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# WORLD FOOD SITUATION AND PROSPECTS:

U.S. Role and Programs

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## PREFACE

This report is a condensation of remarks by Kenneth R. Farrell, Administrator, Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture, at the Festival on Religion and Rural Life held in Indianapolis, Indiana, July 31-August 3, 1978. It reflects thoughts on the U.S. role in the world food situation and announces a sequel to the 1974 World Food Situation and Prospects to 1985.

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## WORLD FOOD SITUATION AND PROSPECTS:

### U.S. Role and Programs

*Kenneth R. Farrell*

The World Food Situation and Prospects to 1985 (FAER-98), published by the U.S. Department of Agriculture at the time of the World Food Conference in Rome in late 1974, served two purposes. It filled the U.S. Government's need for a compilation of basic information about the world food situation, and provided a complete, objective, and concerned analysis of the situation to the public.

It received widespread attention both from those knowledgeable in the subject and those inside and outside of Government looking for a basic background of the facts. It proved very useful to policymakers and the public alike in considering U.S. policies and programs concerning the world food problem. It was widely used as a text in college courses examining the international food situation and alternatives.

The 1974 study concluded that high food prices and uncertain food supplies were caused by a combination of circumstances, policies, and long-term development trends. It predicted no inevitable longrun shortage of food, and events since 1974 substantiate that judgment. Nearly 4 years have passed since we made the original study, however, and the circumstances, policies, and programs have changed.

My agency is now working on a sequel to the 1974 study. It will update the original study and examine world food prospects through the end of this century. I would like to describe here the changing world food situation which forms the backdrop for the new study.

#### SHORTRUN OUTLOOK AND CURRENT SITUATION

The USDA Report Assessing Global Food Production and Needs prepared for Congress last March indicated that the world food situation generally improved over the last few years,



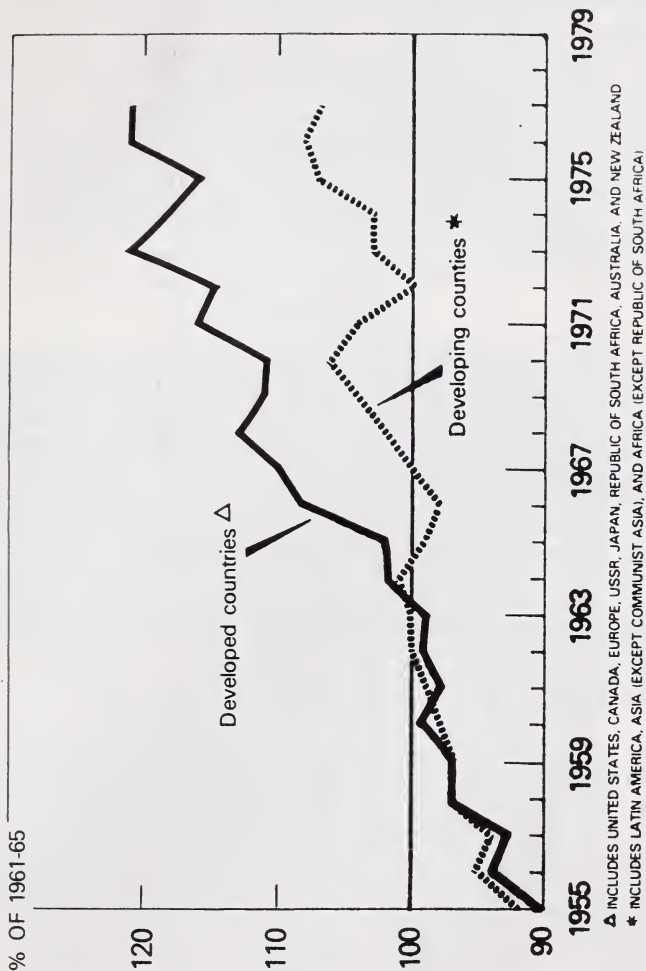
compared to the 1972-75 period when food supplies were tight. Food production increased faster than population for the world as a whole, raising per capita production 4 percent between 1974 and 1977. Even in developing countries where population growth rates are high, per capita food production last year was about 4 percent higher than in 1974 (fig. 1). In South Asia, such populous countries as India and Pakistan have significantly increased their production and stocks of grain--a marked improvement for an area where as much as two-thirds of U.S. food aid has gone in years past. There are, of course, exceptions to this generally improving trend. In Bangladesh and Africa, per capita food production apparently declined over this same period.

What is the world food outlook for 1978? The October issue of USDA's World Agricultural Situation said that present world food supplies are relatively abundant. We started the 1978/79 crop year with large beginning stocks of grain. It now appears that the world will have a record harvest likely to equal or exceed global 1978/79 requirements, record consumption levels, only marginal trade level changes, and a slight buildup in ending stocks. In India, the focus of hunger concern in 1974, a record grain crop is expected which should provide that country with grain self-sufficiency and even enough to export.

#### MALNUTRITION AND FOOD NEEDS

While the shortrun picture for world food is optimistic, the lagging regions stand out. Even in those areas where production has increased faster than population, problems with food distribution remain. A large proportion of the world's poor--and their actual numbers are not known--are malnourished and underfed. Nor do we know exactly where these people are, or the kind, degree, and specific causes of their malnourishment. A 1976 World Bank study estimated that in the midsixties, "56 percent of the population in developing countries (some 840 million people) had calorie-deficient diets." The Food and Agriculture Organization of the United Nations (FAO) in its fourth World Food Survey concludes that the number of malnourished persons in the developing countries (excluding the Asian centrally planned economies) was about 400 million--as a conservative estimate--at the beginning of the decade, increased to about 455 million during the poor crop years 1972-74, and has probably declined some since then. Yet FAO says that the relationship between malnutrition and disease "is more evident now than before," and that "firm evidence of any significant progress being made since the 1974 World Food

Figure 1 -- INDEX OF WORLD PER CAPITA FOOD PRODUCTION



Conference in reducing the numbers affected by inadequate supplies of food is not yet available."

Concern has recently focused on the economic conditions of the poor in relation to broader issues of human rights and needs. Congress passed a resolution in 1976 on the "Right to Food," stating that: (1) "Every person in this country and throughout the world has the right to food--the right to a nutritionally adequate diet--and that this right is henceforth to be recognized as a cornerstone of U.S. policy; and (2) this policy should become a fundamental point of reference in the formation of legislation and administrative decisions in areas such as trade, assistance, monetary reform, military spending, and all other matters that bear on hunger."

### LONGRUN PROSPECTS

The original USDA World Food Situation discussed whether rising affluence imposes a restricted diet on the world's poor. Some argued that consumption of livestock products in more affluent countries should be reduced in order to increase supplies of food grains for poor countries. We concluded that in the long run, food prices depend on many factors, especially government policies, which have more influence on food prices than the affluent's level of consumption. This is still a valid conclusion, although it depends on whether the supply of food increases fast enough to keep up with demand, or whether one believes that the factors underlying the food supply are so restrictive that the growth of demand will push prices up rapidly. I do not believe this latter is the case.

One reason for greater optimism about food prospects than in 1974 is a recent UN study which finds birth rates declining even more rapidly than expected in a number of developing countries. Since the sixties, birth rates have fallen by approximately 15 percent in the several dozen countries representing from 40 to 60 percent of the developing world population. These also tend to be the countries where statistics gathering is considered the most reliable--countries such as India, Indonesia, People's Republic of China, Egypt, Tunisia, Sri Lanka, Jordan, Costa Rica, Cuba, Jamaica, and Guatemala.

The 1974 study also aired the issue about the world's climate: Would it limit increases in food production? USDA has played a lead role in a study undertaken jointly with the Department of Defense and the National Oceanic and

Atmospheric Administration, gathering a wide spectrum of leading meteorologists for their best judgments on the issue. Research findings conclude that world climate patterns will not likely change enough by the end of this century to have a major impact on agricultural productivity and the supply of food.

The 1974 USDA study examined whether the real cost of food to consumers relative to other goods will be higher in the future. We were referring to the basic raw foodstuffs produced by the farmer, not to the final food products bought in a grocery or restaurant, which includes processing, transportation, and merchandizing. The study found that the price of food probably will be higher than in the years immediately preceding 1972 because food prices at that time were especially low, and because food production inputs such as fertilizer are more expensive (fig. 2).

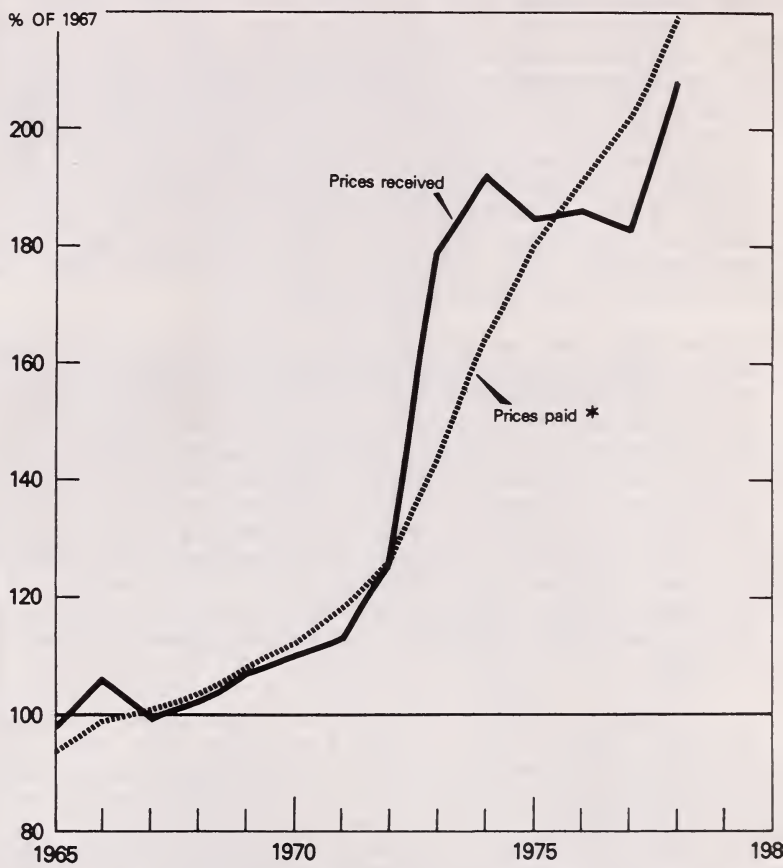
At the same time, we said that the prices paid to the farmer would probably fall considerably below the 1974 level. These conclusions were correct. As adjusted for inflation by the Consumer Price Index, grain prices have fallen over the last two years to real levels only marginally above the low on record for the last four decades, but have since recovered to 1972 levels. The cost of processing, marketing, and distributing food from the farmer to the consumer, however, has continued to rise in real terms and is currently near the all-time high. The proportion of the average American's budget spend on food has consequently risen but still remains low compared to consumer budgets in other nations.

In the long run, USDA studies still suggest that there may be slight upward trends in real farm prices even after adjustment for inflation. This is an uncertain conclusion. Much will depend on technological developments in agriculture, which could greatly increase farm productivity. The 1977 National Academy of Sciences' World Food and Nutrition Study: The Potential Contribution of Research indicates that the substantial U.S. research and development resources can make a major contribution to world food availability and minimize the age-old threats of hunger and malnutrition.

#### THE U.S. ROLE

Traditionally, the United States has generously assisted foreign countries in need. Aid, mainly in the form of technical and capital assistance to encourage economic development and increase the recipient's GNP, has emphasized

Figure 2 -- PRICES RECEIVED AND PAID BY FARMERS



\* INCLUDES COMMODITIES AND SERVICES, INTEREST, TAXES, AND WAGE RATES.

1978 FORECAST.

USDA

NEG. ESCS 3182-78 (11)



economic growth and industrialization. "Trickle down" assistance--with the thought that economic growth would by nature of the process be widely distributed and lead to improved life for all segments of society--was the approach taken. Unfortunately, equitable development has proved more difficult to achieve than overall economic growth. While growth rates have increased at an unprecedented pace, benefits often have gone to the relatively affluent.

Many Americans were becoming disillusioned over slow progress being made abroad. While U.S. aid for disasters and famine relief continued, support for other programs was eroded by unwillingness to spend U.S. tax money on programs which seemed to benefit upper income groups in needy countries. The proportion of U.S. GNP spent on foreign aid dropped from close to 3 percent in the forties under the Marshall Plan to 0.56 percent in 1962, and to 0.25 percent in 1976.

Other problems with foreign assistance were also becoming apparent. The major obstacles to wiping out hunger and malnutrition were and are political, not physical limitations such as natural resources, capital, and technology. Programs which keep food prices low for consumers can seriously conflict with food production incentives for farmers. Programs creating jobs for the poor can increase their purchasing power, but may also fuel inflation. While most poor people live in rural areas, the poor in the cities are often more visible and vocal and therefore wield greater political power.

Governments experiencing chronic nutrition problems in their countries face difficult choices and political risks in establishing expedient, effective programs of their own. Concentration of land ownership, for example, is a political obstacle to equitable development in some countries. Breaking up landholding blocks and extending farm credit and agricultural extension services to small farmers can be politically risky. Encouraging food production for local consumption rather than cash export crops can be an explosive issue, alienating powerful landowners and large-scale traders. Even special feeding programs for the undernourished can be controversial. While the U.S. Government may financially assist these countries, it has limited ability to influence decisions about their internal problems.

What has the United States been doing to alleviate world food and nutrition problems? First, the Administration has requested \$1.4 billion for P.L. 480 in fiscal 1979. This request is estimated to finance 6.7 million tons of farm commodity exports to less developed countries. The United

States has also proposed that the annual target of 10 million tons of food grain for aid as discussed at the World Conference in 1974 be implemented, and has pledged 4.47 million metric tons annually to a new Food Aid Convention being negotiated under the proposed International Wheat Agreement (IWA). We have also suggested that all donor countries accept an additional increase of up to 20 percent over their agreed minimum during times of special need.

Many U.S. bilateral aid programs are being reconsidered. In 1973, Congress enacted "New Directions" legislation calling for more direct help for the poor majority, who are often found predominantly in the rural areas of developing countries. The legislation emphasized meeting basic human needs through increasing local food production, rural development, education, health, nutrition, population planning, and development of human resources. At least 75 percent of concessional food aid (Title I) was allocated to countries defined as "poor." All of Title II food aid was targeted for needy people through such means as private voluntary agencies (70 percent), the World Food Program (20 percent), and other bilateral programs.

In 1975 and 1977, Congress further refined its focus of foreign aid on the neediest groups, emphasizing creation of labor-intensive jobs, integration of women into the economy, and development of appropriate technologies for receiving countries. The legislation calls for giving high priority to nutrition, especially for infants. This would involve promoting breastfeeding rather than infant formula use, which has led to both health and economic problems. Congress has also asked that attention be given to handling, storage, transportation, and administrative procedures involved in P.L. 480 food aid operations. A new "Food for Development" program has been developed. Under Title III of P.L. 480, an agreed portion of debt can be written off by the United States when the revenue generated by the sale of U.S. food aid in a receiving country is used for approved development projects.

Congress and the Administration have also emphasized human rights, especially political rights, as a consideration in aid allocations. No Title I aid (long-term, low-cost loans to purchase U.S. food) can go to nations which consistently violate internationally recognized human rights, unless it can be shown that such aid will directly benefit the poor.

The Carter Administration is committed to increasing U.S. development assistance. Bilateral development aid, excluding food aid, is expected to rise 27 percent in fiscal 1978,

and an additional 15-percent increase is requested for fiscal 1979. U.S. funding for international development lending institutions and international organizations working for agricultural development has also been substantially increased. Foreign aid is still politically unpopular, however, and along with most Government expenditures is being increasingly questioned. At the request of Congress the President has established a commission to explore ways to eliminate domestic and international hunger and malnutrition.

In the area of world grain reserves, we are hopeful that a new International Wheat Agreement can be reached this year to include an expanded and strengthened food aid arrangement. The Administration has proposed that the IWA consist of an international system of nationally held reserves to be coordinated by the participants. Secretary of Agriculture Bob Bergland also recently announced support of a permanent 500,000-ton international emergency food reserve under the UN World Food Program.

Present U.S. grain reserve policies focus on two new initiatives. The first was a bill that died in the 95th Congress--the International Emergency Wheat Reserve (IEWR) Act of 1978--that would have established a special U.S. wheat reserve of up to 6 million tons. The intention of this Government-held reserve was to enable the United States to honor its food aid commitments even when grain supplies were tight, and to be compatible with a proposed food aid convention under a new IWA.

The second U.S. initiative is designed to stabilize the market through the accumulation of 26 to 28 million metric tons of wheat and feed grains under two related programs. Under the first, farmers may take out U.S. Government loans, using their grain as collateral. They have the option of keeping the loan money and delivering the grain to the Government if market prices drop below the loan rates, or of selling the grain and repaying the Government if prices rise higher than the loan rate. If a farmer chooses to enter the second program, he may also obtain a loan using grain as collateral, receive advance payments to finance storage up to 3 years, and receive a waiver of interest charges after the first year of the 3-year loan contract, but he can only sell his grain when prices rise above a designated trigger point. This system will moderate price swings by removing grain from the market when prices are low and supplies great, and releasing grain when market prices are high.



Another stabilizing component of the U.S. grain system is the set-aside program. It encourages farmers to plant less acreage to grains while helping the United States remain a reliable world supplier. The program aims at maintaining prices high enough to give the farmer an incentive to produce. Along with other policy measures such as price support loans, target price payments, and managed reserves, it should help ensure a balanced, stable U.S. agricultural sector with the ability to meet increasing world demand.

## CONCLUSION

As a recent article by a U.S. aid official emphasized, we must not substitute a temporary global welfare approach to food problems for sound development programs that allow a more permanent general rise in standards of living in poor countries. Nor can we forget that most of the capability and responsibility for development lies within the poor countries themselves. The United States can help, but cannot alone solve the world's food problems, especially those concerned with internal employment and income distribution.

The world has had several good harvest recently. Grain bins are overflowing. Yet there may be as many or more malnourished people in the world today as during the food crises of 1972-74. We must ensure that the necessary increases in food production can be generated to accommodate ever-increasing needs. A rising world population and increased per capita food consumption are certainties. Difficult policy choices must be made soon to deal with these situations--both here and in other countries--if we are to ensure that sufficient food is available to feed the world.



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