International Food Aid...

Changed, But Contradictions Continue

by Vernon W. Ruttan

➢ The 1990 Farm Bill contains the most significant changes in food aid policy since the mid 1960s. Yet, the changes have more to do with process than with program content. Food aid will continue to be influenced by its multiple constituencies pursuing their multiple objectives. And, while the old congressional-agency-interest group coalition for PL-480 programs has eroded, it is still influential. Even so, there are opportunities to make the U.S. international food aid program more responsive to emergency, chronic malnutrition, hunger and even development objectives. The mix of commodities should be broadened; inputs, like fertilizers, should be included; and all food aid should be provided as grants even if more innovative changes cannot be implemented.

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As a result of a very large amount of political energy, USDA and AID now have greater freedom to pursue international food aid program objectives with less bureaucratic interference. But the reforms will not likely resolve the continuing contradictions among the multiple objectives of the U.S. food aid program.

The most important reforms in international food assistance of the 1990 Farm Bill relate to program responsibility. Responsibilities are more clearly identified and the need for interagency coordination is sharply reduced.

USDA now has even greater flexibility in pursuing market development objectives. It will be able to use commodities programmed under Title I in combination 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.

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The advantages of the new program to AID are less clear. A larger share of the food aid budget will now be programmed directly by AID as grant food aid under Titles II and III. However, administration of Title III activities will impose substantial additional burdens on already thin AID country staffs. The cash grants to private voluntary organizations (PVOs) may induce these agencies to be more active in areas where logistical problems or civil unrest impose high costs on assistance activities. 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. AID's role had already been substantially eroded by its PVO and cooperative constituencies. Depending on the size of budgetary support, Title III should be able to open up new possibilities for achieving greater consistency between food aid and the other development assistance activities of AID.

Why Food Aid?

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It is helpful to focus on the objectives of food aid when appraising the reasonableness of the changes included in the 1990 Farm Act. However, it has been difficult to find a principled answer to the question of "Why Food Aid?" 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. 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 U.S. surplus stocks. It was difficult to avoid substituting concessional credit sales for commercial sales.

A second important objective has been market development for U.S. farmers. There have been three program elements supporting this objective.

- "Cooley loan" subsidies of the late 1950s and 1960s to agribusiness for facility investments in recipient countries.
- Support for commodity organizations for technical assistance, consumer education, and food promotion programs in recipient countries.
- Changing the tastes of consumers in favor of wheat or rice, and away from "inferior" domestic carbohydrates through large-volume commodity imports by developing countries.

Cooley loans for facilities have at times been important in the development of national capacity to produce farm inputs.

Discussions of market development have lacked clarity. 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 changes 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.

Food aid has also been used to support 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 with India in the 1960s and with 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.

A fourth objective is economic development of countries receiving food aid. 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.

However, 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.

Arguments about PL-480 extend beyond the discussions as to whether food aid is a useful program for disposing of surpluses, developing markets for U.S. products, achieving U.S. political and economic objectives, and bolstering economic development of recipient countries. The basic needs constituency for food aid argues that food aid is superior to financial assistance for disaster relief and for assisting the nutritionally deprived. If targeted to improve nutrition and used as an incentive for participation in formal schooling and training, food aid could, it is argued, contribute effectively to human capital formation without having significant disincentive effects on agricultural production.

There is no question that there are compelling humanitarian reasons why the United States should stand ready to provide food

Reforming Food Aid

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 the 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 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 all foreign aid policies.

Senator Patrick J. Leahy (D-VT) had a long standing interest in both domestic and international hunger issues. When he assumed the Chairmanship of the Senate Committee on Agriculture, Nutrition and Forestry he assigned a staff person to begin looking into the possibility of reforming the U.S. aid program. Leahy's initiative was strongly supported by the ranking minority member, Richard G. Lugar (R-IN).

Between late summer in 1988 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. Staff at the State Department was, as usual, nervous about any changes.

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 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 emergency assistance, and Title III would include grants for development assistance.

The situation in the House was somewhat more complicated than with the Senate. The Chairman of the House Agriculture Committee, E (Kiki) de la Garza, was more cautious in supporting reform than his Senate counterpart. He was concerned that the clarification of objectives within the several titles would weaken the traditional coalition of farm organizations, private voluntary organizations, and food activists that had traditionally supported food aid. And he resisted pressure from the commodity organization to make "market development" the only objective of Title I. But when the chairman of the House Foreign Affair Subcommittee on International Trade, Sam Gejdenson (D-CT), initiated legislation along lines similar the Senate proposal, de la Garza moved reluctantly to work out compromise language. In the end it appears that the compromise was forced by instructions from the House Rules Committee on which Tony P. Hall, (D-OH) Chairman of the House Select Committee on Hunger and a strong supporter of food aid reform served.

Within the Administration the OMB staff initially supported the Senate Committee reforms. At the beginning of the process Administration leadership in both the USDA and AID appeared to be inexperienced or preoccupied with other issues and unable to resolve interagency disagreements or to exercise leadership in reform. In general the staff at USDA adopted a "don't fix it if it isn't broken" approach while some AID staff were active in criticizing the existing program and advancing policy changes. As the 1980 legislative session progressed it became clear that the U.S. Department of Agriculture was lined up strongly behind the House version. OMB then backed away from its initial support for reform. The State Department, particularly Deputy Secretary Eagleberger, interpreted the proposed Senate 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 and Lugar who responded that "flexibility is not he problem, a lack of accountability is."

Action on the 1990 Farm Bill was delayed until late October. The legislation that eventually emerged from an emotionally charged conference committee session was remarkably close to the version that had been advanced by the Senate Agriculture Committee staff.

It was not obvious at the beginning that a successful reform effort could be brought off. Early in the process there were predictions that the commodity groups could kill the reforms. The senior staff of the Senate Committee was, however, exceedingly skilled in building a consensus among the commodity groups, the development interests and the food activists. But the strong backing of Senator Leahy was essential in maintaining the momentum of the reform effort.

aid to the victims of natural and political disasters. There is more question about programs focused on chronic malnutrition. The administration of such programs will always be plagued by logistical and administrative difficulties. But it is not too much to expect that programs designed to alleviate chronic malnutrition be reasonably effective in meeting program objectives. However, 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.

Multiple Constituencies for Multiple Objectives

In the past the diversity of objectives 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. While commodity interests and the human needs constituency have not been able to agree on the objectives of food, they have been able to cooperate in supporting PL-480 appropriations. U.S. officials concerned with foreign policy and development assistance have sel-

1990 Food Aid Legislation

• 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 appropriation process.

• Title II was partially rewritten to enhance AID 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 to 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 intergovernmental 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 Under Secretary 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 that 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.

• The Food For Progress Act was amended to make middle income countries and newly "emerging democracies" eligible to receive food aid. The commodities can be channeled through PVOs and cooperatives in addition to recipient governments. There had been some interest on the part of Congress and the Administration in bringing the Food For Progress title under PL-480, but a number of technical issues were not worked out in time.

dom believed that food was as useful as money—but they have welcomed it because it was accessible and fungible.

As a former Senate Committee on Agriculture and Forestry staffer, Thomas R. Saylor, stressed in 1975:

"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."

Most will agree that up until at least the late 1960s, the food aid program was larger than it would have been if it had been targeted to more specific-and more consistent objectives. Likewise, the total aid effort was also larger than it would have been in the absence of food aid. But these arguments do not carry as much weight in the early 1990s as in the past. For example, the coalition of commodity groups, shippers, and PVOs 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.

The Future of Food Aid

The old congressional-agency-interest group coalition for PL-480 has been eroding. USDA studies, such as Grigsby and Dixit's, have found that export subsidy programs, including PL-480, were not as cost-effective in enhancing exports as were either export credits or consumption oriented market development programs. As personnel ceilings continue to erode AID staff capacity, both in Washington and in the field, the Agency finds that the administrative requirements necessary to make food aid an effective instrument for development have become excessively burdensome. Conflicts have also emerged 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 PVOs 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 future levels for programs, as highly politicized as food aid, are notoriously hazardous. A National Academy of Sciences workshop held in 1988 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. This forecast, along with a commitment to the objectives of providing "access by all people at all times to sufficient food for a healthy and productive life," was included in the "boilerplate" of both the House and Senate 1990 bills.

However, the economic and political forces that have pushed for increased separation of (1) the supply management and market development objectives from (2) the economic development and humanitarian assistance aspects of food aid are not likely to weaken in 1990s. Even so, the agricultural commodities distributed under PL-480 auspices will continue to decline relative to commercial exports, assisted exports and other forms of bilateral aid. This implication suggests that it will be difficult to sustain even the present Food Aid Convention target of 10 million tons of bilateral and multilateral food aid annually in the future.

Nonetheless, PL-480 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 was 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,

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avoid confronting the argument that better use could have been made of the same resources.

There is 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. The 1990 Act allows the Administration, under special circumstances, to purchase food not available in government stocks for use under the Food For Progress Act. With this provision, food security could be more effectively assured by further broadening the mix of commodities that might be made available to poor countries.

It is time to make some other changes, as well. 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-year grace period and up to 30 years to repay the loan (down from the 10-year grace period and the 40-year repayment period in previous legislation). This anomaly should be corrected.

There have been a number of creative suggestions from outside the official food aid agencies for more radical reforms. Schuh proposes that food aid supporting school feeding programs should be reorganized to reinforce incentives for school participation. Mellor proposes using an expanded food aid effort to mitigate the unfavorable effects of structural adjustment programs on the poor. Reutlinger and Peterson delineate the elements of an international food stamp program that would avoid distinctive effects on agricultural development in recipient countries while simultaneously expanding the demand for agricultural exports from donor countries.

However, one cannot be optimistic that significant institutional changes in PL-480 will be made in the 1990s. The political resources needed for these kinds of innovations in food aid policy are substantial and they are not likely to be mobilized in the 1990s. Huge budget deficits and the related revised Gramm-Rudman-Hollings constraints; military involvement in the Persian Gulf; competition between Eastern Europe and the Third World for assistance resources; and an apparent increase in food and feed grain stocks, all augur against such changes.

This paper is drawn from a larger paper on the politics of food aid policy, "Food Aid Surplus Disposal, Development Aid, and Basic Needs" (Draft, May 21, 1990) which is available from the author. The author has benefitted from comments on an earlier draft by Donald Ferguson, Charles Hanrahan, Jon O'Rourke and Raymond Hopkins. Responsibility for the judgements and interpretations, with which they have at times disagreed, are the responsibility of the author.

For More Information

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New Database for Market News

To mark a new, historical, instant-access database of market news for livestock, grain, fruit, vegetables, florals, poultry, dairy products, eggs, cotton, and tobacco, USDA's Agricultural Marketing Service will hold a ribbon-cutting ceremony April 2, 10 a.m., Rm 767, Federal Building, 210 Walnut Street, Des Moines, Iowa. For details and further information, call Robin Swerdlow, AMS (202) 475-5762.