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THE ROLE OF FOOD FOR PEACE

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Food and peace have long been closely linked in the minds of Americans. Following recent wars, food from U. S. farms has aided in the rehabilitation of ravaged areas. Today, the U. S. abundance of food is again a valuable asset in the world's struggle for peace and freedom under the chilling cloud of a cold war. The Food for Peace program is a means for narrowing the world's "hunger gap" and for strengthening and reinforcing economic development among the emerging nations of the world.

HISTORY AND BACKGROUND

The idea of using food for world peace is not new. During the World War I period, American food was utilized by the Commission for Relief in Belgium. In 1914, following the invasion of Belgium and northern France by the Germans, the timely arrival of American foodstuffs forestalled starvation among 10 million people in the low countries.

After the first World War, U. S. food prevented widespread famine among 200 million people in the war-ravaged European countries. As the food situation in Western Europe eased after a favorable harvest in 1919, attention was paid to the feeding of 10 million undernourished children in East Central Europe. In 1921, when famine struck in Russia, food along with medical supplies was rushed from America for the relief of the Russian people. During a period of ten years —1914 to 1923—about 34 million metric tons of U. S. food and other supplies valued at over 5.2 billion dollars were delivered for the relief and rehabilitation of people in 23 countries.

During World War II and in the immediate postwar period, large quantities of U. S. food were turned over to various international relief organizations, such as the United Nations Relief and Rehabilitation Administration, for distribution. In 1947, the Marshall Plan was launched to promote economic recovery of the Western European nations. The main objectives of the Plan were to establish "a lasting peace" and to assist the participating European countries "to become independent of extraordinary outside economic assistance." The program provided for contribution of goods and services, much of it U. S. food and fiber. The Marshall Plan has been the best example by far of a program aimed at economic recovery through external assistance. In the participating European countries, agricultural production rose by 10 percent and industrial production by 35 percent in four years. Trade among the participating countries expanded by 70 percent, substantially alleviating the "dollar shortage."

The year 1954, however, is a landmark in the history of the idea of Food for Peace. The whole concept was given a new orientation as a result of the passing of the Agricultural Trade Development and Assistance Act of 1954, commonly known as Public Law 480. This act provided for sales for foreign currencies, donations, and barter of surplus U. S. farm commodities. Recently, the act was amended to permit sales of surplus commodities for dollars on a long-term loan basis and at low rates of interest.

The objective of this paper is to evaluate the role of the Food for Peace program in the general context of our over-all foreign economic policies. More specifically, the presentation will attempt: (1) to analyze the nature of our P. L. 480 operations and the food and economic development "gaps" with which we are confronted; (2) to evaluate our response to closing these gaps, with particular reference to the use of food for economic development; and (3) to explore how our P. L. 480 efforts contribute to the building of commercial markets for our farm products.

THE NATURE OF FOOD FOR PEACE OPERATIONS

In recent years, we in the United States have discussed at length the possibilities of using our surpluses to feed the hungry people of the world and of using our food resources for peace. Our discussions have centered around such questions as: How great is the shortage of food? How large is the world "food gap"? How can our food be used in meeting world food deficits?

World Food Needs

Approximately one-half of the people of the world live in countries where the caloric intake is below the standard we consider as adequate. Of course, the world food shortage is hard to visualize in terms of actual foods because of the wide variety of foods people eat. However, for the sake of simplicity and clarity, the estimates can be stated in terms of some well-known and widely used food products in the United States. The 1962 world food shortage is estimated to be roughly equivalent to 35 percent of the U. S. annual milk production; plus 40 percent of the U. S. annual dry bean and pea production; plus 120 percent of the annual wheat production. Expressed in another way, the food shortages in deficit countries are estimated at 1.8 million metric tons of animal protein in terms of nonfat milk solids; 0.4 million metric tons of vegetable proteins, in terms of dry beans and peas; 35.6 million metric tons of other proteins, in terms of wheat; and 8.6 million metric tons of remaining caloric deficiencies in terms of wheat.[1]

In interpreting these approximations, we must recognize that in some countries, although minimum caloric levels may be reached, diets may be seriously deficient because of the lack of certain food elements. For example, proteins, especially animal proteins, are very short in a large part of the world.

Where do we find food deficits in the world? The greatest deficits are in the Far East, which holds more than one-half of the population of the world. This region of the world produces less food than its people need. A little more than one-third of the people of Africa live in countries with a food deficit; these people are located primarily in Eastern and Northern Africa. About one-third of the people of Latin America live in countries with a net food deficit.

These data, rough as they are, indicate only a part of the food problem of the world. Even though a nation may have more food than is needed for all its people, individuals within the country may have inadequate diets. For example, some individuals within our own country or within individual states have inadequate diets. This situation may be due to a lack of purchasing power or lack of knowledge of nutritional needs. In underdeveloped countries, it may also be due to a lack of adequate distribution and transportation facilities.

The World Development Gap

In addition to meeting the urgent needs of hunger, the surplus products of U. S. farms move to underdeveloped nations to help finance economic development in those countries. These efforts are undertaken to close the gap between the "have" and "have not" nations. These efforts are designed to meet in part the enormous "rise in expectations" among peoples in newly emerging nations and underdeveloped countries as they aspire to the improved levels of living and to the greater opportunities of the twentieth century.

In this area our discussion centers around such questions as: What is the nature and magnitude of the development gap? How is food used in economic development programs?

One means of measuring this gap is to make a comparison of average yearly incomes per person in the various countries. In 1959, the per capita income of the three most highly industrialized countries in the world (United States, United Kingdom, and Belgium) averaged about $1,920; the per capita incomes of the next seven strongly industrialized nations averaged over $1,050. At the other end of

[1] "The World Food Deficit: A First Approximation," Foreign Agricultural Service, U. S. Dept. of Agriculture, March 1961.

the spectrum, the incomes per year in 17 underdeveloped countries, in which over 60 percent of the people were illiterate and over 60 percent of the people were engaged in agriculture, was less than \$90. But the astonishing thing is that in recent years the gap is widening, not narrowing (Table 1). While the per capita incomes of people in the industrialized economies have shown remarkable year-by-year growth, incomes in underdeveloped countries have been virtually stagnant. Growing disparities such as these contribute to the political instability of the world. Moreover, they create situations which are frequently exploited by opponents of the Free World.

TABLE 1. PER CAPITA INCOME, COUNTRIES CLASSIFIED ON THE BASIS OF PERCENTAGE OF POPULATION ENGAGED IN AGRICULTURE, SELECTED YEARS

Country Classification (Based on Percentage of People in Agriculture)	Per Capita Income[1]				
	1950	1953	1955	1957	1959
			U. S. Dollars		
Class I (12 percent and under)					
United Kingdom	590.6	745.9	837.8	958.1	1,017.6
United States	1,594.7	1,921.7	2,009.7	2,125.8	2,231.9
Belgium	637.8	757.6	831.1	920.0	939.6
Average	1,314.6	1,597.1	1,695.6	1,819.7	1,917.6
Class II (13-24 percent)					
Australia	836.0	957.3	1,051.4	1,069.2	1,188.8
New Zealand	891.1	1,003.9	1,103.9	1,109.5	1,239.0
Canada	965.0	1,340.2	1,327.1	1,458.6	1,578.3
Netherlands	391.2	480.1	594.9	687.7	744.8
Sweden	737.1	983.3	1,104.8	1,267.4	1,381.0
Switzerland	872.2	1,013.3	1,131.4	1,244.1	1,291.2
West Germany	372.2	529.2	639.6	710.9	879.5
Average	566.0	754.0	848.4	931.6	1,066.8
Class III (25-36 percent)					
Denmark	625.1	737.9	770.2	869.3	992.1
Argentina	215.5	368.7	182.0	256.4	283.6
Norway	553.1	708.5	798.0	933.0	913.7
France	512.4	745.9	856.4	968.1	873.6
Chile	366.8	428.4	415.6	364.3	433.6
Austria	420.4	525.3	447.2	541.4	585.9
Average	437.1	617.1	626.3	712.6	683.5
Class IV (37-48 percent)					
Puerto Rico	318.6	408.3	421.6	473.0	558.6
Ireland	334.3	412.3	433.8	451.3	483.1
Venezuela	429.6	562.3	619.8	757.6	895.4
Italy	238.3	313.7	359.5	403.6	457.1
Cuba	300.4	301.9	320.1	361.9	335.5[3]
Mauritius	185.9	236.0	227.7	224.9	228.9[3]

TABLE 1 — Continued

Country Classification (Based on Percentage of People in Agriculture)	Per Capita Income[1] 1950	1953	1955	1957	1959
	U. S. Dollars				
Finland	404.2	643.6	565.7	797.0	720.1
South Africa	258.6	298.8	325.6	346.0	347.7[3]
Portugal	250.0[2]	171.9	181.7	196.8	209.7
Greece	104.0	177.0	231.8	291.7	304.3
Japan	113.3	180.9	219.9	252.2	297.8
Average	187.5	255.1	293.4	333.7	373.5
Class V (49-60 percent)					
Spain	150.0	245.5	287.0	407.1	263.1
Ecuador	107.2	127.6	143.4	150.9	160.9
Panama	237.3	242.2	250.5	326.8	319.6[3]
Ceylon	103.8	112.1	125.3	116.1	117.7
Paraguay	86.8	65.6	105.9	107.4	101.4[3]
Costa Rica	199.8	244.0	269.3	276.9	312.6
Dominican Republic	164.6	189.9	217.1	243.1	224.6
Brazil	127.5	117.0	147.6	157.5	111.6
Mexico	170.9	206.9	201.6	234.2	262.0
Peru	95.7	95.1	114.8	124.9	95.9[3]
Average	138.2	162.4	185.1	220.0	177.3
Class VI (61-72 percent)					
Taiwan	27.0[2]	59.3	69.4	86.9	96.3
Egypt	110.9	102.1	112.7	112.0	n.a.
Yugoslavia	256.0	200.6	263.4	336.2	402.9
Philippines	151.4	166.7	174.5	188.7	174.3
India	55.9	59.2	54.9	61.0	65.6[3]
Guatamala	129.5	129.6	140.0	162.0	152.5
Colombia	166.0	199.1	182.8	146.4	192.4
Average	73.0	75.7	75.5	83.5	89.7
Class VII (73 percent and over)					
Pakistan	73.8	77.5	66.0	52.2	52.6
Honduras	119.7	159.9	164.5	168.5	n.a.
Haiti	70.0	96.7	98.3	100.5	n.a.
Thailand	76.4	89.0	83.0	99.6	106.2
Congo	52.0	69.9	75.2	74.5	70.6
Average	72.5	80.4	72.1	65.8	64.2

[1] Reported per capita incomes converted to U. S. dollar figures on basis of official rates of currency exchange. In case of multi-exchange rates, the average rate was used.

[2] 1949.

[3] 1958.

SOURCES: United Nations Statistical Yearbook; and Conrad H. Hammar, "Economic Growth for Underdeveloped Areas: Theory and Programming," Department of Agricultural Economics, University of Minnesota, June 1961. Mimeo.

Our Response to the "Challenge of the Gaps"

What has been our response to the demands for progress by the less developed parts of the world? How have we, as one of the leaders in the Western World, met our responsibilities?

The Food for Peace program helps underdeveloped countries to meet some of their most pressing food needs as they try to develop more viable, vigorous economies. As we have noted earlier, Public Law 480 is the major legislation of the United States authorizing special export activity of surplus farm commodities.

Although this legislation is important, we must keep in mind that our operations under P. L. 480 constitute but one facet of the aid and assistance that we are rendering in foreign areas. Moreover, private investments abroad continue to play an important role in development assistance. Thus, we need to maintain a perspective in this regard. For example, in recent years a typical annual summary of programs for government assistance abroad involved the following:

		Billions
Mutual defense program		
Military assistance	$1.810	
Defense support	.830	$2.640
Economic assistance		.630
Technical assistance		.140
U. S. support of UN agencies		.650
P. L. 480 (estimated market value)		1.200
Total		$5.260

P. L. 480 transactions constituted over one-fifth of our government's foreign aid operations.

Since the inception of P. L. 480 in July 1954, 246 agreements or supplements to agreements, with a total CCC cost (to the federal government including ocean transportation) of 9,479.5 million dollars, have been entered into with 39 countries.[2] A program of this magnitude is of significance not only to the U. S. foreign economic effort, but also to our foreign trade in agricultural products. In fact, exports under P. L. 480 have been a major factor in U. S. agricultural trade, having accounted for 26 percent of total agricultural exports during the first six years of its operations (Table 2).

The exports under P. L. 480 are particularly important to the producers of certain U. S. farm products. The commodity composition, export market value, and CCC cost of commodities under all agreements are shown in Table 3.

[2] Fourteenth Semiannual Report on Activities Carried on Under Public Law 480, 83rd Congress, U. S. Govt. Printing Office, August 10, 1961.

TABLE 2. EXPORTS OF UNITED STATES FARM PRODUCTS UNDER P. L. 480 COMPARED WITH TOTAL EXPORTS OF UNITED STATES FARM PRODUCTS, 1957-58 TO 1959-60 AND 1954-60

Type of Export	1957-58	1958-59	1959-60	1954-55 Through 1959-60
		Millions of Dollars		
Public Law 480	1,024	1,044	1,147	6,206
Other farm exports	2,979	2,675	3,380	17,411
Without government assistance[1]	(1,551)	(1,662)	(1,927)	(6,994)
With government assistance[2]	(1,428)	(1,013)	(1,453)	(10,417)
Total farm exports	4,003	3,719	4,527	23,617
Public Law 480 exports as percent of total farm exports	26	28	25	26

[1] Estimated.
[2] Estimated. Includes commercial exports assisted by export payments in cash or in kind or by sales from CCC stocks at less than domestic prices.

TABLE 3. COMMODITY COMPOSITION OF ALL AGREEMENTS SIGNED, P. L. 480, TITLE I, JULY 1954 THROUGH JUNE 20, 1961

Commodity	Export Market Value	Estimated CCC Cost
	Millions of Dollars	
Wheat and wheat flour	3,257.2	5,473.1
Cotton	857.9	1,188.1
Fats and oils	610.4	617.5
Feed grains	364.3	474.3
Rice	388.1	639.3
Tobacco	221.7	221.7
Dairy products	47.0	77.7
Others	65.0	65.0
Total	5,811.6	8,756.7
Ocean transportation	722.8	722.8
Total, including ocean transportation	6,534.4	9,479.5

SOURCE: Fourteenth Semiannual Report, P. L. 480, August 10, 1961.

P. L. 480 shipments have represented significant proportions of total United States exports of many commodities. Wheat is an example. The surplus of U. S. wheat is approximately 1.4 million bushels. In the absence of a P. L. 480 program, had production rates remained the same, the existing carry-over stocks would have been twice their present size.

In 1960-61, P. L. 480 shipments accounted for two-thirds of U. S. wheat exports; two-thirds of milled rice exports; one-half of cottonseed and soybean oil exports; one-fourth of corn exports; and one-fifth of cotton exports. A benefit obviously accrued to the United States in the form of reduced pressure from surplus commodities on farm commodity prices.

Let us examine the operations of P. L. 480 more closely. The legislation authorized four types of special government programs abroad:

1. The sale of U. S. surplus farm products for foreign currencies (Title I).
2. The donation of surplus farm products for famine relief, meeting the requirements of needy people, and other assistance (Title II).
3. The distribution of surplus farm products to needy persons overseas through nonprofit American voluntary relief agencies and intergovernmental organizations; and the barter of surplus commodities for strategic goods (Title III).
4. The sale of surplus commodities for dollars on a long-term loan basis at low, favorable rates of interest (Title IV, an amendment made in 1959).

TITLE I. As stated previously, this provision enables countries to pay for purchases of food and fiber with their own currencies. U. S. farm surpluses sent abroad are sold by recipient countries to their own people. The local currency proceeds are deposited to the account of the Treasurer of the United States in the recipient country's national bank.

At the time the Title I agreements are signed, the United States and the buying country also decide how the local currencies will be used. Some of the major prescribed uses of foreign currency under Title I agreements from July 1954 through June 1961 are shown in Table 4.

TABLE 4. PLANNED USES OF FOREIGN CURRENCY UNDER AGREEMENTS SIGNED, TITLE I, P. L. 480, JULY 1954 THROUGH JUNE 1961

Uses of Foreign Currency	Thousand Dollar Equivalent	Percent of Total
Loans to foreign governments	2,939,758	44.4
Grants for economic development	1,126,614	17.1
Common defense	398,804	6.0
Loans to private enterprise	399,172	6.0
U. S. uses	1,752,575	26.5
Total	6,616,923	100.0

SOURCE: Fourteenth Semiannual Report, P. L. 480, August 10, 1961.

The largest share of currencies is to be loaned or granted for purposes of economic development to the countries which bought the food. In some cases, the burden of additional costs for the common defense are to be shared. Some of the currencies are used by agencies of the U. S. government, such as the Departments of Defense, State, and Agriculture, to pay obligations incurred abroad.

The highest proportion of local currencies allocated for economic development under the P. L. 480 program are used for projects in industry and mining and food and agriculture. Other areas of developmental emphasis are transportation, education, health and sanitation, and community development.

TITLE II. Under this title, surplus commodities held in stock by the Commodity Credit Corporation are used for famine relief and other assistance. Emergency assistance is given to friendly countries, or to friendly people without regard to the friendliness of their government, to meet famine or other extraordinary situations. Through June 30, 1961, 807.6 million dollars has been allocated for such purposes as disaster relief, child feeding, refugees, voluntary agencies, and economic development.

TITLE III. This portion of the law provides for two kinds of programs: one for the donation of surplus food for distribution to needy persons overseas through nonprofit American voluntary relief agencies and intergovernmental organizations and also for domestic distribution to eligible recipients; and the other for the barter of surplus commodities for strategic and other materials, goods, and equipment.

Up to June 30, 1961, a total of 15,649 million pounds of various commodities costing 2,173 million dollars has been donated or distributed by various relief and voluntary agencies.

One hundred eight countries and territories received agricultural commodities valued at 1,340.2 million dollars under the barter program from July 1, 1954, through June 30, 1961. Various stockpile and supply materials valued at 1,237.7 million dollars have been delivered to the United States by the barter contractors during approximately the same period.

TITLE IV. Although this title was added to the act in 1959, only one transaction has been concluded to date. On August 21, 1961, an agreement was signed between the governments of El Salvador and the United States calling for the delivery of 25,000 metric tons of U. S. wheat during the fiscal year of 1961-62 under credit terms of a five-year period with interest at 3⅜ percent.

THE OPPORTUNITIES AND LIMITATION OF FOOD FOR PEACE

After seven years of activity under the P. L. 480 program, we may well ask the questions: How successful has the program been? What appear to be its strengths? What appear to be some of its limitations?

Little, if any, formal evaluation has been made of the impact of P. L. 480, particularly the economic development features, upon a recipient economy. Isolation and measurement of the impact of the imports of U. S. food and of the use of local currency in development projects, which, under any circumstances, interact with other economic, sociological, political, and technological forces in the developing economy, admittedly are difficult. Unfortunately, our government assistance programs have not provided funds for any significant amount of research to improve our knowledge of how to deal with development problems. While we have little research in the area of Food for Peace, programs are under review; administrative decisions are made on the basis of unfolding events; revisions and modifications are made in our policies and procedures as the result of accumulated experience. Thus, we can engage in some preliminary observations.

The Opportunities

Titles II and III of P. L. 480, dealing with the alleviation of emergency relief problems, have been relatively successful. This aspect of the Food for Peace program has been a great instrument in relieving famine situations in various countries. For example, Ethiopians, struck by drought and locusts, have been helped with large quantities of grain. U. S. food supplies are being distributed to Algerian refugees in Morocco and Tunisia. Voluntary agencies in Taiwan have distributed about 80,000 comforters which they made from about 2,000 bales of U. S. raw cotton. Emergency relief has been provided to victims of typhoons in the Ryukyu Islands and Japan. Six million primary school children in Japan are receiving milk under a school lunch program and a million more children are receiving powdered milk.

The demonstration of Title I's effectiveness in economic development is not as dramatic nor perhaps as convincing. Under the Food for Peace program, primarily P. L. 480, food can serve in many cases as an additional source of development capital. A less advanced country might receive U. S. wheat or other food grains. This additional food would permit putting more people to work, possibly on projects calling for much local labor and local resources and small amounts of foreign equipment. Thus, the building of roads, irrigation systems, dams, schools, and warehouses would speed a country's development and increase its production capacity. U. S.

food, then, provides the basis for part of the local development. Moreover, it creates an economic situation which may make more local credit available and may attract more outside capital. Food becomes an added resource above the cash and credit otherwise available.

Food can serve as an important developmental good in another economic context. Without additional food, the demands created by even small increases in the standard of living may not be satisfied. Inflation in developing economies is an ever-present threat. U. S. surpluses can be used to help bridge the food gap and diminish the inflation threat.

Under the food for economic development concept, some successes are apparently in the making. In Morocco and Tunisia, American wheat has been introduced as a partial wage to people engaged in developmental projects. These projects employ a high amount of labor. On soil and conservation projects in Tunisia, a substantial part of the workers' wages (about 70 cents a day) is paid in U. S. grain; the remainder is paid in cash provided by the Tunisian government. In Morocco, nomadic people are being encouraged to settle on productive tribal lands by paying them a wage of 14 ounces per day of American wheat for land clearance work.

Perhaps the most spectacular venture under the Food for Peace program involves India. The May 1960 agreement with India is the largest in the history of P. L. 480—approximately 1.3 billion dollars market value in surplus commodities. The four-year program calls for the delivery of 16 million tons of wheat and one million tons of rice. In any one year, this agreement will provide for the annual population growth of 2 percent and an additional 2 percent for increased consumption. On a per person basis, it will provide 90 calories more daily.[3]

Aside from providing for some of India's growing food needs, the P. L. 480 transaction provides local currency for the country's economic development. Of the 1.3 billion dollars, 85 percent has been earmarked for use in India's second and third five-year development plans. This includes 667.8 million dollars in loans to the Government of India, 369.9 million dollars in grants, and 112.6 million dollars for loans to private enterprise in India.

The Food for Peace program is one of several sources of U. S. assistance to India. However, it has proved to be an important multipurpose resource. It has enabled India to buy, in rupees, the

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[3] William F. Hall, "P. L. 480's Contribution to India's Economic Development," Economic Research Service, U. S. Dept. of Agriculture, For.-8, May 1961.

additional needed food and fiber which its low foreign exchange holdings would not have otherwise permitted. It has sustained the diet of its people at levels of caloric intake which would have been impossible without sacrificing scarce foreign exchange. It has generated local funds which have been allocated largely for economic development purposes. We can also look upon the Indian situation from another point of view. Had our abundant food resources not been available, the Indian people would have had to pay much higher prices for food. In fact, the United States may have had to purchase food for India on the world market to preserve and maintain the economic stability of the country and the political stability of that region of the world.

The *Hindustan Times* of India has editorialized on the agreement most succinctly:

> Outside the Marshall Plan, this program is the largest single act of aid from Free World to Free World. It is an unprecedented step undertaking to cover our food deficit for the next four years as well as to help build our buffer stock. American people have given India assurance they no longer need to be under nagging fear of recurring food crises. Also, large amounts of rupee finance can be used to further development of the Third Plan. Indo-American political and economic relations are at an all-time high level of warmth and friendliness.

The Limitations

As our agricultural abundance has been pressed into the service of our country abroad, certain weaknesses in policy guidance, programming, and operations of the Food for Peace program have become apparent. As in many cases in which remedial measures are introduced, the prescribed cure may give rise to a number of unexpected side effects which thwart the initial objectives or goals.

Disposal Versus Economic Development

Greater understanding among the U. S. general public is needed in order that the Food for Peace program will be more widely accepted and recognized as a governmental instrumentality in support of our foreign economic objectives. Administering agencies also need to view the program in a broader context than merely an agricultural surplus disposal program. We have been prone to regard Food for Peace too much as a disposal operation and too little as a bold and imaginative program to help underdeveloped countries.

We have recognized the existence of large, burdensome, surplus stocks and the impossibility of disposing of them domestically. We have looked covetously at overseas markets as a likely place to "export part of our farm problem." Since the international political implications of such actions are difficult to live with, we have soothed our conscience by embarking on economic development programs. We have unloaded our surpluses and hope they will "buy" economic development.

Our approach must give greater emphasis to our obligation to the underdeveloped nations as they are reawakening after centuries of slumber. We should consider the significance of our actions in light of the East-West rivalry and the struggle for the minds and commitments of the peoples of the less developed nations. We should be asking ourselves: What kind of aid do these nations require? What resources do we have that will assist them? How do we match the capabilities of U. S. agriculture with the needs of the emerging and developing nations? In many cases, the need for substantial quantities of capital investment or dollar aid, coupled with surplus food and fiber imports, is readily apparent.

The strong tendency to pursue the easy road of surplus disposal and to avoid the pain of additional dollar appropriations for economic assistance abroad is highlighted in the present session of the U. S. Congress. For example, the current proposal to increase the authorization under P. L. 480 by 2 billion dollars for only six months (until December 31, 1961) is being hailed as a great forward-looking piece of legislation. On the other hand, the Executive's proposal to increase the foreign economic aid program by a few hundred thousand dollars, or to place it on a longer-term basis, has met with staunch and entrenched opposition.

Danger of Accumulated Currencies

Based on experience to date, the accumulations of local currencies under Title I, P. L. 480, will certainly present a future problem to the United States and to cooperating countries. The present accumulations of local currencies owned or controlled by the United States total over 4 billion dollars (Table 5). However, little has been done to make double-edged use of farm surpluses by putting economic projects into operation. Local currencies have been generated faster than development plans are being implemented. Only about one-fourth of the local currencies accumulated have, in a sense, been put to work. Perhaps as indicated in the section above, the urgent concern, at least on the U. S. side, has been with disposal rather than economic programming.

The accumulation of currencies at the present or an accelerated rate, the lag in the implementation of development projects, and the continued practice of making the proceeds of P. L. 480 sales

TABLE 5. STATUS OF FOREIGN CURRENCIES (DOLLAR EQUIVALENTS), TITLE I, P. L. 480, 1954-60

Status	Million Dollar Equivalent
Authorization through December 31, 1961	11,250.0
Agreements signed, including ocean transportation[1]	9,479.5
Commodity purchases transacted[2]	6,617.0
Currency deposited following sales[3]	4,574.2
Allocations by Bureau of Budget[3]	4,012.5
Transfers to agency accounts[3]	3,645.3
Disbursements by all agencies[3]	2,066.7
Disbursements for economic development[3]	1,285.4[4]

[1] Estimated CCC cost through June 30, 1961.
[2] Purchase authorization transaction through June 30, 1961.
[3] Through March 31, 1961.
[4] Includes loans to foreign governments, $1,136.2 million; grants for economic development, $104.9 million; and loans to private enterprise, $44.3 million.
SOURCE: Fourteenth Semiannual Report, P. L. 480, August 10, 1961.

available on a repayable loan basis (84 percent of the currency uses in development to date have been on a repayable basis), bearing interest, will intensify the problem in the future. If we continue program operations for the next three years at approximately the same levels as in recent years and then stop, estimates are that U. S. foreign currency holdings will be the equivalent of 12.5 billion dollars by 1970 and 37 billion dollars by the year 2000. If our operations continue at the same levels, not for three years but until the year 2000, U. S. claims on world resources in the form of local currencies would amount to the equivalent of over 150 billion dollars.[4]

The implications of large unused balances owned by the United States in the banking system of another country are obvious. When such sums bulk large, how we handle these currencies is of tremendous importance to the financial stability of the country. The degree to which actions in our own self-interest might be regarded as internal involvement or intervention would place further stress and strain on international relations. If some foreign country held a special dollar fund in the U. S. Treasury equivalent to one-half the annual U. S. budget, how would we look upon this?

The experience of the past raises some questions, then, regarding the desirability of continuing to give aid which generates local currency. In certain countries, where the present accumulation of local currency is large, the loan of local currencies only compounds the difficulties. Repayments and interest earnings (and the reloaning

[4] Robert L. Berensen, William M. Bristol, and Ralph I. Straus, *Accumulation and Administration of Local Currencies,* International Cooperation Administration, August 1958, p. 5.

of these) will increase the accumulation over the years. Under such conditions, outright grants appear desirable, particularly if repayment in dollars in a reasonable period of time is not very likely.

Local Currency Not a Commodity

One further point must be understood in our discussion of the U. S. holding of local currencies. Money is not a commodity; it is a claim on resources. Food imported under the Food for Peace program is an additional resource. However, the local currency accumulated and held by the United States does not increase the resources available to the country; it represents further claims on the resources of the country. This situation, too, has important monetary and fiscal policy as well as political and foreign policy implications.

When food arrives in a country, its sale absorbs local purchasing power. This operates as an anti-inflationary influence. When development projects are begun, local currency or money is pushed into the economy and local purchasing power increases. This operates as an inflationary influence. Thus, the time differential between the accumulation of local currencies and their expenditure is highly important.

Again, to forestall inflationary pressures resulting from the release of excessive currency into the economy, it may be desirable, particularly in the early stages of economic development, to rely more heavily on outright grants of food rather than the payments-loans system involving local currency. This would place more reliance upon Title II operations of P. L. 480 rather than those of Title I.

Need for Long-Range, Packaged Programs

Economic development is a long-term undertaking; in some countries, the process will continue for generations. We began our surplus disposal operations to assist foreign nations on a temporary basis because we believed our farm surplus situation was very temporary. In the main, we no longer regard our farm surplus problem as temporary. The general consensus is that our abundance and excess capacity in agriculture will persist for some time to come.

However, we have, to a large degree, continued to run our Food for Peace program on year-to-year temporary extensions. From the viewpoint of efficiency in planning, programming, and implementation, greater continuity is needed to serve the best interests of both our own country and the Free World. That we have done as well as we have is remarkable. The longer-term agreements that have come into existence in recent months, such as the four-year program with India, have been most encouraging. Nothing is more discouraging than trying to solve twenty-year economic development problems with five-year economic plans, with personnel on two-year tours of duty, and with yearly appropriations.

Furthermore, our P. L. 480 efforts need to be better coordinated with our over-all efforts to assist in economic development. The situation calls for a new type of leadership that, first of all, assures underdeveloped countries of a sufficient supply of food to underwrite a development program, and that is concurrently concerned with the capital goods, other economic aid, and technical assistance also needed from abroad. The two types of assistance—basic food and economic and technical assistance—must be supplied concurrently for a balanced development effort.

FOOD FOR PEACE'S CONTRIBUTION TO BUILDING COMMERCIAL MARKETS

While the Food for Peace program is inextricably associated with our cold war struggle, the program also has its direct economic implications at home. Agriculture, in particular, stands to gain. Initially, we are relieving our heavy inventory position. In the longer view, we anticipate expanded commercial markets.

Economic development and economic growth mean more jobs and increased purchasing power in the poorer countries. When the need for special export programs has passed, such programs will terminate. When the development process becomes self-sustaining, commodities will move on a commercial basis. Agricultural commodities from the United States and other sources should then find "hard currency" markets in the presently underdeveloped nations.

Industrialized countries are generally good markets for U. S. products, including farm products. For example, U. S. agricultural exports to the developed countries in 1959 amounted to $5.80 per person living in these countries. The corresponding figure for underdeveloped nations was $1.15. The gap was much greater if we consider only dollar trade. As the underdeveloped nations improve their levels of living, the differential will undoubtedly be reduced.

In the period since the war, some countries have "graduated" from sales for foreign currencies to sales for dollars. Among such nations are Japan, Italy, Austria, and other countries of Western Europe.

Local Currency Uses and Market Development

In order to encourage further the expansion of agricultural trade, United States legislation permits the use of local currencies for market development. Section 104(a), Title I, P. L. 480, makes foreign currencies available to help develop new markets for United States agricultural products "on a mutually benefiting basis." The U. S. Department of Agriculture is responsible for market development work. USDA policy has been to act as a catalyst, with actual promotion and development work being carried out by trade groups and private organizations. In 1959, the law was amended to provide that at least 5 percent of local currencies generated under Title I sales should be used for market development purposes.

Nearly 41 million dollars equivalent in foreign currencies have been obligated or authorized for market development projects in the period, July 1955 to June 1961. Cooperating trade and agricultural groups have contributed about 17 million dollars equivalent in funds, personnel, and services to date, bringing the over-all market development program total to 58 million dollars. The number of projects total 532, carried out in 55 countries.

Several different techniques have been used in the promotion and development of U. S. agricultural exports. Among these have been surveys and studies of market potential and needs; merchandising clinics; samples for display and testing; participation in international trade fairs; nutrition and sanitation education; studies of consumer demand; school lunch assistance; motion pictures and slides; translation, printing, and distribution of promotional and educational leaflets; food preparation demonstrations; and advertising campaigns.

Evaluation of Section 104(a) Market Development Activities

How effective have been the market development projects undertaken by the Foreign Agriculture Service of the USDA and the trade and agricultural cooperators? Some answers have been provided to this question by studies undertaken last year in the countries of Japan, Italy, and West Germany by representatives of the departments of agricultural economics of three land-grant institutions. The summary highlights of one of these reports[5] give us some assessment of the effectiveness of market development projects:

1. Market development has been a worthwhile activity in which to invest U. S. government-held foreign currencies. It has helped stimulate widespread interest in foreign agricultural trade, and trade in U. S. farm commodities has been increased.

2. The purposes and objectives of market development activities should be more clearly defined. Foreign market development activities may include work in the United States as well as overseas. Efforts to develop a satisfactory variety of U. S. soybean for consumers abroad

[5] Elmer W. Learn and James P. Houck, Jr., "An Evaluation of Market Development Projects in West Germany Under Section 104(a) of Public Law 480," Minnesota Agr. Expt. Sta. Bul. 455, June 1961, pp. 20-21.

on the agronomy plots of the University of Illinois is as much a part of foreign market development as the distribution of a movie strip for showing in Japanese theaters.

3. Many market development projects to date have suffered from a lack of planning prior to implementation. This is particularly true regarding market surveys, studies of market potentials, and the development of coordinated plans of work.

4. Consideration should be given to making foreign market development a permanent—not a temporary—part of USDA activities, bolstering the work with dollar appropriations instead of depending solely upon continued availability of foreign currencies.

5. Efforts should be made to encourage private groups, including farm producer groups, to finance and conduct those activities that are specifically in their own interest and for which there is adequate incentive. Other market development activities, perhaps truly more "developmental" in nature and not immediately remunerative, should continue to be largely a cooperative government-industry venture.

6. No single magic formula appears to be available for successful market development projects. Each commodity situation in each country presents a new challenge. Therefore, administrators must permit maximum flexibility in planning and in operations.

7. Numerous administrative and operational problems exist. Most important is the lack of sufficient Foreign Agriculture Service resources in foreign countries to fulfill adequately FAS's role and responsibilities in cooperative endeavors.

SUMMARY AND CONCLUSIONS

Since the enactment in July 1954 of Public Law 480, the chief instrumentality in the Food for Peace program, 7.6 billion dollars of surplus food and fiber have been shipped abroad. The double-edged nature of P. L. 480 permits an immediate impact in meeting urgent food and fiber needs and a subsequent impact, under Title I of P. L. 480, of using local currencies to finance economic development.

However, to increase its effectiveness and further acceptance, greater understanding must be developed among the general public of P. L. 480 as an instrument of foreign economic policy rather than merely a surplus disposal program. Moreover, experience has shown that great discretion is required in the handling of accumulated foreign currencies; that greater recognition must be given to the fact that local currencies alone do not represent added resources in a cooperating country's program; and that long-range planning coupled with both food and capital goods imports is needed.

In time, economies do become self-generating and outgrow the need for reliance upon the United States. We look forward to such progress and anticipate expanded markets for our farm products. In fact, foreign currencies generated under P. L. 480 sales are being used successfully in special projects in over 50 countries to help develop new markets for United States agricultural products on a mutual benefiting basis.