

Cathie, John

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direction, even though the ratio of indebtedness of the former effectively doubled during the period from 1970 to 1978. The picture is somewhat different if one regards the development of debt servicing (in % of exports). The countries which switched to the market-economy system register a slight decline of this ratio thanks to the more favourable development of their exports. Thus in 1978 this ratio was only slightly higher than the debt servicing relation of the countries which are now socialist-oriented. On the other hand, because of the poorer development of their foreign trade, the debt service ratio, which originally was very low, has almost doubled in these countries during the period under review.

This result, which is unexpectedly clear, is largely in line with the results of the earlier analysis of country groups. It appears that low economic growth rates in spite of a similarly high rate of investment, with the appropriate consequences for foreign trade and

indebtedness, are the automatic result – at least in the initial situation in which the countries of the Third World find themselves – of a socialist economic system. Insofar as social indicators were available these have not, on the other hand, revealed a clearly better performance on the part of the socialist countries but rather an equal position of both groups of countries. It should of course be remembered that it has not been possible to test the satisfaction of basic needs or to compare personal income distribution in a similarly representative form as was done for other indicators.

Summing up, it may be stated that the choice of an economic system which offers private initiative scope for development, which mobilises it and corrects it by means of indirectly operating instruments in conformity with free market principles, would clearly open up a considerable additional, and so far largely untapped, development potential for many countries of the Third World.

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## FOOD AID

# The Development of International Food Aid Policy

by John Cathie, Cambridge\*

**The European Community is to spend ECU 680 million on food aid in 1982 – an increase of 13.3 % over 1981. Is this a sign of growing humanitarianism on the part of the EC or merely the side-product of a policy of agricultural protectionism which in the long run is harmful to the economies of both the donors and recipients of food aid? A look at the historical development of international food aid may help to provide an answer to this question.**

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**T**he giving of food aid by Northern countries is an area of their economic and foreign policy that has a deep emotional appeal. On the surface it seems reasonable that food which cannot be used in North America or Europe should be given to feed the hungry of the Third World. Food aid has in the post war period represented some 15 per cent of Development Assistance Committee (OECD) aid, which is a considerable proportion. The giving of aid in kind is now an accepted and permanent feature of the rich countries' gift relationship with the poor countries. Recently the Brandt Commission has joined the long list of countries and institutions endorsing the Food Aid Convention's 10

million metric ton target for food aid donations in the 1980s.

Food aid policy, like other economic policy instruments, does not operate in isolation or without contradiction in the pursuit of its intended goals. While the feeding of hungry people is a commendable aim in itself, using food aid for the furtherance of economic and social development is a much wider and less clear goal to achieve<sup>1</sup>. The use of food as aid is constrained by the effects of food aid policy on commercial agricultural trading interests. Food aid policy can involve

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\* University of Cambridge.

<sup>1</sup> For a detailed discussion of this issue see J. Cathie: *The Political Economy of Food Aid*, Aldershot, to be published in May 1982.

stabilisation policy, disposal policy, trade policy, finance and reserve policy as well as, of course, foreign policy.

The donating of food as aid to developing countries stems from the presence in developed agricultural countries of large volumes of costly-to-store surplus (wheat) commodities. These surplus holdings were the direct outcome of policies of agricultural protection pursued by the governments of many developed countries. Food aid policy is a secondary policy outcome or residual policy of government intervention in the agricultural sector of the economy. If free trade existed in agriculture and in agricultural trade then the volumes of surplus commodities available for food aid would virtually disappear.

Food aid policy emerged as a permanent feature of international aid policy with the "temporary" introduction of the United States' food aid programme, Public Law 480, in 1954. Three distinct phases in food aid policy can be identified over the years 1954-80, and may be characterised as:

- ☐ Surplus Disposal Policy,
- ☐ Surplus Utilisation Policy and
- ☐ Residual Policy.

### **Surplus Disposal Policy**

The first identifiable phase of food aid policy, Surplus Disposal Policy, lasted from the introduction of PL 480 in 1954 to 1966. The main purpose of the United States' food aid policy during these twelve years was the convenience that the programme offered to the government in disposing of accumulating, costly-to-store agricultural surplus production. As internal agricultural policy helped stimulate unwanted produce (at market prices) a new adjunct to US foreign policy was developed in the form of food aid policy. This new policy instrument simultaneously helped reduce the internal financial burden of farm policy, by reducing the growing mountains of grain, and promoted the United States' Foreign Policy image as the bounteous giver of bread to a hungry world. A domestic public vice was being transformed into a Foreign Policy virtue.

From 1954 to 1958, surplus agricultural commodities were bartered, mainly in Europe, for other commodities which were stockpiled in the United States. It was considered at this time that the policy of strategic stockpiling had its merits; however, bartering tended to undermine agricultural trade and particularly the trade of United States' agricultural competitors. Protests by Canada and Australia over the practice of bartering curtailed and eventually ended this method of disposing of agricultural production. Instead of bartering, food was

offered as aid at concessional prices, mainly in Europe and the Far East, although some grants of food were given to the emergent independent countries.

### **Food for Peace**

A major change in United States food aid policy was introduced in 1966, when PL 480 was renamed the Food for Peace programme. The phase of Surplus Utilisation Policy lasted from 1966 to 1971, and the new surplus disposal programme emphasised what was considered the positive and constructive use that surplus donations could play in poor countries. Food surplus, it was argued, was a form of capital and investment, no different from financial capital and equally as beneficial to the recipient economy.

To allay fears that the Food for Peace programme would pauperise recipients the "self-help clause" was introduced into PL 480. This clause sought to introduce criteria, for aid administrators, ensuring that recipients were taking steps to increase their own level of agricultural growth and economic development. (In 1964, food aid donations had reached their peak volume and agricultural production in the United States had the capacity to increase stocks at a faster rate than food aid policy could dispose of the surplus produce. Food aid policy was coming under academic and public scrutiny and found to have serious shortcomings, indeed evidence was emerging that its effects on developing countries could be positively harmful.)

It became apparent by the late 1960s that the policy of Surplus Utilisation would neither solve nor alleviate the problem of the costly farm policy programme and that a change in farm policy was therefore necessary. With the change in farm policy, and the reduction of surplus agricultural stocks the US Government was obliged to alter the terms of its food aid and reduced the volumes of its donations to the developing world. In 1966 the United States finally accepted the idea of multilateral food aid programmes and gave support to the World Food Programme of the Food and Agriculture Organisation. Both Japan and the European Economic Community established their own food aid programmes in 1968.

### **Residual Policy**

The third phase of international food aid policy, Residual Policy, can be identified from 1971, with the reduction of the United States role as *the* food aid donor and the emergence of the World Food Programme and the European Economic Community Food Aid Programme. Food aid was now regarded by the United States as a residual from its commercial agricultural sales. America as a major world wheat exporter can, in

the post-1971 period, obtain higher prices for her agricultural produce. Her balance of payments receives a vital support from agricultural exports. New markets, for surplus produce, in the USSR and in China have provided further commercial outlets for accumulated agricultural stock. The large accumulations of agricultural stocks that were held in the fifties and sixties have been reduced and consequently are not available for donation as aid.

These three phases in food aid policy reflect the changes in agricultural trade policy, food aid policy itself and internal farm policy. The earlier phases of Surplus Disposal and Surplus Utilisation food aid policies considered that there was an essential "harmony of interest" between US internal farm policy and the food needs of a hungry world<sup>2</sup>. It was held that the benefits of food aid could be realised if policy was modified to minimise its potential harmful effects on recipient economies and agricultural trade competitors alike. The Residual phase of food aid policy, however, marks a watershed in the development of international policy. The United States no longer considers food aid as a permanent means of reducing the problems arising from its farm policy but as a residual policy arising from its internal and external commercial agricultural policy.

### Forgotten Lessons

Food aid had played a prominent role in supporting United States' foreign policy and military intervention in Vietnam and South East Asia<sup>3</sup>. The failure of that intervention in Asia and the reduced availability of surplus agricultural produce conveniently coincided. New foreign policy initiatives, particularly in the Middle East, provided opportunity for new outlets for agricultural surplus production. Detente provided Russia with some of the surplus produce that had previously underwritten puppet regimes in the Far East. The new accord between Egypt and Israel provides yet another outlet for US agricultural surplus. The marrying of foreign policy objectives with the alleviation of the internal farm problem was still a major feature of US diplomacy in the 1970s. Kissinger continued this policy, in detente with the USSR and in accord with Egypt and Israel.

US food aid no longer has a major adverse influence on the agricultural economy of Vietnam or India. Following the Kissinger initiative in the Middle East, US food aid has flooded into Egypt providing a subsidy to Egypt's urban population. Egypt's cheap food policy is

underwritten by PL 480. American surplus agricultural production is once again underwriting the bad internal agricultural policies of a Third World government: in this case Egypt<sup>4</sup>. The history of PL 480 has been one where, by and large, surplus commodities have distorted, delayed and occasionally destroyed the agricultural base of the recipient. The lessons of thirty years' experience of food aid and the grave doubts about its benefits as development aid, are conveniently forgotten by the USAID (United States Agency for International Development) administration and the US government. Recipients who have pressing problems with the urban poor prefer the short-term political palliative of a cheap food policy to medium-term policies for the development of their own agricultural sector. The provision of food aid by the US to the Egyptian government encourages that government to procrastinate over policies that would modernise the agricultural sector.

### Reduced Role of the US

For two decades, the United States food aid programme was of such a scale that one must say it "was" food aid. However, with the change in US food aid policy and US agricultural trade policy, the United States no longer holds the position of the single mammoth food aid donor. The food aid burden is now distributed amongst a large number of donors. Nevertheless, for the present, the United States still remains the largest single food aid donor.

As already mentioned, towards the end of the 1960s major changes were made in the internal agricultural support policy of the United States, which had considerable implications for future food aid availability. While still pursuing a protectionist policy in agriculture, the United States changed from an "active" support policy of "price setting" to a "passive" policy of allowing the "world market" to determine the price of agricultural commodities, providing the shortfall on the trend price of the commodities to the farmer should the need arise. The US government decided, in line with this policy change, to reduce its stockholdings thus ensuring that large government stocks would not interfere with "free" market prices.

With stock depletion, the US food aid policy changes from that of the 1950s and 1960s, which had been based upon large stockholdings and acceptance of payment for food donations in local non-convertible

<sup>2</sup> Cf. M. S. Kust: Economic Development and Agricultural Surpluses, in: Foreign Affairs, Vol. 35, No. 1, Oct. 1960.

<sup>3</sup> M. B. Wallerstein: Food for War – Food for Peace, Cambridge Mass., 1980.

<sup>4</sup> T. W. Schultz: Effects of the International Donor Community on Farm People, in: American Journal of Agricultural Economics, Vol. 62, No. 5, 1980.

currency, to new harder terms for food aid. From 1971, payment was to be in dollars or convertible currency. Consequently, donations have decreased in volume because prices are more in line with the free market and less food is available for aid. Food aid is now residual to commercial exports of United States agricultural produce, while international earnings from commercial exports of agricultural commodities have increased from \$ 8 billion in 1971 to \$ 44 billion in 1980.

The basis of the bilateral food aid programmes, both that of the United States and the growing programme of the EEC, lies in the protective nature of their respective internal agricultural policies. In the case of the United States, as the internal support policy has been modified and stocks reduced, concessional sales of food surpluses have become unnecessary for the donor and unavailable to a large number of recipients. As the Common Agricultural Policy of the EEC has grown, so too has its food aid policy since its inception in the late 1960s. The reduced role of the United States in international food aid policy created a vacuum which the EEC Commission and the World Food Programme have moved to fill.

### US and EEC Agricultural Policies

The policy of agricultural protection in both the US and the EEC arises from the desire of their respective governments to afford regional groups higher incomes than their farm sizes and the free market would provide. The US policy dates from the 1930s whereas that of the EEC dates from the late 1950s. The policy of protection pursued by the EEC aims for self-sufficiency in food production, and it also seeks to increase the income of small inefficient farmers who have considerable political power and influence over governments in the community. The European farm policy is concerned with the maintenance of the status quo for European farmers, and consequently the structural adjustment of farm size and efficiency (guidance fund) takes a much

lesser priority than that of income maintenance (guarantee fund). In the United States, by way of contrast, technological change, farm size and efficiency have relentlessly progressed in the post-war period, to the point where the farm lobby has less political sympathy with the legislature on the question of farm income support than it has had at any time between the 1930s and 1960s. Agribusiness does, however, have political support on the role of agriculture as foreign exchange earner and the need for government support to stabilise agricultural output and prices for the American consumer. The burden of the structural adjustment of the United States farming sector has fallen more on the farming community itself than on the American consumer, whereas in the European Community the farm policy situation is the reverse.

### The Costs of Protection

Since both governments follow a policy of protection for their own particular internal political objectives, to determine which country has the greater level of protection would be a daunting task. However, the magnitude of the costs of protection to the respective governments can be indicated by the subsidies given to their respective agricultural sectors. The United States subsidy to agriculture in 1974 amounted to some \$ 21 billion. This subsidy represents a per capita contribution to United States agriculture of \$ 105<sup>5</sup>. For the EEC, the Common Agricultural Policy subsidy was EUA 2.25 billion in 1974. The total farm support in the nine countries, including CAP support, was EUA 14.3 billion in 1975.

The emergence of international food aid policy is an indirect and secondary outcome of the policy of agricultural protection. The instrument of protection favoured by the United States from the 1930s to the late

<sup>5</sup> P. G. James: Agricultural Policy of Wealthy Countries, 1974; Daniel Green: The Politics of Food, 1975. The EEC countries' subsidies are estimated from: The Economist, Feb. 1976.

## KONJUNKTUR VON MORGEN

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1960s was, in the main, farm income support through a policy of stock accumulation. Food aid policy was a rationalised, politically expedient means of reducing the costs of surplus production and at the same time justifying farm policy to the American taxpayer. The EEC Commission at present favours a policy of stock accumulation as a means of supporting its agricultural sector, and its food aid programmes have accordingly grown since 1968. The relationship between international food aid policy and protection in agricultural trade is clear and undisputed, and the food aid policy of the European Economic Community has more than an element of *déjà vu*.

### Conflicting Interests

In 1968, the EEC Commission began the community food aid policy, ostensibly as a part concession to complaints from the United States that she "unfairly" had to bear all the burden of food aid donations. The problems of international agricultural trade protection and international foreign policy rivalry are never very far from matters concerning food aid policy<sup>6</sup>. The emergence of an EEC programme is a good example of such rivalry.

Since the 1950s, it had been generally accepted that in matters of agricultural trade – for reasons of "special" political interest – the free trade rules of the General Agreement on Tariffs and Trade (GATT) do not apply. The unwillingness of the signatories to GATT to consider sensitive or special commodities in free trade negotiations arises primarily from the political influence that lobbies have upon their respective governments. In the immediate post-war period, for example, the US farm lobby had formidable influence with the US Government. However, practices such as blatant dumping were recognised as undesirable for all parties and to try to minimise these activities "rules of the game" were established to regulate agricultural trade practice.

The United States has always been in two minds over the European Community – she accepts and encourages the idea in principle but she is less enthusiastic about some of the economic instruments of that unity, particularly when US economic interests are adversely affected. As a political entity, a united, stable and prosperous Europe provides a further strengthening of the Western alliance and secures a more durable bulwark against Eastern European and Soviet communism. In theory the customs union

provides the economic framework for the longer-term eventual political integration of Europe. A major instrument of European Economic Policy is the Common Agricultural Policy (CAP), about which the United States is less than enthusiastic. European agricultural protection is considered by the United States as a policy that denies US agricultural commodities competitive access to European markets. It is arguable that the major EEC policy of the CAP is confused, unnecessarily complex and a very costly instrument for European unity. Indeed it has continuously been the focus of much internal disagreement and discord within the EEC itself.

### No Clear-cut Solution

On matters of international agricultural trade the drama is conducted at the level of a medieval morality play, usually with the United States characterised as playing the forces of good and Europe the forces of evil. Unfortunately the problems and complexities in international agricultural trade do not lend themselves to a clear-cut, black-and-white solution. Both the United States and Europe are committed to agricultural protection. It is highly unlikely that quick progress can be made towards liberalising agricultural trade.

Western agricultural policy has indeed shown signs of change in the last decade. One manifestation of that change is the growth of non-tariff barriers in international trade. The new protectionism has as its purpose the shifting of the burden of protection from the taxpayer to the consumer. The changes in United States farm policy in the 1970s, as part of the new protectionism, had as their purpose the reduction of the wasteful cost of stock accumulation to the US taxpayer and the shifting of the burden from the US as "bread basket to the world" to other agricultural producers and consumers. In Europe the rising cost of agricultural protection is a continuing source of dispute within the community and the CAP budgeting problems provide an ever increasing strain upon the ideal of European Unity. The United States has moved towards a method of agricultural support policy that avoids the need for ancillary policies to cope with the conspicuous waste caused by policies which have created surplus agricultural mountains and lakes, whereas the EEC has been unable, as yet, to develop an agricultural policy that provides support to farming without creating unwanted and useless stocks. As and when surplus stocks of food stabilise at a "normal" level in the surplus-producing countries, then secondary policy outcomes become of less significance to potential donors than they have been in the past.

<sup>6</sup> The US Reagan government has successfully blocked EEC humanitarian aid to El Salvador, cf.: U.S. attempts to block European food aid to El Salvador, in: *The Guardian*, Feb. 18, 1981.