stop population growth, and some of the methods that look promising require expenditure that might be beyond the poorer countries. For instance, many demographers believe that the birth rate drops only when the living standard rises, in which case we need to provide substantial aid as well as contraceptive services. Even schemes which focus more narrowly on contraception and sterilization, perhaps offering incentives to persuade those who have had three children to be sterilized, would be expensive to carry out in a large country of small villages like India. These considerations suggest that the richer nations must help with population control schemes as well as with food aid and agricultural development. Then in consultation with local officials, experimental schemes could be tried in limited areas, and methods that prove successful applied on a larger scale.

This may be an appropriate place to comment on the "lifeboat theory," advocated by Garrett Hardin and others.[18] According to Hardin, we in the rich nations are like the occupants of a crowded lifeboat adrift in a sea full of drowning people; if we try to save the drowning by bringing them aboard, our boat will be overloaded and we shall all drown.

Since it is better to save some than none, we should leave the others to drown. Similarly, the rich should leave the poor to starve, or else the poor will drag the rich down with them.

The lifeboat analogy differs from the analogy of the heedless skaters because it assumes that making the rescue attempt endangers our own survival. It is just this assumption, however, that is doubtful. Consider the degree of our affluence--the material goods that we own and the wastage of food involved in the absurdly high meat content of our diet--and then ask yourself whether a substantial increase in our overseas aid would threaten our survival. I cannot see how it would Without going into the question of how much more food the world can produce, if yields elsewhere are brought up to Western levels, we should note that the world presently produces enough food to give all its inhabitants an adequate diet. Unfortunately that food is very unevenly distributed. In the United States and Western Europe alone, more food is wasted by being fed to farm animals than the total world food shortfall. Through his high meat diet, which provides him with about twice as much meat as his body can use, the average American indirectly consumes enough grain to feed four Indians.[19] Under these circumstances the lifeboat analogy seems grotesquely inapt. It is rather as if we in the rich nations were on a luxurious yacht, feasting gluttonously and playing deck quoits to ward off obesity, while we avert our gaze from those drowning in the sea around us.

What is true about the lifeboat theory has already been captured by our discussion of the reckless skaters. Food handouts that only postpone disaster are no use; but the upshot of this is not that we should reduce our aid, but that we should take steps to make it more effective. The Famine Relief Argument still holds. We should give far more aid

than we are now giving--but we should not shrink from doing everything necessary to ensure that it brings about a permanent reduction of starvation.[20]

There is one more consequentialist objection to the Famine Relief Argument--or rather to the strong version of it--which I find worrying. This is that the standard set by it is so high that no one except a saint can fulfill his obligations to the starving; and therefore it will be counterproductive to demand so much, since people will say, "As I can't do what is morally required of me anyway, I may as well not bother about morality at all." If, however, we were to set a more easily attainable standard, people might strive to do what the standard demanded. Thus setting a lower standard might actually result in more aid.

It is important to avoid confusion about the logical status of this point. Assuming that it is correct as a prediction of human behavior, it would still not follow that the Famine Relief Argument was mistaken. All that would follow is that public advocacy of the strong version of the Famine Relief Argument would be undesirable; indeed, it would mean that the famine relief argument itself, coupled with the facts of human behavior, leads to the conclusion that we advocate some lower standard, since this is the most effective way of aiding the starving. Of course, we ourselves--that is, those of us who accept the strong version--would know that we ought to do more, and we might actually give more than we urged others to give. There is no inconsistency here, since in both our private and our public behavior we are trying to maximize the amount of benefit to the starving.[21]

Is it true that the standard set by the strong version of the Famine Relief Argument is so high as to be counterproductive? There is not much evidence on this topic, but some discussions with my students have led me to think that it might be. On the other hand, the

conventionally accepted standard--a few coins in a collection tin if one is waved under your nose--is obviously far too low. Somewhere in between these extremes might make people realize that indulgence in an affluent life-style without making a serious effort to help those in need is morally wrong, without leading people to reject morality as hopelessly idealistic.

What level of contribution, to population control as well as food and agricultural development, should we advocate? Any figure will be to some extent arbitrary, and anything said on this topic will be tentative; but for a middle-class person in an affluent society, there is something to be said for the figure of 10% of one's income. Such a figure is much more than a token donation and, if widely acted upon, would probably go a long way toward ending starvation; at the same time, it is an amount which does not require a degree of altruism that is positively saintly. Indeed, for middle-class families a 10% gift probably does not go beyond the requirements of the weak version of the Famine Relief Argument. It may mean putting off getting a new car, or doing without a stereo set, or buying fewer clothes, or eating less meat--and there are independent reasons for doing the last of these anyway--but it should not involve sacrificing anything that is really needed.[22]

The figure of 10% of one's income has the additional advantage of being reminiscent of the ancient tithe, or tenth of all agricultural produce, which was traditionally given to support the church, whose responsibilities included care of the poor. This aura of a past era, when people accepted that they had obligations to the less fortunate members of their community, may make the idea more acceptable today, when we talk of belonging to a global community but have yet to act accordingly.

I conclude that we can safely say that everyone earning an average or above average income in an affluent society, unless he has an unusually large number of dependents or other special needs, ought to give a tenth of his income to groups working to end starvation. By any reasonable moral standards this is the minimum that we ought to do, and we do wrong if we do less.

ENDNOTES

[1]"Famine, Affluence and Morality," Philosophy and Public Affairs, vol. 1, pp. 229-43 (1972).

[2]The World Food Situation and Prospects to 1985 (Economic Research Service, U.S. Department of Agriculture, Foreign Agricultural Report No. 98, Washington, D.C., 1974), p. 2.

[3]It should be obvious that I do not accept the view, voiced often during the heyday of "linguistic analysis" but less common now, that moral philosophy is a morally neutral activity, and so the moral philosopher qua moral philosopher can have nothing substantive to say about controversial moral issues. In common with some other philosophers (Thomas Nagel, Peter Brown, Samuel Gorovitz, and Henry Shue) I believe that developing, examining, and criticizing moral arguments is within the province of the moral philosopher. I cannot accept the contrasting position, advanced by Joseph Sneed, that moral philosophers must confine themselves to the nature of moral reasoning rather than to the issue of what a decision maker ought to do in a given situation. Indeed, I cannot see that Sneed himself succeeds in doing the former rather than the latter--for in telling the decision maker that the method he ought to adopt is the one that maximizes the preferences of his "constituents," Sneed is telling the decision maker what he ought to do, at least to the extent of telling him that he ought to ignore the alternative approach of seeking justifiable moral principles on which to base his decision.

[4]Of course, a utilitarian theory like that of J. S. Mill or Henry Sidgwick will also give some weight to a principle of justice, on the grounds that so doing will maximize happiness in the long run; but the reference here is to a theory that gives weight to justice independently of whether so doing promotes some other goal like happiness.

[5]A Theory of Justice (Cambridge, Mass., 1971).

[6]This statement needs qualification, because an incompatibility with the Famine Relief Argument may arise if--as in the case of Rawls's theory--limits are placed on the application of a consequentialist principle of justice. The underlying idea of Rawls's theory is that if we imagine people choosing principles for the regulation of a society when they are themselves ignorant of their special talents, property, position, and so on, they will choose justly because they will have no way of knowing which principles are to their own particular advantage, and they will wish to protect themselves against injustice, whatever talents, property, or position they turn out to have. Rawls then argues that people choosing under these conditions would wish to protect themselves against the worst possibilities and so would adopt a principle of distribution that would maximize the welfare of the worst-off group, but--and here the incompatibility with the Famine Relief Argument arises--Rawls applies this principle of distribution only within each society, or nation-state, and not across national boundaries.

The restriction of the principle of distribution to the society or nation-state, however, cannot be justified consistently with Rawls's own theory, which is based on choice under conditions of ignorance. People who are uncertain whether, when the veil of ignorance is

lifted, they will turn out to be citizens of Bangladesh or of the United States of America would surely adopt principles that would do something to reduce the gap between the levels of welfare prevailing in these countries. As Brian Barry has pointed out in The Liberal Theory of Justice (Oxford, 1973), pp. 129-30, if Rawls's arguments for principles that maximize the level of the worst-off are sound, they must apply to international as well as national distribution.

[7]Colin Turnbull, The Mountain People (New York, 1972).

[8]I have assumed that the notion of desert is coherent when applied to individuals; but the conclusion just reached would receive additional support if this was denied, as it might well be, on the grounds that individuals are not responsible for their character. See A Theory of Justice, pp. 103-4, 311-2.

[9]New York, 1974. See especially part II.

[10]Nozick has confirmed this interpretation in a private communication.

[11]Cf. R. M. Hare, Freedom and Reason (Oxford, 1963), ch. 6; J. Rawls, A Theory of Justice, ch. 3. For an account of the similarity of these and other constraints on the nature of a moral principle, see R. M. Hare, "Rules of War and Moral Reasoning," Philosophy and Public Affairs, vol. 1, no. 2, pp. 166-181 (1972).

[12]It is on the basis of this kind of test that I would defend my position against those who claim that it goes too far because it forces one individual to make a sacrifice for the benefit of another. Thus Peter Brown asks if I would be obliged to give one of my two good eyes to a blind person to enable him to see. I would defend my affirmative answer by asking you to imagine that you did not know if you were the blind person or the person with two good eyes, and then to think about whether you would prefer an arrangement in which people were obliged to help others in this manner. Admittedly, some qualifications might have to be made in certain circumstances, for instance, where a person had gone blind because of a failure to take simple preventative measures. For a discussion of a still more extreme kind of sacrifice, see John Harris, "The Survival Lottery," Philosophy, vol. 50, pp. 81-87 (January 1975); and for some qualifications, see my "Utility and the Survival Lottery," Philosophy, vol. 52, no. 199 (January 1977).

[13]Cf. Raymond Gastil's comment on "Famine, Affluence and Morality" in Ethics, vol. 85, p. 185 (1974-75).

[14]Whether allowing someone to die is morally equivalent to killing him or her is a complicated issue. While the case for famine relief would be immeasurably strengthened by an affirmative answer to this question--and I think the case for an affirmative answer is strong--I have avoided an appeal to this position in order to base the Famine Relief Argument on minimally controversial foundations. For recent discussions of the killing-letting die issue, see M. Tooley, "Abortion and Infanticide," Philosophy and Public Affairs,

vol. II, no. 1 (1972); J. Rachels, "Active and Passive Euthanasia," New England Journal of Medicine, vol. 292, pp. 78-80 (1975); R. L. Trammell, "Saving Life and Taking Life," Journal of Philosophy, vol. LXXII, pp. 131-7 (1975); and a forthcoming book on the morality of killing by J. Glover.

[15]Peter Brown, "Appraising Policies regarding Goods Scarcity" (unpublished ms.), p. 13.

[16]Since this was written, the Indian government has announced that it is taking stronger steps to slow population growth, including the restriction of government jobs in certain areas to couples with no more than two children. It remains to be seen whether these measures will develop into an effective national program. If it does, this and the following paragraphs would not be applicable to India, but there are many other countries to which they would apply. See New York Times, February 26, 1976, pp. 1, 7, and March 19, 1976, p. 3.

[17]Robert Nozick has suggested (private communication) that it is a mistake to talk of aiding countries here; it is people we are aiding, and our aid will prevent some people from starving, whatever population policy the country adopts. I agree that it is people with whom we must be concerned, but the basic point stands, for while our aid will prevent some people from starving now whatever the rate of population growth in the country, if the people we save have several children, and so contribute to a situation in which their children, along with many others in the country, are starving in 20 years time, we have not, on balance, prevented starvation.

[18]Garrett Hardin, "Living on a Lifeboat," Bioscience, October 1974, pp. 561-8.

[19]Frances Moore Lappe, Diet for a Small Planet (New York, 1971), pp. 4-11; Barbara Ward, "The Fat and the Lean," The Economist, November 2, 1974; Boyce Rensberger, "Curb on U.S. Waste Urged to Help World's Hungry," New York Times, October 25, 1974.

[20]Thomas Nagel makes another powerful objection to the lifeboat theory when he points out that the theory requires us to allow a certain present disaster in order to forestall a possible greater future disaster.

[21]For a consequentialist, this kind of apparent conflict between public and private morality is always a possibility. Some may consider it indicative of an elitist or even manipulative attitude toward ordinary people, but this charge has more bark than bite, and should not trouble the consequentialist. If ordinary people will not be put off by the high standard demanded by the strong version of the Famine Relief Argument, all will be well, and that is what the consequentialist will advocate. But if more starvation will actually be prevented by advocating a lower standard, both in the short and the long term, one would be a fool to continue to advocate the high standard. If this is what is meant by being "elitist" or "manipulative," then we should be elitist or manipulative in this situation.

[22]When I read an earlier version of this paper at a working meeting at the Academy for Contemporary Problems, Washington, Edwin Martin and Lawrence Witt suggested that I was greatly exaggerating the size of the problem of starvation. Actual starvation (as distinguished from poor and inadequate nutrition) could, they said, be eliminated by the expenditure of no more than 1% of the U.S. gross national product; its elimination would therefore not require any serious sacrifices at all.

My initial reaction to these comments was that if this is correct, it is all the more shocking that the necessary steps have still not been taken to prevent starvation. On further investigation, however, I can only conclude that these estimates refer only to the amount of food that would have to be provided to cope with the present level of starvation; they do not include the expenditure required to slow population growth and foster development, so as to prevent greater numbers starving in the future.

[1977]

Chapter 7

Food Bungle in Bangladesh

Donald F. McHenry and Kai Bird

After 23 years and more than $26 billion--currently more than a billion dollars annually--U.S. food aid is received with cynicism by its foreign recipients and skepticism by American development experts. Although food aid is shipped to 84 countries around the world, the great bulk of America's surplus grain has subsidized budgets in only a few countries--such as South Korea, Chile, Israel, Egypt, and South Vietnam.

For much of the Third World's hungry population, the most direct evidence of American assistance is the food we provide. In fact, the allocation of America's food resources has become important in East-West as well as North-South relations.

Not surprisingly, politics has dominated food aid decision-making--even among those recipient countries suffering widespread malnutrition. In cases of natural disasters such as the Sahel drought, political considerations complicated the alleviation of temporary hunger. In the case of perennial malnutrition among the rural poor, politics has resulted in the failure to relieve hunger and, in fact, has worked against long-term efforts to achieve domestic self-sufficiency.

With the expiration this fiscal year of Public Law 480--the major legislation under which America's food aid is distributed--Congress must pass new legislation if the program is to continue. A major consideration of Congress is likely to be the changed circumstances

which exist now compared to when the program was initiated. In 1954, the grain bins of the United States, Canada, and Australia were overflowing. Today, the world faces potential long-term grain shortages and even the Soviet Union and China have joined the ranks of grain importers.

A second consideration will be the actual experience with PL 480, particularly with its effect on the development of agriculture within the recipient countries. Although there are, undoubtedly, examples of "success," the same cannot be said for American food assistance to Bangladesh, the largest recipient of U.S. food aid in recent times.

On the evening of November 12, 1970, a cyclone and tidal wave devastated five coastal districts of East Pakistan. In a matter of minutes, an estimated 270,000 people were killed, one-third of all the homes in the area were destroyed, and a half million tons of foodgrains were washed away. The magnitude of this disaster led in part to the momentous political events of 1971 in the Indian subcontinent: the Bengali autonomy movement; the exodus of more than nine million people, the largest migration of humanity in modern times; a major war; and the creation of Bangladesh as an independent state.

Counting starvation deaths is a purely speculative numbers game, but most observers would concur that more than two million deaths in Bangladesh since 1971 can be attributed to malnutrition. The donors have come to regard Bangladesh as a permanent disaster. More than $3.09 billion of "humanitarian" assistance has been disbursed in Bangladesh since 1972 by a variety of international donors. The United States alone has committed $1.08 billion, most of it in concessional food sales. Great Britain, Japan, Canada, West Germany, Sweden, and the international lending institutions are the other leading donors. Since 1972,

the international community has shipped almost eight million tons of foodgrains into Bangladesh--but less than 10 per cent of it has fed hungry people.

In Bangladesh, as in other areas where there has recently been large-scale starvation,[1] a major cause of starvation is the inequitable distribution of food--inequities based not only on poor management and inadequate transport, but also on conscious political choice. Rather than feeding the starving, food aid in Bangladesh is distributed through a ration system largely to feed the better-off urban middle class population and prevent any urban unrest which might undermine the Dacca government.

The Food Ration System

Food imports during the 1970s have averaged about 10 per cent of Bangladesh's total annual grain consumption. In 1976, 90 per cent of the food aid shipped to Bangladesh was sold to the country's middle class through the government's urban-oriented ration system. Only 10 per cent of all international food assistance is distributed to the rural destitute through hospitals and orphanages or paid to unemployed agricultural day laborers in "food for work" rural development schemes.

Bangladesh's food ration system--which in its present form dates back to the British raj--is a reflection of internal political necessity. The food aid imports crucial to sustaining this system represent a form of international income distribution--favoring the middle class in a poor country. By allowing the ration card holder the right to buy a portion of his food needs at a 50 per cent subsidy, the government creates extra income or the equivalent of a tax rebate. Two-thirds of the rationed food is allotted to the police, military, and residents of the six largest cities. Very few of the urban poor have access to the cheap foreign food

aid. In 1975, Sheik Mujibur Rahman's government revoked ration cards for those marginally employed living in Dacca's slums. A nominal one-third of the ration cards are in the countryside, where there is the most need during times of famine. But this group has last access to government stocks and receives half the food ration accorded to the city dweller.

The political intentions behind such a food distribution system are obvious. With potential political dissidents clearly in mind, a State Department Dacca Mission cable dated in late January 1976 and obtained under the Freedom of Information Act stated, "There is no question of the extreme importance to Bangladesh leaders of a continued flow of imported foodgrains to fuel the ration system, and above all keep potentially active Dacca dwellers supplied with low priced foodgrains."

The effect of the ration system on prices was readily seen during the fall 1974 famine. The price of rice soared to more than $1.00 per 1.64 pounds (at the 1974 exchange rate). Ration card-holders in the cities and government employees in the countryside could purchase 10.9 pounds for $1.00. Most observers agree that 30,000 to 100,000 landless rural poor adults died of starvation that autumn because the Dacca regime of Rahman was unwilling to divert foreign food aid from the urban ration system into the famine districts. The irony is that even many landed peasants were forced to sell their small landholdings, enter into the ranks of the landless rural poor, and become potential victims of the next famine.

"A couple of thousand tons of foodgrain targeted in the famine districts would have made all the difference," says a U.S. official posted in Dacca. "The World Bank," he

continued, "acquiesced to a Bengali report which says it was a supply problem--that is simply not true. The food supply was there; it just didn't get to the right people."

The failure of the distribution system in Bangladesh was in part a result of the form in which U.S. aid was allocated. American food aid is appropriated under PL 480--a law which was originally designed to allow the federal government to send abroad surplus grains which, if sold on the U.S. market, would significantly lower the price received by American farmers. Under Title I of PL 480, the U.S. government negotiates concessional sales of American surplus agricultural products, while Title II allows the government to grant free food to needy countries for disaster relief and humanitarian purposes. In financial terms, both Title I and Title II are a form of grant. The important difference between Title I and Title II provisions of PL 480 is who controls the distribution. Food distributed under Title II is normally contracted out by the U.S. government to private voluntary organizations such as CARE or the Catholic Relief Services. Title I food distribution is always the responsibility of the recipient government--and they may feed whomever they wish.

But 75 per cent of food aid sent to Bangladesh since 1972 was allocated under the PL 480 Title I concessionary sales program. Even some of the Title II food assistance during the first two years after independence was sold on the ration system under a special waiver from the U.S. Congress. The thinking was that Bangladesh was so lacking in resources that it should be allowed to benefit directly from Title II assistance as if it were Title I assistance. Eventually, officially sanctioned corruption in the ration system became such an embarrassment to the United States, that by fiscal 1974, Title II food grants were phased out and a Title I food sales program inaugurated.

International aid officials openly admit now that food aid during this period was sold on the black market and smuggled into India in Bangladesh navy vessels under the supervision of Rahman's relatives. Most observers concede that at least half a million tons each year and perhaps more than one million tons of foodgrains are annually smuggled out of Bangladesh.[2] In some years, such as 1976, smuggling alone accounts for Bangladesh's "food gap." Hoarding and smuggling of foodgrains to India, due to the higher prices in the Calcutta market, was encouraged by the influx of large quantities of foreign foodgrains at virtually no cost to the government.

The effect of hoarding and smuggling on the price and availability of food can be seen in the aftermath of the assassination of Rahman. In an interview, a World Bank official stated that a World Bank report showed that rice prices fell sharply throughout the country in the period from August 15, 1975 through September 1975. This is the lean season in Bangladesh, when stocks are normally low and food prices rise dramatically. Private grain traders and government distributors protected by the Rahman regime felt it prudent to dump their considerable stocks on the open market when their political ally fell from power.

Except for isolated pockets of chronically food-short districts, there could well be enough food available during normal years to feed Bangladesh's 83 million people. Some statistics indicate that agricultural production has increased at roughly the same rate as the population. In 1976, the increase in agricultural output was a dramatic 14 per cent. Food is not available, however, in the right place, at the right time, or at a price the rural poor can afford. Imports of foreign grain can lower foodgrain prices and prevent adult starvation

if targeted in famine districts on a strictly emergency basis. No amount of food aid inequitably distributed through a politically motivated ration system can alleviate perennial malnutrition. In the final analysis, only domestic foodgrain production can eliminate widespread malnutrition and starvation. Unfortunately, development experts agree, the ration system not only supports inequitable distribution, it also serves as a disincentive to local agricultural production.

The Best Type of Aid?

Food is not the best type of aid to give a developing country. The influx of large quantities of cheap foreign foodgrains denies farmers the major portion of the urban market. In 1976, Bangladesh was unable to absorb the 1.44 million metric tons of foreign foodgrains shipped by the international donors. The price of foodgrains plummeted throughout the country, and many peasants sold their wheat and rice crops at a loss.

The U.S. Embassy itself acknowledged the debilitating effect of food aid on the Bangladesh government when in early 1976 the embassy cabled:

> The incentive for Bangladesh government leaders to devote attention, resources, and talent to the problem of increasing domestic foodgrain production is reduced by the security provided by U.S. and other donor's food assistance.

Government earnings from the sale of food aid on the ration system normally account for an estimated 14 to 18 per cent of the country's national revenue budget.[3] Dependence on ration food revenues for such a substantial portion of the national budget places the government in the unfortunate position of needing food imports even during bumper harvests. When the harvests are excellent, as they have been for the last three years, off-

take from the ration system declines and the government has fewer financial resources to procure domestic foodgrains.

Budgetary dependence on food aid has an enormous impact on Bengali estimates of their food production. Bengali requests for food aid are couched in terms of humanitarian need, but are actually motivated by financial considerations. The international donors have no idea what the "food gap" is in any particular year because they know official Dacca estimates are consistently deflated. One World Bank official admits that the food gap this year could have been anywhere from minus 500,000 tons to plus 2 million tons. He cited the admission of a Bengali official that estimates for the December crop had been doctored to underrepresent the actual harvest by more than 300,000 tons. The crop figures looked too good on paper and would jeopardize both the Dacca regime's request for future food aid and their negotiations with the Indian government over the diversion of irrigation waters from the Ganga River. When asked whether this kind of misrepresentation would influence the donors in their allocation of food aid for next year, this World Bank source said, "The Bengalis obviously think they can get away with it--and they are probably right."

A potentially more damaging aspect of Bangladesh's dependence on revenues generated through the ration system is the nearly pervasive relief mentality. Bangladeshi officials are convinced that the international donors will not allow them to starve. Since it is much easier to order a shipment of food through the embassy in Washington than to spend time and money on a domestic procurement program, a definite complacency has settled over the bureaucracy. The technocrats who dominate the powerful ministries of finance, planning, and food are resigned to continued reliance on American, Canadian, and

Australian surplus food grains. One symptom of the relief mentality is a reluctance to invest too much of the country's limited resources away from the more glamorous industrial sector and into low profile agricultural products. "Not only does food aid develop budgetary dependency," says a U.S. official posted in Dacca, "but it clearly reduces the political pressures on the government to invest in the countryside."

According to a confidential 1976 World Bank report, Bangladesh's budget priorities allocate agriculture less than a third of the government's resources. While agriculture generates 60 per cent of the gross domestic product and industry only 7 per cent, agriculture is budgeted for only 30 per cent of development expenditures. Only 8 per cent of the credit available through the country's nationalized banks is lent for agricultural purposes. Defense expenditures, which already account for 12.5 per cent of the revenue budget, are projected to rise in 1976 by 9 per cent. Total budget expenditures are projected to rise 13 per cent--largely for defense, police, and the administration of justice. (A nation so completely dependent on the agricultural sector raises a miniscule 0.7 per cent of its total revenue budget from the agricultural land tax.) Revenues from the ration system and international food aid perpetuate this system and may even delay agrarian reform necessary for increased agricultural production.

Political Leverage

Although the U.S. Congress appropriated food assistance partly out of humanitarian concern, politics--not humanitarian impulses--plays the paramount role in the allocation of food aid. The ration system demonstrates that dependence on food assistance exposes Bangladesh to political interference by the international donors. Food aid has become an

essential tool of domestic political stabilization and crucial budgetary support for any government in Dacca. To the United States, the ration system provides the excuse to dump periodic grain surpluses at the behest of the American food grain lobby. It also represents an opportunity to exercise political leverage in the Indian subcontinent.

Even in response to purely humanitarian disasters such as the November 1970 cyclone, U.S. food policy was quickly bent to political purposes by both donor and recipient. The American response to the cyclone disaster was rapid and generous. But in reality, U.S. food policy was an integral part of former Secretary of State Kissinger's "tilt" toward Pakistan. Very little food relief reached the devastated coastal districts. Instead of the Title II grants one might expect in a disaster, the United States resorted to Title I concessional sales for the bulk of its food assistance, a procedure which one U.S. AID official posted in Dacca at the time described as "rather unusual."

Throughout the 1970s, PL 480 Title I food aid was allocated with a keen eye on local politics. In the case of Bangladesh, U.S. food assistance lessened that country's dependence on India. A Bangladesh more able to resist "Indian hegemony" might restore the balance of power that existed in 1971 throughout the subcontinent.

"If the political situation in Bangladesh degenerated into anarchy, the strategic balance in the subcontinent would be affected," says Doug Archard, the State Department's Bangladesh desk officer. "This could involve the big powers--China, the Soviet Union--and certainly India would be drawn into the situation. If India found refugees flowing into West Bengal, as in 1971 due to civil disorders in East Bengal, there is no question but that she would intervene militarily to restore a government to her own liking....From this Standpoint,

one could say that food aid is contributing to the stability of the entire subcontinent."

During the last year of Rahman's government, in the wake of increasing political disorder--terrorist attacks, political assassinations, and unruly political demonstrations--the Dacca government in January 1975 abandoned parliamentary democracy in favor of one-party presidential rule. American aid increased--partly in reaction to the autumn famine, but also because increased food aid was necessary to lower urban food prices and diffuse the political opposition. Lower food prices in the six major cities and assured supplies of cheap foreign food to the army and the president's special security police (Rakhi Bahini) facilitated Rahman's repression of the country's political opposition. Internal security and domestic political stability tend to take priority over development goals which might lead to political destabilization.

The magnitude of Dacca's political reliance on food aid raises some disturbing questions concerning the conduct of U.S. foreign policy in the most impoverished Third World nations. If we know that food aid does not primarily feed the hungry and is, in fact, simply budgetary support and political "pacification" aid, what are the limits of its use as a tool of foreign policy? Would the United States consider using its food aid leverage to ensure human rights or parliamentary democracy in Bangladesh? What kind of government could exist in Bangladesh without depending for 54 per cent of its national budget on international loans and grants? Would a completely self-reliant Dacca government be more capable of tackling the country's economic development problems?

The U.S. threatened to cut off food aid in September 1974. At that time the American ambassador called upon Dr. Nural Islam, chairman of Bangladesh's Planning

Commission, under instructions from the State Department, to formally request that Bangladesh cease exporting jute to Cuba.[4] Under PL 480, a recipient country cannot trade with blacklisted countries such as Cuba. Islam reportedly expressed surprise and shock that the United States would actually insist that a destitute Bangladesh should restrict its exports. The government of Bangladesh canceled further exports of jute to Cuba at a time when competition from Indian jute and low world market prices had substantially eroded its foreign exchange earnings. The U.S. government employed its food aid leverage in Bangladesh for the most trifling of political purposes.

Development Priorities

A portion of the American government has consistently attempted to use the food weapon against Bangladesh to exact development priorities. But these efforts have been stymied by the importance given to political considerations in the State Department.

In April 1972, the U.S. AID country director wrote a report entitled "The Political Dimensions of Assistance to Bangladesh," which outlined the trade-off between development and political considerations. According to one source, the report was given short shrift by the bureaucracy. U.S. AID officials consistently wrote cables throughout the 1970s, arguing that if the bulk of American aid had to come in the form of food aid, it should be tied to specific development performance on the part of the Dacca regime and used as leverage on the recipient government to ensure development priorities.

Lester Brown, the well-known agro-economist, articulated this viewpoint in a speech at the University of Toronto in 1975: "Those countries that do not have responsible population policies should not count on access to U.S. food supplies."[5]

The U.S. Congress itself authorizes the use of food aid to achieve such development goals. PL 480 specifies that "food aid shall be given to countries which agree to use the proceeds from the sale of commodities..." to "increase the access of the poor in the recipient country to an adequate, nutritious and stable food supply," grant "credit on reasonable terms and conditions for small farmers..." and "develop the physical and institutional infrastructure supporting the small farmer...which directly improves the lives of the poorest of their people and their capacity to participate in the development of their countries."[6]

Few American officials posted in Bangladesh believe that food aid in itself is contributing to development or feeding hungry people; but there is an awareness that food programs can be used to exact development-related commitments.

In June 1974, the Dacca Mission cabled an urgent plea that "we use this opportunity to press our dialogue with the Bangladesh government on the urgent need for reform and self-help." For the next 18 months, the U.S. Mission--backed by the World Bank and the International Monetary Fund--strongly encouraged the Dacca government to raise ration prices. Raising the ration price of rice would not only eliminate a major portion of the government's budgetary deficits, but was also considered by the Dacca Mission as "a key to providing an incentive price to Bengali farmers."[7]

The Dacca government ignored the donor recommendations, fearing the political consequences of a ration price hike. In late 1975, the Dacca Mission decided to force a significant rise in ration prices by withholding a portion of food shipments in the period from November 1975 to March 1976. Contracts for further food shipments were signed only after the ration price was raised "as promised by Bangladesh government officials." In this

instance, those in the bureaucracy who advocate the use of food aid as leverage for exacting development priorities prevailed. But this has normally not been the case. More often than not, the political or strategic considerations of American foreign policy in the subcontinent have dominated that decision-making process.

Archard, on the State Department's Bangladesh desk, says, "The present regime is not going to abandon the ration system. That is a political reality....I don't know how high the ration price can be pushed without inciting serious political consequences."

One reason why too much food aid was shipped to Bangladesh in fiscal 1976 was that State inflated the total worldwide allocation of food aid to allow the shipment of a larger quantity of food to countries like the Philippines and South Korea, where the annual per capita income is more than $300. (Congress specified a year ago that 75 per cent of all food aid must be allocated to the "most seriously affected" countries with a per capita income of less than $300.) After State tentatively budgeted this inflated quantity of food grains to Bangladesh, it became easier for the Bengali bureaucracy to lobby for the shipment of the grain. Despite inadequate storage facilities, the Bengalis wanted the food for their own budgetary support.

When political considerations are not paramount, the size of American food grain surpluses often determine how much food aid Bangladesh will receive. Never have allocation decisions been based on the actual humanitarian need in Bangladesh. "As things work out now, our food aid levels correspond to their good harvests," says a U.S. AID official in Dacca. "They receive the most food aid when they produce the most grain internally, and receive correspondingly smaller amounts of food during lean harvests."

The enormous backlog of unsold American wheat during the last two harvests may cause the Department of Agriculture to exert continual pressure to dispose of these surpluses through PL 480. The Department of Agriculture is leading a lobby effort on Capitol Hill to repeal or alter the 75/25 per cent split requirement in the allocation of food aid. In Bangladesh, the agricultural attache, Carl O. Winberg, has submitted estimates of Bangladesh's harvest for fiscal 1977 which are 800,000 tons short of World Bank forecasts.[8] These kinds of "numbers games" are normal procedure when the United States has large surpluses that it is unable to market commercially.

Marketing considerations and the disposal of surplus American harvests undoubtedly influence the scale of America's food aid program each year. But even in years when American farmers are able to commercially market all their produce, the State Department needs a PL 480 program. Food is the "carrot" of a government that practices a "carrot and stick" diplomacy in the Third World. Congress clearly intended to place more weight on humanitarian concerns when it specified that 75 per cent of food aid must be allocated to the poorest nations. But even in the case of Bangladesh, political considerations only too often can be a determining factor in U.S. food aid decision-making.

New Directions...

Food aid in Bangladesh has been administered by both the American government and local Bengali officials as if it were never intended to benefit the poor. Food aid has been used by both parties primarily for political purposes. The recipients of American food not only are reluctant to implement Congress' egalitarian aid program priorities, but also consistently obstruct international humanitarian relief efforts.

Food relief operations--either bilateral or under United Nations auspices--failed to help the victims of the 1970 cyclone or the 1971 civil strife in Pakistan. Relief efforts in response to the 1974 famine were also ineffective, due to the political bias of the distribution system. Genuine international concern for the victims of these humanitarian crises fell victim to the political imperatives of the moment--whether in Bangladesh, Pakistan, or here in America. The martial-law government in Pakistan refused to distribute relief food in those famine districts under the control of Bengali insurgents. The Dacca government of Rahman made a conscious policy decision to feed the politically volatile urban centers in 1974 at the expense of tens of thousands of rural poor.

The United States itself has used food to advance its own political designs. We gave food as a symbol of our diplomatic commitment to a beleaguered Pakistan in 1971. The stability of particular governments in Dacca has been our major concern in food aid allocations. We have allowed our desire to support a politically stable and anti-Indian Dacca government to override the goal of economic development. And we continue to give food aid with the knowledge that it won't feed hungry people--or benefit, even indirectly, the vast majority of Bangladesh's destitute millions.

Even with proper safeguards, food aid to Bangladesh will have a difficult time alleviating perennial starvation because any government that accepts food aid--left, right, or moderate center--will divert it to feed its own political constituency. Indiscriminate food aid breeds economic elitism, corruption, agricultural complacency, and bureaucratic inertia. Before there can be any massive transfer of resources from the developed to the developing countries, individual Third World countries themselves must begin the

redistribution process within their own societies.

For millions of people in the Third World, U.S. food aid represents their only concrete connection to America. The consistent misuse of this nominally humanitarian aid cannot bode well for America's posture among developing nations. A Central Intelligence Agency report in August 1974 suggested that the global food problem could greatly exacerbate the North-South confrontation:

> The elites of many LDCs tend to regard periodic famine as either natural or at least beyond their power to prevent, e.g., Bihar in 1967, Ethiopia and the Sahelian states in 1973. But the rural masses may become less docile in the future and if famine also threatens the cities and reduces the living standards of the middle classes, it could cripple governmental authority. The beleaguered governments could become more difficult to deal with on international issues either because of a collapse in ability to meet commitments or through a greatly heightened nationalism and aggressiveness.[9]

The United States should do everything it can to prevent hungry developing nations from long-term dependence on U.S. grain surpluses. Most food shortages in developing nations like Bangladesh are still by and large distribution problems. And with proper farm price incentives and agrarian reform, many food deficit countries in Asia and Africa can become self-sufficient--even in the face of rapidly growing populations.

Project aid--integrated rural development projects such as village fisheries, manual irrigation pumps manufactured in Bangladesh, farmer cooperatives that extend credit to the small farmer, and food storage facilities--can benefit the poorest of the poor and increase domestic grain production. But project aid to Bangladesh in 1976 accounted for only 17 per cent of all international disbursements. Giving food is an almost effortless solution to fulfilling our responsibility to developing nations. But it is an easy solution that does not work.

A secure market in America for Bengali jute--to the detriment of the U.S. synthetic carpet-backing industry--would probably aid Bangladesh's famished millions more than politically tarnished food aid programs. But granting a trade advantage of this kind is not regarded by policy-makers or Congress as humanitarian aid. A real transfer of resources is something Congress is reluctant to authorize. Food aid is a popular form of foreign aid on Capitol Hill because it benefits the donor economy more than the recipient.

The conventional response of the liberal American political constituency is to demand a halt to arms sales and an increase in food aid. Few realize how both food aid and arms transfers serve similar political and strategic goals. Food aid programs can easily accentuate the global gap between rich and poor. Food aid is a political commodity--and if it is indiscriminately doled out to developing nations for anything but temporary emergency relief, it will be abused.

ENDNOTES

[1]Roger Morris and Hal Sheets, Disaster in the Desert (New York: Carnegie Endowment for International Peace, 1974); Jack Shepherd, The Politics of Starvation (New York: Carnegie Endowment for International Peace, 1975).

[2]Just Faaland and J. R. Parkinson, Bangladesh: The Test Case of Development (London: C. Hurst and Co., 1976), p. 127.

[3]State Department estimates based on Dacca Mission cable dated January 1976 and World Bank 1976 Country Report.

[4]U.S. Embassy cable sent from Dacca in September 1974.

[5]Lester Brown, "The Global Politics of Food: Role and Responsibility of North America," Marfleet-Falconer Lecture.

[6]Public Law 480, Sec. 6(a) and (b) amended December 20, 1975.

[7]Dacca Mission cable dated January 1976.

[8]Cable dated November 18, 1976, to the State Department. The World Bank estimate is 13.1 million tons, while Winberg's estimate is only 12.3 million tons.

[9]Central Intelligence Agency, "Potential Implications of Trends in World Population, Food Production, and Climate," August 1974.

[1977]

Chapter 8

Is it Time to End Food for Peace?

Emma Rothschild

Twenty-three years ago, the United States Congress wrote a law which has changed the diet and the political life of half the world. The law, known as Public Law 480 of the 83d Congress, or the Food for Peace act, provides for the United States to send food as aid to foreign countries. Its scope is vast. The United States Government has spent more than $30 billion on the program, sending food to 130 countries. In wheat alone, the United States has distributed enough grain to bake a hundred loaves of bread for every person alive today.

Yet P.L. 480 has been since its birth the subject of bitter political conflict. In the late 1970s, its shortcomings are ever more evident. the program has failed, first of all, in its humanitarian purpose of helping hungry people. During the world food crisis of 1973-74, the United States actually reduced its aid to many poor countries--above all, to Bangladesh at the time of the 1974 famine. In the second place, the program now seems obsolete, suited to an era which is gone forever. P.L. 480 was passed in 1954 as a way to get rid of surplus food and fiber. Now, the United States Government no longer owns mountains of surplus wheat, and foreign aid is no longer an exciting adventure.

It is time, in 1977, to uncover the history and the conflicts of Food for Peace. The time has also come, in my view, to ask whether the program should continue, or whether it should now begin to die. The answer to this question will have consequences, I think, for

United States foreign policy more generally. For the history of P.L. 480 is a mirror of the epochs of postwar foreign policy: from the seemingly limitless 1950s to the expansionism of the Kennedy-Johnson years to the Nixonian retrenchment and to the world of the late 1970s, new and limited and uncomfortable.

The P.L. 480 legislation runs out of money at the end of 1977. This spring, therefore, Congress will decide whether to extend the authorization. Hearings on the program started in March in the Senate. The discussions could be the most important in the history of the program.

There are at least four purposes to P.L. 480, as there have been since 1954. It is a way to get rid of surplus food, and a way to help hungry people, an instrument of political and military policy, and a way to create markets for American food. Each of these purposes corresponds to a phase in the history of the program, and in the postwar history of America. Yet each is preserved, the embodiment of earlier hopes. In the immediate drama of food aid, all are present, jostling to the fore.

The United States now spends a little over a billion dollars a year on food aid. More than three-quarters of the aid--mostly wheat and rice--is sent under the P.L. 480 program. Eighty countries receive some food aid from the United States, although most of the aid each year goes to four or so countries. Quite prosperous countries are eligible for aid. Israel was the leading recipient of United States food aid in the 1976 fiscal year. In 1975, the largest recipient was India. South Vietnam was first in 1974 and 1973, and South Korea in 1972.

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P.L. 480 has two main parts. Under Title I, the larger part of the law, the United States Government lends countries money to buy American farm products--mainly wheat, rice, cotton, tobacco and soybean oil. The countries then usually have 20 to 40 years in which to repay the loans, in most cases at three percent interest. Under Title II, the United States donates food either to foreign governments or to international relief organizations like CARE. The United States Government also sends some food aid outside P.L. 480, under the Agency for International Development's development assistance program. The AID shipments provide a Garden of Eden of exports: baby chicks and almonds, sugar and dried soup mixes.

P.L. 480 is administered for the President partly by the Department of Agriculture and partly by AID in the State Department. Its loans and grants are approved by an interagency staff committee consisting of officials below the level of assistant secretary from the Departments of Agriculture, State, Defense, Commerce and the Treasury and the Office of Management and Budget. This heterogeneous institution, virtually unchanged in 23 years, operates in private on the basis of what is called "consensus."

Throughout its history, P.L. 480 has been a complex of hidden and shifting forces. It was indeed part of the program's attraction, at times, to be all things to all people. In the words of Orville Freeman, a visionary of P.L. 480 as Kennedy's and Johnson's Secretary of Agriculture, there is "no similar effort in history that has done so much for so many people--both to those who give and to those who receive."

Surplus Disposal

P.L. 480 was devised in 1954 as a measure for the "disposition of agricultural surpluses." In the early years of the program, rich countries such as Britain and Poland received large amounts of aid, including, for example, products like tobacco, tallow and canned fruit juices. But the main surplus commodities were wheat and cotton. Since the New Deal, the United States Government had bought farm products to support agricultural prices. When prices fell after World War II, and again after the Korean War, farmers sold their products to the Government for want of a better buyer. It was these publicly-owned stocks of food and fiber that the United States planned in 1954 to export under the new aid program. The measure was meant to be temporary. In three years, the law's sponsors hoped, the United States could rid itself, once and for all, of its burdensome abundance.

As the program was extended time after time, it had less to do with surpluses. In the 1960s, P.L. 480 money was used to buy farm products that were neither "surplus" nor owned by the Government; the Government bought commodities for food aid on the open market. (Three-quarters of all United States wheat exports and a third of the entire national wheat harvest was destined for P.L. 480 in the mid-1960s.) Yet the idea of surplus remains even now. All farm products used for P.L. 480 must be certified by the Secretary of Agriculture as being available beyond what is needed for domestic requirements, stocks and likely commercial exports.

In the mid-1950s, the P.L. 480 program captured the imaginations of several Democrats in Congress, above all of Senator Hubert Humphrey. In 1957, Senator Humphrey conducted a series of hearings on the program, eventually publishing a report

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with the inspiring title of "Food and Fiber as a Force for Freedom." Humphrey's investigations shaped the future character of the program. They also revealed, in early form, the foreign policy which President Kennedy was later to pursue.

The Eisenhower Administration, Humphrey charged, was altogether too timid in its foreign food-aid policy. Government officials, he urged, should "lift their sights from their own little orbits long enough to embark on bold, imaginative use of our food resources as an instrument of peace and freedom." He suggested that the program should be seen as a persisting instrument of United States policy, both for political purposes and to develop new foreign markets for American food. (Humphrey's most spirited adversary was Earl Butz, then an Assistant Secretary of Agriculture charged with going back and forth to Capitol Hill to testify about P.L. 480. He felt that the food-aid program should not become a permanent feature of American agricultural life.)

Political and Military Aid

"I have heard here this morning that people may become dependent upon us for food," Humphrey said during the 1957 hearings. "I know that was not supposed to be good news," he went on. "To me that is good news, because before people will do anything, they have got to eat. And if you are really looking for a way for people to lean on you and to be dependent upon you, in terms of their cooperation with you, it seems to me that food dependence would be terrific."

Senator Humphrey saw a close association between food and the political concerns of the time. He suggested that if America's allies could rely on food from Kansas or Oregon, they could take people out of agriculture to build an army. "Isn't this true in some

countries where we have encouraged them to militarize?" he asked. "I have had officers of friendly governments say to me as a United States Senator, 'We are your ally. We never had an army before. Now you have got one for us and it costs money.' But of course we are taking up most of the tab, but it places an impact on their country. You take people out of production, you put them in the army, you equip them....And isn't this where the food picture gets in?"

Most food aid in the 23 years of the program has gone to countries that were also military friends, such as Israel and Turkey in the 1950s, South Korea and Pakistan throughout, South Vietnam in the 1960s and 1970s. (Ten countries, including these, account for more than half of all P.L. 480 shipments. The others are India, Egypt, Yugoslavia, Indonesia and Brazil.) Some countries were allowed to use the proceeds from selling P.L. 480 food for military purposes. Many aid agreements called for the countries to repay the United States in their local currencies. But the United States would often give the money back, to be used for "common defense." About 80 percent of all the money collected in South Korea was used in this way, and a similar proportion in Vietnam.

The military theme continued into the 1960s. Vietnam was a case in point. Soon after Vietnam was divided in 1954, the United States sent powdered milk, rice and butter oil to Saigon. In 1964, the Johnson Administration asked Congress to sanction the use of P.L. 480 funds by recipient countries for "internal security" as well as for "common defense," with Orville Freeman citing "activities in support of counterinsurgency programs, such as the Vietnamese strategic-hamlet program." Two years later, Secretary Freeman again cited Vietnam in testimony supporting P.L. 480. "The victory," he said, "won't hold unless

agriculture goes forward with the troops. This is truly a two-front war....Agriculture is the key element in securing villages and hamlets won in the shooting war."

Market Development

The other great advantage of P.L. 480, to Senator Humphrey and his colleagues, was that it helped to create new markets for American food. At the 1957 hearings, Minnesota's Senator Edward Thye explained: "If they ever develop the taste for powdered milk or for butter...or if they develop a strong habit for wheat, where they are rice consuming , then we will always have a market there....We put these foods at their disposal for a period of six months or a year, after which they are always going to be looking for that type of a product." Humphrey noted that, "Cheddar cheese, for instance, was not the most desirable product in some parts of the world, but now they are beginning to like it."

The original P.L. 480 legislation provided that part of the money countries paid back to the United States, after they borrowed money to buy food, was to be used in "market development." But the activist Democrats in Congress believed that Eisenhower's Administration had been as timid here as in its political efforts. Witness after witness described prodigies of promotion, and was urged to ever greater exertions.

One executive testified that P.L. 480 money had been spent in Rome on an "American Way supermarket project," "sending a supermarket overseas as a working example of people's capitalism." (The "exact replica of its moderate size American counterpart," it featured frozen TV dinners, was praised by Pope Pius XII and attracted half a million Italian visitors.) Another described the American Wheat Cup presented at the annual golf tournament of the Japanese Grain Importers Association. Perhaps the most

constant theme concerned the education of bakers, from South Korea to Colombia. In Japan, the Oregon Wheat Growers League used P.L. 480 money to set up a "bakers' training school." Once adept, the baker cadres "return to their home prefectures [where] they in turn conduct classes" in the mysteries of wheat.

These activities persist today. Since the program began, more than $160 million in P.L. 480 proceeds has been used to promote American food and fiber. The 1974 P.L. 480 annual report boasts that "to a large extent, [the] growth of dollar sales can be attributed to aggressive worldwide market developments launched by the Government...." And the enterprise continues, the report adds, with baking classes and seminars around the world. "An evaluation of one such project in [South] Korea showed that housewives exposed to cooking demonstrations used an average of 16 percent more wheat in family meals...." Throughout Asia and Latin America people were introduced to wheat, to the American way of eating, by the P.L. 480 program. Now American agricultural exports, all food aid aside, are worth more than $20 billion a year. Such countries as India and Brazil, South Korea and Japan, are leading commercial customers, paying dollars for American food.

Food for Peace

President Kennedy endorsed food aid during the 1960 election campaign, telling farmers in South Dakota that "food is strength and food is peace and food is freedom and food is a helping hand...." His Administration followed most of Humphrey's suggestions. A director of P.L. 480--Congressman George McGovern--was appointed to the White House. By 1962, the program was shipping twice as much food as in 1958.

P.L. 480 was an important part of Kennedy's foreign policy in Asia and Latin America. It seemed to epitomize the sense that Americans had in the early 1960s that all things were possible, in a world growing daily richer and braver. One of Humphrey's comments in 1957 is again prophetic. Chiding Assistant Secretary Earl Butz for his cautious attitude to P.L. 480, Humphrey said: "What I have noticed is a tendency on the part of people to assume there is only so much of a loaf of bread to divide up when, in fact, the size of the loaf is somewhat dependent upon the yeast that is in the bread. And that is the expansion element that is in the economy."

Food for Peace had the merit, too, of pleasing the most diverse people. "I think it will go down as one of the most outstanding things done in the history of mankind," Orville Freeman said in 1964. This was so, he explained, "because it does have this multiple effect of serving the mutual interests of so many people." P.L. 480 was indeed one of the most popular aid programs. Some congressmen saw it as aid to Kansas, and others as aid to Asia. Administration officials often seemed deliberately vague, seeking, perhaps, to preserve the program's multiple appeal.

Food for Development

The Kennedy and Johnson Administrations set out boldly to promote economic development around the world. P.L. 480 after 1966 was tied closely to development projects, and in particular to agricultural programs. Countries receiving Title I aid were required to practice "self-help" in agriculture. Yet these efforts were fraught with contradictions.

Food aid itself was a disincentive to agricultural production abroad. Since the early 1960s, almost a third of all United States official development assistance has been in the form of food aid. In such countries as South Korea, Brazil, even India, P.L. 480 helped to make it possible for governments to neglect their own farmers. The program served to reinforce the bias of development policies in favor of urban and industrial growth. In South Korea, for example, the Government received American food and kept local rice prices low. Industry flourished, while in the countryside, poor rice farmers found they could not make a living. They were forced into Seoul and other cities. Farmers who remained found that more and more people had acquired the taste for wheat from the cadres of bakers who surged across the country.

Successive U.S. Governments have tried to help the poorest people with food aid. But here again P.L. 480 proved a mixed blessing. Wheat is the leading food-aid commodity, and in many poor countries, particularly in rice- and corn-growing regions, wheat is sold largely to relatively prosperous consumers. A 1976 U.S. Government study of P.L. 480 in India, Chile, South Korea and the Philippines concluded: "It was difficult to say that the Title I programs were helping the poor...."

The history of the United States Government's pork projects in Asia illustrates the conflicts of P.L. 480. As early as 1962, the Kennedy Administration set out to use surplus corn to develop a pig-feeding industry in East Asia. In his memoirs of Food for Peace, George McGovern described plans for the "creation of a community 'pig bank'" in South Korea. Meanwhile, in South Vietnam, pig cooperatives were set up with "surplus American corn, eight sacks of cement for a pigsty, and three pigs for each participating family."

By 1968, senators reviewing P.L. 480 learned that South Vietnam had agreed to "pursue aggressively a policy of increasing pork production," and to "establish a selling price for imported corn which will encourage its expanded use as feed grain for pork production." That same year, U.S. aid experts undertook the most grandiose project of all, directed at the entire pig population of South Vietnam. As explained five years later in the P.L. 480 annual report, "1973 is regarded as the 'wrap-up' year of a long-range effort...to establish a viable commercial swine industry in South Vietnam. Through the introduction of U.S. technology and Vietnamese acceptance of the principle of self-help, the swine population has been changed from that of the rural-reared scavenger swayback pig--an inefficient converter of feed to pork--to a meat-type pig."

Here, as elsewhere, efforts to use food aid to help foreign livestock producers left the farmers dependent upon American food and technology. In the case of the pork programs, the United States left in Vietnam a "population" of American-style pigs that was largely dependent on corn feed, long after American technologists had departed.

The Nixon Years

Under President Nixon, the United States turned away from foreign aid in general and from P.L. 480 in particular. Food aid had come to be associated with unrewarding projects (pig banks) and ungrateful recipients (India). The amounts of food shipped under P.L. 480 fell fairly steadily, from a high level of 18 million tons in 1966 to 11 million tons in 1970 and 3.3 million tons in 1974.

Describing the "Nixon Doctrine" in foreign policy, President Nixon wrote that "we need to replace the impulses of the previous era: both our instinct that we knew what was

best for others and their temptation to lean on our prescriptions." Nixon's food-aid policy reflected to some extent this objective: It recognized that P.L. 480 required real money, and that the United States itself had real problems with inflation and with its balance of payments.

But there were other, less inspiring, themes in the Nixon food policy. The military element in P.L. 480 became stronger, in accordance with the Nixonian principle that foreign aid should be tied directly to national self-interest. In 1971, to illustrate, the Nixon Administration concluded an agreement with South Korea whereby, in exchange for P.L. 480 shipments, South Korea agreed to limit its textile exports to the United States. The Administration also used food aid as a way to avoid the restrictions that Congress had placed on other military and economic assistance programs to Indochina in the early 1970s. In the fiscal year 1974, to illustrate, 70 percent of all Title I shipments went to South Vietnam and Cambodia.

The Nixon Administration, finally, did not begin to answer the new question of how the United States should act as the era of aid was succeeded by an era of commercial trade. By the 1970s, the long years of market development had been vindicated. Rich and poor developing countries had acquired the taste for imported food. But they found P.L. 480 limited. As Senator Thye had foreseen 15 years earlier, they went into commercial markets to buy American wheat for dollars. The change was sudden. In the 1972 fiscal year, United States aid-financed farm exports to developing countries were worth $1.1 billion, while commercial exports were worth $1.7 billion. By 1975, the aid exports were again worth $1.1 billion. But the value of commercial exports had quadrupled, to a value of $6.8 billion.

The Crisis

The world food crisis of 1973-74 came about, then, at a time when the United States food-aid program was in disarray. By the end of 1973, U.S. wheat exports cost three times as much per ton as they had little more than a year before. There were many reasons for the inflation: the worldwide economic boom, bad weather in several countries, the Russian purchase of American food, the efforts of the United States and other food-exporting countries to restrict farm production, the success, too, of United States market-development schemes. But the consequences were most serious in developing countries.

"An anomalous situation has developed over the past two years," a senior United States official, Thomas Enders, testified early in 1975: "At the very time that food aid was most needed, it turned out to be the hardest to get." Most countries found their P.L. 480 shipments cut in 1974, the worst year of the world food crisis. When prices were high, the money spent on aid bought less food. The Title II donations program, to illustrate, was cut dramatically. Thirty-one million fewer people received Title II food in 1974 than in 1973. In Bangladesh alone, 13 million people were struck from the rolls.

P.L. 480, after 20 years, was tested in a worldwide crisis and found wanting. Part of the explanation has to do with President Nixon's own preoccupations. I remember in July 1974 telephoning the National Security Council's expert on food in the Executive Office Building to ask about American food-aid policy to South Asia. He replied that he had not really got into that subject yet, explaining that "there's been a lot of turbulence personnelwise around here this summer."

But the causes of the crisis in food aid go beyond Watergate. The procedures for allocating aid are still designed for a world of surplus, where food prices change only slowly. Decisions about food aid are still made in the obscurity of interagency conferences. The officials charged with distributing aid are still obliged to balance military and humanitarian interests, market development and the concerns of Arkansas rice growers. In 1974 they could not compromise fast enough to get food to starving people in Bangladesh or Ethiopia.

The Aftermath

In the period since the 1974 famines, the United States food aid program has gone from scarcity to abundance and obesity. People in Asia were dying of starvation in 1974. A year later, in the same countries, rats choked on surplus American rice.

Many Americans became outraged, in the course of 1974, about the fiasco of food aid. Congress in December 1974, reacting to this concern, passed legislation requiring that most food-aid sales be reserved for very poor countries. (The requirement, which is still in force, now provides that 75 percent of all Title I P.L. 480 shipments go to countries with an average income per person of less than $300 a year.) Senator Hubert Humphrey, who has been consistent since 1954 in sustaining the humanitarian parts of the aid program, was a major force for the change.

In 1975, the United States more than doubled its food aid to the poorest countries. In part because of American aid, the food situation improved greatly. Yet the contradictions of the P.L. 480 program were not to be avoided. Many food shipments arrived to late, when the worst of the crisis was over. India received more food than it

could store. Bangladesh was sent six times as much Title I grain in 1975 as has been dispatched in the famine year of 1974.

Meanwhile, the old agricultural interest in surplus disposal and market development returned. Agricultural prices have fallen, particularly prices of wheat and rice. Farmers in several states lobby to have their products bought for P.L. 480. The U.S. Government buys stocks of rice, peanuts and milk. Food aid, once more, seems commercially enticing.

This is the confused situation of P.L. 480 in 1977. Tanzania, one harried U.S. official explains, wants corn imports, but "we're twisting their arm to take rice." Another official says wistfully that he would like to send more food to the richer developing countries, such as Morocco. The entire history of the P.L. 480 program, political and agricultural alike, is crowding forward as the program is exposed once more to the investigations of Congress.

Ending Food for Peace

What is to be done with the food-aid program? My own view is that the time has come for the slow end of P.L. 480. The denouement will last for 10 to 20 years. But it should begin at once.

Congress is virtually certain to renew the P.L. 480 program this year. The major bill before the Senate--Senator Herman Talmadge's--extends the program in essentially its present form for five years. Several members of Congress will also try to link food aid more closely to agricultural and nutritional development abroad.

But these reforms do not consider the lasting purposes and conflicts of the program. Congress's first priority should have to do, I think, with the domestic organization of P.L. 480. In the period between now and, say, 1990, several very poor countries will continue

to need food aid, particularly in their intermittent food crises. P.L. 480 procedures should be reformed so as to work better in such emergencies. Yet U.S. policy should try, eventually, to end the program. For P.L. 480 will continue to present serious problems "both to those who give and those who receive."

Congress itself should undertake an examination of P.L. 480, at least as thorough and thoughtful as the study that Senator Humphrey pursued in 1957. P.L. 480 financing should not be extended for a period of longer than one or two years until such a review has taken place. There should be more information required about P.L. 480 and its different roles. One of the reasons for the food-aid fiasco of 1973-74 was that people concerned about humanitarian questions--church groups and others--did not find out what was happening until the worst was almost over. The Public Law 480 annual report, for example, is nearly inaccessible to most people and is published as much as two years after the events it describes. This document should be on sale in every United States Government bookstore. Short quarterly reports should also be widely distributed.

The procedure for deciding who gets food aid should be changed. The P.L. 480 apparatus, with its interagency committee, should eventually be moved from the Department of Agriculture to the State Department. This is not because one set of officials is likely to be more kindly or expeditious than the other. But the most important remaining functions of P.L. 480 will be humanitarian and political. The program should properly, therefore, belong to the foreign-assistance and foreign-policy bureaucracies.

It is likely that P.L. 480 will receive less public money as a purely humanitarian or foreign-policy program than in its former "multiple" incarnation. But the moment is apt, I

think, to drop the old conceit of helping everyone, Asians and Kansans at once. It is no bad think, in any case, for the P.L. 480 budget to dwindle slowly in the course of the 1980s.

There is perhaps no reason why the Department of Agriculture should be prevented from subsidizing grain sales to Morocco or should desist from its baking seminars in South Korea. But these activities should not in the future be either part of or the justification for a United States food-aid policy. Certainly, several agricultural communities--of rice growers, or in Oregon, where farmers grow white wheat for export to Asia--will deserve just treatment as the aid program diminishes.

The administrative change should also make P.L. 480 procedures slightly simpler, and therefore better able to cope with food emergencies. As the scope of food aid is reduced, too, the United States should expect that other rich countries will pay more of the costs of assistance to poor countries, while more American aid is distributed through multilateral organizations such as the United Nations.

The denouement of P.L. 480 will be without question enormously difficult. The different forces in P.L. 480 lie deep in United States political life and in the country's perception of itself. The P.L. 480 dilemma is part of a larger choice, of how the United States will act toward other countries while the economic order for which it was responsible comes to an end. The opportunity is to act justly and openly and with self-knowledge, as a new epoch begins.

[1988]

Box 2. How American Food Aid Keeps the Third World Hungry

The Food for Peace program, now in its 34th year, should be phased out. American food aid should be restricted to humanitarian relief for droughts or disasters. In place of Food for Peace, the U.S. Agency for International Development (AID) should promote policies that will give farmers in less developed countries incentives to produce more food to feed their own people.

American food aid, which meant to alleviate starvation, has made it more difficult for recipients to feed their peoples.

* A report by the AID Inspector General found that food aid "supported Government of Egypt policies which have a direct negative impact on domestic wheat production in Egypt."

* The August 25, 1982, Kansas City Times reported that the Peruvian agriculture minister begged the U.S. Department of Agriculture not to send his country any more rice, fearing that it would glut the local market and drive down prices. But the U.S. rice lobby turned up the heat on Washington and the Peruvian government was told that it could either take the rice or receive no food at all.

(The Food For Peace) Title II program provides direct donations of food for projects in Third World countries. Such projects are usually supervised or administered by private voluntary organizations.

* Much of the food donated under the Title II program is targeted for school food or health programs for mothers and children. A 1982 AID audit of targeted food assistance in India, the largest recipient of targeted food assistance under the program, concludes that "the maternal/child health program has not improved nutrition and the school feeding program has had no impact on increasing school enrollment or reducing the drop out rate."

* The General Accounting Office reported in 1987 that it had examined 22 operational plans by private voluntary organizations for 19 African countries and found that 14 did not include specific and measurable goals and criteria for measuring implementation progress, 15 lacked adequate discussions of marketing and evaluation systems for ensuring a accountability and assessing program benefits, 12 lacked adequate explanations of how programs would be phased over to local institutions and 16 lacked adequate financial information."

The Food For Peace Program is costly and wasteful. U.S. interest groups and corrupt officials in Third World countries too often benefit at the cost of starving people.

* The 1985 farm bill requires that at least 75 percent of all donated commodities be shipped on U.S.-owned carrier vessels. This provides a windfall to the U.S. Merchant Marine. It costs five times more to ship emergency food aid to Zambia in an American merchant ship than on a competing foreign ship.

Source: Abstracted from James Bovard, "How American Food Aid Keeps The Third World Hungry" The Heritage Foundation Backgrounder (Washington, D.C.: The Heritage Foundation, August 1, 1988).

[1989]

Box 3. Food Aid and Industrialization in Korea

The role played by foreign economic aid in the growth and development of the South Korean economy during the period 1945-75 has been broadly subject to at least two distinct interpretations. In both of these interpretations--the Harvard School theory and the Theory of the State approach--it is recognised that foreign aid did contribute to the economic growth and development of the South Korean economy.

Both the theory of the state and the Harvard view of Korean development make little distinction in terms of the nature, type and kind of foreign aid given to this economy. Food aid or commodity aid having contributed at least one third of total economic aid, and possibly as much as one half of economic aid, is not given special attention or consideration in terms of its potential role in the development of the Korean economy.

South Korea is among a small number of developing countries which over a long and continuous period of time have received large, regular volumes of programme commodity aid. Programme commodity aid made a major contribution to the South Korean development experience by providing foreign exchange and import savings. In addition to this contribution, counterpart revenues generated by the sales of commodity aid financed government expenditure on administrative, military and social infrastructure aspects of the government budget. If these types of expenditure, in the absence of commodity aid, would have been made in any case the source for these revenues would in turn have adversely affected savings and investment and thus growth potential.

In line with classical economic thinking the supply of commodities, particularly the wage good, allows one adverse factor--the prospect of inflation--to be mitigated. In the early period of economic development which focuses on industrialisation, the shortage of the food supply or raw materials from the agricultural sector can result in the wage cost inflation which ultimately chokes off the growth process. The regular supply of food allowed, in the case of South Korea, an assuredness of the wage good during a critical period when investment was rising and the prospects for future export growth of manufactures were becoming realised. Had food aid not supplemented the wage good it would have been highly improbable that domestic agriculture would have filled the food supply gap.

Nearly one third of United States commodity and general aid was destined to go to the textile sector in South Korea. While the textile manufacturing sector contributed to Korean exports from the early 1950s it was not until the 1960s that textile exports became the leading sector in the economic miracle of Korean development and export growth. The supply of raw materials for the cotton industry under PL480 and USAID programmes in such quantity, and at virtually the status of a gift, combined with low wage costs ensured beyond doubt the competitive advantage and growth potential for this sector of exports. Given the importance of textiles in terms of the 'learning experience' in the process of industrialisation and its large share of export growth during the 1960s, commodity aid may warrant a role and a recognition of its unique contribution to the South Korean industrialisation experience which has hitherto gone unrecognised and unacknowledged.

Systematic analysis of the effects of food aid on South Korean agriculture is hard to come by. Much of the evidence of the adverse effects on Korean agriculture is anecdotal

at best and at worst sensational journalese that does not bear close scrutiny. It is not in dispute that the Korean government favoured urban workers with a cheap food policy but the detrimental effects on South Korean agriculture have yet to be clearly established and empirically shown. Food aid did contribute to increases in agricultural production through PL480 Title II land reclamation policy.

It is paradoxical that the surplus commodities which have resulted from policies of agricultural protection in a rich country such as the United States of America should be given as grants to developing countries such as South Korea who, in turn, process these into textile goods that reduce the industrial textile capacity in the United States itself. It is even more bizarre that the United States, having encouraged the growth of textile exports from Korea in the 1960s through commodity aid as an industrial raw material for the textile industry, should reverse this policy in the 1970s by discouraging textile imports into the United States offering as a quid pro quo for voluntary export restraint more food aid.

Source: Abstracted from John Cathie, Food Aid and Industrialization: The Development of the South Korean Economy (Brookfield, VT: Gower Publishing Company, 1989), pp. 176-195.

Part IV -- Evaluating Food Aid Experience

By the late 1970s, efforts to evaluate food aid had become so large that attempts were made to bring order and coherence out of the proliferating body of literature. This section includes articles which focus on food for work programs, the disincentive effects of food aid, and the overall effects on economic development.

In a 1964 article, "Development Through Food Grants and Concessional Sales," Lawrence W. Witt reviewed the food aid programs in Israel, Colombia, Pakistan and Tunisia. He was particularly enthusiastic about the success of the "food-for-wages" program in Tunisia. By the mid-1980s it was possible for Edward Clay, in "Rural Public Works and Food for Work" to make a much more comprehensive evaluation. He concludes that some labor-intensive food for work programs had made significant contributions to the development of local infrastructure in South Asia but that similar programs did not have a good record in sub-Saharan Africa. In general, use of food aid as payment in kind was less satisfactory in rural works projects than the use of local currency generated by food aid sales.

Paul J. Isenman and Hans W. Singer conducted an exceedingly thorough evaluation of "Food Aid Disincentive Effects" (1977). They were highly critical of some of the inconsistent arguments by the populist food aid critics. It was difficult to hold that food aid has had a pervasive negative effect on agricultural production. A decade later, Simon Maxwell again evaluated the disincentive literature in "The Disincentive Effect of Food Aid" (1990). He presented a more analytical complete method for evaluating disincentive effects and showed how the method could be used in the designing of food aid programs even when data is limited.

In "The Evaluation of Food Aid: Toward a Development Regime" (1984), Raymond F. Hopkins traces the past World Food Conference (1974) trend in food aid programming "from surplus disposal to development first." He argues that food aid must be administered to retain its developed country agricultural constituency. He argues that four principles should guide "development first" food aid regimes: (a) linkage of food aid to agricultural policy reform; (b) encouragement of food aid as a substitute for commercial imports; (c) use of long term, but flexible, food aid commitments; and (d) a stronger emphasis on human capital formation in direct feeding programs.

Vernon W. Ruttan

[1964]

Chapter 9

Development through Food Grants and Concessional Sales

Lawrence W. Witt

Introduction

International capital transfers through public aid play an important role in financing development programs in less developed nations. A 1962 report states that "in the past three years aid amounted to 25-30 per cent of investment in the less-developed countries of the non-communist world and to about 20 per cent of their export earnings."[1] The United States has been a major contributor of aid to the less developed nations; the combination of a relatively large per cent of GNP and the sheer magnitude of the United States economy makes the absolute amount of aid large compared to any country. Substantial amounts of farm products have been shipped abroad under special government programs, to add 25 to 30 per cent to United States economic aid. Such shipments, now mostly under Public Law 480 (a United States law authorizing the shipment of surplus farm products abroad under several noncommercial arrangements) total about $2 billion annually at Commodity Credit Corporation costs, or a little over $1.5 billion at imputed export market values.[2] The magnitude of this United States public aid in farm products calls for a better understanding of the circumstances under which such aid can contribute to development.

Concessional sales and grants (donations) are made under special agreements between the United States and each recipient country. These arrangements are outside the

normal financing of international trade. Under the major provision of Public Law 480, the United States Government receives deposits of soft currency in the recipient country in exchange for shipments of farm products (primarily wheat and cotton, but also feed grains, rice, nonfat dry milk, and tobacco). Under other provisions, grants of food are made to governments as aid in times of disaster, for designated development projects, and for school lunch programs. Substantial donations are made to religious and international welfare agencies for direct feeding programs. Also, long-term dollar loans to purchase food are included.

The program's popularity with congressional and lay audiences and its likely continuance makes a careful evaluation necessary. It has been referred to as a marriage of convenience, since, in fact, the shipment of surpluses may make it appear less necessary to revamp domestic farm policies in the United States. Domestic policy and internal pressures indicate an increase in the amount and proportion of farm products in foreign aid.[3]

The importance of "food for development" or "surplus farm product disposals" (the term used depending upon the view of the speaker) has grown significantly, and not only in United States policy. The original "temporary" three-year program passed in 1954 totaled $1 billion, and was expected to dispose of current surpluses, after which the program would stop. Instead, annual surpluses became larger, an additional $800 million was authorized thirteen months after the law was first passed, and within a year another $1.7 billion had been added. While still calling it a temporary program, Congress has budgeted the program through calendar year 1964, for shipments which may be made as late as 1965 and 1966. The average appropriation is now $1.8 billion annually.[4] Moreover, other nations are

beginning to participate in comparable export programs. A new World Food Program has been inaugurated under United Nations auspices, as partial implementation of the FAO Freedom from Hunger campaign. Some forty nations have pledged food, services, or cash to this new program.[5] Furthermore, the plans of the European Economic Community (European Common Market) clearly call for disposal of agricultural surpluses through commodity aid to less developed nations.[6] Thus, there is reason to believe that increasing amounts of farm products will be available to the less developed nations during the decade of the sixties, though not necessarily a proportionately larger fraction of public foreign aid. It is, therefore, especially important to understand the accomplishments and limitations of the United States Public Law 480 program during its first ten years of operation.

A Few Terms Defined

Public Law 480 is also known as the Agricultural Trade Development and Assistance Act of 1954. It authorizes the United States Department of Agriculture to dispose of surplus farm products outside the usual market channels, both at home and abroad. It has been modified and amended a number of times. Public Law 480 also is referred to as the Food for Peace program.

Title I is one section of Public Law 480. It authorizes the sale of surpluses abroad in exchange for currency of the recipient nation. Under terms of the agreement, virtually all of this currency must be accumulated and spent within the recipient country.

Title II of Public Law 480, authorizes grants to foreign governments to assist in times of natural disasters--floods, droughts, earthquakes. A 1960 amendment provides that food may be donated as partial wages for labor-intensive economic development projects.

Title III has three subsections or programs. One provides for surplus disposal within the United States. A second authorizes donations to religious and international organizations to feed the needy overseas, primarily through schools, orphanages, and so forth. The third authorization is for barter programs--defined separately below.

Title IV authorizes long-term credit sales of surplus farm products to foreign governments, to be repaid in dollars, over a ten-year period. They are concessional sales since the interest charge is less than the usual rate.

Local currency refers to the pesos, rupees, or other currency paid to the United States Embassy for farm products received under Title I. It is similar to the counterpart funds developed in Europe through the Marshall Plan.

Additionality refers to the requirement of Public Law 480 that Title I imports should be in addition to a country's commercial imports.

Barter, under Title II, is a procedure by which the United States Department of Agriculture exchanges surplus farm products for materials used in United States foreign aid and other programs, or for storable, nonfarm products (such as minerals) which are stockpiled. The farm products are exported by the private trade; the products received may be of domestic origin but usually are of foreign origin.

The Rationale for Public Law 480

The political and economic forces which led to the development of Public Law 480 stem from the price support and surplus accumulation aspects of United States agricultural policies; but similar policies are found in most of Europe and in certain less developed countries. A concern for nutrition and a sense of humanitarianism are also involved.

The reconstruction of Europe after World War II required substantial amounts of food imports. As European agriculture recovered, United States farm exports declined and stocks accumulated in government hands, under the minimum price guarantees. Farm groups, and farm state congressmen, who held seniority positions in many committees, sought ways to offset the decline in exports and to postpone agricultural policy readjustments. An early step was the more liberal provision of food gifts to church-related organizations, CARE, and UNICEF, for local distribution to indigent people in other countries. Also several special bills were passed to donate or loan agricultural surpluses to nations suffering from natural disaster--India, Pakistan, and Afghanistan.

Meanwhile, as early as 1949, the FAO (UN Food and Agriculture Organization) gave special attention to certain commodities in world agricultural trade for which effective demand appeared inadequate. By 1953, the FAO was stressing that the foremost means of absorbing excess supplies were courageous policies for increasing consumption. Three methods of using surpluses were advanced--two old and one new. The old and familiar methods were improving nutrition, mostly through direct feeding, and meeting famine and near-famine conditions caused by crop failure. The new proposal was to use surpluses to aid economic development. The FAO staff was asked to undertake pilot field surveys in countries which were possible recipients of surplus farm products.

One such survey was made in Egypt in August, 1954. Another was made in India--a country with a large potential for using surpluses in economic development--under the leadership of M. Ezekiel. This study laid the theoretical groundwork for facilitating development through capital transfers of surplus farm products.[7] This FAO pilot study was

published one year after Public Law 480 was passed, as Public Law 480 shipments--emphasizing disposal not development--were increasing in momentum, and as it was becoming evident that United States farm surpluses and Public Law 480 shipments were more than temporary phenomena. The FAO study has helped to legitimize food aid for economic development and has provided an additional justification for continuing the program. From the standpoint of the United States, Public Law 480 has two major objectives: reducing surpluses and assisting in economic development abroad; and several minor objectives; improving the health and nutrition of disadvantaged groups, advancing foreign policy interests, and changing market and diet patterns to benefit future commercial exports from the United States. An important step in fulfilling the major objectives would be surplus shipments tagged for economic development projects.

The views of many economists in government and academic positions towards the original Public Law 480 program were mostly negative,[8] along the following lines. Developing nations need to industrialize; hence, their primary import needs are for machine tools and capital equipment, rather than for farm products. Many developing nations also need an improved agriculture for local production and export, but concessional sales of farm products would be detrimental to agricultural prices in the recipient country (and to prices received by other exporting nations);

hence, Public Law 480 was condemned as imposing the United States farm problem upon the rest of the world. Surely Public Law 480 would worsen United States foreign relations.

The FAO pilot study in India pointed out that commodity aid might lead to capital formation by using underemployed labor to build roads, schools, and other facilities. Since

farm products constituted at least half of the consumption goods of such rural workers, the report suggested that as much as half of the cost of certain projects might be met by farm products, and a fourth or more from imported surplus agricultural commodities such as wheat, cotton, and dried skim milk.[9] A foreign exchange gap frequently occurs early in the development process, sometimes coinciding with a food gap since agricultural output is sluggish; Public Law 480 supplies can close up the food gap and the foreign exchange gap. These ideas stimulated a new defense or rationalization for Public Law 480; but because this seemed so much like a marriage of convenience, many observers remained suspicious. There is ground for skepticism since some defenders of the program overstate their case; at the same time, the attacks on the program often fail to recognize the possible benefits of the program.

The remainder of this paper will point out some of the difficulties and the possible contributions of farm products as external aid. It will be necessary to differentiate, also, between the intended program operations and the actual operations, since empirical evidence indicates that the programs in some countries are far more successful than they would have been with strict adherence to the established program. Adjustments by the recipient country, unintended so far as the sending nation is concerned, have added to the value of Public Law 480 imports.

The Mechanics of Negotiating and Executing Public Law 480 Contracts

Some clarification of Title I Public Law 480 operations is required before examining its impact upon receiving nations. A request for commodity aid is made by a prospective recipient country. The reasons for the request and the information which led to a formal

request may have involved a variety of interactions between Embassy and technical assistance personnel of both countries. After evaluation and negotiation, an agreement is signed for an approximate amount of several commodities and estimated total export values. The agreement also designates uses for the local currency, the exchange rate applicable, sometimes the local price to be charged, arrangements if imports lead to exports, and other provisions.

Specific arrangements are made between exporters and importers. The exporter generally is a private United States export firm; the importer may be a private trader in the recipient country or a government agency charged with responsibility for importing certain commodities. In any case, financial and other arrangements must be made with both governments. The United States Government pays dollars to the exporter as he ships designated quantities of commodities; thus, tax dollars pay for commodity exports. The receiving government collects local currency from the importer as the commodities are imported and sold in the local distribution system. These currencies are paid by the receiving government to the United States government--the United States Embassy in the receiving country. The way in which these local currency deposits are finally liquidated determines whether the farm products have been a loan, gift, or partial gift of the United States economy to the recipient economy.

All United States firms--farmers, market agencies, etc.--are paid dollars for Public Law 480 products just as in commercial sales transactions. In the importing country, importers, processors, and consumers purchase Public Law 480 products by paying for them in local currency just the same as if the commodity were locally produced and sold in the

processing and retail marketing channels. Food aid under Title I, part of Title II, and Title IV, is not a gift to consumers, nor a gift by producers.[10] Title I wheat (or other commodity) is indistinguishable from other wheat, so far as the consumer is concerned; he pays the market price for his purchases. Therefore, the Title I sales agreement essentially is a government to government loan or grant. To the extent that a proportion of local currency is actually used by the United States Government, this amount is a prepayment in farm products of future United States expenditures in the recipient countries, expenditures which otherwise would have been paid in dollars. To understand the developmental impact of the program, and other effects, it is necessary to examine two items. One of these is the recipient country's use of the local currency designated for loan or grant within the country. The other is the change which has occurred in other economic activities because of the receipt of Public Law 480 commodities. We shall examine these issues in a review of specific country programs, and then attempt a general review and appraisal.

Impact of Public Law 480 on Recipient Countries

Most of the appraisals of Public Law 480 programs, until recently, can be roughly divided into two groups. One approach is qualitative and theoretical, either arriving at negative conclusions via international trade theory, or exploring the conceptual potential of food in development planning. The second approach, often used by those closely connected with the administration of the program, presents arguments for the program without adequate conceptual foundations.[11] However, there are now a number of empirical studies by local and/or international observers in specific countries.[12] These studies come to different conclusions, and indicate that Public Law 480 shipments have a wide range of

possible impacts depending upon the policies of the recipient country, the effectiveness of the program administration in both the sending and the receiving country, and the relative strength and potential of the agricultural-food sectors of the recipient economy.

Let us turn now to some of the evidence and experience with Public Law 480 in specific countries.

Israel

Israel is the largest recipient of Public Law 480 commodities on a per capita basis--about $81 per person for the 1954-1961 period compared with about $25 for Yugoslavia, the second largest recipient nation. During the 1950s, Israel had a rapidly expanding economy. Population doubled, mainly because of immigration. Gifts from abroad made substantial contributions to capital formation. The balance of Payments for the decade indicates that about a third of the total receipts were earned from exports, while nearly half came from grants and other unrequited transfers. Prior to Public Law 480, Israel was surfeited with shortages, rationing, careful husbandry of its foreign exchange, and other controls to keep inflationary forces in check. The situation was one in which food imports were easily absorbed.

The impact of Public Law 480 imports on internal agricultural production, surprisingly, was to stimulate rather than discourage agricultural production.[13] There were two reasons for this. First, Israeli authorities were willing to decontrol many food prices and to remove rationing controls, since additional imports were forthcoming in sufficient amounts to prevent serious inflation. Legal prices rose modestly while black market prices fell precipitously; since nearly all local farm production was paid for at legal prices, the net

result was more favorable farm prices. Second, imports of feed grain provided the basis for a substantial expansion in livestock production, particularly in poultry, both for domestic and export use. Grain supplies were no longer closely rationed; inventories increased and provided a secure base for larger livestock numbers.

Consumers were able to increase the quantity of food and variety of their diets because of Public Law 480 imports. While the Israeli government had followed a policy of making available ample supplies of bread, many other products were in short supply and were rationed before Public Law 480 contracts. Feed grain imports under Public Law 480 provided more dairy and poultry products domestically; imports of dried milk, fats and oils, and minor amounts of other products also added variety. It is estimated that consumption increased by four to five per cent for 1958-1960 over 1954, with a substantially greater increase for meat and eggs and decreases for cereals and fish.

Internal development programs were expanded by an increase in development loans, many of which utilized excess capacity in the building industry as well as unemployed workers. The government authorized additional development projects because the additional imports reduced the threat of internal inflation and enhanced the ability of the economy to absorb the additional purchasing power. The loans actually financed by Public Law 480 local currency did not draw heavily on imports; however, the Ginor report indicates that the true additional projects, in fact, did draw more heavily on imports.[14] This was made possible by changes in the import patterns, to which we now turn.

In theory, Public Law 480 sales are additional to "usual commercial imports from the United States"; since 1958, this provision applies to all commercial imports, except those

from the Communist bloc. The Ginor report, however, indicates that Public Law 480 Title I imports did substitute for commercial imports. It is estimated that only 31 per cent of the Public Law 480 Title I imports were additional.[15] To some extent, however, Public Law 480 imports from the United States substituted for imports no longer available from Turkey and Argentina. Public Law 480 imports also replaced imports from Bulgaria and the U.S.S.R. Thus, diversion of commercial trade is closer to 50 than to 70 per cent, since together these four countries provided about 15 per cent of imports in 1950-1954, barely 5 per cent in 1955-1960, and nothing in 1960. On the other hand, commercial imports of feed grains, soybeans, and certain other non-Public Law 480 farm products increased, partly as a result of the increased domestic demand, no longer held back by rationing, and partly because of additional development projects. Also, some exports of poultry products swelled the export earnings.

Whatever the reason, the reduction in commercial purchases of the thirteen Title I commodities, but mostly wheat and feed grains, made possible an increased commercial purchase of other imports; part of these provided the import component of the expanded Israeli development program. The rest went for a variety of purposes, including increased reserves of foreign currency.

This review of Public Law 480 in Israel indicates that the program made a significant contribution to Israeli development. In fact, Kahn concludes that for Israel Title I aid "has been almost as good as free dollars."[16] However, part of this favorable report is due to the program in practice being different from the program in theory. The diversion in commercial trade of agricultural export countries is less favorable to these nations, but even

here a larger GNP in Israel as a result of increased development may provide long-term gains for export countries to offset short-term losses. Israeli programs for domestic agriculture insulated the farmers from import competition and, through feed grain imports, provided new opportunities.

Colombia

Let us turn more briefly to Colombia, recipient of much smaller quantities both in the aggregate and on a per capita basis. Between 1955 and 1961, some $53 million of Title I and $26 million of Title III commodities were received.[17] Most of the Public Law 480 imports were received after 1957, when export earnings were falling following the decline in world coffee prices. Despite this, and with a relatively small amount of overall planning, Colombia was able to maintain economic growth, though very small in several years.[18] The major products imported under Title I of Public Law 480 were wheat, cotton, and edible oils; under Title II, wheat and nonfat dry skim milk were the major items.

Internal production of cotton was stimulated, despite the import programs, through a special semi-official agency, partly by price guarantees, mostly through technical assistance, to such an extent that Colombia became a cotton exporter.[19] On the other hand, wheat prices lagged behind other prices, production was more or less constant despite varietal improvements, and some wheat farmers apparently shifted to barley and dairy production in efforts to maintain or increase their income.[20] Both concessional and commercial imports of edible oils expanded, but prices advanced more rapidly than the general price level. Internal production expanded slowly, and without much technical and marketing assistance.

Consumption levels increased slightly for wheat, cotton, and edible oils. There is some evidence that consumption would have dropped without the program, since lower foreign exchange earnings would have forced a curtailment of imports, and internal shortages might have appeared, particularly for wheat. The accumulation of local currency increased the number and volume of development projects related to agriculture, perhaps at the expense of greater internal inflationary pressures.[21]

There also are indications of trade diversions in Colombia's farm imports. Colombia purchased commercially the agreed-upon volume of cotton, wheat, and edible oils. A comparison of 1950-1954 purchases with 1955-1960 purchases, however, shows a mixed pattern.[22] There were smaller purchases of wheat from Canada as United States-supplied Title I shipments came into Colombia. Cotton imports disappeared as local production expanded. Edible oil imports increased in both commercial and concessional categories. An appraisal of how Public Law 480 imports affected the external assistance for development must be conjectural, but it appears that concessional wheat imports forestalled a greater pressure on foreign exchange earnings, kept bread price increases within modest limits, and aided the Colombian Government in refraining from expansion of its comparatively high-cost wheat industry.

Thus, the Public Law 480 program has had mixed effects upon individual farmers. National policy insulated some producers from adverse income effects, and left others exposed to lagging prices so that potential income gains through improved crop varieties were neutralized. Development both in agriculture and in industry probably was enhanced as Title I imports softened the effect of declining incomes from coffee exports. The

eventual value to the United States of local currency sales in Colombia probably is higher than in Israel and in many other recipient nations. More of the pesos are utilized for normal United States government expenditures; the remainder are scheduled for eventual repayment to the United States. However, the dollar value of Colombian pesos is depreciating more rapidly than the value of the Israeli pound.

Pakistan

During the 1950s, Pakistan changed from an exporter of grain products into a substantial importer, much of it on a concessional basis. Between 1955 and 1962, about $475 million of commodities were exported to Pakistan under Title I, in one of the three largest national programs. The Pakistan government, through deficit financing, had pushed the economy beyond its resource base. Food grain aid between 1955 and 1958 amounted to nearly 50 per cent of economic and technical aid to Pakistan from all sources.[23] Impending inflation and food shortages were alleviated by concessional grain imports, primarily from the United States and Canada, and by commercial imports from Thailand (rice), Mainland China (rice through barter), Australia (wheat), and other countries. The amount of land devoted to wheat and rice has increased slightly while yields have been static. Prices for grains have been less than import costs in rupees, but have averaged about the same as the general price level. Food grains, of course, are a principal item of consumer expenditure, and the Government is interested in keeping such prices from advancing.

It is difficult to judge what Pakistani agricultural policies would have been in the absence of concessional sales programs. Moreover, Pakistan has received concessional grain

for several years from Canada, the U.S.S.R. and the United States, prior to Public Law 480, and might have obtained more in the absence of Public Law 480. Without food aid it is likely that major changes in Pakistani policies, perhaps including an earlier or more drastic change in government, would have been necessary to cope with the food problem. In short, Pakistan has imported and consumed substantial quantities of food grains, but with little evidence either of an accelerated development program or of an improvement in domestic agriculture as a direct consequence of Public Law 480 shipments. There are indications that levels of consumption were larger because of the program.

India

While Israel has the largest Public Law 480 program on a per capita basis, India has received the largest total volume, $1,363 million of farm commodities from 1954 through 1962, or nearly 25 per cent of total Title I shipments. The effect of these shipments upon the Indian economy and economic development can be examined within the framework of the three Five-Year Development Plans.

The First Plan in 1951 devoted major attention to investments and services to stimulate an increase in agricultural output, recognizing that three-fourths of the people were dependent upon agriculture. Technical assistance and favorable weather enabled the major goals to be met, or nearly met. Food grain output increased 22 per cent instead of the anticipated 14 per cent.

The Second Plan in 1956 gave less emphasis to agriculture and much more to heavy industry. In part, the authors of the plan believed that agricultural expansion was well under way; in part, they wished to put more emphasis on import-replacing industries, since exports

had been static during the First Plan. In any case, three events brought India a foreign exchange gap. Small crop years led to food imports, underestimated capital equipment requirements expanded industrial imports, and an unexpectedly large population growth increased the demand for imports. All three placed added burdens upon foreign exchange balances. Two Title I agreements, in 1956 and 1958, and a sharp curtailment in capital goods imports enabled India to pursue the Second Plan without a major disaster.

The Third Plan, in 1961, attempted to take account of the increased rate of population growth. In formulating the Plan, India asked for and received a four-year Title I Agreement. This enabled the Third Plan to schedule continued investments in industrialization with a fair assurance of adequate food supplies. Even with this $1.2 billion agreement, the Third Plan placed more emphasis on agriculture than did the second.

With this brief resume, let us turn to some appraisals of the Indian program. We mentioned that an early FAO report[24] was optimistic about the uses of agricultural surpluses for development. S. R. Sen[25] indicates that Public Law 480 shipments were meshed operationally into India's development program. Crawford[26] introduces a critical note. While making a strong case for Public Law 480 shipments as a contribution to Indian development, he also points out that India's commercial purchases of food grains were substantially reduced. He suggests that India would have developed somewhat more rapidly had she been able to receive more dollars and less commodity aid. In fact, he suggests that the size of the 1960 four-year Public Law 480 Agreement required some transfer of Indian resources from industrial and agricultural development to marketing and storage facilities to handle the increased commodity aid. Finally, Khatkhate[27] indicates that the deflationary

monetary effect of Public Law 480 shipments was neutralized by increased government debt (and a larger development program) and suggested that the monetary impact of the subsequent spending of accumulated rupees could also be offset by debt management.

These reports indicate that the 1956 and 1958 agreements provided needed consumption goods and partially aided in fulfilling the major goals of the Second Plan. The 1960 Public Law 480 agreement was carefully integrated into the Third Plan and into monetary and fiscal policies. Per capita food consumption increased slightly as a result of commodity aid. A reduction in commercial imports enabled India to stretch its foreign exchange earnings. The fears of some analysts about the detrimental effects on Indian agriculture[28] notwithstanding, these reports do not indicate a serious problem. Nonetheless, it is still appropriate to ask whether the agricultural investment priorities of the Third Plan would have been even higher without Public Law 480.

Food for Wages: The Tunisian Experience

An unusual Title II program in Tunisia has become a pilot or model for using surplus food in a food-for-wages program. (Most Title II programs are natural disaster or famine relief operations.) In Tunisia certain labor-intensive, locally administered capital creating projects are carried on with previously unemployed or underemployed workers through wage payments in food and cash. Similar projects are in operation in about ten other countries. Moreover, some recent United Nations-sponsored programs are drawing on the experience. Let us examine the program more closely.

A grant of United States wheat to Tunisia in 1958 was used "to carry out worthwhile work relief projects having economic value, mainly in the agricultural field."[29] By April 30,

1958, a total of 184 projects averaging two months duration had been selected by the governors of the provinces and approved by the central government. The governors provided straw bosses for each twenty to twenty-five men and a foreman or project director for each 100 men. Since Tunisia is basically an agricultural country, with water shortages in the center and south, most of the projects were related to water conservation, removal of undesirable shrubs, tree planting, road repair, and firebreaks.

The early program consisted of a daily wage of four kilos of American hard red winter wheat supplied under Title II of Public Law 480 and 100 milliemes in cash supplied by the Tunisian government. This wage amounted to about 71 cents per day, with about one-third paid in cash and the remainder in wheat. This payment was equal to the basic wage in rural areas. Since the Tunisian national dish, "couscous," was made best from durum wheat, which was ground into a coarse meal called semolina, the American hard winter wheat was unsuitable for direct use by the Tunisian peasant. Therefore, approval was secured to permit the exchange of American hard winter wheat on a local value basis for semolina which was made from local durum wheat. The ratio of semolina to cash was changed several times, and in January, 1960, the workers were paid a daily wage of 68 cents of which two-thirds was in cash.

The program employed some 50,000-70,000 unemployed rural workers on a ten-to fifteen-day rotation basis, equivalent to about 25,000 workers full-time, until November 1959. Since then, workers have been employed on a full-time, forty-eight-hour week and their numbers had been increased to 120,000 by July 1, 1960, and to nearly 200,000 by November, 1961.

The program was evaluated as extremely successful by the Tunisians. Some of the features accounting for the success of the experience according to ICA[30] administrators were local planning of projects, governors of good administrative ability, and the fact that local projects were tied into the Office of the Presidency through a work relief administrator. This suggests that the quality of local planning and administration are extremely important variables in a food-for-wages program.

Other Provisions of Public Law 480

Since 75 to 80 per cent of United States commodity aid has been sent abroad through Title I agreements, the above discussion has concentrated on Title I programs, with a single example of one type of Title II program in Tunisia. Other Title II, Title III, and Title IV programs are integral parts of Public Law 480.

Most Title II and Title III donations are distributed outside usual international and domestic market channels to provide more nutritious meals than would otherwise be available. If the program has an economic development impact, it is in the greater human energy and output of participants. Both Leibenstein and a United Nations report recognize this possibility.[31]

The only way in which Title III barter programs would stimulate development is through the additional purchase of minerals or other commodities which the United States would stockpile. The stimulus, if any, comes from the United States decision to purchase, and not from the sale or use of farm products.

Title IV perhaps could be examined in a developmental framework. However, since the farm aid subsequently is repaid to the United States in dollars, the transaction comes

closer to being a sales program with a price discount, to the extent that interest charges are less than usual international rates.

Thus, the major effect on economic development comes from Title I and one provision of the Title II programs. There are a number of complex and subtle issues which come out of these experiences. Let us review these in light of the country experiences.

Development and International Policy Issues

The effects of Public Law 480 programs in five countries have been reviewed to show the importance of internal policies and individual country differences. Many factors can affect the results of the program in the recipient country. Public Law 480 supplies can advance the development program, can help maintain such a program in adverse circumstances, or can flow primarily into channels which enhance human welfare, such as increased per capita consumption. In short, Public Law 480, like other foreign aid programs, must be reviewed against the broad pattern of economic, political and social variables of the individual country. Either a sweeping attack on the program or a comprehensive defense will miss the mark. There are too many individual exceptions.

In economic terms, commodity aid allows for the expansion of spending on either consumer or investment goods. Commodity aid may expand investments and development efforts through the employment of unused resources--mainly underemployed labor. Moreover, the sale of Public Law 480 commodities in local channels will absorb the purchasing power created through the expanded investment and development program. For example, consumers exchange local currency for the commodities, and as the local currency is withdrawn from the economy, excessive inflationary pressures can be avoided. If the local

currency is subsequently spent by the government, it may have an inflationary effect; it does not, as some would argue, make a second contribution to development. Such double counting implies that the bank accounts of local currency are an additional developmental resource; actually they only represent a possible future claim against the developing nation's resources.

The issue of most concern to policy makers is the effect which commodity imports may have on domestic production in the recipient country. On this issue the evidence is mixed. Fisher[32] has recently pointed out that domestic programs can be developed at small cost to offset the unfavorable price effects of additional imports. Economic circumstances in Israel provided more favorable farm prices after Public Law 480 began to operate. In Colombia an aggressive cotton expansion program more than offset the price effects of Public Law 480 cotton imports, whereas the Colombian wheat producer was not protected. In Pakistan, food grain production did not expand. Prices paid to local producers usually were less than the cost of imported supplies, with the government paying a subsidy on imports to keep consumer prices from rising "too fast." In India, the major point evident in studies to date is that Public Law 480 may have helped prevent an even stronger effort to expand Indian agriculture in the Third Five-Year Plan. Finally, it should be emphasized that price alone is an inadequate stimulus to agricultural production in an underdeveloped country. Other types of effort also are needed, such as credit, technical information, and market facilities.

Turning from domestic agriculture to international trade, another issue comes into view. Does Public Law 480 depress world prices and therefore the foreign exchange

earnings of agricultural exporting nations? The recipient country often is an exporter of products other than those received under Public Law 480. They, along with other export countries, compete with the United States for commercial markets. One must be careful here to differentiate among the Title III barter provision of Public Law 480, the other sections of Public Law 480, and the export subsidy program.[33] All are part of an aggressive United States farm export program, but the price effects of export subsidies are more important than the other two programs. With the use of export subsidies, the United States ceased to hold a price umbrella over the world market, but instead began to play the role of price leadership. Markets are to a large extent interrelated. If a recipient nation finds ways to cut its normal commercial imports, other exporters are affected.[34] A reduction in their export earnings, whether caused by United States export subsidies, by aggressive barter programs, or by trade diversion under Title I programs, does affect the development potential of less developed farm product exporting nations.

A related issue is the question of what prices underdeveloped countries would pay for surplus products were there free international markets and no concessional sales programs. It is argued that much lower international commodity prices would greatly reduce the foreign exchange costs of food imports,[35] but there is little reason to expect that internal political forces would permit such a deterioration in farm income and welfare of export nations. Concessional sales permit a large degree of price discrimination, which probably provides more food to developing nations and requires that importing developed nations pay higher prices than they would with less intervention in international trade.

Another unresolved question relates to an increase in food production in a world of rapid population growth. Is it less costly for developed nations to produce food surpluses and sell it on concessional terms, than for the less developed countries to reorganize their resources to expand farm production? If the food is to be produced in the less developed world, then costly programs to idle and transfer agricultural resources to other uses are required in the developed countries. Past experience indicates that developed countries do not easily curtail farm production, and that less developed countries do not easily expand agricultural production.

Next let us return to the local currency issue. This currency is sometimes viewed as nearly equivalent to additional dollar aid and sometimes viewed as a potential threat of inflation--a United States-held mortgage on the money supply. It may be "Foreign Money We Can't Spend" in the words of Mason,[36] but it may also be a useful source of financing, when there are internal institutional rigidities. Some of the local currency is used for regular United States government expenses, but this has little or no development impact. In some countries the local currency can serve no useful purpose, because the host country follows sound and sophisticated monetary and fiscal policies, creating money and credit as needed for expanded development programs. In such cases, local currency is an embarrassment to the United States government and serves no purpose. In between are cases where the local currency can expand the use of underemployed resources, shift the developmental priorities in a favorable (or unfavorable) direction, or provide increased financing for social reform or overhead capital formation, when the local government may be unable to act. In other words, there may be a way in which local currency can encourage

development, usually through supporting programs for which the local government is unwilling or unable to act. A clarification of the circumstances under which this may be true is warranted. If these funds are to be useful they must be viewed realistically as claims on the recipient country's resources. They are expendable funds and should not be budgeted and controlled as if they were dollars.

Finally, the use of food-for-wages programs can be a useful way to cut through institutional rigidities which prevent more normal programs from utilizing unemployed labor resources. The same effects as attained in the Tunisia experience could be obtained by employing these laborers, paying a cash wage, and expanding the volume of food available through private market channels. But this may not always be possible. Government fiscal authorities may resist additional spending for such projects, or the private trade channels may be incapable of substantial, rapid expansion. In such cases it may be far easier to establish a food-for-wages program, despite its cumbersomeness. In actual fact, this criterion is not dominant. Some of these programs are found in the more traditional, less monetized economies, but there are also programs in Brazil, Hong Kong, and Taiwan, economies which certainly are in a position to proceed by revisions of their overall economic plans.

In conclusion, let us briefly review the implications of Public Law 480 for United States farm policy.

United States Agricultural Policy and Public Law 480

The Public Law 480 program has persisted and grown, despite its origin as a temporary surplus disposal program in 1954. The economic events which supported this growth through increasing agricultural productivity are likely to be repeated in the 1960s in

other developed nations, such as the European Common Market nations and possibly Japan. Advances in agricultural technology, increases in efficiency at stable prices, farm consolidations, specialization, better management, and more capital all lead to increases in agricultural production; yet in these developed countries, income and price elasticities are low. Low demand elasticities combined with low downward supply elasticities result in lower farm prices and incomes. Political responses to agricultural pressures tend to provide prices high enough to continue this process. Government intervention to support agricultural prices piles up "surpluses," which gradually become sufficiently large to threaten internal policy.

In these circumstances, Public Law 480 became a "second best" solution. The concept is likely to be applied by other developed nations. Since Public Law 480 exports involve little additional expenditure of government funds, promise to reduce storage costs and losses, and contribute to humanitarian values, it is not surprising that they are politically appealing. Over time they tend to reduce the pressures for a change in farm policy, despite a widespread recognition that the agricultural sector is producing more goods than are needed. Fundamental restructuring of policies is difficult, and the proper solutions for United States agriculture are all the more complex because of the time required, the geographical variables, the large number of underemployed farmers, the political and social implications of large-scale rural to urban migration, and the slow rate of United States economic development.[37]

The growth of Public Law 480 shipments also has meant that little progress is made in pushing towards the policies which will better use the skills and capacities of those whose

lives will continue to be dedicated to agriculture, but who contribute more fully if used in other, nonfarm occupations. Public Law 480 thus represents a weakness of the American economy, not just a weakness of American agriculture.

In evaluating Public Law 480 one also must ask whether Public Law 480 authorizations compete with or are supplementary to foreign aid authorization. This issue cannot be resolved precisely, since it involves political judgments and political decisions. In the short run, Public Law 480 is supplementary. The dollars represented already have been spent on commodity purchases and stockpiling. Their shipment overseas is not a further drain on public funds; in fact, they may reduce storage expenditures. For the longer run, the problem is more difficult. If there were a gradual reduction in United States federal expenditures on agricultural programs from the present annual $6 to $7 billion to $2 or $3 billion, would some of these "not spent" federal dollars be available for foreign aid, for tax reduction, for domestic slum clearance, for internal development programs, or for a host of other items? The question is easy to pose, but difficult to answer.

Meanwhile, part of the excess capacity of American agriculture contributes to greater supplies of farm products abroad. They can and do contribute to development, but there are many limitations in their use. Better use of these food resources abroad demands clearer understanding of the development process, necessitates improved administration of programs by both the United States and recipient countries, and requires that commodity aid be skillfully integrated into a carefully constructed and effectively managed development program. Programs such as Public Law 480 still are convenient for the presently advanced nations. Continued technological advance in the developed countries indicates that these

countries may be able to expand food output and ship food at less resource cost than the less developed countries would require in providing their own sustenance. Unless there are significant agricultural advances in less developed nations in the near future, the rapidly expanding populations and lagging agriculture will require the extension of Public Law 480 and the introduction of similar programs by other nations and international agencies.

ENDNOTES

[1]P. N. Rosenstein-Rodan, "Determining the Need for and Planning the Use of External Resources," in Organization, Planning and Programming for Economic Development, Government Printing Office, Washington, D.C., 1962, p. 68.

[2]For a clarification of these figures, see E. L. Menzie, L. Witt, C. Eicher, and J. S. Hillman, "Policy for United States Agricultural Export Surplus Disposal," University of Arizona Agricultural Experiment Station Technical Bulletin 150, pp. 38-39, 1962. See also T. W. Schultz, "Value of Farm Surpluses to Underdeveloped Countries," Journal of Farm Economics, vol. 42, no. 5, pp. 1018-1030, December, 1960.

[3]See my article, "Trade and Agricultural Policy," in The Annals, pp. 1-7, September, 1960.

[4]For a review of government foreign trade programs preceding and leading to Public Law 480, see Karl Fox, Vernon Ruttan, and Lawrence Witt, "Farming, Farmers and Markets for Farm Goods," Supplementary Paper 1., Committee for Economic Development, New York, pp. 155-179, November, 1962.

[5]For plans and concepts behind this program, see FAO, "Development Through Food," Rome, 1961.

[6]See Agricultural Commodities and the European Common Market, FAO Commodity Policy Studies, no. 13, Rome, 1962, esp. pp. 24 and 25.

[7]Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries: A Pilot Study in India, FAO Commodity Policy Studies, no. 6, Rome, Italy, June, 1955. The supporting data for the FAO study are reported in V. M. Dandekar, Use of Food Surpluses for Economic Development, Gokale Institute of Politics and Development, Publication no. 33, Gokale, India, 1956.

[8]See, for example, Raymond Mikesell, "Agricultural Surpluses and Export Policy," The American Enterprise Association, Inc., Washington, February, 1958, and several articles by various authors in the Journal of Farm Economics, pp. 1108-1138, December, 1957.

[9]The commodity composition of Public Law 480 shipments is summarized in University of Arizona Experiment Station Technical Bulletin 150, p. 58.

[10]Most Title II and all Title III shipments, however, are a gift to the final consumer.

[11]An extended bibliography on Public Law 480 may be found in University of Arizona Experiment Station Technical Bulletin 150, pp. 104-111.

[12]A number of these studies--for Israel, Colombia, Japan, and Pakistan--are reported and evaluated in Lawrence Witt and Carl Eicher, "The effects of United States Agricultural Surplus Disposal Programs on Recipient Countries," Michigan State Experiment Station

Research Bulletin 2, 1964.

[13]See F. Ginor, "Analysis and Assessment of the Economic Effect of the U.S. Public Law 480 Title I Program in Israel," Bank of Israel, Tel-Aviv, October, 1961. See also A. E. Kahn, "Agricultural Aid and Economic Development: The Case of Israel," Quarterly Journal of Economics, vol. 76, pp. 568-591, November, 1962.

[14]Ginor, op. cit., pp. 48-49.

[15]Ibid., pp. 93-95.

[16]Kahn, op. cit., p. 591.

[17]Lawrence Witt and Richard Wheeler, "Effects of Public Law 480 Programs in Colombia: 1952-62," Medellin, Colombia, October, 1962, mimeographed, pp. 6 and 11.

[18]Ibid., pp. 22-24.

[19]Ibid., pp. 61-64.

[20]Ibid., pp. 73-75.

[21]T. J. Goering and L. W. Witt, United States Agricultural Surpluses in Colombia: A Review of Public Law 480, Michigan State Experiment Station Technical Bulletin 289, 1963, pp. 130-145.

[22]Ibid., pp. 35-38.

[23]United Nations Food and Agriculture Organization, A Note on the Utilization of Agricultural Surpluses for Economic Development in Pakistan, Economic Commission for Asia and the Far East, Bangkok, 1961.

[24]FAO, "Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries: A Pilot Study in India," Rome, 1955. .

[25]For a discussion of Indian Planning see S. R. Sen, The Strategy for Agricultural Development, Asian Publishing House, Bombay, India, 1962, Part II.

[26]J. G. Crawford, "Using Surpluses for Economic Development," in Proceedings of the International Conference of Agricultural Economists, London, 1963.

[27]D. R. Khatkhate, "Money Supply Impact of National Currency Counterpart of Foreign Aid: An Indian Case," The Review of Economics and Statistics, vol. 45, pp. 78-83, February, 1963.

[28]See T. W. Schultz, op. cit. For an Indian view see S. R. Sen, "Impact and Implications of Foreign Surplus Disposal on Underdeveloped Economies--The Indian Perspective," Journal

of Farm Economics, vol. 42, no. 5, pp. 1031-1042, December, 1960.

[29]ICA, Airgram, April 30, 1958.

[30]Now called AID or Agency for International Development.

[31]Harvey Leibenstein, "The Theory of Underemployment in Backward Economies," Journal of Political Economy, vol. 55, pp. 91-104, April, 1957. United Nations Food and Agricultural Organization, "Nutrition and Working Efficiency," Basic Study no. 5, Rome, 1962.

[32]Franklin M. Fisher, "Food Surplus Disposal, Price Effects and the Costs of Agricultural Policies in Underdeveloped Countries: A Theoretical Analysis," Report 6307, Econometric Institute, Netherlands School of Economics, 1963.

[33]See Karl Fox et. al., op. cit., pp. 166-168.

[34]Jerome Stam in an unpublished Michigan State University M.S. thesis points out that Title I sales reduced both Canadian and U.S. commercial sales to sixteen less developed countries, with the latter declining more rapidly. He also indicates that Canadian sales in 1954-1957 were smaller than in 1958-1960, when the barter rules were much tighter and the volume smaller.

[35]T. W. Schultz, op. cit., and my comments on his article in the same journal, pp. 1046-1051.

[36]See E. S. Mason, "Foreign Money We Can't Spend," The Atlantic Monthly, vol. 205, May, 1960.

[37]For further insight into these problems see Selection 12 by Dale Hathaway.

[1986]

Chapter 10

Rural Public Works and Food-for-Work: A Survey

Edward J. Clay

1. INTRODUCTION

Labor-intensive rural public works have been accorded an important role in the development process since the formative period of modern development theories and policies because they offer the opportunity to pursue simultaneously the objectives of employment creation and capital formation. A potentially important role for food aid in supporting public works was also identified early on. Since the 1960s and early 1970s a range of types of program has evolved, from relief works in emergency situations, through seasonal programs aimed at supplementing wage employment, to those which emphasize mainly the long-term creation of assets.

The main areas of the debate that emerge from this survey of the recent literature on public works are: How to ensure effective participation by those most in need; how to generate projects that combine employment potential for the unskilled in the right place at the right season with a socially useful end product; how to respond to the "leakage" of resources before they reach the intended beneficiaries; how to ensure that projects produce assets of an adequate standard and at a reasonable cost, the benefits of which are distributed to those most in need. A secondary and more recent concern had been whether there is a positive nutritional impact from wages in kind paid to participants in food-for-work projects.

When food aid commodities are used different problems arise. Is the idea of payment in kind acceptable to participants? What are the disincentive risks to local agriculture? How cost effective is it to transport and handle bulky supplies of a possibly unfamiliar staple? Analysts seeking answers to these questions are reevaluating the role of food aid and examining new ways to use the commodities, both in conjunction with financial and as a source of finance in themselves.

2. HISTORICAL BACKGROUND

Early writers on development theory, grappling with the need to generate employment and economic development in newly emerging economies placed great hopes in rural public works (Dandekar and Rath, 1970; Lewis, 1972; Nurske, 1953; Singer and Maxwell, 1983; United Nations, 1975). Many also believed that food aid commodities (generated from agricultural surpluses in the United States) could be used to support rural works programs (Beringer, 1964; Chakravarty and Rosenstein-Roden, 1965; Dandekar, 1965; FAO, 1955; Srivastava et al., 1975; WFP, 1971). It was postulated that extra employment would expand the level of demand for wage goods within the developing economy and food was likely to be a high proportion of that additional demand amongst poor and largely rural households. Public works could be funded by a redistribution of income through additional taxation. But where politically practical opportunities for higher taxation were restricted, aid, and particularly food aid, could provide additional resources to dampen the initial inflationary pressure of a public works program. So much for the theory.

If this review had been undertaken perhaps a decade ago, the current economic analysis that accords both high priority to public works and a significant role to food aid,

would have seemed out of proportion to the practical experience of the preceding two decades in developing countries. In the 1970s, surveys of experience with public works identified problems and disappointments with, and limitations to, this form of intervention either as a generator of large-scale rural employment, or as a significant contributor to the creation of productive assets or economic and social infrastructure (Burki et al., 1976; Costa, 1973; Maxwell, 1978; Terhal, 1975; Thomas et al., 1976). Similarly, with a small number of important exceptions such as the Rural Works Programme in East Pakistan (subsequently Bangladesh) (Sobhan, 1968; Thomas, 1971) and in Tunisia (Grissa, 1973; Stevens, 1979), food aid had not yet played a major role in sustaining such programs.

Subsequently, labor-intensive public works have come to figure more prominently in the rural development plans and strategies of Third World countries as a major instrument for alleviating mass unemployment, underemployment and poverty. An important case is the Employment Guarantee Schemes (EGS) and food-for-work programs in India which emerged in the late 1970s as a massive National Rural Employment Programme, sustained by domestic resources (Basu, 1981; Dandekar and Sathe, 1980; D'Silva, 1983; Guha, 1981; Harriss, 1983; Herring and Edwards, 1983). Public works, typically as food-for-work with part or whole payment in kind to project workers, have become the most important use of project food aid (Dawson, 1981; WFP, 1986).

These developments have sparked off renewed controversy about the role of public works programs in combating rural poverty in the short and longer run, and about the role of food aid in facilitating and sustaining them. It is important therefore, in reassessing the state of the debate, to distinguish, first, the issues which concern public works more

generally, second, those which relate to food-for-work (historically the form of rural works project most likely to be supported by food aid), and third, the potential and actual roles of food aid in supporting public works (Jackson, 1982; Maxwell and Singer, 1979). It is helpful to begin with a clarification of the different objectives and characteristic forms of works, including those supported by food aid.

3. TYPOLOGY OF LABOR-INTENSIVE PUBLIC WORKS

An influential assessment by Thomas et al. (1976), Burki et al. (1976), and others of experience with labor-intensive works in developing countries from approximately 1955 to 1974, gave a widely accepted classification of programs in terms of how they combine the twin objectives of generating employment (and incomes) and building up the economic and social capital of communities and societies. First, programs differ in terms of the employment and income, or "makework," objective in the "construction phase:"

(1) Relief works in emergencies are primarily intended, by offering temporary wage employment, to supplement or substitute for sources of income reduced or lost through natural or civil calamity.

(2) Long-term employment programs are designed to provide livelihoods for the unemployed (urban unemployed, rehabilitation of refugees, structural rural unemployment, i.e. those without significant opportunity for an alternative livelihood).

(3) Income augmenting programs, often seasonal, are to supplement the below-subsistence incomes of those in wage employment, small farmers as well as landless households.

(4) Low cost infrastructure programs put the main emphasis on assets constructed rather than on the incomes of the employed.

Labor-intensive methods of major public investment, e.g. flood control and irrigation, are widespread in the densely settled rural societies of East and South Asia. There is, therefore, a continuum of projects, from relief make-work to capital investment, in which the major benefits in terms of employment and income generation for low income groups are likely to occur in the post-construction "operational phase." Writers on public investment, particularly on the linked question of the role for aid, have emphasized the importance of shadow pricing in assessing the provision of resources to meet "local costs," particularly wages, and in influencing capital project design and selection under category 4 (e.g. Little and Mirrlees, 1974). But the public works literature more narrowly defined is chiefly concerned with projects in categories 1, 2 and 3, and is primarily focused on employment creation and income generation in the construction phase.

Many writers categorize public works programs functionally in terms of the type of asset created (e.g. Burki et al., 1976; Costa, 1978; D'Silva, 1983; Maxwell, 1978). Directly productive assets include irrigation, drainage, land reclamation, reforestation and possibly soil conversion measures. Such a range of investments will have widely differing time horizons for productive impact. Economic infrastructure, which includes roads, bridges, culverts, and market development, promotes economic activity. Social infrastructure, such as the creation of schools, clinics, community buildings, and domestic water supply, contributes in different ways to the provision of basic needs or human capital formation. However, food aid agencies such as the World Food Programme categorize their activities

by sectors; land development and improvement, forestry, fisheries, infrastructure, and community development. The type of assets may vary between programs and within programs over time, e.g. the proportion of directly productive assets as compared with road construction.

4. RELIEF WORKS

There is considerable controversy in the literature about the contribution of some long-term, infrastructure- and asset-creating projects to the welfare of target groups. But there is general agreement that relief works, as a response to calamity or recurrent food insecurity (e.g. through drought), are a special category, because immediate provision of incomes and/or food are of overwhelming importance (e.g. Australian Auditor General, 1981). Questions of the different modalities of operation of, and the use of food aid in, relief works are therefore considered separately.

Public works have a long history as a food security measure in times of distress and famine (Bhatia, 1967; Woodham-Smith, 1962). Through them, the means of survival are provided to the destitute, and temporarily vulnerable farming or animal husbandry households may be spared the need to sell their assets to provide for short-term consumption. Where there is open access to relief make-work, participation in activities that are socially relatively unattractive except to the poorest and to victims of disaster is itself a criterion for eligibility for entitlement. Where, as in India, emergency relief was strongly institutionalized, originally through Famine Code practice, these make-work activities have also been productively linked with some success to asset formation. The link is provided by grafting relief operations onto a continuing, decentralized, rural public works program

which has a portfolio of economic and social infrastructural investment and maintenance (Bengal Government, 1941). The existence of a strong framework of local government is perhaps a necessary condition for such an effective linking of relief with public works.

(a) The role of food in relief measures

Even though a characteristic element in the institutional response to emergency has been to organize special deliveries of food to ensure adequate local supplies, and to make payments in kind during relief works, there is no necessary link between relief works and special food supply operations. The recent reexamination by Sen (1981) of the historical record for several major famines, including the crises of 1973/74 in Bangladesh and 1972/74 in Ethiopia, has called in question the necessity for the traditional emphasis on food availability and supply measures.[1]

Sen's counter-emphasis on the inability of affected households to sustain their food entitlements, i.e. to finance food purchases out of income, underlines the importance of rural works in replacing temporarily lost livelihoods. Long established institutional practice for preventing and containing the effects of natural disaster, such as the Bengal Famine Code, have always given highest priority to additional measures, such as special rural credit programs and tax relief, to sustain the assets and livelihoods of farmers and those they are likely to employ through periods of crisis. Such measures can avoid or limit the disintegration of normal patterns of production and employment, and the assets on which these depend: livestock, equipment, seed and land. Unfortunately, international relief agencies may be able to respond only with food, other commodities, and personnel, to a "declared" emergency. Where governments rely on such responses, rather than developing

effective "preventive" systems of food security and disaster preparedness, short-term relief can have damaging long-term implications. For example, a major consequence of the Sahelian drought of the early 1970s was the large-scale transfer of livestock out of the possession of herding nomads (Swift, 1984).

The special relief measures in Maharashtra in 1974 (United Nations, 1975), internationally supported food-for-work programs in Ethiopia, but before the 1984 famine (Holt, 1983), and the increased scale of food-for-work operations in Bangladesh during 1979/80 and 1984 are cited as recent examples of public works providing an effective response to an emergency (Clay, 1985). In each case an enhanced level of public works was determined in response to a rapidly developing crisis, in preference to the provision of food entitlements only through direct feeding or a rural rationing mechanism. These experiences also confirm the findings of earlier studies that such emergency measures typically lead to the institutionalization of public works on an enhanced scale.[2]

There is as yet too little documentation to permit even a provisional reassessment of the role of rural works during the African food crisis of 1983-85. However, one or two illustrative experiences raise serious questions for further research. In 1984 the failure to sustain the level of food as wage goods provided through the vast Ethiopian program made it impossible to maintain the level of operations as a stabilizing counter crisis measure (Gill, 1986). UNICEF, influenced by Sen's entitlement approach, embarked on small scale "cash-for-work" operations (Kumar, 1985). To what extent could this approach have provided a viable alternat on a wider scale to food-for-work and/or relief operations? Third, during the less severe food crisis of 1983-84 in Lesotho, there was opposition to temporarily

expanding the long established food-for-work programs as a relief mechanism because this threatened to undermine the developmental orientation of the program (Bryson, 1986).

Another aspect of recent African experience illustrated in the Turkana District, Northern Kenya and the Karamoja region, Northern Uganda following the drought of 1979/1980 is that straightforward relief operations in which food is freely distributed are likely to be transformed into food-for-work activities in a so-called "rehabilitation" phase. An efficient distribution system is in place. Resources are available. There is a powerful institutional logic favoring continued intervention. But such cases show that it is difficult under pressure of time to identify and design appropriate labor-intensive activities, especially for pastoral communities (Boogard et al., 1985; Fitzpatrick, 1986). These relief and rehabilitation case histories reveal the severe tension between immediate employment creation and income-generation objectives, and the longer-term concerns to create socially valuable assets and to avoid beneficiary dependency which is at the heart of the wider public works debate.

5. PUBLIC WORKS: THE RECURRENT ISSUES

It is often difficult to single out from the evaluation literature on public works in general, the features of the sub-debate on food-aid supported programs. Therefore any review of the role of the latter must examine the wider record. This focuses on the following issues:

(1) The scale and distribution of the short-term employment and income generation benefits.

(2) The scale and distribution of the longer-term impact in terms of employment and incomes.

(3) The relative technical inefficiency and economic cost-ineffectiveness of assets created by public works.

(4) Wider political and economic significance of public works.

The most important short-term benefits derive during the construction phase as the employment-generated income for participants in schemes. The literature indicates a wide range of findings in terms of the scale of impact, the actual participants and beneficiaries, and the relative significance of public works in providing additional livelihoods or supplementary incomes for households (Burki et al., 1976; Maxwell, 1978a)

(a) The pattern of participation

There have been two findings from recent evaluations of the Indian and Bangladesh programs, both of them very large in terms of coverage and resources in relation to the total rural population. One is that public works can have a significant impact on employment and incomes during their construction phase. The EGS, financed by local resources, generated between 300,000 and 400,000 person years of employment in rural Maharashtra, providing 10% of employment among poorer sections of rural society (Dandekar and Sathe, 1980). But the second is that, although participants worked an average of 160 days per year, this still left 90% of households below widely accepted poverty lines for rural India. Unless wage rates were pushed will above those in other activities employment on public works would have to rise to around 300 days a year to raise households above the poverty line. Recent findings for the food aid supported Bangladesh food-for-work program are broadly

similar on aggregate impact, in line with evaluation results from many earlier studies (Brundin, 1978; INFS, 1978; Thomas, 1971; WFP/CFA 17/16).

The EGS and Bangladesh programs have had a highly differentiated impact in terms of the different types of poor households which participate. One concern expressed in the literature about public works is that the weaker and disabled are disadvantaged in terms of income and food entitlement programs which are based on participation in work (Rogers, 1973; Wijga, 1983). On the other hand the relatively less attractive nature of the manual tasks involved and low work norms in public works very widely appear to draw in those who are disadvantaged in seeking other employment, for reasons of lack of skill or physical strength, or by class, caste and gender discrimination. An example is the higher than anticipated scale of female involvement in EGS and food-for-work in Bangladesh (Chen and Ghaznavi, 1977; Dandekar and Sathe, 1980; Marum and Hasna, 1982). Earlier studies indicate a wide range of findings on participation by different groups (Maxwell, 1978; Wijga, 1983). Closer scrutiny of primary sources suggests that different outcomes reflect specific circumstances. For example, where the balance of objectives lies towards asset creation and contractors are involved in recruitment, the most able-bodied are likely to be better represented in the workforce (Rogers, 1973). Wage rates and conditions of work, e.g. daily or piece rates, are likely to have a different impact (Burki et al., 1976). Dandekar and Sathe illustrate this point in relation to the high level of participation by women in the EGS.[3]

(b) The problems of project creation: The right time and the right type

The different types of work also offer differential opportunities for the employment of unskilled labor. Again, findings for EGS indicate that 71% of payments went to unskilled labor for afforestation and soil conservation. Water development projects, including dugwells, reexcavated tanks and irrigation channels, generated up to 80% of all payments to unskilled labor. The share of unskilled labor payments was lowest on road construction, only 55%, with non-labor costs, acquisition of land, and materials representing significant proportions of project expenditure (Costa, 1978; D'Silva, 1983). There is broad agreement in the literature on the superiority of directly productive works over roads and other infrastructure in generating construction phase employment (Burki et al., 1976; Maxwell, 1978). Unfortunately, there is also widespread empirical evidence indicating a characteristic tendency for the proportion of road construction in public works programs to rise over time (Burki et al., 1976, D'Silva, 1983). The intensive scrutiny of the EGS indicates an underlying problem behind this empirical "law." In any region there is real difficulty in maintaining a pipeline of fresh projects. Road construction, especially where there is less regard for high standards of design that will ensure durability, is less difficult to plan and manage.

Assessments of larger programs, such as the EGS, show another characteristic tendency and limitation of the public works record. Although poverty and food insecurity are commonly highly regional in incidence, programs benefit the relatively advantaged, or less disadvantaged, regions (Harriss, 1983; Herring and Edwards, 1983). Such spatial inequality is a phenomenon common to most public interventions, even in the face of positive discrimination, because of all the economic, technical and political factors which

work to the disadvantage of relatively backward areas (Myrdal, 1957). For example, in the case of public works, there may be a tradeoff between more employment creation in the construction phase in backward areas, and the higher longer term, operational-phase benefits from these productive works and infrastructural investment that would be obtained in a more favored location.

Public works are widely recognized as a way of supplementing incomes from other agricultural and rural resources and are judged to be relatively successful when they achieve this. But the record appears to be uneven. Agricultural employment and the incomes of small farmers as well as the landless are highly seasonal (Chambers et al., 1981). For example, in Bangladesh rural works have traditionally been organized in the dry season in which employment opportunities were relatively limited (Thomas, 1971; WFP/CFA 17/16). However, the period of peak vulnerability for low income households throughout Bengal was long ago identified as the pre-harvest period towards the end of the rainy season, when physical conditions severely hamper widespread public works (Bengal Government, 1913, 1941; Clay, 1981b). At the other extreme, there are also reported instances of periods of intensive public works activity clashing with peak season labor requirements in agriculture (e.g. Harriss, 1983). And where there is persistent structural unemployment, additional demand within the labor market may have significant positive effects on real wages and incomes, without disincentives to agricultural production through loss of labor.

The implication of such mixed experience is that organizing income and food entitlements for poor people around public works will be constrained by the specifics of local environment. In some circumstances, the scope for supplementary employment when

it is most needed may be sharply constrained by physical technical factors. The persistent drift towards road construction also underlines the limitation of rural works in providing an indefinite source of supplementary employment and the probability of the rising marginal cost of employment (D'Silva, 1983).

(c) The question of "leakage"

A subject of much public controversy, particularly for aid supported programs, is the so-called "leakage problem:" resources which are not reaching planned end use in supporting public works (e.g. Henshaw, 1980; Lean, 1979; Newman, 1981). First these leakages should be clearly distinguished from the issue of whether those successfully targeted are the intended beneficiaries. Second, such problems are also inherently difficult to assess as between different types of public works, and in making comparison with other forms of state intervention. Foodstuffs, especially when clearly exotic or distinctively packaged, are highly visible when the surface in the "wrong" hands. On the other hand, the resale of food-for-work commodities by intended beneficiaries also accounts for some commodities coming onto local markets. However, the attention given in recent years to this difficult to quantify problem at least indicates a number of plausible hypotheses.

The first relates to the size of program. The problems of management for larger programs are likely to make misappropriation or leakage greater than for small and closely supervised schemes, such as those operated by some NGOs.[4] However, size alone may not be a conclusive factor because it is precisely the small, decentralized schemes within a large program that are hard to monitor (Thomas, 1971; WFP/CFA 17/16).

The second relates to the degree of local participation. In some places (for example Ethiopia and Nicaragua) where there is a better record of resources reaching the intended beneficiaries and end uses, there are robust local institutions through which beneficiaries can take part in the planning and management of projects (Holt, 1983; Horner, 1982). On the other hand, intended beneficiaries have been exceptionally disadvantaged in asserting their entitlements in other cases, for example in Bangladesh where high levels of leakage have been reported at local level (BRAC, 1979). Thus decentralization per se does not provide an answer to problems of more effective management if councils or special management bodies do not represent the interests of the envisaged beneficiaries (Smucker et al., 1979).

A third area of conflict concerns the extent of "acceptable" leakage. Estimates which are emerging for larger programs indicate leakage of around one-third of resources up to site level from a whole range of malpractices (Brundin, 1978; Herring and Edwards, 1983; WFP/CFA 17/16). Perhaps higher levels of leakage would undermine the operational and local political credibility of programs. At the same time such practice, political scientists suggest, is an inescapable, unsurprising, aspect of public policy practice, the bureaucratized allocation of resources in many developing (and developed?) economies.[5]

However a problem may arise where the public policy attitude to leakage differs between developed industrialized (donor) and developing (recipient) countries. Even where programs are judged to be relatively successful in their direct employment and income generating effects compared with other interventions, there are obvious problems in demonstrating cost-effectiveness, and of public accountability, for international and bilateral donor organizations. Development assistance agencies and NGOs are operating under

formal accounting requirements of the donor countries which cannot accommodate visible evidence of improper practice (European Community Court of Auditors, 1980). "Development lobby" literature, and legislative proceedings in developed countries, indicate that the highest standards are expected in the use of donated public and private resources targeted onto the poorest and hungry in Third World countries (George, 1976; Jackson, 1982; Lappe et al., 1977, 1979, 1980).

(d) The assets: Difficulty in spreading the benefits

Much of the criticism of public works has been directed at their alleged "regressive impact" on rural income distribution in the longer run and on maintaining existing inegalitarian social structures. The primary target for criticism is the unfavorable distribution of benefits from capital assets created through public works (Guha, 1981; Maxwell, 1978; Terhal, 1975). Most public works enhance the productivity and value of existing assets, particularly land. Inevitably, the distribution of longer term benefits reflects the distribution of rights in and control over assets within society (Burki et al., 1976; Thomas et al., 1976). There is also evidence to suggest that, as with other public investment, the economically and politically powerful find ways of acquiring a disproportionate share of public works investments in increased land productivity, such as irrigation. A lack of measures to recoup some part of the windfall benefit that accrues particularly to richer landholders probably intensifies these consequences. but the widespread absence of effective taxes on improved land values in Third World countries makes recoupment of investment costs particularly difficult. This difficulty is illustrated by the Maharashtra EGS model, cited as one of the more successful programs based on additional redistributive

taxation measures. However, these taxes are levied largely on urban middle income employees and on property. The cess on irrigated land and the surcharges on land revenue payable by rural land owning beneficiaries were expected to raise over 20% of the additional revenue for the scheme, but these rural measures failed to realize more than 3% of the new taxes (Herring and Edwards, 1983).

(e) The assets: Technical efficiency

The developmental role of public works also depends on the technical efficiency and cost-effectiveness of the assets which are created. The summary by Burki et al. (1976) on these issues remains valid. The assets created by public works will be productive where they:

(a) use technology most appropriate for the environment;

(b) conform to acceptable minimum engineering standards;

(c) do not present serious costly maintenance problems;

(d) are consistent with economic priorities;

(e) are constructed with not inefficient levels of labor productivity for the environment;

(f) are effectively utilized and maintained.

The literature is replete with examples of projects executed with little regard for technical standards. Poor design, in turn, implies high maintenance costs and less productive assets. Much attention is given by writers to concentrating public works on assets that are likely to enhance significantly and directly the productivity of agriculture, or otherwise to contribute to economic and social development within the target locality. None of these problems is

unique to public works, but the considered opinion of many writers reviewing case experience is that public works, with the twin objectives of employment and asset creation, involve a significant tradeoff in terms of the quality of the investment (Burki et al., 1976; Maxwell, 1978; Stevens, 1979).

Three factors are widely cited as contributing to the poor record of public works on the quality of the assets created and the efficiency with which the work is done (e.g. Abt Associates, 1984; Bryson, 1981; Bryson et al., 1984; WFP/CFA 17/16). First, there is the problem of complementary inputs, including design, management resources, equipment and materials. Such problems are so recurrent and characteristic of public works that critics have suggested that they are inherent, rather than specific and remediable shortcomings of the individual project. This is a view which requires closer scrutiny in relation to externally aided programs.

Second, there are the problems of maintenance and recurrent costs, which again are not unique to public works (Howell, 1985). But where construction is organized on an emergency basis or primarily to create employment, adequate administration and the resources necessary to maintain a stream of productive benefits from original investment may be lacking. Against this, more effective maintenance may indicate a conflict of longer term productive and distributional goals. It is plausible that maintenance will be undertaken where influential economic and political interests benefit disproportionately from the siting of dugwells, irrigation channels and even roads. Growing recognition of the maintenance problem is evidenced by donor agencies including provision for maintenance within support for public works programs. However, the typically limited, rather than open-ended, nature

of donor resource commitments implies that local capacity and provision of resources for maintenance are a necessary component of an effective works program.[6]

Third, there is the problem of low labor productivity and poor work. In part, many writers suggest that this is again a result of the conflict between employment creation and investment objectives. Time wasting on employment schemes is as Thomas et al. (1976) note "legendary," and for workers and management, where continuation of employment and resources to ongoing projects have high priority, there is little incentive to complete them.

The findings of the evaluation of food-for-work in Bangladesh (WFP/CFA 17/6) are characteristic in reporting a large proportion of incomplete projects and time overruns.

Improved management, and the modification of wage structures to increase incentives for high productivity, can improve performance. However, the widespread reporting of low motivation and poor quality have been attributed to a lack of commitment amongst the labor force when they do not see themselves as the true beneficiaries of the project. The Bangladesh study concludes that the quality of work performed closely reflects this. The importance of motivation is underlined by contrasting reports of poor work and behavior in Ethiopia on reafforestation projects in the early 1970s before land reform, and the high standards of construction in soil conservation and rehabilitation projects a decade later.[7] Elsewhere, for example in Bangladesh and India, small projects which seek to provide the landless with productive assets and to increase the productivity of those owned by small farmers point to the weakness of larger food-for-work programs as a way of bringing direct short-run welfare benefits to poor people (Wood, 1983; forthcoming). This is in part because public works provided a quid pro quo for the politically and economically powerful

groups within rural society through the assets created. More and larger schemes continue to be mounted as a politically viable response to crises and to chronic poverty and underemployment (Guha, 1981; Herring and Edwards, 1983). Food aid resources have been widely attracted to initiate and support these programs, but for better or worse?

6. FOOD AID AND FOOD-FOR-WORK

Food aid is now used to support public works programs in three different ways. First, commodities are provided for use as payment in kind to workers on public works and also NGO-organized labor-intensive works. Second, food is supplied to a public distribution system in a recipient country, and food, but not necessarily the same commodities, is drawn from public stocks to provide payments in kind on food-for-work projects. Third, local currency proceeds from food aid sales can be used to finance part or the whole of the local costs of public works, including wages, not necessarily paid in kind. What distinguishes food aid from other assistance to support rural works is that commodities are always imported under the program agreement.

Historically, the first form of support has predominated, so that food aid has become almost synonymous in much writing with food-for-work (Jackson, 1982; Wijga, 1983). In fact, the largest national food-for-work program, that in India comprising the National Rural Employment Programme, state level Employment Guarantee Schemes and Food-For-Work Programmes, has been financed from domestic resources. In 1978/79 these programs disbursed some 2.5 million tons of grain which is in excess of the global total of project food aid (Harriss, 1983).[8]

The historical pattern of food aid support for public works raises a number of issues in addition to those concerning public works more generally. Project food aid has traditionally been provided on the presumption of "additionality" (i.e. that it does not replace commercial imports) in accordance with the FAO's principles of Surplus Disposal.[9] Practically, food aid support for public works has rarely created a level of imports which was more than marginal in relation to the national food system of recipient countries. Recent exceptions include the food-for-work programs in Bangladesh and Ethiopia, which have been considered in terms of their wider food system implications (Clay, 1985; WFP/CFA 15/8; WFP/CFA 17/16). Historically the additionality requirement has been satisfied by commodities being supplied for free distribution, or as wage goods to final beneficiaries. This condition has effectively channeled food aid resources into food-for-work, whilst discouraging the use of local currency proceeds from the sale of food aid commodities to finance cash payments to project labor or complementary inputs to food-for-work projects.

In narrowing the analysis onto food-for-work the following specific issues arise:

(i) advantages of a food element in wages;

(ii) the risks of disincentive to local agriculture;

(iii) handling problems with bulky food commodities;

(iv) the acceptability to workers of food aid commodities;

(v) non-food wage components.

(a) The advantages and problems of a food wage

There has been extensive debate on the advantages and disadvantages of a food element in wages. On the one hand, in circumstances of scarcity, payments in kind have the

obvious advantages of assuring food to the households of beneficiaries, whilst simultaneously augmenting local food supplies. The food-for-work projects in Ethiopia appear to be a recent example of such an effective use of food wages (Holt, 1983). A second advantage attributed to payments in kind is that they are less likely than cash to be diverted or delayed: not only is food visible, but the necessity to organize supplies may contribute to the more effective operation of projects. On the other hand, the record provides little evidence to support or refute this view. For example, Ramachandran and Balaji (1980) found that in Tamilnadu food wages for work had not been paid because of delayed supplies. The evaluation in Bangladesh by the Bangladesh Institute of Development Studies and IFPRI (WFP/CFA 17/16) also reports delays. Doubtless in emergencies relief agencies may be more effective if they themselves organize the supply and distribution of commodities, especially where local food supplies may be disrupted (Gill, 1986). Nevertheless, Dandekar and Sathe (1980) found that the food element "was the greatest attraction" of the employment guarantee scheme in Maharashtra. Guha (1981), quoting the Government of India evaluation (1979) of food-for-work operations, underlines the importance of the planned use of food in projects from the beginning and not on an ad hoc basis.

Construction works and rural resettlement schemes appear to be appropriate contexts for at least part payment in kind. The location of construction works may necessitate project intervention to ensure dependable food supplies at reasonable prices. The circumstances could favor direct feeding (canteens) or take-away payments in kind, depending on the organization of the work force (WFP, 1971). Similarly, payments in kind

as part of the provision of subsistence for settlers in the construction and development of resettlement schemes may be appropriate (Jackson, 1982). Many of the more successful reported uses of food aid as payment in kind, the Indira Gandhi Canal[10] and resettlement in Egypt (WFP/CFA 7/11) are in these categories. These examples come from countries in which the more common items in the food aid basket, such as wheat, vegetable oil etc., are acceptable foods.

A disadvantage of payments in kind, where these represent, seasonally or through the year, a large proportion of the real income of households, is that participants in schemes are obliged to resell commodities to pay for other requirements. The collection and resale of what are, in terms of the market, small quantities of food, impose heavy transaction costs on recipients. These significantly reduce the real value of the wage, which is likely to be established in terms of food needs or the prices at which participants can notionally purchase commodities. Such problems have led many writers to argue that a combination of cash and food is superior in most circumstances to payments in kind (Burki et al., 1976; Lewis, 1972; Maxwell, 1978). Otherwise payments in kind have at least to reflect household requirements for a number of commodities, including the basic staple and a cooking medium.

(b) Potential effects on local agriculture

Payments in kind to workers, retrading by participants, and local leakages of commodities, have been seen as involving a risk of disincentives to local agriculture (Jackson, 1982; Singer, 1978). Injecting into an area additional food, which substitutes for purchases of locally grown produce by project participants, could depress local prices.

Retrading increases supply, and can similarly reduce prices. The best documented case of such localized disincentive effects was during an emergency in Guatemala (Bates et al., 1982; Jackson, 1982). However, little evidence has been found of such localized disincentive effects in the context of major food-for-work programs in Bangladesh and Ethiopia (INFS, 1978; WFP/CFA 15/8; WFP/CFA 17/16). Unless markets are poorly articulated, such disincentive effects will probably be temporary, except where the overall program is of such a size as to have national impact.[11] As already noted, this is improbable because of the scale of most food-for-work programs.

Direct disincentive effects through the price mechanism are also much reduced in the short term, where, and this seems to be the normal case, wage payments from food-for-work or indeed a rural works project, represent additional income for participants and additional employment within the local economy. Poor households are generally expected to have a high marginal propensity to consume food out of additional income; typically cited values are between 0.5 and 1.0. This implies that for an additional 10% increase in household income there will be at least a 5% increase in consumption of food. The additional employment and income multiplier effect of a sustained rise in demand for goods and services would lead to further compensatory increases in the demand for food (Singer, 1978).

In the longer term, assets created by a project should reduce the direct costs of food production and supply. This opens up a range of possible consequences, but on balance would be expected to increase rather than decrease consumption of domestically produced food (Mellor, 1980, 1982). The analysis of impact in terms of income effects on consumption also implies the presumption that food-for-work schemes, and more generally

rural works, will increase food consumption within beneficiary households. The evaluation literature, however, provides few conclusive instances of a positive nutritional impact of food-for-work programs (Wijga, 1983).

Another potential disincentive effect of food-for-work would be to draw labor away from agricultural production. The creation of a long term food dole in this way has been suggested for one or two small recipient economies, e.g. Lesotho (Stevens, 1979) and Mauritius (Burki et al., 1976). Otherwise, the literature on public works more generally provides little substantive evidence of a sustained competition for labor which has a negative impact on local production.

(c) The handling and choice of commodities

The handling problems and costs associated with organizing supply lines of food shipments from overseas to interior areas, or landlocked countries, are considerable. Delays, deterioration and losses (including misappropriation) can lead to disenchantment of the labor force. High transport costs, where there is the possibility of alternative supplies of food within the region or locality, raise questions about the effectiveness of the direct use of food aid commodities. Such costs are a factor in encouraging many writers to favor cash payments over payments in kind, and others to argue that the value, or income transfer, to the recipient, rather than the cost of provision, should be the criterion for choosing what commodities are to be used for payments in kind (Reutlinger, 1983).

A final problem with food aid commodities is one of acceptability to rural project workers. Wijga and others find that the WFP and other donor baskets of commodities reflect surpluses available in donor countries, rather than nutritional considerations or

consumer acceptability (Potter, 1979; Wijga, 1983). The most widely supplied commodity is wheat, a generally accepted staple in Asia and North Africa. Where wheat is inferior to rice, as in South East Asia and some parts of South Asia, this makes it more likely that food-for-work commodities will be self-targeting on poorer households. In other regions of South Asia wheat is the preferred staple of rural consumers. In sub-Saharan Africa, the problem of acceptability is more serious where the local staples in rural areas are white maize, millets and tubers, and wheat and rice are largely consumed in the towns. Extension of the analysis to other "surplus" commodities in the food aid basket would only underline the two general points. First, universal statements about the appropriateness or acceptability of particular commodities are unsustainable. Second, commodity availability imparts considerable inflexibility to building rural works projects around food aid available only as food-for-work.

(d) Non-food wages and the innovative uses of food

Findings about the performance of food-for-work more generally appear contradictory, and suggest that success is a local phenomenon dictated by the need for and design of projects, the socio-political climate and the ability and integrity of officials, not the type of remuneration (Burki et al., 1976; Maxwell, 1978). A report on a system for monitoring US voluntary agency supported food-for-work in India concluded that some of the most important elements for development are perhaps least amenable to quantification (Community Systems Foundation, 1983). Maxwell (1983), discussing the role of impact assessment, pointed out that measuring the direct cost or benefits of food-for-work was "in

some ways the easier part," compared with some of the indirect effects, e.g. impact on nutritional status, discussed below.

Evaluations have highlighted the role in Ethiopia of peasant associations in facilitating success (Holt, 1983). Criticism of food-for-work in Bangladesh underlines the entrenched social hierarchy as the source of misappropriation, and the reason why projects are chosen which are of little benefit to a wider community and the rural poor (Ahmad, 1983; Asplund, 1979; BRAC, 1979; Brundin, 1978). The pattern of argument, the trading of case studies for and against food-for-work, parallels that of the public works literature more generally. There are, however, discernible elements of a reevaluation of the role of food aid to provide more flexibility in the way commodities are used to support public works.

One alternative approach is to treat food and commodities as another source of cash to provide greater flexibility and sidestep many of the problems of a narrow emphasis on food-for-work. Lewis over a decade ago (1972) suggested that donors should be flexible in the requirements they impose (e.g. using food only as wages) so that recipients could exercise a greater degree of freedom for anti-poverty policies. "The local cost" problems of transport, storage and handling intensified with escalating fuel prices through the 1970s and emphasized the limitations of food only programs. Part of a discernible response is for a small proportion of commodities to be sold to meet these costs. Examples are the WFP's experimental sales program in Ethiopia and Bangladesh, where the sale of grain by the state food trading agency offsets handling costs in the country (WFP/CFA 15/8; WFP/CFA 16/4). Bilateral donors are also exploring the opportunity provided by monetization to meet

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non-wage costs of schemes.[12] The controversial rural works program in East Pakistan was funded out of the sales receipts from US food aid (Thomas, 1971). Currently, the rural development program in Cape Verde is an example of a labor-intensive program dependent on the revenue from food aid sales (van Binsbergen, 1986).

Dawson (1981) goes even further, suggesting that food-for-work is likely to be more successful as one complementary element in public investment involving labor intensive works. This may be because, as the Community Systems Foundation report on monitoring and evaluation procedures for food-for-work in India notes, "nearly all projects involve complex inputs from multiple sources." Projects which provide only food-for-work are highly inflexible. Stevens, for example, suggest that project food aid alone is frequently seen as an inferior form of assistance, making it a resource for social and human development activities, including public works, that would otherwise have low priority. However, the corollary of inferiority is that complementary resources appear not to have been committed to design and management. The use of food aid resources as part of a package, which would include substantial levels of externally provided capital investment finance, could contribute to improved design, more stringent appraisal criteria, and better operational management. Many of the recent evaluations being undertaken by development assistance agencies underscore the need for such improvements (ADAB, 1983; Community Systems Foundation, 1983; Maxwell, 1982; WFP/CFA 16/6).

7. NUTRITIONAL IMPLICATIONS OF FOOD-FOR-WORK

Apart from emergency or seasonal situations, when the nutritional status of target populations is seriously threatened, direct nutritional benefits are rarely presented as an

explicit and separate objective of food-for-work projects. Rather, food-for-work seeks to improve the income and indirectly the nutritional status of low income beneficiary groups. Wijga (1983) in the only systematic review of the literature looking for nutritional benefits, found only four studies where a deliberate attempt was made to assess nutritional status amongst food-for-work employees and their families. These studies and the more recent in-depth evaluation of food-for-work in Bangladesh (WFP/CFA 17/16) again provide inconclusive findings. The problems of assessment and the inadequacies of the monitoring data are again factors which probably partially explain these results. But it can be posited that where rural works programs make a significant and sustained impact on the real incomes of poor households, and the evidence is that such projects are relatively effective in reaching poor and disadvantaged groups, then some improvement in their nutritional status would be expected.

The recent reconceptualization in the literature of directly distributed food aid commodities as a food transfer to poor households rather than as an almost "medical" food supplement would support this view. It also has radical implications for the commodity composition of food aid as well as for the possibilities of using local currency generated from the sale of imported food, in rural works projects. The balance of evidence in the debate as presented in recent literature reviews and discussions of the nutritional role of food appears to have shifted in favor of income supplements to poor households (not malnourished individuals) to effect directly measurable nutritional improvement (e.g. Huddleston, 1984; Mellor, 1980; Reutlinger and Katona-Apte; Wheeler, 1983).

Two recent evaluative reviews (Burgess, 1982; Figa-Talamanca, 1984, 1984) reveal a wide diversity of opinions on the technical problems of nutritional, as well as project impact, assessment. Too little in the way of resources has been committed to forms of monitoring that would provide the data on which more robust conclusions could be reached. Some writers have noted that the more rigorous the evaluative procedures the fewer the case studies which can be considered and the more inconclusive the results obtained. In the extensive literature positive case examples, usually multiple input programs, and those using locally acquired and grown food, contrast with worrying examples of negative impact, poor design, bad management and the inappropriateness of imported commodities. Some obvious questions are still unanswered. For example, there is insufficient evidence to determine whether locally funded public works have a different nutritional outcome to that of aid funded food-for-work projects.

8. CONCLUSION

There remains a near unbridgeable gap in the literature between those who suggest that there are lessons for improvement to be learned from a mixed record, and the root-and-branch critics of food-for-work. The gap appears to remain because, as many writers suggest, public works and food aid supported food-for-work suffer from overambitious statements of objectives (e.g. Schuh, 1982; Stevens, 1979). Projects which are simultaneously highly successful in terms of employment and income generation, and have positive distributional benefits from asset creation in the long-run, are few in number. Special circumstances of beneficiary participation and highly effective local organization seem to be present in only a few cases, for example some NGO community development projects, or

in some regions of post-revolution Ethiopia. Critics are entitled to judge food-for-work in terms of highly ambitious stated objectives, and by these criteria the use of food aid as payment in kind is much less satisfactory than the use of local currencies from food aid sales to finance the multiple inputs of rural works.

The role of labor-intensive works in capital formation in more densely peopled, poor economies such as South Asia and perhaps Ethiopia is not questioned. But the root and branch critics are addressing the fundamental issue of whether or not rural works should be promoted and sustained by the flow of food aid (Fryer, 1981; Jackson, 1982; Lappe et al., 1977, 1979, 1980). Others are looking at the mixed record in terms of opportunities for improvement, and they see such opportunities in more flexible and substantially better planned uses of food aid resources (Burki et al., 1976; Lewis, 1972; Stevens, 1979). This author's reading of the record, reinforced by personal experience, is that both advocates and critics, in seeking to make generalizations, tend to underestimate the overwhelming importance of the specific, temporal, social and political context. Labor-intensive works are a powerful and successful, if flawed, instrument of food security and rural development policy in South Asia. The picture that is beginning to emerge in Africa is quite different. The scope for organizing labor intensive works on any scale is limited. Nevertheless, there are examples of imaginative and innovative uses of food aid such as "stock aid" in Turkana. The Ethiopian experience, before and after the revolution, before and during the famine, provides sharp contrasts. So this must be regarded as a highly provisional assessment. The trauma of the recent crisis is likely to alter policies, to produce reassessment and

reorganization of many projects and to create many new ones and may necessitate another reevaluation.

ENDNOTES

[1]Criticism of national and international responses to some recent disasters has also focused on the scheduling of emergency food aid without prior assessment of the phased requirements for assistance immediately after the disaster and in the subsequent relief phase (Jackson, 1982).

[2]Similarly, the NGO projects supported by food aid started in response to the Bihar famine in the mid-1960s were continued and extended in 1971/72. These only contracted in the late 1970s with the expansion of the National Rural Employment Programme (Chudy, 1984).

[3]There was a general feeling, i.e. before starting EGS, that women would not work on EGS. But on a number of projects visited by us, women were more in numbers than men. In fact, some women complained that they were refused work unless they brought a male worker with them. On some works the supervising engineers reported that heavy work such as digging was done by males, while women worked as draught-power, and hence a specific ratio of male to female workers was needed. The interviews with women regarding their men not coming to EGS revealed that men worked on better paying jobs, while women worked on EGS.

"From landless households men and women are almost in same numbers. But with even small land holdings men worked on their own farms letting their females work on the EGS. There was also a feeling sometimes, that EGS was easy. Since there was not much supervision, if wage rates were the same for males and females, and if males could get higher wages elsewhere, why not females work on the EGS? Such was the attitude of villagers on some projects" (Dandekar and Sathe, 1980).

[4]For example, Chudy (1984, p. 2) in reviewing an in-depth evaluation of CRS/PL 480 Title II projects in India concludes that a "highly decentralized and personalized" system of management made it more likely that the truly needy benefit.

[5]"The EGS in operation thus produces no surprises for the student of rural development. Because there are many niches for discretion--location, duration and cost of projects, determination of actual wages on a complicated piece-rate scale--the impact of ordinary politics frequently overrides both economic rationality and stated policy objectives. Clearly there are plums for particular individuals, patronage resources for locally-dominant elites, and special consideration of the needs of the politically well-connected. Nevertheless, the scheme works: almost 200 million person-days of rural employment are generated annually, and paid for (though not always at the official rate), and works are completed: percolation tanks, soil conservation works, minor irrigation projects, afforestation, roads, land development, and so on" (Herring and Edwards, 1983, p. 581). See also Schaffer (1984).

[6]Two evaluations of food-for-work in Bangladesh provide examples of different responses to the maintenance problem. The Australian Development Assistance Bureau (1981) proposes support for rehabilitation. An evaluation of PL480 Title II supported rural road construction suggests that a criterion for project selection should be local capacity and

willingness to meet at least the costs of maintaining unmetalled roads apart from appurtenance structures (Abt Associates, 1984).

[7]According to Burki et al. (1976, p. 59): "In several reafforestation projects in Ethiopia, labourers who were set to work without pay planting trees on large land owners' property planted a high proportion of them upside down. Since this happened frequently in different areas it must have been seen as a deliberate attempt at subversion by those forced to work on a project on which they gain no pay and few other benefits." In contrast, a recent WFP evaluation reported construction works beyond necessary engineering standards for soil conservation in projects organized by local peasant associations. Land reform had given the workers a more direct interest in the land. Holt (1983) points out that payments in kind were also a large proportion of family food supply through periods of continuing production difficulty.

[8]The NREP activity has fluctuated in scale. There was a decline with the relatively poor harvests of 1981 and 1982 as the foodgrains available from Government of India stocks fell (Chudy, 1984). Subsequently the level of activity has again increased (personal communication, Rajendra Azad).

[9]These rules are administered by the Committee on Surplus Disposal (FAO, 1980). A usual marketing requirement (UMR) or level of commercial imports to be purchased by a recipient country as a condition of receiving food aid may be set by any donor to prevent displacement of "normal imports." Food aid provided as wages or freely distributed through a nutritional project was conventionally deemed to fall outside the purview of the rules and not considered. These provisions, and related national legislation in donor exporting countries, have been an obstacle to more flexible uses of food aid to support projects, particularly "monetization" of part or all of the commodities to provide local currency to support projects. Amending legislation such as the US Food Security Act of 1985 has been required to ease donor constraints on the use of project food aid.

[10]Food aid is used to make food available at a 50% subsidy to workers at remote desert sites as an incentive to retain labor at worksites (WFP/CFA 7/10).

[11]S. Reutlinger, verbal communication.

[12]A typical example is provided by an evaluation of PL 480 Title II supported NGO food-for-work and nutrition projects in Indonesia. This report recommends allocating 2,250 tons of commodities a year (10%) "for monetisation to meet other programme costs," necessary to make program improvements (Bryson et al., 1984).

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Chapter 11

Food Aid Disincentive Effects and Their Policy Implications

Paul J. Isenman and H. W. Singer

Food in the present situation can be considered as one of the world's limited, scarce, and vital natural resources such as the atmosphere, or, for that matter, oil. The world is generally agreed that in the interests of mankind as a whole access to such scarce resources vital for a country's existence should be more equitably shared and, specifically, should not be made dependent only on the market, which allocates according to current purchasing power. (In the case of food, animal feeds bid away land, fertilizer, and even grains from the needs of the poor for the grains for themselves.) We are all concerned that the poorest countries need special help in the situation created by the rise in oil prices. The case of food is in many ways even clearer: food aid appears to be an obvious mechanism by which scarce and vital supplies can be allocated outside the normal market mechanism to help meet this basic human need.

However, there is also general agreement that the long-run answer to food shortages in the poor countries must be sought in expanded food production in the poor countries themselves, and in employment and income distribution policies which provide sufficient incomes for the poor to be able to buy enough food. There is sufficient concern about the possible harmful effects of food aid on domestic food production that many economists recommend less or no food aid (other than, perhaps, for emergencies) even in cases where

nutritional and other human needs are strongest. It is the purpose of this article to review some of the analytic issues and literature relevant to this concern about the disincentive effects and risks of food aid, which we have found to be strongly held by agricultural economists and aid "practitioners" and which we share.[1] To make the discussion more specific reference will be made to the experience of food aid in India. The Indian case is useful, not because India is at all a "typical" recipient of food aid, but because it received the largest historical share up to 1971, is most often cited for negative effects of food aid, has been studied by a number of analysts, and raises most of the relevant economic and political issues.

Briefly, the disincentive argument is that the increase in food supplies provided by food aid depresses prices received by farmers and causes or supports inadequate agricultural policies by recipients, which together lead to decreases in food production. The recent stress on employment and more equal income distribution, with its attendant stress on agriculture and rural development, has thus served to sharpen the criticism of food aid, which is said to interfere with these objectives. The major economic issues relevant to the disincentive effect were set out in the literature 15 years ago.[2] What has changed in the past 15 years are perceptions of relative importance of the disincentive set of issues in comparison with the "other benefits" set of issues. Schultz stated in 1960 that "in all of the hearings before U.S. congressional committees and statements and reports of the executive branches I have found no serious consideration of this aspect [the disincentive effect] of PL480 [American food aid] operations."[3]

On the other hand, it is surprising how many studies and policy discussions either dismiss or miss entirely the direct purposes of food aid, as if food aid were to be judged solely on the basis of its contribution to food production. Before turning to consideration of the disincentive effect, it is worth briefly reviewing what these other (somewhat overlapping) purposes are. First, food aid provides for the hungry, both by direct subsidized distribution, often concentrated on nutritionally vulnerable groups such as children, and by helping to contain price increases, which tend to hit the nutritionally vulnerable groups the hardest. Second, it provides financing for specific government development projects, some in agriculture and rural development and some in other sectors; again this could occur either directly, as in "food-for-work" projects, or indirectly as in the Pakistan rural public works program. Third, it can be used to build up food stocks which, while quite expensive, can contribute to both consumer and producer welfare by reducing price fluctuation and uncertainties.[4] Fourth, it eases a major constraint on growth in output and unemployment.[5]

The fourth, which is quite important, often tends to be neglected. In lower-income densely populated countries food, along with foreign exchange, tends to be a major constraint on the pace of development. Two-thirds or even more of workers' incomes go for food in these countries, most of it for food grains.[6] From a finance or planning minister's point of view, increments to public or private employment, through fiscal or monetary policy, must be measured against available food supplies, in many ways as if the whole economy consisted of a public sector food-for-work program in which all workers were paid two-thirds of their wages in food. So not only does food aid permit recipient countries to expand employment, but the high proportion of workers' incomes which go for

food grains means that farm prices need not suffer from food aid in the short run and can benefit from food aid in the longer run because of dynamic effects on savings and income. A useful way to visualize the importance of the food constraint is to imagine that the developed-country worker spent two-thirds of his wages on oil products and then to consider what a limit this would put on growth in employment.

In explaining the purpose of food aid in India, Rath and Patvardhan say that "prices of food grains were vital to the success of the plans of economic development which India has launched....The purpose of PL480 imports was not only to prevent...sharp fluctuations in price of cereals, but also to check any excess pressure of the general inflationary forces on prices of cereals, which might arise due to the slower rate of increase in production of cereals than of other commodities in the economy."[7]

What the above suggests is that in food-short countries a sizable proportion of total development aid can often be in the form of food aid without a significant cost in the efficiency of aid or in incentives for domestic agriculture. The optimal proportion of food aid for any given country at a given time will depend on a variety of factors, including the demand and supply factors relevant to the disincentive effect (discussed below); food grain supply and price prospects; availability of export earnings to finance needed complementary imports; the existence of "slack" resources in the economy, whether underemployed (or low-productivity) labor, underutilized industrial capacity, or untapped potential savings; the extent to which the recipient government would in fact use foreign exchange to import food in the absence of food aid; and the overall availability of food and non-food aid for

allocation.[8] With the exception of the last two, these factors are also the same that should be investigated by a government planning its total food import program.

The four domestic uses of food aid discussed above all flow from the role of food aid in adding to a recipient country's import capacity. Since food aid is tied to a specific set of commodities, and often to specific internal uses, it is less valuable to the recipient in carrying out its development strategy than an equal volume of aid not so restricted, except where the commodities' imported and specified domestic uses correspond to what the recipient would have done with unrestricted aid. For this reason we favor relatively unrestricted forms of financial aid over food aid, even where there is no danger of a disincentive effect. It would be preferable to let the recipient then choose the balance between food and non-food imports. However, what makes food aid a subject worth special consideration is that it is partly additional, so that a $1.00 increase in food aid would lead to a less than $1.00 decrease in non-food aid. Food aid is unlikely to be as fully additional as it was in the past, when the United States and other donor nations had large long-term surpluses (built up because of domestic agricultural policies) which had a real cost far below both the nominal value of the food aid provided and its somewhat lower world market value.

However, there are still a number of factors which make food aid likely to remain at least partly additional. These include a feeling among the general public and legislatures in donor countries that, as the Development Assistance Committee (DAC) put it, "feeding the destitute, avoiding starvation and improving the nutritional standards in developing countries should have priority as a form of development cooperation."[9] The political

importance of farmers, who benefit from the increased demand caused by food aid, also adds to the political attractiveness of food aid. Thus, there is likely to be domestic political support for production of food specifically for food aid even when there are no overall surpluses. In addition, there are still likely to be surpluses in donor countries in some years (but not in most or all years, as in the past), either as a result of farm-income support programs or of unexpected shifts in supply (from weather or other effects in either major exporter or importer nations) or demand (e.g., from reduced demand for animal feeds in either "market" or centrally planned economies). Given the relatively high capital costs of food storage and the uncertainties of the next year's prices the "shadow price" of food aid could decline in many years even though the long-term trend was one of rising relative food grain prices. Thus, we expect food aid from major donors (including the EEC, taken as a whole) to remain at least partly additional, although this may not be true for particular bilateral donors.[10]

Effects of Food Aid on Agricultural Production

Price Effects

To evaluate the net effect of food aid on domestic food production we need to consider its effects on the price of food and on government policies. The price effect depends on several factors: how much food aid will be provided in relation to total production; how much additional demand will be created through specific projects, programs (such as subsidized food distribution), and fiscal or monetary expansion; changes in relevant crop and input prices; the relationship of the previous points to food prices (using the price elasticity of demand); and the effect of the resultant change in food prices on food

production (using the price elasticity of supply). It is preferable to estimate these effects through a multiequation econometric model, since some of the independent variables affecting food production and demand also affect each other over time. However, this is far easier said than done. Problems include the time and expense involved for a series of country studies, the lack in many countries of reliable data for relevant variables, the danger of leaving out or misspecifying relevant variables or relationships (as indicated in the following discussion of the example of India); and changes in agricultural technologies or in government policies (such as price supports) which reduce the validity of conclusions drawn from analyses of past data.

These problems do not necessarily disappear when a "commonsense" approach, based on qualitative and rough quantitative analysis of a few variables is used instead; rather--as is also apparent from some of the analyses of the effect of food aid in India--they can easily become buried, causing hidden distortion in the results. On the other hand, in some circumstances a commonsense approach does provide a feasible way to handle some of these problems and to allow for political and other factors difficult to include in models. Ideally, a combination of the econometric and commonsense approaches would be desirable, at least for major food aid recipients.

The evidence that price is important to agricultural production--that farmers respond positively to price incentives--is by now well known and convincing. Thus, any significant price declines caused by food aid must be taken seriously. However, to say that prices need to be high enough to provide strong incentives for increased production is not to say that "higher is better" or that price is necessarily the key constraint on output in a given situation.

As Mellor points out, while the supply response to price changes is positive, it tends to be quite low (e.g., between 0.1 and 0.2) in land-scarce countries because of the relatively inelastic supply of land and consequent diminishing returns to other inputs (and increasing marginal costs).[11]

The price elasticity of supply for a given country will vary over time depending on a number of factors, including the technology (particularly whether it is responsive to fertilizer and other current inputs), other constraints on production (e.g., the timely availability of inputs), weather, and price (e.g., when prices are already at severe shortage levels, as is apparently the case in Bangladesh, relatively little price response would be expected). One must balance the needs of actual and potential surplus farmers against those of consumers and of other underfunded sectors, against the detrimental effects of rapid food price increases on employment, and against any detrimental effects on income distribution if larger farmers provide most of the marketed surplus of good grains. (This underlines the importance of land reform, so that growth and distribution objectives become more complementary.)

For example, there is an economically and politically valid need for government distribution programs to ameliorate shortages in the cities and, at the very least, to prevent starvation in the countryside in bad years. In many or most countries there are severe political constraints on taxes or other budgetary resources, particularly in shortage years, which can be tapped for food distribution programs. Some of the literature on food aid and on pricing policy is thus somewhat cavalier in recommending something quite close to farmer incentive (price) maximization per se, with little consideration of what will be the

likely increase in output (price elasticity of supply) and likely human and economic costs. Hence, in some circumstances, higher food prices may not be desirable. We hope that readers will not misinterpret the above as meaning that we favor low food grain prices. In fact we strongly favor incentive prices to farmers and believe that in developing countries farm prices have tended to be too low, but we would argue for the substitution of careful analysis of particular price situations for the rigid price "fundamentalism" that one sometimes encounters.

In the Appendix we review some of the data and literature on the price and resultant production effects of food aid on food grain production in India because, since the conclusions that we reach are quite different from generally accepted thinking on this subject, we thought it desirable to devote some space to such a review. To summarize (regrettably omitting desirable explanations and qualifications), we found that food aid did cause a decline in relative food grain prices, but only during a fairly short part (1960-62) of the food aid period (1956-71). The depressing effect on prices was much less than some analysts had expected, partly because the food aid was used to increase government food distribution which, being subsidized, added to net food grain demand. The supply of food grains appeared to be responsive to price changes, but not strongly (i.e., the price elasticity of supply was positive but low, about 0.15). The most comprehensive available study (by Rogers, Srivastava, and Heady) found the net loss in domestic production to be only 3 percent of the food aid provided.[12] The results of their multiequation model appear to be consistent with our much less sophisticated look at the weather-corrected output data for the period of low relative food grain prices. But even that study ignored the dynamic effect

of the food aid on growth in output and employment and, hence, on demand for food grains in subsequent periods. In fact food aid appears to have played a major supply and "insurance" role in the investment and output boom of the first half of the 1960s, which was important in itself and which generated substantial increases in food grain demand. Our conclusion is that while use of large-scale food aid should have been phased in more gradually by, in some years, stockpiling more and distributing less, the short-term price effect on food production was very limited; the medium-term income and price effect on food production (taking account of the effect of food aid on growth) was probably positive; and the medium-term effect on overall output, employment, and nutrition (as distinct from foodgrain production only) was strongly positive.

This is not at all to say that in other circumstances food aid could not, or did not, have a significant price disincentive effect on domestic production. For example, a recent article by Dudley and Sandilands discusses the rather extreme case of Colombia, where wheat imported under food aid and from commercial sources (but sold at a subsidized price, because of an overvalued exchange rate) rose from about 50 percent to about 90 percent of total wheat consumption from 1953 to 1971. The government support price for wheat declined by about half (in constant prices) over this period. Wheat production, concentrated in high-cost production areas, declined very sharply, to about a third of its initial level. We have a number of questions about the analysis and interpretation of this study, which assumes implicitly that if wheat imports were excessive it was food aid and not commercial imports which should (or would) have been cut.[13] Since food aid accounted for only about one-third of total wheat imports, we find the title "The Side Effects of Foreign [Food] Aid"

somewhat misleading. However, we do not question the basic relationship between wheat imports, farm prices, and production. Indeed, not to have had a sharp decline in wheat production under such circumstances would have required a minor economic miracle.

Policy Effects

Even where food aid does not have a significant disincentive effect on food prices, it could still have a significant disincentive effect on the overall agricultural policies of the recipient government. This might show in a relative neglect of agriculture in regard to other sectors; in continuation of policies which did not provide adequate encouragement or support to farmers; in an unwillingness to take politically difficult steps such as land reform; or in lower farm support prices (although this should show up in an analysis of price effects). In India, although a good deal of money and policy effort was also expended on agriculture, there can be little disagreement that the strategy of the second and third Indian 5-year plans was focused on import-substituting industry, particularly heavy industry. Food aid supported and facilitated this strategy, primarily by enabling the Indian government to maintain large subsidized distribution programs while, in the eyes of many analysts, not adequately addressing some basic questions of food grain production and distribution.

However, one should distinguish between criticism of the policy effects of aid and criticism of policies supported by aid but caused by political and economic factors far more powerful than aid. In the latter case there are questions whether reduction or withdrawal of the food aid would have improved the "erroneous" strategy or would merely have made its implementation less efficient and slowed development. There are also questions arising

from current beliefs, in donor as well as recipient countries, about the proper role of donors on questions of basic development strategies.

In the Indian case the evidence is clear that the political and economic factors which caused the preference for heavy industry over agriculture were far more powerful than food aid which, at most, played a supportive role. The association in the eyes of Indian political leaders (and many leading analysts outside India) of industrialization with such things as modernity, greater political and military independence, increases in savings rates, and improvements in human capital, combined with an uncertainty of how Indian agriculture could best be developed and of whether food supply was (meaningfully) responsive to price incentives, greatly overshadowed the role of food aid in the formulation of Indian economic strategy (as set out in the second and third 5-year plans).[14] In our judgment, had there been much less food aid, growth in government expenditure and in nonagricultural output and employment would clearly have been lower, but this would hardly have been desirable if, as is likely, the basic strategy had not been changed.

We do think that up to 1965 food aid may well have had a negative effect on particular steps which might have been taken within the overall Indian development strategy, to strengthen agriculture, for instance, by reducing the pressure to keep up adequate supplies of imported fertilizer. However, much of this effect (including, particularly, shortages of imported inputs as well as price policy itself) should have been reflected in the price and supply effects discussed earlier; if food aid caused both prices to decline and less fertilizer to be imported, the effect of the fertilizer shortage should be an (apparent) increase in the observed price elasticity of supply. As we saw, the effect on domestic

production was apparently extremely small (and, taking account of demand derived from the growth effect of the food aid in the longer run, was probably positive). Also the effect of food aid on the government's agriculture budget was probably positive because of its direct and indirect (growth-inducing) effects on overall government development expenditures. The effect on agriculture's share of budget expenditure would depend on how strongly India would have been committed to its public sector industrialization strategy in the absence of food aid.

After two successive serious droughts in 1965 and 1966, there was a reorientation of priorities toward agriculture, assisted also by growing disillusionment about the primacy of heavy industry in the development process, by the availability of the new high-yielding wheat varieties, and by food aid. Food aid provided sufficient security for the government's "buffer stock" and distribution programs so that the risk of eliminating the disincentive-causing restrictions on grain marketing in surplus areas, which had been imposed to enable the government to buy cheaper grain for subsidized distribution programs, was greatly reduced.[15] In addition, the agreements for American food aid contained a number of commitments for expansion and improvement of agricultural programs, within the Indian government's own targets and plans. There was, however, a great deal of political resentment within India about U.S. food aid, partly because dependence on the United States for food appeared to undermine India's political and economic autonomy and its sense of self-reliance and partly because of President Johnson's "short-tether" policy, under which much needed food aid shipments were delayed in order to put pressure on India, apparently for a combination of developmental and political motives.[16] In spite of (indeed,

partly because of) this resentment, there were redoubled efforts to emphasize and encourage agriculture, with a goal of dispensing with food aid. This goal was substantially achieved in 1972, although reverses in production since then have meant that India has had to spend major amounts of its foreign exchange for food imports and, more recently, to resume food aid.

For the future, India clearly must give primary emphasis to agricultural production so as to be able to feed its people and to stimulate its development. As Lipton put it, "neglect of agriculture is a recipe for slow industrial growth."[17] However, as the recently published Redistribution with Growth, which focuses heavily on agriculture and rural development, points out, because of the very high man-land ratio in South Asia, job creation in the long run must necessarily be concentrated outside farming.[18] While agriculture must and can absorb a great deal more labor, this reemphasizes that in the long run there must be a delicate balance between optimal producer incentives and optimal prices of food grains or, more broadly, that neither agriculture nor industry (nor population control, etc.) is the sole key to development.

This abbreviated and simplified summary of Indian experience does not prove, but serves as an illustrative backdrop for, several more general points regarding food aid. Food aid can be used to support both "good" and "bad" agricultural policies. It would be quite unrealistic for either critics or proponents of food aid (or other forms of aid) to take it for granted that whether food aid supports inadequate or adequate policies it is necessarily a major or determining cause of such policies. Where there are competing powerful forces within a recipient government on questions of agricultural policy donors could conceivably

throw the "leverage" of their aid behind the group whose policies they prefer, but for donors to intervene in the political process by which key domestic policy issues are decided can have quite high political costs for donor-recipient relations, very often does not succeed, and in some cases is likely to backfire and make the policy changes the donors support politically far more difficult to implement.

If a country has a strong commitment to agriculture and the political will and sound policies to carry out that commitment, it is likely to use the food aid in a way that supports its agricultural development effort. As illustrated by the example of the Indian buffer stocks, this need not always be to increase immediate foodgrain consumption. If not, food aid will be used to further whatever alternative economic objectives the government has (e.g., the promotion of industry at the expense of agriculture).

Project versus Program Assistance

It follows from the above, and from the general fungibility of projects,[19] that the donor often has little to gain (other than the presentational benefits of having a specific project to demonstrate the effect of its aid) from insisting on using food aid to finance projects when the recipient would prefer the food aid in "program" (or "non-project") form. (We use "project" here in a fairly broad sense to cover all situations where the donor's aid is tied to specific activities, whether through provision of food per se, as in food-for-work programs, or through provision of "counterpart" funds generated from the food aid.) As Singer et al. and Sen pointed out over a decade ago, food aid in program form can make a more effective contribution to the recipient's development objectives than aid tied to projects.[20] For example, project tying may foreclose opportunities for expansion of poverty-

focused programs in agriculture or other sectors or expansion of employment by easing bank credit limitations. Sen points to the problems and inefficiencies which can occur when donors support nonfungible projects which cause distortions in recipient's development plans or which are unlikely to be continued by the recipient when the aid (for that project) is phased out.

Such general principles must, of course, be tempered to take account of the complexities of the "real world." Countries cannot be divided neatly into good and bad on the basis of policy performance; most fall somewhere in between. There are a number of steps donors can take to foresee and prevent likely disincentive effects of food. The first step should be a case-by-case analysis of the situation and policies of major recipients of food aid, looking, inter alia, at the complex of factors discussed above. Problems, and feasible solutions, will vary considerably among countries and within countries over time. Fortunately, thinking among recipients and donors on the role of agricultural development has changed a good deal since the period a decade ago on which much of the current criticisms of disincentive effects are based. Also, the sparseness of food during the 1973-74 general food shortage has made recipient countries well aware that they cannot count on large-scale food aid in times of shortage. It would be quite reasonable for donors and recipients to discuss mutual concerns about possible disincentive effects of large food aid programs and what might be done about them; there may be advantages in carrying out such discussions under the aegis of a multilateral agency or a multidonor consultative group, rather than on a bilateral basis.

In some circumstances, where donors lack confidence in a recipient's overall agricultural policies, channeling food aid through specific projects may help address disincentive problems. While projects are far more fungible than first appearances would suggest, they are often seen as less than fully fungible from the recipient's point of view. Where necessary, there are steps the donor can take to increase the odds that the projects it funds will in fact be additional, such as fairly active participation by donor or voluntary agency staff in project selection and design. Some governments may welcome, or not object to, receiving food aid in project form.[21] Projects also offer a way to both recipients and donors to assure that the benefits are directed toward specific disadvantaged groups.

Food aid in project form can be particularly helpful where it is desired to direct the food aid to support agricultural production. The food aid may be used, for example, to build up food stocks, as part of a plan to expand the overall agriculture budget, or to support labor intensive rural infrastructure projects. Sen's point, noted above, about sticking to activities that are regarded as of high priority by the recipient government must be kept in mind. There are many circumstances where the best use of additional food or other resources is not, for example, in rural public works programs but perhaps in health, education, or support for labor-intensive industry.

There are also possibilities for compromise between the program and project approaches. Food aid to build up recipient stocks would fall in this category. The 1974 DAC annual report notes that "even the UN World Food Program, which has previously had a strong orientation toward financing specific projects, is considering a gradual move toward a multiproject approach; it has also considered the 'program approach.'..."[22]

Implications for Food Aid Allocations

Where food aid is considered likely to have a significant disincentive effect which cannot be eliminated--generally where overall agricultural policies are considered to be weak--donors can adjust the mix between food aid and non-food aid or, if necessary, cut back on food aid without offsetting increases in other aid. The likely world-market shortages and high prices of food in many or most future years, in comparison with the general surplus situation in the 1960s, mean that donors need to be increasingly concerned about the allocation of food aid. There are several reasons, though, why donors should be cautious in emphasizing agricultural "performance" criteria in the allocation process. First, to go as far as adjusting annual allocations on the basis of performance would cause friction between donor and recipient which (as in the case of donor attempts to use "leverage" to force major policy changes) would be counterproductive for political relations and might well either not work or even backfire. Second, donor judgments may be incorrect, particularly if not based on detailed studies of relevant economic, social, and political factors. Also, such judgments, quite properly, tend to change over time. The same big-farmer strategy that looked like an efficient tough-minded approach to some donors 10 years ago may look inefficient, as well as inequitable, to them today. Third, it would not only ignore the other benefits of food aid but would conflict with what should be the underlying allocation criteria for food aid--poverty, shortage of food, and shortage of foreign exchange to import food commercially. It would be unfortunate if performance criteria were inadvertently to introduce a bias toward countries which, on the basis of income and food availability, needed it the least. In essence, a moderate standard of performance should be

considered as a necessary condition for receiving food aid, other than that directed essentially to immediate humanitarian purposes, but not as a substitute for other allocation criteria.

Similarly, a recipient's ability to develop good food aid projects should not per se be a major criterion of intercountry allocations, since higher-income countries tend to be more skilled at project design and presentation. Even where higher-income developing countries without aggregate food shortages submit projects for food aid financing that specifically address the needs of low-income groups, preference should be given, in allocation of the aid and especially of donor assistance in project preparation, to countries with low income and food shortages. This is not at all to say that serious attention should not be paid to project design and appraisal. For example, unless the food aid supply position changes drastically, a repetition of past donor-funded projects which provided cereal grains for subsidized animal feeds (used to produce foods consumed primarily by high-income consumers) should be no more acceptable for a very poor country than for a middle-income country.

One further step which donors can take in the allocation process is to be particularly sensitive to potential conflicts between development objectives of food aid and other objectives, whether commercial (e.g., surplus disposal), political, or even humanitarian. While bad donor motives can produce good development results (and vice versa), the stronger the emphasis on nondevelopment objectives, the more risk there is that conflicts with recipient production incentives will arise and that insufficient attention will be paid to them.[23]

We have seen that the disincentive risk of food aid is far more complex, and location and time specific, than some analyses have suggested. Even where there is an observed or likely disincentive effect, food aid should not necessarily be reduced until these costs are weighed against the employment, nutritional, export, or other benefits.[24] Food production is so important that a very heavy weight should be given to it, but to ask only, "Is there a (risk of a) disincentive effect?" is to consider any drop in food production to be an infinite cost and to ignore entirely other benefits. One should hesitate before concluding, implicitly, that shifts from grain to non-food crops should never be encouraged or that the people of a given country are better off with, in effect, no loaf rather than, say, two-thirds of a loaf (even assuming that the reduction in domestic production was as high as one-third of the food aid provided). Similarly, food aid policies (relating, e.g., to its volume or stability) should not be determined merely on the basis of an assumed disincentive effect, without consideration of the costs to other objectives such as employment creation.[25]

Donors who are concerned about disincentive effects of food aid should be willing to provide non-food aid to assist recipients in easing the constraints on agricultural production. This means, for example, relaxing regulations on tying or local cost financing in order to provide what small farmers require, diverting fertilizer from developed countries during times of shortage, and supporting major land reform (which, as increasingly recognized today, implies a realignment of local and perhaps national political power and not just passing laws and setting up institutions). Assisting in relieving constraints on agriculture should not mean donor insistence on specific other agricultural assistance as the "price" for food aid, or on projects directly associated with agricultural assistance.[26]

Food Aid and the Neo-Malthusians

Some critics have argued that in India and elsewhere food aid will lead to more rapid growth of population, more strain on scarce local and world resources, and ultimately to more starvation. While detailed consideration of this criticism goes well beyond the scope of this paper, there is general agreement among demographers and other social scientists studying the determinants of family size that this view, which provides an apparent moral rational for the denial for food aid, is demographically unsound. Family size is affected by a number of sociocultural factors but is by no means as irrational or as biologically determined as many have thought in the past. In very poor countries children, who become net positive economic assets at a young age, are the best insurance against a disastrous reduction in family earnings through disability or old age. Contrary to the Malthusian view, birth rates among the poor go down, not up, as their standard of living (which in the poorest countries means initially their standard of eating), rises.[27] While development leads to a transition period of sharply lower death rates before birth rates fall, and while the determinants of the pace of this transition are not yet fully understood, the sooner and faster the death rate declines the sooner and faster the birth rate will decline. If the donor nations were to withhold food during times of near famine, as some neo-Malthusians have actually suggested, the net effect would not only be human misery but an increased economic rationale for poor families to take out more insurance by having larger families. Similarly, if less dramatically, where food aid can make a positive contribution to employment, nutrition, or other aspects of the development process, then holding it up on grounds of concern about population growth will lead to a slower demographic transition and a higher

growth and long-run level of population. This applies whether or not the country has an official, or effective, family-planning program.

Comparable Disincentive Effects of Other Types of Aid

Most of the issues discussed above--of prices, policies, projects, etc.--are, with only minor modifications, relevant to all forms of aid, not just food aid. While the disincentive risks of non-food aid are more dispersed, and hence less readily apparent, all financial aid ultimately could (ceteris paribus) have theoretical negative effects on the prices of capital and foreign exchange and on savings and trade policies.[28] But, as the previous discussion of food aid has made clear, the ceteris paribus assumption is entirely hypothetical. For non-food aid, as for food aid, it is up to recipient and donor to ensure that any disincentive risk is offset by using the aid as a basis for additional output and employment. In our observation, this disincentive risk, while a real one, can be handled in most cases and (as in the case of food aid) is far better appreciated by recipients and donors than was the case a decade or so ago. This observation obtains substantial support from recent contributions to the debate on the statistical effects of aid on savings and growth (discussed, in part, later in this paper). In any event, to single out food aid for criticism on disincentive grounds seems a case of the fallacy of misplaced concreteness.

Effects on Employment and Income Distribution

There are, of course, differences in the effects of food aid and other aid. On the one hand, the disincentive effects of food aid are felt in the food production sector, which is both vital and often relatively neglected. On the other hand, in several ways the distorting effects of food aid are more acceptable and have more side effects than that of other forms of aid,

when looking at the demand side rather than just the supply side. This point is clearly brought out when comparing food aid with non-food aid which results in the import of additional capital and intermediate goods (i.e., the usual and conventional case of aid designed to lead to increased investment). Where non-food aid reduces the price of capital and foreign exchange there is an incentive for more capital-intensive and import-intensive methods of production. Where supplies of food are increased, and as a result food prices are lowered, this makes it possible to attain a given level of real wages at a lower level of money wages. Thus, there is an incentive for more labor-intensive methods of production or composition of output.[29] Also, unlike aid for capital equipment, food is not tied to the particular (generally highly capital-intensive) technologies embodied in equipment imported from developed countries. In the interests of employment policies, taking into account the bias toward capital-intensive technology inherent in the world distribution of R & D and in other prevailing policies of developing countries, it seems clear that the "distortion" introduced by food aid is in some respects less undesirable than that of conventional financial aid.

A related point is that the lowering of food prices is likely to benefit the poorer sections of the population, both urban and rural. In low-income areas, such as South Asia, not only landless laborers but also a large percentage of small farmers are in fact net buyers of food, using purchases from cash incomes to supplement their own production. And in times of shortage it is the most nutritionally vulnerable groups who suffer most in interfamily and intrafamily food distribution. A lowering of the price of capital goods, on the other hand, will improve the relative position of the upper-income groups. Hence food

aid--assuming the same degree of "incentive" impact of food aid and financial aid--is likely to lead to more equal income distribution as well as to greater employment.

Differences in Standards Applied to Food and Non-Food Aid

Many economists appear to view food aid and non-food aid from remarkably different perspectives. Most economists believe that aid recipients should use (non-food) aid receipts to increase investment, employment, and output in accord with a well-thought-out development plan and/or the signals provided by market forces; they would be horrified if the aid were used instead for short-term consumption increases or for low-priority development projects with an uncertain impact. Yet, paradoxically, because of a concern about disincentives and a lack of sufficient emphasis on how food aid can in fact add to employment and investment (and, perhaps, because of the particular association of food with basic human needs), many of these same economists urge that food aid virtually be required to be used for short-term consumption increases or for ad hoc "additional" projects not included as top priority in development plans. At the same time, food aid is criticized because it "benefits consumption instead of investment." While it is inconsistent to insist, implicitly, that food aid not be used for investment and to criticize food aid for not contributing to investment, both of these views, each apparently reasonably derived from valid policy concerns, are well established in the "conventional wisdom" of food aid.

The latter criticism will appear much less impressive now than it did 10 or 20 years ago, in the great days of the "take-off" and the Harrod-Domar model (which is not to say that savings are not, or should not be, considered important). "Consumption," when it means, for example, improving nutritional levels of preschool children, may have a bigger

impact on future output than a good deal of what is included under the accounting category of investment, as might the alleviation of near-starvation among adults (apart from being desirable in themselves). However, it is the argument of this paper that the justification for food aid need not lie solely or primarily in such humanitarian consumption uses but that food aid, balanced with non-food aid, contributes to increases in investment, employment, and output.

There is also a rather paradoxical difference in the conventional views of the disincentive effects on recipient policy of food aid and non-food aid. The earlier discussion on India noted that there were a number of factors, apparently much more powerful than the effects of aid, which led to the Indian development strategy of, in the eyes of many Indian and other critics, overemphasis on heavy industry and underemphasis on agriculture. But non-food aid to India was far larger than food aid and went primarily for support of industry (particularly because of the high proportion of non-project loans) and related physical infrastructure. Would it not be inconsistent to criticize food aid to India (or any country) on grounds that it led to underemphasis on agriculture in relation to industry unless one were prepared to criticize the much larger volume of non-food aid that went directly and indirectly to support industry?[30] Similarly, would it not be inconsistent to think that on the one hand recipients are sufficiently trustworthy to use (relatively) unrestricted forms of non-food aid responsibly but sufficiently untrustworthy that food aid should be minimized, or purposely made uncertain? And if recipients are not considered sufficiently trustworthy to use responsibly the relatively small proportion of their total investment resources they

receive from food or non-food aid, then how much hope is there that they will use domestic resources responsibly or accomplish much in their development efforts?

Relationship to the Debate about the Effects of Aid on Savings and Growth

While full consideration of the relationship of food aid to the broader debate on the general effects of aid on savings and growth is well beyond the scope of this paper, there are a few points worth noting here.

1. Prices and policies. A key question underlying the debate is whether duress leads to better policy decisions (in agriculture or other areas) than when there is some breathing space (whether provided from a country's own resources or from foreign assistance). This involves considerations of risk functions and of noneconomic factors affecting decision making. The experience of food aid discussed in this paper shows how in practice more aid can lead and has led to both better and worse policies and greater and lesser local food production, depending on the circumstances.

A given analyst's judgments on such questions is likely to be influenced by his views of human nature, essentially by whether he sees people, or countries, responding better to carrots or to sticks. Roughly analogous arguments have arisen over a number of other questions in the past--for example, whether efforts to help the poor within a given country will rob them of the initiative to undertake required self-help efforts. Prevailing views on such questions have changed considerably over the past century or so, because past models of behavior are now recognized as being incomplete in their understanding of the variety of factors that affect individual initiative and self-help.

Similarly, a conceptual model which looks at price or pressure-reducing effects of food or other aid alone, and does not consider risk as well as the range of other relevant policy, political, and other factors, risks misspecification and is likely to yield misleading conclusions. This is a particular problem for the several studies of the effect of aid which analyze somewhat disembodied sets of cross-section or time-series data without looking behind the data to see what specific policies or circumstances have produced extreme values which weigh heavily in least-squares regressions.

Crises and, to a lesser extent, more gradual adversity often induce major changes in technologies, policies, and political systems. However (as the history of Europe between the two world wars demonstrates), these are not always changes for the better. In the case of food grain policy, such steps as enforced sales of food to the government at low prices appear to be rational risk-minimizing responses for a government intent on helping to keep up minimum food supplies in the short term to those with low purchasing power. Also, crises created by the purposeful withholding of food or other aid in times of need might produce less positive responses than crises caused by more impersonal economic problems or by the forces of nature.

While there are no conclusive studies available to resolve this point, there is some qualitative evidence that provision of, or advance commitment of, aid tends to produce better results than the denial of aid. Consider, for example, the circumstances surrounding the acceleration of economic growth in Korea and Taiwan.[31] In a book devoted primarily to criticism of the effects of food aid in India, Shenoy points to a series of steps taken in the past few years, in response to a worsening food supply situation but in the absence of

significant amounts of food assistance, which have apparently reduced farmer incentives significantly. The reimposition of the wheat "zones" is a striking example.[32] (In a country as large and complex as India counterexamples can be offered to any proposition, but if Shenoy's past criticisms of the effect of food aid on food policy had been validated, one would not expect the relative deterioration of policy by Shenoy's own standards as the "crutch" of food aid was eliminated.)

2. Statistical relationships among aid, savings, and growth. While the debate in the literature is unlikely ever to be resolved, a recent article by Stoneman on the effect of aid on growth and savings subjected the work of Papanek (who had criticized a series of articles which found a significant disincentive effect) to a searching criticism and reestimation which, nevertheless, strongly confirmed Papanek's major conclusions, particularly that aid contributes positively and strongly to growth with a higher productivity than that of domestic savings.[33] Although not all aid is in fact saved, the percentage saved must be quite high, and the return from aid invested must be more than high enough to compensate for the aid used for consumption.[34] Thus, when we have stated that the disincentive risk of food aid was about the same as that of other aid, this should not be interpreted as support for an argument against all aid. Food aid, with its visible effect on consumption, appears particularly vulnerable to the argument that aid loans reduce domestic savings (and thus future growth) because part of the loans finance consumption but all of the loans must be paid back. However, it appears to us that the underlying principles of incremental analysis suggest that the consumption arising from a loan should be charged not to existing savings by to the loan itself.[35] Domestic savings would be affected (reduced) only to the extent

that (on a present value basis) the loan did not yield enough to finance its repayments.[36] This would appear to be unlikely. Even if Stoneman's and Papanek's findings of exceptionally high returns to aid were not to apply to food aid, the "grant element" (the weighted sum of loan and grant) in food aid is quite high, probably not too far below the 87 percent grant element for all DAC aid in 1973. As Papanek notes, the portion of loans that result in investment need only be as high (ceteris paribus) as one minus the grant element for a loan not to cause a decline in domestic savings (even assuming the portion invested yields the average return of savings, not the apparently average higher return of aid).[37] In addition to repayment, internal transport, storage, and distribution costs must also be covered. On the other hand, as in the case of other loan aid, the repayment burden is eased by inflation and, in many cases, debt relief, or at least estimation of aid requirements on a net basis (i.e., when the World Bank or other donors estimate aid requirements for a given level of growth, allowance is made for funds required to service existing aid and other loans). This is not to say that many countries do not face serious debt-service problems today, due to a variety of factors including unfavorable trade balances, the hardness of terms of some past aid and of supplier credits, and inadequate new aid flows.

More important, as discussed earlier, food aid can produce a substantial contribution to output and employment and to human-capital formation. In addition, incremental food consumption by the poor and hungry may in some circumstances have a high social value (i.e., in benefit-cost terms it should have a welfare weighting of more than one), and it may be socially optimal to use a part or all of a given food aid loan for this purpose. That

portion of food aid which substitutes for what would or optimally should have been imported from other sources (including the free exchange equivalent of the food aid) would be expected to have as high a return as found by Papanek and Stoneman for aid as a whole. In food-short economies this is likely to be the case for the bulk of food aid, except if a donor tries to "dump" excessive amounts of food aid on a given country, or if the commodity composition of the food aid is not related to recipient need. Even where food aid is excessive, the concern should be only for the disincentive effect--not for net development benefits. If the yield from all aid is equal to or above that of domestic savings (even including the aid lost to consumption) and if the present value of repayment and distribution costs are, say, one-third of the market value of the food aid, there is clearly a great deal of room for returns on food aid to decline (i.e., to lead to less investment or to less-productive investment) before it stops making a positive contribution to the present value of current and future savings. Therefore, we would expect food aid to contribute to growth and not to reduce savings, although quantitative analysis might well show a negative relationship between food aid and savings because of the accounting problem discussed above.[38] In addition, recent analyses of aid allocations and savings confirm Papanek's point that GNP per capita is negatively related to aid/GNP and positively to savings/GNP, so that aid/GNP and savings/GNP are likely to be negatively related, whatever the effect of the aid on savings;[39] this would apply particularly to food aid, with its emphasis on poor food-short countries and disaster situations.

Burden Sharing

We feel that we should not discuss the disincentive effect of food aid without also considering the question of burden sharing, because concern about burden sharing appears to underlie much of the importance placed on the disincentive issue, both in donor nations which are net food grain importers and, now that food grains appear likely to be scarce and highly valued in world trade, in exporting nations as well.[40] To us, the key analytic point relevant to burden sharing is the at least partial additionality of food aid. With total aid from both exporter and importer nations grossly inadequate by any reasonable standard, with likely at least partial additionality of food aid, and with likely sound development uses for a good deal more food aid than is likely to be available (even though food aid is not quite as useful as unrestricted financial assistance), it seems to us that there is little reason why concern about burden sharing should stand in the way of expanding food programs.

In fact it follows from one of the central points covered in this paper--the effect of price on supply--that if the cost of food aid to a given donor declines the amount provided is likely to increase. While it would be unfortunate from the point of view of donor countries if the desire to provide food aid resulted in inefficient high-subsidy agricultural policies, we are hopeful that, if recipient nations can be asked to deal successfully with the disincentive risks of food aid on their agricultural policies, developed countries can be asked to deal with disincentive risks of food aid on their own agricultural policies as well.

We recognize that burden sharing is not influenced solely by development considerations. Exporter nations have export and domestic price interests in urging burden sharing on food aid alone, as a kind of quid pro quo for providing large (or increasing)

amounts of food aid when prices are high. Importer nations have interests in not letting food aid bid up the price of their own food imports and would prefer aid increases to be in such a form that they can share more in the export orders.

There appears to be little logical reason why burden sharing should be viewed as applying to specific commodities or categories. Still it is desirable (from the point of view of increasing aid flows) for net-importer nations to contribute to food aid so long as there is some significant additionality in the multidonor food aid programs to which they are contributing (not just in their own aid). Such additionality might come from increased net (food and total) aid from exporter nations, from net-importer "traditional" donors, or, importantly, from the new group of oil-exporting donors. There are some indications that the UN World Food Programme achieve such additionality. Other internationally-agreed programs may also do so.

Concluding Note

It would be unfortunate to pass up possibilities of partly additional aid, at a time when total aid is grossly insufficient, because donors cannot find a way to deal with the disincentive effect that would arise in some situations. Lower food aid punishes "innocent" governments (let alone innocent and hungry people) along with the "guilty." On the other hand, we do not at all mean that food aid (or more food aid) is automatically indicated in any given situation. Rather, there should be case-by-case analysis, hopefully to some extent jointly by recipient and donor, which should include the range of factors relevant to the risks and opportunities discussed in this paper.

Appendix

The Price Effect of Food Aid on Food Grain Output in India

We attempt here to consider the price and resultant production effect of food aid on food grain production in India. This is a difficult task, not just because the analytic and empirical issues are complex, but because it has become an accepted part of the "folklore" of food aid that it had a serious negative effect in India. Our standard of comparison is less or no food aid, rather than the same amount of aid, but in cash. While we think the latter would have been preferable, this issue raises quite a different set of questions from those considered here.

While there is no single study available (or perhaps conceivable) that simultaneously takes account of all the analytic caveats raised by Bhagwati and Chakravarty[41] and others, the analysis and implications of most of the numerous relevant quantitative studies appear, in our view, to point generally in the same directions, or at least to be reconcilable, although taking account of points raised in one study may change the specific conclusions reached in another.

There are two multiequation econometric studies (of which we are aware) of the effect of food aid on Indian agricultural production. Mann found that food aid resulted in a decline in production of about a third of the food aid. Still, Mann argued (as did Streeten and Hill, who used Mann's results) for more food aid on grounds, essentially, that two-thirds of a loaf is better than no loaf.[42] However, a later study by Rogers, Srivastava, and Heady, covering essentially the same ground, added an additional equation estimating the effect of food aid on distribution of food grains through subsidized "fair-price" shops and found that

about 90 percent of the food aid resulted in additional such distribution; moreover, the subsidized prices included net increases in total food grain consumption, so that agricultural production declined by only 3 percent of the food aid provided, or a tenth of the loss estimated by Mann.[43] But even this latter study did not take account of several factors affecting growth (in employment and output), which is important in itself and for its effect on future demand for foodgrains; the effect of the increased supply of this basic wage good on government policies affecting growth, improvements in the incomes (because of reduced food expenditures) and work capabilities of recipients of subsidized food, and (net) increases in incomes from acreage shifted from food grains to other crops.

Moving from the results of multiequation models to a commonsense view of some of the relevant data presented in tables A1 and A2, we see that large quantities of food aid (mostly from the United States in the form of wheat)[44] were provided from 1957 to 1971. (References to column numbers indicate table A1.) Let us take the years 1955/56-1957/58, during which period large-scale food aid was just commencing, as the base period, although during this period the favorable rainfall conditions raised prices above what they would otherwise have been (even allowing for the fact that most of the price effect of the very poor rains in 1957/58 were not felt until the following year; table A2, line 1). Relative prices fell below this base-period level (set at 100 in col. 7) in only 3 years of the food aid period, 1960/61-1962/63.[45] Relative prices recovered sharply, well before the monsoon failures of 1965 and 1966, and averaged 107.5 in 1964/65-1965/66.[46] (This would not rule out a negative effect of food aid on relative prices in particular years, but it does answer the

criticism that relative food grain prices generally deteriorated during the food aid period and that food aid was a primary cause of this deterioration.)

Between 1959 and 1965 net food imports averaged about 5 million metric tons annually, or about 7 percent of total net food grain availabilities (cols. 1, 4). Other things being equal, there would have been a very sharp decline in the constant and relative prices of food grains, due to their relatively low price elasticity of demand; this is, in effect, what Mann's model, which carefully separates out the effect of income on food grain demand, has measured. But, as the results of Rogers et al. indicate, the potential price decline was partially offset by roughly equal net increases in government food grain distribution at subsidized prices (col. 5).[47] Still, as the combined result of the food aid, increases in domestic production, and rises in other prices (particularly jute, but also, as might be expected during a period of intensive import substitution, manufactures), the relative price of food grains fell to an average of 95 for 1960/61-1962/63. The price of wheat, the commodity which accounted for most food grain imports, was hardest hit.

It is difficult to move from prices to their effect on food grain production other than through fairly complex models. However, in an effort to do so, and to provide a double check on the results of Rogers et al., we calculated weather and time-trend corrected estimates of expected food grain yields (based on a regression equation estimated by Cummings and Ray)[48] to see if deviations from those expected yields could be explained by changes in relative prices (see table A2). Contrary to the view sometimes held, yields were not static prior to the Green Revolution, as shown in Cummings and Ray's weather-

corrected time trend and in Herdt's discussion of the importance of investment in inputs to reduce unit costs of wheat.[49]

The decline in production would be expected to be greatest in 1962/63 and 1963/64, following 3-4 years of relatively low food grain prices.[50] Table A2, row 4, shows that yields were below expected levels for these years, although the deviations are too small to be more than indicative. The correlation between yield deviations and previous 3-year average prices for the period 1958/59-1964/65 was only .06. (The correlation with the previous year's prices -.15, had the "wrong" sign.) Average yields during the 4 years when prices in the preceding year had been low (1960/61-1963/64) were +0.5 percent above expected yields (or + 1.2 percent including 1964/65, which was also preceded by several years of low prices). Overall, there is surprisingly little evidence of any systematic detrimental effect on yields, although yields in 1962/63 and 1963/64 may well have been affected. This result, which focused on the most affected years, tends to support the low price elasticity of supply for the major cereal crops found in several other, more complex studies covering a longer time period,[51] and to support the result of Rogers et al. that food aid resulted in very little loss in domestic output. A similar analysis could be carried out for total output, although we have not done so. However, as is discussed subsequently, that part of shifts in total output which results from short-term acreage shifts between food grains and other crops may not be central to the long-term effect of food aid on production. Yield is, thus, a useful, although imperfect, measure of the impact of prices (since it serves as a proxy for the pace of modernization of agricultural practices).

However, as table A1 indicates, other things were much less equal than the models of Mann or Rogers et al. implied. Industrial production picked up briskly from 1959 and, reinforced by the launching of the third 5-year plan in 1961/62, investment increased sharply, both at rates unprecedented before or since.[52] Per capita GNP grew at about 2 percent annually, which, with the generally accepted estimate of about 0.5 for the income elasticity of demand for food grains in India, would have added about 1 percent per year to per capita food grain demand (cols. 8-10).

Food aid did not cause the investment and industrial boom of the first half of the 1960s, but it played a far from insignificant role by providing resources equal to 10 percent or more of gross investment in the Indian economy,[53] by restraining real wages while growth in nonagricultural output and (to a lesser extent) employment were accelerating, and by offsetting the risk that the investment boom would seriously worsen the food situation in the inevitable years of low rainfall. As Morris put it, "The British viceroy who said...'the Indian budget is a gamble on the monsoon' was giving expression to a most obvious proposition about Indian economic life."[54] A multiyear government effort to accelerate growth, which because of leads and lags and adjustment problems cannot be readily turned on and off as food grain supplies vary, is an even greater gamble on several monsoons. We do not wish to overstate the role of food aid in the rates of growth achieved. But if the supply and price of food grains is an important constraint on growth, and if food aid provides both "insurance" against runaway prices in bad years and additional growth resources (of a sort which make up half or so of what is purchased out of wages), then it is quite likely that in the absence of food aid, government growth policies would have been

less expansionary and output and investment in both the public and private sectors would have grown more slowly.[55]

Another important benefit from food aid was that from 1959 to 1965 food grain supply averaged (fairly consistently) a bit over 16 ounces per day, 1 ounce more than the average in the preceding period (col. 6). This increase in food supplies helped improve nutritional status and the welfare of the poor. We think it also probably improved the relative position of the poor but recognize that there are many complex questions, well beyond the scope of this paper, involved here (e.g., the income status of those buying at "fair-price" shops and the complex effect of changes in food prices on various categories of the rural poor). We have not discussed the effects of food aid during the disastrous food shortage of 1966 and 1967, as we assume that this aid, at a time of record high food prices and near certainty of mass starvation, is not controversial.[56]

With Streeten and Hill we think that in a few years food aid should have been stockpiled, rather than released quickly by the Indian government (or that more expansionary policies should have been followed in 1959/60-1961/62, if foreign exchange availabilities would have permitted.[57] The problem seems to have been one of timing rather than volume. In 1960/61-1962/63, the 3 years when relative food grain prices were under the base-period level, food aid averaged a little over 3 million metric tons; during the subsequent 3 years before the 1966/67 shortages, average food aid approximated double, but relative prices were up 5 percent over those of the base period. (Per capita availability was about the same in both periods.) However, the reduction of food aid in the latter part of the 1960s (partly because the United States offered less and partly because India did not

accept all that was available) and the much greater use of stockpiling to protect farmer incomes while production was increasing indicate that the Indian government is well aware of this point.

So long as the short-term supply effect is substantially positive, to argue that food aid should have been lower because of adverse price effects requires the additional belief that these losses would not mostly have been made up by the subsequent extraordinary increase in food grain prices and shift to the high-yielding (agriculturally and financially) varieties. This would presumably not be the case for that part of the loss of food grain production which represents land shifted from food grins to other crops, since these could be shifted back. Rather, such a judgment would have to rest on production lost from that part of the resulting decline in investment in agriculture or slowdown in adoption of improved seeds and farm practices which could not also be reversed by the subsequent shift in relative prices. Offsetting that loss are the effects of the overwhelming portion of the food aid that was additional (combined with the effect of investment shifted to other sectors) on growth, and so on demand for and investment in food grain production. Thus, we wonder whether some (but by no means all) criticism of the price disincentive effect of food grains in India has not rested on an implicit assumption of an irreversibility (and perhaps asymmetry) of price effects.

In sum, the expected detrimental price effect of food aid on Indian agricultural production was offset by increased subsidized food distribution and a low price elasticity of supply and, in the slightly longer run, by income-induced demand increases to which the food aid contributed.

Table 1.

DATA ON THE EFFECTS OF FOOD AID

Year	Net Food Grain Imports (1)	U.S. "Title 1" Food Aid (2)	Gross Domestic Production of Food Grains* (3)	Net Imports as Percentage of Net Production† (4)	Government Distribution of Food Grains (5)	Food Grain Supply per Person per Day (Ounces) (6)	Relative Price of Food Grains‡ (7)	Industrial Production Growth (%)§ (8)	Gross Investment Index‖ (9)	NNP per Capita‖ (10)
1955.....	0.5	...	70.7	1	1.6	14.8	92	8		99
1956.....	1.4	0.2	69.3	2	2.1	15.2	103	8		102
1957.....	3.6	2.7	72.5	6	3.1	15.8	105	3		99
1958.....	3.2	2.0	66.6	6	4.0	14.4	109	2	91	104
1959.....	3.9	3.2	78.8	6	5.2	16.5	101	8		103
1960.....	5.1	4.3	77.1	8	4.9	15.8	95	11		108
1961.....	3.5	2.3	82.3	5	5.0	16.5	93	9	100	110
1962.....	3.6	2.9	82.4	5	4.4	16.4	97	10	114	109
1963.....	4.5	4.2	80.3	6	5.2	15.7	100	8	131	113
1964.....	6.3	5.4	80.7	9	8.7	16.0	109	9	131	119
1965.....	7.4	6.4	89.4	10	10.1	17.0	106	9	142	110
1966.....	10.3	8.1	72.3	16	14.1	14.4	108	0	130	109
1967.....	8.7	6.0	74.2	13	13.2	14.2	122	0	120	117
1968.....	5.7	4.2	95.1	7	10.2	16.3	111	7	110	115
1969.....	3.8	2.6	94.0	5	9.4	15.7	115	8	115	121
1970.....	3.6	2.5	99.5	6	8.8	16.1	108	3	123	124
1971.....	2.0	1.2	108.4	9	7.8	16.6	108	3	125	123

SOURCES.—To minimize problems of inconsistency of data, all data have been taken or adapted from Shenoy, *PL480 Aid and India's Food Problem* (New Delhi: East-West Press, 1974), tables 2.4, 2.5, 8.2, 9.1, and A-2, except cols. 7 and 8, which are from Government of India, *Economic Surveys* (New Delhi: Government of India 1957–73), tables 5.2 and 1.1. Shenoy's data are also from Government of India sources.

NOTE.—Cols. 1, 2, 3, and 5 are in millions of metric tons.

* Agricultural year July–June, ending in the year listed.

† Net production is taken by subtracting the conventional rough estimate of 12½ for seed, feed, and waste from gross domestic production (col. 3).

‡ Food grain prices as a percentage of overall (wholesale) prices. Weekly average for the fiscal year April–March beginning in the year listed 1955/56–1957/58 = 100, but based on the *Economic Surveys*' 1961–62 series.

§ 1955/56–1957/58 = 100, but based on the 1952/53 series in the *Economic Surveys*. Data for 1969/70–1971/72 are extrapolations on the basis of annual growth in the *Economic Surveys*' 1961/62 series.

‖ Fiscal years; 1961/62 = 100; 1961/62 prices.

Fiscal years; 1955/56–1957/58 = 100, but based on the 1960/61 series in the *Economic Surveys*. NNP turns down in 1965/66, a year before other indicators, because NNP is based on estimates of current farm production, while most of the effects of the major harvest, in autumn, are not felt on other variables (except, to some extent, price) until after the beginning of the next fiscal year, in April.

Table 2.

EXPECTED VERSUS OBSERVED CEREAL YIELDS

	1954–55	1955–56	1956–57	1957–58	1958–59	1959–60	1960–61	1961–62	1962–63	1963–64	1964–65
1. Effect of rainfall (expected yield/expected yield with normal rainfall)*.....	99	100	97	92	100	101	100	100	98	99	101
2. Yield (pounds per acre)†.....	...	570	592	502	631	636	672	681	651	675	729
3. Expected yield‡.....	...	602	594	570	633	648	656	666	662	680	703
4. Yield deviation (%) (100 × yield/expected yield − 100).....	...	...	...	...	−0.3	−1.8	2.4	2.2	−1.7	−0.7	3.7
5. 3-year average relative price of food grains (April–March, 3 previous years) (1955/56–1957/58 = 100)	...	...	...	...	100	106	106	102	97	95	97
6. Relative price of food grains (April–March, previous year).....	...	...	...	...	105	109	101	95	93	97	100

* 1951/52–1968/69 average = 100.

† Data from Cummings and Ray, p. A-166.

‡ Cummings and Ray's estimating equation (p. A-167) was

$$\text{yield}_t = -839.58 + \underset{(6.165)}{26.228 r_t} - \underset{(0.032)}{0.12397 r_t^2} + \underset{(1.124)}{11.116 t} \qquad R^2 = .91$$

when r_t = an all-India production-weighted rainfall index for year t; t = 1 in 1951/52; SEs in parentheses.

ENDNOTES

[1]This article deals with food aid for development purposes and not, except in passing, with the less controversial case of food aid for disaster relief or other explicitly humanitarian purposes. It deals only with food grains, which account for the bulk of food aid provided, and not with cotton, milk powder, vegetable oils, etc., although most of the analytic points made about the relationship of imports to domestic production are also applicable to these commodities. It does not attempt to deal with the range of other issues relevant to food aid, such as optimal commodity composition, implementation problems, the concerns of recipients about the political risks of heavy dependence on food aid, or the need for greater access for the exports of the poor countries to the markets of the rich countries so they can afford to meet most of their food and other import requirements from their own export earnings.

[2]See T. W. Schultz, "Value of U.S. Farm Surplus to Underdeveloped Countries," Journal of Farm Economics 42 (December 1960): 1031-42; H. W. Singer, M. R. Benedict, V. K. R. V. Rao, J. Figueres, and P. N. Rosenstein-Rodan, "Report by the Expert Group to the Director General of F.A.O.," in Development through Food (Rome: FAO, 1961); and F. M. Fischer, "A Theoretical Analysis of the Impact of Food Surplus Disposal on Agricultural Production in Recipient Countries," Journal of Farm Economics 45 (November 1963): 863-75.

[3]Schultz, p. 1027.

[4]In spite of his deep concern about the disincentive effects of food aid, Schultz (p. 1029) sees food aid used for building stocks as contributing to increases in domestic food production. Jones and Tulloch point out the need for food aid to be used to rebuild depleted stocks in developing countries (D. B. Jones and P. Tulloch, "Introduction: Is Food Aid Good Aid?" ODI Review, no. 2 [1974], p. 2).

[5]John P. Lewis has suggested to us that it is useful to think of the expansionary effect of food aid on employment and output as arising in three ways: from planned increases in demand; from closing a food demand-supply gap that was in prospect at existing prices (e.g., when weather conditions have been unexpectedly unfavorable); and from increments to food stocks which, by reducing the risk of excessive food-price fluctuations, reduce the risks of undertaking expansionary economic policies. The distinction emphasizes that it is not always necessary or desirable to cause ex ante increases in the demand for food grains to make optimal use of food aid.

[6]The importance of this constraint and the consequent inadequacy of most traditional growth models which focus only on the savings constraint are discussed in J. W. Mellor, "Models of Economic Growth and Land Augmenting Change in Food Production," in Agricultural Policy in Developing Countries, ed. N. Islam (London: Macmillan Co., 1974), pp. 6-14. For a survey of Engel-curve data on the proportion of income spent on food and, specifically, food grains, see K. B. Rogers, "Utilization of Food Aid in Economic

Development," Center for Agricultural and Rural Development, Development Report no. 6 (Ames: Iowa State University, 1971), pp. 183-91.

[7]N. Rath and V. S. Patvardhan, Impact of Assistance under PL480 on Indian Economy (Poona: Gokhale Institute of Politics and Economics, 1967), p. 121. Seevers, in his sharp criticism of the food grain constraint on growth in employment as an argument for food aid, appears to be assuming implicitly that no additional non-food resources available from any source (G. L. Seevers, "An Evaluation of the Disincentive Effect Caused by PL480 Shipments," American Journal of Agricultural Economics 50 [August 1968]: 630-42. Putting aside the question of whether food-scarce economies can have slack resources which can be put to use if additional food is available, Seevers is apparently assuming, not unreasonably from some points of view, that non-food aid should be taken as given, so that he does not consider the question of the balance between food and non-food aid. Donors, however, can obviously consider this question ex ante, thus forestalling the danger Seevers warns of, that "the full burden of restraining general inflation" (p. 636) would fall on food grains. Seevers's statement also assumes implicitly a near-zero elasticity of supply of exports, so that employment increases resulting from increased food supplies do not generate a part of the foreign exchange required for food imports. Finally, his criticism derives from his focus on the welfare of farmers only, not of society as a whole.

[8]For a discussion of the major issues in determining the balance between food and non-food aid, see S. Chakravarty and P. N. Rosenstein-Rodan, "The Linking of Food Aid with Other Aid" (Rome: FAO, 1965).

[9]Development Assistance Committee, 1974 Review--Development Cooperation (Paris: OECD, 1974), p. 94.

[10]Jones and Tulloch also judge that EEC food is likely to be at least partly additional (p. 3).

[11]Mellor, pp. 15-17.

[12]K. D. Rogers, U. K. Srivastava, and E. O. Heady, "Modified Price, Production and Income Impacts of Food Aid under Market Differentiated Distribution," American Journal of Farm Economics 54 (May 1972): 201-8.

[13]L. Dudley and R. J. Sandilands, "The Side Effects of Foreign Aid: The Case of PL480 Wheat in Colombia," Economic Development and Cultural Change 23 (January 1975): 325-36. Their argument against wheat imports rests on the belief that the Colombian government, instead of subsidizing consumption of wheat (by importing it at the official exchange rate, which they estimate to have been overvalued by 40 percent), should have used a shadow price of 0.75 on domestic wheat production to determine wheat import levels. The net effect of this would have been a major increase in urban wheat prices (by an average of 20 percent). Although they state that "it is important to consider the total

benefits to Colombia from PL480" (p. 335), they mean, implicitly, not "total benefits" but the difference between their estimate of the grant element of the food aid loan terms and the shadow-priced value of output foregone from otherwise utilized domestic resources. They do not consider at all the goals the Colombian government was attempting to pursue through wheat imports--control of inflation, increases in government revenues, growth in employment, etc. As our discussion of the Indian case shows, the benefits of food aid outside agriculture can be quite significant. Also, the empirical basis for the assumed 0.75 shadow price (for the total cost of the domestic wheat) appears slender in view of the crucial weight the analysis places on it. It seems odd that if farmers had such limited alternate uses for their land and labor they would show a price elasticity of supply as high as 2.05. (However, this is an indication of the need for broadening the analysis and for further empirical information, not for disagreement with Dudley and Sandilands's interesting and useful demonstration of how shadow prices and import levels can be used as aspects of region-specific program to generate rural employment.) In addition, is it not playing down the importance of the Colombian government's own decision-making process and responsibilities to assume in the title ("The Side Effects of Foreign Aid") and in part of the analysis that it was the "terms of the agreements" (p. 336) of the one-third (initially one-half) of wheat imports financed by food aid which determined the government's wheat import and pricing policies? If one really believes in the implicit underlying policy model (which relies primarily on what one might call a high price elasticity of policy formulation), what does this imply for the ability of aid recipients to manage their own economies in general? Furthermore, if domestic prices were too low and wheat imports excessive, should the authors (D and S) assume (in their calculation of the net benefits of food aid) that marginal cuts should or would be met initially by reductions in food aid, which does after all have a high grant element? Would it not make more sense for the larger volume of commercial imports to have been reduced instead? Can they have overlooked this point, or perhaps confused the normal requirement in U.S. food aid agreements that "usual" levels of commercial imports not be cut with a requirement that future commercial imports be increased substantially over past levels? For a very useful annotated bibliography on the price effects of food aid in other countries, and on many of the other issues considered in this paper, see H. Schneider, The Effects of Food Aid on Agricultural Production in Recipient Countries (Paris: OECD Development Centre, 1975). Schneider's summary presents findings generally quite consistent with those of this paper.

[14]See, e.g., the discussion of the Indian 5-year plans in Bhagwati and Chakravarty, which also outlines the debate that ranged until well into the 1960s on the price responsiveness of Indian agriculture (J. N. Bhagwati and S. Chakravarty, "Contributions to Indian Economic Analysis: A Survey," American Economic Review 59 [September 1969]: 1-73. Also, see Lipton for a discussion of some of the reasons agriculture was underemphasized in Indian development strategy (M. Lipton, "Strategy for Agriculture: Urban Bias and Rural Planning," in The Crisis of Indian Planning, ed P. Streeten and M. Lipton [London: Oxford University Press, 1968]).

[15]Islam and Mason make essentially the same point for Pakistan (N. Islam, "Foreign Assistance and Economic Development: The Case of Pakistan," Economic Journal 82 [March 1972]: 502-29; E. S. Mason, "Economic Development in Pakistan and India," Center for International Affairs Occasional Paper 13 [Cambridge, Mass.: Harvard University]). Islam indicates that food aid to Pakistan provided the margin of safety for the introduction of flexible new policy measures, away from direct controls, to stimulate agricultural production. Islam also discusses the disincentive, as well as incentives, provided by food aid.

[16]A. Berg, "Famine Contained: Notes and Lessons from the Bihar Experience," in Famine, Nutrition and Relief Operations, ed. G. Blix, Y. Hofrander, and B. Vahlquist (Uppsala: Swedish Nutrition Foundation), pp. 121-22.

[17]Lipton, p. 147.

[18]H. Chenery, M. S. Ahluwalia, C. L. G. Bell, J. H. Duloy, and R. Jolly, Redistribution with Growth (London: Oxford University Press, 1974), pp. 102-3.

[19]In reference to projects, fungibility means that if a donor finances a project which the recipient would in any event have carried out from its own or other aid funds, then the donor's funds are, in effect, allocated however the recipient desires. This concept is discussed in depth in H. W. Singer, "External Aid: For Plans or Projects," Economic Journal 75 (September 1965): 523-46. The same general point applies where the specific project is in fact additional to what the recipient would otherwise have done but where it is able to make compensating reductions in comparable projects.

[20]Singer et al., p. 85; S. R. Sen, "Impact and Implications of Foreign Surplus Disposal on Underdeveloped Economies--the Indian Perspective," Journal of Farm Economics 42 (December 1960): 1038-39.

[21]for example, some countries may be short of manpower available for program and project selection and design, or they may value the technical assistance and fairly rigorous criteria for project review and design which are implicit in project assistance from some donors. This might apply not only in countries close to the "least developed" stage, but where, for example, planning ministries see this as a way of improving the quality of projects submitted to them from other ministries or from regional or local authorities.

[22]Development Assistance Committee, p. 94.

[23]Press reports in early 1975 indicated strong reactions from the U.S. Congress and elsewhere to the very large proportion of U.S. food aid that went to Vietnam and other countries receiving large-scale political or military assistance from the United States. The significance of this large-scale use of food aid for political purposes goes, of course, far beyond the disincentive issue. It underlines the importance of not just comparing worldwide food aid needs (however estimated) with worldwide food aid provided, but of looking at

food aid needs and provision on a much more disaggregated basis and of finding politically feasible ways to assure that pressing developmental (as well as humanitarian) needs are met.

[24]Consider the following quote from Mason, p. 64: PL480..."[in Pakistan] made possible the freeing of the grain trade in 1960, the beginning of a buffer stock operation, and some substantial changes in cropping patterns favorable to agricultural exports." He thus sees a (minor) positive incentive effect on food grain policy and implicitly a disincentive effect on food grain prices (relative to cotton prices), which he sees as a gain, not a loss.

[25]Where food aid is provided as a part of a package for general development purposes, the efficiency of food aid will be increased if it is fairly steady and predictable, as in the case of non-food aid. Year-to-year variations in domestic production, and thus in the optimal amount to be distributed internally, are better handled, for development and political reasons, by changes in recipient stocks than by variations in annual food aid (setting aside annual adjustments required to take care of shifts in short-term needs elsewhere). This runs counter to the recommendation made on several occasions (e.g., in Jones and Tulloch, p. 4) that food aid purposely be made unpredictable to minimize disincentive effects. That recommendation does, however, remain reasonable where food aid is not provided as a part of a total development aid package or where there are likely to be serious disincentive effects.

[26]We do not consider here the often-discussed question of whether it is "better" to give food aid or aid for food production, primarily because, given the additionality of food aid, we think that this trade-off arises far more often in abstract discussion than in practice. (Effective) aid for food production is clearly preferable to food aid, except under conditions of severe short-term shortages.

[27]The application of these points to India is discussed in R. H. Cassen's forthcoming book, tentatively entitled "Population and Development in India." As several studies have shown, income distribution as well as the rate of economic growth can have an important effect on birth rates. If rising family welfare (measured in terms of income, food consumption, health, education, etc.) leads to lower family size, then for significant reductions in birth rates the distribution of income (and government services) must be equal enough so that poor families experience significant improvements in their welfare. Rapid growth with unequal distribution that benefits primarily higher income groups, who already tend to have smaller families, would not be expected to have as much impact on birth rates (see, e.g., J. E. Kocher, "Rural Development, Income Distribution and Fertility Decline," Occasional Paper [New York: Population Council, 1973]; H. W. Singer, "Income Distribution and Population Growth" [Institute of Development Studies, University of Sussex, 1973], to be included in a forthcoming UN volume of papers relating to the 1974 World Population Conference; W. Rich, Smaller Families through Social and Economic Progress, Monograph no. 7 [Washington, D.C.: Overseas Development Council, 1973]). The negative effect of increases in family welfare on birth rates is not inconsistent with the positive effect of income on birth rates noted in some studies when the effect on birth rates of the correlates

and consequences of income increases (such as more education, higher value of the mother's time, and reduced infant mortality) are disregarded by being held constant.

[28]The theoretical disincentive effect applies to technical as well as capital assistance, in the sense of relieving the pressure for developing human and institutional resources. It is also applicable to non-market economies, although the disincentive effect would be felt through policies and programs rather than prices.

[29]The net employment would be expected to be positive, even after allowing for some decline in demand for agricultural labor, because of the relative low price elasticity of food grain supply noted earlier.

[30]The Development Assistance Committee (p. 87) reports that food aid was about 20 percent of total "Official (Concessional) Development Assistance" during the period 1962-72). It is not feasible to determine what percentage of the remaining 80 percent went directly and indirectly to industry, but in most countries the majority of non-project aid or local-cost financing went to finance industrial imports, in addition to the generally smaller amounts earmarked directly for industry. We do not mean to argue here against non-project aid, to India or other countries. Whether non-project aid has a "negative" or "positive" effect on trade and industrial policy, in India or elsewhere, is a subject well beyond the scope of this article, although many of the relevant issues parallel the food aid disincentive issues discussed here.

[31]G. Ranis, in Chenery et al. (n. 18 above), p. 290, states, regarding Taiwan: "The timely arrival of large quantities of programme aid at the end of the 1950s and early 1960s was doubtless largely responsible for providing the little extra buffering and reassurance for a system which had to be persuaded to head out on uncharted import liberalisation tracks...but we firmly reject the notion that aid was 'responsible' for Taiwan's good performance. Rather, aid facilitated the policy changes required for the restructuring which could take place once the necessary local decisions had been made." While Griffin is in strong disagreement with this judgment of the effect of aid in Taiwan, he does not discuss such specific effects of aid on policy (K. Griffin, "An Assessment of Development in Taiwan," World Development 1 [June 1973]: 31-42). While he contends (p. 33) that "U.S. [food] aid is the second explanation for the retarded growth of agriculture," his data (p. 32) appear in fact to show that during the decade from the mid-1950s to the mid-1960s food aid tripled while the agricultural growth rate doubled.

[32]B. R. Shenoy, PL480 Aid and India's Food Problem (New Delhi: East-West Press, 1974), pp. 278-93. For a discussion of the negative effect of the recent food shortage (in relation to requirements for government distribution programs) on agricultural policy in India, also see W. Ladejinsky, "Wheat Procurement in India in 1974 and Related Matters," World Development 3 (February-March 1975): 91-111.

[33]C. Stoneman, "Foreign Capital and Economic Growth," World Development 3 (January 1975): 1-10; G. F. Papanek, "The Effect of Aid and Other Resource Transfers on Savings and Growth in Less-developed Countries," Economic Journal 82 (September 1972): 934-51, and "Aid, Foreign Private Investment, Savings and Growth in Less-developed Countries," Journal of Political Economy 81 (January/February 1973): 120-30.

[34]This was quite contrary to the expectations of those who had focused on the effect of aid on savings. For example, Griffin had postulated, apparently quite reasonably, that anticipated aid should be treated as in effect "permanent" rather than "transient" income, so that a country's normal marginal savings rate should be applied (K. Griffin, "Reply [on Foreign Capital, Domestic Savings and Economic Development]," Oxford Bulletin of Economics and Statistics 33 [May 1971]: 156-61). If the capital-output ratio is the same for aid as for savings (although Griffin postulated it to be higher), then aid would have been expected to have a return (as measured by its regression coefficient) under a third of that of savings (taking one-third as the high end of the range of likely marginal savings rates). (Griffin went on, somewhat inconsistently, to add aid consumed to total consumption but not to total income, and so ended up with a savings equation which purported to show "as surely as night follows day" that aid caused marginal saving rates to decline.)

[35]The same principle applies to the point raised by Stoneman (p. 13) regarding consumption arising during the construction period of aid-financed investment activities. Short-term "borrowing" of domestic savings should not be confused with a reduction of these savings. Rather, the costs of the short-term borrowing should be treated like other project costs. This borrowing cost would be relatively lower for food aid, which implicitly self-finances much of the additional consumption during this time "lag."

[36]In addition, the (present value of the) amount required to repay the portion of aid used for consumption should be subtracted from gross, not net aid. The latter (which is the common, if implicit, practice) charges this year's loans with both their own repayment and payment of debt service on past loans. The cumulative effect of whether consumption from loans should be charged to domestic savings or the loans, whether the total amount of the consumption or the discounted present value of its repayment should be deducted, and whether the deduction should be from net or gross aid would together have a significant effect on one's view of the effect of aid on savings.

[37]G. F. Papanek, "The Effect of Aid and Other Resource Transfers on Savings and Growth in Less-developed Countries: A Reply," Economic Journal 83 (September 1973): 873. Stoneman's statement (p. 13) that even Papanek agreed that consumption from loans should be subtracted from savings is correct only with respect to loans which have no grant element (i.e., not to concessional aid) and which do not yield enough from the portion invested to cover total debt service costs. Even in such cases, it should not be the total amount of the loans which is subtracted from savings.

[38]The points made above on the need for a present-value analytic framework for considering the effects of consumption and repayment of loan proceeds and of the short-term interaction of food aid consumption and investment cannot be handled either by conventional national-income accounting or by the very useful clarifying suggestions for national-income accounting made by Newlyn (W. T. Newlyn, "Comment on the Effect of Aid and Other Resource Transfers on Savings and Growth in Less-developed Countries," Economic Journal 82 [September 1973]: 867-69. Nevertheless, it is erroneous to draw conclusions about the effect of aid on savings when those conclusions may be telling more about the assumptions of the accounting system than about actual effects on the savings which would have otherwise occurred.

[39]Development Assistance Committee, p. 169; R. F. Mikesell and J. E. Zinser, "The Nature of the Savings Function in Developing Countries: A Survey of the Theoretical and Empirical Literature," Journal of Economic Literature 11 (March 1973): 1-26.

[40]There are other forms of "burden sharing" of food aid which we have not considered here. To the extent that the food used for food aid would otherwise not have been produced or would not have been offered on the world commercial market, and that the food aid replaces imports which would otherwise have taken place, other food grain exporters, including a (very) few developing countries, would suffer reductions in export earnings. Because of the inelasticity of demand for food grains, and the thinness of world grain markets, these losses could be substantial. Of course, reduced prices to exporters mean reduced costs to importers, which include a number of major developing countries. On the other hand, to the extent that the food used for food aid would otherwise have been offered on the world market, and that food aid is at least partly additional to other food imports, then exporters would gain, and importers lose, from the resultant higher prices. Both of these situations imply (short-term) surplus capacity at existing prices in exporter nations. Under conditions of worldwide shortage, food aid would presumably bid up prices, since offering food aid at concessional terms would increase demand at a time when short-term supply is extremely inelastic. To judge whether increasing prices in this fashion is a good thing, one would have to compare welfare gains to those receiving food aid and to exporters with welfare losses to those who would have benefited from lower prices. The world was clearly in a situation of general shortage, for the first time in recent years, in 1973-74. For the future, even with much shorter world food supplies, there is likely to be some combination of the situations mentioned above in many or most years, with net results that will depend perhaps as much on political factors as on demand and supply elasticities. We leave it to others to try to sort out this burden sharing.

[41]Bhagwati and Chakravarty, pp. 28-50.

[42]J. S. Mann, "The Impact of Public Law 480 Imports on Prices and Domestic Supply of Cereals in India," American Journal of Farm Economics 49 (February 1968): 131-46; Streeten and Hill, "Aid to India," in Streeten and Lipton (n. 14 above), pp. 341-46.

[43]Rogers, et al., p. 207.

[44]Food aid can have a distorting effect on food preferences, in relation to costs and to locally produced foods. For example, in some cases, high-cost, high-protein foods have been used in nutrition programs in areas which recent research has shown would benefit more from lower-cost lower-protein but higher-calorie food. However, the shift in demand to (or increased acceptability of) wheat encouraged by the emphasis on wheat in most food aid (i.e., in "PL480 Title I" sales from the United States) appears to have been desirable from a cost and nutritional point of view. This shift in demand/price/acceptability of wheat was useful when wheat production was increasing very rapidly in the late 1960s and also allowed the Indian government to buy a larger proportion of its recent large commercial imports of food grains in the form of wheat (which is significantly cheaper, in terms of both calories and protein content, than rice).

[45]We do not consider here the complex question of what relative prices "should" have been, which depends on such things as India's overall development strategy and on comparisons with international prices (in itself a complex matter, in view of the size of Indian production and consumption of grain in relation to the total volume of world grain trade.) Rather, we are looking here at what effect food aid had on relative prices and other variables, holding constant the basic economic and political strategy and structure. Thus, we compare relative prices to a base period rather than to an "optimal" level. As in other comparable studies, we assume that changes in the wholesale price of food grains are proportional to changes in prices received by farmers and that the changes in wholesale prices implicitly take account of such factors as stated procurement prices and actual implementation of government procurement programs.

[46]Subsequently, with the monsoon failures of 1965-67, prices shot up under near-famine conditions in spite of very large food aid imports. The followed the Green Revolution period of increases in output of high-yielding varieties (HYV) of wheat, with consequent reductions both in food aid and in relative food grain prices. In 1972 India was, briefly, self-sufficient in food grains, although subsequent events have shown that at least in years of poor monsoons India is still dependent on large-scale food imports. In fiscal year 1974-75, although published data are not yet available, India is reported to have imported about 5.5 million metric tons of food grains, about the average level of the first half of the 1960s. However, unlike a decade ago, only a small proportion was financed by aid and, with the large increase in grain prices, India was forced to spend a huge amount, perhaps $1 billion, of its own foreign exchange for the balance. Had more food aid been available these funds could have been used to stimulate development.

[47]One could argue that the regression analysis of Rogers et al. does not prove that the causality ran from the food aid to the distribution rather than from the distribution (need) to the food aid. But this appears unlikely, both because there is little evidence that India could have received as much grain as it wanted during that period or that it would have imported the grain commercially (and carried out the same distribution program) in its absence.

[48]E. G. Cummings, Jr., and S. K. Ray, "1968-69 Foodgrain Production--Relative Contribution of Weather and New Technology," Economic and Political Weekly (September 27, 1969), pp. A163-A173.

[49]R. W. Herdt, "A Disaggregated Approach to Aggregate Supply," American Journal of Farm Economics 52 (November 1970): 512-20.

[50]It appears more reasonable that a rational farmer would respond to a price expectation based on a few years' recent prices, as J. Krishna and Rao (reported in Bhagwati and Chakravarty, n. 14 above, p. 39) found, rather than to the previous year's price, used by Rogers et al. While the Cummings and Ray regression estimates suffer from not including a price variable (and thus risk biases in the estimates of the rainfall and time coefficients), there should be no correlation between presowing price and rainfall, and at most only moderate correlation between price and the time trend; and the estimates yielded are highly preferable to the uncorrected data used in a number of analyses. We used Cummings and Ray's equation because of their careful aggregation and nonlinear treatment of rainfall, and consequent improvement in statistical fit, in comparison with linear models.

[51]The estimate of Rogers et al. of 0.16 for the price elasticity of food grain supply is consistent with other results reported in Mellor (pp. 15-17) and elsewhere. Mann's estimate of 0.21 is in the same range. Herdt carried out a detailed analysis of the price elasticity of wheat supply, which showed by far the largest price declines, in the Punjab. Herdt points to pumpsets, fertilizer, etc., which (p. 519) "lower[ed] the cost of production per unit of output between 1951 and 1964" and "encouraged some farmers in the Punjab to achieve a rapid growth of output even though relative agricultural--non-agricultural responses were unfavourable. This is the hypothesized reason for the negative estimated supply elasticity for 1951-1964." Thus, food aid apparently did not reduce the relative profitability of wheat over what it had been although it reduced its relative price. While higher prices would undoubtedly have increased production somewhat, Mellor's point on the low price elasticity of supply during cost-reducing technological change would suggest interpreting Herdt's results as indicating in part that (perhaps because of input supply or other constraints) the supply response would have been quite low (J. W. Mellor, "Agricultural Price Policy in the Context of Economic Development," American Journal of Agricultural Economics 51 [December 1969]: 1413-19). Rath and Patvardhan had found, generally consistently with Herdt's results, that the "wheat price was relatively lower, during the period of imports under PL480" (up to 1961, when the period of their data concluded), but that there was nevertheless a "large increase in wheat production both due to increase in area and yield per acre" (n. 7 above, p. 156). their state-by-state production functions for wheat showed that "it is difficult to see any effect on [wheat production] of the large wheat-imports under PL480 through relatively lower wheat prices" (p. 165). Shenoy expresses very strong feelings about the negative effect of food aid on wheat and other food grains production. However, he relies on a highly simplified analysis which ignores most of the relevant literature on the points he covers--e.g., he does not build weather variations into his analysis of the effect of price on wheat production, although Herdt's results and Cummings and Ray's data point to the importance and variability of rainfall in the Indian wheat belt. In addition, his

interpretation on this crucial question of what happened to wheat production appears inconsistent with his own data and analysis. For example, he states on p. 252 that wheat production "did not rise significantly...during the [1956/57-1965/66] period except in years of...bumper harvests in agriculture generally," but states on p. 49 that during this same period there was a "faster increase in wheat yields [than in] yields of other cereals." (Shenoy's data, appendix table A-1, show that wheat acreage rose as well during this period.) Also, he concludes that per capita wheat production declined, by comparing 1956-57 (the highest production year up to that time) with 1965-66 (p. 246), although he had earlier recognized that in 1965-66 yields were depressed by "severe drought" (p. 49). However, surprisingly, Shenoy recommends a resumption in food aid, to fill "market deficits" (pp. 277, 303).

[52]While one could argue that this growth included a good deal of high-cost import substitution, so that growth in value added in the industry sector would be lower if stated in international prices, the relative rate of industrial (and investment) growth would still probably be at its maximum during this period.

[53]Shenoy (table 8.2) provides data which show that U.S. PL480 aid (which is primarily in the form of food grains but also includes cotton, edible oil, and a small volume of tobacco) financed 10 percent of total gross investment during the third-plan period when computed at the official exchange rate, but 15 percent when computed at the Hong Kong "free market" exchange rate.

[54]M. D. Morris, "What Is a Famine?" Economic and Political Weekly (November 2, 1974), p. 1855.

[55]For a discussion of the link between increased food supplies (including food aid) and increased employment in India, see J. W. Mellor, "Accelerated Growth in Agricultural Production and the Intersectoral Transfer of Resources," Economic Development and Cultural Change 22 (October 1973): 1-16.

[56]But see Berg (n. 16 above) on the effect of the Indian government's use of food aid for famine relief in Bihar, and the earlier section of this article on food aid and the neo-Malthusians.

[57]Streeten and Hill, p. 346.

[1990]

Box 4. Acquisition of Commodities in Developing Countries for Food Aid

During the 1950s the USA supplied virtually all food aid from its own stocks of wheat and other products. The greater part of such aid was provided on concessional credit rather than grant terms. The first major change in the organization of food aid came in 1963 when the United Nations World food Programme (WPF) was founded as the first multilateral programme concerned exclusively with food aid. It would provide an outlet for donor countries with surpluses too small or intermittent to sustain their own food programmes and allow others with resources other than food a means of supplying food aid. It was also seen as a way of mobilizing surpluses in other donor countries for use as food aid. So from its inception the WFP received donations in both cash and kind which were spent on food purchases as well as on transport, administration and other associated costs of food aid. The more recent involvement of the WFP in purchases in developing countries, therefore, seemed a natural progression, given its commitments to actively promoting agricultural development, nutritional self-sufficiency and mobilizing surpluses.

The first Food Aid Convention (FAC) in 1967 furthered opportunities for donors to give cash rather than food by establishing food aid commitments on the part of a number of donors who did not have commodities available for export. Prior to 1977/78 virtually all WFP purchases continued to be of wheat, mostly in developed countries. In that year WFP purchases included some 22,000 tons of rice and also coarse grains, marking the beginning of developing country purchases on an enhanced scale. Other donors also began to "experiment" with triangular transactions. Then in 1979 two large-scale operations, relief for refugees on the Thai-Kampuchean border and the Zimbabwe "Maize Train", were launched which drew attention to the possible positive effects of triangular transactions.

In April 1981 the Zimbabwe "Maize Train" operation began. The operation involved support from about 20 different donors, and it was the first cooperative, coordinated donor effort to support triangular transactions. Donations included expertise, cash and urgently needed equipment with which to improve transportation and logistics facilities as well as cash donations to finance purchasing of the maize. A major effort was undertaken to reconstruct transport and communications infrastructure. Nevertheless, severe transport problems were encountered during the Maize Train operation, largely arising because the maize was being moved through Mozambique, both for use there and for export by sea. Despite these problems, by the end of 1983 over 400,000 tons of maize had been delivered to 18 different African countries, for use in both emergency and development projects.

However, the drought beginning to affect many other African countries did not leave Zimbabwe unscathed. In 1983 the quantity of maize moved on by the Maize Train fell. By 1984 the government of Zimbabwe had decided that it was necessary to import maize. Outstanding Maize Train deliveries were deferred by mutual consent to be finally delivered in 1985, and then only after another bumper crop. The Zimbabwe Maize Train operation thus provided an early indication that even in African countries potentially more regularly in surplus, these supplies would not be wholly predictable.

The relative stability of production, and hence the continuity of export availabilities, is the major difference between regular and non-regular exporter sources for triangular transactions and trilateral exchanges.

Transient surpluses, coupled with time lags in negotiating and implementing triangular transactions, can lead to partial or total cancellations of purchases. Export consignments may not be completed before poorer subsequent harvests result in a deteriorating internal food supply. For example, a purchase of 10,000 tonnes of white maize in Malawi for use in Tanzania was made by the EC following Malawi's bumper maize harvest of 1984. However, movement of the maize did not begin until March 1986, due to acquisition and logistical problems, and by May 1987 only 8587 tonnes had been delivered. Meanwhile it became clear that the 1987 harvest in Malawi was going to be very poor, so the government began to restrict maize exports. By contrast, Tanzania experienced bumper maize harvests in 1986 and 1987 and so the imports planned in 1984/85 were no longer necessary. indeed by 1987 some donors were investigating the possibility of acquiring maize in Tanzania for use in Malawi, but did not purchase because of problems of pest infection.

The WFP operations also illustrate the *ad hoc* nature of local purchases. Donors respond to periodic availabilities of local surpluses. During the 1980-86 local purchases were made in 38 countries, but in only nine of these countries were purchases made of the same commodity in three or more years; and in only 11 countries were local purchases of any commodity at all made in more than three years. The few countries involved in local purchases on a more regular basis were in India and landlocked Nepal, Malawi, Rwanda and Burundi.

The use of commodity acquisition, particularly from within SSA, as food aid has been justified strongly in terms of the developmental benefits to the "source" economy and the economic gains from stimulating regional trade. Yet these aspects of operations have received scant attention in the economic analysis of actual operational experiences to date. Donors have been largely reactive, responding to the short-term opportunities provided by the changing supply situation rather than having longer-term regional trade strategies in mind.

Many of these commodities appear to have been utilized in emergency operations. No long-term commitments on the part of food aid donors to purchase commodities are made, and there is no guaranteed outlet for agricultural surpluses in future years. But if commodity acquisition operations in developing countries are to have a continuing and important role in food aid activities, then donors, in cooperation with potential source economies, ought to develop a coherent medium-term framework for the planning and organization of such operations.

Source: Edward Clay and Charlotte Benson, "Acquisition of Commodities in Developing Countries for Food Aid in the 1980s," Food Policy (February 1990), pp. 27-43.

[1990]

Chapter 12

The Disincentive Effect of Food Aid: a Pragmatic Approach

Simon Maxwell

The "disincentive effect" has been described as the "storm-centre" of the debate on food aid. However, the literature is inadequate: incomplete in its coverage; biased to ex-post analysis; and insufficiently well-rooted in the general literature on food policy. A new, pragmatic approach is defined which takes a broad view of disincentives to food security, acting through prices, policies, food habits and labour markets, at both macro and micro levels. 19 disincentive scenarios are identified and early-warning indicators suggested for systematic monitoring. The new approach is applied to three cases in Senegal, Ethiopia and Sudan.

Introduction

The "disincentive effect" has been described as the "storm-centre" of the debate on food aid.[1] There is a voluminous literature of spiralling complexity. Yet a review of this literature shows it to be inadequate in many respects: incomplete, with regard to its coverage of food aid commodities and uses; insufficiently well-rooted in the general literature of food policy; and biased to ex-post analysis, especially in countries with goodmanaging a variety of food aid activities, in circumstances where data ia poor and policy is changing fast. A new approach is needed. This paper sets out a pragmatic approach to the disincentive issue. The main conclusions of the paper are that a systematic approach to disincentive analysis is feasible even in difficult cases; and that focusing on the

link between food aid and food policy can help to ensure that food aid has positive, incentive effects.

The literature on the disincentive effect was initiated by Schultz (1960) with the observation that if food aid were sold on the market, it would depress prices and lead to a loss of output. In the succeeding quarter century, the basic concept has developed and a good deal of empirical testing has taken place. A major review of the literature was carried out in 1979 by Maxwell and Singer.[2] This showed that the literature had divided into three streams, with the original focus on prices being supplemented by attention to agricultural policies and to labour markets. There was a subsidiary concern with the impact of food aid on food habits and a shift in taste away from locally produced commodities. The price disincentive was the dominant issue, with empirical testing having evolved from simple time-series analysis to multiple equation econometric models incorporating differentiated markets. The general conclusion of the empirical work was that a price disincentive had mostly been avoided by an appropriate mix of policy tools, including demand expansion, price support to producers and differentiated markets to increase consumption.[3]

Research since 1979 has contributed to disincentive concepts, measurement techniques and policy findings. As regards concepts, a recurrent theme of the literature has been that the potential for disincentives is in practice restricted by the way in which food aid is used. In the first place, much cereal food aid simply replaces commercial imports, at least in non-emergency situations: it cannot be held responsible for disincentive effects that would have occurred in any case as a result of commercial imports.[4] In the second place, the literature has stressed that disincentives can be avoided if food aid is associated with

additional consumption, so that the depressing effect on prices of the additional supply of food is matched by the stimulating effect of extra demand. Additional consumption can be stimulated directly, by distributing food to hungry people; or indirectly, by increasing expenditure on poverty alleviation programmes.[5] It is argued that a combination of measures along these lines can significantly reduce the risk of disincentives - although not the need to monitor for them and plan remedial action in case they do develop.[6] Despite this focus on the circumstances in which disincentives may be avoided, recent research has continued to add new layers of complexity to disincentive analysis. There has been particular concern with the relationship between food aid, food policy and the overall development strategy.[7]

Finally, the findings of disincentive analysis. As noted above, the established view in the literature is that food aid has the capacity to cause disincentive effects, but that these can be and often are avoided by government policy. This is a view confirmed in recent evaluations[8]as well as in recent literature reviews[9], although Jackson[10]has provided evidence of labour disincentives on particular projects. Clay and Singer conclude that "the debate on the past macro-economic and agricultural impact of food aid remains inconclusive...(however) massive disincentive effects do not seem to have occurred".[11]

The development of the literature since 1979 has helped to broaden the geographical spread of disincentive analysis and strengthen the conceptual framework. Nevertheless, weaknesses remain and five of these are worth discussion. First, the literature is incomplete as regards the range of commodities and the uses to which food aid is put. Characteristically, the disincentive literature is concerned with US wheat, provided as

"programme" food aid for sale on recipient markets. In practice, food aid is far more diversified in commodities, sources and uses than the thrust of the literature would suggest. Over a quarter of food aid by value consists of non-cereal products (mostly milk powder and butter oil) and only a little over half is provided for sale: the rest is provided for emergency distribution or for use on food for work or supplementary feeding projects.[12] The US now accounts for only 60 percent of total cereal food aid and most recipients receive food aid from several donors. A framework of analysis is needed which allows for multiple donors, a range of commodities and a variety of uses.

The second weakness of the literature has to do with the treatment of different types of disincentive. The price disincentive has been well specified and well studied but the policy disincentive has not. Labour disincentives are barely treated and scant attention is given to the relationship between food aid, food habits and potential disincentives. Most important, a few studies deal simultaneously with all these forms of disincentive. A new approach should provide the opportunity to deal systematically with disincentives across the board.

The third weakness relates to levels of analysis. The bulk of the literature deals at the national level with only passing recognition of the fact that food aid may have a disproportionate impact at regional or local level. This bias is redressed in the literature dealing with labour disincentives for food for work; but needs to be tackled more generally.

The fourth area concerns the nature of disincentive analysis, which characteristically remains ex-post, linear, data-hungry and biased to countries with above-average food systems. Perhaps the most damaging defect of existing methods is the emphasis on ex-post

analysis, often using very long time series of doubtful reliability. An improved methodology should enable decisions to be made at the margin, based on concurrent analysis of the evolving food situation.

Finally, it is apparent that the food aid literature has lagged behind the more general food policy literature in relating food indicators to some desired food policy frame. The precise content of food policy (e.g. the balance to be struck between food crops and export crops[13]) is likely to be controversial in most countries and there is no blueprint to be followed. Nevertheless, the food aid literature is beginning to recognize the benefits to be derived from the analytical methods of food policy analysis.

The requirements for a new approach can now be defined. It should be comprehensive as regards commodities, uses and types of disincentive effect; range across levels of analysis; and provide food aid planners with a tool that can be used not only for ex-post evaluation but also for planning and managing new and on-going good aid activities. Most important, it should set individual food aid programmes in the wider context of food policy. This is not an impossible task, as we shall see.

A pragmatic approach

The purpose of this section is to present a practical approach to identifying the potential disincentive effects of different kinds of food aid in situations where data is poor and quick responses are needed. The task is approached in three steps. First, the theoretical literature of food aid is summarized in the form of 19 "scenarios", statements about the different ways in which disincentive effects might appear. Secondly, an "early warning" indicator is suggested for each scenario, to provide a practical tool for day to day

monitoring of disincentives. And thirdly, some suggestions are made about the more detailed analysis that is necessary if a causal link is to be established between food aid deliveries and apparent disincentives.

Definitions and taxonomy: "disincentive scenarios"

As the literature shows, the term "disincentive" is used in different ways. It can refer to a negative impact of food aid on (i) the production of the particular commodity being supplied as food aid; or (ii) food production more narrowly; or (iii) agricultural production as a whole.[14] In some recent literature, the term "disincentive effect" has been taken to refer not just to agricultural production but to food security more widely, including both production and consumption aspects. Furthermore, the negative impact may either be localized at the site of a particular food aid project ("micro-disincentive") or felt on a wider scale at the regional or national level ("macro-disincentive"). Finally, any disincentive may be short term, lasting only as long as the food aid project; or long term, reflecting permanent damage to agricultural production. In principle it seems right to take the most general view: disincentives should be avoided for any aspect of agricultural production or food security at any level of analysis and for any time period.

A "disincentive effect" can take various forms. The four main types discussed in the literature act through: (i) prices, both in completely free markets or, as in more commonly the case, in imperfect markets with different degrees of Government intervention; (ii) policies, in the sense that Governments are led by food aid to neglect agriculture or other aspects of food security; (iii) food habits, where food aid is said to cause food preferences

which lead to greater import dependence; and (iv) labour, where food aid may disrupt labour supply to agriculture.

Disincentives can manifest themselves in different ways and their diverse nature makes them difficult to model comprehensively.[15] They can, however, be presented in narrative form, as a series of disincentive "scenarios". A list of 19 such scenarios is provided in Figure 1, working through prices, policies, food habits or labour at both macro and micro levels.

The list of scenarios is fundamental to the analysis of disincentives. Scenario 1 is the classic "Schultzian" disincentive whereby food aid is sold on the market, supply increases and prices fall. It is modified, however, to take account of the notion discussed earlier that there is an optimal price above which price falls do not matter but below which they may cause a disincentive. The free market implicit in this scenario is uncommon, so scenarios 2 and 3 allow for the intervention of a public procurement agency. Scenario 4 allows for the possibility that food aid may cause a price disincentive even without being sold, if it contributes to the overhang of stocks; and scenarios 5 and 6 allow for the possibility that food aid might disrupt inter-regional food trade. In all these cases, the indicator is not a price fall in isolation, but a fall below the 'right' price.

Scenario 7 is the classic policy disincentive, broadened to include not only agricultural production as a dependent variable but food security more generally. Implicit in this formulation is the notion that food aid should contribute to long term food security objectives. Scenarios 8 and 9 deal with food habits and labour markets, allowing for the

possibility that food aid may distort food markets or labour migration patterns at the national level.

Scenarios 10-19 move from the national level to the project of "micro" level, which may be a single village or as large as a region. Prices may be affected and may fall below the optimal level because food aid recipients sell part of what they receive (Scenario 10), buy less than they normally would (Scenario 11), or sell more than usual of their own production (Scenario 12). Stocks (Scenarios 13 and 14) are more likely to be held in private hands, often at household level. An important set of micro-disincentives works through labour, with food aid having the potential to compete with local agriculture (Scenario 17), create a "food dole" (Scenario 18) or force wages above reasonable levels (Scenario 19).

It is worth making the point that these scenarios are not all equally likely and that different kinds of food aid are likely to be associated with different kinds of disincentive risk. Thus programme food aid for sale through the public distribution system is more likely to have adverse effects acting through the first half of the list in Figure 1; whereas localized food for work is more likely to work through the mechanisms identified in the second half of the list.

Early warning indicators

The second step in the analysis is to identify an indicator for each scenario, so that planners an project managers will have early warning that a disincentive may be beginning to develop. The market price of basic staples might be one such indicator: if it remained above the guide price, there would be no need for concern over price disincentives; but if

it fell below the guide price, so that a disincentive might occur, it would be necessary to ask whether food aid were responsible and what might be done.

Preparing a list of "key indicators" presents problems that are both conceptual and practical. The conceptual problems derive from the underlying volatility of cereal and labour markets and from the lack of consensus on what constitutes an optimal policy for agricultural development and food security. In the case of cereal markets, for example, not only do prices vary markedly from place to place, from one part of the year to another and from year to year; but it is right that they should do so, to reflect changing levels of supply and demand, remunerate traders who move food around the country and provide incentives for inter-seasonal and inter-annual storage.[16] A single indicator price would therefore be misleading, too low in some periods, too high in others, either concealing a potential disincentive or indicating a threat where in reality none existed. The solution may therefore be to provide a range of prices.

Where this range should be located is another conceptual issue. Neo-classical economic theory would suggest that the "right" price, on average, should be close to international prices, adjusted for the costs of trade: this means that for importing countries or regions, the price would be set at the level of import parity; for exporting countries or regions, it would be set at the level of export parity.[17] However, pricing policy based on these principles has been criticized as having adverse distributional consequences and is very difficult to apply in isolation when there are many other distortions, such as an over-valued exchange rate, affecting the economy.[18] In the table, below, the starting point is the import

parity price at the shadow rate of exchange; but, as the Ethiopia case study will show, the indicator cannot be applied mechanically.

Similar conceptual problems arise in the case of indicators for a policy disincentive. Here the task is to specify indicators of a satisfactory food security policy which covers the production, marketing and consumption of food. If a food strategy with specific targets has been prepared, this task may be straightforward; otherwise, indicators will have to be defined. The literature reviewed earlier suggests that these will include government expenditure on agriculture, inter-sectoral terms of trade and the establishment of specific food security interventions such as public works and targeted nutrition programmes.[19]

Finally, there are conceptual problems in defining an indicator for labour disincentives. If the labour market is disrupted by food aid, then the effect should show up in wage rates. However, there also vary seasonally and inter-annually, in both nominal and real terms, being higher during the harvest period than in the dry season and higher in good years than in bad years. There is also the problem that what might look like a disincentive (higher wages) is a desirable factor for agricultural labour. In the table below, the historical trend of real wages is suggested as an indicator. However, such a trend will clearly require careful interpretation.

Turning to practical issues, the key difficulty lies in the availability of recent and accurate statistics. The availability of data on aggregate food aid flows is a major problem: in Senegal, for example, a comparison in 1986 of data series produced by five different organizations showed discrepancies of up to 100% in individual years.[20] Similarly, detailed price data may be unavailable or unreliable: again, in Senegal in 1986, the official retail

price index did not include the price of the basic staple, millet.[21] In response to problems of data availability, the procedure outlined below focuses on the smallest possible number of indicators, selecting those most likely to be available. This has the added advantage that first stage disincentive monitoring can be based on a few simple indicators.

Putting these principles into practice produces the summary of key indicators contained in Figure 2. Here, a key indicator is given for each of the 19 scenarios listed in Figure 1. A reference point and limit of acceptability are also given for each indicator. The number of indicators has been kept to five, three of which have to do with food prices, one with wage rates and one with overall movement in food policy. The reference points are as described above, with limits of acceptability that are essentially arbitrary. It should be stressed that his table is highly speculative and that it will need to be adapted to particular country or project situations. Nevertheless, it does provide a basis for initial monitoring, as will be seen in the case studies below.

Casual relationships

If the key indicators suggest a potential disincentive, the question arises as to whether food aid is responsible. Causality is often hard to establish. for example, a fall in prices may result from a combination of Government policy, the size of the harvest, traders' expectations and, perhaps, the availability of food aid. How are food aid managers to know whether food aid is contributing to disincentives?

The first and, in the end, the only definitive answer to this question may be found in the scientific literature on food aid, where causality is established by constructing testable hypotheses and applying statistical tests. As noted above, the statistical techniques available

are becoming increasingly sophisticated and in many cases require implausibly large amounts of data. Nevertheless, simple regressions or correlations may be feasible and illuminating. For example, simple regression analysis was used in Ethiopia to explore the relationship between additional food aid and commercial food imports.[22]

If statistical testing proves not to be possible, then the second answer to the problem of establishing causality is to use less formal methods. These may still be based on quantitative data but will rely not on formal modelling but rather on a systematic review of the evidence and on the analyst's careful judgement as to the balance of probabilities that specific hypotheses about the role of food aid are correct. Non-formal but resolutely rigorous analysis is characteristic of the checklist approaches reviewed in Section 1. It is the approach used of necessity in the case studies that follow. Rapid rural appraisal will have a part to play in non-greater beneficiary participation in monitoring and evaluation.[23]

Disincentive analysis in practice:
three case studies

The method described in the previous section is intended to apply across countries, including those where food systems are rudimentary, data is poor, Government policy is uncertain and variable and food aid is being received from a variety of donors for a variety of purposes. The three brief case studies in this section draw on more detailed country reviews for Ethiopia and Senegal that were prepared at an earlier stage of research[24] and on more recent work of food policy issues in the Sudan.[25] The case study from Ethiopia deals with local price disincentives; that in Senegal with macro-policy disincentives; and that in Sudan with changes in taste. The focus is on the value of the early-warning indicators and the systematic analysis of potential disincentive scenarios.

Ethiopia, Senegal and sudan meet most of the requirements for a difficult test of the disincentive methodology, but otherwise provide contrasting cases. Thus, Senegal is on average only 50% self-sufficient in cereals, with large imports of rice and wheat, mostly, but not exclusively, for urban consumption; food aid has typically provided less than a quarter of total imports. Ethiopia is much closer to total cereal food self-sufficiency, averaging 95% before the drought in 1984/85; however, food aid provides over 80% of total cereal imports. Sudan has a large exportable surplus of sorghum in most years, but wheat accounts for about 20% of total cereal consumption and over 80% of this is provided by aid.[26]

Price disincentive: Ethiopia

The first case study is concerned with possible price disincentives immediately following the 1984/85 drought in Wollo region. Wollo received a substantial share of the 1.2 million tons of cereals shipped to Ethiopia in the emergency year, 1984-85, and continued to receive food aid for both development purposes and emergency relief in the following year. Relief needs for a total of 1.9 million destitute people in Wollo were estimated at over 300,000 tons of food in 1986 and in addition, 23,000 tons of food were to be provided for developmental food for work. At the same time, however, food production recovered dramatically in the growing season of 1985, with national cereal and pulse output estimated to have increased from 4.3 million tons in 1984/85 to 6 million tons in 1985/85, only slightly below trend. The combination of a large cereal harvest and very large food aid distribution posed a clear risk of local price disincentives, corresponding to scenarios 10-13 in Figure 1.[27]

Figure 3 provides the local price data required as a disincentive indicator. The data cover sorghum prices in the Woldia market for a normal period (1981/2 - 1983-4) and for the period January 1984 - February 1986.[28]. All these ceries are incomplete but they show a generally rising trend, superimposed on a seasonal movement which takes prices to a peak between July and September, before the beginning of the harvest in October. The very marked increase in prices during 1984 and the first half of 1985 is notable; also the extremely rapid decline in prices from the peak in August 1985 of over EB 200 per quintal to the trough in December 1985 and January 1986 of below EB 60 per 100 kg quintal ($US = EB 2.07). This is still above the normal price for the time of the year but is very much below the price for the previous year and does not allow for inflation over the five year period since 1981/2. It could therefore be considered prima facie evidence of a price disincentive effect.

Figure 4 provides additional information. Superimposed on the original chart are the Agricultural Marketing Corporation purchase price for 1985/6 of EB 23 - 27 per quintal and the 1985 import parity price for Wollo, calculated for a range of shadow exchange rates. It can be seen that the free market price at its lowest was still more than twice the AMC purchase price;[29]however it had entered the range of import parity prices, being below the highest import parity but above the lowest. It seems reasonable to conclude that the price of sorghum in the Woldia market had declined extremely fast and had reached levels where it might be beginning to fall below the right price as represented by import parity. In this sense, the warning lights were flashing.

The urgent question facing food aid managers was whether food aid was responsible for the price fall and if so what should be done about it. In theory, it would have been possible to construct a model relating food prices to production, marketing behaviour and alternative uses of food aid, but none of the required data was available. It was therefore necessary to have recourse to non-formal methods. There was strong circumstantial evidence from talking to key informants in Wollo that very large distributions of food aid, particularly as emergency relief, contributed to the fall in grain prices in late 1985. Over the country as a whole, prices appeared to have fallen fastest in areas where food aid distribution was largest.[30] This of course did not mean that emergency relief was not required in Wollo during the period: clearly, many destitute families needed help. However, relief in kind using imported food would not be appropriate if it were to have negative effects on local markets. The solution, therefore, was to support simultaneously both local markets and the food entitlements of poor families by using aid money either to buy food locally for free distribution or to fund cash for work. With local markets being volatile, there would have to be flexibility between food and cash. However, a graduated shift from food to cash did seem the best way to avoid disincentives.[31]

Policy disincentive: Senegal

The second case study is concerned with the possible relationship in Senegal between increasing food aid on the one hand and, on the other hand, poor food and agricultural policy leading to low growth, increasing import dependence and very high levels of malnutrition: scenario 7 in Figure 1.

The facts are easily stated. On the one hand, cereal food aid tripled between the early 1970s and the early 1980s, averaging over 50,000 tons p.a. in the latter period and accounting for around 5% of consumption. On the other hand, the agricultural growth rate was low at only 0.3% p.a. (1973-83), national food self-sufficiency declined to under 50% in the 1980s and malnutrition rates were high. Furthermore, and corresponding to the key indicator in Figure 2, poor Government policy had played an important part in the failure of the food sector, along with deteriorating terms of trade and recurrent drought. For example, income distribution was poor, agriculture accounted for only 14% of Government investment in the 1970s and the sale of imported cereals at subsidized prices might have affected the market for local cereals.[32] The question for food aid managers was whether food aid was in some way responsible for this poor performance; and if so what remedial action might be taken.

These questions were addressed in late 1985,[33] testing food policy in Senegal against the indicators discussed in Section 2. The main finding was that improvements had been made on the production side, so that the policy framework was conducive to faster and more equitable growth; but that adjustment measures taken since 1979 had undermined the food entitlements of the poor and created a crisis of consumption.

The economic crisis had been tackled by a series of adjustment programmes, notably the Plan à Moyen terme de Redressement Economique et Financier (PREF) of 1979. In 1984, this had been complemented by a new agricultural policy, the Nouvelle Politique Agricole[34]. The main orientations of the policy were summarized in the press as "Moins et Mieux" (better and less). The document noted that the rural development parastatals had

become authoritarian[35]and directed that they should become "souple et lèger". Markets were to be liberalized. The policy document did not set out precise targets for the share of investment devoted to agriculture. It noted, however, that government support to agriculture had risen by an average of seven per cent per annum over the period 1977/78 to 1982/83. In output terms, the new policy aimed at an improvement in cereal self sufficiency from only 50 per cent in the early 1980s to 75 per cent by the year 2,000.

Following the publication of the NPA, a free market was introduced for millet, the main domestic cereal, subject to a Government-supported minimum price. In the case of rice , the government continued to control imports, but the retail price of rice more than doubled and by 1985, rice was being sold above world market prices, generating a profit for the government of 20 - 25 per cent. In the case of wheat, imports were again controlled and the price of flour was increased by approximately 25 per cent in October 1985, turning a subsidy of approximately 10 per cent into a profit of approximately the same percentage.

All this led to a favourable conclusion about the then role of food aid in Senegal as far as production was concerned. Maxwell concluded that "under the present policy regime prevailing in Senegal, food aid cannot be held responsible for major disincentive effects. This is true even though food aid is associated with a food system that is markedly import dependent...".[36]

However, the policy framework was seen as containing a major flaw in failing to take account of the impact on consumption of cuts in government expenditure and increases in the price of basic staples. A case was made for targeted food or nutrition interventions funded from food aid counterpart funds. In its simplest form, this could be done by

devoting part of the resources of the common counterpart fund which already existed to the purpose. In a larger scale, it would be possible to think of expanding cereal shipments to Senegal, with the dual purpose of providing balance of payments relief and funding targeted nutrition interventions. A policy recommendation for food aid donors was that they should provide as much wheat and rice as possible to Senegal, ensure that this was sold at a premium price and devote the resources to supporting the production and consumption of local staples.[37]

There is a postscript to the analysis of food policy in Senegal, in that riots in the spring of 1988 led the Government to reduce the price of staple cereals. This led to the cancellation of a programme initiated by France to use food aid counterpart funds in support of processing local millet because imported rice became cheaper than processed millet.[38] This seems to indicate the emergence of a disincentive, although not necessarily one caused by food aid. Clearly, monitoring needs to be continuous.

Change in food habits: Sudan

The final case study deals with the possible impact of food aid on food habits in Sudan: scenario 8 in Figure 1. The country shows a clear trend to increasing consumption of wheat, the share of which rose from 10% of cereal consumption in 1970/71 to over 20% by 1986/87. At the same time, total imports rose from about the same level as domestic production to something like four times domestic production, so that by the end of the period, the country was over 80% dependent on imports. Food aid provided some 85% of imports.[39]The scenario, then, is one in which food aid is associated with increasing

consumption of an increasingly exotic commodity, with the clear potential for disincentives to local cereals.

In order to trace whether food aid is responsible for increasing import dependency, Figure 2 identifies the price of wheat as the key indicator, with the import parity price as the reference point. If wheat is sold at the import parity price, or even higher, as was the case in Senegal in 1985, than taste changes and the resulting shift in consumption might occur even without food aid.[40] If, however, food aid wheat is sold below the import parity price then taste changes are more likely to occur.

In Sudan, wheat and flour distribution are controlled by the Government and bread is sold at a subsidy. The total budgetary cost of the subsidy in 1987/88 was nominally LS262m ($US1=LS2.50), the equivalent to 7% of revenue.[41] However, the fact that most imported wheat was in the form of free or subsidized food aid protected the budget from the cost of the subsidy:[42]calculated that the government actually made a profit of some LS80m p.a. on its wheat account.

Whatever the budgetary implications of the wheat subsidy, the net effect of providing cheap bread has been to change the relative prices of basic staples in Sudan. Comparing the price of bread with the price of sorghum,[43] calculated that the real price of bread fell by 60% between 1970/71 and 1984/85: more than 30% of the observed increase in the per capita consumption of bread during the period could be explained by this deterioration in the relative price of bread. Thus, a substantial part of the increased dependency on wheat imports can be explained by the food aid financed cheap bread policy. The policy would not be sustainable without food aid.

Of course, this is not a necessary outcome of providing wheat aid. As IDS notes, "the underlying problem may not be consumption of wheat per se, but the fact that it is subsidized, with consequent losses to producers and the government budget".[44] Options for the Government include raising the price of bread to "economic" levels, raising other taxes to cross-subsidize cheap bread, replacing the generalized subsidy with a targeted subsidy, or substituting sorghum for wheat in bread. A combination of these is likely to be pursued, with the active support of donors anxious to avoid further disincentives.

Conclusion

The three cases illustrate food aid at work in very different circumstances; yet the conclusions are strikingly similar. It is clear in all three cases that sophisticated econometric analysis is infeasible: data is either unavailable or unreliable; the policy environment is unstable; and food aid programmes themselves are highly hetrogeneous. Furthermore, econometric analysis would be unlikely to give the guidance on fine tuning that is necessary to improve the management of specific food aid programmes. However, the difficulty of econometric analysis does not provide an excuse for lack of rigour. An important lesson to be drawn from the case studies is that a comprehensive taxonomy of disincentive effects makes it possible to carry out a systematic analysis even where data is poor. The case studies can be said to have validated the list of scenarios in Figure 1, especially the distinction between micro and macro levels of analysis and the separate consideration of price, policy, labour and food habit disincentives. They also illustrate the value of a step-by-step procedure on the notion of early warning indicators and clear reference points.

If the methodology provides an adequate basis for investigating disincentives, what substantive lessons can be drawn about disincentives from these cases? In all three, the warning lights were flashing to indicate the possibility of disincentive effects. In Ethiopia, the main focus was on the low producer price of cereal staples; in Senegal, it was on the neglect of consumption issues in food policy; and in Sudan it was on the impact of cheap bread on import dependence. In all three cases, policy changes were needed but a constructive role remained for food aid.

These conclusions are broadly in line with the literature on food aid. The possibility of disincentive effects is modified by government policy, which is not normally determined by the flow of food aid. However, and this is a finding not commonly stressed in the literature, the effects of food aid can be disproportionate at sub-national level. The findings in Ethiopia, particularly, underline the importance of careful monitoring of food interventions in isolated communities where food markets are volatile.

In general, the case studies support the view that food aid needs to be integrated into an overall food strategy if disincentives are to be avoided and the full potential realized of food aid incentives.

Figure 1

Food Aid Disincentives

Summary of scenarios

1. **Macro disincentives**

1.1 Prices

1. Public sector food aid sales cause prices to fall below optimal levels.

2. The availability of food aid allows the Government procurement agency to pay 'low' prices to farmers.

3. The availability of food aid allows the Government procurement agency to buy less, which in turn leads to a price fall.

4. Food aid contributes to excessive stocks which overhang the market and depress prices below optimal levels.

5. The availability of food aid in one region displaces imports to that region from others, with a consequent downward effect prices.

6. The availability of food aid in a region enables exports to the rest of the country to rise, causing prices generally to fa below optimal levels.

1.2 Policies

7. Food aid causes a national policy disincentive, allowing Government to neglect agriculture and/or food security.

1.3 Food habits

8. Food aid causes taste changes which reduce demand for local staples.

1.4 Labour

9. The availability of food aid discourages labour migration, pushing up wages and leading to a loss of output.

2 **Micro disincentives**

2.1 Prices

10. Prices fall below the optimal level because food aid recipients sell a part on the market.

11. Prices on the local market fall because food aid recipients buy less.

12. Food prices fall because the availability of food aid allows a greater proportion of home production to be sold.

13. Food aid contributes to excessive local stocks in the public or private sectors, which overhang the market and drive prices below optimal levels.

14. Food aid discourages local storage which in turn increases price instability and reduces incentives.

2.2 Policies

15. The availability of food aid encourages Government to neglect local agriculture and/or long term food security.

2.3 Food habits

16. Food aid causes taste changes which reduce demand for local staples.

2.4 Labour

17. Competition for labour between food-aid supported activities and local agriculture reduces labour input to agriculture and l to lower production.

18. Food aid creates a "food dole" and reduces the incentive to work.

19. Wages are bid up because of competition from food aid supported activities, with adverse effects on agricultural employment output.

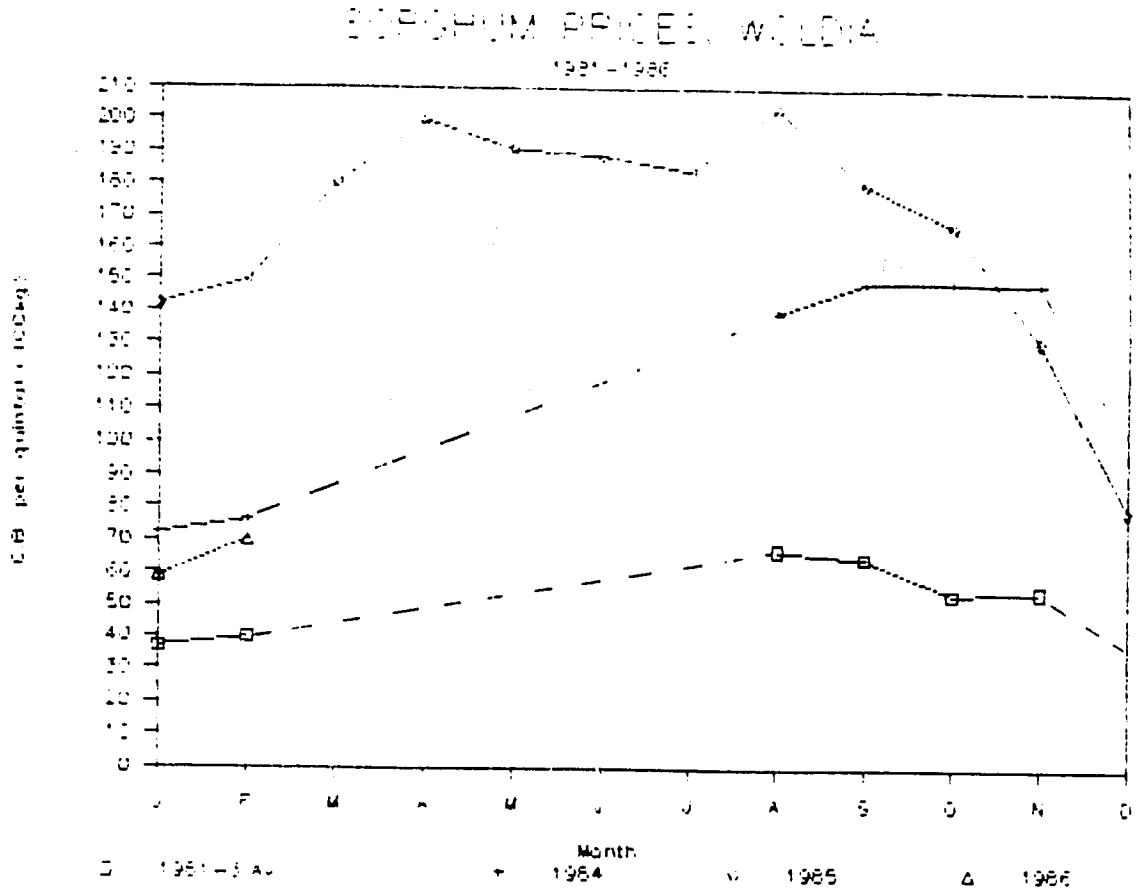
Figure 2

Food aid disincentives

Summary of key indicators

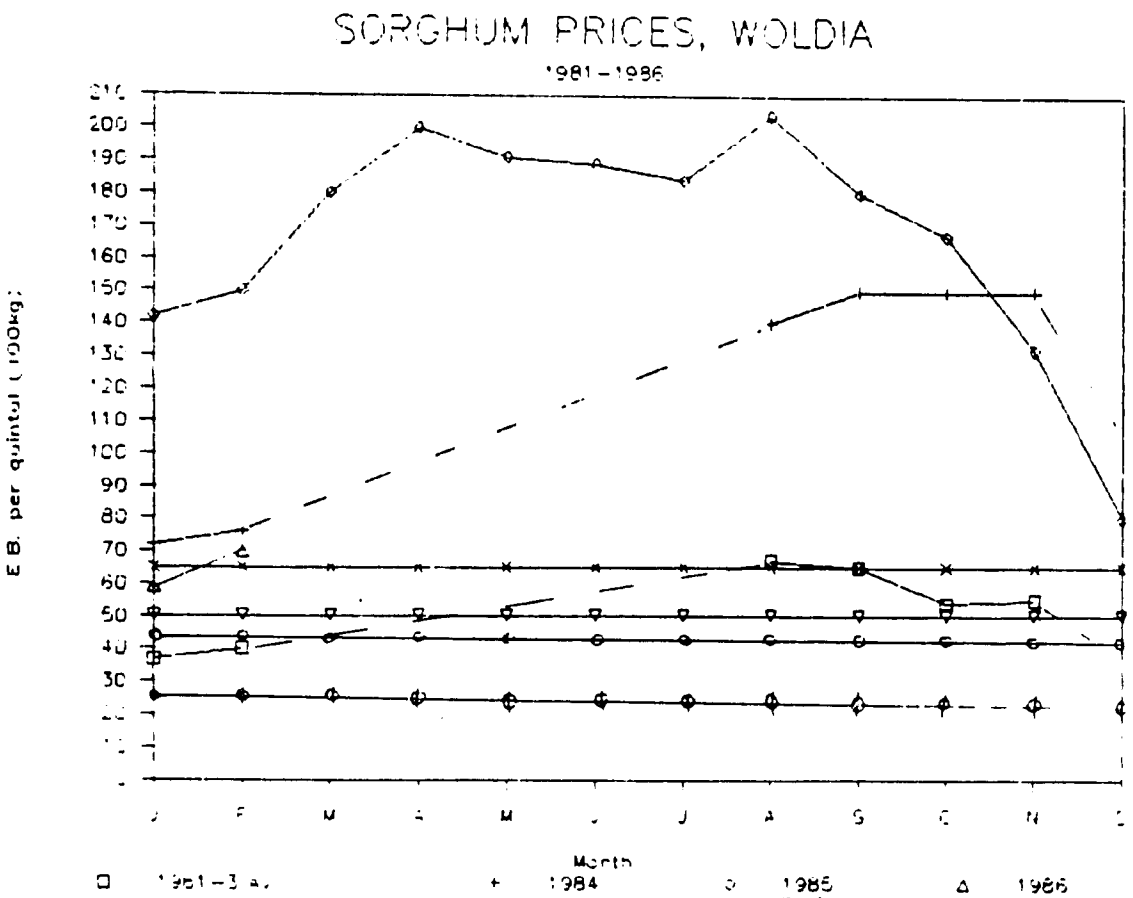
Scenario No. (from Fig 1)	Summary	Key indicator	Reference point and limit of acceptability
1	Food aid sales	Market prices	Import parity ± 15%
2	Low proc. prices	Procurement prices	Import parity ± 15%
3	Low gov't purchases	Market prices	Import parity ± 15%
4	Excessive stocks	Market prices	Import parity ± 15%
5	Regional purchases down	Market prices	Import parity ± 15%
6	Regional exports up	Market prices	Import parity ± 15%
7	Poor food security policy	Food policy	Plan targets -20%
8	Taste changes	Market prices	Import parity ±15%
9	Migrant labour falls	Wage rates	Real historical ±15%
10	Recipients sell food	Local market prices	Import parity ± 15%
11	Recipients buy less	Local market prices	Import parity ± 15%
12	Recipients sell produce	Local market prices	Import parity ± 15%
13	Excessive local stocks	Local market prices	Import parity ± 15%
14	Greater price instability	Local market prices	Import parity ± 15%
15	Poor local food security	Food policy	Plan targets -20%
16	Taste changes	Local market prices	Import parity ± 15%
17	Competition for labour	Wage rates	Real historical ± 15%
18	Food dole	Wage rates	Real historical ± 15%
19	Wages driven up	Wage rates	Real historical ± 15%

Figure 3



Source: RRC --- Not available

Figure 4



x 1985 import parity ($US 1 = EB 3.50)
▽ 1985 import parity ($US 1 = EB 2.70)
O 1985 import parity ($US 1 = EB 2.07)
Ø AMC Purchase price 1985-86
Source: RRC, AMC, FAO --- Not available

ENDNOTES

[1.]R.D. Baribeau and C.D. Gerard, 1984, A Review of Food Aid Literature, CIDA, Ottawa.

[2.]The literature was also reviewed by Isenman and Singer (1977); more recent reviews include those by Baribeau and Gerard, Op Cit.,Ref. 1; E.J. Clay and H.W. Singer, 1985, Food Aid and Development: Issues and Evidence, WFP Occasional Papers, No. 3, Rome; and M. Thomas, et al, 1989, Food aid to sub-Saharan Africa: A review of the literature, IDS Commissioned Study, forthcoming.

[3.]The best known papers on the price disincentive issue are those on Colombia by L. Dudley and R. J. Sandilands, 1975, "The Side-effects of foreign aid: the case of PL480 wheat in Colombia", Economic Development and Cultural Change, Vol 23, No. 2; and those on India by J.S. Mann, (1967), "The impact of PL480 imports on prices and domestic supply of cereals in India", Journal of Farm Economics, Vol. 49, No. 1, February; and K.D. Rogers, U.K. Srivastava and E.O. Heady, 1972, "Modified price, production and income impacts of food aid under market differentiated distribution", American Journal of Agricultural Economics, Vol. 54, No. 2, May.

4.E.J. Clay and H.W. Singer, 1985, Food Aid and Development: Issues and Evidence, WFP Occasional Papers, No. 3, Rome; F. Stewart, 1986, "Food Aid: pitfalls and potential", in Food Policy, November; H.W. Singer, 1987, "Food Aid" in Development Policy Review; J. Fitzpatrick and A. Storey, 1988, Food aid and agricultural disincentives, paper prepared for CARE, USA, mimeo. The last-named make the important point that food aid which replaces commercial imports may still create disincentive effects at regional and local level if it is additional to local supplies. A parallel argument could be made about policy disincentives.

[5.F.] Stewart, 1986, "Food Aid: pitfalls and potential", in Food Policy, November; Fitzpatrick and Storey, Op Cit., Ref 4. Both these authors omit the multiplier effect of increased government expenditure on food demand, which was an important feature of earlier food aid analysis (e.g. FAO 1961). See also S. Maxwell and H.W. Singer, "Food Aid to Developing Countries: a survey" in World Development, Vol. 7, pp. 225-247.

6.Fitzpatrick and Storey have argued that under certain circumstances a disincentive may actually be desirable e.g. because lower food prices are good for the poor (ibid: 21ff).

[7.]Documented, for example, by M. Thomas, et al, 1989, Food aid to sub-Saharan Africa: A review of the literature, IDS Commissioned Study, forthcoming.

[8.]Maxwell, Simon, 1983, An Evaluation of the EEC Food Aid Programme, IDS Commissioned Study (University of Sussex), No. 4; USAID, 1983, A Comparative Analysis of Five PL 480 Title I Impact Evaluation Studies, USAID, AID Programme Evaluation

Discussion Paper. No. 19; 1985 CIDA Corporate Evaluation of Food Aid, Phase I: Integrated Report (Final draft), CIDA, Evaluation Division, Policy Branch (Ottawa).

[9] Baribeau, R.D. and C.D. Gerard, 1984, A Review of Food Aid Literature, CIDA, Ottawa; E.J. Clay and H.W. Singer, 1985, Food Aid and Development: Issues and Evidence, WFP Occasional Papers, No. 3, Rome; P. Raikes, 1988. Modernizing Hunger: Famine, food surplus and farm policy in the EEC and Africa, James Currie, Heinemann; M. Thomas, et al, 1989, Food aid to sub-Saharan Africa: A review of the literature, IDS Commissioned Study, forthcoming.

[10] Jackson, T., 1982, Against the Grain, OXFAM, Oxford.

[11] Ibid:41-2

[12] These figures are estimates as no data is published either on the total value of food aid by commodity or on the share used for different purposes. The estimates are based on data in WFP, 1986, Committee on Food Aid Policies and Programmes, Review of Food Aid Policies and Programmes, WFP/CFA:21/5, Rome, March; FAO (1986b) and OECD (1986), supplemented by estimated unit-values of different commodities.

[13] For a discussion of this issue see Simon Maxwell, (ed.) 1988, "Cash crops in Developing Countries", IDS Bulletin Vol. 19, No. 2; Simon Maxwell and A. Fernando, 1989, "Cash crops in developing countries: the issues, the facts, the policies", in World Development (forthcoming).

[14] In principle, this list could be extended to include GDP as a whole, especially if general equilibrium relationships play an important part in the analysis. It is excluded here int he interests of simplification.

[15] This problem of "adding-up" impacts which occur across levels of analysis and some of which may be qualitative is familiar in other fields. See, for example, M. Lipton, 1985, Modern Varieties, international agricultural research and the poor, Consultative Group on International Agricultural Research, Study Paper No. 2, Washington, IBRD, on the Green Revolution, and S. Maxwell and A. Fernando, 1989, "Cash crops in developing countries: the issues, the facts, the policies", in World Development (forthcoming) on the cash crops debate.

[16] For a clear exposition, see G. Shuttleworth, 1989, "Grain marketing interventions by the state: what to do and why to do it" in Maxwell (ed.) forthcoming.

[17] Timmer, 1986, Getting prices right: the scope and limits of agricultural price policy, Cornell University Press; The World Bank, 1986, World Development Report, Washington.

18. M. Lipton, 1985, Modern Varieties, international agricultural research and the poor, Consultative Group on International Agricultural Research, Study Paper No. 2, Washington: IBRD.

[19]For a review of food security measures, see World Bank, 1986, Poverty and Hunger: Issues and Options for food security in developing countries, Washington; Gittinger ref to be added.

[20]Simon Maxwell, 1986. Food Aid to Senegal: Disincentive Effects and Commercial Displacement, Discussion Paper 226, IDS, Sussex, December, pp. 10-11. These differences could not be explained by differences in definitions or accounting practices.

[21]Imported cheese and wine were included, however! For a fuller discussion, see Simon Maxwell, 1986, Food Aid to Senegal: Disincentive Effects and Commercial Displacement, Discussion Paper 225, IDS, Sussex, December.

[22]FAO, 1982, The Impact of WFP Food Aid in Ethiopia, Rome, December; Simon Maxwell, food Aid to Ethiopia: Disincentive Effects and commercial Displacement, Discussion Paper 226, IDS, Sussex, December.

[23]On rapid rural appraisal, see R. Chambers, 1983, Rural development: putting the last first, Longman; M.T. Feuerstein, 1983, "Participatory evaluation: By, with and for the people" in Rural Life Vol. 28, No. 4.

[24]Simon Maxwell, 1986, Food Aid to Ethiopia: Disincentive Effects and Commercial Displacement, Discussion Paper 226, IDS, Sussex, December; Simon Maxwell, Food Aid to Senegal: Disincentive Effects and Commercial Displacement, Discussion Paper 225, IDS, Sussex, December.

[25]IDS, 1988, Food Security Study, Phase I, report to Government of Sudan, mimeo, February; Sudan, 1988, Proceedings of the National Food Security Workshop 4-5 June 1988, mimeo, Khartoum.

[26]Data on Senegal from Simon Maxwell, 1986, Food Aid to Senegal: Disincentive Effects and Commercial displacement, Discussion Paper 225, IDS, Sussex, December; Simon Maxwell, 1986, Food Aid to Senegal: Disincentive Effects and commercial Displacement, Discussion Paper 225, IDS, Sussex, December; IDS, 1988, Food Security Study, Phase I, report to Government of Sudan, mimeo, February.

[27]Sources for all data quoted are to be found in Simon Maxwell, 1986, Food Aid to Ethiopia: Disincentive Effects and Commercial Displacement, Discussion Paper 226, IDS, Sussex, December.

[28]Data on producer prices is collected by the Relief and Rehabilitation Commission is 118 markets; a selection of the results in published in early warning reports, for example Ethiopia 1986. The data of Woldia is unpublished.

[29]This in itself is a major disincentive issue, corresponding to scenario 2 in Figure 1. See Simon Maxwell, Food Aid to Ethiopia, p. 17.

[30] USAID, Personal communication.

[31] Simon Maxwell, 1988, Food Aid to Ethiopia, pp. 24-26.

[32] The sources of these figures are to be found in Simon Maxwell Food Aid to Senegal: Disincentive Effects and Commercial Displacement, Discussion Paper 225, IDS, Sussex, December.

[33] Simon Maxwell, Food Aid to Senegal

[34] Sénégal, 1984, Conseil Interministerial sur la Nouvelle Politique Agricole (séance du 26 mars 1984), Ministère du Développement Rural, Dakar.

[35] Op cit., Ref.34, p. 36.

[36] The failure of the price support operation for millet is an important issue not discussed here but analyzed in Simon Maxwell, Food Aid to Senegal: Disincentive Effects and Commercial Displacement, Discussion Paper 225, IDS, Sussex, December, pp. 12-15.

[37] Op cit., Ref. 32, p. 21.

[38] S. Jost, 1989, "Food aid: regional assessment and policy analysis. The case of the Sahel" in this volume.

[39] These and most other figures in this section are taken from IDS, 1988, Food Security Study, Phase I, Report to Government of Sudan, mimeo, February.

[40] This would require that there be no restrictions on cereal imports which is, admittedly, a brave assumption.

[41] The subsidy would have been greater if wheat imports had been valued at the shadow exchange rate, since the Sudanese Pound was overvalued. IDS (1988) used a shadow rate of US$1=LS6.

[42] IDS, 1988, Food Security Study, Phase 1, report to Government of Sudan, mimeo, February, p. 83.

[43] IDS, 1988, p. 83

[44] IDS, 1988, pp. 85-6

[1979]

Box 5. 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 the 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 largely dominated by short-term perspective. 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 as investments in physical capital. Moreover, the stock of human capital is increased by investments in improved nutrition, health, formal schooling, and treatment programs. The use of food aid lends itself especially well to the development of human capital. Food aid to meet the short-term problems of human hunger can in fact lead to the formation of human capital that will yield benefits into the future.

Improved nutrition has been an important food aid program goal. School lunch programs have been an important use of food aid, as have support for 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. The programs are perceived primarily as vehicles for getting 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 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. 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 examples from the new household economies 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. Income transfers in the form of food, in effect, pays the family for sending the child to school or to training programs. 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 mothers 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 mother from other work activities and give her more time with her 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 (a) improved nutrition of the young and of pregnant women, and lactating mothers; (b) to creating the means whereby children can participate in formal schooling and training programs; and (c) to enabling mothers to withdraw from the labor force, especially in their childrens formative years. 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.

Source: G. Edward Schuh, Improving the Development Effectiveness of Food Aid St.Paul, Department of Agricultural and Applied Economics, Mimeo, September 1979 (Prepared as a report to the U.S. Agency for International Development).

[1984]

Chapter 13

The Evolution of Food Aid: Towards a Development Regime

Raymond F. Hopkins

The purpose of food aid has evolved over the past 30 years. At its inception as a regular institutionalized flow, surplus disposal was the most dominant motive for food aid. Today, it has become a much more development-oriented regime. Food exchanges now are governed by a set of well-institutionalized but tension-ridden principles. These constitute the core of a 'regime,' by which is meant the basic principles along with the more detailed norms, rules and procedures that provide the intellectual framework for food aid.[1] The food aid regime, then, is more than an individual agreement or even a set of agreements: it includes all the reasonable stable arrangements that govern action in the giving and receiving of food aid, especially as this governing makes it harder for participants to follow immediate and ad hoc calculations of their interests.[2]

The current food aid regime, like regimes governing money, communications and other specific international activity, can be discerned by examining the bargains struck by its participants. The food aid regime resides within two frameworks: the domestic food policies of participants and the broader sovereignty regime of international politics. It mirrors broad diplomatic rules of sovereignty and, at the same time, it responds to the dominant interests in national food systems.

A major turning point in the food aid regime was the World Food Conference of 1974. The conference proclaimed a new development emphasis and urged greater

coordination of food aid, leading to regime changes that reflected both a shift in political interests and new understandings about the effects of food aid. As a result, the current regime is a 'mixed' one--a blend of the older, original surplus disposal-humanitarian regime and a newer, development-oriented regime.

In 1984, about $3 billion was available from about 25 donors for paying the costs of food, transport and management. Over 10 million tons of cereals are being shipped to over 100 recipients, with over 25% going to Sub-Saharan Africa in response to the growing food crisis there. Ten years ago, Africa received less than 5% of food aid. This shift reflects both a change in relative need compared with Asia and the growing influence of development principles which justify the increased attention to Africa.

This article proposes that priority for development will continue to grow, completing a shift from surplus disposal to a 'development first' regime. This shift was accelerated by the World Food Conference, but even 10 years after the conference it is yet to be completed. The current regime contains inherent tensions between the older and newer design principles. It can be superseded by a more coherent and efficient set of governing principles and norms.

The current regime: competing principles

Two major political forces in the early 1950s led to the creation of permanent food aid programs. First, agricultural groups in the USA and Canada promoted food aid as a way to expand trade and reduce burdensome grain surpluses. Secondly, humanitarian and internationalist sentiments, expressed in part through voluntary agencies such as CARE, had an interest in ending famine through government funding of permanent overseas relief. The

result was a marriage of surplus disposal and humanitarian relief as a successor to the American food relief efforts in Europe following the second world war. In the 30 years since then, food aid has become institutionalized as a familiar international transfer mechanism. It has also become increasingly complex. Only in pursuing multiple objectives has food aid shown institutional weakness through occasional contradictory uses: for instance, in giving aid for political reasons which undercut other objectives.[3]

Four founding principles

At its founding, four basic principles governed food aid activity. As both the position of the USA as a donor and the burden of surplus stocks declined in the 1970s, the founding principles have continued to shape food aid policy, although less completely. By serving particularistic interests, they remain important for securing support for the regime from donor countries. The four principles are:

* Food should be provided from the donor's surplus stocks.
* To be additional food to recipient countries.
* Using ad hoc or short-term commitments sensitive to the political and economic goals of donors.
* To directly feed hungry people.

This initial package of principles rested on the theoretical supposition that food production--largely wheat--in certain rich exporting states was in excess of their socially useful consumption and commercial export needs, and hence some stocks could be transferred by 'special transactions' to recipients where production and imports were below socially useful levels of consumption.[4] The purpose of this food channel was to expand consumption

beyond existing effective demand and simultaneously serve the diplomatic, market or humanitarian purposes of the donors. These principles dominated food aid management until the crisis period in the world food system of 1973-74. Although they had been challenged by competing principles as early as the alte 1950s, the 1974 World Food Conference marked the point at which newer principles truly dominated international discussions.

Criticisms and reform movements

From the enactment of the PL 480 legislation in the USA in 1954, food aid has drawn criticism. At the time of its passage in 1954, it was opposed by the State Department and other exporters, for instance, because of its potential for creating enmity and violating liberal trade principles. Others lamented the failure of food aid to involve multilateral agencies such as FAO, which for years had been discussing a potential role for itself in managing surpluses.

The most enduring challenges to the regime came from criticisms directed toward one or more of the founding principles. These criticisms emerged at several historical junctures, were expressed in various national and international forums and spawned a number of reform movements. The most important junctures for change were the 1958 Humphrey Hearings on food aid for developing countries, the 1962-63 founding of the World Food Programme, the 1966 'self-help' legislation in the USA, the creation of the Food Aid Convention (FAC) in 1967, the proposals of the 1974 World Food Conference and related revisions in policy in the many donor states in the 1974-77 period, and the 1980

revised Food Aid Convention. More accretional legislative and administrative changes also have occurred throughout the 30 years of 1954-84.

The first regime principle was challenged on two counts. In the first place, domestic US interests opposed policies creating permanent surpluses. Beginning in the 1960s, acreage reduction programme policies wer adopted to end these. This polic change in the USA, Canada and Australia weakened one set of interests supporting food aid. Later, it also prompted concern over ways to achieve supply reliability of fod aid if surpluses disappeared. In the second place, as US hegemony declined, burden sharing among industrialized states was promoted by the USA and other grain exporters. The World Food Programme in 1963 and the FAC in 1967 were responses to the notion that the rich importing nations of Europe and Japan should also support food aid.

The second wave of criticism addressed the additionality principle. As develoment objectives came increasingly to the fore and as desperately poor recipients, such as those in Bangladesh in 1974, came to be favoured recipients, the rationale for additionality weakened. First, balance-of-payments support to aid development investments could not be realized by a country if there were no savings of foreign exchange from displaced food imports. Unless food aid saved foreign exchange, i.e. displaced commercial imports, it did little to help desperate governments who were going to feed their populace in any case. Secondly, criticisms that food aid depressed local food production through lowering prices paid to produceres forced food aid managers and supporters to seek devices to prevent the perverse 'disincentive' effect. If food aid were a pure substitution, then the disincentive

effect via its market would vanish--a point in which food aid defenders increasingly took comfort.[5]

A third criticism arose over the principle of the short-term and hence unreliable quality of food aid. India became particularly disenchanted with dependence on food aid, following the 'short tether' tactics of the Johnson administration's provision of food aid in 1965-66.[6] When recipients felt political and market development objectives dominated allocations, little incentive was created to worry about development or domestic food policy when negotiating for food aid. Concerns about short-term allocation and reallocation arose from the way the US government cut off aid to Chile in 1971 and Moz[illegible]e in 1981, while cranking it up to Southeast Asia in the late 1960s (the so-called 'food for war' operations) and to Egypt and Syria in 1974. Even governments that strongly supported emergency uses of food aid, such as Sweden, also firmly endorsed the multi-year principle.

Finally, criticism of the feed-the-hungry principle surfaced. This has been the most muted and cautiously worded attack on the founding principles. Who, after all, would deny food to starving babies, with their bellies swollen and their very lives at stake? the dramatic pictures which circulated in Europe and the USA of the plight of victims of drought and warfare in Nigeria in 1968, the Sahel in 1973, Bangladesh in 1974, Cambodia in 1979 and Afghanistan in 1981 have had their effect. Hunger is a potent symbol mobilizing political support. Nevertheless, criticisms have grown that, aside from dire emergency situations, delivering food directly to the hungry is a suspect principle for three reasons: transport costs to projects can be excessively costly, amounting to 100-200% of the food costs in Africa;[7] small projects may disrupt local food systems, even if the amount of food is small on a

national scale; food targeted for consumption may reinforce excessively expensive subsidy programmes, as in Egypt or Sri Lanka (in th 1970s), or create adminstrative nightmares and invite corruption, as in Zaire.[8] Food aid critics want the food to be rationed for development ends and not expanded for consumption that may even reduce pressure on governments to address rural development.[9]

Newer competing principles

The criticisms just reviewed have given rise to an evolutionary change in the food aid regime.[10] New principles, largely contradictory to the founding ones, have arisen. The general new formula, reflecting principles of market efficiency and development gains, are:

* Food should be supplied most efficiently.
* As a substitute for a recipient's food imports.
* Under longer term commitments.
* To provide development investments for recipients.

Each of the four new regime principles has challenged the old ones without displacing them. Each has been embedded in some institutional practices of bilateral donor agencies and especially those of the World Food Programme (WFP). With the reformation of the WFP after 1974, the governing council, the Committee on Food Aid Policies and Programs (CFA), has approved a number of specific guidelines for food aid, directed to all donors. In some cases, as with long-term commitments, a new principle has been openly advocated by food aid specialists, although it is not well received by national government budgetary authorities or diplomats. In other cases, such as supplying non-surplus food, specific new practices have not been given much publicity, since there is a distinct possibility that this

could mobilize opposition to them. Nevertheless, each of the principles has achieved a firm base in the food aid regime of the 1980s--and one is deserving of brief elaboration.

Efficiency of supply. With the establishment of donors who were not food exporters, the surplus disposal rationale was attenuated. Recall that the number of regular donors grew from only the USA and Canada in the 1950s to about 25 in 1982. Furthermore, a new rationale arose when it was perceived that countries such as India, Thailand and Zimbabwe, clearly too poor to be expected to be significant donors, could improve their own economies if they became occasional suppliers of food aid. Countries such as Saudi Arabia or Germany, therefore, found they could be doubly helpful if they used cash to secure food from one of these LDCs and gave it to another. This would promote regional trade, reduce transport costs and stimulate development for two countries. 'Triangular' supply arrangements, in which neither the food donor nor recipient is the source of supply, have been encouraged by the CFA and facilitated by WFP management. The WFP has encouraged the 'efficiency' principle both in its own food purchases and as a broker for other bilateral donors. Even the USA, the premier food-supplying nation, has entered into triangular supply arrangements, shipping wheat to Zimbabwe in order to supply white maize to Zambia as food aid.

Substitution for commercial imports. During and since the panic market period of 1973-74, the usual market requirement (UMR) that a food aid recipient import its average of past years has been relaxed. For a country like Bangladesh, it has been waived. It is seldom enforced for the poorest LDCs, and consultations with the FAO's Committee on Surplus Disposal (CSD) continue more as a means to reduce friction among exporters than to force

LDCs into commercial channels. Egypt may be an exception to this, since the UMR for Egyptian wheat was raised to 3 million tons in 1982 in order to maintain some pressure on Egypt for commercial purchases. In general, however, food aid has become such a small part of world trade that worry over its market-distorting effects has appropriately declined. Finally, the substitution principle is a logical device to offset market disincentive effects. Avoiding this outcome, a concern first aired in a classic article by Theodore Schultz in 1960, was eventually made a requirement of the US food aid programme, in 1979, in the so-called Bellmon Amendment.[11]

The substitution principle is widely upheld whenever food aid is justified as balance-of-payments support. The conflict with the additionality principle is largely ignored in such cases, almost as if the two could exist simultaneously. On page 2 of the 1983 Review of Food Aid Policies and Programmes, put before the May meeting of the WFP Committee on Food Aid Policies and Programmes, it is urged that development purposes, such as improved food policies, be served where:

> ...it can be done efficiently through mechanisms that ensure substantial additionality of consumption and prevent undue interference with either domestic production or commercial sales of food (emphasis added).

In the next sentence (of the next paragraph), the review affirms that:

> ...food aid can assist the development effort by liberating foreign exchange, which would otherwise be used for essential food imports.[12]

In short, food aid is to do both, although clearly it would be impossible to do so with the same food. Both principles exist, nevertheless, as part of the current regime and effots are made to satisfy one or the other, or, occasionally and inconsistently, both.

Long-term commitments. Examples of this regime principle abound. In the early 1960s, the USA signed a multi-year agreement for concessional PL 480 in Egypt. In the 1970s, the Canadians launched a multi-year wheat programme in Tanzania (also a substitution or balance-of-payments use) and, in 1982-83, a multi-year, multi-donor programme for Mali was established. The rise of development priorities clearly favours the multi-year approach as a way to lend greater stability and reduce risks to development undertakings. Informally and de facto much food aid, not just that tied to feeding projects, has been multi-year. The budgeting and planning process in the USA and Canada and for the European Commisssion have reinforced the tendency to allocate similar amounts to similar countries over several years. Budget officials and budget processes, however, have leaned against formally committing their governments to food aid for more than a year at a time. Nevertheless, most aid, especially project aid, is planned on a multi-year basis.

Development investment. At some point, trade-offs exist between shorter term nutritional objectives and long-term strategic ones. The desirability of emergency feeding for persons displaced by drought or civil unrest and of nutritional programmes for 'vulnerable groups,' i.e. young children, pregnant women and lactating mothers, is not challenged by this principle. Rather, it suggests that these priorities, and probably only these, meet the standards of using food directly to promote sustainable development, especially rural development.[13] Even here, efficiency would dictate using local foods in feeding programmes when effectiveness did not suffer and no negative externalities were created.

Emphasizing development rather than nutrition as a principle entails looking at the investment prospects and returns from a food resource. Food per se is seldom a serious

constraint holding back long-term enhancements of rural productivity and domestic food supplies. More often, constraints lie in hard-to-change government policies. Either these strangle incentives or inadequately provide for human and social capital.[14] In particular, education, health care, extension services, roads and market-enhancing regulations would greatly add to the accumulation of capital and technological change central to rural development. The emerging new regime principle holds that the criteria for allocating food--directly or indirectly--to nutritional improvement programmes should be developmental effectiveness, and according to this standard many food subsidization and feeding programmes are cost-ineffective. They turn out to be welfare consumption items, relating perhaps to immediate quality of life considerations, but also more accurately explained as implicit political compacts between a shaky government and key support groups, rather than explained as part of a development scheme.

The challenge within the food aid regime is to reconcile the conflicts between old and new interests, as reflected in incoherent principles of the current regime. This challenge in its particulars is a reflection of the broader tensions that exist between the north and the south and in the UN between the G-77 and the Group B countries. The solution to this regime tension, if it is to be found, lies in the logic of synthesis. This familiar Hegelian dialectic formula argues that a new set of principles for order can be developed out of the contradictions of existing principles. A new synthesis of principles could subsume both the original and the challenging points of view of the current regime. Such an 'uplifting' resolution--one that is general through stating broad principles and specific in proposing derivative rules and practices for food aid--is the purpose of the next section of this article.

It attempts to justify support for the newer, challenging principles formulated as a development first regime.

A 'development first' food aid regime: a synthesis for the future

A 'development only' regime orientation that ignored important political interests of donors and recipients invites a slow death from resource shrinkage. As powerful interests supporting food aid waned, resources would dwindle, much as they did in 1972-74, when surpluses dried up. Emphasizing development to the exclusion of all other interests, therefore, is self-defeating.

A 'development first' regime, however, is possible; in fact, it benefits from the shrinkage of food aid in the early 1970s, which happened as surplus stocks declined and prices rose. Recall that historically when low prices and large stocks occurred, food aid was expanded. When surpluses again reappeared in the early 1980s, the old surplus disposal regime levels of food aid were not restored. This reflects the shift of the surplus disposal interests, notably in the USA, but also in Europe and Canada, away from food aid. American and other agricultural export interests find food aid no longer an efficient tool for surplus disposal. The food aid regime has become too bound by development rules that require targeting of poor countries, concern over disincentive effects and complicated procedures for reaching allocation decisions. These make it unattractive to government officials responsible for surplus stock management, especially in contrast with intermediate credit and bilateral commercial trade agreements which have proved more attractive mechanisms for expanding exports.[15]

The present situation is that both the founding principles and the newer ones, aimed more at efficiency and development, are embedded in national laws, international rules and bureaucratic practices. Two factors bring pressure for change upon both sets of conflicting principles. These factors provide a unified backdrop for appraising and modifying existing principles. First, food policy in both donors and recipients is basic in shaping the environment in which food aid and its effects occur. Secondly, a substantial degree of interdependence exists, created by the growth of world food markets, that also bear upon regime principles. The trends toward increasing density of policy rather than 'fate' in shaping the choices of individuals is well recognized in food and other areas of life. So also is the decresing degree to which policy can be independently made in individual states.[16] Policy interdependence and its recognition offer a way to combine the old and new interests underlying food aid by recognizing the ascendency of the new and linking donors' domestic agriculture and diplomatic interests more to structural rather than short-term process advantages.[17] Food aid in this sense would be viewed as a mechanism to increase the reliability of demand and supply in world trade, the dependability of trade as a mechanism of global cooperation and the interdependence of the north and the south.

Many of the conditions that would allow food aid to be governed by a synthesis of old and new principles are in place, such as the growing universalism of the donor-recipient network and the creation of a 4 million ton wheat reserve as a back-up for US food aid. The new regime would be able to be 'development first' because all participants had either an immediate or a long-term structural interest in it, while surplus disposal problems would

return to the general trade regime to be resolved under the auspices of the General Agreement on Tariffs and Trade (GATT) or, if all else failed, through trade wars.[18]

In a development first regime, the rules and procedures would not serve development only; rather, development plus other ends would be served. Emergency or political claims, however, would not be allowed to overrule regularly or ignore development criteria in the allocation and specification of food aid commitments. In this sense, a development first regime represents a natural outcome for trends of regime change, deepening the hold of the emergent principles enumerated earlier and yet maintaining a residual role for the original ones in order to retain robust political support and to act as a check against possible excesses that could arise if the politics of food aid were driven by a development only regime. The development first regime would offer at least a partial synthesis to the tension existing among competing principles, by providing rules for resolving competing interests rather than perpetuating the naive liberalism that marked foreign aid philosophies, especially of the USA, in the 1960s, in which it was felt 'all good things go together.'[19]

Institutional devices for achieving the development first regime are diverse. They range form domestic interests exerting pressure on the national politics of regime participants, to continued international policy dialogues within existing frameworks, such as the CFA, and finally to a major new treaty undertaking under the auspices of UNCTAD, FAO or the General Assembly, analogous in scope to the World Food Conference format which gave impetus to regime change.

These devices are not mutually exclusive. The coordination of recurrent efforts for change and resolution of tension rests largely with the CFA of the WFP. To a fair extent,

WFP has assumed the lead in fostering regime change in the 1970s through its bureacratic initiatives, as in triangular food aid, through the broad reviews and appraisal tabled at CFA meetings (as in 1979), through resolutions passed by the CFA, through fostering the use of research in projects, and through improving the shipping and import logistics of food aid.[20] The hegemonic position of the USA in food aid has not evaporated, nor has the traditional role of FAO as the central international food body been abandoned. However, US policy and FAO initiative are increasingly made effective or ineffective by the actions of others.[21] Furthermore, US hegemony across many other issue areas has shrunk to the point that diffuse US power no longer offers spillover to support food aid leadership in the donor-recipient framework.[22]

In a crude parallel with the two sets of competing principles outlined in the first section of this article, four synthesis principles that emerge from the tensions and implications of current competing ones are proposed. The ideas expressed can already also be found in the analysis, prescriptions and undertakings of a variety of individuals and institutions.[23] The purpose here is to consolidate them into a more coherent statement of principles that can engender a reconstellation of interests supporting food aid, utilize learning from experience and research and complete the regime's transformation. The proposed four principles are:

* Food aid should be linked explicitly to the food policy of participants, obligating efforts for efficiency and stabilization.
* Food transfers should maximize economic gains.
* Under long-term contracts.

* To be used for human capital investment, food policy costs and research.

Food aid linked to food policy

This principle really combines two broad norms. First, it states as an assumption that donors and recipients should lose some sovereignty over their food policy as a burden of participating in the regime and, secondly, it asserts that the goals of efficiency and stability should be the limiting factors on policy. A basic function of all government is to reduce risk and instability. The development of agriculture in the USA and Europe is replete with instances of government actions justified by these ends. Indeed, the food aid undertakings begun by these donor countries in the 1950s and 1960s, as recognized earlier, was closely related to their domestic and international policies to provide stability to their own producers and/or consumers.[24]

Global food security is best served when the food policies of individual countries seek efficiency and stability without creating negative external effects on one another. Most analyses aimed at promoting global security have called for rich countries both to improve trade stabilization guarantees and to assist poor countries in improving their entire food systems from production to consumption.[25] Food security is, of course, most in jeopardy in the poorest countries of the world. It is, however, improved over the long run by the creation of redundancy or adjustment of 'preferred cereals' and meat, along with extra-market channels to protect individual equities, reflecting their food 'entitlement.'[26] The 'long run' in turn is heavily affected by policies and less by year-to-year disruptions in weather or civil order.

In short, emergency food aid which continues to be needed should not be confused with or allowed to displace policy-linked food aid. Rather, food aid should create opportunities for national and international food officials to improve upon critical national policies, especially food sector policies. These policies heavily determine long-run food security. Of course, food aid itself is not a sufficient resource to control this policy domain, but its very existence creates presumptions for transparency of action and for international review and proddings.

A number of specific steps by regime participants are suggested by this principle. First, norms, specific rules and procedures for domestic food policies need to be agreed upon as germane to a country's status as either a provider or recipient of food aid (or both). The CFA already has proposed norms strictly for food aid policy, some of which have been reflected in changes in donor country policies, as the trend toward greater grants rather than soft loan aid shows. Drawing up norms for donor performance with strong donor participation and control, and similarly for recipients with recipients in control, is likely to give evaluative criteria for national food policy performance more credibility and probable impact on donors and recipients.

Part of the procedure for linking food aid to food policy could be an annual review by the CFA of a select few donor and recipient countries, an idea approved at the 1982 CFA meeting (fifteenth session) and implemented with Bangladesh, Tunisia and Sweden since then. Currently, WFP undertakes reviews and evaluations only of its own projects. The evaluation and policy unites of the WFP would need additional or external resources to undertake more extensive country reviews.[27]

Relevant criteria for evaluation would arise from the various regime principles discussed here. For example, a review of a donor could ask whether the donor's food aid contributions are adequately assured, so as to allow the food aid system to help stabilize the food systems of recipients. In the USA, a 4 million ton back-up wheat reserve for the PL 480 programme was created in 1981. This dedicated reserve has never been used, however. It was protected in 1983 from the US payment-in-kind programme (PIK) used to induce wheat acreage reductions when the USDA was forbidden from using the wheat reserve for providing wheat and instead bought additional wheat. From mid-1979 to 1981, a period of rising world prices, and in 1983-84, with large emergency needs in Africa, the reserve was not touched either. Total food aid was slightly expanded and did a fair job of responding to the rising demand of 1980-81. Its adequacy in 1984 is still uncertain. In 1980-81, the ability of India to meet domestic production shortfalls from her own reserves was a considerable help, but increased donor contributions also were important. This counter-cyclical tendency in 1979-81 compares quite favourably with the pro-cyclical one in 1973-74, in which food aid shrank in the face of rising prices and growing needs of recipients. This earlier period was exceptionally difficult in Bangladesh where price rises led to famine, one that timely food aid could have averted.[28]

There is much room for improvement in donor country capacity to be reliable suppliers. The review process would also provide the opportunity to commend countries that lived up to their FAO commitments during difficult times, as Australia did by buying food abroad after experiencing a drought and wheat crop failure in 1982.

Recipient country review would function in very similar ways. They could reinforce the tendency already under way to use food aid to improve the food policy framework in recipients, thereby aiding their development of a strong agricultural base and an efficient, robust system of distribution and consumption. One to three reviews of recipient countries each year seems a manageable number.

This undertaking requires a focused appraisal process. Thus, recipient evaluation reviews would require the CFA to generate a set of generally desirable conditions by which to evaluate developing country food policies, including pricing and marketing practices. Countries could then be roughly assessed as to how well they met these conditions. Especially in Africa, governments have systematically undertaken policies that discriminate against food producers. In recent years, food aid has been a major resource that has helped governments perpetuate extensive (and usually unenforceable) marketing rules, subsidies and pricing policies.[29] Major efforts are under way in the FAO, and with encouragement by the WFC, to focus on food sector analyses and prescriptions that will help rectify some of the problems that these policies have helped cause. Much analytical work by numerous agencies, especially FAO, but also UNCTAD, the International Fund for Agricultural Development (IFAD), the World Bank and national donors, has already been completed.

LDCs have generally shown hostility toward conditionality requirements imposed by donor-controlled agencies, such as the IMF. Nevertheless, conditionality is currently attached in some bilateral food aid grants as well as applicable in IMF food facility loans. Conditions for food aid eligibility review would not be novel, therefore.

A code developed by LDCs for application to themselves should be more palatable for this purpose. A country's standing vis-a-vis desired policy conditions could be used for recommending priority for food aid. In this way, food aid allocations could be turned toward an incentive for policy reform rather than a disincentive. The recent multi-year food aid programme to Mali could serve as a model for this approach. The desirability of tightening the link between eligibility, improved terms and longer commitments for food aid and improved policy frameworks has been suggested in numerous studies and international reports.[30] The next step is to identify appropriate local uses of food aid within a reformed food policy context.

Finally, interdependence in the world food system argues strongly that food policies in all countries that affect trade and food aid flows should bear some responsibility for aid. This move toward greater universality appears in the 1980 new Food Aid Convention that explicitly seeks additional donor pledges. The USA, which supplies about half the world's trade in grains, also supplies about half the world's food aid. This seems reasonable. The responsibility for importing countries arises thanks to this principle, although their role as donors, which first began with the creation of WFP and then the FAC in 1967, was initially not based on such a broad principle. The link to the food policy principle applied to the interdependence phenomenon should now create procedure for inviting still others to assume donor responsibility within the regime. The USSR and the richer countries of Eastern Europe are particularly due invitations. The soviets are already members of the International Wheat Convention (IWC) and have given food aid on an ad hoc basis. Portugal, Brazil and other rapidly industrializing states should also become significant

donors. Greater universality will expand the ability of the regime to deliver food aid in a more reliable and efficient fashion. These are the two qualities the system needs if it is to serve development first.

Maximize transfer gains

This principle requires taking into account relevant prices in supplying and recipient countries. The information derived from ongoing appraisals when food aid is linked to food policies, as suggested above, makes this task easier. The maximization principle also allows the controversy over whether aid is or should be additional to, or a substitute for, commercial imports to be a moot matter. This issue itself involves a counter-factual or 'what if' question to begin with. Would a particular country import commercially the food it received as aid if they had not been given it? No certain answer is possible, because an observer cannot know what effect food aid or its absence might have on price and import policies inside a country over time. However, if a country were generally and heavily subsidizing a food commodity, while paying producers well below the import parity price, then the potential recipient might well be substituting food aid for commercial imports, but only in the short run. In the longer run, it really is substituting food aid for domestic production while continuing urban-biased policies. Under the conditions for priority established with the first principle, however, such a country might not be eligible for food aid.

In tandem with the use of policy conditionality, then, the new principle would move to encourage food aid as a substitute for commercial imports, maximizing the economic and balance-of-payments gains for the recipient, where food aid was judged not to be a policy

disincentive. This would be assessed by the criteria developed to link recipients' food policy to food aid. Judgments should be used to reduce or eliminate food aid, whether it be judged a substitute for or additional to commercial trade, when the import need was adverse to expanded and efficient production, distribution and consumption processes.[31] Triangular arrangements and other aspects of efficiency in moving supplies would be sustained by this principle. The UMR requirement needs to be modified or abandoned as a rule. It would no longer be sustained by the regime's principles, at least not for poor countries that receive food aid for development first. Where largely political uses of food aid continue, the UMR might be retained for such countries.

To summarize the second principle's major implication, then, food aid should aim toward providing balance-of-payments support (import substitution), but with priority for aid given those countries where the food policy framework already has met general conditions for effective development, as worked out in an LDC and donor country forum. The original additionality principle would be transformed by this combination of the first two principles into 'conditionality,' i.e. stating correctly the answer to an empirical debate over whether particular food aid is an additional or substitute commodity as 'it depends' on the condition of a country's food policy.

Another set of changes would be entailed by the maximization principle. In general, it would be assumed that food aid would be put into recipient country market channels in ways to minimize transport costs. Furthermore, self-targeting commodities such as sorghum in Bangladesh or wheat in Sri Lanka would not be chosen unless they yielded the highest economic gain to the international transaction, something LDC importers should be able to

judge. The idea of food aid supplying a nutritionally self-targeting food has considerable merit, but there is no special reason to use imported foods for a nutrition programme of this type.

Raising consumer rice prices in a country like Indonesia or Tanzania may be a better way to improve the food system and target corn or cassava for expanded consumption by the poorest, least nourished population, for example, than requiring food aid to be a grain preferred by the poor. Often, US maize and sorghum is prepared as animal feed and is not of good quality compared with the locally produced crop. Indeed, it would be desirable that if a government decides to use a subsidy wedge between production and consumption of a food to improve nutrition, it pick a locally produced crop--one already in the diets of the poorest.[32] In general, the implication of this view is that high-value commodities such as wheat, oil and dry milk may be the best food aid commodities, even though these actually are consumed by middle income and upper income people. In this sense, the maximization principle is an extension of the efficient supplier principle that was discussed earlier and has already been partly established.

The nutritional and developmental goals in the food aid system can be achieved more efficiently through the policy link between food aid and food policy. The food aid, then, whether donated or sold concessionally and whether linked to a specific project or not, should generally be expected to be sold in the recipient country at a reasonable price (certainly not much below import parity and perhaps even approaching export parity). When the food aid is linked to a nutritional undertaking as part of the overall development it seeks to support, resources form the sale can be used to pay for food rations or subsidized

ration shop commodities targeted for special populations. Normally, these would be procured from local production. This reduces transport and storage costs and raised demand for local food production. The current 'normal' requirement of free gifts, distributed directly, would be limited to emergencies or unusual cases where local foods would be inefficient or nutritionally perverse for the targeted group. Such a rule, based on the maximization principle, will obviously require some important changes in rules and procedures in the current regime, and development of satisfactory oversight mechanisms, to be sure the policy link works.

Long-term contracts

The third principle of the proposed development first regime would make long-term, flexible commitments standard procedure. Under the current system, even with multi-year commitments, the commodities and approximate delivery schedule are negotiated in advance. Adjustments during a budgeting period require special approval. Although, in practice, some swapping and flexible use of stocks occurs in projects, especially multilateral ones, the food availability commitments are mormally quite short-term ones. The third principle of the proposed regime would change this practice, at least for food policy priority countries. For such countries, it is proposed that 3-7 year food aid contracts be reached under which one or more donor agencies would pledge a substantial total commitment to a recipient. LDC food officials would be given considerable flexibility to decide the timing of food imports and the commodity mix chosen. Such a contract could combine the features typical of bilateral grain trade agreements, which give only an annual range of commodities to be exchanged with those typical of credit lines that banks extend to large customers. A

recipient country, in return for undertaking or maintaining specified agricultural food policies and projects, e.g. those affecting production, trade and/or nutrition, would be given a line of credit for aid imports to be used largely at its discretion.

The advantages would be numerous for recipients. Such a procedure would encourage food policy officials rather than trade and treasury officials to negotiate food aid. It would, however, give trade officials much greater assurance of meeting possible import needs as the policy changes occurred. Officials could even enter grain futures markets, for example, to procure food aid several years in advance at favourable prices and with lower storage costs, rather than build additional storage in their own countries.[33] A country like Kenya could particularly use such a facility. Kenya has had periodic maize crop fluctuations that its Cereals Board either could not absorb as expected because it ran short of storage and money or could not produce sufficient amounts so that it had to resort to large-scale imports. In 1979, Kenya exported maize at a loss and then, in 1980-81, paid nearly $100 million for commercial maize imports. Subsequently, it received large-scale food aid, some of which then had to be stored for a year or more. Hedging riskes of probable import costs is typical in industrialized countries. Futures markets offer a 'collective good' that reduces risk. With longer term food aid contracts, LDCs would be encouraged to use hedging more effectively to lock-in acceptable prices well before they were sure when the aid was needed.

Under the long-term arrangements which the proposed principle envisages, training and technical assistance would also be in order. One major area of weakness in the food systems of many countries, African states in particular, is the low competency and inefficiency of marketing boards. Typically, these boards are the effective managers of food

aid imports. Often, morale and professional expertise are low in such operations and they are frequently subverted to special (political) purposes. Since food aid directly touches these marketing board operations, donors--relying on the development first regime's initial principle--should link enhanced performance by these boards to food aid. Food aid and other resources should be used to strengthen the management capacity, international market sophistication and career incentives for board members. Increasingly, such technical assistance must be long term, especially in Africa, as David Leonard has pointed out.[34] Food aid officials also need to work longer periods on particular projects and/or country policies--at least 5-7 years. WFP's performance in using personnel effectively in this respect is generally better than that of bilateral donors--even the USA. The marketing boards can play an important role in improving the framework for food production, including acting as a buffer stock operation and helping to 'perfect' markets.[35]

Human capital, food policy costs and research

The tendency to look for development investment yields from food aid and the importance of taking a 'strategic perspective' have already been discussed. The last principle of the development first regime being outlined attempts to resolve the tension between using food directly to reduce hunger (consumption) and using it for development (investment). What is needed in giving priority to development is to relate food aid in this enterprise to nutrition and food production 'investments.' The concept of human resource and capital formation has been identified by G. Edward Schuh as one major focus by which to allocate food uses within a recipient country.[36] As appropriately determined by the food policy commitments of recipients, food aid would be linked to a variety of human capital

investments, beginning with nutrition programmes to reach the vulnerable groups in society, but also including programmes in health, extension services and nutrition education. The stress on these human capital investments is in keeping with the implications of the food transfer, even if the actual food transferred only occasionally can be efficiently used in feeding programmes. This principle entails policy shifts in the project design and priorities of project-managing organizations.

Is this shift from using food directly for feeding a threat to nutrition goals and equity concerns? The writer thinks it is not. The argument here is that, outside of emergency feeding of refugees or disaster victims, a country's broad food policy is more important in alleviating hunger than a series of particular feeding projects. If poverty is the basic cause of hunger, as most believe, then development first rather than food first is the appropriate maxim.

Food aid can be a resource for food policy expenses also. Funds from the food sales can be used to support buffer stock and reserve operations and training of government food officials. The aims of this would be to promote the reliability of national markets for producers and consumers and to meet national food security goals. In doing this, food aid itself could be stored, if it is for reserve programme use, or funds from sales could be used, for instance, for the local construction costs of appropriate new storage facilities. The sales revenue raised also can help a government meet other food policy costs, such as extension programmes to encourage more efficient domestic food production. Realistically, food aid used in these ways should not be double counted, i.e. as improving directly nutrition, development and food policy at the same time.

Many recipient government officials simply do not treat food aid as a serious resource, especially concessionary sales aid as in PL 480 Title I, when accounting by donors asks them to calculate multiple benefits of the same aid, especially if at the same time the donor is using hard currency repayments to finance new concessional food sales.[37] Agreeing upon fewer and more focused consequences for food aid resources should actually improve its respect in the eyes of many recipient government officials.

Finally, greater use of the food resource should be dedicated to research experiments, pilot projects, prototypes and demonstrations. This emphasis would reinforce the principle of linking food policy to food aid by improving the understanding of a country's food system. Food managers need to learn and to improve food systems, using an understanding of reality on international professional experience blended with the subjective preferences of those whose lives are to be transformed.[38] Furthermore, with research there would be greater opportunities for learning to occur from 'feedback' that could modify a project and even change its goals.[39] In the food domain there are many opportunities for diverse experimentation and prototyping, rather than large-scale national programmes. As Simon Maxwell points out, there is a paucity of studies on the impact of the end uses of food aid. Almost no feeding projects have been designed as experiments or even with a view to eventual impact assessments.[40]

Especially as the proportion of food aid has increased to African and Central American states, a danger arises that food aid may create expectations of urban food subsidy programmes which are neither desirable nor probably sustainable by the modest aid resources available. 'Rational' management, efficiency and research that inspires confidence

about large-scale policy steps are notably absent in these areas. Failures related to falsely ambitious assumptions about bureaucratic and institutional capacities are manifold. Action-oriented research, with field level work and micro-data collection, might be a profitable substitute for projects that depend on competent bureaucracies. Moreover, increasingly it is proposed that development research should be viewed as a process rather than a product. As such, it can be particularly valuable if political elites and senior government officials have a stake in the results.[41]

Food and nutrition projects are sure to continue, especially since food-for-work schemes and mother-child health centres are usually given high marks as very effective and efficient devices to improve human capital and create development investments. Increasingly, the development first regime recommendation would be that these should acuqire a greater role as research and learning devices, mechanisms to enhance the careers and management abilities of their staff and of national leaders, as well as to be of direct value to targeted participants.[42]

Conclusion: linking food security, food policy and food aid

The world food system has increasingly accepted a responsibility to end famines and alleviate hunger--a responsibility regularly reaffirmed in speeches and actions. Beyond this, the food crisis years of 1973-74 and the World Food Conference held then, set in motion initiatige and institutions that continue to seek greater world food security through development and redistribution. Food aid has been a mechanism designed for use in serving both ends, but not without considerable controversy over the specific norms, rules and procedures that should govern its use. The food aid regime has reflected this controversy

through evolutionalry change in the principles governing it.[43] Roughly 30 years after its formal beginning, 20 years after the founding of WFP as a multilateral instituttiona and 10 years after the World Food Conference, the time has come to resolve conflicting regime principles and redesign the regime to serve development as a first priority. But is this realistic?

The policy link

Whatever its principles, the food aid regime is critically dependent upon the national food policies of its participants. To serve development or other ends, officials determining the allocation of food aid and negotiating conditions for its use must make food policy their major target for realizing results. The ultimate goal is to make food aid a component in achieving universal food security in a world in which trade plays a central role. Food aid, therefore, strongly needs principles that will make it a reliable back-up for those receiving it, as well as a cost-effective contribution by those providing it.

Leadership is needed to help governments find policies that allocate food aid in the right kind of commodities, at the right time, with adequately long-term assurances, so that it provides a real benefit to both food production and nutrition. Food aid should help shift the burden of adjustment to food trade instability away from the world's weakest states and poorest people and encourage food policies in recipients and donors that promote agricultural development and improve nutrition. The task before regime participants, especially major donors such as the USA and the central coordinating institutions of the CFA and WFP, is to provide leadership for change that will realize potential institutional improvements.

Political support

Can the reshaped principles for food aid discussed here be realized? Assuming for the moment that they would strengthen food aid's ability to serve long-term world food security, is ther any basis for political support for these proposals. Is not the development first regime mere naivety? Let us quickly review what political basis there is for the proposed regime changes.

The broad public and many church and hunger groups in donor states are already saturated with scepticism regarding the possible negative effects of food aid. Such groups would respond positively to the development first design if the food policy 'reforms' proposed were seen as sound. Producer interests in donors have already accepted the loss of food as a major, immediate spigot for surplus disposal or market expansion. Their interests continue to be served by a regime that promotes long-term economic development and trade. The change would be a loss to them, but only a relative one. Foreign affairs bureaucrats in both donors and recipients as a whole are unlikely to accept development first. They would, of course, want strategic political considerations to override the proposed regime principles--returning to shorter term, more diffuse use of aid as a transfer among 'friends.' Food, however, has receded from the realm of high politics it enjoyed in 1974. Development and global stability are political ends. Thus, as long as top officials could still control a few decisions, even those dictated by the principles and rules of the development first regime, their reaction to continued evolution toward development will continue to be more one of ambiguity than clear opposition.

Conditions for a political 'override,' if kept vague, would have to be resolved as the regime progressed in practice. Even opposition by donor states' budgetary officials could be overcome by noting the precedence in many larger aid projects of long-term commitments. Foreign assistance bureaucrats would be generally supportive, as evidenced by the broad support for greater commodity flexibility and longer term guarantees that USAID officials expressed at a recent conference on 'Evaluating the Impact of PL 480.'[44] Non-exporting donors, motivated by broader interests in recipient welfare and international collaboration should be more staunch supporters.

Recipient governments would obviously welcome the increased guarantees and flexibility. So might agencies in these governments and some private voluntary organizations, if they felt that their overall resource supply would not be reduced, and if they felt this would assure their continued existence, even with shifting world political and economic conditions. The conditionality implications of the food policy linkage would be a bone in the throat of many LDC leaders, however. Although food officials in these states might personally welcome external pressure to do things they already wanted to do, the threat to sovereignty and the spectre of donors 'ganging up' are clearly implied by the proposed principles.

Resentment and rejection by LDCs, however, can be avoided by the technique of having the food policy conditions more self-imposed by the LDCs collectively and by not asking for excessively intrusive domestic policy changes as donors have on some occasions. For example, the basic 'human needs' approach promoted by the US Carter administration and some other development agencies failed to be appreciated in the Third World not only

because of its heavy-handed paternalism, but also because it looked expensive and even politically dangerous to elites. Reform in food policy may be construed similarly, but the acceptance of this approach by Mali and Bangladesh in the early 1980s suggests it is possible.

Conclusion

Studies by the USA, the FAO and the WFP have predicted a need for more, not less, food aid in the late 1980s and beyond. The existing food aid regime has proved adaptable and increasingly complex in its evolution to date. However, with changing international political and economic forces, substantial criticism by intellectual critics and the decline of the special farm sector support in donors' states, a real challenge lies ahead for food aid officials. Food aid could decline further as an international resource transfer. Regime managers, whether in national governments or international organizations, need to reconfigure the main emphasis of food aid so as to engender renewed and even greater support. Development first--not the status quo and not a purist's development only approach--is the regime design recommended to accomplish these goals.

ENDNOTES

[1]Formally, an international regime refers to the 'principles, norms, rules and decision-making procedures which actors' expectations converge in a given issue area.' Stephen D. Krasner, 'Structural causes and regime consequences,' in S. D. Krasner, ed., International Regimes, Cornell, University Press, Ithaca, NY, 1983, p. 1.

[2]The regime concept has been used widely by some scholars of international affairs to lend insight into the changing systems of action that constitute a variety of issue specific, somewhat institutionalized international transactions. Among 'regimes' frequently analysed are ones for money, trade, banking, insurance, food, oil, arms trade, oceans and aid. For examples other than the Krasner volume cited in Ref. 1, see Robert O. Keohane and Joseph S. Nye, Power and Independence, Little, Brown, Boston, MA, 1977; Seyom Brown et al., Regimes for the Ocean, Brookings Institution, Washington, DC, 1977; Raymond F. Hopkins and Donald J. Puchala, eds., Global Political Economy of Food, University of Wisconsin, Madison, WI, 1979; Benjamin J. Cohen, Organizing the World's Money, Basic Books, New York, NY, 1977; David Gompert, et al., Nuclear Weapons and World Politics, McGraw-Hill, New York, NY, 1977; Ernst B. Haas, 'Why collaborate? Issue-linkage and international regimes,' World Politics, Vol. 32, April 1980; Ole R. Holsti et al., Change in the International System, Westview Press, Denver, CO, 1980; and Hans Jacob Bull-Berg and Megne Holter, The International Oil Regime, Fridtjof Nansaen Institute, Polhogda, Norway, 1982.

[3]Note that distortions to the pure 'develpment'regime arise not only in donor countries, but also in recipinets. John Thomas paints a fascinating picture of all the non-developmental concerns that might dominate a recipient country's consideration of how to use food. See Gordon O. Nelson, Impact of Food Aid on Development in Africa, Agricultural Development Council, New York, NY, 1982. The multiple interests that support donor country contributions are well known and are well spelled out in James Austin and Mitchel Wallerstein, 'Reforming US food aid policy for development,' World Development, No. 7, 1979, pp. 635-646.

[4]'Socially useful' refers to the notion that, above certain levels, consumption is wasteful and even physically bad. Although US commodities used in food aid by the USA need no longer be owned by the government to be provided as food aid, they must be declared in excess of domestic and export needs by the Secretary of Agriculture or this requirement must be explicitly waived on humanitarian grounds. The surplus component of aid is patently evident in the development of the FAO Principles of Surplus Disposal by the CSD, in 1954 and after, and by the reference in International Wheat Council records not to food aid in the 1950s to 1970s, but to 'special' transactions (i.e. gifts, soft loans and barters). On the CSD, see John Cathie, The Political Economy of Food Aid, St. Martin's Press, New York, NY, 1982, Ch. 3.

[5]See, for example, the arguments of Christopher Stevens, Food Aid and the Developing World: four African Case Studies, Croom Helm, London, 1979, and of Peter Sverberg, 'The price-disincentive effect of food aid revisited: a comment,' Economic Development and Cultural Change, July 1979, pp. 549-552.

[6]See James W. Bjorkman, 'Public Law 480 and the policies of self help and short tether: Indo-American relations, 1965-68,' in Report of the Commission on the Organization of the Government for the Conduct of Foreign Policy, Government Printing Office, Washington, DC, 1975.

[7]Maurice J. Williams, The African Food Problem and the Role of International Agencies: Report by the Executive Director, World Food Council, Rome, 8 March 1982, p. 13. This report notes that high delivery costs reduce substantially the cost-effectiveness of the projects to their recipients.

[8]Sri Lanka switched to a food stamp programme in the later 1970s and has generally tried to limit government costs since then. See C. Peter Timmer and Matthew Guerreiro, 'Food aid and development policy,' paper presented at ADC/RTN Conference, Colombo, 18-20 August 1980, on Improving the Developmental Effectiveness of Food Aid. The Egyptian wheat subsidy was estimated at $900 million in 1982 and has been criticized as too costly and insufficiently targeted. For a balanced discussion of the Egyptian subsidy programme see Joachim von Braun and Hartwig de Haen, Impact of Food Price and Subsidy Policies on the Agricultural Sector: Egypt, Minstry of Agriculture of Egypt, USDA and USAID, Washington, July 1982. In Zaire, in order to meet a congressional mandate to 'feed the needy,' USAID officials insisted on a rice distribution plan in which records would be kept of all bulk rice shipments, transport, packaging into five-kilo bags and sales through traders. This administrative burden proved impossible. Moreover, the general effects of the scheme was to reinforce a judgment that sales below market prices invite corruption. The US administrative reaction to this mess was to reduce Zaire rice allotments, ensuring an effective price rise. See Search for Options in the Troubled Food-for-Peace Program in Zaire, General Accounting Office, Washington, 22 February 1979, and Robert W. Roussel, Report on Services, Washington, mimeo, 1980. Even those heavily concerned with hunger express scepticism over the nutritional uses of food aid. See, for instance, William M. Murdoch, The Poverty of Nations, Johns Hopkins University Press, Baltimore, MD, 1980, pp. 101-105.

[9]Bruce Johnston and John Mellor draw an especially sharp distinction between the choice of expenditures for nutrition intervention to offer short-term solutions to hunger and long-term strategic steps that will improve the productivity of the entire rural area and nation. See their paper, 'The world food equation: interrelations between development, employment and food consumption,' Journal of Economic Literature, Vol. 22, June 1984, pp. 531-74.

[10]NOrm-governed or evolutionary change occurs when the fundamental power and interests in the system of action do not change, but shifting priorities among interests and values and new information foster competing principles. See D. J. Puchala and R. F. Hopkins and Ruggie in S. D. Krasner, ed, op cit., Ref. 1, pp. 65-66. Although Ruggie argues that in such regime change only rules and practices, not principles and norms, change, here I argue that principles in the narrow food aid regime can change as long as the broader principles in the international food trade and money regime which protect the domestic interests of the powerful states have not been challenged.

[11]Theodore W. Schultz, 'The value of US surpluses to under-developed countries,' Journal of Farm Economics, December 1960, pp. 1019-1030. Senator Bellmon of Oklahoma sponsored an amendment to the PL 480 legislation in 1979 that requires the American Secretary of Agriculture to provide assurances that food aid would have adequate storage facilities in the recipient country, would not disrupt domestic marketing nor be a disincentive to production.

[12]See World Food Programme, Review of Food Aid Policies and Programmes, 15/5, WFP/CFA, Rome, April 1983, pp. 2-3, 7 and 8.

[13]This argument is espoused in Bruce F. Johnston and William C. Clark, Redesigning Rural Development: A Strategic Perspective, Johns Hopkins University Press, Baltimore, MD, 1982.

[14]Johnston and Mellor, op cit., Ref. 9, elaborate this argument.

[15]In the USA, Department of Agriculture officials in the Reagan adminstration, both publicly and privately, have been very critical of the PL 480 programme. They have emotionally criticized AID and OMB for slowing up agreements and expressed frustration in speeches to farm groups. The USA, Canada, Australia and Argentina all have multi-year bilateral grain trade agreements with countries such as Japan, Mexio, the USSR and China.

[16]At the international level see D. Gale Johnson, 'The world food situation,' in D. Gale Johnson and G. Edward Schuh, eds., The Role of Markets in the World Food Economy, Westview Press, Boulder, CO, 1983; R. O. Keohane and J. S. Nye, op cit., Ref. 2.; C. Peter Timmer, Walter D. Falcon and Scott R. Pearson, Food Policy Analysis, Johns Hopkins University Press, Baltimore, MD, 1983; and R. F. Hopkins and D. J. Puchala, Global Food Interdependence, Columbia University Press, New York, 1979. Even among villagers, however, the link to markets and national policy is effecting irreversible changes and interdependencies, as Richard Critchfield argues in his survey, Villages, Doubleday, New York, NY, 1981, and in 'Science and the villager: the last sleeper wakes,' Foreign Affairs, Vol. 61, No. 1, Fall 1982, pp. 19-41.

[17]On structural power and food see Raymond F. Hopkins, 'How to make food work,' Foreign Policy, Vol. 27, Summer 1977, pp. 89-107, and Cheryl Christensen, 'Food security,' in Klaus

Knorr and Frank N. Trager, eds., Economic Issues and National Security, New York University Press, New York, NY, 1977.

[18]On the rise and seriousness with which threats of a grain 'trade war' are taken by major economic leaders, see Michel Fribourg, 'A time for decision,' Milling and Baking News, 22 March 1983, pp. 67-69. Fribourg's third step to avoid a trade war between the USA and Europe was more food aid from Europe and greater general efforts to assist economically developing countries. Without this and other ameliorative steps, he argues, mutual losses were coming. 'War is near. Time is short,' he concluded.

[19]Robert A. Packenham, A Liberal American and the Third World, Princeton University Press, Princeton, NJ, 1973.

[20]For example, see D. J. Shaw, 'Triangular transactions in food aid: concept and practice--the example of the Zimbabwe operations,' IDS Bulletin, Institute of Development Studies, University of Sussex, Brighton, UK, April 1983, Vol. 14, No. 2, pp. 29-31. Also WFP/CFA 7/5 and 15/5 recount important reviews and conclusions. In Guatemala, WFP is working on a major nutrition research programme involving the MIT Nutrition Program and others. During the 1970s, WFP has rendered valuable service in smoothing shipping arrangements and coordinating arrivals for recipients and donor governments, especially in Bangladesh and Somalia.

[21]In Bangladesh, for example, other donors have supported the US Title II programme aims. In other instances, other donors have helped food-short states such as Mozambique and Ethiopia which were not favoured by the USA. On the other hand, in some countries, such as Kenya and Tanzania, US concern over the recipient country's food aid in policy reform measures in 1981-83 was more undercut than helped by aid from other donors.

[22]In recipients, for example, WFP or the European Community are increasingly likely to provide leadership for donor coordination of food aid, a role the USA largely played through the Sahel experience of the early 1970s.

[23]For instance, a number of thse are discussed in the Review of Food Aid, prepared for the FCA in April 1983 (WFP/CFA 15/5, Rome) and in earlier Guidelines and Criteria for Food Aid adopted in 1979.

[24]On the role of govenment in food policy historically, see Willard W. Cochrane, The Development of American Agriculture: A Historical Perspective, University of Minnesota Press, Minneapolis, MN, 1979, and Michael Tracy, Agriculture in Western Europe, 2nd ed., Granada, London, 1982.

[25]See the recommendations, for example, of the Food and Agriculture's Committee on World Food Security, Director-General's Report on World Food Security: A Reappraisal of the Concept and Approaches, CFS 83/4, December 1982, FAO, Rome, pp. 6-8, and Food

Security Policy Paper, World Bank, Economics and Policy Division, Washington, DC, November 1982, draft manuscript.

[26]On the concept of entitlement, see A. K. Sen, Poverty and Famines: An Essay on Entitlement and Deprivation, The Clarendon Press, Oxford, UK, 1981. The positive value of redundancy is discussed in Hopkins and Puchala, Global Food Interdependence, op cit., Ref. 16, Ch. 6.

[27]The CFA has already considered undertaking somewhat similar, but less ambitious reviews, as reported in the Review of Food Aid Policies and Programmes for the CFA May 1983 meeting. CFA, Rome, pp. 10-11.

[28]On the Bangladesh famine and the untimely arrival of imports to break the price rise, see Mohiuddin Alamgir, Farming in South Asia, Oelgeschlager, Gunn and Hain, Cambridge, MA, 1980.

[29]On this point, see Robert Bates, Markets and States in Tropical Africa, University of California Press, Berkeley, CA, 1981; Michael Lofchie and Stephen Cummins, 'Food deficits and agricultural politics in tropical Africa,' Journal of Modern African Studies, Vol. 20, No. 1, March 1982, pp. 1-26; and World Bank, Accelerated Development in Sub-Saharan Africa, IBRD, Washington, DC, 1981.

[30]See, for example, Gordon O. Nelson, op cit., Ref. 3, P. Timmer and M. Guerreiro, op cit., Ref. 8, and various reports by the World Food Council since 1980.

[31]A good primer for undertaking such policy evaluation is C. Peter Timmer et al., op cit., Ref. 16.

[32]Timmer and Guerreiro recommend subsidizing wheat as a self-targeting commodity in Sri Lanka, and James Levinson, 'Towards success in combatting malnutrition,' Food and Nutrition Bulletin, Vol. 4, No. 3, July 1982, pp. 27-28, laments the demise of a sorghum programme in Bangladesh. The end of sorghum distribution in 1980 should not be blamed on the fact that it provided little surplus disposal political credit for USDA. the real problem was that ration shops sold wheat and oil below (black) market prices, while sorghum earned shop dealers less money, i.e. it 'had no black-market value.' The link to food policy to achieve nutritional goals indirectly is a procedure for a food aid regime increasingly recommended, but so far one with limited experience. See also the reports on EEC food aid recommending links to food policy. These are reviewed by Tony Jackson, 'A triumph of hope over experience,' IDS Bulletin, Vol. 14, No. 2, April 1983 (Institute of Development Studies, Sussex, UK), pp. 53-55.

[33]On this point, see Anne E. Peck, Futures Markets, Food Imports and Food Security, World Bank AGREP Working Paper No. 43, Washington, DC, September 1982.

[34]The need for sustained involvement of those providing technical assistance as well as those receiving it is argued convincingly by Leonard who points out that in the nineteenth century technical assistance often led people to change residence permanently. The two-year contract is, in his judgment, a perverse arrangement. See David Leonard, 'What is rational when rationality isn't?: Comments on the administrative proposals of the Berg report,' The African Studies Review, forthcoming.

[35]William O. Jones, 'When are marketing boards appropriate?: Tasks for a domestic food marketing board,' paper, Food Research Institute, Stanford University, CA, June 1983. Jones strongly argues for training for board personnel in food policy and basic management. Much is to be gained, he believes, from reducing inefficient and wasteful storage and in improving information systems for national food markets. As for training, Stephen Jones of the Tropical Development and Research Institute, London, notes that apparently there is not even a listing of courses and literature relevant to training marketing officers in developing countries (letter to William Jones, 1 June 1983).

[36]See G. Edward Schuh, 'Food aid and human capital formation,' in Food Aid and Development, Agricultural Development Council, New York, NY, 1981, and Schuh, 'Food aid as a component of general economic and development policy,' in Gordon O. Nelson, ed., op cit., Ref. 3, Ch. 3.

[37]I found this attitude widespread among officials in several African states, particularly Egypt.

[38]Donald Emmerson documents a marvelously telling episode of a project failure in Indonesia in which the world of Indonesian and World Bank project designers was quite disjointed from the reasoning and practical problems of an Indonesian fishing village.

[39]Development as a learning process and the importance of getting research results are central tenets in Bruce Johnston and William Clark's new proposals for redesigning rural development, op cit., Ref. 13.

[40]Simon Maxwell, 'From understudy to leading star: the future role of impact assessment in food aid programmes,' IDS Bulletin, Vol. 14, No. 2, April 1983, pp. 32-39.

[41]See David Leonard, op cit., Ref. 34; Jon R. Morris, Managing Induced Rural Development, International Development Institute, Bloomington, IN, 1981; and B. Johnston and W. Clark, op cit., Ref. 13. Research may also help reduce many of the specific operational conflicts arising in projects. See Maria A. Tagle, 'Operational conflicts of food aid at the recipient level,' Food and Nutrition Bulletin, Vol. 2, No. 3, July 1980, pp. 5-15.

[42]This proposal should, of course, be taken with the appropriate note of caution, since academics have a vested interest in research no less compelling than the stake voluntary agencies or WFP have in doing projects the way they have.

[43]On this food regime principle, see R. F. Hopkins and D. J. Puchala, op cit., Ref. 2, Ch. 1.

[44]Based on conclusions reached in collecting ideas from over 100 participants at the PL 480 Title I Conference (Reston, VA, 5-8 April, 1983).

Part V -- Can Food Aid Be Reformed?

The 1970s witnessed the emergence of the EEC as a major source of food aid. In "The European Communities Food Aid Program," Ross B. Talbot traces the emergence of food surpluses in the European Economic Community (EEC) to the Common Agricultural Policy (CAP). By the early 1970s the EEC had become a significant source of food aid. Many of the same motivations have driven EEC as US food aid programs. The efforts of the EEC to use dairy aid as an innovative instrument for the development of indigenous dairy industries has been the subject of considerable controversy.

In "Food Policy, Food Aid and Structural Adjustment Programmes," (1988) John Mellor outlines how food aid might be used more effectively to support agricultural policy reforms and to generate employment growth in rural areas. In contrast to the earlier food for work approaches, however, he emphasizes the importance of labor-intensive production of consumer goods stimulated by the demand generated by higher incomes in rural areas associated with the expansion of agricultural production. In "Food Aid as a Development Resource" (1985) Edward J. Clay and Hans W. Singer return to the issue of the more effective use of food aid as a development resource. My reading of their review forces me to the conclusion that use of food aid as an effective development resource has not yet been realized.

The most imaginative proposals for the reform of food aid are in two papers by Shlomo Reutlinger, "Effective Alleviation of Poverty and Hunger" (1988) and by Willis Peterson, "International Food Stamps" (1988). Both proposals suggest the use of food stamps--or food money--to transfer purchasing power to low-income consumers. Peterson shows how the program could be administered not only to avoid the disincentive effects that

some observers have associated with food aid, but to create incentives arising out of the growth in food aid demand generated by the food stamp program.

Vernon W. Ruttan

[1979]

Chapter 14

The European Community's Food Aid Programme

Ross B. Talbot

The adoption of a food aid programme directed to Third and Fourth World nations was not a part of the vision and objectives of those Western European nation-states[1] which signed the Rome Treaty in 1957, and thereby established a unique type of regional confederation--the European Economic Community (EEC). Even so, the EEC has developed an external food aid policy and programme incrementally over the past twenty years (1957-77) because of the interaction (often unanticipated) of four factors: ideology, strategy, technology and food surpluses.

Development of the Community and its CAP

Ideological issues were directly related to the economic and political recovery in the post-Marshall plan years of what had been war-torn nations. The central issue was whether these nations should effectively unite, in order to become a major power in the world of international politics. The recurring thought of a divided Germany uniting and establishing itself again as a world power recreated in the minds of many Western Europeans the fearful spectre of a renewed conflict in the region. The issues divided opinion into roughly two schools. The 'Europeans'--i.e., those who desired the creation of a federal state (a United States of Europe)--were pitted ideologically against the 'nationalists'--i.e., those who viewed

the revival of a European cockpit with deep concern, but who envisioned a collegial solution of much more modest proportions: a confederation of some variety, but hardly a United States of Europe.[2]

The outcome of this ideological-political conflict was the Rome Treaty of 1957--a compromise agreement which created a sui generis Europe, unique in both its institutions and processes. The Commission of the EEC created by the Rome Treaty was dominated (usually) by avid if not fervent 'Europeans,' until successfully challenged in 1965 through French President de Gaulle's boycott of the Community's institutions. This controversy was resolved the following year by what came to be known as the Luxembourg Compromise--i.e., each member state claimed the right to use its veto power in the Council of Ministers on any issue which the member state considered vital to its national interest.

This ideological confrontation led to strategies and counter-strategies which ultimately led to a Community food aid programme. In 1961, the Commission proposed the establishment of a Common Agricultural Policy (CAP), and made it a major cornerstone in the move toward an integrated Europe. The Council of Ministers agreed to the CAP in early 1962, primarily because of the political strength of the French government and the major farmer-interest groups of the EEC.

The Common Agricultural Policy set up a system of pricing and import regulations which were complex and highly controversial. In terms of liberal economic theory, particularly its concepts of free world trade based on the principle of comparative advantage, the CAP is a highly protectionist, neomercantilist policy. In terms of the prevailing political realities--in 1957 and now-- the EEC had no viable alternative strategy.

European agriculture, in terms of the factors of land, labour, farmer entrepreneurial abilities, marketing and capital, was in need of major protection from food imports from the USA and the Dominions (Canada, Australia and New Zealand), particularly if the several farm-food goals of the Rome Treaty (Article 39) were to be met. More important than the legal mandate, however, was the political reality--if there were no CAP, there would be no Community.

The CAP is an expensive programme, at least in relation to the total EEC budget. In 1976, the estimated costs were 5.16 billion units of account (ua). Assuming that one ua was at the time equal to $1.20, the total cost was almost $6.2 billion. Of this total, some $390 million was for the Guidance (farm structural adjustments) section of the European Agricultural Guidance and Guarantee Fund (EAGGF, although the French abbreviation of FEOGA is usually used). That is, costs of the Guarantee section (price supports, export subsidies, food aid) constituted well over 90% of the total CAP budget. On the other hand, the defenders of CAP are quick to note that '...the market support expenditures is equivalent to no more than 0.4 percent of the Community's domestic product, 2.5 percent of its expenditures on food or 5.6 percent of the final product of its agriculture.'[3]

It can be argued that the EEC's levy system has caused capital resources to move into agriculture much beyond what would have occurred if the Community's agricultural system had been compelled to face up to the adjustments which an international 'free' market would have been brought about. This proposition has been warmly debated. However it seems accurate to generalize that the highly protectionist CAP has permitted at least the more educated, capital-endowed, innovative Community farmers to catch up, in

terms of technology, with their counterparts in the other food-exporting nations, although farm structural adjustment problems continue to persist.

EEC food aid has been, to a significant extent, generated by agricultural surpluses resulting from the Common Agricultural Policy. These are, notably and currently, wheat and dairy products-- which would quite likely have been unavailable to the Third and Fourth World nations in the absence of the CAP.

The CAP is of central and crucial importance, for quite different reasons, to both the 'Europeans' and the 'nationalists.' In October 1974, the Council of Ministers directed the Commission to prepare a stocktaking of the CAP. In March 1975, the Commission's study was presented to and discussed by the Council, the Parliament and the Economic and Social Committee. There were certain 'problems and proposals for improvement,' but the first and major conclusion was summarized as follows: 'The importance of the common agricultural policy and its indispensable role in the process of building a United Europe was fully endorsed.'[4]

This is not to deny that the CAP has also increased agricultural incomes, provided a relative stability of food prices for Community consumers, enhanced the trend towards self-sufficiency in food commodities, and increased intra-EEC trade in agricultural products.[5] Whether these goals could have been achieved in different and better ways is beside the main point; the ostensible economic and social achievements were secondary to the political goal.

Transition period

There are several constitutional issues directly related to the procedures whereby the EEC allocates food aid to developing nations.[6] For the moment, it will be assumed that Article 228 in the Rome Treaty (supported by Articles 43 and 113) provides the necessary and sufficient constitutional base. Three internal developments within the Community of Six brought about the establishment of an EEC food programme. One was the gradual building up of food surpluses within the member states and in world trade. Second was the continuous, aggressive and opportunistic efforts of the Commission to increase its authority, vis-a-vis the member states, through what has often been referred to as the method of 'Community dialogue.' Finally, the conclusion of the Kennedy Round negotiations in June 1967 resulted in--among many other agreements--an International Grains Agreement composed of a Wheat Trade Convention and a Food Aid Convention. It is the latter international agreement which is of particular concern here.

To use the term 'food surpluses' in a world in which there are at least a half billion persons in a state of serious malnutrition may appear to be a barbarism. Nevertheless, in terms of food supply and demand within the Community, and of the Community's involvement in world trade, there was a gradual building up of surpluses in the 1960s.[7] It is quite likely that the agricultural industries of the six nations, with or without a Rome Treaty and a CAP, would have increased the production of wheat, sugarbeets and dairy products (for example) in the period of 1960-64 to 1974, but that is basically immaterial. With CAP in operation, wheat production in the six-nation EEC averaged almost 26.2 million (metric) tons per year in 1960-64, while the production in 1974 was over 38.4 million

tons--with a decline of over 600,000 hectares in harvested area. Sugarbeet production, in the same periods, went from over 39.8 million tons to 54.8 (and to over 64.7 million tons in 1975), although in this instance the harvested area increased by 226,000 hectares. The comparable figures for annual milk production were nearly 65 million tons in 1960-64 and over 74 million tons in 1974.[8]

The first objective of the Common Agricultural Policy, as stipulated in the Rome Treaty, was increased agricultural productivity. This goal has been achieved in part. However, EEC agriculture has been going through the process of structural adjustment. As this continues, which it almost surely will, farm production will increase at a faster pace resulting in even larger surpluses, unless substantial changes are made in the rules and operations of CAP.

The EEC Commission is the prime mover with regard to any such changes. Pirzio-Biroli has recently defined this vital role as follows: 'The Council acts on the initiative of the Commission. If the latter submits no proposals, the former is virtually paralyzed.'[9] Of course that basic principle also has a reverse interpretation: if the Council fails to act on the Commission's proposals, the latter is 'virtually paralyzed,' too. The overriding purpose of the 'Community dialogue' has been to build a consensus out of almost certain conflict situations.[10] If the Council had, over the 20 years of the Rome Treaty, agreed to even a majority of the Commission's proposals, the EEC of today would be (in terms of economic and social, but not military, policies) a powerful regional state. Further, if the political capabilities of the Commission had proved equal to its political ambitions, there would now be in operation a more extensive, expensive and effective[11] EEC food aid programme than

is the case. Conversely, the food aid programmes of the member states would now be phased out and a unified and expanded Community food aid programme would be fully operational--which is not the case.

Historical overview

There is no evidence of any EEC food aid to the developing nations until the Food Aid Convention, an outgrowth of the torturous Kennedy Round negotiations, was agreed to in June 1967 (the principal negotiating powers were the USA, the EEC and Japan). The Food Aid Convention became operational on 1 July 1968.

Before this agreement, there is little evidence that even the member states (then six) were involved in significant food aid (cereals) programmes of their own.[12] France and West Germany had minimal programmes in operation, but the overwhelming amount of food aid in cereals to the Third World was being distributed by the USA, primarily under its PL 480 programme. Canada was a weak second, with Australia an even weaker third. The non-involvement of the EEC, and its member states, seems to have been basically an economic calculation--i.e., neither the food products nor the funds were available. One of the objectives of the Common Agricultural Policy, as stipulated in the Rome Treaty,[13] was 'to assure the availability of supplies.' This provision hardly meant that the Community intended to become self-sufficient in all food and feedgrain products, but that objective was understood. By 1959-60, the Community was 85% self-sufficient in cereals (other than rice); 83% self-sufficient in rice, and 100% self-sufficient in dairy products; by 1971-72, these percentages had increased to 98% for cereal grains and 112% for rice.[14]

The Kennedy Round negotiations were complex, but a fair generalization seems to be that EEC adherence to the International Grains Agreement, which was composed of the Wheat Trade Convention and the Food Aid Convention, was politically motivated and economically supportable. That is, the leading EEC negotiator at Geneva came to be Jean Rey, then President of the EEC Commission, and the principal thrust of his negotiating strategy was to conclude a set of international agreements which would protect the economic interests of the member states, while at the same time enhancing the ambitions of those who supported a 'European' strategy. Thus, the Commission would gain influence as a negotiating instrument in world affairs. In any respect, the Food Aid Convention allocated a minimal food aid contribution of 1,034,000 metric tons annually of cereal grains (wheat or its equivalent) to the EEC, which was 23% of the total 4.5 million ton commitment under the terms of the Convention.[15] The U.S. allocation was 1.89 million tons (42%), Canada's was 495,000 tons (11%), while the U.K., Japan and Australia agreed to a commitment of 225,000 tons each (5%).[16]

The same general propositions--commodity availability or surpluses and 'European' leadership ambitions--seem to be valid in regard to the Council's agreement[17] on 17 July 1969 to commit the Community as a supplier of milk fats to the World Food Programme, a joint programme operated by the United Nations and the Food and Agriculture Organization since 1 January 1963.

Table 1 demonstrates the importance of the European Community as a supplier of food aid to Third and Fourth World nations in the 1970s. Table 2 indicates the burgeoning (up to 1974) costs which have been incurred by the EEC. Incidentally, neither table points

out the rather phenomenal increases in gross Community product which occurred during that time period, nor the growing dependence of the Community on the natural resources of the developing nations.

Table 3 shows the quantities, costs and allocations (EEC v. member states) of cereal grains which have been contributed as food aid since 1969. The quantities are those stipulated by the Food Aid Convention; the costs are incurred through prices ot the selected commodities which are arrived at through CAP policies and regulations; the percentages (EEC v. member state allocations) are determined annually through the Commission-Council dialogue. The percentage allocations are typical of Commission-Council confrontations--essentially in recent years the Commission has advocated a substantial increase in the EEC's percentage, while the Council has accepted only a small increase (see below).

Table 4 is a review of the food aid allocations by the Community of dairy products, plus some small shipments of eggs and more substantial shipments of sugar. A major difference between the programmes is that decisions on nearly all the shipments of dairy products are made through the EEC, although relatively small amounts of skim milk powder were shipped by Denmark (1974), West Germany (1974), Netherlands (1974-75) and the U.K. (1974-76). Considerable amounts of sugar were supplied to the UN Relief and Works Agency for Palestinian Refugees from 1972 to 1976. The substantial increases in quantities shipped were presumably caused by Community surpluses and the world food crisis of 1973-75. The political-military impacts of the Yom Kippur War, the quadrupling of oil prices by

the Organization of the Petroleum Exporting Countries (OPEC), and the rising tide of Third World resentments and threats were also subtle but significant motivational factors.

Some of the political ramifications of this allocation issue (who received what, when, how and why) are worthy of more extensive analysis than this article can provide, but it is important at least to note that the Commission's justification for direct Community aid has a distinctly political tone: 'Food aid being the only means of financial cooperation between the Community and all developing countries, the Community...is anxious to administer its aid itself...'[18]

The statistical data do not, admittedly, specify the full range of motivational factors which have been involved in the food aid programmes of the Community. No doubt some of these shipments have been motivated by humanitarian concerns (disaster, famine, serious malnutrition), as well as by political (influence, image, prestige) and economic (surpluses, trade, storage costs) considerations. Both internal and external political factors have been powerful influences in the determination of strategy.

Policy

The Community food aid programmes to Third and Fourth World nations are a blending of science and technology,[19] economics, politics and ethics. The ethical underpinning comes from a complex interweaving of Judeo-Christian theology, liberal and socialist political ideas, and capitalist assumptions about profit and work. The economic underpinning has been the Common Agricultural Policy, with its concomitant high costs and increasing farm surpluses; the political underpinning has been continuing ideological conflict

between the 'Europeans' and the 'nationalists,' and a growing concern over the dangers from the North-South confrontation.

Relative to the general objectives of Community food aid programmes, there has been and is a continuing consensus: food aid should be used for emerging (famine) situations, for more purely nutritional (humanitarian) purposes, and for economic and social development.[20] Behind these public pronouncements, however, there are amoral, more implicit and more politically sensitive objectives.

The last clause in the preamble of the much-amended U.S. Public Law 480 reads as follows: '...and to promote in other ways the foreign policy of the United States.' Implicit in that preamble is a clause which might read: '...and to promote the economic interests of American farmers and rural America.' A somewhat comparable condition exists within the European Community, although there the dilemmas are even more complex and difficult to reconcile. The 'Europeans' will use the food aid programmes to enhance the development of a European Community foreign policy; the 'nationalists' will thwart, redirect, modify or acquiesce as their own national political interests dictate. For example, the 'Europeans' would devise and implement an integrated and coordinated development assistance policy for the Community, within which food aid would be one important sector among several. However, the realities of the EEC's political economy are such that the Common Agricultural Policy must be accepted, by and large, as it is. Tinkering, pleading, protesting and even posturing are engaged in, but in the final analysis there is a resigned acceptance that Sir Henry Plumb's judgment is valid: 'Any attempt to scuttle the Common Agricultural Policy could signal the break-up of the European Community.'[21] Thus, like

all successful politicians, the 'European' Commissioners have had to accept the political, economic and cultural realities which both thwart and abet the long-run political objectives. There is the virtually inevitable linkage between EEC domestic and foreign politics and policies, and from these linkages arise important issues which in turn lead to alternative strategies. Two of these issues are analysed in some depth below.

A positive-sum or zero-sum strategy?

There seems to be a consensus, at least among the nations of the Organisation for Economic Co-operation and Development (OECD), that there are hundreds of millions of human beings in the Third and Fourth Worlds who are in some state of serious malnutrition. A considerable amount of confusion prevails as to just how many millions, but the lowest figure is around 500 million; the highest reaches or exceeds one billion.[22] There is also agreement, unanimously expressed at the World Food Conference in the Declaration on the Eradication of Hunger and Malnutrition, that 'every man, woman and child has the inalienable right to be free from hunger and malnutrition and...accordingly, the eradication of hunger is a common objective of all the countries of the international community...' Finally, there is little disagreement that in situations where natural catastrophes have occurred a common bond of humanity and decency requires that those who have should quickly and bountifully come to the victims' aid.

Where the disagreement lies is in the area of uses of food aid as a development strategy. More specifically, there is a question of whether the European Community's food aid programmes harm the long-run, agricultural interests of the Third and Fourth World nations. The literature on this issue is certainly extensive, but the fundamental differences

can be fairly generalized. The liberal economic theorists, who rest their case primarily on market economy ideology, claim that the long-run effects of food aid are damaging to the interests of the recipient nations. Their claim is that the developing nations consistently use this food aid to feed the urban poor at a subsidized price, and thereby undermine the interests of their own farmers and peasants who need an economic incentive (i.e., a probable, if not an assured, profit) to produce more efficiently. Theodore Schultz was referring to U.S. food policy when he recently stated: 'PL 480 is on my list [of economic offenders] because when it comes to building agriculture, PL 480 is a liability.'[23] His dictum would presumably also apply to the Community's food aid programme.

At the other end of this continuum another highly respected economist, Thomas Balogh, has recently argued that in order to implement the new 'basic needs' strategy, 'the first requirement is...the resuscitation of food aid,' although he immediately uttered the usual caveat that this food aid should be distributed 'without ruining the peasants' domestic markets.'[24]

David Jones has assumed an intermediate position. In his judgment,

> It is...most unlikely for it to be in the best interests of the ldc's [less developed countries] for the EEC to try and produce surpluses of butter-oil or dsm [dried skim milk], but it is difficult to be so categorical about cereals.[25]

To answer the positive-sum/zero-sum argument in any logical manner, one has to raise simultaneous questions. Why does a First World nation, or an international agency, or a non-governmental (church or non-religious) group desire to allocate and deliver food aid to the developing nations? Why do these nations desire to receive such food aid? If the principal objectives are short-run, humanitarian, disaster-based, then food aid is probably

a positive-sum strategy. If the objectives are primarily political, then the central question becomes, 'What are the political objectives of both donor and recipient?' and a rational justification becomes more complicated.

Assuming that the objectives are public order and economic and social stability, then food aid can probably be moulded into a positive-sum strategy. John Mellor observed in a recent study that 'the political importance of U.S. food aid to India during 1965-68 may well have been immense...the key to preserving the existing political balance without massive diversion of foreign exchange from capital goods to food imports.'[26] On the other hand, President Johnson's unrelenting insistence on extracting policy changes (population control and agricultural investment) from India transformed, according to some political analysts, what was intended as a positive-sum strategy into a zero-sum strategy, with the USA as the loser.[27]

If the objectives are basically economic, then the issues may become even more complicated. Nearly all Fourth World nations are suffering balance of payments difficulties, in part because of the higher cost of food imports. Food aid can be, and often has been, used to alleviate that problem. However, if economic development is the main objective--and at the Paris Summit Conference in October 1972, all of the EEC's member states resolved to '...adopt an overall policy of development cooperation on a worldwide scale' --then a determination as to whether the strategy is positive-sum or zero-sum becomes even more complex.

Political and development economists and practitioners in the USA and the EEC have learnt a good deal over the past 20 years about both the pitfalls and the positive aspects of food aid. Isenman and Singer argue

> ...that the disincentive risk of food aid is more complex, more easily avoided, and more limited in effect than some analyses have suggested...It would be unfortunate if the benefits of advantageous use of food aid were to be lost because donors and recipients did not undertake the available means for anticipating and offsetting the disincentive effects.[28]

It seems reasonably clear that food aid, to at least the most seriously affected developing nations (MSAs), will need to continue and will likely have to be accelerated. A study by OECD in 1976 concluded that '...food aid may remain essential for a long time to come, at an increasingly high level...,' although it went on to note that '...food aid could never provide more than a temporary answer to the food problem of the developing countries.'[29] Edouard Saouma, FAO's Director-General, claims that the 'urgency and importance' of food aid has not slackened; indeed, '...each cyclical food crisis tends to be worse than its predecessor, as the number of lives at stake--and the quantities of food required--increase under the pressure of population growth.'[30]

In a study by the International Food Policy Research Institute (IFPRI), the conclusion is reached that--as a short-term strategy--'a larger role for food aid, considerably beyond the World Food Conference goal of 10 million tons of cereal annually, would appear to be required.[31]

One major difficulty with food aid programmes as a useful instrument of economic and social development is that they tend to be implemented as residual policies in the donor nations--that is, after domestic consumers and hard-currency buyers are satisfied, what food

is left over finds its way to the MSAs. U.S. Senator Hubert Humphrey posed the dilemma rather nicely at a Congressional hearing:[32]

> We have got a big carryover in wheat and rice. The American farmer looks on Public Law 480 both from the humanitarian point of view as well as an economic point of view. When you have got a billion bushels carryover of wheat in a depressed market and out there is a hungry world you wonder wheat are we doing to tie into the hungry needs of the world.

Borrowing from both the title and the explanation of Albert Hirschmann,[33] it could be said that 'the passions and the interests' (i.e., humanitarianism and economic advantage) seem to spring into political action almost simultaneously when food surpluses prevail. When these food surpluses disappear, and the world trade in food becomes market-oriented, then the passions subside and inward-looking interests of the export nations reappear. We have probably learned, as Isenman and Singer argue, how to use food aid as a positive-sum strategy. Serious doubts remain, however, whether the domestic political interests within donor nations can be restrained from using food aid merely as a strategy for surplus disposal once burdensome surpluses have accumulated.

The EEC has often been charged--rather unfairly, in part--with instituting a food aid programme primarily as a means of disposing of the food 'surpluses' generated by CAP. A sharp exchange of letters was published in 1976 in The Economist, brought on because that journal had implied that the bureaucracy of the World Food Programme [WFP] was top-heavy. The ad interim director of WFP, Thomas C. M. Robinson, claimed that: 'Aside from its [the EEC's food aid programme] contributions to the WFP it simply allocates surpluses for which the recipient countries arrange shipment and distribution.'[34] Adam Szarf, head of the Commission's Food Aid Division, promptly countered that this charge of

surplus disposal was 'not correct' and that the EEC '...is concerned primarily with providing support to the balance of payments of the poorest of the developing countries...'.[35]

Subsequently, the Council of Ministers did establish (on 22 March 1977) a more precise statement of general food aid objectives: emergency situations, economic development, and improved nutrition and balance of payments.[36] However, two generalizations seem to be called for to qualify this statement. First, for reasons which can be deduced from the above discussion, the stated objectives do not include one which might read: 'to promote in other ways the foreign policy of the European Community.' Such an objective is implied and applauded in the Commission's proposal; it is depreciated, if not disdained, in the Council's decision. Second, the member states have a multiplicity of reasons and rationalizations for favouring or opposing various aspects of the EEC's food aid programme. The Commission has made a study of the Community's food aid policies and programmes for the European Association of University Institutes of Political Science.[37] Viewed in terms of volume of food aid, the objectives of food aid, the type of food and the breakdown of food aid (how and to whom), the report indicates that a variety of 'passions and interests' is at work.

On two counts there is a reasonable assurance that a Community food aid programme will continue to exist and will likely prosper (i.e., grow in quantity and costs). First, the CAP will generate more and more food surpluses; second, the Commission will attempt to control the distribution of these surpluses through the development of a Community food aid policy. It could be that the Community's decision makers will adhere rather carefully to the recommendations and strictures of Isenman and Singer--to the effect

that a food aid programme can and should be so constructed and implemented that its incentive effects substantially outweigh its disincentive effects in the recipient nations. The track record thus far provides considerable evidence that political advantage will prevail over economic analysis and prescription.

Europeanization of food aid

The world food crisis of 1972-75 provided the Commission with an excellent opportunity to enhance the prestige and power of the European Community, and concomitantly to diminish the authority of the member states. Early in March 1974, the Commission placed before the Council its analysis of the world food crisis, a rationale of the EEC's responsibilities in the face of this particular crisis, and a proposal for a medium-range (three-year) accelerated food aid programme which the Council should adopt with all reasonable speed. This analysis was followed by a memorandum in which the Commission set out in more detail the principles and the procedures that should be adopted. In terms of this proposal, the Council would: (1) adopt a set of criteria for the allocation of the Community's food aid; (2) adopt an indicative three year programme; and (3) then decide on an annual programme which would specify the amount and kind of food aid to be given by the EEC to nations and international agencies.

From the time the Community's food aid programme was instituted in 1968, not only has the Council carefully controlled the determination of who was to receive what food aid, '...but also the smallest details of food aid executions were subject to Council debate and approval.'[38] The new strategy was designed ostensibly to make the implementation of the programmes more efficient and effective. The Commission thereupon proposed to the

Council an 'indicative programme' for the years 1974-77.[39] Clearly the Commission desired to adopt the principle that, in the future, all of the Community's food aid programmes '...should take the form of Community actions.' Realistically, the Commission was relatively certain that the Council would not agree to such a 'Europeanization' of the Community's food aid programme, and it offered a set of alternatives and ranges (minimum and maximum commitments), which are set out in Table 5. The Commission's proposal would also have set up a Food Aid Management Committee, and included a streamlined, two-stage procedure to be followed in case of emergency situations.[40]

Thus began once again the essential, seemingly endless, Commission-Council 'dialogue.' The European Parliament soon rendered its usual and enthusiastic support for the Commission's proposal. Its Committee on Development and Cooperation was categorical: 'There can be no doubt that the EEC's food aid policy must be Europeanized, i.e., come under a Community system.'[41] The Committee on Budgets was both agreeable and prudent. It concurred in the basic principle but was concerned about the financial consequences of the proposal: 'Surely the Commission must have some projections for price increases in the food market for the next few years even if they are tentative and gloomy.'[42]

The institutions of the EEC were under a considerable amount of public pressure, both within the Community and internationally, to increase the scope and magnitude of the food aid programme. The World Food Conference in Rome held the world's attention in the last months of 1974, and one of its resolutions placed a heavy obligation on the wealthy, food-surplus nations to increase their food aid shipments so as to reach the goal of 10

million tons. The USA, after a barrage of criticism internally and worldwide, finally increased its commitment in February 1975.

The highly protectionist features of CAP meant that world food prices could approximately double before those inflationary impacts were felt within the Community. However, when world grain prices began to move above even CAP's target prices it became profitable to sell EEC foodgrains, without subsidy, in the world market. The European Community was, admittedly, caught on the horns of a dilemma. In fact, for some months in 1974 the Community acted to prohibit certain exports of what had been 'surplus' food commodities. An increase in food aid would mean, of course, some further increase in domestic food prices; at the same time, the media was emitting a steady and dramatic barrage--in pictures, word and print--concerning those who were starving or near-starving, particularly in the Sahel and Bangladesh.

However, the Council maintained steadfastly the tenacity of its nationalistic convictions. No additional food aid in cereals above the Food Aid Convention requirements was authorized in 1974-75, although the shipments of skimmed milk and butteroil were increased. On 14 April 1975, the Council did decide on a new decision-making procedure for food aid to be used in 'normal' situations. Wainright describes the Council's new procedural requirements as follows:

> (a) prior adoption by the Council of food aid programmes in all the necessary detail; (b) contacts between the Commission and the beneficiary countries and organisations included in the programmes to confirm their requirement for the aid decided and to regulate the details of its delivery; the Commission to send to the beneficiaries a letter in a standard form approved by the Council; (c) after receipt of this letter and confirmation of its terms by the beneficiary; the Commission to proceed to the measures necessary for mobilization of the food aid and for its delivery.[43]

However, Wainright then proceeds to elaborate on the conditions and constraints which the Council imposed on the Commission's freedom of action. The net result, according to Wainright, was that the Council had almost taken back with one hand what power it had given to the Commission with the other.[44]

On 14 September 1976, the Commission renewed its proposal for a three-year indicative food aid programme, this time for 1977-79.[45] Minimum and maximum targets were set forth, as specified in Table 6. In the case of cereal grains, the Commission proposed a substantial increase in quantities. All of the increase was to be Community food aid, and would mean a percentage allocation of 65.5% for the EEC, and 34.5% for the member states in 1977. Moreover, these percentages were to move in 1978 to 73.6% and 26.4%, and in 1979 to 79.3% and 20.7%.

Once again, the European Parliament's support of the Commission was complete and enthusiastic. The Committee on Development and Cooperation applauded the proposed increase in cereal grains, but in the case of skimmed milk powder and butteroil it concluded that the Commission's plan was 'too conservative in its estimates of needs...'.[46] Included in this committee report was the follwing observation:

> It is probably unnecessary to point out again that the Community's current stocks amount to 1.3 million tons. Hence, the opportunity cost of supplying skimmed milk powder is relatively small. Moreover, food aid can be in the interest of the donor, in furthering political and economic relations with beneficiary countries.[47]

The report from the Committee on Agriculture was in general concurrence, and concluded with a rather enigmatic observation that '...food aid must be adapted to current practical possibilities and not restricted by the upper limit of the range.'[48]

The Council decided rather differently: for 1977, the total (1,287,000 tons) remained the same as in the 1976 programme, but the percentages were changed; 56% was to be donated by the Community, and 44% by the member states.[49]

The Development Council, which met in late March 1977, did adopt some measures which could be defined as being steps towards a Europeanization of the Community's food aid programme. However, on the critical issues, the Council continued to frustrate the Commission's European strategy. As Klaus von Helldorf has noted, this situation constitutes a vicious circle.[50] The member states are unable to reconcile their political differences over the purposes and objectives of a food aid policy; in consequence, they will not consent to the Commission's proposals for a Community food aid policy. Indeed, this condition is indigenous to confederal political systems.

Issues

There is a potpourri of EEC food aid issues worthy of examination. Neither space nor datsa, however, will permit more than a brief overview of a few of them here.

Multilateral v. bilateral food aid

Nearly every defence of the bilateral approach to food aid is founded on the presumption that this method will enhance the prestige and influence of the donor nation--in this instance, the European Community. However, if the primary purpose of food aid is to assist the poor nations in economic and social development, then it would appear that the less effective of the two means (i.e. bilateral aid) is being employed. A considerable amount of the Community's food aid, however, is distributed through international public and private agencies (World Food Programme, International Red Cross). World Food Programme

food-for-work projects are far more carefully supervised and evaluated than are any of the food aid programmes of donor nations, including the European Community--or so the rather scanty empirical evidence seems to indicate.

Food aid as a foreign policy instrument

A fair amount of rhetoric has come from the Commission, in particular, about the non-political nature of EEC food aid programmes. The proposal (on 5 May 1977) from the Commission to the Council,[51] regarding skimmed milk powder and butteroil allocations for 1977, might lead one to believe that the decisions are largely predetermined by established criteria, and then verified through computerization. No doubt the set of criteria (in this instance, need, per capita income and external financial situation) and categories (direct, indirect, emergency) are useful and necessary in terms of a decision-making procedure. However, the hypothesis must be examined that underlying the methods used to set the allocations are important political motives. It should come as no surprise if the hypothesis is found to be verified; all food aid programmes are intrinsically political, in terms of either foreign or domestic conditions, or both.

Generation and use of counterpart funds

Bilateral European Community food aid is allocated to the developing nations as a grant (in contrast, for example, to sales by the USA under Title I of PL 480). However, grants still pose several political and administrative questions. If the recipient nation sells the food in some manner, it receives local currency from the sale. Who should control the use of these currencies relative to purpose, project, timing, and so on? In 1974, the Commission observed that 'in many cases it wuold be a mistake to regard the creation of

counterpart funds as anything more than an accounting device.[52] Nevertheless, the Community's usual procedure, when counterpart funds are involved, is to request notification by the recipient nation of the development project or projects which are to be financed, usually in part, from counterpart funds. The final decision is left to the recipient nation, but the Commission tries (it is unclear as to what evaluation procedure is used) to satisfy itself that the prescribed criteria have been adhered to.[53]

This is a more sensitive political area than one might imagine at first glance. What seems to be the situation is that the EEC's role in the use of counterpart funds is decidedly limited, to almost a reporting function; i.e., the recipient nation reports to the Commission how the funds are to be used for one or more development projects. Quite likely it is politically prudent--meaning expedient--not to be scrupulously demanding nor seriously inquisitive.

Forward planning of food aid

Recently the FAO has complained of the 'sharp fluctuations' which have occurred in the availability of dairy products for food aid programmes.[54] For example:

> From an annual average of 270,000 tons in the first half of the 1960s, skim milk powder donations fell below 200,000 tons in the late 1960s and early 1970s and to as little as 76,500 tons on average during 1973-74. They rose again to 121,000 tons in 1975 and to approximately 150,000 tons in 1976, with a further increase being expected in 1977.[55]

As noted above, the Commission's proposed three-year indicative food aid programme has the potential for becoming a useful forward-planning instrument for the poor nations, as well as for the Commission's Directorate of Agriculture. Nevertheless, if the Council persists in

employing its minute and tedious interventions, the indicative food aid programme will continue to be an unreliable planning instrument, for both donor and recipients.[56]

If the general arguments of this article are accurate and of any predictive value, then it is necessary for the Community's agriculture to continue to produce surpluses, or at least to produce an abundance. In addition, it is obviously mandatory that the European Community--including, of course, its principal institutions--must continue to build (not dramatically, but incrementally, a 'European' foreign policy, of which food aid would be only one major strategy among many.

The food surpluses will almost surely be available in the near future. The Community's cereal grains production in 1976 was considerably reduced from 1975 (91.7 as compared to 98 million tons), but in 1977 there was an increase to almost 105 million tons, and the forecast for 1978 was nearly 115 million tons.[57] Moreover, net exports were forecast at 5 million tons of wheat for 1978-79; only in 1976-77 had the community had a significant net export of wheat, and that year it was only one million tons.[58] The production of dairy products is certainly more ominous--numbers of dairy cows are still increasing, and so are their yields. These conditions will put the Common Agricultural Policy under even more intense stress, and will likely place the whole CAP at risk. Even the Commission's principal ally, the European Parliament, was deeply divided in its farm-price debate, 22-23 March, 1977. Budget costs for FEOGA (European Agricultural Guidance and Guarantee Fund) during 1977 totalled about $8.7 billion;[59] dairy costs alone accounted for approximately 25% of the total Community budget.[60]

For at least a decade, there have been biting criticisms and scornful invectives uttered against the Common Agricultural Policy.[61] However, a strong and expensive CAP is a formidable cornerstone of the European Community. This author believes that it will continue to be so, and that the Community's food aid programme will prosper accordingly. In the expert judgment of Dennis Bergmann, '...the EEC will soon emerge as a significant exporter of grain (and not only wheat as in recent years)...,' caused by the '...pressure of irresistible technology on an inelastic demand.'[62] In political terms, one might say that this state of affairs will contrast with an unrelenting demand for food aid to the developing countries. This demand will need to be integrated with the Community's complicated political interests and its contending ideologies.

Table 1. Food aid in cereals from all sources (thousand metric tons)

	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77 allocations
Argentina	27	10	13	2	10	20	-	23
Australia	216	235	193	143	330	319	268	225
Canada	663	1 608	605	712	499	728	1 123	1 000
EEC	1 356	983	917	896	1 219	1 420	1 021	1 287
Finland	15	13	–	25	17	24	33	33
Japan	395	753	731	528	435	300	56	225
Norway	14	9	8	–	–	–	10	10
Sweden	38	65	8	56	45	263	65	75
Switzerland	35	45	27	21	33	29	35	32
USA	10 008	8 927	8 993	6 704	2 983	4 576	4 154	5 400
Algeria	–	–	–	–	–	18	–	–
Iraq	–	–	–	–	–	283	–	–
Others	–	10	291	547	311	390	126	–
Total	12 767	12 658	11 786	9 634	5 882	8 370	6 891	8 310

Source. World Food Council. *Food Aid* WFC 38 24 March 1977 Table 1 p 3 (footnotes are not included)

Table 2. Value and origin of food aid from OECD member nations.

	1965		1970		1973		1974		1975	
	$ million	%	*$ million*	%	*$ million*	%	*$ million*	%	*$ million*	%
USA	1 234.4	94 1	888.0	70.3	618.0	54.6	728.0	47.8	1 216.0	58.4
Canada	57.3	4 4	99.2	7 9	95.9	8.5	142.5	9.4	263.3	12.8
EEC countries	6.4	0.5	111 2	8 8	264.1	23.3	443.1	29.1	413 4	19 9
Japan	0.3	–	100.0	7 9	105.8	[illegible]	74.1	4.9	15.3	0 7
Others	12.9	1 0	65.1	5.2	48.7	4.3	134.1	8.8	171 4	8.2
Total	1 311.3	100.0	1 263.5	100.0	1 132.5	100.0	1 521.8	100.0	2 079 4	100.0

Source. Organisation for Economic Co-operation and Development. *Development Cooperation – 1976 Review* OECD Paris, November 1976. Table IV-13 pp 148-149

Table 3. Community food aid in cereals (sources, quantities, costs).

	1969/1970		1970/1971		1971/1972		1972/1973		1973/1974		1974/1975		1975/1976		Total
Volume	*1000 tons*	%	*1000 tons*	%	*1000 tons*	%	*1000 tons*	%	*1000 tons*	%	*1000 tons*	%	*1000 tons*	%	*1000 tons*
Community operations	337	32.5	353	34	414	40	464 0	40	579.15	45	643 5	50	708	55	3 498 65
National operations	698	67.5	682	66	621	60	696.6	60	707.85	55	643.5	50	579	45	4 627 95
Total	1 035	100.0	1 035	100	1 035	100	1 160.6	100	1 287 00	100	1 287.0	100	1 287	100	8 126 60
Value	*$ million*		*$ million*		*$ million*		*$ million*		*$ million*		*$ million*		*$ million*		*$ million*
Community operations	21.9		30.7		31 7		85.7		150.4		108 6		122.5		551 5
National operations	45.4		59.3		47.6		128.6		183.4		108.6		100.2		673 1
Total	67.3		90.0		79.3		214.3		333.8		217 2		222.7		1 224 6

Source: European Economic Community: EEC Commission Brussels. 1 December 1976 Annex 1 p 8 (unpublished). and European Economic Community, 'Dossier – Community food aid' *The Courier*. No 35, January-February 1976. p 38.

Table 4. Community food aid in other products (quantities and costs).

	1970	1971	1972	1973	1974	1975	1976	Total
Volume								
thousands of tons								
Milk	24.580	46.935	55.185	46.134	82.966	55.000	105.000	415.800
Butteroil	10.927	10.091	15.982	15.000	45.000	45,000	45.000	187.000
Eggs	–	–	0.500	0.500	–	–	–	1.000
Sugar	–	–	6.150	6.062	6.094	6.100	6.094	30.500
Value								
$ million								
Milk	8.2	28.5	35.80	30.1	68.2	37.75	96.22	378.57
Butteroil	8.4	20.2	31.7[illegible]	13.7	48.8	80.12	86.19	364 21
Eggs	–	–	1.44	1.2	–	–	–	2.64
Sugar	–	–	1.60	1.6	2.2	2.88	2.91	11.19
Financial contributions	–	–	1.60	1.6	2.2	3.25	1.25	9.90
Total	16.6	48.7	71.64	48.2	121.4	124.00	186.57	766.51

Source: See Table 3.

Table 5. Proposed indicative food aid programme, 1974/75-1976/77, in tons of food product

	Range of annual commitments		Quantities under 1973/74 programmes
	Minimum	*Maximum*	
Cereals	1 700 000[a] (1 000 000)[b]	2 500 000[a] (1 300 000)[b]	580 000[a] (1 287 000)[b]
Skim milk powder	80 000	120 000	80 000
Butteroil	45 000	65 000	45 000
Other products	–	–	–

[a] If all actions are of a Community character

[b] If a part of aid continues in the form of national actions

Source EEC Commission *Food Crisis and the Community's Responsibilities Towards Developing Countries* 6 March 1974 p 7

Table 6. Proposed indicative food aid programme, 1977-79, in tons of food product.

	Minimum annual targets	Maximum annual targets	Quantities under 1976 programme
Cereals	1 650 000	2 500 000	1 287 000
(of which Community to provide)	(1 077 000-1 350 000)	–	(708 000)
Skim milk powder	150 000	175 000	150 000
Butteroil	45 000	65 000	45 000

Source: EEC Commission. *Three Year Indicative Food Aid Programme, 1977-79*. 14 September 1976 p 3.

ENDNOTES

[1]France, Federal Republic of Germany, Italy, The Netherlands, Belgium and Luxembourg.

[2]This statement of the fundamental ideological controversy is oversimplified, but it enables me to cover quickly these matters about which interested persons are already knowledgeable.

[3]European Communities: Information, The Agricultural Policy of the European Community, European Commission, Brussels, December 1976, p. 26.

[4]European Commission: General Press and Information Directorate, 'Analysis of the Stocktaking of the Common Agricultural Policy,' Newsletter on The Common Agricultural Policy, No. 1, January 1976, p. 1. Also note 'Stocktaking of the Common Agricultural Policy,' Newsletter on the Common Agricultural Policy, No. 3, March 1975.

[5]Ibid.

[6]For a review of the constitutional issues, see Richard Wainright, 'The execution of Community food aid to developing countries,' Common Market Law Review, Vol. 13, pp. 367-74.

[7]See John Marsh and Christopher Ritson, Agricultural Policy and the Common Market, European Series No. 16, Chatham House-PEP, London, 1971, pp. 137-39 and passim.

[8]Data for the production of wheat, sugarbeets and milk were extracted from USDA-ERS, Western Europe Agricultural Situation--Review of 1976 and Outlook for 1977, FAER No. 135, Washington, DC, May 1977, pp. 30, 34 and 36.

[9]Corrado Pirzio-Biroli, 'Foreign policy formation within the European Community,' paper delivered at the Midwest Conference of Political Scientists, April 1977, p. 9.

[10]Two clear, although dated, discussions of the 'Community dialogue' concept and process are: Stephen Holt, The Common Market--The Conflict of Theory and Practice, Hamish Hamilton, London, 1967, chapter 3; and Richard Mayne, The Institutions of the European Community, European Series No. 8, Chatham House-PEP, London, 1968, chapter 4.

[11]The term 'effective' here refers to impact on the economic development of the poor nations.

[12]USDA-ERS, FATUS, Washington, DC, January 1977, p. 7.

[13]Article 39(1)(d).

[14]Some of the complexities of determining agricultural self-sufficiency rates with more accuracy than is indicated by these generalized percentages are explained in Andre Herlitska, Pierre Malve and Asher Winegarten, 'European agricultural policy,' in D. Gale Johnson and John A. Schnittiker, eds., US Agriculture in a World Context, Praeger, New York, 1974, pp. 72-3.

[15]For a review and analysis of these negotiations, two useful sources are: John W. Evans, The Kennedy Round in American Trade Policy, Harvard University Press, Cambridge, MA, 1971, especially chapter 10; and Ernest R. Preeg, Traders and Diplomats, The Brookings Institution, Washington, DC, 1970, especially chapters 9 and 15.

[16]When the Community of Nine became operational on 1 January 1973, the EEC's obligation, under the renewed Food Aid Convention, was increased to 1,287,000 metric tons of cereal grains.

[17]Regulation no. 1399.

[18]'Summary of food aid supplied by the EEC,' The Courier, No. 30, March-April 1975, p. 61.

[19]The importance of science and technology in EEC agricultural development has necessarily been slighted in this article, but it should be noted that public and private investments in both have surely been a significant variable.

[20]Regarding the third 'consensus' position, it should be noted that on 8 October 1976 the U.K. delegation sent a memorandum to the ad hoc food aid group of the Council of Ministers in which it was stressed that '...the basis of the EEC's food aid must be changed so that it does not merely manage the flow of food surpluses but becomes an instrument of development aid.' European Report, 27 October 1976.

[21]Quoted in G. D. Cooper, 'The 1977 Oxford Farming Conference,' Agriculture Abroad, February 1977, p. 28.

[22]In a recent report, the Executive Director of the World Food Council claims that 'approximately 500 million people, one-eighth of the world's population, live at a nutritional level below minimum acceptable standards.' (Eradicating Hunger and Malnutrition, WFC/40, 31 March 1977, p. 3). If one uses the Reutlinger/Selowsky method for calculating the number of malnourished, about 1.3 billion people, almost two-thirds of the total population in the developing nations, were underfed in 1975 (International Food Policy Research Institute, Recent and Prospective Development in Food Consumption--Some Policy Issues, Research Report 2, Revised Edition, Washington, DC, July 1977, p. 16).

[23]Theodore W. Schultz, 'On economics, agriculture, and the political economy,' the first Elmhirst Lecture, delivered at the International Conference of Agricultural Economists on 26 July 1976, and published in Theodor Dams and Kenneth E. Hunt, eds., Decision-Making

and Agriculture, Agricultural Economics Institute, Oxford, 1977, pp. 15-25. Perhaps it should be noted that Schultz's position has had a fairly long-standing credibility among a number of professional agricultural economists for some years. Over a decade ago, Earl O. Heady and John F. Timmons asserted: 'Our "net appraisal" of U.S. food aid is that the main impacts are short-run...The contribution of food aid to agricultural development per se has been at least nil, and more likely negative...' See 'Policy guidelines for world food aid and agricultural development,' Farm Policy Forum, Vol. 19, No. 1, 1966-67, p. 23.

[24]Thomas Balogh, 'Contrary winds,' CERES, July-August 1977, p. 42.

[25]David Jones, Food and Interdependence, Overseas Development Institute, London, 1976, p. 50. A very useful 'annotated selective bibliography' on this subject is found in Hartmut Schneider, The Effects of Food Aid on Agricultural Production in Recipient Countries, OECD Development Centre, Paris, October 1975.

[26]John W. Mellor, The New Economics of Growth--A Strategy for India and the Developing World, Cornell University Press, Ithaca, NY, 1976, p. 227.

[27]For example, see Chester Bowles' description and analysis of these events in Promises to Keep--My Years in Public Life, 1941-1969, Harper and Row, New York, 1971, chapter 4; also, Robert L. Paarlberg, 'The failure of food power,' presented at the Agricultural Policy Symposium, Washington, DC, 25-26 July 1977.

[28]Paul J. Isenman and Hans W. Singer, 'Food aid--disincentive effects and their policy implications,' Economic Development and Cultural Change, January 1977, p. 205.

[29]OECD, Study of Trends in World Supply and Demand of Major Agricultural Commodities, OECD, Paris, 1976, pp. 23-4.

[30]FAO, Notes for North America, Issue No. 17, November 1976, p. 3.

[31]Recent and Prospective Developments in Food Consumption--Some Policy Issues, op cit., Ref. 22, p. 27.

[32]U.S. Senate, Committee on Agriculture, Subcommittee on Foreign Agricultural Policy, Hearings--Future of Food Aid, 95th Congress, 1st session, 4-5 April 1977, p. 50.

[33]Albert O. Hirschmann, The Passions and the Interests, Princeton University Press, Princeton, 1976.

[34]The Economist, 18 September 1976.

[35]Ibid., 2 October 1976, pp. 7-8.

[36]Europe, No. 2182 (new series), 24 March 1977, p. 10.

[37]Some comments on a preliminary draft are found in: European Report, No. 422, 6 January 1977, pp. 5-6. The full study is published in Klaus von Helldorf, et al., Aide Alimentaire, a study conducted for the Comite De Recherche Sur L'Unification Europeene Project 'European Alternatives,' Brussels, May 1977.

[38]Wainright, op cit., Ref. 6, p. 368.

[39]This 'communication' from the Commission to the Council (COM (74)300 final, 6 March 1974) was in four parts: (1) an analytical statement of eight pages entitled Food Crisis and the Community's Responsibilities Toward Developing Countries; (2) a specific proposal, including its rationale, entitled Memorandum on Food Aid Policy of the European Economic Community; (3) a 'Statistical annex'; and (4) a 'Financial annex.'

[40]For a description of the organization and powers of such Management Committees, see Roy Pryce, The Politics of the European Community, Rowan and Littlefield, Totowa, NJ, 1973, pp. 71-2.

[41]European Parliament, Working Documents, 1974-1975, Document 171/74, 9 July 1974, p. 15.

[42]Ibid., p. 29.

[43]Wainright, op cit., Ref. 6, p. 371; also, Europe, 15 April 1975.

[44]Wainright, op cit., Ref. 6, p. 373.

[45]EEC Commission, Communication...To the Council--Three Year Indicative Food Aid Programme, 1977-79, COM(76), 452 final, 14 September 1976.

[46]European Parliament, Working Documents, 1976-77, Document 407/76, 15 November 1976, p. 11.

[47]Ibid., p. 10.

[48]Ibid., p. 16.

[49]In October 1977, the Commission presented its food aid proposal for 1978 to the Council: The 1978 Cereals, Skimmed-Milk Powder and Butteroil Food Aid Programmes, COM(77), 512 final, 26 October 1977. Then in March 1979, an implementation document was forwarded by the Commission: Proposal From Commission to the Council Concerning Food Aid Regulations for 1979, COM(79), 107 final, 13 March 1979. In terms of strategy, neither proposal seems to break any significantly new ground.

[50]von Helldorf, et. al., op cit., Ref. 37, p. 39.

[51]The 1977 Skimmed-Milk Powder and Butteroil Food Aid Programmes, COM(77) 161 final, 5 May 1977.

[52]Memorandum on Food Aid Policy of the European Economic Community, op cit., Ref. 39, p. 12.

[53]EEC Parliament: Commission, Answer to Written Question, No. 828/75, 10 May 1976, p. 2; also No. 353/76, 15 October 1976.

[54]'More milk products as food aid?' CERES, May-June 1977, pp. 6-8.

[55]Ibid.

[56]Other EEC food aid issues are discussed in Andres Klasse Bos, 'Food aid by the European Communities--policy and practice,' ODI Review--Journal of Development Policy, No. 1, 1978, pp. 38-53; von Helldorf, et. al., op cit., Ref. 37; and OECD, Committee for Agriculture, Issues Arising in Regard to the Use of Skim Milk Powder in Food Aid, OECD, Paris, 6 December 1976.

[57]U.S. Department of Agriculture (USDA), Economics, Statistics and Cooperatives Service, Western Europe: Agricultural Situation--Review of 1977 and Outlook for 1978, USDA, Washington, DC, May 1978; and USDA, Economics, Statistics and Cooperatives Service, World Agricultural Situation, USDA, Washington, DC, December 1978, pp. 38-9.

[58]World Agricultural Situation, op cit., Ref. 57, p. 39.

[59]Provisional figure.

[60]Food aid costs for 1978 were estimated to be $458 million. These estimated budget costs for 1978 were extracted from the European Commission, Spokesman's Group, The 1978 Community Budget--Commission's Proposals, P-49, 27 May 1977, p. 8; and European Community (London) July-August 1977, pp. 9-10.

[61]For a nicely balanced review, see John Marsh, 'Europe's agriculture--reform of the CAP,' International Affairs (Great Britain), October 1977, pp. 604-14.

[62]Dennis Bergmann, 'Agricultural policies in the EEC and their external implications,' World Development, No. 5-7, 1977, p. 413.

[1989]

Box 6. Dairy Aid Should be Slashed

The greatest paradox of the EC food aid programme - indeed, its greatest scandal - is the continued dominance of dairy products. The case for food aid is largely a case for cereals; the Community's own policy statements make this case with eloquence and rigour. Yet, 40% of the Community's expenditure on food aid is for milk powder and butter oil, clearly reflecting the dominance of these products in the surplus mountains and lakes which the CAP has produced. It seems that the Community says one thing and does another: delinks food aid from the CAP in its policy statements but reflects it closely in practice. The costs are enormous. If the 233 million EC earmarked for dairy aid in the 1986 budget had been released instead for cereals, an additional 1.5 million tons of cereal aid could have been sent to the poorest countries, more than doubling the amount actually provided. The greatest irony of all is that the milk lakes have now dried up and the prices of milk products are rising in international markets: yet the EC still continues to provide large amounts of dairy aid each year.

Defenders of the dairy programme would argue that dairy aid provides budgetary support and point to the enormous contribution EC dairy aid has made over the years to dairy development in India through Operation Flood. Operation Flood has been described as "By far the largest and most ambitious development project ever assisted by...Community food aid." Beginning in 1970, the EC has committed a total of 441,000 tons of dried skim milk and 151,700 tons of butter oil to Operation Flood, plus a small quantity of vegetable oil. Valued in current prices, this is equivalent to support of over 750 million Ecu for dairy development in India.

The principle of Operation Flood is simple. Dairy products supplied by the Community are reconstituted into milk in India and sold through retail outlets. The money raised, the so-called counterpart funds, are then used to support programmes that will increase dairy production and develop the milk distribution network.

Dairy development can be a useful way of increasing cash incomes in rural areas. It can be especially beneficial for poor farmers and for women; it is also a way of providing valuable food to the towns. Why then has Operation Flood been so controversial that many campaigns have been waged against it in Europe?

Critics charge that Operation Flood has failed to reach its main objectives. Too little attention has been paid to dairy development and too much to building a sophisticated network of cooling plants and processing factories for milk distribution. The creation of a market for milk has meant that milk is exported from rural areas rather than being retained for domestic consumption. And in towns, milk is a luxury product which dies little to improve the nutritional standards of the poor. To make matters worse, critics have argued that a great part of the EC's resources have vanished in subsidies to make milk cheaper, again benefiting the urban rich rather than the rural poor.

Whatever the arguments about dairy development in general - and we are more sympathetic than not to the development of dairying as an income-earning activity for the rural poor - the use of European dairy surpluses to provide budgetary support to the Indian Government is an inefficient instrument. India deserves Balance of Payments and budgetary

support and it is scandalous that it does not receive more in other forms of EC aid; however, boosting the food aid programme with milk powder and butter oil is a poor way to compensate. Dairy aid should be slashed.

If dairy aid is cut and more cereals are provided, then more food aid should be provided for sale and less for direct distribution. The critics of food aid are often distributed by sales: they see food aid being sold in towns and they fear urban bias, import dependency and distortion of local marketing systems. They would prefer to see food aid distributed directly to the poor, in food for work or supplementary feeding programmes.

We believe the critics are wrong. The purpose of food aid is to provide the resources with which to feed or employ poor people and often the easiest way to do this is to sell food aid in the most convenient place and use the counterpart fund to buy food locally.

Source: Independent Group on British Aid. Real Aid: What Europe Can Do (London: Independent Group on British Aid, 119 Fentiman Road, 1989), pp. 55-57.

[1990]

Box 7. European Food Aid Policy, 1968-1988

United States food aid policy in the past has emphasized self-help as a principle for developing country recipients but the EEC emphasizes self-sufficiency in agriculture as a goal for recipients of its aid and food aid policies and its trade concessions under the Lome agreements. As with the CAP, the EEC recommends, as a fundamental principle (how could this be otherwise since the CAP is the centrepiece of European cooperation), that self-sufficiency in agriculture should be the central policy objective of the associate members of the Community. Consequently EEC policies, including food aid policy, all emphasize the centrality of self-sufficiency in agriculture.

Food aid policy since 1974 has moved from its position as a surplus disposal instrument to that of a development resource. While EEC policy is still vague and evolving, it is clear that food aid is considered to be in some respects superior to other forms of aid. The Commission considers that food aid can provide a unique resource for the agricultural and rural development of recipients, and that it can uniquely combat hunger through nutritional programmes. Food aid can provide food security by the establishment of food security stocks in recipient countries, and food aid and aid policy can promote economic integration in the developing world, as well as aid structural adjustment and balance of payments problems.

The policy emphasis within the European Food Aid Policy, particularly since the mid-1970s, promotes a policy set that is uniquely European and argues for policies and programmes that the earlier PL480 programme, for example, has never argued for. In its policy emphasis the EEC does have a legitimate claim to have a food aid programme that is not concerned with the surplus disposal of agricultural products, but with the utilization of food aid as a development resource. The doctrine of the United States was for two decades (the Fifties and Sixties) that food aid was a "marriage of convenience," recognizing its self-interest and the interest of the recipients of its surplus agricultural produce. The EEC does not acknowledge its self-interest in food aid as an instrument of surplus disposal or of market development, but insists that food aid in its own right is an appropriate resource for the development of poor countries, and particularly for the agricultural and food sectors of these countries.

Unlike United States Food Aid Policy, European food aid policy does not pursue is commercial agricultural trade interest by providing concessional sales of food aid. The European Commission provides its food aid for emergency and developmental uses and these are in the form of grants. Triangular transactions, for example, involve both commodity aid and cash aid to promote economic integration. European food aid policy in the 1980s has decoupled from its commercial trade interests and it is questionable whether its food aid was ever entirely seen in Brussels as an agricultural trade development instrument.

The European Economic Community has doubled its food aid, from under 2.0 million tons in the early 1970s to over two million tons in 1985, whereas the United States has not again reached its 1970 donations.

Community agricultural trade policy with regard to cereals appears to have broken the link with food aid policy as a instrument of market development during the years 1975-1986. While world food aid volumes were reduced during the 1970s, EEC volumes stabilized, making its donations second to those of the United States. Whereas the United States food aid policy developed in line with its commercial market development aims, European food aid policy has not sought its own agricultural trade development. As a consequence of this different approach to surplus disposal, the Europeans have not used food policy for trade expansion but have attempted, as they claim, to give food as a development resource and to encourage the development of the indigenous agricultural sector of recipients of its aid.

Source: John Cathie, "European Food Aid Policy, A Review and Assessment, 1968-1988." Paper presented to the Agricultural Economics Society Annual Conference, Wye College, University of London, April 6-9, 1990, pp. 17, 29, 30, 33, 38.

[1988]

Chapter 15

Food Policy, Food Aid and Structural Adjustment Programmes

John W. Mellor

Developing countries have experienced a series of economic crises growing out of the rapid increase in oil prices of the 1970s and continued low and unstable prices for exports. Contributing to these problems has been a rapid increase in private capital flows that have often exceeded local investment capacities, thereby encouraging high levels of public consumption and a low rate of return on investment. In recent years these and similar problems have severely distorted the functioning of many developing economies and have resulted in unmanageable debt repayment schedules, large and often growing budget deficits, and rapid inflation.

Many developing countries have now implemented structural adjustment programmes to confront these problems. Exchange rates have been realigned to deal with shortages in foreign exchange, agricultural prices have been set at parity with international prices, public expenditures have been drastically reduced, and markets are now operating more freely. Considering the size of shocks to developing country economies and the aftermath of the debt crisis, the course of these adjustment efforts is encouraging.

There are, however, two troubling aspects of these structural adjustment programmes. First, the climate of urgency that surrounds adjustment proposals argues for quick fixes and

diverts attention away from critical long-term development issues. In many instances, the ultimate success of adjustment efforts can only be measured in how they contribute to long-term development efforts aimed at upgrading such public goods as education, rural and urban infrastructure and agricultural research. In other words, successfully implemented adjustments should set the stage for renewed growth.

Second, adjustment policies can inflict considerable hardship on the poor. Fiscal and monetary policy changes often produce falling real wages, substantial increases in food prices and reductions in food subsidies and other transfer programmes to the poor. While the accelerated growth consequent to macroeconomic reforms may expand employment and even nominal wages, there is increasing evidence that the very poorest do not immediately participate in such improvements. In the short run, the poor may even suffer a deterioration in their income and nutritional status.

Economic Growth

Adjustment programmes typically involve radical changes in government policies designed to improve the efficiency of the public sector. Depending on the specific situation, a number of adjustment options are available. Reduced government expenditure can be used to free resources for more productive use and, when combined with tight monetary policies, works to contain inflation. A devaluation of domestic currency reduces the outflow of foreign exchange by affecting the relative price of traded goods, thereby restricting the demand for imports and promoting exports. Market restructuring schemes can be used to save on administrative costs of government-operated marketing organizations and to restore price incentives to domestic production.

Adjustment policies are designed to produce a streamlined public sector, a more balanced external account and more efficient internal markets. These outcomes represent necessary--but not sufficient--conditions for accelerated economic growth. If growth is to be achieved, the resources obtained through adjustments must encourage expenditures on the public goods needed to facilitate broad-based development. In other words, along with effective improvement in sectoral policies, adjustment programmes must be directed towards the specific goals of an overall strategy of development.

In the past, development efforts have frequently focused on capital-intensive strategies of growth. To ensure the availability of resources for investment in high-growth capital goods production, these strategies suppress the production of labour-intensive consumer goods. As a result, growth in employment is minimized. Underlying these strategies is the assumption that factor proportions in production are technologically fixed and that a surplus of labour can, only in the long-run, be mobilized by an expansion in the supply of capital. In addition, because the supply of capital goods is seen to be the principal constraint to development, little is done to promote agricultural production.

The assumption that factor proportions are technologically fixed ignores the role of technological innovation in improving factor productivity--specifically labour. Furthermore, by ignoring the vital link between the market for labour and the market for food, capital-intensive strategies create distortions in the allocation of resources for the production of food. Throughout the developing world increased employment of the poor creates large increases in the demand for food. Elasticities of expenditure on food run as high as 0.62 to 1.06 for the poor in developing countries.[1] Unless sufficient supplies of food are

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available to meet increased demand, prices increase and the real incomes of the poor decline concomitantly. The pursuit of a capital-intensive strategy of development therefore tends to place an undue burden on the poor and represents a failure for developing countries to exploit their comparative advantage in labour-intensive production.

In the context of a global economy, adjustment programmes should move to exploit that comparative advantage. Therefore, a major focus of structural adjustment should be towards accelerated long-term growth in employment of the poor. The link between increased employment and the demand for food suggests that adjustments promoting growth in agriculture can be especially effective in promoting overall growth. Given the present global debt crisis, a capital-saving agricultural strategy seems particularly appropriate. By raising the purchasing power of the poor through increased employment, agricultural growth gets food into the hands of the poor through market mechanisms. Over time, it can eliminate much of the need for policies such as food subsidies which distort the functioning of a developing economy.

The development of agriculture promotes employment of the poor through increased production of labour-intensive wage goods, particularly food. such a strategy emphasizes the widespread dissemination of new agricultural technology to increase yields and to improve the productivity of labour. The sheer size of the agricultural sector in most developing countries, accounting for 40 to 80% of total employment, ensures that agricultural growth, through its multiplier effects, will have important macroeconomic implications.

Technological change in agriculture increases the incomes of small landowning farmers. In Asia, these farmers typically spend a large proportion of their new incomes on

locally-produced, non-agricultural goods and services such as textile products, transportation and health services, and housing (see Figure 1). Production of these goods tends to be far more labour-intensive than in large-scale industry. As a result of the increased expenditures of landowning farmers, the rural poor gain a wide range of new, non-agricultural employment opportunities.

Accelerated agricultural growth thus leads to increased employment for the poor. As the poor begin to work more steadily, their purchasing power also rises. The resulting increased demand for food and other goods provides strong, indirect multiplier effects which stimulate new rounds of growth in the economy as a whole. Inexpensive food from increased production helps keep labour costs down and, thus, encourages employment growth in the urban sectors of the economy. The result is a general increase in domestic demand for labour-intensive, consumer goods.

Over time, firms producing such labour-intensive goods for domestic consumption can acquire the experience needed to compete on the world market. This is important inasmuch as any successful strategy of development requires the production of export goods to pay for a wide range of capital-intensive goods - for example, fertilizer and pesticides for agriculture, and steel and petrochemicals for industry. A strategy of technological change in agriculture, which stresses the increased production of primary and consumer goods, is able to contribute to these export needs.

Adjustment programmes can specifically address the needs of an agricultural development strategy. Devalued exchange rates to improve the balance of payments increase purchasing power in the rural areas and improve the export outlook for agricultural

production. Removing biases in the provision of credit, eliminating wage differences between urban and rural areas, and bringing domestic prices into parity with international prices all help to improve incentives to agricultural producers. More directly, changes in agricultural policies, such as reduction of export taxes and restructuring of agricultural markets, also provide incentives to agricultural producers.

Because technological change represents the primary engine of sustained agricultural growth, adjustment policies should be designed to promote farmers' adoption of new high-yield seed, fertilizer and water inputs. Price changes can contribute to this process only by providing more efficient market signals. Artificially higher prices promote growth in output at the expense of decreasing factor productivity, resulting in less output for additional levels of inputs. Technological change, on the other hand, increases the productivity of inputs. In this regard, the role of structural adjustments should be to rationalize markets and return prices to proper market levels. Budgetary savings from cutbacks in public expenditure and resources obtained through sectoral reform should then be directed towards investment in rural infrastructure, extension services and agricultural research in order to promote long-term agricultural growth.

Food policy and the poor

Food policies often play and integral role in adjustment programmes. Reduced food subsidies or the reorganization of agricultural commodity marketing programmes can mean substantial budgetary savings. For example, in Sri Lanka, policy reforms reduced food subsidies' share in total government expenditure from 15% in the mid-1970s to 3% in 1984.[2]

Scarce foreign exchange can also be saved by a currency devaluation which discourages agricultural imports and increases the demand for agricultural exports,

However, the radical changes involved in such adjustment programmes have costs that threaten the short-term welfare of the poor. Reductions in food subsidies increase the cost of food to those people who can least afford it: the poor. Similarly, a currency devaluation increases the cost of imported food and domestically produced substitutes. Data from various developing countries suggest that the poor often spend between 60 and 80% of their income on food (see Table 1). As food prices rise, the poor suffer a much greater reduction in their real purchasing power and, therefore, in their ability to procure food.

For example, data from India indicate that a price increase of 10% for foodgrains reduces foodgrain consumption of the poorest two deciles of the income distribution by 5.9%, but by only 0.2% for consumers in the top half of the most wealthy decile. Lower consumption by the poor is reflected partly be declining quantities of consumption and partly by reduced quality of food consumed, as the poor shift their consumption to food of lower nutritional value. A 10% increase in foodgrain prices creates a 33% decline in the expenditure on milk by the poor compared to only a 9% decline for the wealthy.[3]

As food prices rise, the wealthier classes also tend to shift their consumption patterns. While the wealthy classes spend a lower proportion of their overall budget on food than the poor, in absolute terms they spend a great deal more. In India the wealthy spend 2.5 times more per capita of foodgrains than the poor. Given this large absolute expenditure of foodgrains, an increase in the price of foodgrains necessarily results in a large, absolute shift in consumption of the wealthy out of other labour-intensive goods. The magnitude of that

shift and the high labour content of production combine to reduce seriously the employment of the poor. The result of this secondary effect of increased food prices is an even further reduction in the poor's purchasing power and, therefore, in their consumption of food.

Because the poor spend so much on food, lower prices through subsidies can significantly raise real incomes. Food subsidies account for between 15 and 25% of total income of the poor in a number of countries.[4] In addition, income in the form of food subsidies improves the nutritional status of special target groups, such as children, more than income in other forms.[5] Therefore, in spite of the demands on government budgets, food subsidies in some form are often essential in the short run for maintaining the nutritional status of the poor.

Subsidies can be made more efficient through selection of appropriate commodities to subsidize, reorganizing distribution practices and in targeting subsidies towards specific population groups. In Sri Lanka, in the context of economic reforms, attempts to re-target food subsidies under a food stamp scheme restricted transfers to half of all households formerly eligible for subsidies.[6]

However, these changes had a significant negative impact on the consumption of the poor. As a result of these reforms in Sri Lanka, the lowest quintile of the population in terms of food expenditure received only 38% of the total food stamp outlay. After changing to foodstamps, while nearly 75% of Sri Lankan households maintained or increased per capita caloric consumption, per capita consumption of the most poor declined by 8%.

Food aid and long-term growth

Food aid can be particularly useful as a means of protecting the poor from the adjustment process. It can provide the means to balance the tradeoffs inherent in adjustment policies, such as between continued food subsidies to consumers and improved price incentives to food producers. Furthermore, in the transition to an agricultural strategy, production may lag behind any initial increases in demand for food. In addition, foreign exchange may be unavailable to meet those short-term food needs through increased commercial imports. It may be necessary in the short run to provide assistance in the form of food aid. In the long run, agricultural growth should provide the necessary domestic production and foreign exchange to meet that increasing demand.

It is often argued, however, that food aid represents a poor substitute for financial development assistance. Because financial assistance allows flexibility in market decisions, it is argued that it provides food more efficiently than food aid with its added administrative baggage. Therefore, successful use of food aid depends on the ability to ensure that it is additional to financial aid, it may still not make a net contribution to economic growth. Poorly managed distribution of food aid can suppress incentives to increased domestic agricultural production and can create a dependence on imported commodities.

By segmenting the market for food, charging higher prices to countries with relatively inelastic demand and lower prices to countries with more elastic demand, food aid can be used as an additional form of development assistance. If a certain quantity of a given supply of food can be reserved for low-income people at a low price, their consumption will jump sharply. Food aid from developed countries can then be used as an additional source of

low-priced food to meet this increased demand. The remaining supplies can be sold to high-income, demand-inelastic countries at prices that more than compensate producers for the lower prices paid by the poor.

Within developing countries the demand for food by the poor is highly elastic, with a price elasticity of demand of about -0.8, while the demand of the most wealthy is quite inelastic, with a price elasticity of demand of only -0.1 or less.[7] Segmented markets allow for low-priced food from food aid to be sold to the poor without depressing incentives to domestic production. Because low prices of food aid create additional demand, domestic farmers can maintain their markets by maintaining high average prices for domestically produced food through the sale of food to more wealthy consumers.

In addition to providing increased supplies of food to poor consumers, food aid can help facilitate growth in agriculture. Through the mechanism of food-for-work programmes, food aid can help meet one of the most pressing agricultural development needs in many African and Asian countries: the lack of rural infrastructure. One of the principal contributions of food-for work programmes has been the building of better roads, irrigation and drainage systems, and communications networks. In effect, food-for-work programmes to build rural infrastructure can decrease the cost of food production more than the potential depressing effect of food aid on producer prices. At the same time the very positive impact of these programmes on the rural infrastructure helps pave the way for the multiplier effects of agricultural growth to expand income and employment in other sectors of the economy.

For example, in Bangladesh it is estimated that food-for-work programmes increased the gross value of crop production by 27% in some areas, with increases of 11.9% in the per acre employment of labour and 41% for fertilizer (see Table 2). These date indicate that food aid in the form of food-for-work programmes can have a significant impact on the adoption of modern agricultural technology.

The capacity of developing countries to absorb increased food aid depends on improvements in distribution channels. These structures are essential not only for ensuring the most efficient use of food aid as long-term shortages caused by increases in demand from increased employment or fluctuations in domestic production. However, distribution channels can only be built over time and require reasonable assurances on long-term aid. this requirement places a burden on the developed countries. Donor countries should do everything in their power to provide reliable amounts of food aid over a sufficiently long period so that development goals can be achieved.

If used properly, food aid does not contribute to distortions in the agricultural sector. To the extent that current development strategies overemphasize capital goods production at the expense of labour and food, distortions already exist in the allocation of resources to agriculture. In these cases, food aid can be used to support structural improvements designed to return developing countries to a new equilibrium of more labour-intensive production.

Conclusions

Structural adjustments are necessary to eliminate distortions in resource use in many developing economies. however, in pursuing these reforms, developing countries should not

lose sight of the long-term goals of economic development. To these ends it is essential that structural adjustment programmes move developing countries towards their comparative advantage in labour-intensive production. Given the requirements for increased employment and the linkages between the markets for food and labour, structural adjustments should provide support for a strategy that emphasizes agricultural growth. This can best be accomplished by policies that facilitate the widespread diffusion of the basic elements of the modern agricultural technology - new seeds, fertilizer and water inputs.

It is important to realize that the losses incurred by the poor during the course of structural adjustment represent very real setbacks to the development process as a whole. It is, therefore, incumbent on both developing and developed countries to cooperate in the design and implementation of adjustment policies which protect the status of the poor and lead to an equitable pattern of growth. For their part, developing countries should give priority to an agricultural strategy of development. They must then make the hard policy decisions with respect to the allocation of scarce human and financial resources to promote such a policy. Developed countries, on the other hand, should provide reliable supplies of food aid and assistance, both to mitigate the negative impact of adjustments on the poor and to support a long-term pattern of development. From the dynamics of such a partnership between developing and developed countries, the world could conceivably evolve into a place where enough food is an accepted fact for all peoples.

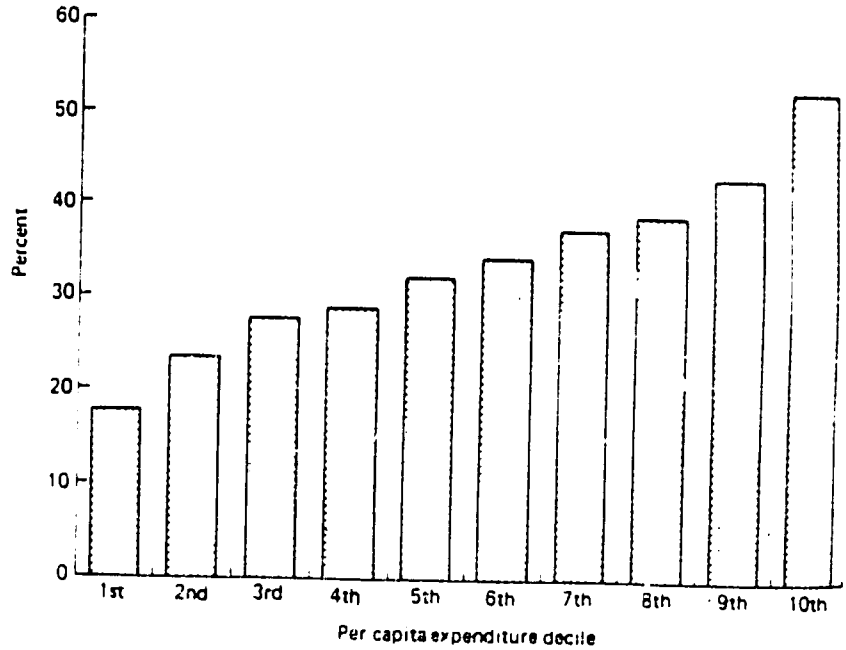

Figure 1. Marginal budget shares for locally produced non-food goods and services by expenditure level, Muda irrigation project area, Malaysia, 1973.

Source: Peter B R Hazell and Ailsa Roell, *Rural Growth Linkages: Household Expenditure Patterns in Malaysia and Nigeria*, Research Report 41, International Food Policy Research Institute, Washington, DC, 1983.

Table 1 Average budget shares spent on food among the poor in selected cities and countries.

City/country	Population group	Budget share	Source
Bogota, Colombia	Lowest 25%	0.62	Musgrove[1]
Barranquilla, Colombia	Lowest 25%	0.65	Musgrove[1]
Cali, Colombia	Lowest 25%	0.68	Musgrove[1]
Maracaibo, Venezuela	Lowest 25%	0.58	Musgrove[1]
Brazil (urban)	Lowest 30%	0.51	Gray[2]
Brazil (rural)	Lowest 30%	0.65	Gray[2]
India	Lowest 20%	0.71	Mellor[3]
Sri Lanka	Lowest 10%	0.79	Sahn[4]
Thailand	Lowest 10%	0.67	Trairatvorakul[5]

Source: Per Pinstrup-Andersen, "Agricultural policy and human nutrition," paper prepared for Agricultural Policy Workshop, Santiago, Dominican Republic, International Food Policy Research Institute, Washington, DC, 1985.

[1] Phillip Musgrove, *Consumer Behaviour in Latin America*, The Brookings Institution, Washington, DC, 1978.
[2] Cheryl W. Gray, *Food Consumption Parameters for Brazil and Their Application to Food Policy*, Research Report 32, International Food Policy Research Institute, Washington, DC, 1982.
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Table 2. Effect of food-for-work projects on labour and fertilizer use, Bangladesh, 1982.

Infrastructure type	Labor (days per acre) FFW projects	Labor (days per acre) Other projects	Fertilizer (lb per acre) FFW projects	Fertilizer (lb per acre) Other projects
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Box 9.

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of which (%):	
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Percent of world cereal production	0.6
Percent of world trade in cereals	5.4
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Food aid categories (% of total cereals, 1989)	
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Regional and country group distribution (% of total cereals, 1989)	
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Asia and Pacific	29.9
Latin America and Caribbean	20.0
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Europe	2.9
Low-income food-deficit countries	79.2
Least developed countries	34.3
Non-cereal food aid (million tons, 1989)	1.0
Vegetable oil and fats	0.5
Dairy products	0.2
Pulses	0.2
Other commodities	0.1

1 Provisional: for DAC/OECD countries only, the main donors of food aid.
2 Provisional figures: July/June.

Source: World Food Program, 1990 Food Aid Review (Rome: World Food Program, 1990), p. 21.

[1989]

Box 10. Projection of Food Aid Needs

There is no single generally accepted methodology for estimating food aid needs. A review of recent efforts to estimate global, regional and country-specific food trade and food aid needs was organized in October 1988 under the aegis of the U.S. National Research Council.

The range of estimates generated by different groups of specialists, based on different definitions, range from 10 million to 50 million metric tons (MMT) per year.

10 MMT	actual food aid delivery 1987-88
20 MMT	estimated aid to meet food price stabilization needs in 1990; also, low range estimates of food price stabilization needs for 1995
30 MMT	average annual price stabilization needs for 1995-2000
40 MMT	high range estimates of annual food price stabilization needs 1995-2000
50 MMT	average annual food aid to achieve price stabilization plus food aid for hunger/nutritional adequacy 1995-2000

Variations among the estimates arise for several reasons. One is that each model includes or excluded different countries from its analysis. For example, Korea, which has the ability to pay for its import needs, is not in every analysis although it still receives food aid shipments. Similarly, China, which is largely self-sufficient, also receives food aid and is not always included. This inclusion or exclusion of countries from any analysis significantly alters its overall projections. In spite of this, there is surprising agreement among the models on aggregate and regional trade projections. Consequently these projections seemed reasonably useful for policy planning, at least as assessed by the experts at the workshop.

The commitment of the industrial countries to meet food aid needs, however, falls short of the minimum food stabilization requirements of the poorest countries. Current food aid shipments (10-11 MMT in 1987) meet only half of these needs. Satisfying the lower estimates of stabilization needs would therefore require a doubling of food aid in the near term. It was estimated that existing calorie deficiencies owing to lack of purchasing power amount to roughly 15-18 MMT of cereals per year. Assuming a perfect targeting of food aid to poorest households suffering from such deficiencies, and further assuming that each metric ton will result in a net increase in consumption within those households of one-half of each metric ton targeted to such households because of an estimated 50 percent substitution "leakage" factor, 30-36 MMT of grain would have to be targeted on these households. This would result in a net increase in market demand of 15-18 MMT among the targeted population and the use of the other 15-18 MMT to meet market demand so as to stabilize, but not reduce, local food prices, while saving foreign exchange expenditures.

Current levels of food aid, representing only 50 percent of near-term minimum stabilization needs, reflect political priorities and constraints on the part of the industrial countries. Although doubling food aid could reduce hunger without distorting global supply or price conditions during the coming decade, it would not happen automatically, and to be

effective it would have to be allocated according to need. Moreover, this doubling in itself, even if allocated to countries in most need, might still not reach the people targeted, since they are left unaffected by many current food aid modalities. The targeting task requires additional resources *and* mechanisms of distribution through food for work, food stamps, or entitlement measures, all of which target food beyond those currently included. Innovative mechanisms might improve the ability to distribute food through the private sector at no additional government cost, and achieve price stabilization (and linked development) and nutritional objectives.

The history of food aid availability shows that it has been governed substantially by donor supply and trade pressures. This orientation has tended to keep food aid levels lower than estimated needs. Global food stabilization goals compete with these other pressures, as seen in the 1973-74 period of tight supplies, quite unfavorably. While donors are concerned with world hunger--it is a major political issue in the industrial countries--other forces, such as domestic economic priorities, are ultimately more important policy determinants. In addition, political and diplomatic concerns also have led to substantial political control over food aid allocations. Skepticism was expressed by modeling experts, therefore, regarding donor willingness to add substantial resources to food aid, even for innovative targeted programs so as to satisfy minimum nutritional needs.

Source: Board on Science and Technology for International Development, Food Aid Projections for the Decade of the 1990s (Washington, DC: National Research Council, 1989), pp. 5-7.

[1988]

Chapter 15

Food Policy, Food Aid and Structural Adjustment Programmes

John W. Mellor

Developing countries have experienced a series of economic crises growing out of the rapid increase in oil prices of the 1970s and continued low and unstable prices for exports. Contributing to these problems has been a rapid increase in private capital flows that have often exceeded local investment capacities, thereby encouraging high levels of public consumption and a low rate of return on investment. In recent years these and similar problems have severely distorted the functioning of many developing economies and have resulted in unmanageable debt repayment schedules, large and often growing budget deficits, and rapid inflation.

Many developing countries have now implemented structural adjustment programmes to confront these problems. Exchange rates have been realigned to deal with shortages in foreign exchange, agricultural prices have been set at parity with international prices, public expenditures have been drastically reduced, and markets are now operating more freely. Considering the size of shocks to developing country economies and the aftermath of the debt crisis, the course of these adjustment efforts is encouraging.

There are, however, two troubling aspects of these structural adjustment programmes. First, the climate of urgency that surrounds adjustment proposals argues for quick fixes and

diverts attention away from critical long-term development issues. In many instances, the ultimate success of adjustment efforts can only be measured in how they contribute to long-term development efforts aimed at upgrading such public goods as education, rural and urban infrastructure and agricultural research. In other words, successfully implemented adjustments should set the stage for renewed growth.

Second, adjustment policies can inflict considerable hardship on the poor. Fiscal and monetary policy changes often produce falling real wages, substantial increases in food prices and reductions in food subsidies and other transfer programmes to the poor. While the accelerated growth consequent to macroeconomic reforms may expand employment and even nominal wages, there is increasing evidence that the very poorest do not immediately participate in such improvements. In the short run, the poor may even suffer a deterioration in their income and nutritional status.

Economic Growth

Adjustment programmes typically involve radical changes in government policies designed to improve the efficiency of the public sector. Depending on the specific situation, a number of adjustment options are available. Reduced government expenditure can be used to free resources for more productive use and, when combined with tight monetary policies, works to contain inflation. A devaluation of domestic currency reduces the outflow of foreign exchange by affecting the relative price of traded goods, thereby restricting the demand for imports and promoting exports. Market restructuring schemes can be used to save on administrative costs of government-operated marketing organizations and to restore price incentives to domestic production.

Adjustment policies are designed to produce a streamlined public sector, a more balanced external account and more efficient internal markets. These outcomes represent necessary--but not sufficient--conditions for accelerated economic growth. If growth is to be achieved, the resources obtained through adjustments must encourage expenditures on the public goods needed to facilitate broad-based development. In other words, along with effective improvement in sectoral policies, adjustment programmes must be directed towards the specific goals of an overall strategy of development.

In the past, development efforts have frequently focused on capital-intensive strategies of growth. To ensure the availability of resources for investment in high-growth capital goods production, these strategies suppress the production of labour-intensive consumer goods. As a result, growth in employment is minimized. Underlying these strategies is the assumption that factor proportions in production are technologically fixed and that a surplus of labour can, only in the long-run, be mobilized by an expansion in the supply of capital. In addition, because the supply of capital goods is seen to be the principal constraint to development, little is done to promote agricultural production.

The assumption that factor proportions are technologically fixed ignores the role of technological innovation in improving factor productivity--specifically labour. Furthermore, by ignoring the vital link between the market for labour and the market for food, capital-intensive strategies create distortions in the allocation of resources for the production of food. Throughout the developing world increased employment of the poor creates large increases in the demand for food. Elasticities of expenditure on food run as high as 0.62 to 1.06 for the poor in developing countries.[1] Unless sufficient supplies of food are

available to meet increased demand, prices increase and the real incomes of the poor decline concomitantly. The pursuit of a capital-intensive strategy of development therefore tends to place an undue burden on the poor and represents a failure for developing countries to exploit their comparative advantage in labour-intensive production.

In the context of a global economy, adjustment programmes should move to exploit that comparative advantage. Therefore, a major focus of structural adjustment should be towards accelerated long-term growth in employment of the poor. The link between increased employment and the demand for food suggests that adjustments promoting growth in agriculture can be especially effective in promoting overall growth. Given the present global debt crisis, a capital-saving agricultural strategy seems particularly appropriate. By raising the purchasing power of the poor through increased employment, agricultural growth gets food into the hands of the poor through market mechanisms. Over time, it can eliminate much of the need for policies such as food subsidies which distort the functioning of a developing economy.

The development of agriculture promotes employment of the poor through increased production of labour-intensive wage goods, particularly food. such a strategy emphasizes the widespread dissemination of new agricultural technology to increase yields and to improve the productivity of labour. The sheer size of the agricultural sector in most developing countries, accounting for 40 to 80% of total employment, ensures that agricultural growth, through its multiplier effects, will have important macroeconomic implications.

Technological change in agriculture increases the incomes of small landowning farmers. In Asia, these farmers typically spend a large proportion of their new incomes on

locally-produced, non-agricultural goods and services such as textile products, transportation and health services, and housing (see Figure 1). Production of these goods tends to be far more labour-intensive than in large-scale industry. As a result of the increased expenditures of landowning farmers, the rural poor gain a wide range of new, non-agricultural employment opportunities.

Accelerated agricultural growth thus leads to increased employment for the poor. As the poor begin to work more steadily, their purchasing power also rises. The resulting increased demand for food and other goods provides strong, indirect multiplier effects which stimulate new rounds of growth in the economy as a whole. Inexpensive food from increased production helps keep labour costs down and, thus, encourages employment growth in the urban sectors of the economy. The result is a general increase in domestic demand for labour-intensive, consumer goods.

Over time, firms producing such labour-intensive goods for domestic consumption can acquire the experience needed to compete on the world market. This is important inasmuch as any successful strategy of development requires the production of export goods to pay for a wide range of capital-intensive goods - for example, fertilizer and pesticides for agriculture, and steel and petrochemicals for industry. A strategy of technological change in agriculture, which stresses the increased production of primary and consumer goods, is able to contribute to these export needs.

Adjustment programmes can specifically address the needs of an agricultural development strategy. Devalued exchange rates to improve the balance of payments increase purchasing power in the rural areas and improve the export outlook for agricultural

production. Removing biases in the provision of credit, eliminating wage differences between urban and rural areas, and bringing domestic prices into parity with international prices all help to improve incentives to agricultural producers. More directly, changes in agricultural policies, such as reduction of export taxes and restructuring of agricultural markets, also provide incentives to agricultural producers.

Because technological change represents the primary engine of sustained agricultural growth, adjustment policies should be designed to promote farmers' adoption of new high-yield seed, fertilizer and water inputs. Price changes can contribute to this process only by providing more efficient market signals. Artificially higher prices promote growth in output at the expense of decreasing factor productivity, resulting in less output for additional levels of inputs. Technological change, on the other hand, increases the productivity of inputs. In this regard, the role of structural adjustments should be to rationalize markets and return prices to proper market levels. Budgetary savings from cutbacks in public expenditure and resources obtained through sectoral reform should then be directed towards investment in rural infrastructure, extension services and agricultural research in order to promote long-term agricultural growth.

Food policy and the poor

Food policies often play and integral role in adjustment programmes. Reduced food subsidies or the reorganization of agricultural commodity marketing programmes can mean substantial budgetary savings. For example, in Sri Lanka, policy reforms reduced food subsidies' share in total government expenditure from 15% in the mid-1970s to 3% in 1984.[2]

Scarce foreign exchange can also be saved by a currency devaluation which discourages agricultural imports and increases the demand for agricultural exports,

However, the radical changes involved in such adjustment programmes have costs that threaten the short-term welfare of the poor. Reductions in food subsidies increase the cost of food to those people who can least afford it: the poor. Similarly, a currency devaluation increases the cost of imported food and domestically produced substitutes. Data from various developing countries suggest that the poor often spend between 60 and 80% of their income on food (see Table 1). As food prices rise, the poor suffer a much greater reduction in their real purchasing power and, therefore, in their ability to procure food.

For example, data from India indicate that a price increase of 10% for foodgrains reduces foodgrain consumption of the poorest two deciles of the income distribution by 5.9%, but by only 0.2% for consumers in the top half of the most wealthy decile. Lower consumption by the poor is reflected partly be declining quantities of consumption and partly by reduced quality of food consumed, as the poor shift their consumption to food of lower nutritional value. A 10% increase in foodgrain prices creates a 33% decline in the expenditure on milk by the poor compared to only a 9% decline for the wealthy.[3]

As food prices rise, the wealthier classes also tend to shift their consumption patterns. While the wealtny classes spend a lower proportion of their overall budget on food than the poor, in absolute terms they spend a great deal more. In India the wealthy spend 2.5 times more per capita of foodgrains than the poor. Given this large absolute expenditure of foodgrains, an increase in the price of foodgrains necessarily results in a large, absolute shift in consumption of the wealthy out of other labour-intensive goods. The magnitude of that

shift and the high labour content of production combine to reduce seriously the employment of the poor. The result of this secondary effect of increased food prices is an even further reduction in the poor's purchasing power and, therefore, in their consumption of food.

Because the poor spend so much on food, lower prices through subsidies can significantly raise real incomes. Food subsidies account for between 15 and 25% of total income of the poor in a number of countries.[4] In addition, income in the form of food subsidies improves the nutritional status of special target groups, such as children, more than income in other forms.[5] Therefore, in spite of the demands on government budgets, food subsidies in some form are often essential in the short run for maintaining the nutritional status of the poor.

Subsidies can be made more efficient through selection of appropriate commodities to subsidize, reorganizing distribution practices and in targeting subsidies towards specific population groups. In Sri Lanka, in the context of economic reforms, attempts to re-target food subsidies under a food stamp scheme restricted transfers to half of all households formerly eligible for subsidies.[6]

However, these changes had a significant negative impact on the consumption of the poor. As a result of these reforms in Sri Lanka, the lowest quintile of the population in terms of food expenditure received only 38% of the total food stamp outlay. After changing to foodstamps, while nearly 75% of Sri Lankan households maintained or increased per capita caloric consumption, per capita consumption of the most poor declined by 8%.

Food aid and long-term growth

Food aid can be particularly useful as a means of protecting the poor from the adjustment process. It can provide the means to balance the tradeoffs inherent in adjustment policies, such as between continued food subsidies to consumers and improved price incentives to food producers. Furthermore, in the transition to an agricultural strategy, production may lag behind any initial increases in demand for food. In addition, foreign exchange may be unavailable to meet those short-term food needs through increased commercial imports. It may be necessary in the short run to provide assistance in the form of food aid. In the long run, agricultural growth should provide the necessary domestic production and foreign exchange to meet that increasing demand.

It is often argued, however, that food aid represents a poor substitute for financial development assistance. Because financial assistance allows flexibility in market decisions, it is argued that it provides food more efficiently than food aid with its added administrative baggage. Therefore, successful use of food aid depends on the ability to ensure that it is additional to financial aid, it may still not make a net contribution to economic growth. Poorly managed distribution of food aid can suppress incentives to increased domestic agricultural production and can create a dependence on imported commodities.

By segmenting the market for food, charging higher prices to countries with relatively inelastic demand and lower prices to countries with more elastic demand, food aid can be used as an additional form of development assistance. If a certain quantity of a given supply of food can be reserved for low-income people at a low price, their consumption will jump sharply. Food aid from developed countries can then be used as an additional source of

low-priced food to meet this increased demand. The remaining supplies can be sold to high-income, demand-inelastic countries at prices that more than compensate producers for the lower prices paid by the poor.

Within developing countries the demand for food by the poor is highly elastic, with a price elasticity of demand of about -0.8, while the demand of the most wealthy is quite inelastic, with a price elasticity of demand of only -0.1 or less.[7] Segmented markets allow for low-priced food from food aid to be sold to the poor without depressing incentives to domestic production. Because low prices of food aid create additional demand, domestic farmers can maintain their markets by maintaining high average prices for domestically produced food through the sale of food to more wealthy consumers.

In addition to providing increased supplies of food to poor consumers, food aid can help facilitate growth in agriculture. Through the mechanism of food-for-work programmes, food aid can help meet one of the most pressing agricultural development needs in many African and Asian countries: the lack of rural infrastructure. One of the principal contributions of food-for work programmes has been the building of better roads, irrigation and drainage systems, and communications networks. In effect, food-for-work programmes to build rural infrastructure can decrease the cost of food production more than the potential depressing effect of food aid on producer prices. At the same time the very positive impact of these programmes on the rural infrastructure helps pave the way for the multiplier effects of agricultural growth to expand income and employment in other sectors of the economy.

For example, in Bangladesh it is estimated that food-for-work programmes increased the gross value of crop production by 27% in some areas, with increases of 11.9% in the per acre employment of labour and 41% for fertilizer (see Table 2). These date indicate that food aid in the form of food-for-work programmes can have a significant impact on the adoption of modern agricultural technology.

The capacity of developing countries to absorb increased food aid depends on improvements in distribution channels. These structures are essential not only for ensuring the most efficient use of food aid as long-term shortages caused by increases in demand from increased employment or fluctuations in domestic production. However, distribution channels can only be built over time and require reasonable assurances on long-term aid. this requirement places a burden on the developed countries. Donor countries should do everything in their power to provide reliable amounts of food aid over a sufficiently long period so that development goals can be achieved.

If used properly, food aid does not contribute to distortions in the agricultural sector. To the extent that current development strategies overemphasize capital goods production at the expense of labour and food, distortions already exist in the allocation of resources to agriculture. In these cases, food aid can be used to support structural improvements designed to return developing countries to a new equilibrium of more labour-intensive production.

Conclusions

Structural adjustments are necessary to eliminate distortions in resource use in many developing economies. however, in pursuing these reforms, developing countries should not

lose sight of the long-term goals of economic development. To these ends it is essential that structural adjustment programmes move developing countries towards their comparative advantage in labour-intensive production. Given the requirements for increased employment and the linkages between the markets for food and labour, structural adjustments should provide support for a strategy that emphasizes agricultural growth. This can best be accomplished by policies that facilitate the widespread diffusion of the basic elements of the modern agricultural technology - new seeds, fertilizer and water inputs.

It is important to realize that the losses incurred by the poor during the course of structural adjustment represent very real setbacks to the development process as a whole. It is, therefore, incumbent on both developing and developed countries to cooperate in the design and implementation of adjustment policies which protect the status of the poor and lead to an equitable pattern of growth. For their part, developing countries should give priority to an agricultural strategy of development. They must then make the hard policy decisions with respect to the allocation of scarce human and financial resources to promote such a policy. Developed countries, on the other hand, should provide reliable supplies of food aid and assistance, both to mitigate the negative impact of adjustments on the poor and to support a long-term pattern of development. From the dynamics of such a partnership between developing and developed countries, the world could conceivably evolve into a place where enough food is an accepted fact for all peoples.

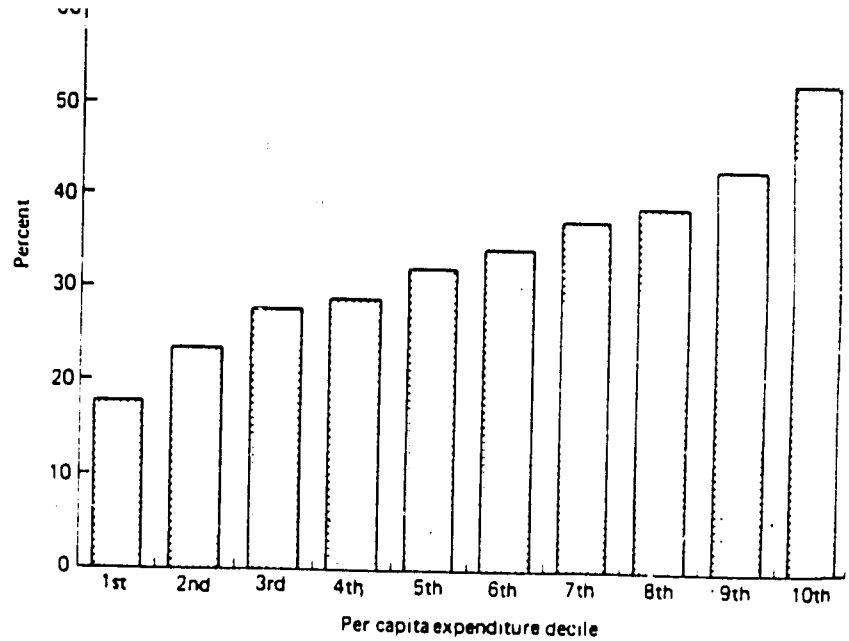

Figure 1. Marginal budget shares for locally produced non-food goods and services by expenditure level, Muda irrigation project area, Malaysia, 1973.

Source: Peter B.R. Hazell and Ailsa Roell, *Rural Growth Linkages: Household Expenditure Patterns in Malaysia and Nigeria*, Research Report 41, International Food Policy Research Institute, Washington, DC, 1983.

Table 1. Average budget shares spent on food among the poor in selected cities and countries.

City/country	Population group	Budget share	Source
Bogota, Colombia	Lowest 25%	0.62	Musgrove[4]
Barranquilla, Colombia	Lowest 25%	0.65	Musgrove[4]
Cali, Colombia	Lowest 25%	0.68	Musgrove[4]
Maracaibo, Venezuela	Lowest 25%	0.58	Musgrove[4]
Brazil (urban)	Lowest 30%	0.51	Gray[5]
Brazil (rural)	Lowest 30%	0.65	Gray[5]
India	Lowest 20%	0.71	Mellor[6]
Sri Lanka	Lowest 10%	0.79	Sahn[7]
Thailand	Lowest 10%	0.67	Trairatvorakul[8]

Source: Per Pinstrup-Andersen, "Agricultural policy and human nutrition," paper prepared for Agricultural Policy Workshop, Santiago, Dominican Republic, International Food Policy Research Institute, Washington, DC, 1985.

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Dairy products	0.2
Pulses	0.2
Other commodities	0.1

1 Provisional: for DAC/OECD countries only, the main donors of food aid.
2 Provisional figures: July/June.

Source: World Food Program, 1990 Food Aid Review (Rome: World Food Program, 1990), p. 21.

[1989]

Box 10. Projection of Food Aid Needs

There is no single generally accepted methodology for estimating food aid needs. A review of recent efforts to estimate global, regional and country-specific food trade and food aid needs was organized in October 1988 under the aegis of the U.S. National Research Council.

The range of estimates generated by different groups of specialists, based on different definitions, range from 10 million to 50 million metric tons (MMT) per year.

10 MMT	actual food aid delivery 1987-88
20 MMT	estimated aid to meet food price stabilization needs in 1990; also, low range estimates of food price stabilization needs for 1995
30 MMT	average annual price stabilization needs for 1995-2000
40 MMT	high range estimates of annual food price stabilization needs 1995-2000
50 MMT	average annual food aid to achieve price stabilization plus food aid for hunger/nutritional adequacy 1995-2000

Variations among the estimates arise for several reasons. One is that each model includes or excluded different countries from its analysis. For example, Korea, which has the ability to pay for its import needs, is not in every analysis although it still receives food aid shipments. Similarly, China, which is largely self-sufficient, also receives food aid and is not always included. This inclusion or exclusion of countries from any analysis significantly alters its overall projections. In spite of this, there is surprising agreement among the models on aggregate and regional trade projections. Consequently these projections seemed reasonably useful for policy planning, at least as assessed by the experts at the workshop.

The commitment of the industrial countries to meet food aid needs, however, falls short of the minimum food stabilization requirements of the poorest countries. Current food aid shipments (10-11 MMT in 1987) meet only half of these needs. Satisfying the lower estimates of stabilization needs would therefore require a doubling of food aid in the near term. It was estimated that existing calorie deficiencies owing to lack of purchasing power amount to roughly 15-18 MMT of cereals per year. Assuming a perfect targeting of food aid to poorest households suffering from such deficiencies, and further assuming that each metric ton will result in a net increase in consumption within those households of one-half of each metric ton targeted to such households because of an estimated 50 percent substitution "leakage" factor, 30-36 MMT of grain would have to be targeted on these households. This would result in a net increase in market demand of 15-18 MMT among the targeted population and the use of the other 15-18 MMT to meet market demand so as to stabilize, but not reduce, local food prices, while saving foreign exchange expenditures.

Current levels of food aid, representing only 50 percent of near-term minimum stabilization needs, reflect political priorities and constraints on the part of the industrial countries. Although doubling food aid could reduce hunger without distorting global supply or price conditions during the coming decade, it would not happen automatically, and to be

effective it would have to be allocated according to need. Moreover, this doubling in itself, even if allocated to countries in most need, might still not reach the people targeted, since they are left unaffected by many current food aid modalities. The targeting task requires additional resources *and* mechanisms of distribution through food for work, food stamps, or entitlement measures, all of which target food beyond those currently included. Innovative mechanisms might improve the ability to distribute food through the private sector at no additional government cost, and achieve price stabilization (and linked development) and nutritional objectives.

The history of food aid availability shows that it has been governed substantially by donor supply and trade pressures. This orientation has tended to keep food aid levels lower than estimated needs. Global food stabilization goals compete with these other pressures, as seen in the 1973-74 period of tight supplies, quite unfavorably. While donors are concerned with world hunger--it is a major political issue in the industrial countries--other forces, such as domestic economic priorities, are ultimately more important policy determinants. In addition, political and diplomatic concerns also have led to substantial political control over food aid allocations. Skepticism was expressed by modeling experts, therefore, regarding donor willingness to add substantial resources to food aid, even for innovative targeted programs so as to satisfy minimum nutritional needs.

Source: Board on Science and Technology for International Development, Food Aid Projections for the Decade of the 1990s (Washington, DC: National Research Council, 1989), pp. 5-7.

[1985]

Chapter 16

Food Aid as a Development Resource

Edward J. Clay and Hans W. Singer

This survey is primarily concerned with the academic and policy literature since 1977. Perhaps an explanation is required, therefore, of why it is appropriate now to look at the literature for this relatively short period of less than a decade. There were valuable 'stock taking' reviews in the late 1970s which provided a sense of the state of the debate on food aid and development, such as the earlier survey by Singer, sponsored by the World Food Programme, summarised in the article by Maxwell and Singer and Isenman and Singer's survey on the disincentive debate.[1,2,3] Others, notably Wallerstein and Hopkins, have documented the political and institutional history of the system of food aid relationships that emerged between 1950 and 1975.[4,5] These studies, and the literature seeking to stimulate thinking and influence wider opinion on world food problems, were concerned with issues that had come to be seen as important before and during the 'world food crisis' of 1972-74.[6,7] But unavoidably, their discussion referred to the extant literature, which largely related to the period prior to the crisis. India had been the largest recipient of cereals food aid.[8] Food aid had played an important role in the Vietnam conflict.[9] Market conditions and the responses of aid donors had contributed to a serious food security problem for some of the least developed countries.[10,11]

Undertaking this survey has made us more aware of that crisis as representing a watershed in the history of food aid.[12] The subsequent explosive growth of the literature and the newer preoccupations within it are in part a response of academics and development lobbyists in developed countries and of the international community to perceptions of that crisis. For example, as this survey shows, interest has increased considerably in issues such as food security, emergencies and the consumption, nutritional and poverty dimensions of national and international food problems. There have also been changes in the world food aid system. Amongst the most important to which writers draw attention are: the emergence of a more complex set of donor-recipient relationships, a higher proportion of resources channelled multilaterally and a shift of emphasis from programme aid for sale to emergency and project uses. The smaller volume of food aid is now more effectively regulated by international commitments and the legislative procedures of donor countries. There has been a major reallocation of food aid away from earlier recipients, many of which have joined the ranks of the 'middle income' or newly industrialising countries, particularly towards the least developed countries of sub-Saharan Africa. These changes are discussed more fully in Chapter 2.[13]

A decade on from the World Food Conference, most donor agencies are engaged in a reassessment of their food aid programmes, their impact on the more recently important recipients of food aid and by implication of the changes made in the mid-1970s.[14,15] The moment, therefore, appears particularly appropriate for a resurvey of the literature, since a process of reassessment is underway which is providing substantial new data on the impact of food aid. The wider controversy about food aid has, if anything, become more intense

in recent years, with critical attention focusing again on the role of project food aid.[16,17,18,19]

1. Overview

This chapter is concerned with the overall question of whether and to what extent food aid is a development resource. The various concepts of the 'additionality' of food aid are examined, giving rise to a discussion of its comparability with other forms of aid: to what extent is it an extra resource made available by donors; how far, if at all, does it poach resources from 'financial aid' programmes; if it is regarded purely as balance of payments support, rather than as a source of additional food what may its effects be on donor agricultural trading interests and recipient agricultural and fiscal policies? The policies and decisions of recipient governments are seen to be crucial in securing a developmental impact for food aid, as are the motives and interests of the donor community. Some writers contend that the original PL 480 legislation in the United States and the international arrangements for regulating food aid confined the world food aid system within a mould of donor food power and recipient dependency which analysts have only been questioning since the world food crisis and Conference in the mid-1970s. The predominant features of the new mould which many advocate are a greater degree of multilateral programming and more emphasis on development criteria in the choice of recipient countries and target groups. But dependency, and the related criticism that food aid has failed to be self-terminating, continue to exercise some writers, who still also find evidence of donor self-interest alongside the new humanitarian concerns.

2. Food Aid as a Resource Transfer

Food aid: an additional resource?

Food aid may offer an opportunity to employ an 'additional' resource for economic and social development. This argument is frequently made in three distinct ways. First, food aid is, at least partially, sometimes wholly, an 'additional' resource transfer from developed countries beyond what would be available in other forms of development assistance. Second, food aid provides additional food for countries or projects. Third, food aid is an additional channel of assistance from the viewpoint of recipient countries. Much controversy and some confusion surrounding the role of food aid as a resource transfer concerns one or more of these concepts of additionality. Looking at the way they are applied or presumed provides a focus for clarifying some issues such as: the relative merits of food aid and 'financial aid'; the controversy as to whether food aid should or should not be used to provide balance of payments support; the opportunities and constraints imposed by the way bilateral and multilateral food aid is administered.

Food aid and 'financial aid'

Many writers draw a distinction between food and financial aid, pointing to the relative merits or demerits of each as a form of assistance. Some argue that food aid is at least partially additional to financial aid, i.e. total aid would be less if no food aid were provided.[20,21,22,23] This proposition reflects the origins of food aid in surplus disposal by developed country food exporting nations: 'food aid, the good face of what is still partly surplus disposal, became an accepted component of international food trade.'[24]

This view is strengthened by the fact that bilateral food aid is often funded and administered both with the involvement of Ministries of Agriculture and separately from other forms of aid such as capital aid and technical assistance.[25,26,27] Similarly, within the multilateral system, we see the World Bank, including IDA and the Regional Development Banks, taking care of financial aid and the WFP providing food aid.[28,29]

There is much speculation in the literature as to the truth of this proposition of additionality.[30] Estimates from the early days of PL 480 suggest that as much as half of Title I long term credits would have been provided under alternative special U.S. programmes. The participation in the Food Aid Conventions and in supporting international programmes of countries which did not have food surpluses and provided cash for food aid out of the aid budget has been seen as involving some trade-off between food aid and other development assistance.[31,32,33] However, the better implementation of international targets for food aid vis-a-vis financial aid may be grounds for thinking that at least some food aid is additional.[34] Aid budgetary practice in different countries, for example the extent to which aid allocations are linked to GNP or food aid levels are fixed in bargaining processes independent of or part of the total aid budget process, will influence the trade-offs.[35]

This debate, however, is not particularly strong on analytical and empirical evidence. The issue is treated largely as a matter of political judgment, which involves the hypothetical question, what would happen to financial aid if food aid did not exist. Those who see food aid as additional to financial aid argue that food aid has more political support in the donor countries, particularly in the farming communities but also amongst humanitarian and

charitable groups.[36,37,38] The central place of this additionality proposition in debates on food aid would appear to invite further research on aid budgetary practice in donor countries. Pragmatically, the view which is taken on the additionality question might be expected to influence proposals for the levels of food aid and burden sharing amongst donor countries.

The institutional separation of food aid from other forms of development assistance lumped together as 'financial aid' has perhaps the consequence of creating a 'food aid' versus 'financial aid' dichotomy. This dichotomy in turn fosters the presumption that food aid, doubly tied as a commodity and by source (if bilateral), is an inferior 'second best form' of assistance to financial aid.[39,40]

The notion of the 'second best', which implies some ideal, or first 'best', set of policy measures that would ensure an optimal allocation of resources, derives from economic analysis.[41] Writers seeking to assess the effectiveness of food aid (or aid more generally) as a resource transfer have tended to adopt their optimalist model of analysis and to make a comparison with some idealised, untied, wholly concessionary grant transfer, i.e. a gift of foreign exchange which would maximise the transfer value to the recipient economy of the resource transfer. The value-cost ratios of the untied financial is unity, i.e. aid worth one dollar to the recipient costs the donor one dollar. Departure from this ideal reduces the efficiency of the transfer from the viewpoint of the donor and the recipient. A comparative measure of efficiency for inferior forms of transfer is how far the ratio is below the maximum value of one.[42,43]

Some writers following this line of analysis have inferred that, instead of doubly tied food aid, rich countries should provide untied financial aid and recipients could choose whether they needed food or not.[44,45] But the leap from economic theory to reality involves many assumptions, not least about the behaviour of recipient country governments as well as donors. Others, however, while arguing that food aid may be inferior to financial aid, also say that the former is acceptable because it is partly additional.[46] The more difficult analysis of the efficiency implications of partial substitution between food and other forms of development assistance as these exist (also frequently tied to commodities, technical services and by source) appears not to have been attempted.

The currently dominant view appears to abe that too sharp a distinction between food transfers and other forms of aid ('financial aid') is undesirable. There is much stress on the need for closer cooperation within bilateral agencies and between multilateral (and bilateral) institutions in administering the different forms of aid.[47,48,49,50,51] The increased emphasis on food aid as an international resource transfer in balance of payments terms[52,53,54,55,56,57,58] as a budgetary resource for recipient governments generated by sales and as an income transfer to target populations of project food aid,[59,60,61] are blurring the distinction between food and other aid transfers. The emphasis on strategies or sectoral planning of external support to the agricultural and food sectors of developing countries, including food aid, is also breaking down the institutional barriers which separate the administration of different forms of aid.[62,63] An early expression of the current conventional wisdom was that of the U.S. Senate Committee on Agriculture in 1978

reviewing food aid in the context of the new legislative provisions on food for development (PL 480, Title III):

> 'Food aid is only one segment of a large complex set of linkages in the development process and should be treated as a coordinated "country package" approach to maximise effective use of limited development resources (emphasis added).'[64]

These fresh or re-emphasised thematic concerns, which have significantly reshaped thinking about food aid, are considered in the subsequent sections.

Additional Food or Balance of Payments Support?

Where there are hungry people, people and nations too poor to meet their food requirements, food aid can at least partly fill such a gap and contribute directly to combatting world hunger. However, if food aid substituted for commercial imports that the recipient government would otherwise have made then the food would be nearly equivalent to a gift of foreign exchange and provide direct short term balance of payments support. The proviso 'nearly equivalent' is important because realistically, unless a beneficiary country received a grant of foreign exchange tied only to food purchases, but otherwise unrestricted by other conditions, then the practical differences between an aid transfer and a commercial purchase on timing, detailed commodity characteristics, administrative requirements of negotiation, operation and monitoring are likely to be significant.[65] The alternative possibilities of providing additional food, the second notion of additionality, and using food aid as a way to free up the limited foreign exchange resources of most developing countries, have found advocates since the earliest days of food aid.[66,67] What is striking in the recent literature is the shift in favour of the use of food aid for balance of payments support and more extensive attempts to establish empirically the degree to which food aid

has actually substituted for commercial imports.[68,69] These developments are striking since the original concept of food aid was, and the formal, internationally agreed position is, that food aid should be additional to normal commercial import requirements.

This second concept of additionality is deeply entrenched in the national legislation and formal international agreements that regulate food aid policy. The original concept of food aid, as set out in the enabling legislation (PL 480) for U.S. food aid[70] and subsequently in the FAO's 'Principles of Surplus Disposal', was that it should not replace commercial imports and that 'usual marketing requirements' (UMR) should be fulfilled before food aid is allocated to particular countries.[71,72] The origins of this requirement of additionality lay in U.S. congressional fears of competition between public programmes and private traders. There were also U.S. fears of competitive dumping by exporting countries and concern that food aid would violate those basic free trade principles which it sought to make dominant in the post war period.[73] The cardinal principles were then established that food aid must be additional to normal commercial imports and that additional development must be directly based on the food actually received as aid. The formal requirement that food aid should be additional to 'normal' imports therefore has much to do with safeguarding developed country interests and institutionalising their preference for orderly markets, and little to do with development.[74,75,76]

The developmental case made in favour of the use of food aid for balance of payments purposes has typically two components which find parallel counter arguments. Developing countries are expected to benefit most from food aid when it substitutes for commercial purposes which they would have made anyway, because then it is almost as good

as untied financial aid, freeing foreign exchange for the other imports, including investment goods, raw materials and energy. In this case any additional development effect is not based on the additional food imported but on the additional capital goods or other imports financed with the precious foreign exchange freed by the reduction in commercial imports. There is, of course, the possibility that some, or in an extreme case even all, of these additional imports would also consist of food depending on the priority of the recipient country for the use of the freed foreign exchange, i.e. if circumstances warrant, then the range of possible outcomes includes that of complete additionality. The case rests on a positive presumption about the way the recipient government will use the freed foreign exchange resource.[77,78,79,80,81,82] The counter argument is that the provision of food does not directly contribute to feeding hungry people, or to social or human resource development, but may encourage recipient governments to sustain overvalued exchange rates, thereby avoiding structural adjustment with all the long term effects that follow from a less efficient development path.[83] These views find echo in some official statements, for example that of a British Foreign Secretary[84] and the European Communities Council of Ministers.[85]

The second argument, particularly, in favour of using large scale programme food aid for balance of payments support is that, by avoiding any automatic increase in the level of food imports, the potential direct negative effects on the domestic food sector are minimised.[86,87] This argument is again countered by writers who see balance of payments support for food imports as encouraging structural import dependence, whereas the

provision of additional resources for developmental purposes can be directed to meeting short run deficits that could not be financed or to other investment activities.[88]

Some writers, favouring the use of food aid as balance of payments support, have indicated that the additional development made possible should have the indirect effect of increasing purchasing power for commercial imports, so that even those commercial exporters originally displaced will be compensated or, in the long run, even better off. Nevertheless, the related argument that food aid creates a market for subsequent commercial imports has also been frequently used as a criticism of food aid for creating dependency.[89]

The divergence of opinion on these issues turns on the assumptions made about the behaviour of recipient governments and the ability of donors to define correctly the form and scope of effective conditionality.[90] That this is a matter of value judgment is suggested by the way the views of analysts appear to cluster in terms of their wider political and economic assessment of the character of Third World governments, the need for relatively untied aid and the appropriate role for governmental intervention in markets. Thus those such as the Brandt Commission, stressing the need for greater North-South transfers in the context of pressures created by the World recession since 1979, take a broadly consistent position favouring the (greater) use of food aid for balance of payments support in the context of structural adjustment.[91,92,93]

In contrast, many critics also place a strong emphasis on the efficiency gains from economic liberalisation in developing countries, including a more flexible market responsive exchange rate policy which they see as hindered by balance of payments support.[94,95]

Significantly, the weight of recent case experience cited by those stressing the merits and demerits of food aid as a foreign exchange transfer appears to be different. Perhaps this points to the need for pragmatism and responsiveness to country and even regional circumstances, which, as a number of writers argue, is hampered if not precluded by the existing guidelines on surplus disposal and the enabling legislation and regulations of some donor agencies.[96,97,98]

Has food aid actually substituted for commercial imports? A number of recent studies have explored this question through econometric modelling and careful statistical analysis for individual countries. The balance of evidence suggests that food aid did de facto substitute to a significant degree for commercial imports in a number of important importing countries such as Egypt,[99,100,101,102] Sri Lanka,[103,104] and South Korea[105], whereas in India, for over 20 years the largest recipient, less than a quarter of cereals food aid substituted for commercial purchases. Broad estimates that more than half of cereals food aid has substituted for commercial imports,[106] whilst supported by case study data, ultimately nevertheless continue to rest on a judgment about what would have been the importing country's response in the longer run to sustained and radically different donor policies. The interpretive case histories and quantitative estimates on the substitution issue are both heavily dependent on observed importing country behaviour in response to relatively short run, but large, changes in overall food aid availabilities (such as the cut-back which occurred in the early 1970s) and also to unilateral donor decisions to suspend aid to particular countries.[107]

The increase in research activity on these issues will perhaps show in due course to what extent apparently conflicting views reflect a balance of different experiences and the interpretation of experiences reflecting differences in economic philosophy. What is not in doubt is that views on the balance of payments support versus additional food question are dependent on assumptions about donor-recipient relations in the context of the past and present system of food aid relationships and the role of food within the importing country.

Institutions and Allocations

Food aid: the institutional dimension

Food aid is unique amongst the various forms of development cooperation in that donor (exporting) countries and the international community have evolved a distinctive set of arrangements for management, regulation and consultation separate from those which encompass other forms of aid.[108,109] Some writers have characterised this set of relationships as the world food aid system with its own, to some degree separate, characteristics. This sense of separateness provides the third sense of additionality. From the viewpoint of recipient countries, food aid represents a distinct aid channel with different possibilities and problems, not least because it involves different agencies, or sections within agencies, and different rules.

The important subject of the history of these institutions and relationships falls outside the scope of this study, whose primary focus is the literature on the economics of food aid. But there is a growing literature concerned with 'institutional' or more broadly 'political' aspects of the complex system of global food aid relationships,[110,111,112,113,114,115] which considers factors that influence the

allocation of resources to food aid programmes and the distribution of these resources between different channels: bilateral (government to government), multilateral and voluntary agencies. Issues of the use and impact of commodities are also discussed. This literature complements the more narrowly economic literature in asking questions about institutional arrangements and allocations in potentially and actually shaping the impact of food aid.

A world food system

An important body of writing is concerned with the evolution since the Second World War of the complex system of food aid relationships, to a considerable degree separate from those for other forms of development assistance, making food aid a separate, and therefore from the individual recipient viewpoint, an additional, channel of assistance.[116,117,118,119] A transition is documented from preoccupation with surplus disposal to the use of surpluses in the context of the political and economic dimensions of foreign policy and a growing concern about economic development and humanitarian problems of the emergent Third World. As well as charting the evolution of the national policies of food aid donors, authors point to the significance of the establishment and growth of multilateral food aid channels. There is also a parallel growth of institutional arrangements for what Wallerstein calls 'bilateral aid coordinating mechanisms', particularly the Food Aid Convention, for the regulation of food aid and burden-sharing. Writers also draw attention to the importance of multilateral channels, the WFP and the IEFR, and international consultative mechanisms such as the CFA, as widening the basis of donor support for food aid to include food importing developed countries.[120,121,122] Finally,

considerable attention is given in the literature to the role of the 'world food crisis' of 1972-74 in exposing the limitations of the system of food aid relationships and institutions in coping with global crisis. Writers highly critical of food aid wrote in particular on the tragic developments of this period, and the interpretation of and commentary on the political and economic significance of these events by national administrators and politicians.[123,124,125,126,127,128]

However, most of the academic literature documents in detail developments only up to 1974-75, the period of the World Food Conference. This poses the question of the extent to which subsequent developments, responses to crises and different circumstances, will lead to a substantive reassessment of the food aid system. Writers attempting to characterise food aid as a set of economic and political relationships broadly agreed on a number of aspects of a food aid system as it then existed. Food aid having its roots in surplus disposal was still characterised by instability and unreliability of flows. The programming of food aid was therefore actually procyclical, contributing to world food insecurity, rather than anticyclical in impact. Second, multilateral food aid was of limited significance, so that whatever the theoretical arguments in favour or against, practical assessment was difficult.[129] Third, the allocation of bilateral food aid was overwhelmingly dominated by political considerations. The geographical distribution therefore was not in accord with needs defined in economic or humanitarian terms.[130] Fourth, food aid was seen by many as having created relationships of political and economic dependency by recipients on donors, which represented an obstacle to self-reliant development in recipient countries and provided a political weapon, 'food power', in the hands of donors.[131,132,133,134]

Learning from the World Food Crisis

Only now are attempts being made to reassess the record in terms of developments in the decade since, and subsequent to, the World Food Conference. No overall attempt at reassessment has been undertaken, but writers have addressed one or more of the four major criticisms noted above of the food aid system of the preceding two decades. An important question is the extent to which there has been learning, from these early experiences, that has significantly altered practice in terms of international institutions and the activities of donor and recipient countries.[135]

Food aid and food security is discussed extensively elsewhere. The separate importance given in discussions of international food policy and food aid to this issue is itself a reflection of the extent of learning within the international community about the problem of food insecurity, dramatically demonstrated by the events of 1972-74.[136] The increase in minimum contributions (commitments) under the Food Aid Convention in 1980 is greatly reducing the procyclical implications of large fluctuations in overall cereal food aid flows.[137] Some writers have drawn attention to other ways in which food exporters and food aid donors are managing their trade and aid flows individually and through informal coordination, which makes repetition of earlier events unlikely.[138] The question of whether food aid is used effectively to stabilise individual food systems and economic activity has been extensively considered and is discussed elsewhere. The overall impression created by individual country assessments and evaluation of donor programmes is that there is still considerable scope for making donor programming much more sensitive to the changing circumstances of individual countries.[139] Positively, the increasing share of food aid

provided on an emergency basis, and the establishment of institutional arrangements to provide information on emergencies, would appear to be another aspect of the international attempt to learn from earlier experiences along lines suggested by the World Food Conference. However, these developments have yet to receive systematic attention in the literature apart from official international and agency documentation.[140]

Growing multilateralism

Writers have drawn attention to the increasing share of a broadly constant pool of food aid resources which are being channelled multilaterally.[141,142,143] This shift in the channelling of resources is yet to be reflected fully in the food aid literature, still dominated by documentation of the period up to 1975.[144] The potentially positive implication of these developments is indicated by writers in terms of:

(a) resource pooling, where donors are providing a range of surplus commodities;

(b) economies of scale for smaller donors;

(c) partial additionality of multilateral food aid where this involves burden-sharing beyond the small group of temperate zone food exporting countries;

(d) opportunities for triangular transactions involving Third World exporters.

From the specific viewpoint of recipients, there are four obvious potential advantages:

(a) recipients have prior knowledge of terms and conditions;

(b) multilateral assistance can eliminate or substantially reduce recipient vulnerability to major changes in individual donor food policies;

(c) high level of concessionality, typically grant assistance;

(d) commodity flexibility or at least a genuine attempt to respect recipient needs without regard to short run surplus disposal and longer term agricultural trade development considerations.[145,146]

The potential disadvantages for recipients could lie in the loss of their margin of manoeuvre provided from dealing with a greater number of donors with a range of criteria.[147] Second, historically there are severe project restrictions on the uses of multilateral food aid. Many writers have drawn attention to the separate channelling of different resources (food, investment finance, balance of payment support and technical cooperation for different sectors--agriculture, health, etc.) within the family of international agencies, whereas bilateral aid is more typically the responsibility of separate sections within a national institution for development cooperation.[148] Attention has also been drawn to other practical problems of multilateral food aid. First, the allocative process for multilateral assistance may create problems of cost-effectiveness. The issue is, as one writer notes, linked to that of overall scale of operation.[149] Second, writers have been critical of the practical effectiveness of multilateral, as well as bilateral, programmes citing instances of logistical difficulties, slowness of response in relation to emergencies, problems of project design and implementation.[150,151] Issues are raised which have to be considered in relation to different uses of food aid and the evaluation record for bilateral as well as multilateral assistance. Other assessments of bilateral programmes have recommended an increased use of multilateral channels as being more effective in many of the uses of food aid than bilateral government to government assistance.[152,153] One writer, in commenting on the shift of resources to multilateral channels in the mid-1970s, commented: 'The political significance of these data appear rather straightforward. The level of multilateral food aid commitments is meaningful, in spite of its small absolute size, both as

an indication of donor commitment and as a means of promoting other desirable bilateral policies.'[154]

The search for development impact

The theme which preoccupies much of the recent policy literature is that of increasing the developmental effectiveness of food aid.[155,156,157] The implication of this theme is that the past record indicates the need for such improvement and indicates ways in which this can be achieved. Greater prominence is given to developmental criteria in regulatory and official policy statements on food aid.[158] For example, the legislation under which U.S. food aid is administered now explicitly requires three quarters of programme food aid to be targeted on low income countries, whilst an increasing proportion of these flows should be made under longer term, Title III food for development, agreements.[159,160] Donors have explored ways in which allocations can be improved by the use of formal criteria, such as the allocation model developed by the Australian Development Assistance Bureau.[161] Donors have made formal commitments to multiannual or longer term programming of resources in relation to agriculture and food sector planning by recipients.[162,163,164,165] There is now an extensive literature sponsored by donors and international agencies on food aid needs and requirements. This extensive, official, documented concern to make food aid a more effective tool for development is an indication of past inadequacies and the continuing need to assert developmental priorities against other influences on food aid policy.[166,167]

At the same time, writers continue to note a geopolitical distribution of food aid that strongly reflects foreign policy and export promotion influences unrelated to development

concerns.[168,169,170] The other criticisms concerning food aid policies relate to the dependency relationships created by food aid and the economic and social costs of abuse of these relationships. There are two distinct issues raised in such criticism of food aid. First, has the use of food aid in the pursuit of political influence impacted negatively on recipient countries? Second, how is the nature of the food aid dependency defined which has potentially damaging economic and social implications for developing countries?

On the first issue, there are country examples where food aid policy, even in crisis or emergency situations appears to have been effected with potentially damaging implications for the recipient country. A well documented example is Bangladesh during the period in which internal food crisis and international food scarcity coincided, 1972-74. One writer, in a wider review of the question of the aid relationships of Bangladesh, comments: 'It is not a trivial matter for a small country with a tenuous food balance to be caught up in the political concerns of other countries.'[171,172,173,174] Such experiences have created a broad disposition to prefer multilateral or internationally coordinated food aid, particularly in emergency situations.[175,176]

The dependency debate and 'self-termination'

The second related criticism of food aid, which draws upon such examples, is that it creates economic and political dependency. The criticism that food aid creates or fosters dependency relationships between donor and recipient economy arises in two distinct ways. First, dependency is a key concept in a political economy that is concerned with the totality of relationships between developed (core, metropolitan) and developing (periphery) economies.[177] It is not clear that testable hypotheses could be derived from such theories,

which are distinct from more specific criticisms of the impact of food aid, such as its disincentive effects on local production or the changes caused in consumption habits which shift demand from local to imported goods,[178] encouraging or permitting policies that neglect agriculture and rural development and reinforce structural biases within the economy that intensify inequality and poverty.[179,180,181] These impact issues are considered in subsequent chapters.

A second more specific concern is that food aid has not proved to be self-terminating, implying that many developing countries became economically and hence politically dependent on the continuation of food aid to finance food imports.[182] The literature often contains confusion of self-sufficiency in food, and self-reliance where self-help measures can result in self-termination of the need for food aid. These concepts are not identical. Increasing domestic food production to replace imports is one way of using food aid to reduce dependence, but is not the only way. If food aid helps to generate overall development, including increased exports, then the recipient country might, without being self-sufficient in food, increasingly replace food aid with commercial imports. That is the broader rationale of 'market development', explicit or implicit objective of some bilateral food aid programmes. Unless this is restricted to the specific commercial market of the food aid donor, it is compatible--in fact it merges with--the development objectives of food aid. Something like this can be said to have happened in South Korea and Taiwan, both formerly major recipients of food aid.[183,184]

A different issue of dependency arises in relation to project food aid.[185,186] Additional food resources may be provided to support existing institutions or new projects

which would not otherwise have received local resources. Unless the projects are designed in such a way that local resources can eventually replace external support, then specific and serious problems of 'micro' dependency may arise. The issue of self-termination is therefore quite different in considering the overall food system and support for specific interventions.[187]

The volume of food aid has declined since the late 1960s, and there has been a significant redistribution of resources since the mid-1970s, thus implying the termination or reduction in food aid flows to many formerly significant recipients.[188,189,190] Nevertheless, the alleged failure of food aid to be self-terminating is often seen as evidence of its overall failure or the creation of an economic problem. But as much of the official rhetoric of food aid describes it as 'temporary' or 'transitional' this criticism could be described as a backwash effect of the rhetoric.[191] But the opposite criticism is also frequently made that food aid is too short term and not sufficiently dependable to allow proper planning by recipients. These criticisms have fostered the more recent emphasis on the need for continuity of supply, multi-year commitments, reserves to guarantee supply and the need to build-in food aid as one element among others of external support, and also as an element of food security in the national planning and policy-making mechanisms of recipient countries.

Writers point to the purely domestic agricultural and exporter surplus disposal objectives, as well as the developmental or purely humanitarian concerns, that continue to influence decisions on quantities and kinds of commodities in donor programmes. Such donor agricultural policy influences also interact with foreign policy objectives in

determining recipient selection. Wallerstein[192] contains a fuller account of the continuing struggle between administration and legislation, between agencies and interests for control of U.S. food aid. There is no comparable account as yet for other donor programmes. Austin and Wallerstein also illustrate this interaction of interests with the case of U.S. humanitarian assistance under PL 480 Title II during the late 1970s: Congress mandated 1.6 million tons but other legislative restrictions, giving priority to domestic consumption needs, adequate carry-over of stocks and (commercial) export demand, implied that commodity supply rather than nutritional needs had 'driven the programme.'[193] This in turn created programmatic rigidities and uncertainties of supply at the level of individual country programmes and projects. As the authors suggest, there are fundamental difficulties inherent in legislating for and managing the 'additional' food aid resource which is in part available only because of a coalition of disparate interests and the consequent multiple, sometimes inconsistent, agricultural development and foreign policy concerns that influence food aid policy.

As this review of the institutional literature tends to suggest, there is no independent subset of issues concerned with the politics of food aid that can be separated from the economic analysis. There are political dimensions to the institutional configuration of the food aid system, and allocations to food aid and distribution of food aid that cannot be explained solely in economic, developmental or humanitarian terms. Any attempt to assess the economic impact of food aid must take into account the historical facts of the political context as well as the economic factors that have influenced the global availability and distribution of these resources.

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[1988]

Chapter 17

How to Really Reform Food Aid: Two Proposals

Most proposals for the reform of food aid programs represent little more than marginal improvements designed to limit the worst failures or build on successful program experiences. In this chapter Shlomo Reutlinger and Willis Peterson propose a set of radical changes that, if adopted, would lead to greater consistency between the agricultural commodity programs in developed countries, the incentive needed to expand food production in developed countries, and the food needs of poor people in developing countries. The two proposals are complementary. Both would utilize food stamps--or food money--to transfer purchasing power to low income consumers. Both would rely on market mechanisms to direct the production, marketing and consumption of food aid commodities.

Vernon W. Ruttan

Efficient Alleviation of Poverty and Hunger:
A New International Assistance Facility

Shlomo Reutlinger

This article advocates the establishment of a new international poverty and hunger alleviation facility which would significantly expand the use of food and financial aid for increasing food consumption by people without adequate purchasing power. Much of existing international aid, including most of the prevailing food and financial aid and the aid provided by existing and proposed new financial facilities, is oriented to assist governments of developing countries with economic development and financial crises. But the numbers of poor and hungry people are increasing, as are the poor nations which lack foreign exchange to import sufficient food. Clearly, more than expressions of concern and marginal modifications of existing and fragmented national and international aid are needed to provide the world's poor households with minimally adequate food security.[1]

Apart from emergency relief, food aid programmes can be classified into two major categories: (1) those which use food aid to complement financial aid for balance-of-payments assistance or the support of specific public expenditures and development projects; and (2) those which are primarily designed to increase immediate food consumption by vulnerable groups. This article will focus exclusively on the difficulties encountered in food aid programmes of the type designed to increase food consumption among vulnerable groups and how some of them might be overcome.

'Food money': underutilized instrument

It is clear that, if we want many more malnourished people to benefit from food 'surpluses,' we must look for a new and innovative approach.[2] Such an approach ought to address the basic cause of the poor's underconsumption, their lack of sufficient purchasing power,[3] while leaving the distribution of additional food to existing retail establishments. 'Food money' fits these requirements. It has the potential of improving the efficiency of food aid-supported programmes in a way not unlike the way in which , millennia ago, the introduction of money contributed to improving the efficiency of exchanging commodities generally. The 'food money' approach to distributing the benefits of food aid not only would improve the efficiency of targeted programmes, but also could provide a much needed added incentive to the development of a viable food trading sector.

This is how 'food money' works: food coupons are given to selected households. The coupons entitle their holders to purchase food of a stated value from any store or vendor. The store or vendor exchanges the coupons in a commercial bank for cash. The commercial bank is reimbursed by the government, which in turn uses the proceeds from the sale of food aid in the open market to finance the programme. Direct costs of administering the programme are minuscule; stores and banks need not charge because the programme draws customers. Food prices may even be lowered as marketing costs are reduced with the larger volumes handled by stores. The only administrative cost is for printing and distributing the coupons, and for auditing against abuses. In many existing programmes, the coupons can be used only for a restricted list of foods, but this is rarely advisable because the best food bargains may not always be included (household needs and market conditions can be highly

variable) and because it might also lead recipient households to sell coupons at less than full value. However the system is set up, all programmes should be adapted to the local marketing system, financial institutions and the target population.

Food aid programmes based on the distribution of 'food money' obviously cannot circumvent all the difficulties encountered in the existing targeted programmes--whatever the instrument used for targeting public distribution benefits, it is never easy to identify or certify deserving households. Once these are identified, it is never easy to assure that the benefits are delivered only to the intended beneficiaries or delivered at all.[4] Nor is the distribution of 'food money' the only way of overcoming the inefficiencies in direct food distribution programmes. In earlier articles, I have suggested that, for instance, judicious application of commodity selection criteria can immensely improve the efficiency of a food aid programme.[5] Yet, when administrative capacity to operate efficient public distribution is scarce and markets function more or less smoothly, the 'food money' instrument is still a much better alternative.

Many objections to these schemes can be raised which I will try to clarify briefly.

First objection: Why not distribute money for food instead of a new currency? This is a valid criticism in principle. Money can serve much the same purpose as 'food money.' A special 'food money' has several potential advantages, but also some costs. Whether in practice the advantages of issuing and distributing a 'special' currency outweigh the costs and administrative burden needs to be considered on a case-by-case basis. What are some possible advantages? One is that it provides the government with a clearly identifiable and transparent account of the overall size of the programme. It will also clearly distinguish the

budget allocated to the transfer of purchasing power to individual households from other items in the budgets of ministries (e.g., public works, social welfare, health, education) involved in administering programmes. Above all, there is an important psychological factor that may make 'food money' more effective. While in principle money and 'food money' are fungible within the household, the latter may convey the message that feeding the family should receive higher priority. Also, those excluded form benefits may object less in the knowledge that the money is clearly intended for the purpose of alleviating hunger and officials charged with handling the programme may find it less convenient to circumvent the programme's intent.

Second objection: It is difficult to identify the target population. True, but this applies to any direct food subsidy distribution scheme. Some advocate that purchasing power assistance be provided only to households with young children or to those with visible health impairment. Others advocate that assistance be provided only to households willing to do something in return--to work in public employment programmes, to send their children to school every day, or to avail themselves of health and nutrition education services. In fact, any of these options can be more easily developed if they are tied to a food coupon scheme and do not simultaneously require setting up separate food distribution or feeding programmes. Educators, health workers and extension workers whose function nit is to advise poor households on improving their housing and sanitary facilities, and administrators of public works programmes can do a better job if they are left to concentrate on what they do best and are not required to 'market' food.

Third objection: Not all the food coupons go to the intended beneficiaries. True, but this leakage is likely to be less than that found in direct food distribution programmes. People entitled to receive the coupons are likely to be aware of their entitlement and complain if they are deprived. A government store of a store specifically designated to distribute rations can more easily 'divert' a shipment or sell the subsidized food 'under the counter' to customers ready to pay to market price and blame the disappearance of rations on logistical problems. Any agency that cannot control the distribution of food coupons is even less likely to run an efficient direct distribution programme.

Fourth objection: These schemes do not allow nutritionists to influence exactly which foods will be consumed and by whom in the family. It is true that a 'food money' scheme provides no assurance that the household will use the additional purchasing power in the 'right' way. But neither do most food price subsidy or direct food distribution schemes provide such assurance. Unless the supplied food contains the full complement of nutrients for the household and is not tradeable, any food aid is easily substituted for purchased foods and the released purchasing power can be spent in accordance with the consumers' preferences.[6] Essentially they all augment the purchasing power of the recipient household. Only a food subsidy provided in the form of a lower food price for any amount a household wishes to purchase provides an additional incentive to purchase that food (not all food!) over and above the generalized "income effect". However, the gain is often not worth the cost. The additional food-purchasing incentive may not be for the food that can provide nutrients to the household in the most economical way, or the cost of administering the programme may not be worth the gain. If passed on to the household, additional untied

purchasing power proportional to the savings realizable from not having to administer a food price subsidy programme may lead to a higher level of food consumption.

Perhaps nutritionists could be more effective if they were to spend all their time educating households in ways of making best use of *all* their available resources rather than by designing and then insisting on supplying standardized food rations. The best use of resources is likely to be different for different households, depending on the composition of the family, their individual nutritional requirements and even tastes and different economic opportunities. But even if it could be determined how additional resources in the household should be best used, it must be realized that providing a particular food ration cannot assure that an equivalent increase in the consumption of that food will actually occur. The household sovereignty over its behaviour cannot be easily circumvented. The notion that it is possible to increase an individual's energy intake by 300 calories or protein intake by 20 grams of protein if a ration of this magnitude is supplied should by now have become thoroughly discredited.

Fifth objection: The cost is high. True, but the alternatives may have much higher costs. A "food money" programme may be nutritionally effective if it increases the average truly needy individual's annual purchasing power by $10 or $20 (or a household's income by $50 to $100). If coupons are distributed to 20% of the population, it might cost $4 to $8 million for an urban population of two million people. Is this much compared with alternative food subsidy programmes or with the cost of wasted human capital?

Sixth objection: There is not much actual experience with "food money" schemes. True, experience is on thin ground. Such programmes have been implemented in four

countries: the USA, Colombia, Sri Lanka and Jamaica. A large food stamp scheme has been recently instituted in Mexico. it is encouraging that in all these cases the programmes have run smoothly, the administrative costs have been low, and most of the benefits were captured by the intended target population.

The US food stamp "provides assistance on a typical day to 1 out of 11 Americans. With a turnover of about 50 percent among typical households in any 12 month period, one out of seven people in the country receive some food stamps every year."[7] The only disputed issues in this programme are whether it is "properly" targeted and whether enough eligible people use it. There is also a debate on whether it is worthwhile to continue the programme as is or to simplify administration further by distributing cash to participants.

In the Colombian food voucher scheme, eligibility was restricted to households with young children and pregnant or lactating women. The coupons were distributed by health centers. The programme has worked well, except that its contribution to households' purchasing power fell far short of what was needed and the nutrition impact probably could have been greater if the coupons had not been restricted to a list of foods which included highly processed foods not ordinarily purchased by poor households. But an explicit objective of the programme was to provide an expanded market for the Colombian food processing industry.

The Colombian food stamp programme was dismantled in 1982. Why? Perhaps because it worked "too well". It took away resources from programmes which diffuse benefits to politically more influential groups and effectively transmitted them to those in greatest nutritional need. It generated bureaucratic opposition from agencies operating

more traditional programmes that make more intensive use of programme administrators (ie. that "leak" more of the benefits to intermediaries). In the words of one analyst, "probably one of the main reasons [for dismantling the programme] is that malnutrition is not contagious in the short-run. Poor families lack the organizational power...to demand solutions to malnutrition."[8]

The Sri Lankan programme has also illustrated that it is feasible to transfer income efficiently with food stamps, although whether the programme accommodates the proper target population and responds to changing circumstances affecting households' needs is still debated.[9]

The Jamaican scheme distributes food vouchers primarily through mother-child health centres. This replaces distribution of food by the health clinics, and seems to work much better.

One major deficiency of all existing food voucher programmes in developing countries has been that they have augmented family income by only a few percentage points. Attempts to detect statistically significant improvements in nutritional status have therefore been quite unsuccessful. It would be as wrong to draw negative inferences about the validity of the food voucher approach from these studies as it would be to infer that aspirin does not produce benefits on the basis of experiments with the administration of miniscule doses.

A new international facility

If it is correct that those most vulnerable to food deprivation can be efficiently helped through widespread adoption of the "food money" instrument in conjunction with other measures to assure sustainable development impact - such as expanded employment, public

works, education and health projects - the next question is how governments and the international community might best go about mobilizing the resources needed to move forward.

Clearly, one way is to reallocate existing resources, replacing programmes which have failed with better and more efficient ones. Undoubtedly, there is some scope for doing this. But it is also quite clear that this will not be sufficient. It is clear that additional resources need to be mobilized. In brief, the rationale for establishing a special Poverty and Hunger Alleviation Facility (PHAF) can be summarized as follows:

* Present food and financial aid do not provide resources adequate to the task.

* There exist adequate food surpluses which, if combined with modest additional financial aid, can be transformed into an efficient instrument for poverty and hunger alleviation.

* By bringing together food aid and financial resources, the proposed facility could integrate aid of both forms from all donor countries in programmes designed to alleviate poverty and hunger. This would overcome the difficulties and inefficiencies which arise from some development agencies and programmes having access to either food aid or financial aid but not to both. It would also boost the demand for domestically produced food.

* A special Poverty and Hunger Alleviation Facility has a good chance of tapping the widespread support of the public and leaders in all countries who grow increasingly dissatisfied with prevailing levels of household food insecurity, the implied deterioration of human capital and forgone opportunities in mobilizing unemployed labour for the protection of the natural environment.

Structure, size and mode of operation

Some preliminary thoughts are presented here on the size and possible structure of and international Poverty and Hunger Alleviation Facility and the kind of programmes that such a facility might support. The ultimate responsibility for developing and implementing

programmes would rest, of course, with the governments of the countries in which they will be operating. Much more thought needs to be given before appropriate modes of operation can be established, and these will have to reflect the wide range of conditions and policy environments prevailing in different countries and their experiences with existing programmes. The following remarks are intended only to stimulate discussion about whether, and how, a facility might be structured.

Initial size and possible source of funding.

The initial size of a new facility might be on the order of 1$ billion per year for a minimum period of five years. Provided that only highly efficient income transfer programmes are funded, 10-20% of the total grants made available should be sufficient to pay for the identification, preparation and administration of the programmes. The remainder will be available to augment 40-45 million people's annual income by approximately $20. If the benefitting households spent half of the additional income on food, it would enable them to augment their per capita daily diet by 300-400 calories and to increase substantially their other essential non-food expenditures.

Given that households can be expected to spend one-half of the income conveyed in the programmes on food, about 50% of the facility's total available funds could be supplied as food aid. The remainder would have to be obtained as contributions of foreign exchange from public and private funds in donor countries or from domestic currency allocated from governments' budgets in the recipient countries.

This is obviously only a beginning, though a respectable one. By all estimates, there are at least 200-400 million very poor people in the world who are currently unable to afford

a minimal diet and other household necessities to sustain a healthy and productive life. However, under the best of circumstances, it will take time to formulate and establish efficient programmes, and, in the meantime, plans might be formulated to expand the facility while administrators of the fund and of programmes supported by it are alerted that expansion will be contingent on efficient performance.

Who should administer the facility?

Obvious candidates are the World Bank and the World Food Programme. They both already support projects in health, nutrition and education to poor target groups. They both support development projects primarily in agriculture and transportation, to which income-supplementing employment programmes should be integrated as much as possible. Some division of responsibility would need to be worked out; the World Food Programme could be in charge of the food aid component of the facility's funding while the World Bank would take primary responsibility for assistance with the preparation, approval and supervision of projects.

Who should propose and implement programmes?

Primary responsibility lies obviously with the governments. But the best assurance that programmes are operated for the benefit of the intended groups would be provided by the widespread participation of many existing public and private national and international agencies. Certainly IFAD, Unicef, ILO, WHO, bilateral aid agencies, international and national non-government organizations (NGOs) and local governments should be actively involved in the identification, administration, and support of programmes drawing funding

from the Poverty and Hunger Alleviation Facility. Roles could be assigned according to types of programmes or countries.

Criteria for determining programme eligibility.

Finally criteria will need to be established for determining the kind of programmes that would receive support and with what priority.

* They must transfer income efficiently to the people who are expected to benefit. The administrative cost should never be in excess of 10-20% of the benefits conveyed to the intended population. A programme which transfers food valued in the marketplace at 10 rupees and costs the programme 15 rupees to deliver is wasteful and inefficient. A public employment programme which costs $2 per employed person (after subtracting the value of the work performed), and conveys to the person only an additional $1 of income is also a very inefficient programme.

* The beneficiaries should be those with clearly identified unmet needs. This is difficult to establish and often it is not possible to exclude all people no longer requiring assistance. But an attempt should always be made to make as transparent as possible the poverty and hunger status of the prospective target population.

* Programmes should be judged on the basis of achieving both short-run and long-run hunger alleviation objectives. Are there built-in or parallel programmes which provide nutrition education and health services? Are adequate opportunities provided for children to receive useful education, rather than only food? Does the programme provide or are there available opportunities for productive employment?

* Programmes, if possible, should create incentives (effective demand) for locally produced foods and other goods and services (eg, marketing services) which utilize otherwise underemployed resources. This might suggest that programmes would be preferred in some areas over other areas, depending on supply responsiveness to incentives.

* Programmes should include a plan for adjusting the needed assistance to changing circumstances and for phasing out. for instance, if opportunities for developing productive employment in an ecologically unfavourable environment are limited, temporary income and food assistance should be coupled with a required plan for stimulating eventual migration of the beneficiaries to a more favourably situated location.

Criteria for country eligibility

The resource constraints on reducing poverty and hunger and therefore the assistance required from an international facility will obviously vary from country to country. For some countries, assistance may have to cover nearly the full cost of new programmes. In other countries, it may be sufficient to cover only the additional food import requirements and foreign exchange costs, while in still others the facility would be primarily used for supplying the needed technical assistance.

Summary and Recommendations

* The economic crisis afflicting many developing countries in the 1980s suggests two major lessons: (a) foreign aid can be ineffective and even counter-productive if it is used to support bad projects and policies; and (b) policies that subsidize unproductive enterprise and tax productive enterprise have resulted neither in satisfactory, sustainable economic growth nor in the alleviation of hunger.

* These lessons should not be interpreted to suggest that the transfer of resources is not am important ingredient for development, nor that reforming existing policies through what is termed structural adjustment is a sufficient condition for alleviating poverty and hunger.

* The numbers of poor and hungry people - in the hundreds of millions even before the crisis of the 1980s - are increasing. Their deprivations often tend to intensify while growth-oriented policy reforms are being instituted. At best, it will require many years for the poor to see substantial gains.

* In the meantime, special programmes are needed to assist the poor, not only for humanitarian reasons, but also because they will enable governments to overcome political resistance to urgently required growth-oriented policy reforms. They also will provide people with the prerequisite improvements in health, nutrition and education needed to take advantage of the opportunities for productive employment.

* The creation of "human" capital requires attention both to access by the poor to more and improved public services in health and education, and to increases in their purchasing power for food and other essentials. The ideas presented in this article focus on the latter.

* Fortunately much, though not all, of the foreign aid needed to support programmes and augment the purchasing power of the poor can be supplied in the form of food aid from existing food "surpluses".

Briefly summarized, the specific proposals are as follows:

* A special international facility should be established for augmenting the purchasing power of poor households. It would be used to increase their consumption of food and other essentials.

* In order to assure that the resources allocated for this purpose reach the target population and are not dissipated in paying for transmission costs, the recipients should be paid in food "money" or in cash. The additional food should be handled through existing and improved food marketing channels and not be supplied through expensive, parallel public food distribution channels.

* Whenever it is possible and economical, the augmentation of purchasing power should be provided in conjunction with projects that promote lasting changes in the productivity of the target population; that is, in conjunction with health and education programmes, or with projects that create assets and improve the environment. Tying assistance to participation in projects of this kind is a practical mechanism for targeting benefits on some of the households in greatest need.

* While the supply of additional food from food aid can make an important contribution to the kind of poverty and hunger alleviation envisioned, it should be recognized that financial resources are required as well. With a facility that has command over both financial and food aid resources, there is a better chance for structuring programmes which efficiently augment purchasing power and alleviate hunger.

Poverty and hunger alleviation poses significant challenges to resource mobilization and above all to the resourcefulness of those charged with designing and implementing cost-effective programmes. East, West, North and South are increasingly recognizing that much of the planning and implementation of programmes intended to stimulate economic growth in the productive sectors is best left to a private sector which responds to market signals. Freed from that task, public servants in governments and international organizations may

be able to use their intellectual and administrative talents in the design and implementation of better programmes to alleviate poverty and hunger. But will they rise to the challenge?

ENDNOTES

[1]For the full discussion of the food security issue, see Poverty and Hunger: Issues and Options for Food Security in Developing Countries, World Bank, Washington, DC, 1986. See also Adjustment with a Human Face, Unicef, New York, 1987.

[2]By a 'new and innovative approach,' I do mean a 'heretofore rarely used' approach. For a discussion of this approach see, eg., Bernd Schubert, 'Cash transfer to the poor: new instruments for a poverty oriented development aid approach,' Food Policy, February 1987.

[3]Amartya Sen, Poverty and Farmers: An Essay on Entitlement and Deprivation, Oxford University Press, Oxford, 1982.

[4]For a full discussion of experience with targeted food subsidy programmes, see Per Pinstrup-Andersen, ed, Consumer-Oriented Food Subsidies , Costs, Benefits and Policy Options, Johns Hopkins University Press, forthcoming.

[5]For a full discussion of the income transfer properties inherent in the selection of commodities used in food aid supplied programmes, see Shlomo Reutlinger, 'Project food aid and equitable growth: income-transfer efficiency first,' World Development, Vol. 12, No. 9, 1984, pp. 901-911.

[6]Shlomo Reutlinger and Judit Katona-Apte, "The nutritional impact of food aid: criteria for selecting cost-effective foods", Food and Nutrition Bulletin, Vol. 6., No.4, 1984, pp. 1-10.

[7]Sylvia Lane, "Food stamps", Choices, second quarter 1986.

[8]Mario Ochoa, "The Colombian food system: design, results, national impact and political constraints", draft study prepared for the International Food Policy Research Institute (IFPRI), Washington, D.C., 1984.

[9]Neville Edirisinghe, Food Stamps Scheme in Sri Lanka: Cost Benefits and Options for Modification, Research Report No. 58, International Food Policy Research Institute, Washington, D.C., 1987.

International Food Stamps

Willis Peterson*

The farm income support and foreign aid programmes of the past several decades suggest that two common characteristics of the utility functions of high-income nations are the desire to increase the incomes of farm people in their own nations, and to improve the diets of poor people in poor nations.

It is apparent, however, that the programmes have not worked very well. The drawbacks of farm income support programmes are well known. Support prices above market equilibrium levels create expensive and wasteful surpluses, their benefits are capitalized into the value of land which is detrimental to future generations of farmers who purchase the land, and the greatest share of income support goes to the largest and generally most prosperous farmers. In addition, commodities are treated unequally. Cash grain, dairy, and sugar producers receive the bulk of the income support while beef, poultry and vegetable farmers receive none. In spite of the hundreds of billions of dollars poured into farm income support programmes, farmers complain of low prices, government red tape, and interference in their production decisions. And rural communities continue to decline and lose population.

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Foreign aid programmes such as the USA's PL 480 also have drawn criticism. Subsidized food arising form the surpluses accumulated in the developed countries and shipped into the poorer, food-deficit countries reduces the prices received by farmers in recipient countries and retards the development of their agriculture. In spite of these food shipments, hundreds of millions of people suffer from malnutrition and it is estimated that over 40,000 (mostly children) die each day because of this condition.

The objective here is to suggest a new direction in farm and food aid policy - a single programme that will increase farm prices in both developed and less developed countries (LDCs), encourage rather than discourage world food production, and go a long way towards eliminating malnutrition in the Third World.

The programme

An international food stamp programme would bear some resemblance to the US programme. Rich nations would issue food stamp coupon books to poor people in poor nations with a guarantee that food vendors in the recipient nations could redeem the stamps to the issuing countries for hard currency. The stamps would be used by poor people to purchase the food of their choice in either their domestic markets or the world market.

The operational details of administering the programme may vary from country to country but a few general points can be made. First, it is desirable to keep the programme as simple as possible, while targeting the food aid to the lowest income people. Because of the difficulty of measuring income of poor people in poor countries the simplest approach would be to give (not sell) stamps of varying values to everyone who requests them in the poorest urban neighbourhoods, towns, or villages - the places where people are suffering

from malnutrition. Some higher income people may take advantage of the programme but the cost of screening them out would probably exceed the value of the stamps. Of course, stamps would vary in value by the average income level of the community and by age of recipient. Stamps for babies and young children would carry smaller face values than those for teenagers and adults.

Second, it is important that stamps not be tied to the food imported from donor countries. If they were, recipients would simply substitute donor country food for domestically produced food, causing local prices to fall. Recipients must be free to purchase food in the open market. Since domestic supplies will not in most cases be adequate to supply the increased demand for food, it is essential that recipient countries open their borders to unrestricted food trade - exports as well as imports. Domestic food prices, therefore, would correspond to border prices. It would also be desirable for recipient countries to allow imports of agricultural inputs - fertilizer, seeds, chemicals, machines and so on - so that LDC farmers could respond in a greater degree to the increased demand for food in their countries.

The actual distribution of stamps is probably best carried out by neighbourhood or village institutions and leaders such as educational, medical or religious groups, or by local governments. The distribution agency can vary both within and among countries. The redemption of stamps into currency can be done by local financial institutions working with a representative of the donor country or agency. The distribution of stamps should not be more difficult than the distribution of physical commodities. In fact, it should be easier

because the transportation, storage and retailing functions would be decentralized in the private sector rather than being the responsibility of the donor.

In order to judge the feasibility of an international food stamp programme, it is necessary to have some idea of differences in per capita food production, trade and consumption among nations. These values are measured in wheat equivalent quantities (WEQ). Total WEQ of a country is the total tonnage of agricultural output, with each commodity weighted by the ratio of its world market export price over the world market export price of wheat.[1]

All agricultural commodities are included in a sample of 1190 countries, which comprise about 94% of the world's agricultural land. To smooth out year-to-year fluctuations in production, a three-year (1982-84) average output was computed. The same general procedure was used to estimate agricultural imports and exports in WEQ units. In this case some adjustments were made in order to measure only agricultural output. For example, in beer and wine trade, only the agricultural commodities used to produce the final products are included. The trade figures are for 1983.

Per capita agricultural output in kilograms of WEQs for the 10 highest and 10 lowest countries of the 119-country sample is presented in Table 1. The average amount available for consumption in these countries, obtained by adding imports and subtracting exports, is also presented.[2] The difference between the consumption levels of the higher and lowest countries is remarkable, although the large gap is due to quality differences (livestock products) as well as quantity. The greater the share of livestock and poultry products in the diet, the larger the WEQ for a given nutrient intake.

Although trade reduces the difference in the amount available for consumption between the highest and lowest countries, it does not by any means equalize per capita consumption across countries. Most of the nations ranked near the bottom are LDCs with limited ability to purchase food in the world market. It appears that most nations, especially the poor ones, in large part make do with what they produce at home. The simple correlation coefficient between per capita production and consumption for the 119-country sample is 0.85.

The average per capita consumption for the 119-country sample is about 1200 kilograms of WEQ. The median is about 900. Middle-income countries tend to consume in the 700 to 1000 kilograms up to these levels.

Threshold	Million metric tons
1000kg	800
700kg	297

Nearly half of the additional output in both thresholds goes to India, whose per capita consumption level was 508 kilograms of WEQ. China (PRC) was omitted from the calculations of both thresholds. That country's per capita consumption averaged 815 kilograms during the 1982-84 period.

The major food-exporting nations (USA, Canada, Argentina, Brazil, Australia and New Zealand, plus the Western European countries) produced an average 1811 million metric tons of WEQ annually during the 1982-84 period. The 297 million metric tons required to reach the 700-kilogram threshold represent a 16% increase in the total food output of these countries. Thus it is not out of the realm of possibility for these countries to supply the entire increase in output for all poor countries to reach the 700-kilogram level.

The food exports of these developed countries during 1983 were about 500 million metric tons of WEQ. Expanding their annual exports by 297 million metric tons amounts to nearly a 60% increase.

In order for the international food stamp programme to work it would have to be a joint effort of the world's developed nations, each country contributing according to its population and per capita income. The recipient nations, at least to begin with, are the 45 countries having a per capita annual consumption of 700 kilograms of WEQ or less. These are mainly the lowest income countries. Middle-income countries also have poor people who suffer from malnutrition. Whether these people could be brought into the programme depends on how much the donor countries are willing to spend. Governments of middle-income countries might be persuaded to initiate a similar programme in their own countries to increase food consumption of their poorest citizens. Private philanthropic and religious organizations could also participate in the programme, issuing stamps redeemable from their own funds.

It probably makes sense to initiate a pilot programme in a small, low-income country to work out the operational details and problems. The coverage could gradually be increased, starting with the poorest nations where hunger is most severe. As the programme expanded, the full consortium of donor countries would begin to contribute funds, while phasing out their traditional farm income support and food aid programmes, keeping the total costs roughly constant. The pilot project could be carried out by a single donor country or group of countries.

Several advantages of an international food stamp programme over traditional farm and food aid programmes can be envisioned. First, it would be a market-oriented programme in which farmers produced for the market according to relative prices rather than for government stockpiles or subsidized exports. Farm incomes and prices could be increased without creating artificial reductions in supply. Second, the food would be privately owned all the way from producers to Third World consumers, so there would be an incentive to move the products to consumers promptly rather than having them accumulate on the docks. Beneficiaries of the programme would be free to purchase those products which satisfy their tastes rather than having to take surplus commodities form donor countries. This would provide for more diversity of food supply and healthier diets than is true under surplus disposal programmes.

Because the stamps would represent an income transfer to poor people in poor nations, the higher incomes of the recipients would allow them to increase their purchases of non-food as well as food items. However, the relative decline in the price of food to the recipients would offset this tendency by encouraging substitution in favour of food. The relative magnitude of the two effects depends on the income elasticities of demand for food and non-food items, and on the cross-elasticity of demand for non-food items with respect to the price of food. For the poorest people in poor countries the income elasticity of food demand must be quite high if the primary reason for starvation or severe malnutrition is a lack of purchasing power. Thus one would expect that the largest share of the increased purchasing power would be spent on food.

From a pure welfare economics criterion, the best solution to a lack of purchasing power is a cash transfer to that recipients can buy those items which maximize their utility. But commodity-specific money such as food stamps appears to be more politically palatable and is the next best thing to a cash transfer. Similar kinds of commodity-specific money such as education, housing or fuel stamps could be used in any country to enhance the ability of low-income people to purchase more of those goods and services that society wishes to transfer to them. The use of such money eliminates the need for government to own physical facilities of goods and reduces the administrative cost of the programmes.

Cost and effects

The cost of an international food stamp programme would depend on four factors: (1) the amount of food to be added to the diets of poor people in Third World countries; (2) the increase in the world market price of food caused by the increased demand from the recipient nations; (3) the increase in the quantity of food produced by the recipient nations due to the more attractive prices; and (4) administrative and transport costs.

Consider the 700-kilogram threshold which would require 297 million metric tons of WEQ. The 119-country group produced a total 5113 million metric tons of WEQ annually during the 1982-84 period. The 297 million metric tons figure represents about a 6% increase in the food production of these 119 countries. The increase in the world market price of food required to bring forth this increase in quantity depends on the world aggregate supply elasticity of food. The smaller the elasticity, the greater the increase in prices. It is to be expected that this elasticity is smaller in the short run than in the long run. Considered a short-run supply elasticity of 0.20.

With a 0.20 short-run elasticity, a 6% increase in quantity requires a 30% increase in prices. This figure assumes that all countries allow their internal prices of food to increase with border prices. In reality some countries that do not participate as a donor or recipient in the programme may attempt to maintain stable prices in their countries. If so, the world market price would increase by more than 30%. However, if prices increased much beyond 30%, there would be increasing pressure for these nations to open their borders, allowing their internal food prices to increase thereby stimulating their food exports. Realistically one might expect a 30 to 35% increase in the world market price of food in the short run.

Over the long fun, five to ten years after the start of the programme, the supply elasticity would be much higher, in the neighborhood of one. However there is reason to believe that world market prices of food would settle in at a level somewhat above the 6% increase implied by this elasticity. The increase in the economic growth of the recipient nations, resulting from higher agricultural prices received by their farmers and their more open economies, would increase their demand for food from what it would otherwise have been.[3] Thus it does not seem unreasonable to believe that the programme would increase farm prices at least 10 to 15% in the long run.

At some point, as development occurs, the recipient nations will have increased their per capita domestic production to attain the 700-kilogram threshold, or become rich enough to buy the food without the help of the donor countries. At this time the programme could be phased out. Of course, the mechanism could be kept in place as a standby measure in times of war or natural disasters such as droughts or floods that may cause famine.

Having estimated the increase in world food prices resulting from the programme, it is now possible to provide an estimate of its annual cost. The estimated cost will be limited to the short run and the 700-kilogram threshold. During the 1982-84 period the world market (export) price of wheat averaged $164 per metric ton. Adding 35% of this price to take into account the estimated short-run increase in food prices, and multiplying this figure ($221 per metric ton) by the 297 million metric tons required to reach the 700-kilogram threshold, yields a cost of about $66 billion. The 297 million metric ton transfer assumes that all of the additional food is supplied by non-recipient nations; there is no additional output by the recipient nations. In reality some additional output is expected to be forthcoming from these countries as their agricultural prices increase. If so, the cost will be somewhat less than $66 billion. There are also transport and programme administrative costs. But as a rough approximation, the annual cost of the programme should not exceed $70 to $75 billion.

How does this compare to the cost of present farm and food aid programmes? Currently the USA and Western Europe spend about $50 billion annually to support farm incomes. Ad to this the cost of similar programmes in Canada, Australia and Japan plus the cost of storing the surpluses and administering these programmes, and the cost would run at a minimum in the $70 to $75 billion range. In addition, the developed nations currently spend about $25 billion annually on concessional food aid programmes, about 0.35% of their collective GDPs. (Since some of this is the value of surplus commodities accumulated from their farm programmes, there is some overlap of the two figures.) At any

rate, it seems safe to say that the cost of an international food stamp programme would not exceed the cost of current programmes, and would likely be less.

Concluding remarks

Hundreds of millions of people in the world suffer from malnutrition, and it is estimated that over 40,000 die each day from the direct or indirect consequences of this condition. Recently there has been an increasing awareness that hunger in poor countries is as much a poverty or demand problem as one of supply.[4] In the developed countries the problem is one of overproduction and surpluses resulting from programmes aimed at increasing farm prices. An international food stamp programme could go a long way towards eliminating malnutrition in the Third World while increasing farm prices in both the developed and less developed countries by an estimated 30 - 35%. Al this could be accomplished at a cost no greater and probably less than is currently spent on farm income support and food aid programmes.

Table 1.

Table 1. Per capita agricultural production and consumption (kg of WEQ per person per year, 1982–84).

	Production	Consumption
Top ten countries	3869	2787
Bottom ten countries[a]	319	414

[a] Excludes Saudi Arabia.

ENDNOTES

[1] WEQ in country 'j' is $WEQ_j = \sum_{i=1}^{n} P_i/P_w \cdot Q_{ij}$

where P_i is the world market (export) price of commodity i, P_w is the world market (export) price of wheat, and Q_{ij} is the physical output of commodity i in country j. further details on the construction of WEQ can be obtained from Willis Peterson, 'International supply response", Department of Agricultural and Applied Economics Staff Paper P87-16, University of Minnesota, St. Paul, MN, June 1987. The FAO Production Yearbook, Rome, 1984, served as the data source for the output figures. The trade figures are from the FAO Trade Yearbook, Rome, 1984.

[2] Country-specific figures are presented in the Appendix to Willis Peterson, "International food stamps", Department of Agricultural and Applied Economics Staff Paper P87-38, University of Minnesota, St. Paul, MN, November 1987.

[3] The positive relationship between income and food imports was reported in James P. Houck, "Foreign agricultural assistance - it's mostly a good thing for U.S. farmers", Choices, Vol. 2, 1987, p. 19.

[4] World Bank, Poverty and Hunger, Washington, D.C., 1986

[1990]

Box 11. The Entitlement Approach to Famine Relief: Food or Cash?

"Why hunger?" remains as relevant a query today as it has been for thousands of years. but the answer cannot be quite the same as in the past. The enormous expansion of productive power, especially in agriculture, that has taken place over the last few centuries has certainly made it possible to guarantee adequate food for all. The persistence of chronic hunger and severe famine despite more than adequate productive opportunities poses a range of questions that would not have been immediately relevant in the past, when production possibilities were much more limited. This is not to say that issues of technological transformation and expansion of production have ceased to be important. Much more can certainly be achieved, and the rewards from productive expansion can indeed be very substantial. But even with existing technologies and the current state of knowledge, a better marshalling of our resources and a better system of distribution can eliminate much of the nutritional shortfall that is observed across the world today. Hunger and famine have to be seen as *economic* phenomena in the broadest sense - including production, distribution, and utilization of food - and not just as reflections of problems of food *production* as such.

There are many policy implications related to the shift in the focus of analysis from production (and availability) to entitlements in general, including the various links in the economic chains. One important question concerns the form of the relief that may be provided in helping famine victims. In African famines, relief has typically taken the form of distribution of free food in relief camps and distribution centers.

It is necessary to distinguish between two things that are achieved by food relief to famine victims: (a) giving the destitute the *ability* to command food, and (b) providing this relief in the actual form of *food itself*. Though these two aspects are integrated together in direct food relief for famine victims, they need not in general be thus combined. For example, *cash relief* can provide the ability to command food without directly giving any food to the victim. Indeed, cash relief can stimulate other parts of the food in terms of the response to increased demand as a result of the greater purchasing power of the famine victims.

A person's ability to command food can be seen as having two distinct elements, namely, his or "pull" and the supplier's "response." If a person starves because of loss of employment and the absence of means of buying food, than that is a failure originating on the "pull" side. On the other hand, if the person's ability to command food collapses because of the absence of supply, or due to the "cornering" of the market by some manipulative traders, then this is a failure arising on the "response" side. In most famines - whether in Africa or Asia - the element of "pull failure" has tended to be the dominant one in the genesis of the collapse of entitlements of the famine victims. In this situation, creating purchasing power for famine victim may be an obvious and immediate way of recovering some of the lost ground.

The use of cash disbursement has the advantage of quickness, which is particularly important in the light of much-discussed delays in the relief system in the case of some African famines, such as those in Sudan, Somalia, and Ethiopia. The provision of cash income leads to giving aid to the potential famine victims immediately. It also has the effect

of pulling food into the famine-affected regions in response to the enhanced market demand as a result of cash disbursements.

The cash disbursement system also helps to prevent the widely observed phenomenon of what has been called a "food counter-movement," by which food moves *out* of the famine-stricken regions to more prosperous lands. This has occurred in many famines, such as the Irish famines of the 1840s, the Ethiopian famine in Wollo in 1973, and the Bangladesh famine of 1974. There is nothing terribly puzzling about this, since non-famine regions (England in the case of the Irish famines, Addis Ababa and Asmara in the case of the Wollo famine, India in the case of the Bangladesh famine) often have greater purchasing power and greater pull in comparison with the famine-stricken regions, and as a result food can easily be attracted away through the market mechanism from the famine regions to non-famine areas. When additional cash income is provided in the famine region - for instance, through employment schemes - such "food counter-movements" can be reduced or eliminated, and this itself may be very important.

There are, of course, problems also with providing relief in the form of cash income and employment schemes. If the markets are so distorted that the expansion of demand will not lead to "response," there may be no alternative to the government itself moving the food to the victims and directly arranging food distribution. On the other hand, the administrative resources of the government are also restricted, and the record of famine relief based on large-scale movement of food grains by the government has not been particularly encouraging in many African countries. When the administrative structure is limited or inefficient, the case for using cash relief to regenerate entitlements and to create the "pull" for food movement may be a sensible policy. Indeed, in those African countries in which cash relief has been tried, such as Botswana, the record of achievement seems to be very creditable.

The system of cash relief also has some additional advantages. It regenerates the infrastructure of trade and transport in the economy, through increased demand and more economic activities, and this can be of lasting benefit, especially since famines tend to disrupt these links in the economic chain. Further, since the distribution to destitutes usually requires the setting up of "relief camps," the system of direct feeding or direct distribution of food can be very disruptive to normal family life as well as to pursuing normal economic activities, in particular the continued cultivation of land. In contrast, providing relief in the form of subsidiary employment without making people move from their homes has the advantage of being less disruptive for work and living. While the decision on the balance between cash relief and food relief must depend on a careful and pragmatic assessment of the exact conditions in the country or region in question, it is worthwhile to consider the possiblity of providing food to famine victims via the means of cash. When hunger and famines are seen not just in terms of availability of food, but primarily in terms of entitlement failures, it becomes natural to consider these other means of changing the operating of the dysfunctioning food-chains.

Source: Amartya Sen, "Food Entitlements and Economic Chains" in Lucile F. Newman (ed.), Hunger in History: Food Shortage, Poverty and Deprivation (Cambridge, Mass.: Basil Blackwell, 1990), p. 375, 379-381.

Part VI -- Perspective on the Future

In this section an attempt is made to provide a perspective on the future directions of food aid. The environment for food aid will be much different in the 1990s than in the past. In the past the level of US food aid has varied with the size of surplus food and food grain stocks. The direction of food aid flows has been strongly influenced by competition between the US and the USSR. In 1990, new and more flexible food aid legislation was passed by the US Congress (See Chapter 1).

The paper by Raymond F. Hopkins, "Reforming Food Aid in the 1990s" is based on testimony before the US House of Representatives Select Committee on Hunger in June of 1989. Hopkins noted that in the 1980s there was a negative relationship between the degree of need and per capita food aid. He urged that in the 1990s food aid be targeted to address more directly the problems of food insecurity, agricultural production and environmental protection and enforcement.

In "Alleviating Hunger While Building Markets" (1989), John W. Mellor advocates a program directed toward both alleviating hunger and building markets. He urges that US food aid levels should be doubled by the year 2000. He insists that large quantities of food directed toward infrastructure development in rural areas will contribute to rapid generation of growth in marketable surpluses which will in turn generate growth in rural incomes. This in turn will expand the demand for food, including the commercial imports of feed grains. He insists that the alleviation of hunger through economic development must take place where the poor and hungry are located--and that is in rural areas.

In a final chapter I again raise the question--"Does Food Aid Have a Future?" In the past the food aid program has been sustained by multiple constituencies--farm groups,

agribusiness, maritime interests, voluntary organizations. By pursuing the multiple interests of its constituencies, food aid was larger than it would have been if targeted to more specific--and less inconsistent--objectives.

One conclusion that emerges from the papers presented in this volume is that it has been exceedingly difficult to find a principled answer to the question--"Why Food Aid?" Food aid has not been an effective method for dealing with agricultural surpluses. It has been far larger than it would need to be to meet market development objectives. It has not been an effective lever to induce policy reform. Ways are still being sought to make it an effective instrument for economic development. And its potential for alleviating hunger and malnutrition has not yet been adequately realized.

Vernon W. Ruttan

[1989]

Chapter 18

Reforming Food Aid for the 1990s

Raymond F. Hopkins

U.S. food aid has been allocated according to a set of multiple objectives. As a result "friendly" governments sometimes received aid while countries with larger numbers of poor, hungry peoples got less or no aid. In light of the special needs of particular countries, especially ones in Sub-Saharan Africa (where estimated "needs" have grown from a small portion of total world need in the 1960s to an estimated half of needs--by U.S. and FAO studies), food aid must be appreciated as a resource to be allocated with great concern as to its potential impact on hunger.

As the world's largest provider of food aid, the United States should play a leading role in addressing international problems in which food aid is an especially appropriate response. In the thirty-five years since the initial enactment of PL480 legislation significant changes have occurred in the political and economic environment in which food aid occurs. Although our U.S. legislation has from time to time been amended to reflect some of these changes, as in 1966 and 1974, important anachronistic elements remain. U.S. food aid policy and its legislative foundation consequently are in need of reform.

In pursuing our national interests, and the global interests that we share with others, the U.S. must adjust and adapt our programs in light of new information and changing circumstances. Failure to do so represents an egregious lack of vision and entrepreneurship.

I refer to this failure as "egregious" because the United States retains a leadership position in international food aid both in resources and intellectual understanding. In spite of this we have allowed inertia and an outdated construction of domestic and international interests to dictate the purposes to which food aid should be subservient. 1990 is a time for substantial reform.

I. BACKGROUND

U.S. food aid is provided today in a world context much changed from the economic order prevailing in the 1950s and 1960s. As a result of the relative decline of the U.S. as an economic hegemon, growth in the world's economy with attendant shifts toward more urban, industrialized societies, and a larger share of aid provided by other industrialized states, the U.S. food aid program plays a much smaller role in the world's food aid regime. Furthermore, it is strikingly out of step; it is the only donor program with an undiluted commercial interest required by its legislative mandate and manifest in its Title I or sales program. Aside from commercial factors, political uses also are more prominent in the U.S. program than in others. Although the cold war hysteria of the 1950s has subsided, strong claims by State Department officials to direct food aid according to diplomatic goals continue. Countries receiving the world's food aid have also changed; increasingly they are ones with chronic food insufficiency, high population growth and modest development capability. Thus, the world of donors and recipients has changed considerably, far more so than the U.S. food aid program has to date.

Since its inaugural Congressional support for food aid has never been a problem. No executive branch request for funding, for example, has ever been cut by the Congress.

In several instances, in fact, food aid requests, such as the emergency supplementals proposed by President Reagan in 1984 and 1985, were increased by Congress. Congressional action in this case was motivated by concerns to insure adequate food supplies to Africa, then suffering a famine. Such action was facilitated, however, by the large surpluses which the U.S. held at that time. Cuts in food aid which in constant dollar terms is a third of its earlier size, therefore, have come from Executive initiatives: either OMB or USDA have proposed reductions, as they did in 1973-75.

In the 1950s, at the time of its legislative founding, the United States was joined only by Canada as a regular contributor of food aid to other countries. The Canadians provided aid as grants, while the United States used grants for "humanitarian" aid; for larger untargeted flows, food aid was provided through long-term soft loans, i.e. Title I. These loans, however, troubled other commercial exporters. As early as 1954 these other countries, fearful that Title I food aid could be used to win commercial market shares away from them, coupled with concerns of American economic leaders committed to free trade, helped establish as coordinating committee, under the aegis of the Food and Agriculture Organization (FAO), known as the Committee on Surplus Disposal (CSD). The function of this group was to monitor all food aid to be sure that it was not in violation of free trade principles. Aid was to be targeted in a way to provide food to people whose needs could not be met through commercial markets; because they lacked adequate purchasing power their receipt of food aid would be additional to commercial trade. The origins of food aid, therefore, lay in efforts to address simultaneously regionally specific international problems of development and food imbalances. Some countries were food short; simultaneously the

U.S. had growing food surpluses arising from agricultural efficiency and the excessive stimulation of domestic subsidy programs. As just noted, the food short countries have changed; today's most needy states are less significant to U.S. political and military concerns. Similarly, surpluses have become less permanent.

Since its beginning as a surplus disposal, anti-communist effort of the U.S., the underlying character of the international food aid regime--encompassing the set of donors and recipients--has changed dramatically. The U.S. contribution has fallen; from providing over 95 percent of the world's food aid, the U.S. now provides between 50 and 60 percent. Moreover, in dollar terms the U.S.'s contribution is less than 50 percent. Other bilateral and multilateral donors now have a significant role.

In 1963 an international organization, the World Food Program (WFP), was created to coordinate a special portion of food aid, aid to be used in recipient government projects that would help people improve their lives, particularly in agriculture. The WFP in 1974 was authorized to expand its authority under a new international committee, the Committee on Food Aid Policies and Programs (CFA) which would serve as an overall body to establish principles for food aid and to provide guidance to donors and recipients of food aid. This "governing" task was added to the CFA's regular charge to approve particular food aid projects supported by the multilateral WFP.

Figure 1 shows how the burden of food aid funding has shifted; also it shows the declining role of food aid as a help to the U.S. in promoting exports. The top portion, 1.1., shows the fraction that food aid has represented as a portion of total U.S. agricultural exports, while 1.2 shows the fraction of food aid provided by the U.S. as the total of all

world food aid. The evolution of giving summarized in these two charts indicates clearly the decline in food aid as a major factor for U.S. commodity exports and the decline of U.S. resources as the sole provider of food security for poor countries. At the inaugural of this regime, two countries were providing aid to ten to fifteen countries; by 1989 the regime has expanded to the point where over 25 countries provided food and over one hundred received it. Ironically, the physical volume of food aid in tonnage terms declined over this period even as the burden of providing it became more widely shared.

The share of food aid in international trade has likewise declined. At its zenith in the mid-1960s the U.S. provided over 15 million tons; other donors' contributions, particularly during the Indian emergency of 1965-66, raised the total to 17 million tons--over one-fourth of world grain trade. In the 1980s food aid averaged about 10 million tons; the peak was 12 million tons during 1985 at a period when grain trade exceeded 200 million tons. Thus food aid constituted about 20 percent of total world cereal exports in the 1955-65 era compared to about 5 percent in the 1980s.*

Food aid allocation have also changed. Over the years particular interests, sometimes famine alleviation, other times the desire to reinforce foreign policy actions or even support military adventure, have had a compelling role in the U.S.'s allocation of food. For example, in the mid-1960s and again in the mid-1980s, famines in India and Africa respectively caused substantial shifts and increases in the size of food aid. Conversely, in the late 1960s and early 1970s, use of food aid as a resource to support the American

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*These figures are for trade in grains, the major food crops traded. There are, of course, non-cereal components to food aid but they usually constitute a relatively small portion of such aid by volume or value, principally dairy products and cooking oil.

military effort in Southeast Asia became important. When American involvement in that region redirected aid, Congress reacted to limit the economic and military support available to the State Department in its backing for governments in Cambodia and Vietnam. Food aid was increased as a way to compensate for falling aid levels in dollars. Congress then enacted rules to limit program Title I food aid to the poorest and neediest.[1] More recently State Department political objectives have pushed food aid toward Central American states (except Nicaragua).

II. EXPERIENCE AND REGIME REFORM: LESSONS FROM AFRICA

Just as thought regularly precedes action, so legislation either precedes or at a minimum consolidates program reform. The 1966 reforms of food aid, for example, shifted the emphasis of food aid's purposes to development, requiring countries to establish self-help measures to be funded by sales of concessional food. These changes arose in part as a result of concern that food aid could hurt recipient countries through disincentive effects upon local production. Disincentives might be created by weakening a government's interest in providing efficient prices or funding for research for the food and agriculture sector, by lowering market prices for foods and thereby decreasing food producers' income and incentives, and finally by creating tastes for imported foods such as wheat and rice that are expensive or impossible to produce locally, thus creating an unnecessary dependence on food imports. These concerns, raised by economists studying food aid in the 1950s, stimulated the 1966 reform aimed at avoiding disincentive effects and promoting self-help.

Today further reforms are in order based again on the experience of research and evaluations. Let me focus on Sub-Saharan Africa as an example of why reform is needed.

This region has grown to absorb the largest share of food aid over the last fifteen years. In Africa research related to food production, marketing, state intervention, appropriate new crop strains and household nutrition habits all have accumulated to the point where major conclusions about the importance of and solutions to food problems are possible. This research's conclusions are not only widely shared but dictate new formulas to use food aid as an effective resource transfer.

Food is central to Africa's economic development. Per capita food production declined in Africa from 1970 to 1983 by 17 percent. This was a major factor in the general economic malaise of that period. For food aid to help solve food problems that hinder African development, it must be designed to improve national food markets and foster local development actions. Indeed, the U.S. Food for Progress program was proclaimed with just this link to food in mind. Accomplishing its goals could prevent famine emergencies like those of 1973-74 and 1984-85 from recurring.

How would food emergencies be prevented by such accomplishments? First, increasing productivity by rural food and agricultural producers is critical for general economic development and it also provides income to some of the poorest, most vulnerable groups. Second, reducing variations in food supply in Africa would avoid debilitating instabilities in price which cause harm to the economy as a whole and misery for the poorest part of the populace. Third, establishing a security floor under hunger is a highly effective and equitable approach to improving general well-being.

Increasing the productivity of those who labor in food production is critical for economic development for several reasons. First, subsistence agriculture is the largest single

source of employment in Africa. In effect it establishes the minimum wage. This also means it sets the minimum income standard; below this group there is now an even poorer and growing landless group who, denied subsistence plots by legal rules or the cruelty of nature, populate permanent squatter encampments. Similar developments can be seen in Central America. Second, food surpluses from the rural population are crucial to freeing labor to grow cash crops and work in non-agricultural sectors. Food grown by these people is an important wage good. In general, food accounts for 50 to 70 percent of most Africans' household expenditures, whether purchased or used as a direct consumption item. The higher the income of food producers, the higher will be the wages in other sectors of the economy, and the more pressure will be put on these sectors to use labor efficiently. Linkages between increasingly efficient rural food producers and small-scale rural industries can further stimulate mutual growth.

Major price instabilities strike economies of African states when food production varies much over 10 percent. During the recent 1984-85 drought, cereal production fell as much as 50 percent in some countries and overall staple food production by 15 to 25 percent. Per capita food productivity in Africa is not only the lowest in the world, but variability in production is high, exceeded only by the Soviet Union.

In developed countries, such as the U.S. or Australia, with the many possibilities people have for making adjustments in their diets and with government safety nets for the poor, it is easy to cope with such variation. In 1983, drought reduced the U.S. corn crop over 50 percent. It was barely noticed by those outside the farm community even though corn prices rose dramatically. Australia, a major wheat producer, lost over half its wheat

crop that same year in its worst drought in this century. In response Australia bought wheat on the world market to meet its commercial export and food aid commitments, and bore the burden of this adjustment in a rather pragmatic fashion.

In contrast, in Africa, because of the importance of food in employment and household expenditures, instabilities in production wreak havoc in national economic life and in individual lives. Populations in areas hardest hit by the shortages migrate, burdening other regions and causing the loss of capital resources. Terms of trade are drastically altered; wealthy herdsmen become impoverished. Employment shrinks, demand for non-food goods falls and the formal economy is increasingly circumvented by informal exchanges. Even in years when national food production is normal, large numbers of Africans can be affected by regional variations.

To end hunger in Africa requires increased productivity, reduced market instabilities, redistribution of access to work or other social bases for gaining exchange rights to food, and institutions which will sustain such changes. The specific uses of food aid must be designed around a recognition of these central elements in each country's food system and must anticipate the changing needs of the food system with respect to satisfactory performance of these features.

Desiderata for food aid to be constructive in Africa require planning and formal commitments. In planning how much food aid Africa could absorb without disincentive effects, a conservative approach would be to examine the average level of commercial imports in the 1980s. While it may be inappropriate to assume that all additional food aid could substitute for commercial imports that, thanks to a growing debt burden, are not

affordable, past imports requiring foreign exchange are a good indicator of economic demand and hence absorptive capacity available without displacing local production. Market and political factors make it implausible that food could actually substitute completely. Nevertheless, past consumption levels, assuming a static equilibrium expansion between domestic production of food and domestic demand, give a rough "shadow" estimate of how much food aid can be absorbed.

A National Academy of Sciences workshop projected that world food aid needed for stabilization in LDCs by 2000 would be 29-37 million tons--roughly triple current levels. For Africa about half or more of projected import increases may require some aid to finance them. For food deficit countries where reform measures are moving in directions urged by the U.S. and the World Bank, such an increase in callable food guarantees would be especially deserved, particularly as a countercyclical way to balance food needs and prevent shortages. For African countries all food aid could increase by $500 million per year, I believe, without violating the spirit of usual marketing requirements set to protect commercial interests.

Successful food aid requires multi-year commitments. Each country's use would work best if the agreement regulating the aid allowed the resource flow to change from year to year in size, type of food commodity and even between food and cash. For example, if Guinea or Madagascar were to have a banner year in rice production, then a switch to allow a donor to send them less rice and some wheat or cash might be appropriate as a reward for their "success."

A high priority for food aid should be as a resource for improving African states' food markets. Past U.S. rules and practices regarding food aid made this priority difficult to accomplish. First, the interagency working group has usually had inadequate information about failures in food policy and insufficient leverage or assurance of covering risks in policy change to nurture market improvement. The effort to use food aid in support of a grain market restructuring in Mali is the major exception, and that effort was set back by the 1984-85 dropout.

In many African recipients, unfortunately, policy reforms to improve the food system have been lacking or reluctantly made. Reluctance to move toward greater reliance on small farmer incentives and private market transactions coupled with fewer food subsidies and trade restrictions results from a legacy of socialist ideology, colonial-period market controls, efforts to restrict pariah entrepreneurs and a demand that the state assure food security to key political groups. This analysis leads to the second major conclusion: food aid must address policy reform.

A third priority is that food aid should be provided so as to maximize its economic gain in the transaction. A classic trade-off exists between the two economic desiderata of efficiency (i.e., minimizing costs per unit) and effectiveness (i.e., getting the job done). This trade-off is especially germane to food aid. To be effective in stabilizing food supplies and expanding access of the hungry to food without creating disincentives, the amount and type of food aid provided needs to vary from season to season. This requires more administrative oversight than sending a fixed amount annually. It is hard, therefore, to minimize costs and still meet such needs effectively. If world food prices should be high

when needs increase, then donor budget costs must grow or effectiveness is lost as the volume of food shrinks, failing to prevent destabilizing price rises in a recipient's food system, new drains on foreign exchange, and the growth of hunger in the population.

From the point of view of effectiveness in getting caloric supplies to the most hungry and generating resources for development, a country (and the "right" people within it) must receive the right amount of the right kind(s) of commodity, at the right time. When this happens, however, the purchase costs, transport costs and storage costs may all be higher than under a plan to deliver food at the cheapest possible cost per ton. Since saving money and saving lives are both worthwhile goals, solutions seeking to minimize costs and maximizing benefits are needed. While no general formula is workable, there are ways to strike a balance. In light of the changing food situations in Niger in 1984-87, for example, more cost minimizing/benefit maximizing strategies could have been adopted by donors. In 1985-86 grain production in Niger doubled. By 1987 storage was at full capacity just a year or so after many people in Niger were facing starvation. Rather than continuing to supply sorghum or other grains when the country was stuffed with millet, donors could have switched commodities. Milk, for instance, was in short supply after herds were depleted. The principle illustrated here is that food aid should help stabilize grain and overall food supplies in each case.

The rationale for allocating food aid ultimately requires that benefit exceed costs for both donors and recipients. Beyond this, one begins to look for improved benefit/cost ratios for donors and recipients in situations where different food aid levels may result in greater benefits for one but greater costs for the other. This search need not be a zero-sum

situation, i.e., where any gain to one is a loss, however minor, to the other. Hence, improvements in the cost/benefit ratios of both donors and recipients can be sought together. Although "optimal" outcomes for donors and recipients simultaneously are unlikely, there are likely to be choices, especially when surpluses exist in donor states, such that greater food aid improves relative benefits for both.

The costs of U.S. food aid have historically been less than those nominally stated. This is true for surplus holding donors since the export of food reduces downward pressure on domestic prices and creates a savings in the Agriculture Department's expenditures for commodity programs. Of course, trade liberalization, including reducing subsidies, and the greater use of supply management could also reduce the level of surpluses and the Treasury's "savings" from food aid. Indeed, if food aid carried no benefits, these other approaches would be more cost effective. Food aid, however, is beneficial. The best way to price the benefit food aid brings is to use the "shadow" price of the equivalent food on the local market, that is to calculate what the food would sell for in the African recipient in the absence of any government regulation which artificially lowers (or occasionally raises) prices. When the PL480 legislation requires counterpart funds, this approach should be used. In comparing alternative commodities to be used as food aid, the way to optimize the value of the transfer is clearly to choose that mix of commodities that can be obtained at the same cost in the U.S. but yield the highest local sales possibilities in the recipient, thus reflecting relative demand.[2]

Cooking oil rather than grain may be the key commodity on occasion, for example. Market distortions might make this judgment difficult, but local economists, perhaps working

with host government and other donor officials, should be able to reach judgments on this issue fairly easily every three to six months. The simple point is that donors should provide the food commodity that yields the highest benefit in sales terms in the recipient relative to the procurement costs. This is true whether the food is to be sold, to be "exchanged" or to be used directly in projects and not marketed. Of course, marketing food, except for emergency cases, is the most efficient way to provide it, and one most in keeping with expanding food marketing channels. PL480 legislation should reflect this by making monetization of all food aid the norm and direct use of imported food aid in feeding people the exception to be used for emergencies and other special situations.

A further point is the taxation benefit to African states of the revenues from food sales. Selling food aid openly, into areas with effective demand, can amount to cheap, efficient and progressive taxation. True, in extreme cases, it has been suggested that food aid might act as a "drug," encouraging governments to become increasingly reliant upon it either as a way to cover large deficits in a food subsidy program (as in Egypt) or as a source of important revenue which might better be raised through a more egalitarian and efficient taxation system. Bangladesh, for example, depended at one time for a large proportion of its budget on food aid. In the mid-1970s revenues from food aid sales were equal to 75 percent of government development expenditures. Instead of developing a more efficient and effective taxation system, Bangladesh, some argue, was allowed to develop a dependency on earnings derived from its food sales, earnings which would disappear if either domestic or commercially imported food were used in its ration shop sales instead of food aid. Further, there have arisen politically important groups that have a stake in the food shop

system being continued. Thus, it will be important for African states to use revenues from food aid to assist agricultural development and not principally to run food subsidy programs. A streamlined PL480 bill could reaffirm the US's priority for such self-help targeting.

Donor coordination is another widely agreed upon requirement of a reformed food aid regime. Numerous studies by the World Bank, the European Economic Community and the International Food Policy Research Institute have concluded this. The multiplicity of projects, especially in small countries like Lesotho and Burkina Faso have been noted as creating unproductive burdens on governments, not to mention the cost of dealing with project design, review and evaluation experts from fifteen or twenty donor agencies. Perhaps even more important for food aid is the prospect that failure to coordinate aid may (1) waste resources in clogged transport routes, warehouse spoilage, demurrage charges and (2) allow procyclical arrivals of food, especially egregious if duplicative rather than complementary commodities arrive as food needs decline.

With the establishment of food donors who were not food exporters in the 1970s and the decline in efficiency of food aid as a surplus disposal mechanism for exporters, the surplus disposal rationale was attenuated. Furthermore, a new rationale had arisen. Countries such as Mali, Kenya and Zimbabwe, clearly too poor to be significant donors, could improve their own economies if they became occasional suppliers of food aid paid for by richer countries such as Japan or Germany. Such "triangular" aid can be extremely helpful. First it provides cash to a poor country to secure food, second it strengthens regional markets, and third it delivers food to a country in need. Expanding food aid from such donors would promote regional trade, reduce transport costs, and stimulate

development. "Triangular" supply arrangements, in which neither the food donor nor recipient is the source of supply, have been encouraged by international groups such as the World Food Program; moreover, the U.S. could benefit directly or indirectly as more surplus food (from the U.S. or not) moved into trade channels. Even the United States, the premier food-supplying nation, has entered into triangular supply arrangements, shipping wheat to Zimbabwe so as to supply white maize to Zambia as food aid.

A last point of agreement among experts is that food aid should be given away as little as possible. Welfare may be temporarily an unfashionable term, but the fact is that the welfare of Africans is low, and the world's rich have an obligation in an interdependent world to assist Africa. Furthermore, it is in the long term interest of the U.S. and other rich countries to do this. Welfare, however, does not and should not mean free food distribution. Free food can disrupt voluntary rural work efforts, create dependencies among nomadic populations as in Mauritania and northern Kenya, and become a device for manipulating populations by the agency charged with the free distribution. Famines are the only real situation in which free distribution is justified. Famine prevention, of course, is a goal of reform in food aid. Thus, a major effort should be made to create rural work projects in areas of greatest nutritional vulnerability, not necessarily using food, but having the possibility of adding food as an input. These projects could then be expanded at times of regional or national crop shortfalls and food from overseas, if appropriate economically, could be used. Food could be part of the work project's compensation program, either as a partial wage payment or through closed-loop sales to "beneficiaries" in the project. This would expand total food supply to an area suffering an economic downturn and/or food

shortfall that threatens the populace's basic food security. Monetization of all food aid as the "normal" procedure, as mentioned earlier, should be part of the reform measures in the 1990 legislation.

In conclusion, then, there has developed around food aid since the 1950s a set of widely shared norms for its appropriate use, taking into account its ramifications in the food system and economy of the recipient country. Such norms, discussed above as priorities in Africa, are shaped by a consensus on what has been learned from experience with food aid impacts. Reform of U.S. food aid should respond to the lessons of these norms. First, because food aid is a substitute or an addition to domestic production, policies affecting investment and efficiency in food production are highly pertinent to whether food aid can avoid disincentive effects; this in turn affects its future need--food production policies must be linked to food aid. Second, macro economic and food price policies affecting incentives are important in the allocation of food aid since food aid can reinforce or undercut government policies in these areas. Third, food subsidies either targeted or general and their cost effectiveness are a key factor in the actual impact food aid will have. Finally, information on nutrition and health related issues provide a basis for the justification and selection of commodities provided as food aid.

III. PRESCRIPTIONS: TARGETING FOOD AID TO ADDRESS FOOD INSECURITY, ENVIRONMENTAL AND AGRICULTURAL PRODUCTION PROBLEMS

In light of the changed world situation and our increased knowledge of effective food aid policy analysis, the United States should adopt the reform suggested above. Having established the initial principles and rules under which food aid became an institutionalized

regime in international trade[3], the U.S. is now in a position to provide new leadership in the international community. How? By legislation that shifts priority to needs, targeting resources into areas where the use of food is most appropriate and most efficient in promoting development that will reduce need, and setting an example in its own behavior so that food becomes delinked from agricultural subsidy and protection policies. This would enhance the U.S. position in the Uruguay round of GATT trade negotiations over agriculture, especially if the U.S. had a position on "bona fide" food aid common to other donors--i.e. grant not loan aid. This would also allow aid to be managed in a way that would be more likely to induce policy coordination and increased food provision by other industrial countries who, unlike the United States, are not food or agricultural exporters.

To achieve this goal, five steps would be appropriate. These steps are: (1) establishing food needs as the principal allocation priority for food aid; (2) establishing modalities whereby needed tonnages of food aid, particularly for the most stressed populations and locales, currently heavily in Africa, would be protected from price fluctuations; (3) streamlining food aid to make it a fully grant program and one related to prospects for debt forgiveness (this is particularly important in countries where such a step is appropriate in support of economic policies to stimulate development and cushion economic sacrifices required to enhance domestic investment and frugality); (4) enhancing policy coordination and co-financing among donors, and (5) eliminating earmarking except for projects that attack fundamental problems leading to food insecurity, including high population growth, deteriorating soil and forested land and the waste of harvested grain (as consistent with the Hamilton Task force recommendations).

These prescriptions may more precisely be put forward as reforms to the existing PL480 legislation and implementation. The aim is to establish changes not only in U.S. procedures and rules, but throughout the international regime. The first proposed change, giving priority in allocations of food aid to countries desperately short in domestic production and without adequate economic purchasing power in the world market, has an intuitive sensibility. After all, these countries in which the need for food is undeniably large, while the commercial import option to achieve food security is blocked by national poverty and growing debt. These countries need to import food under any circumstances. The important thing is that the food should come in a reliable and responsive way to their needs which vary from year to year. This requires that other priorities, particularly diplomatic, commercial and bureaucratic ones, do not force the misappropriation of food for less efficient uses. Furthermore, inertia, built-in to the aid system through the older, multiple purpose, annual authorization view of food aid can prevent quick responses to changes in the level of need--or type of commodity.

Food aid regulations should be formulated in a way that stabilizes poor countries' per capita food supplies, while at the same time meeting one of the newer norms of food aid provision, as stipulated in the Bellman Amendment of 1979, namely to prevent harm to local markets and producers. Following this scenario the top 10 countries for U.S. food aid would not include India, Egypt, Pakistan, Philippines, El Salvador, the Dominican Republic, and Morocco, states where the U.S. is the dominant provider. Rather, the allocation of funds would be substantially redirected towards countries with high rates of environmental threat, malnutrition and high population growth such as Ethiopia, Mozambique, Sudan,

Bangladesh, and a number of other smaller African states. Rewriting Section 2 of PL480 to meet the needs priority might look like the following:

> Sec. 2. The Congress hereby declares it to be the policy of the United States to enhance food security in developing countries and to encourage international trade based on the use of food aid funds to combat hunger and malnutrition and to encourage economic development, especially in local food and agricultural production. In furnishing food aid under this Act, the President shall--
> (1) give priority consideration, in helping to meet urgent food needs abroad, to making available the maximum feasible volume of food commodities (with appropriate regard to domestic price and supply situations) required by those countries most seriously affected by food shortages and by inability to meet immediate food requirements on a normal commercial basis.

A <u>second</u> recommendation is to provide stability in food resources targeted to the needy countries and peoples, especially for extremely vulnerable states in Africa, since price fluctuations pose a special problem for food security and are likely to be substantial in the 1990s. The creation of a special earmarked, no-year account for Africa, similar to subminimums already used in the Title II legislation, could guarantee greater security for the special needs in Africa. An African subminimum, added to the existing minimum tonnage requirements, would guarantee food for Africa and reduce the prospect that people in the world's poorest countries will have to disproportionately share the costs of instability in world food markets in the 1990s. With appropriate links to policy in recipients, this subminimum need not have a disincentive effect.

The <u>third</u> recommendation is to redraft the authorizing legislation so that AID may administer an entirely grant program dedicated to development. Title I/III would be moved to a separate legislation for use by USDA, the State Department and other agencies, including AID, and would serve the purposes of subsidized food exports from the U.S.

government, including market development. Roughly, a billion dollars of grant funds per year tied to food costs is a reasonable target. The separately legislated export promotion and diplomatic program would receive PL480 reflows plus other funds sought by USDA for assuring U.S. commercial market shares. This separation of programs would provide a double bargaining asset in the GATT negotiations. The grant food aid program would send aid to those countries where food can be a valuable resource in attacking the particular problems associated with food insecurity and hunger. The export program could be a more direct counter to other countries' agriculture subsidies. Detailed prescriptions in PL480 currently should be eliminated both for the transformed Title I (e.g. Sections 101 and 108 should be dropped) and for the expanded grant program (e.g. make Section 206 more flexible and targeted for food security objectives). Uses of local currency should be given high priority for attacking pressures on arable land and the rapid environmental deterioration in many countries. Irrigation, reforestation, research on production and other national and international collective benefits should be central to projects supported by food aid, either under Section 201 or 206.

Fourth, in rewriting the legislation, Congress should provide incentives for other countries to coordinate and cooperate with the United States in overseas undertakings using food aid. Needs forecasted in a 1988 National Academy of Sciences workshop indicated that stabilizing national supplies in developing states required a doubling or tripling of the aid currently available. Reform of the U.S. program should encourage other donors, who are not exporters, such as Japan, to view more positively the leadership and collaboration of the United States and make it easier for them to utilize U.S. farm commodities in their

food aid programs. Reforms away from using aid as a trade subsidy should put the United States in a much stronger posture vis-a-vis our own preference for a liberal trading order. If the U.S. adopted the first recommendation--a need approach, it could negotiate with other donors to match or exceed the U.S. in contributions. Other donors' grants should grow substantially, as they once did from 1968-78. This recommendation would strengthen the current Section 205 of PL480. Otherwise, in the Uruguay Round of trade negotiations, the U.S. will have to defend our call for reduction of barriers against the allegation of inconsistencies in the U.S.'s own program via Title I programs used for "unfair" market competition as measured by free trade principles.

A fifth reform is to reduce radically earmarking and the requirement for "double" counting of food transfers. Earmarks for use of local sales receipts are cumbersome and inefficient. Their purpose might appropriately be maintained in the legislation much in the manner of the Bellman Amendment. This requirement, that the Secretary of Agriculture affirm that any food aid provided will not adversely affect local production or national/international marketing, could be a model for any other Congressional constraints. For example, Congress might require food aid be targeted to alleviate food insecurity without legislating specific modalities, which can change. Another "amendment" could require that priority be given environmental concerns such as improved and more efficient agricultural techniques. If food aid allowed recipients to exploit less heavily the marginal soils of Africa and to protect the environment more generally, its allocation would be given high priority among the projects financed by the U.S. Furthermore, such uses would be especially attractive for co-financing with other countries, possibly under the aegis of the

World Bank which already is encouraging such steps. Particular projects, such as food-for-work programs, might be supported by food from the U.S. and food and cash from other donors. Currently, projects developed using food aid are widely scattered geographically and functionally; they are seldom integrated into national food needs or linked to food production and distribution of the recipient country. This is especially true in mother-child health clinics and institutional feeding, though this type of project could be adapted to a food/population/environment policy context. A U.S. priority for food security would be evidence of U.S. leadership among the economically sophisticated members in the aid community and could be more successfully monitored in Congressional oversight.

The United States remains the world's largest exporter of grains, the largest provider of food assistance, and the most complex policy implementator. Detailed legislative requirements, however, often create undesirable constraints and complex configurations for policy implementation. They can even create disincentives within the bureaucracy to accomplish tasks. As such they are often a source of amusement and scorn among political scientists. Although Congress has often been successful in earmarking specific projects or in initiating higher standards for environment and industrial performance, its efforts have inconsistent effects. Rather than streamlined, efficient management resulting, often the more complications that have been built into legislation, as in the Title III case, for example, the more the results have yielded the net opposite than intended.

IV. CONCLUSION

The United States and the other donors do not provide adequate food aid to attack successfully food shortages in poor states. The world's most food insecure states remain

extremely vulnerable. Furthermore, what food aid is provided is not allocated in relative proportion to needs. While many highly food insecure states often suffer from declining agricultural productivity, increasing deforestation and high population growth rates, they are given relatively lower priority in practice. In fact among the top twenty recipient states of U.S. food aid there is a negative relation between degrees of need and per capita supply! Even in a country like El Salvador, which has rapid deforestation, generous U.S. programs have largely ignored production and environment problems. This is equally true in Africa where much aid has bee "dumped" under the guise of emergency feeding, i.e. free food. An overwhelming case can be made for changing regime practices, especially those of the U.S., towards targeting food to food insecure states and tying it to appropriate food production and environmental goals. Currently food aid provided to the most needy countries comes disproportionately from other countries than the United States. Thus, the U.S. has fallen behind in taking leadership to address global environmental and agricultural production needs to alleviate emergencies. Potentially explosive situations are developing in the highly concentrated urban populations emerging in the Third World. Cognizance of this danger is required. Otherwise urban based political pressure will accelerate the mining of the earth's soils in the next decade in these poor states.

The criticisms just reviewed have given rise to an evolutionary change in the world's food aid regime. Initially food aid was to come from donors' surpluses, to add to total trade, to be provided on an annual ad hoc basis, and used to promote commercial trade or to address emergency humanitarian needs. The new formula, reflecting principles of market efficiency and development gains rather than exceptionalism and diplomatic gains, are that

food aid should (1) be supplied most efficiently, (2) be a substitute for a recipient's food imports, (3) be given under longer term commitments, and (40 provide development investments for recipients.

Each of these four principles would be incorporated in future U.S. legislation, changing the remaining elements of the older ones still embodied in the original legislation. In some cases, as with other established U.S. programs, although new principles have been openly advocated by food aid specialists, based on expert consensus, such ideas are not well received by national government budgetary authorities, diplomats, or commodity interests.

The recommendations for the PL480 component in the farm bill which will be under discussion in 1989-90 derive from these new principles. The key recommendation is that food aid should go to poor countries most in need of food imports to meet nutrition deficiencies. Such need should become the principal priority of food aid. Food aid should attack the very conditions and causes that justify its existence. Its aims, therefore, would be: (1) the need to improve agricultural production through practices that do not threaten the environment and which take advantage of the latest technology; (2) the support of regional, national and international markets to smooth out instabilities in domestic food supply and reduce the need for grant food imports in the longer term, and (3) the design of flexible, environmentally targeted interventions, perhaps using cash-for-work from food sales proceeds, in which donors such as the United States and Japan would provide co-financing.

With such an emphasis, I believe, the prospect for co-financing with other donors who could provide both cash and food inputs to longer term efforts seems promising. The World Bank has begun efforts to initiate a framework for such cooperation. Significant aid donors

that are not food exporters, such as Germany and Japan, have exhibited a willingness to associate their financing when such efforts are not competitive with their own domestic industries.

The broad proposal outlined above is for reform of the international food aid regime. The United States, as its principal founder and major contributor (both to its substance and its rules) is well placed to assert leadership in attacking food insecurity. New knowledge about world food needs and effective uses of food aid provide a basis for regime reform. Leadership in this realm, taking advantage of the developed world's rich agriculture productivity and surplus capability, along with a concern for efficient world agricultural production, calls for powerful states among donors of food aid to direct their use of food aid more centrally toward the goals of protecting people and protecting our environment.

FIGURE 1.1

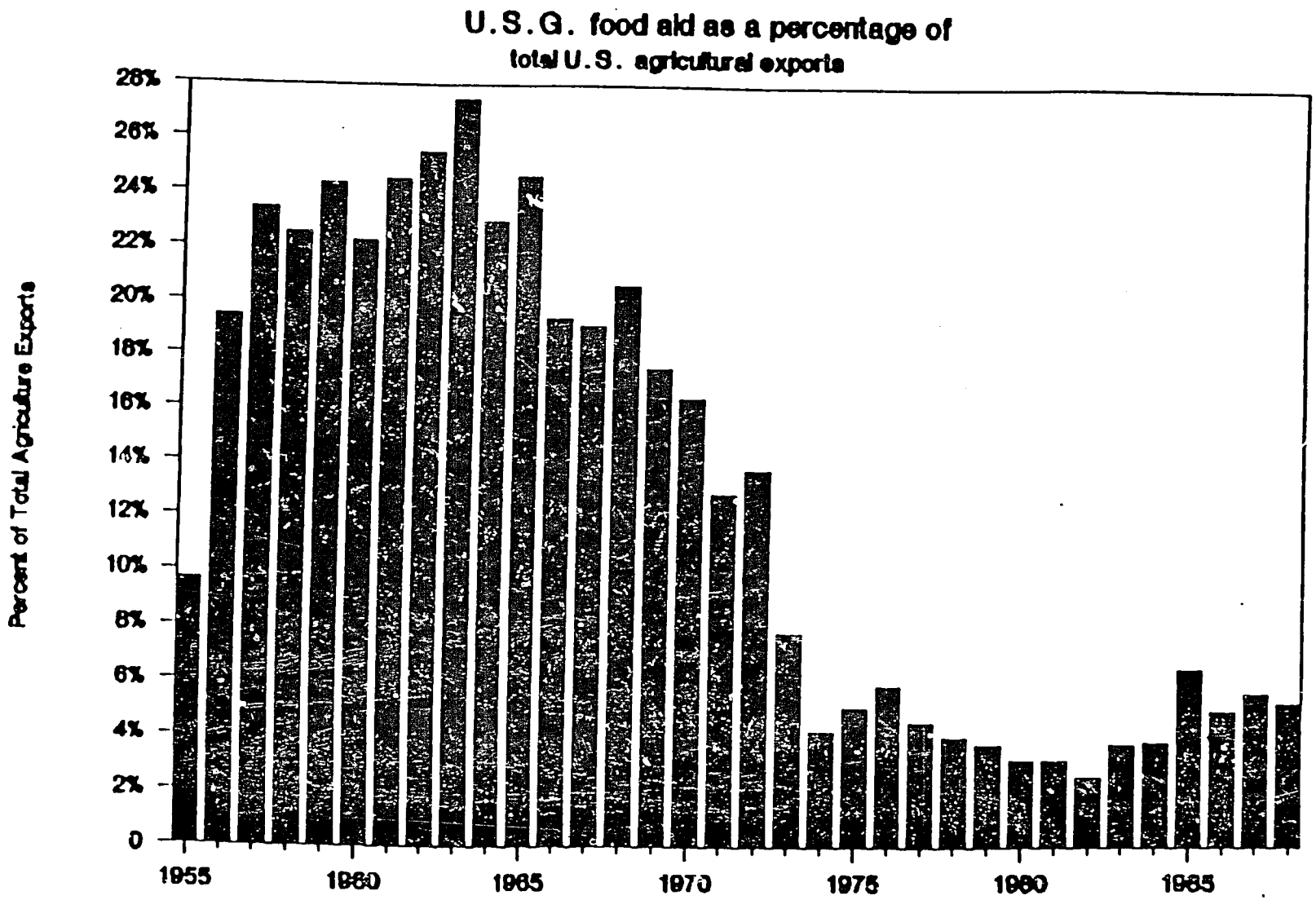
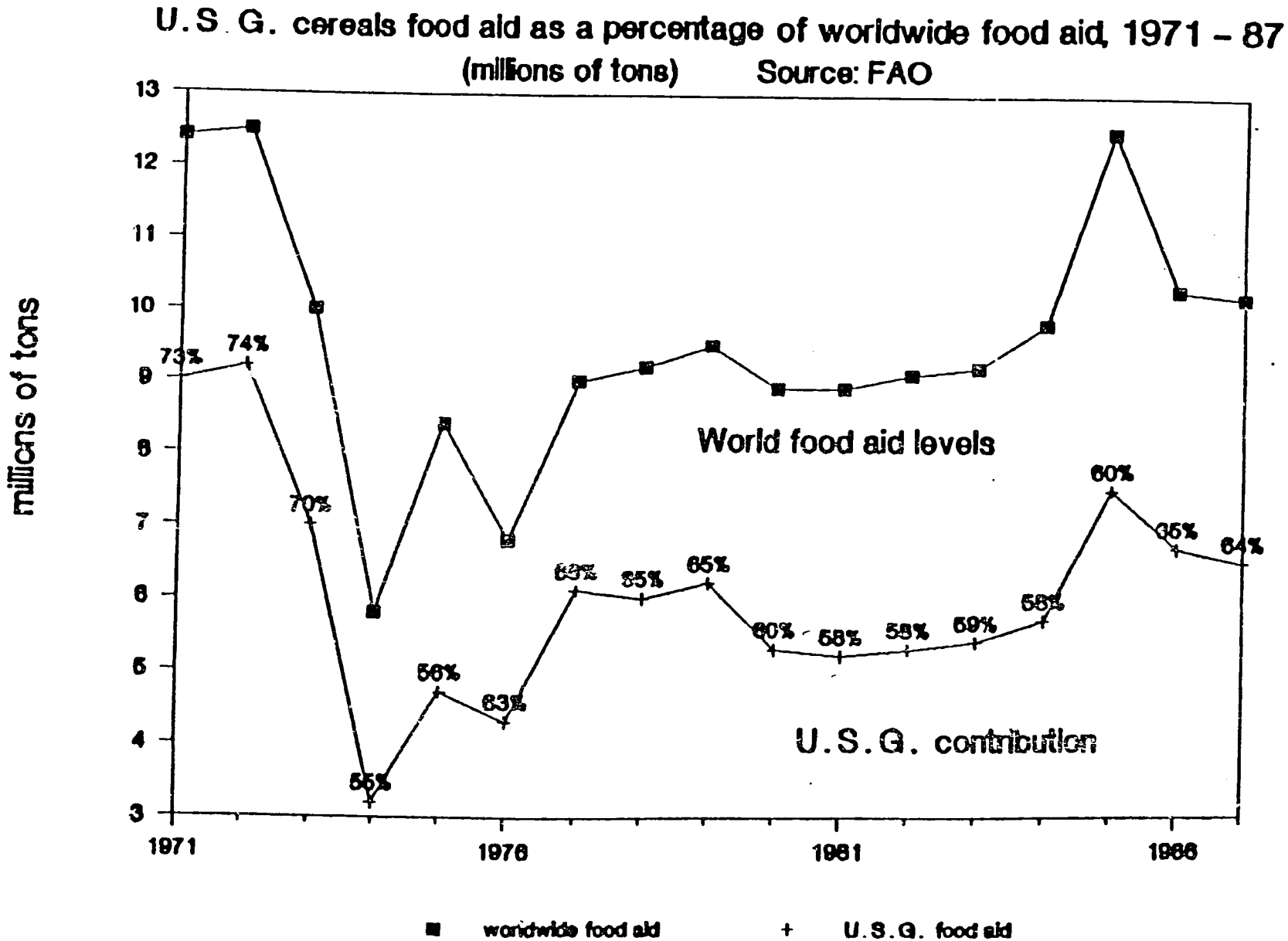

U.S.G. food aid as a percentage of
total U.S. agricultural exports
Percent of Total Agriculture Exports
28%
26%
24%
22%
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0
1955
1960
1965
1970
1975
1980
1985

FIGURE 1.2


U.S.G. cereals food aid as a percentage of worldwide food aid, 1971 - 87
(millions of tons)
Source: FAO
millions of tons
13
12
11
10
9
8
7
6
5
4
3
1971
1976
1981
1986
World food aid levels
U.S.G. contribution
73%
74%
70%
55%
56%
63%
62%
65%
65%
60%
58%
58%
59%
58%
60%
65%
64%
worldwide food aid
U.S.G. food aid

ENDNOTES

[1]Michael Wallerstein, Food for War--Food for Peace (Cambridge: MIT Press, 1980).

[2]Shlomo Reutlinger and Judit Katona-Apte, "The Nutritional Impact of Food Aid: Criteria for the Selection of Cost-Effective Foods," in J. Price Gittinger, et. al., eds., Food Policy (Baltimore: Johns Hopkins University Press, 1987), pp. 234-245.

[3]Raymond F. Hopkins, "The Evolution of Food Aid," Food Policy, Vol. 9, No. 4 (November 1984), pp. 345-362.

[1989]

Chapter 19

Alleviating Hunger While Building Markets

John W. Mellor

This paper has three objectives:

* to review the relationship between agricultural growth, overall economic growth, per capita incomes, and commercial exports
* to point to the great potentials which lie ahead in the 1990s, and to discuss why these potentials are grossly under-recognized
* to lay out an action plan to eliminate hunger and build commercial markets simultaneously over a 20-year period

Export Markets Depend on Third World Agricultural Growth

With respect to commercial cereal export markets, developing countries are the only remaining growth market.

In the developed countries we see continued increases in agricultural output by about 2% a year. That is because we have institutionalized the seed varieties, chemicals and production methods that increase agricultural productivity. Thus, inevitably, supply moves ahead of demand and either exportable surpluses are generated, storage stocks are increased, or resources have to be withdrawn from agriculture at an uncomfortably rapid pace.

These processes now are beginning to occur in the Soviet Union. So far, their demand for cereals has been growing rapidly, particularly due to a rapid growth in livestock consumption that has moved ahead of the moderate pace of agricultural production growth--

a pace which has been faster than that of western Europe. Eventually, demand growth will slow. At that point, the Soviet Union will move towards self-sufficiency and the United States will lose this export market.

In developed countries like the United States, incomes have been raised to the point at which people do not wish to consume significantly more food even when their incomes rise. In the developing countries of the world, incomes are so low that as incomes grow food demand increases rapidly and continues to do so for many decades. It is possible to raise incomes and hence food consumption of people in developing countries so rapidly that, when combined with rapid population growth, food demand will outstrip even the most rapid rates of food production growth that are possible. That will create substantial commercial markets if the capacity to pay for those food imports is created.

There are four key points to keep in mind with respect to income growth and the eventual creation of commercial markets:

* The mass of the people in developing countries live in rural areas.
* If agricultural growth can be accelerated in the rural areas where all these people are located, it will increase both employment and incomes, as well as output from the rural sector.
* Agricultural growth is the best way to incorporate this mass of rural people into the development process. The cost of moving rural people into nonagricultural jobs in the major metropolitan centers is too high. Countries that have tried have ended up with unequal income distributions and relatively slow growth.
* The United States will not be able to capture all of these third world export markets. Developing countries will generate exportable surpluses in some agriculture commodities, while at the same time importing others. The imports will be much greater than the exports. If the United States concentrates on eliminating the export competition, the growth processes which bring about the import potentials may be lost.

There are exceptions to the generalization that agricultural growth must be the basis on which the overall growth occurs. The two key exceptions are Hong Kong and Singapore.

They are both city-states which lack a major agricultural sector. That is not characteristic of developing countries generally. The third exception is South Korea, which first developed its industrial sector and then that pulled the agricultural sector along. However, South Korea was peculiar in two respects. Most important was that the extremely large quantities of capital needed to move the industrial sector without support from agriculture were provided by massive capital imports. Those capital imports were way beyond what could be sustained in most developing countries. Second, South Korea had preferred access to the largest and most rapidly growing industrial market in the world--the United States.

Economic Growth Potential is High in the 1990s

The 1960s and 1970s constituted a period of rapid economic growth in developing countries. The growth rates slowed to a crawl and almost stopped towards the middle of the 1980s. Even in the latter part of the 1980s only a few Asian countries had returned to the rapid growth of the 1960s and 1970s. Two points must be kept in mind in assessing the potential markets for the 1990s:

* It is not surprising that economic growth slowed in the 1980s. The oil shocks, the rapid inflation that was associated with the United States' participation in the Vietnam War, and a number of related factors resulted in major structural distortions throughout the global economy in the 1980s. In order to bring those distortions under control and create a favorable basis for eventual return to growth, the growth processes themselves slowed to a halt in the 1980s. A rapid cessation of monetary growth in the United States, the debt crisis and attempts to get that under control, and other forces slowed the growth process.
* The basic engine of growth is not foreign trade, but the development of human resources. A productive labor force combined with effective institutions allows technological change and productivity growth to proceed. The processes of human resource formation were proceeding rapidly through the 1980s throughout the developing world, even in Africa where the actual growth rate was so disastrously low. A much larger stock of human resources provides the basis for faster growth in the 1990s than was possible in the 1960s and 1970s.

Elimination of the distortions of the 1980s--and the growth in the stock of human resources and the institutional structures to utilize it--offer a favorable prospect for the 1990s.

Food Aid Plus Economic Growth Can Alleviate Hunger

One way to alleviate hunger is to use large quantities of food in the short run, and also stimulate economic growth which would allow for a rapid growth of commercial markets in the long run.

Who Are the Poor and Hungry?

The first questions that must be raised when talking about alleviating hunger through economic development and creating commercial markets are who are the poor and hungry, where are they located, and how many of them are there.

By the usual definition of absolute poverty at the level of severe caloric deprivation, there are about 700 million people below that miserably low poverty line. A somewhat more reasonable poverty line indicates there are about one billion people who are hungry and poor.

These people are located largely in rural areas. Ninety percent of the hungry poor in Africa are in rural areas as are 80% in Asia. Even in Latin America, which is very urbanized, 60% of the hungry poor are in rural areas.

Most striking about the hungry poor is that a substantial proportion of them--about 250 million--are located in rural areas that have a high potential for agricultural growth. These areas have been productive enough to support a large but very poor population. Rapid population growth has occurred in these areas precisely because they are productive.

Because they are productive, they offer potential for the application of new high-yielding varieties that can raise incomes and food supplies, and lift the hungry poor out of their extreme poverty.

Innovations and Infrastructure are Catalysts for Growth

What needs to be done to avail of these opportunities? There are two key elements:

* technological innovations that allow an increase in productivity, particularly in yields per acre of the scarce, valuable, highly productive land
* infrastructure that allows those commercially viable technological innovations to move out over the whole rural area

Studies of infrastructure show that rural areas that do not have access to all-weather roads and the institutional structures that go along with them are left out of the development process.

The cost of providing accessible roads to all rural people in developing countries is about $300 billion. The distribution lines for rural electrification and rural telephones would add some 10% to that cost, for a total of less than $350 billion.

Two caveats need to be kept in mind if this figure seems overwhelming:

* Somewhere between 15% and 40% of the cost of building that infrastructure is represented by the food consumed by the people building it; labor-intensive processes are the most appropriate ones for producing this infrastructure. Large food surpluses could be used for this purpose, providing the goods upon which the incomes of laborers building that infrastructure could be spent.
* If infrastructure along with ancillary improvements were provided over a 20-year period, it would amount to about $15 billion per year.

The program to eliminate hunger described above could be described as a 20-20-20 program. Twenty billion dollars a year to pay for infrastructure, 20 million tons of food aid a year to provide the food for that labor force, and a 20-year period. The 20-year period

should be seen as combining 5 years for building up the capacity for the program, 10 years of steady activity, and 5 years of gradual decline in program activity.

The cost of such an effort could be shared with developing countries. Perhaps they could pick up half of it. The costs, of course, are immense. The $20 billion is equal to a little more than half of the total of current annual foreign assistance from developed to developing countries. The food aid involved would be three times the present food aid level. Thus seriousness of purpose and resolve would be required in order to build the rural institutional structures for such a massive effort.

Now is the time for such an effort. It would not have been possible 20 years ago because many other factors besides building the basic infrastructure were necessary, but not available. For example, all the vital institutions of technological change hardly existed 20 years ago. Now, most of those are being provided at somewhere near an appropriate scale. Again, now is the time to put on the massive push for the infrastructure.

The United States Can Do Well While Doing Good

If the United States is serious about alleviating hunger through economic development and growth and creating commercial markets in the long run, three critical needs have to be met:

* Foreign assistance must be substantially increased and focused on the countries where the bulk of the poorest people are located.
* Foreign assistance must have a major food component.
* Developing countries must recognize the need for adequate food supplies for their people and plan to give greater emphasis to agriculture, rural development, and employment.

The risk that programs may be discontinued must be reduced by effective food security programs. These programs include putting food aid on a more stable basis and

reinvigorating the now more or less moribund International Monetary Fund cereal facility which provides loans to developing countries to meet their critical food imports in times of scarcity.

It must be recognized that a substantial amount of the commercial demand for cereals imports will come on the livestock feed side and not the human food side. At the same time that the potential market is tapped for vast quantities of livestock feed, the livestock industry in developing countries can provide a tremendous increase in employment and hence demand for food for direct consumption. If it is to prosper, the livestock industry needs substantial technical assistance in production, storage, transportation, and other aspects of marketing. Technical assistance to the livestock industry should form a major part of a foreign assistance program.

Thus there is great opportunity for U.S. agriculture to do well while doing good. To do so in this complex world requires understanding complex processes and effective policies that will work to alleviate hunger and create markets.

[1990]

Chapter 20

DOES FOOD AID HAVE A FUTURE?

Vernon W. Ruttan*

The easing of the cold war has undercut the strength of one of the major justifications that has been used to support foreign economic assistance in the past. Economic and security assistance to poor countries has declined since the mid-1980s along with the decline in tension between the United States and the USSR. Unlike other assistance programs, however, changes in the level of U.S. commodity stocks have been a stronger determinant in the level of change in food aid levels than tensions between the U.S. and the USSR. Fluctuations in food aid have varied directly with the level of U.S. surplus stocks and inversely with the strength of commercial exports.

The future of U.S. food aid is uncertain. Even so, there is a potential for a constructive role for food aid in this evolving world setting if used to relieve the stress on domestic markets of countries attempting to implement economic and agricultural policy reforms; to meet the emerging needs of countries caught up in the trauma of natural disaster of the breakdown of political order; or to support development efforts designed to remove chronic food scarcity. Unfortunately, the self-interests of the several food aid constituencies have diverted food aid toward less defensible objectives. Even a cursory glance at the list of countries that have been major recipients of food aid suggests that

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strategic objectives have carried a heavy weight relative to development or humanitarian objectives (Figure 20.1).

Interests and Clients

Support for food aid has moved through three phases.[1] In the 1950s and into the mid-1960s, major support came from the agricultural constituencies and their Congressional patrons. The 1950s and 1960s were years of large U.S. grain stocks. From the 1950s into the 1970s Senator Hubert H. Humphrey (D-MN) lead the Congressional effort to initiate and expand "food aid". Indeed, it is difficult to write a history of food aid without it becoming a biography of Hubert Humphrey (Chapter 1).

During the 1960s and 1970s when food aid was being heavily oriented toward political and security objectives, the administration itself became a major constituency for food aid. food, for example, provided large financial support for Vietnam activities. It was during this time also that Israel and Egypt became large recipients of food aid.

During the late 1970s, the humanitarian assistance constituency, operating through the private voluntary organizations, had become a strong constituency for food aid. The use of food aid as an instrument of development has, from the beginning, received strong rhetorical support. But it has never been able to generate substantial constituency support.

Since 1980 funding for the promotion of agricultural exports through subsidies has increased substantially, but principally through programs other than PL-480. As a result, those interested in market development and trade expansion have shifted much of their attention from food aid to other export enhancement programs.

The interest groups discussed in this section include the four major clients of the PL-480 program--the farm commodity groups that benefit from market development, the agribusiness firms who handle the commodities, the maritime interests that are involved in the overseas shipment of farm commodities and the private voluntary organizations and cooperatives involved in the distribution of Title II commodities.

Farm Groups

During its initial years, the general farm organizations were strong supporters of food aid. The initial proposals for the sale of agricultural commodities for foreign currencies was first promoted at the 1952 American Farm Bureau convention. The interests if the general farm organizations in food aid has never strayed far from their concern with surplus disposal. This has meant that their interests tended to weaken or even evaporate whenever surpluses have become less burdensome. The general farm organizations have, however, represented neither consistent or effective support of opposition to food aid since surplus stocks began to decline in the late 1960s.

During the 1970s and 1980s, the commodity organizations have acquired increasing political strength relative to the general farm organizations. This has been due, at least in part, to the emergence of strong subcommittees organized along commodity lines in the House Agriculture Committee. This helped create the symbiotic relationship between interest groups and subcommittees that enabled commodity organizations, such as the National Corn Growers Association, the National Association of Wheat Growers and the

American soybean Growers Association to use their political resources to successfully pursue limited but highly focused political agendas.

The commodity organizations have been both supporters and participants in the market development activities supported with PL-480 funding. Except during the period of high prices int eh 1970s, they have opposed the use of U.S. foreign assistance resources, including projects funded with PL-480 resources, to enhance the production of commodities in developing countries that might compete with U.S. produced commodities.[2] And they, along with the general farm organizations and the voluntary organizations have vigorously opposed the use of food aid as a bargaining chip for U.S. political or strategic advantage. While typically conservative in their domestic politics, they have seen no inconsistency in pressing for sales on concessional terms to either the centrally planned economies or countries ruled by right wing authoritarian or totalitarian regimes.

Agribusiness

The role of the agribusiness industry in support or in opposition to food aid has been difficult to document. Their representatives do not play an active role in House and Senate hearings. However, the leading firms in the industry, several of them with headquarters in Minnesota, had relatively easy access to Senator Humphrey. Dwayne Andreas, chairman of Archer-Daniels-Midland, a major soybean and corn-processing firm and a close friend and financial supporter of Humphrey has commented to reporters about his ability to influence the regulations governing the administration of the PL-480 program. Representatives of Cargill, working through Senator Humphrey, were effective in persuading the Agriculture

Department to put surplus government grain up for sale at inland as well as at port locations. This helped Cargill offer more for the U.S. grain and still make money because of its superior transportation facilities.[3] The populist and radical critics have been particularly vigorous in criticizing what they have interpreted as "incestuous" relationships among the grain trade, the U.S. Department of Agriculture and Congressional interests that have supported the use of local currency sales proceeds to support the market development objectives of U.S. exporters.[4]

The agribusiness sector, however, has generally opposed farm programs that have been responsible for surplus accumulation. They have been more favorable to programs that partially or fully "delink" commodity prices and payments to farmers. Cargill was, for example, particularly active in the mid-1960s and again in the 1980s in proposals to delink prices and payments and reduce the role of the government in international trade. The agribusiness sector has also supported negotiations, during the several rounds of GATT negotiations, for a more "liberal" international trading regime. It seems apparent that the agribusiness sector, the grain trade in particular, has been more effective in influencing program than policy.

Maritime interests

The maritime industry, including related shipping, port and labor organizations, has been among the more successful interest groups in bending the food aid program to its own advantage. It may have been a historical accident that the"cargo preference" (PL-664) and food aid (PL-480) legislation were both enacted in 1954.[5] But the survival of this youthful

liaison has not been an accident. The shipping industry was successful, in the Food Security Act of 1985, in forcing an increase in the portion of food aid shipped on U.S. vessels from 50 to 75 percent. In the summer of 1989 shipping interests were also pressing for a provision that wold bring commercial grain shipments, and other bulk commodities funded under the AID Economic Support Fund (ESF) budget under the cargo preference provisions.

The maritime industry has been able to maintain and even strengthen the cargo preference provisions (in addition to ship building and operating subsidies) over the opposition of the USDA, agricultural producers, and the exporters of other bulk commodities, as well as the Great Lakes maritime unions. There are several reasons. One is that the direct cargo preference subsidy, reflected in higher shipping costs on PL-480 commodities, is relatively small--running in the $150 million range--in contrast to subsidies to agricultural producers running in the $15-25 billion range since the early 1980s. Others point to the strength of labor support of cargo preference and to the secondary employment benefits in the Congressional jurisdictions represented in the Senate Merchant Marine Subcommittee and House Merchant Marine and Fisheries Committee. Senator Paul Sarbanes (D-Maryland) is a vigorous supporter of cargo preference. The Port of Baltimore is in his state. But several members of Congress from the Midwest, who are also strong supporters of PL-480, have failed to support the elimination of cargo preference. The flow of Political Action Committee (PAC) contributions from the Seafarers International Union, the Transport Institute, the Maritime Research and Development Institute, and related "front" organizations help explain this seeming contradiction. The single interest focus of

the maritime interests has apparently given the industry greater leverage on this particular issue that of the opponents whose legislative agendas tend to be more diffuse.

Voluntary organizations

The participation of the private voluntary organizations in food aid, predates the passage of PL-480. Their interests have been represented primarily through the Surplus Commodities Policy Committee of the American Council of Voluntary Agencies and the Inter-religious Task Force on U.S. Food Policy (now Interfaith Action for Economic Justice). From the Marshall Plan era to the present, the most active agencies have been CARE, Catholic Relief, Lutheran World Relief, Church World Services, and the American Jewish Joint Distribution Committee.[6]

The commitment to broad humanitarian objectives on the part of the voluntary agencies has lead to continuing tension with the government agencies responsible for food aid. The agencies with the strongest humanitarian commitments tend to view governments as the source of unfortunate barriers to richer and more productive relationships among peoples. From the point of view of the voluntary agencies the primary objective of foreign aid should be the elimination of hunger, disease, and injustice. They view the use of food aid in the interest of political or strategic advantage as subversive of the basic humanitarian impulse of a society based on moral purpose.

There has, however, been considerable stress within the PVO community over how to achieve consistency between their basis humanitarian concerns and their client relationship to the government food aid program. CARE, which has extremely limited

private financial support, has been driven by both bureaucratic ambition and financial imperatives to suppress whatever qualifications it might have about the surplus disposal and security objectives its distribution programs have served. Catholic Relief Services, motivated by a worldwide evangelical mission, has typically taken the view that more is better whatever the objectives of its patron - the U.S. government. Lutheran World Relief and Church World Service have both experienced greater internal tension in attempting to resolve their client role with their convictions about church-state relationships. Lutheran World Relief has resolved the problem in a manner reminiscent of Solomon--by limiting government support to less than 50 percent of its level of program activity. It has also occasionally opposed efforts by CARE and Catholic Relief to broaden government financial support for PVO program activity. Several other voluntary relief organizations, such as the American Friends Service Committee and Seventh-Day Adventist Service, have viewed any government support as a corruption of the concept of volunteerism.

The voluntary agencies have not, however, shared the qualms about the impact of food aid on agricultural development or the efficiency of commodity aid relative to financial aid that has been the focus of so much debate among economists and populists. It has been enough that food was available to meet the needs of poor people. The view was expressed rather dramatically during the first year of the PL-480 program in testimony before the House Committee on Agriculture:

> "Just as there is no surplus person in the world, so there is really no surplus food in the world in relation to the needs of people....The challenge presented by the mountain of surplus food is a moral one which if met dynamically, can help immeasurably to capture the sympathy and imagination of the world."[7]

The voluntary agencies did, however, pressure the reluctant State and Agriculture Departments in the late 1950s to allow them to initiate programs that would involve the exchange of food for work. But it was not until the early 1960s, during the Kennedy Administration, that such proposals were adopted.

During the 1950s Senator Humphrey, who shared the sense of mission of the voluntary agencies, praised their work and drew on their support in his efforts to reform and expand food aid. The government became more open to them during the Kennedy Administration when George McGovern and later William Reuter, one of their own, served as Food for Peace coordinator. President Kennedy held a White House reception for the representatives of the voluntary agencies. But his support was more symbolic than substantial.

The limited influence the voluntary agencies exerted on food aid policy and programming was, at least until the mid-1970s, a function of the size of food surpluses. During periods of burdensome surpluses, they wee welcomed as partners in food aid. But when surpluses receded, their role as clients was again made clear to them. The political victories of the voluntary agencies were small triumphs--more often in the area of program administration rather than food aid policy--government funding of transport costs, broadening of the commodities available for voluntary agency distribution, maintaining the flow of dried milk for the donation programs.

Since the mid-1970s, the voluntary agencies have achieved somewhat greater political success. congressional reaction against the security orientation of food assistance during the Vietnam War and the publicity associated with the world food crises of the mid-1970s

created a more favorable political environment for the pursuit of humanitarian objectives. As noted earlier, the 1975 International Development and Food Assistance Act, as well as subsequent legislation, included minimum volume levels for commodity distribution through Title II donations. The share of food aid distributed under Title II, largely through NGO organizations, has risen substantially since the mid-1970s. And the 1987 Act contained provisions for monetizing not less than 10 percent of donated commodities to be used for program support.[8]

The political significance of the voluntary agencies should also be seen in a broader context than their activities in support of their particular interests in greater resources for their own programs. They share with the agricultural commodity organizations an intense aversion to the use of food aid to advance U.S. political or strategic objectives. Because of their pervasive linkages to the religious communities which they (except CARE) represent, they have contributed to a broad and pervasive support for a basic needs orientation in development assistance. They have very substantial capacity to mobilize public opinion and to draw attention to problems that are difficult for governments to address. And NGO field staff have often been an effective source of criticism of the corruption and ineffectiveness of official aid.[9] They and their constituencies have often been the only source of broad-based support for development assistance. They have successfully pursued a "Camels nose in the door" strategy. The Senate draft of the 1990 revision of the Food for Peace Act contains a process that would bring representatives of the PVOs into a new Food Aid Consultative Group.

One conclusion stands out rather clearly. There is a congruence between interest group geography and the regional distribution of congressional support for food aid. Legislators from the corn and wheat belts have been the most consistent supporters of food aid. During and after World War II earlier isolationist and protectionist sentiment among rural constituencies gave way to aggressive pursuit of government support for market development, surplus disposal, and humanitarian relief. It is no accident that both Democrats and Republicans from the Midwest found a basis for supporting food aid regardless of their committee assignments. Lee Egerstrom of the St. Paul Pioneer Press Dispatch has commented that if "Senator Humphrey had been assigned to the Public Works Committee the Food for Peace program would have been attached to the Maritime Administration!"

Why Food Aid?

It has been difficult to find a principled answer to the question of "Why Food Aid?" There has been a continuing effort among some proponents of food aid to show that food aid is, at least for some purposes, a more effective instrument of economic assistance than financial aid. This has not been an easy task.

Food aid is no longer an effective method for dealing with agricultural surpluses. The dominant objective of food aid in the 1950s and into the early 1960s was to dispose of U.S. agricultural surplus. Yet the program was, even then, unable to move sufficient commodities within the constraints in which it was forced to operate to have much more than a marginal impact on United States surplus stocks. The program found it difficult to avoid substituting concessional credit sales for commercial sales. It has been argued that

in some sense the program could be viewed as an offset to the increasingly over-valued dollar during the 1950s and 1960s.[10] But an earlier devaluation or more rapid transition to a floating exchange rate would have been more effective. In the absence of devaluation, a straightforward two price "domestic allotment" program which held domestic prices above world market levels and permitted exports to move into world markets at border prices would have been more effective in disposing of surpluses.

A second important objective of United States food aid from the very beginning has been its use as an instrument of market development for U.S. producers. There have been three elements in this effort. The most direct were the "Cooley loan" subsidies of the late 1950s and 1960s to agribusiness for facility investments in recipient countries. The second has been support for commodity organizations for technical assistance, consumer education, and food promotion programs in recipient countries. The third has been the more subtle effect of large-volume commodity imports in changing the tastes of consumers in favor of wheat or rice, and away from "inferior" domestic carbohydrates. The facilities subsidies have at times been important in the development of national capacity to produce the inputs needed to sustain agricultural production--fertilizer in India for example. The latter two programs have been credited with some success in situations where the growth of consumer income was consistent with the changes in consumption patterns being promoted--higher consumption of wheat products in Japan and the use of U.S. feed grains in pork and poultry production in Taiwan and Korea.

There has, however, been a lack of clarity in discussions of market development. It is quite appropriate to include technical assistance, consumer education, and food promotion

campaigns under the rubric of market development. But it stretches the concept too far to include large volume concessional sales, on the grounds that they will contribute to change in consumer tastes, as market development. It seems doubtful that a program justified primarily on market development criteria would have been able to claim more than a small fraction of the resources allocated under PL-480 Title I.[11]

What about food aid as an instrument of leverage in support of U.S. political or economic objectives? The history of efforts to employ food aid to induce other governments to initiate economic or political reforms or to support the United States global political agenda indicate that it is an exceedingly blunt instrument. The limited successes against India in the 1960s, and against Bangladesh and Egypt in the 1970s, for example, suggest that success has been achieved only when there was substantial political support for the reform in the recipient country or the recipient country was in an exceedingly weak bargaining position. As an instrument to create generalized goodwill toward the United States food aid has, when sensitively administered, been somewhat more effective. But it would be difficult today to find serious advocates of the "food power" perspective that briefly captured the imagination of populists and politicians in the early and mid-1970s.

If there is any area in which food aid might be expected to have a substantial impact it is on recipient country economic development. A very high share of the commodities transferred under Title I have been used by the recipient governments to generate revenues that could be used to support their development budgets. It is generally agreed that the potential release of other resources for development is greatest where food aid replaces commercial imports because it then frees foreign exchange for other purposes. But donors,

particularly the United States, have insisted that agricultural commodity aid be additional--that it not displace commercial imports. Substantial quantities of the food transferred under Title II have been used to support "food-for-work" or other local development projects. In spite of efforts to direct the resources generated by food aid into development-related investment, it is generally conceded that there continues to be very substantial "leakage" into routine budget support, current consumption, and the pockets of public officials and their clients. No one (except perhaps Hans Singer and John Mellor) argues that PL-480 commodity transfers are as efficient as financial transfers when measured against development objectives. It is somewhat discouraging, after over 30 years of effort, to find program designers and managers claiming little more than that agricultural commodity assistance can become an effective instrument for development--but that radical changes in the way it is programmed and administered will be necessary.[12]

The strongest support for the view that food aid is a superior instrument of assistance has been put forward by the basic needs constituency for food aid.[13] It has been argued that food aid for disaster relief and for meeting the needs of the nutritionally deprived is a superior form of assistance. It can, in principle, be mobilized quickly for disaster relief and it can be targeted to the nutritionally deprived. If targeted to improved nutrition and as an incentive to participation in tormal schooling and training programs, food aid could, it is argued, contribute effectively to human capital formation without having significant distinctive effects on agricultural production. But evaluations of school feeding programs have found it difficult to document the impacts on school attendance or academic achievement that have seemed so intuitively obvious to feeding program advocates.[14]

Multiple Constituencies for Multiple Objectives

In the past it has been the this diversity of objectives that has accounted for the continuing political viability of food aid as a component of U.S. development assistance. There has been a constituency for food aid in times of food surpluses and in times of food scarcity. The commodity interests and the human needs constituency have not been able to agree on the objectives of food aid but they have been able to cooperate in support of PL-480 appropriations. Those in the administration who have been concerned with foreign policy and development assistance have seldom believed that food was as useful as money--but they have welcomed it because it was accessible and fungible.

The importance of the multiple objectives of the program for its continued political viability was recognized and insisted upon by Senator Humphrey. This point has been stressed by a former Senate Committee on Agriculture and Forestry staffer Thomas R. Saylor in a discussion of the 1975 revision of the PL-480 legislation:

> The multiple objectives and accompanying multiple constituencies provide a much broader base of support than other foreign assistance programs provide. To undermine this would be to severely weaken PL-480 and leave it much more vulnerable to the budget cutting process.[15]

It is hard to disagree that up until at least the late 1960s, the food aid program was larger than it would have been if targeted to more specific--and less inconsistent--objectives. And the total aid effort was also larger than it would otherwise have been in the absence of food aid. But it is doubtful if this argument can be made to carry as much weight in the early 1990s as in the past. The coalition of commodity groups, shippers, and PVO's was ineffective in preventing a substantial decline in food aid shipments in the 1970s. During

the 1980s, when surpluses reappeared, the agricultural interests chose to support disposal efforts outside of the PL-480 framework.[16]

The Future of Food Aid

There are now clear signs that the old congressional-agency-interest group coalition has been eroding. Several USDA studies have found that export subsidy programs, including PL-480, were a less cost-effective method of enhancing exports than either export credits or consumption oriented market development programs.[17] As personnel ceilings continued to erode AID staff capacity, both in Washington and in the field, the Agency has found that the administrative requirements necessary to make food aid an effective instrument for development has become excessively burdensome. Conflicts were also emerging between the PVO community--particularly CARE and Catholic Relief Services--and AID over the use of food aid "monetization" to support the development of indigenous PVO's in recipient countries. Yet the PVO's themselves were finding it increasingly burdensome to respond to emergency food aid needs, particularly in African countries characterized by high delivery costs and weak institutional infrastructure.

Forecasts of program levels in areas as highly politicized as food aid are notoriously hazardous. A National Academy of Sciences workshop suggested that an increase in food aid to the 20-50 million metric ton range from the current level of about 10 million metric tons would be needed by the end of the 1990s.[18] This forecast was included in the "boilerplate" of both the House and Senate 1990 bills. Yet it seems unlikely that the economic and political forces that have contributed to the increasing separation of the supply management and market development objectives from the economic development

and humanitarian assistance aspects of U.S. food aid will become weaker in the immediate future. An implication of this conclusion is that the agricultural commodities distributed under PL-480 auspices will continue to decline relative to commercial exports, to assisted exports and to other forms of bilateral aid. This implies that it will continue to be difficult to sustain even the present World Food Program target of 10 million tons of bilateral and multilateral food aid.

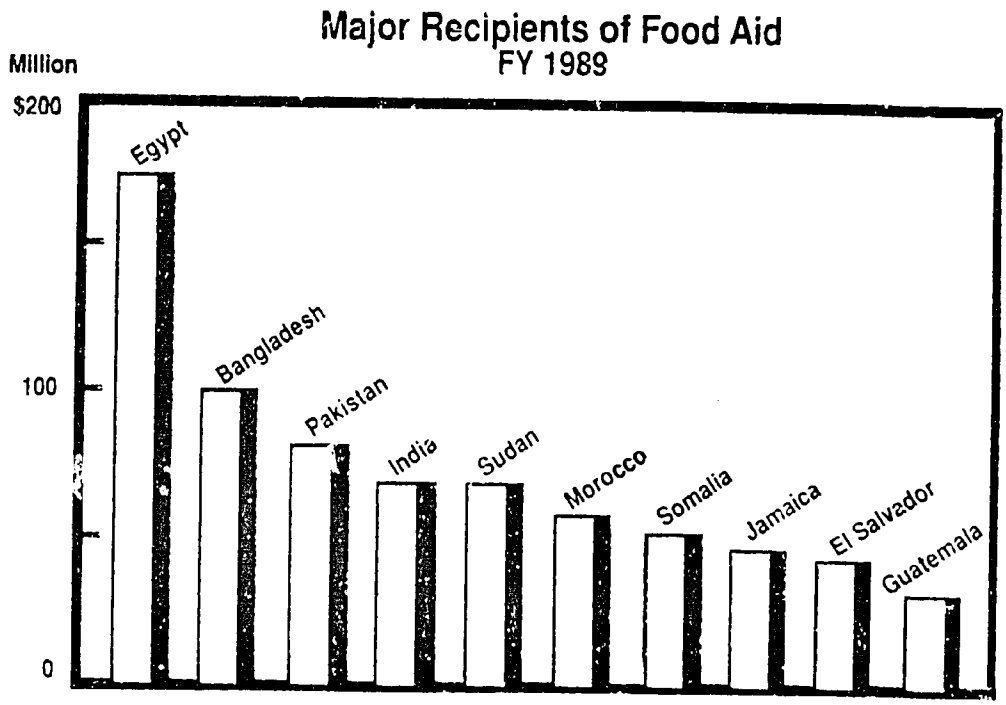
The positive perspective on PL-480 is that it has generated substantial benefits to each of its major domestic clientele groups and some benefits to recipient countries that would not otherwise have been available. It was useful not because it is superior to other forms of aid, but because the commodities were available! A minimalist defense might be that it was the least bad use that could be made given the surpluses that became available. This defense cannot, however, avoid confronting the argument that better use could have been made of the same resources.

The 1990 Act allows the Administration, under special circumstances, to purchase food not included in the "docket" determined by the Secretary of Agriculture as available for use under the Food For Peace Act. This presents a modest opportunity to design a program in which commodities can be more directly programmed to meet planned emergency food aid, chronic malnutrition and hunger objectives. Food security could be more effectively assured by further broadening the mix of commodities that might be made available to poor countries. The definition of food aid should, for example, be broadened to include the technical inputs - fertilizer, pesticides and animal feeds - that are necessary if farmers in recipient countries are to contribute effectively to their countries food security needs. All

food aid should be placed on a grant basis. The United States now provides development and economic support for assistance primarily on a grant basis to deeply indebted recipient countries. We now provide concessional food aid loans with a 7 to 10 year grace period and up to 30 years to repay the loan (down from 40 years in previous legislation). It is time to correct this anomaly.

There have been a number of creative suggestions for more radical reform of food aid from outside the official food aid agencies. G. Edward Schuh has proposed that food aid support of school feeding programs should be reorganized to reinforce incentives for school participation.[19] John W. Mellor has proposed the use of an expanded food aid effort to mitigate the unfavorable effects of structural adjustment programs on the poor. Shlomo Reutlinger and Willis Peterson have outlined the elements of an international food stamp program that would avoid distinctive effects on agricultural agriculture in recipient countries while simultaneously expanding the demand for agricultural exports from donor countries. Bound by huge budget deficits; by the revised Gramm-Rudman-Hollings constraints; by military involvement in the Persian Gulf; by competition between Eastern Europe and the Third World for assistance resources; and an apparent increase in food and feed grain stocks it is unlikely that the political resources needed to bring about dramatic institutional innovation in food and policy will be mobilized in the 1990s.

Figure 20.1


Major Recipients of Food Aid
FY 1989
Million
$200
100
0
Egypt
Bangladesh
Pakistan
India
Sudan
Morocco
Somalia
Jamaica
El Salvador
Guatemala

ENDNOTES

[1]An earlier draft of this section appears in Vernon W. Ruttan, "International Food Aid: Interest Groups and Clients" Choices 5 (Third Quarter 1980), pp. 12-16.

[2]Dean Kleckner, "Trade and Aid Policies: How U.S. Farmers See It" in Wayne E. Swegle and Polly C. Ligon (eds.), Aid, Trade, and Farm Policies (Morrilton, Arkansas: Winrock International, 1989), pp. 17-22. Kleckner, President of the American Farm Bureau, notes that while farmers are generally supportive of food aid, they increasingly oppose technical assistance for agricultural development. "Most U.S. farmers cannot understand--or don't want to understand--why we voluntarily finance, train, and equip our own competition for world markets" (p. 19).

[3]Dan Morgan, Merchants of Grain (New York: Viking Press, 1979), p. 102.

[4]See particularly Lappe and Collins, Food First, pp. 227-356; Susan George, How the Other Half Dies, pp. 164-183.

[5]"Cargo preference" refers to requirements that U.S. ships handle a specified percentage of certain cargos. The 1954 Act required that 50 percent of all U.S. government generated cargo be carried by U.S. ships. For the legislative history of cargo preference see Charles S. Gitomer and C. Ford Runge, Cargo Preference Legislation Agricultural Exports and the Future of the Duluth - Superior Exchange: A Legislative History and Economic Analysis (St. Paul: University of Minnesota Sea Grant College Program Research Report 34, April 1990).

[6]In this section I draw very heavily on Robert R. Sullivan, The Politics of Altruism (Baltimore, MD: Johns Hopkins University, Ph.D. Thesis, 1968). See also Kathleen Ann Cravero, Food and Politics (New York: Fordham University Ph.D. Thesis, 1982). The US/AID identifies five functional PVO sub-categories that serve as intermediaries in the delivery of AID funded programs: (a) cooperative and credit unions; (b) AFL-CIO labor institutes; (c) family planning organizations; (d) nonprofit consulting firms; and (e) traditional voluntary organizations. The voluntary agencies involved in food aid are classified as traditional voluntary organizations. See US/AID, AID Partnership in International Development with Private and Voluntary Organizations (Washington, DC: AID Bureau for Program and Policy Coordination Policy Paper, September 1982).

[7]See testimony by Wynn C. Fairfield in U.S. Congress, House Committee on Agriculture, Long Range Farm Program (Hearings), Serial R, Part 22, (Washington, DC: US/GPO, 1055), pp. 4332-33. Quoted in Sullivan, The Politics of Altruism, p. 234.

[8]Some PVOs have engaged in 100 percent monetization of food aid in project funding. Since the U.S. government also pays the ocean freight this meant that the U.S. government is covering close to the full cost of some PVO project assistance.

[9]Edward Clay and Elisabeth Everitt, Food Aid and Emergencies: A Report on the Third IDS Food Aid Seminar (Brighton: Institute of Development Studies Discussion Paper, July 1985), p. 30. For a dramatic example, see Raymond Bonner, "Famine," New Yorker (March 13, 1989), pp. 85-101.

[10]G. Edward Schuh, Improving the Developmental Effectiveness of Food Aid (paper prepared for U.S. Agency for International Development) University of Minnesota, Department of Agricultural and Applied Economics, St. Paul, September, 1979.

[11]The General Accounting Office has been critical of the Foreign Agricultural Service for lack of objective evaluation of the impact of market development activities. United States General Accounting Office, International Trade: Review of Effectiveness of FAS Cooperator Market Development Program (Washington, DC: GAO INSIAD-87-89, March 1987). For a more positive evaluation see S. Elaine Grigsby and Praveen M. Dixit, Alternative Export Strategies and U.S. Agricultural Policies for Grains and Oilseeds, 1950-83 (Washington, DC: U.S. Department of Agriculture, Economic Research Service Staff Report AGES 860616, September 1986).

[12]World Food Program/African Development Bank, Food Aid for Development in Sub-Saharan Africa (Rome: World Food Program, 1987), pp. 2, 12.

[13]John Osgood Field and Mitchell B. Wallerstein, "Beyond Humanitarianism: A Development Perspective on American Food Aid" in Peter G. Brown and Henry Shue (eds.), Food Policy: The Responsibility of the United States on the Literal Death Choices (New York: Macmillan/Free Press, 1977). For a more balanced appraisal, see Singer, Wood, and Jennings, Food Aid, pp. 37-54.

[14]Beryl Levinger, School Feeding Programs in Developing Countries: An Analysis of Actual and Potential Impact (Washington, DC: U.S. Agency for International Development, Evaluation Special Study No. 30, January 1986).

[15]Thomas R. Saylor, "A New Legislation Mandate for American Food Aid" in Peter G. Brown and Henry Shue (eds.) Food Policy, p. 206.

[16]Robert L. Paarlberg, "The Mysterious Popularity of EEP," Choices 5 (Second Quarter, 1990), pp. 14-17.

[17]S. Elaine Grigsby and Praveen M. Dixit, Alternative Export Strategies and U.S. Agricultural Policies for Grains and Oilseeds, 1950-83 (Economic Research Service, U.S. Department of Agriculture, Washington, D.C., September 1986, ERS Staff Report AGES 86-616); Shahla Shapouri and Stacy Rosen, Effect of Fiscal Austerity on African Food Imports (Economic Research Service, U.S. Department of Agriculture, Washington, DC, May 1987), Foreign Agricultural Economic Report 230.

[18] National Research Council, Board on Science and Technology for International Development, Food Aid Projections for the Decade of the 1990s (Washington, DC: National Academy Press, 1988). See also Raymond F. Hopkins, "Reforming Food Aid for the 1990s" (Statement to the House Select Committee on Hunger, June 22, 1989).

[19] See G. Edward Schuh, Improving the Development Effectiveness of Food Aid (paper prepared for U.S. Agency for International Development) University of Minnesota, Department of Agricultural and Applied Economics, St. Paul, September, 1979). John W. Mellor, "Global Food Balances and Food Security," World Development 16 (1988), pp. 997-1011; Willis W. Peterson, "International Food Stamps" Food Policy (August 1988), pp. 235-239.