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Food aid

HISTORICAL BASIS FOR U.S. FOOD AID AND ITS IMPACT ON AMERICAN FARMERS

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The concept of Food Aid covers a wide range of programs, including everything from commercial export sales to domestic school lunch programs. The commodities that have been distributed include everything from course grain and fiber to cereal and milk products. Time, background, and good judgement dictate that I must limit the scope of the discussion for purposes of the presentation today. I will try to limit my discussion to some general concepts that are applicable across a large number of commodities and programs.

Most of us associate the concept of Food Aid with P.L.480, the Agricultural Trade and Development Act of 1954. The Food for Peace program is also often associated with P.L.480, but it was established as an administrative program and represents a major difference in emphasis. It is significant to note that the major emphasis of P.L.480 was primarily domestic, and directed toward alleviating the agricultural surpluses in the U.S., while the emphasis of the Food for Peace program was on use of food as an instrument to facilitate economic development in foreign countries. This distinction is critical to a discussion which focuses on evaluating the impact of the program on American famrers, but first let's look at the historical background for surplus disposal programs.

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The history of U.S. action to dispose of surplus agricultural commodities basically dates back to 1935 and the enactment of Section 32 of P.L.74 which authorized the use of import tax revenues to encourage exports and domestic consumption in an attempt to reestablish farmers' purchasing power. Since 1949, the main use of Section 32 authority has been to finance a flexible price support program through direct purchases of selected commodities.

From the beginning of the federal price support programs, the government has had the authority to dispose of stocks through subsidized dollar sales whenever possible. Such provisions were included in the A.A.A. of 1938, and the C.C.C. Charter Act of 1948, but more specific rules were established for dollar sales in Section 407 of the Agricultural Act of 1949. The C.C.C. was authorized to conduct export subsidy programs in order to dispose of U.S. commodities at the world market price.

The C.C.C. was transferred to Federal Charter by P.L.806, the C.C.C. Charter Act of 1948. Section 2 of the 1949 amendment to the C.C.C. Chater Act provided for the C.C.C. to accept strategic and critical materials produced abroad in exchange for agricultural commodities acquired by the C.C.C. This provision constituted the first authorization for barter agreements to dispose of U.S. surplus commodities. This specific provision was amended and broadened as a part of P.L.480 in 1954.

The Marshall Plan, officially known as the Foreign Assistance Act of 1948, was enacted to provide materials and financial assistance to European countries to aid their economic recovery. Although the Marshall Plan was not specifically a surplus disposal program, Section 112 established the practice of providing foreign assistance in the form of surplus commodities. In addition to establishing commodity aid as a means of surplus disposal, commodity grants and loans under the Marshall Plan introduced the concept of counterpart or local currency funds.

Section 416 of the Agricultural Act of 1949 became the primary autority for donation of commodities acquired by the C.C.C. to a wide variety of charities and welfare programs. Later amendments have broadened the scope of authorized donations to include state and federal agencies, public assistance, needy persons, hospitals, nonprofit organizations such as CARE, and numerous others.

The Mutual Assistance Act of 1951 increased the portion of foreign aid allocated for military assistance from an average of about 5 percent in 1948 and 1949 to 32 percent in 1951, 52 percent in 1953, and as much as 66-67 percent of total foreign assistance in 1954. Only a small volume of surplus commodities were utilized under the 1951 and 1952 versions of the Act, but Section 550 of the 1953 Act increased the commodity sales by providing for sale of not less than $100 million, and not more than $250 million, of surplus agricultural commodities in exchange for local currency. This provision was similar to the Marshall Plan except that the local currency was to be deposited to the account of the U.S. Treasury, for subsequent use to finance aid projects, rather than the recipient government. Specifying a particular amount of foreign aid funds to purchase surplus agricultural commodities in Section 550 marked the first time that legislation had specifically required a portion of U.S. foreign aid to be provided in the form of surplus commodities.

Successful experiences with the preceding surplus disposal programs, coupled with continuing availability of surplus commodities, resulted in the conception and enactment of Public Law 480, the Agricultural Trade Development and Assistance Act of 1954. P.L.480 represented a significant consolidation of existing programs and responsibility under one authority, and continues to be the major source of enabling legislation for the bulk of the current surplus disposal activities through amendments and extensions including the 1985 farm bill. P.L.480 officially united agricultural surplus disposal techniques with U. S. foreign policy, and drew together the export subsidy programs conducted under Section 32 of P.L.74 (1935), and the commodity assistance programs developed under the Marshall Plan (Foreign Assistance Act of 1948) and the Mutual Security Act of 1951. Section 416 of the Agricultural Act of 1949 provided the primary authority for donation of C.C.C stocks to a wide variety of charities and welfare programs.

The preamble to P.L.480 states that it is "An Act to increase the consumption of United States agricultural commodities in foreign countries, to improve the foreign relations of the United States, and for other purposes." There was little doubt that the timing and intent of the legislation was to dispose of U.S. surpluses. Government officials were quoted as saying they were "primarily interested in getting rid of these surpluses and we don't care how you do it and under what authority."

While the initial purpose of P.L.480 was clearly to dispose of U.S. surpluses through subsidized sales and grant programs, the enabling legislation required, among other things, that reasonable precautions be taken to prevent the soft currency sales authorized under P.L.480 from interferring with usual U.S. marketings and world prices. What wasn't said is that the only way to dispose of U.S. surpluses over an extended period of time without disrupting normal markets is to expand the commercial export market. If surplus disposal (in the short run) and market expansion (in the long run) had remained the primary objectives, evaluating the impact of the program would focus on two issues -- the level of surplus stocks and the level of commercial exports.

Before we look at the impact of P.L.480, let's take a look at some of the significant changes in P.L.480 since 1954. As you are aware, it is difficult to trace legislation forward because particular sections of a law may be used as authorization in other legislation in the same way P.L.480 utilized existing legislation for most of its provisions. I have not tried to search out all legislation that cites provisions of P.L.480 as authorization. Instead, I have tried to follow the basic legislation that relates directly to the original purpose of P.L.480. Through the late 1950's, most of the P.L.480 amendments were to extend the program and to make minor changes in the language of the enabling legislation. In 1961 the Foreign Assistance Act was passed, and later was combined with P.L.480. The significance of the Foreign Assistance Act was to tie U.S. surpluses more directly to economic development. Again, through the 1960's and early 1970's, amendments continued to deal with extensions of both surplus disposal activities and development activities.

In 1975, the International Development and Food Assistance Act (P.L.161) introduced the concept of reaching the "poorest of their people" into the language of development. In addition, this extension of the P.L.480 activities limited surpluses to "not more than 25 percent of food aid to countries with per capita GNP of more than $300 unless the President certifies that it is for humanitarian use and <u>neither</u> house disaproves." In addition, the new legislation limited foreign currency sales, and required that the poor be involved in the development process. Development activities were to focus on activities which increased productivity per unit of land with labor intense technology, lowered infant mortality, reduced population growth, promoted equitable income distribution, and reduced unemployment. Clearly, I think we can sense the mood of Congress shifting from emphasis on surplus disposal toward specific economic development objectives.

In 1977, surplus distribution was further restricted unless there was certification that the surpluses did not create a disincentive to domestic producers in the recipient country. In 1978, the International Development and Food Assistance Act (P.L.424) stated that its purpose was to "Change the Foreign Assistance Act of 1961 and the Agricultural Trade and Development Act of 1954 by improving the coordination and administration of U.S. development related policies and programs." The 1979 amendment (P.L.53) stated the purpose was to develop export markets for U.S. agricultural commodities and local foodstuffs through equitable economic growth. The Agriculture and Food Act of 1981 (P.L.98) further restricted surplus sales to U.S. currency or convertible foreign currency. The latest extensions are in the Food Security Act of 1985

All of these amendments and extensions add up to an elaborate network of legislative linkages, but the basic enabling legislation for surplus disposals continues to be P.L.480 and the sources of authority referenced in it. It is clear that the extensions and amendments trace out a gradual shift from disposing of surpluses in any way that would not impact significantly on the recipient in a negative way, to using surpluses only to advance specific foreign policies such as economic development in the poorest nations. This makes it difficult to measure the impact of food aid, since the objective has changed so dramatically over time.

Let's go back now and look at surplus disposal and export development. First, the value of commodities owned by the C.C.C. in 1954 was $3.951 billion, and the value of commodites under price support loans was $2.940 billion, for a combined inventory of $6.891 billion. The combined inventory ranged from $6.5 billion to $8.2 billion through 1965 when it began to decline. It reached a low of $869 million in 1974, with the exception of 1973 when loans jumped to over $11 billion. By 1977 the inventory was back up to approximately $6 billion, and reached an all time high of $23.4 billion in 1982.

Looking only at the C.C.C. owned inventory, the stocks remained relatively constant in the $4.5-6.5 billion range from 1954 to 1965. The trend was clearly toward lower stocks from 1959 forward, with the stocks dropping from the $4.0 billion level in 1965 to the $2.0 billion level in 1966 and below $1.0 billion in 1972. Owned stocks reached a low of $188 million in 1974, and then began to increase again. By 1977 they were above $1.0 billion again, and continued to increase to the $10.6 billion level in 1983, which influenced the administration to announce the now notorious PIK program. Owned inventories stood at $6.7 billion in 1984, which are the last statistics which I have.

On the other side of the ledger, P.L.480 sales from 1954 through 1984 have been equal to $41.49 billion, or an average of $1.3 billion per year. While the inventories have fluxuated up and down over a large range, the sales have been relatively stable. The lowest sales recorded were $943 million in 1974, and the largest single year sales were $1.7 billion in 1965. The levels of sales seem to have little or no relationship to the inventory of C.C.C. stocks owned or under loan.

The second part of the program was to expand export markets. I can make the Food Aid people very happy, and the rest of the industry very angry by saying Food Aid has dramatically increased the export market.

Total exports, including both commercial sales and concessional government sales, averaged $3.8 billion for the five-year period from 1954 through 1958. The exports increased slowly and steadily from 1959 through 1972, but did not reach the $10 billion level until 1973. Total exports were $12.9 billion in 1973, went over $20 billion in 1974, and have not been below $20 billion any year since. The average from 1954 to 1973 was $5.78 billion per year, and the average for 1973 through 1984 has been $29.78 billion.

If Food Aid and commercial exports were the only players on the international trade scene, trade expansion could be given a very high success rating. Unfortunately, the cause and effect is not that clear. Certainly the international economic situation has had a substantial impact on the export activities. In addition to Food Aid programs, the government has financed trade development activities under numerous other programs. Commodity groups, the U.S. Feed Grain Council, the U.S. Meat Export Federation, and others have financed trade missions and other activities designed to increase export markets. About the only conclusion that can be reached is that the combination of activities did increase U.S. commercial exports substantially over the last 30 years. The recent weakness in exports strongly suggests that factors other than the U.S. Food Aid program play a major role in determining exports.

One other statistic is interesting when evaluating the role of the Food Aid program on exports. For the five years from 1954 to 1958, P.L.480 sales represented 35.2 percent of the total U.S. agricultural exports. For the five years from 1980 through 1984, P.L.480 sales represented 3.5 percent of the total exports. Again, one can argue that the constant investment has substantially expanded the market, or can draw the conclusion that the promotional activities under P.L.480 have not kept pace with the growing market. What is true is that P.L.480 sales are at about the same proportion of the C.C.C. owned stocks as they were during the early years of the program. The sales were 27.5 percent of the owned inventory from 1980 through 1984. Over the life of the P.L.480 program, sales have averaged 44.5 percent of the owned C.C.C. inventory. During one five-year period (1972-1976), the sales averaged 222.7 percent of the owned C.C.C. inventories.

In summary, it is extremely difficult to isolate the impact of Food Aid activities on American farmers because these activities have been conducted concurrently with a number of other programs and activities with similar objectives. What can be said with certainty is that $41.5 billion of commodities have been exported since 1954 under some form of government assistance related to the Agricultural Trade and Development Act of 1954, commonly known as P.L.480. Most of these exports represent sales that would not have been possible if the export promotion program had not been available. In other words, the program has provided the American farmer with a market for about $1.34 billion of commodities per year that would not have been available without the program.

Critics of the program argue that the $1.3 billion in concessional sales had substantial leakage, and simply displaced a similar amount of commercial sales. Certainly the impact on the recipient country differs from case to case, and isolated cases of leakage are entirely possible. On the other hand, it is possible to distribute surplus commodities in a recipient country while having little impact on the commercial market. In my earlier study of Food Aid impact on India, the increase in consumption was estimated to be 93 percent of the quantity of surplus commodities distributed, and the negative impact on domestic price to be only two hundredths of one percent. India made use of fair price shops to distribute the surplus commodities, and could be quite effective in reaching consumers with severely limited purchasing power.

A similar argument can be made for the Food Aid that has been used for economic development. Most of these activities have been directed to small farmers, many of which are subsistence farmers. Increases in productivity have resulted in increased consumption, but did not displace commercial sales because these farmers would not have been in the commercial market even if they had not produced their own food. Expanded production and competition in the world market has generally come from development in countries where resources were abundant and the population was not putting serious pressure on the resources. Development activities funded under P.L.480 and similar programs have focused heavily on countries where the resource base is relatively limited, and population was already putting heavy pressure on the limited resources. In my opinion, few of the development activities of the last 25-30 years have taken away what would have been a viable market for commercial sales of U.S. agricultural commodities. In fact the development activities have opened up some large export markets. Korea is an excellent case in point.

Further discussion of the development impact gets into the area of other speakers, so I'll turn the floor back to the moderator.

Table 1. P.L. 480 Stocks, Loans, and Sales Compared to Total Agricultural Exports

Date	CCC Owned Stocks ($ million)	CCC Commodities Under Loan ($ million)	Total CCC Stocks ($ million)	PL 480 Sales ($ billion)	Total Exports ($ billion)	PL 480 As % of Total
1954	3951	2940	6891	1.339	3.8	35.2
1955	5604	2584	8188	1.339	3.8	35.2
1956	5323	2319	7642	1.339	3.8	35.2
1957	4791	1753	6544	1.339	3.8	35.2
1958	4692	3268	7960	1.339	3.8	35.2
1959	6408	1701	8109	1.310	4.5	29.1
1960	6079	1829	7908	1.572	4.9	32.1
1961	5248	2437	7685	1.660	5.1	32.5
1962	5271	2761	8032	1.570	5.1	30.8
1963	5023	2928	7951	1.480	5.1	29.0
1964	4611	2802	7413	1.518	6.1	24.9
1965	4110	2598	6708	1.697	6.1	27.8
1966	2340	2069	4409	1.388	6.7	20.7
1967	1005	2355	3360	1.308	6.8	19.2
1968	1064	3605	.4669	1.298	6.3	20.6
1969	1784	3628	5412	1.044	5.7	18.3
1970	1594	2973	4567	1.068	6.7	15.9
1971	1118	3186	4304	1.079	7.8	13.8
1972	830	2438	3268	1.124	8.0	14.1
1973	394	11266	11660	1.039	12.9	8.1
1974	188	681	869	.943	21.3	4.4
1975	402	871	1273	1.224	21.6	5.7
1976	634	1786	2420	1.123	22.1	5.1
1977	1104	5414	6518	1.521	24.0	6.3
1978	1186	5655	6841	1.549	27.3	5.7
1979	1237	4955	6192	1.490	32.0	4.7
1980	2802	4783	7585	1.519	40.5	3.8
1981	3779	7807	11586	1.492	43.8	3.4
1982	5507	17917	23424	1.189	39.1	3.0
1983	10597	12801	23398	1.325	34.8	3.8
1984	6664	11021	17685	1.267	38.0	3.3
	105,340	135,131	240,471	41.492	461.30	9.0

Source: Census of Agriculture