PROCEEDINGS OF THE THIRTEENTH INTERNATIONAL CONFERENCE OF AGRICULTURAL ECONOMISTS

held at the University of Sydney
Sydney, New South Wales, Australia

21–30 AUGUST 1967

The Economist and Farm People in a Rapidly Changing World

LONDON
OXFORD UNIVERSITY PRESS
NEW YORK TORONTO
1969

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Food Aid for Growth and Development

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THE economic rationale of using food aid for development was first formulated by the F.A.O. by means of a Pilot Study in India in 1953–4,[2]

> It led to the conclusion that where there was idle manpower in the recipient country and proper precautions were observed, surpluses could be used to offset part of the increased demand for food which would result from putting part of the idle manpower at work on new capital formulation projects. Men do not live by food alone, and surpluses cannot cover the whole range of food requirements. The part of the increased consumption resulting from the increased employment not satisfied by surpluses would need to be met either by increased output from domestic industries . . . or by increased imports financed by additional financial assistance made available to the recipient country . . . The Study concluded that . . . with a wide 'market-basket' of surplus foods including some preserved meat and dairy products, only about half the capital cost of the additional development projects could be offset by surpluses.[3]

The conclusion was based on a detailed analysis of the multiplier effect of additional development expenditure. Under certain assumptions made in the study it can be shown that a capital expenditure of 100 units on a labour-intensive development project creates 48 units of additional demand for surplus kinds of foods—17 units by the labour employed on the project and 31 units by receivers of incomes generated in subsequent cycles of multiplier analysis. Therefore, if such surplus foods in adequate quantities are placed in the hands of the government of the country concerned and if the government is allowed to sell these on the domestic market and treat the sales proceeds as its revenue receipts, then we may say that out of the 100 units of project expenditure, 48 units return to the government. It is in this sense that 'about half the capital cost of the additional projects could be offset by surpluses' and only the

[1] In the unavoidable absence of Professor Dandekar the paper was presented by Professor Karve.

[2] F.A.O., *Uses of Agricultural Surpluses to finance economic development in Under-developed Countries: A Pilot Study in India.* Commodity Policy Studies No. 6, F.A.O., Rome, June 1955.

[3] M. Ezekiel, 'Impact and Implications of Foreign Surplus Disposal on Developed Economies and Foreign Competitors: The International Perspective', *Journal of Farm Economics*, vol. xlii (1960), pp. 1065–6.

remaining half would have to be financed from other fiscal resources of the government.

On a closer examination, it seems that the total financial position of the government of the receiving country *vis-à-vis* the additional development projects would be even easier than this. This is because the proceeds of sale of the aid-foods are not the only channel through which a part of the project expenditure returns to the government. The other channels are additional tax receipts and additional savings arising out of the incomes generated through the initial project expenditure. These appear to be worth 14·5 units each. The additional tax receipts would of course accrue to the government. The additional savings would remain in private hands but the government could acquire them through additional borrowing. If this is done, it seems that out of the initial project expenditure of 100 units, the government concerned would be able to mop up 77 units—48 units by the sale of surplus foods received in aid, 14·5 units in additional tax receipts and 14·5 units by additional borrowing. The remaining 23 units do not return because of 'leakages' through imports—10 units' worth imported capital goods for the project and 13 units' worth of additional consumer goods for which demand is created through incomes subsequently generated. It is obvious that this part of the project costs can be financed only through additional foreign aid. This means that in order to enable the government of the developing country to make effective use of food aid for development, it must be accompanied by complementary foreign aid which, even in the most favourable circumstances, would have to be almost half the size of the food aid. If this is made available, the entire project expenditure would be fully met.

But the complementary foreign aid is often not available. We should therefore examine the contribution that food aid without complementary aid can make to development. In such a situation, additional projects will have to be so selected that they do not require any foreign capital goods. Further, steps will have to be taken to ensure that no part of the additional incomes generated by the project expenditure goes into expenditure on imported consumer goods. This is difficult but not impossible. If this is done, and if we pursue the same analysis as above, it seems that the government of the aid-receiving country will be able to mop up the entire project expenditure of 100 units—now 62 units by sale of foods received in aid, 19 units by additional tax receipts, and another 19 units by additional borrowing. Thus even if no complementary aid is available, the entire project expenditure is fully met from food aid and the consequential resources it generates. The additional projects do not cause any additional burden on the government of the receiving country.

From the standpoint of the governments of the developing countries receiving food aid, this is the most attractive result of the above analysis namely that the capital budget of a developing project founded on food aid is always fully balanced provided the capital account of the project is credited with (1) sales proceeds of the aid-foods sold on the domestic market; (2) additional tax receipts; and (3) additional savings created by the additional incomes generated by the project expenditure. The first two are direct receipts of the governments concerned and the third can be secured by additional borrowing. The capital budget of the project is thus fully balanced. This is the basis of the F.A.O. formulation suggesting that in developing countries where there is enough idle man-power, the governments should avail themselves of the aid-foods, sell them on the domestic market, and use the funds to finance additional development projects. Such sale proceeds may finance anything between 50 and 60 per cent of the capital costs of the projects, and what is more, the remaining part of the expenditure will in due course return to the governments in the form of additional receipts and public borrowing. Complementary foreign aid makes the operation easy. But smaller complementary aid does not alter the basic proposition namely that the entire operation is self-financing, that it does not cost the governments anything and in the process there is so much additional economic development. The only effort that the governments need do is to collect the additional tax receipts and mobilize the additional savings.

Having seen this, the governments of the aid-receiving countries have gone a step further and argued with themselves what would happen if they did not collect the additional tax receipts and mobilize the savings because many of them are not capable even of this additional effort. As it turns out, it does not make any difference to the basic proposition. The uncollected taxes and savings remain with the public and go into either private investment or consumption, generate further incomes, and create more demand for aid-foods. The process stops only when the governments have sold on the domestic market 100 units' worth of aid-foods and fully recovered the project expenditure. The operation thus still remains fully self-financed and the entire cost is fully met by food aid.[1]

This is the economic rationale, as F.A.O. developed it, of using food aid for financing additional development. When F.A.O. made the case for additional development through food-aid, it was presumed that the food supplies normally available to the developing countries concerned, through their domestic production and normal commercial imports, were adequate to meet their domestic effective demand. Hence, if food aid were to be utilized without depressing the domestic market, it would be necessary to expand consumption of food beyond the existing economic demand, either by direct consumption programmes or by creating additional purchasing power in right hands through additional development projects employing the idle manpower. However, such has not been the situation in most developing countries which during the last 10–12 years received and utilized considerable food aid. Characteristically, there has been no lack of internal purchasing power for food. Usually through ambitious development expenditure, often through defence expenditure and sometimes even through normal government expenditure, enough

[1] V. M. Dandekar, 'Repercussions of Food Surpluses in Industrialized Countries on Economic Growth in Developing Countries', *Paper* read before the meeting of the International Economic Association, Rome, 1965.

purchasing power has been created in these countries. On the other hand, production has lagged behind, food production particularly, and the countries lack external purchasing power to import enough food commercially. Hence, in order to utilize the food aid, there is no need in these countries to create additional purchasing power and, for that purpose, to initiate additional development projects employing the idle manpower.

The use of food aid under these circumstances is obvious. The unsatisfied consumer demand exerts continuous pressure on food prices which ultimately leads to general price-wage inflationary conditions jeopardizing the entire development programmes and often endangering even the stability of the governments concerned. The obvious use of food aid under the circumstance is to release the additional food supplies on the domestic market in an attempt to check the rising food prices. By and large, this is how food-aid is at present being used.

The political compulsions and pressures of an inflationary situation forcing the governments concerned to use food aid for such a purpose are obvious and understandable. There is also another reason why the governments of the developing countries are tempted to use food aid in this easy manner. The terms and conditions under which food aid is often given, as for instance under the P.L. 480 of the United States, enable the governments of the recipient countries to sell the food supplies on the domestic market and keep to themselves, in one form or another, the proceeds of such sales. The governments of the recipient countries have not been slow in seeing this aspect of food aid and have tended to consider such funds as part of their general revenues or as part of the normal fiscal resources available for meeting normal, abnormal, and development expenditure.

> In some countries, local governments lack sufficient strength and stability adequately to finance their expenditure by taxes or sound borrowing. In such cases, the sale of U.S. aid-commodities for local currency can provide the local government with funds needed to run its domestic affairs. In Viet-Nam, for example, the sale of U.S. aid-commodities for Vietnamese currency provided the local government with roughly two-thirds of its revenue receipts. The situation in Laos and Cambodia is quite similar.[1]

It will thus be seen that the food aid to a developing country, in this form, turns out to be much more an aid to its government. That the donor country should be interested in supporting friendly governments in recipient countries is of course understandable. For instance, one of the explicit objectives of the Agricultural Trade Development and Assistance Act of the United States (P.L. 480) was to promote foreign policies of the government of the United States, the other being to expand commercial markets for the U.S. agricultural commodities. These are legitimate objectives from the standpoint of the donor country. However, they can hardly be construed as aid for growth and development of the recipient country. This is duly recognized in the new Food for Peace Law of the

[1] U.S. Department of State, *The Problem of Excess Accumulation of U.S. Owned Local Currencies: Findings and Recommendations*. Submitted to the Under Secretary of State by the consultants on international finance and economic problems. 1960. Washington, D.C. 32 pp.

U.S. with its greater emphasis on peace and stability than on growth and development.

Recognizing the situation as it prevails at present in most developing countries, we should now inquire what is the form in which food aid may be given to these countries so that it may legitimately serve a development purpose. The first question to settle is whether the food aid should be in the form of a grant or a loan. At present, most food aid, as for instance under Title I of P.L. 480, is a loan, though it is a loan in local currency of the recipient country. This leads to accumulation, in the hands of the donor country, of large funds in local currency of the recipient country. There are numerous problems, economic, financial, and political, which arise when a foreign government comes to own large funds in the currency of another country. It is desirable that these should be avoided. The alternative therefore is to treat food aid as a loan in the currency of the donor country. This is what is done in the new Food for Peace Law of the U.S. However, there are two points which should be considered in this connection. Firstly, it deprives food aid of much of its special quality and aspect. Secondly, it is doubtful how many developing countries would want to accept food aid on a foreign-currency loan basis. The third alternative therefore is to treat food aid as an outright grant. There is little doubt that if food aid is to retain its special features and serve as an effective instrument of development, it will have to be given on a grant basis.

If food aid is given on a grant basis, the government of the receiving country will be obliged to use it on a grant basis. This means that the government will no more be able to sell the aid-foods on the domestic market and treat the sales proceeds as its general revenue. This will avoid much non-developmental use of the food aid.

The use of food aid on a grant basis, will also avoid creation of additional general purchasing power in the receiving country. This is necessary because creation of additional general purchasing power, such as through additional development projects, creates additional demand for not only aid-commodities but also for many non-aid-commodities and this strengthens the inflationary conditions already existing in the economy. For instance, it can be shown that 100 units of additional project expenditure, by the time it creates 100 units worth of additional demand for aid-commodities, also creates 269·2 units' worth of additional demand for other consumer goods and services. In many developing countries these other commodities are also generally in short supply and their supply cannot be easily augmented. One of the fundamental weaknesses of the F.A.O. proposition of food aid for additional development has been the underlying assumption that the supply of all other consumer goods can be increased in response to increased demand and the only thing that does not respond to additional demand is food production, especially of those items in which the developed countries have surpluses.

If it is agreed that in the situation as it prevails in most developing countries, it will be advisable to give food aid on a grant basis and ask that the governments of the receiving countries also use it on a grant basis, it follows that the development programmes to be promoted through food aid will have to be essentially direct-feeding programmes. Of all such programmes, the most important from the development standpoint is one of feeding school-children. There is little need to emphasize the importance of this programme. It serves two purposes: firstly, through the provision of lunches, milk, or snacks in primary schools, it seeks to improve nutrition at a vital age; much of this will also be a net addition to consumption and hence the programme will not release much purchasing power for diverting to other commodities. Secondly, through attaching boarding-houses to institutions of higher education and vocational training, it helps young boys and girls in the surrounding rural districts to take advantage of such institutions and benefit by them. The need and importance of these programmes are universally understood and most of all by the local population. The programmes are also comparatively easy to handle and operate. There exists in most developing countries traditions of a certain voluntary effort in the field of education. If these are utilized it will not be difficult to secure needed complementary resources both in organization and materials.

It should be emphasized that the school-feeding programmes should not be based entirely on aid-foods and that complementary domestic resources should be necessarily brought in. The donor often desires that his aid should be self-contained because that makes the programme fully and identifiably 'his'. The desire is legitimate and understandable. Unfortunately, from the standpoint of its repercussions on the recipient of aid, it is not desirable. The purpose of aid must be to promote greater self-help and not greater dependence on aid. Hence, aid should act as a lever to mobilize the complementary resources in the recipient country. From this standpoint, food aid given and received in the form of complete lunch provisions, and exhibited with banners of 'donated by' or 'gift from' the donor, defeats its own purpose. Such programmes have also some other undesirable consequences. They create alien feeding centres in the midst of local rural communities. It is true that the school-feeding programmes should aim at providing food which is nutritionally superior to the one normally consumed by the children in their homes. However, for this purpose it does not have to be, and should not be, culturally foreign to food being eaten at home. Because when this happens the programmes lose much of their nutritional educative value. To avoid this the food aid received from abroad should be amply supplemented by suplies from the home market, secured partly by the voluntary contributions of the local community and partly in exchange of the aid-foods. Food supplies likely to be available immediately and on any long-term basis are in the main certain foodgrains, mainly wheat. In many areas, wheat may have to be replaced with either rice or millets. This may be done by selling wheat on the urban markets and buying equivalent local grains. The food grains will also have to be supplemented by certain quantities of fruits and vegetables and some animal protein foods in the form of milk and milk products and meat and poultry. Obviously, some of these latter may also be available in aid. However, usually they are available in a form more suited to commercial sales than for free or subsidized distribution. Under these conditions it should be entirely appropriate to sell them on the high-income urban markets and to use the funds for procuring similar foods from the domestic market more suited to the free or subsidized school-feeding programmes. This means that the food aid should be fully merged and integrated with local resources. Thus operated, food-aid programmes will lose their identity completely. This calls for greater generosity and sacrifice than is involved in just donating the food. It is hoped that these will be forthcoming in ample measure from the donor countries.[1]

To sum up, under conditions as they prevail in many developing countries, it seems that the greatest contribution that food aid can make to the development of these countries is by directing it to better nutrition of their school-children. The development purpose that the food aid will thus serve is obvious and is usually acknowledged. Nevertheless, it is worth restating because direct feeding programmes are often classified as welfare rather than development programmes. In point of fact, under conditions where large sections of the population subsist on less than adequate diets, the distinction between welfare and development is not easy to make.

GROUP P. REPORT

IT was generally agreed that the basic concept that the whole issue of food aid in development and growth is of utmost importance; however it was questioned whether or not the multiplier effect had been completely accounted for in Professor Dandekar's analysis and whether it is possible to have a positive income effect from food aid without stimulating a positive import effect. Further the part of the analysis based on generation of revenue to recipient governments through food aid was questioned from the point of view that such funds are not freely available to such but, at least in part, to the donor government.

Considerable debate developed relative to the ways in which food aid might be utilized in development. Views ranged from the restrictive one of utilization principally in 'school lunch' programmes to those embracing multiple uses coupled with appropriate internal resource mobility and reallocation. The effectiveness of food aid depends upon the circumstances under which it is made available and that, given internal resource mobility, it can be helpful in a variety of ways and under a variety of circumstances.

It was argued that food aid should be considered as a short-run type of phenomena directed toward the dual objectives of (*a*) emergency

[1] V. M. Dandekar, *The Demand for Food and Conditions Governing Food Aid during Development*. World Food Programme Studies No. 1, Food and Agricultural Organization of the United Nations. Rome, 1965.

assistance in food crises and (*b*) providing technical assistance directed squarely at the solution of food production and population problems in developing nations. On this argument food aid can be and ought to be utilized in the development of the capacity of indigenous educational, research, and other essential institutions and development programmes. The Brazilian experience was cited as an example of utilizing local currency generated through food-aid programmes for the support of universities, development agencies such as the Brazilian National Bank for Economic Development, and the state and federal agricultural extension programmes.

The impact of food aid on the rate of agricultural development within recipient nations was discussed at some length. Several points of view emerged. One held that judicious food-aid imports might make it unnecessary for a recipient nation to use its scarce resources in the development of a particular agricultural sector until an appropriate time to do so. Here, it was argued, aggregate utilization of resources might be improved through food aid. It was suggested that food aid in the form of dairy products to developing tropical countries might be a case of this kind. The use of food aid to delay agricultural development in developing countries in order to make limited internal resources available for needed industrialization might be, at times, a legitimate and economically sound strategy.

The concept of providing food aid in the form of specifically needed commodities rather than in the form of commodities that happen to be available as a result of surplus production in the developed nations received support from several quarters. At the same time, the value of food aid from available surplus coupled with flexible conditions of utilization within the recipient nations was not completely discounted. The group appeared to agree that both have potential for growth and development.

The possible inflationary impact of food aid received some attention. Certain precautions are normally taken by the governments involved to restrain or dampen this effect. Along the opposite line it was argued that the potential use of food aid as an anti-inflationary device might be hampered seriously it it were restricted largely to use in 'school lunch' or similar programmes. Relating to the 'school lunch' emphasis seen in Dr. Dandekar's thinking, it was argued that the underlying nutritional assumption is not valid in all developing countries and that added incentives for school attendance, similarly, are not unusually required. Food aid might be better used in labour-intensive development projects for the creation of needed capital in the developing nations.

The discussion closed on something of a note of concern over the whole imbalance of the world pattern of food-production potentials of developed countries, the agricultural protection in many of them, the extent of dependence of many countries on trade in food, and the urgent needs of developing countries. Food aid was characterized as a 'second-best' type of assistance to developing nations; at the same time, the political realities of the case of obtaining support for food-aid programmes as compared to other forms of aid in the developed nations were clearly set forth.

Among those contributing to the discussion in addition to the opening speakers were: D. T. Healey *Australia*, A. A. Khan *Pakistan*, G. P. Wibberley *U.K.*, E. D. Brandao *Brazil*, Ch. Jorgensen *Denmark*, P. von Blanckenburg *Germany*, H. F. Breimyer *U.S.A.*, W. R. Otrera *Argentina*, N. R. Brown Jr. *U.S.A.*, W. W. Wilcox *U.S.A.*, K. O. Campbell *Australia*, D. G. Karve *India*.