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PUBLIC LAW 480: THE CRITICAL CHOICES

by

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P.L. 480 represents 30 percent of total U.S.development assistance, yet only a minor part of total private and public investments in recipient countries. While the U.S. share of total world food assistance declined from 94% in 1965 to 68% by 1976 (Maxwell and Singer, p. 266), P. L. 480 was still valued at roughly $1.6 billion in FY 1980.[1] Moreover, P.L. 480 is viewed by both the U.S. and recipient nations as serving important objectives of the recipient such as meeting emergency food and nutrition needs, providing balance of payments support, and promoting economic development. Additional P.L. 480 objectives include assisting in domestic supply management, expanding markets for U. S. products, and achieving foreign policy objectives.

Among these objectives, the USDA Special Task Force on P.L. 480 gave priority to the humanitarian and developmental objectives which it felt were consistent with the long term goals of U.S. foreign policy (iv). In view of growing world food needs, the developmental use of food aid could be an important way of promoting employment in recipient countries and supporting their participation in world markets, particularly if the U.S. follows the recommendation of the Presidential Commission on World Hunger "...to make the elimination of hunger the primary focus of its relationship with the developing countries." Accordingly, this paper will propose and discuss three selected conditions underlying a serious commitment to shape P.L. 480 into an effective tool for economic development. Resolution of the following three issues will require corollary critical choices:

(1) A politically strategic and creative international role for P. L. 480 must be firmly established and protected;

(2) The alternative investment streams created by P. L. 480 must be identified, measured, and integrated into an investment program that fits the conditions of the recipient country; and

(3) Production disincentives in the recipient country must be minimized or avoided entirely.

A Strategic and Creative Political Role

Congress elevated the developmental role of P.L. 480 among the program's multiple goals in the 1977 amendments to P.L. 480, the so-called "New Directions" mandate. Title III was revised to encourage countries to use funds accumulated from the local sale of Title I commodities to finance mutually agreeable programs of agricultural and rural development, nutrition, health services, and population planning. In order to promote these developmental goals, multi-year agreements can be negotiated on the conditions and levels of future food aid shipments and repayment obligations can be forgiven on a prorated basis as the objectives are pursued.

An effective developmental role for P.L. 480 must recognize the potential contribution of food aid: (1) to creating employment, particularly for the "poorest of the poor;" (2) to increasing domestic savings and investment; and (3) to enhancing more desirable spatial distributions of people and jobs. Clearly, developmental objectives such as these require that longer term desirable consequences of program effects in the recipient country take priority in program planning over shorter term political hegemony being sought by the U. S. Such a commitment places P. L. 480 squarely within what Montgomery defined as a "strategic" framework for U. S. foreign policy wherein program aims are designed to improve long-term economic and political stability and increase recipient countries' self-sufficiency (p. 321).

This policy stance is consistent with Liska's view of the "creative" as distinct from the "acquisitive" use of foreign aid (Liska, pp. 96-101). Creative uses are designed to achieve longer-term political and economic objectives, to recognize the evolutionary nature of political and economic change, and to shape policy consistent with long term, sustained goals. In contrast, "acquisitive" uses of food aid would be oriented toward short-term goals and political advantages.[2]

"Acquisitive" and "creative" aid are not necessarily mutually exclusive. Acquisitive goals may have important economic consequences for creative policy, as in the case of supply stabilization and balance-of-payments support, and may ultimately lead to priority developmental goals. In this context, acquisitive uses of food aid would receive their justification only within the purview of creative policy. This has not always been the case with the political uses of P.L. 480 as some political aims have had little or no bearing on the development programs of the recipient. (U.S.D.A., pp. 82-83).

A creative orientation of food aid brings economic development goals and strategic political goals into a common conceptual framework wherein their interdependence can be recognized more clearly. From the standpoint of foreign policy, a creative role places more emphasis on the second and third round consequences of policy initiatives rather than on short term gains. For example, this perspective enables the market development goals of P. L. 480 to be seen more clearly as dependent on effective programs of economic development rather than on changing eating habits or inducing unnecessary economic dependency. Evidence of expanded markets for U.S. commercial exports suggests that the P.L. 480 role cannot be divorced from sustained economic progress in recipient countries.[3]

The conscious adoption of a strategic, creative aid orientation calls attention to other program modifications such as the need for a food reserve system to sustain multi-year commitments which could help avoid the detrimental consequences of the severe food aid reductions in the early 70s.[4] The tradeoff of that period between U. S. foreign exchange benefits and the costs of losing political legitimacy in third world countries and, in the process, thwarting well-laid economic development programs appears to have been ill-advised. Schertz observed that most rich countries, including the U.S., are unwilling to sacrifice foreign exchange earnings in order to feed the poor (p. 534). The political and economic costs of this earlier position will have to be reassessed at the highest levels of policy formation as the transition to a new international economic and agricultural order is being pursued (Rothschild, p. 307).

Food Aid Investment Streams

Food aid provides a direct resource flow into the recipient country by way of concessional sales (Title I) and grants (Titles II and III). The resale of food aid in the recipient country and food-for-work provide respectively finances and manpower support for programs of agricultural research, extension, credit, transportation networks, and other components of rural infrastructure.

Additional resources accumulate indirectly to the recipient through wage and income effects as lower food prices result from the greater quantities of food placed on local markets and/or made available directly to consumers. Food assistance also helps minimize the threat of inflation fed by spiraling food prices, helps maintain relatively low wages, and holds the terms of trade in favor of the non-food producing sector of the economy stimulating, in the process, profits and capital formation in the non-food sector. Concurrently, food aid runs the risk of creating disincentives for agricultural producers unless ameliorative policy offsets the potential disincentives.

The history of most developed countries suggests that economic and particularly agricultural development occurs simultaneously with, and partly as a result of, relatively declining prices for agricultural commodities. The treadmill effect created by cost reducing and output expanding effects of technological change, works in favor of some farmers and against others. Even under the most labor intensive agricultural production systems, a dynamic economy will require investments in non-farm production in order to meet expanding aggregate demand and to provide employment for displaced agricultural workers. Assessing the impacts of food assistance within this dynamic framework calls attention to the alternative investment streams stimulated by injections of food aid and enables the internal rate of return to be used as one criterion in comparing the developmental consequences of each investment stream.

The initial investment stream (I_1) is generated by foreign exchange savings resulting from food aid shipments which displace other commercial imports. Even though P.L. 480 agreements require that food aid not displace commercial imports from other "friendly" nations, the Usual Marketing Requirements (UMRs), most evidence suggests that some displacement usually occurs.

Stevens' case studies of Tunisia, Upper Volta, Botswana, and Lesotho found that much of food aid concessional sales substituted for commercial imports, and "...represented a transfer of free foreign exchange to the recipient." Hall estimated that Brazils' P. L. 480 imports displaced 89% of their tonnage in commercial imports in spite of UMR requirements. Fisher's analysis weakens the argument for UMRs by showing that the effects of "...free gifts of surplus food or sales at specially [sic] low prices to underdeveloped countries are less damaging to normal export markets than simple dumping of the surpluses on the world market..." irrespective of the maintenance of normal food imports (p. 867). The principal justification for UMRs is to protect commercial relationships between the recipient and other "friendly" nations. Yet, Fisher's analysis demonstrates that commercial traders may benefit more from the greater total demand and stronger world prices resulting from removal of the food aid quantity from commercial markets.

The UMR can be mechanically calculated on the basis of past experience, but it may be an unreliable measure of import potential for a country experiencing rapid population growth, significant technological change in agriculture, and increases in domestic food production. Variations in these and other factors such as the income effect of food aid will cause the potential level of commercial imports for any given year to vary markedly from past experience.

The UMR reduces recipient country foreign exchange flexibility and, consequently, may impede economic development plans. Also, it runs the risk of biasing P. L. 480 toward more well-to-do countries which can afford the additional commercial imports. The potential balance of payments advantage of food aid is reduced in the process. Given the difficulty of enforcing UMRs and its theoretically weak justification, a reevaluation of its merits seems in order. Eliminating UMRs would turn program attention and analytical skills toward insuring an effective contribution to development of the foreign exchange freed up by food aid. Even if the UMR is strictly adhered to, the low down payment and long maturity period of Title I concessional sales enable the recipient to more effectively ration its foreign exchange in order to import complementary capital goods for development purposes.

A second investment stream (I_2) created by P.L. 480 (principally public works programs and Title II) is in the form of capital produced through "food-for-work" and "self-help" programs to build roads and irrigation systems using laborers paid entirely or in part by food donations. These projects could be an important means of providing part-time, off-farm employment opportunities in rural communities.

Through innovative programming, self-help projects could be designed to promote asset ownership among low-income, rural residents by creating productive capital that is owned by the laborers, or in other ways strengthening their control over income streams generated by productive assets. These steps may result in more productive uses of local savings, reduce uncertainty for peasant farmers and stimulate entrepreneurship (Deaton). By promoting such project designs, this P.L. 480 investment stream could be an important tool for achieving optimal settlement patterns and promoting rural-urban population balance.

A third investment stream (I_3) stems from the savings generated by the income effects of relatively cheaper food and has been largely ignored in the literature. The common Engel's curve analysis provides the theoretical basis for the income effect. Isenman and Singer reviewed the intersectoral implications of the income effect for inflation and induced investment, but not for the effects that may be derived from the investment resulting from additional household savings. The income effect is reallocated over the consumer budget based on income and price elasticities and the marginal propensity to save (MPS). Savings due to the income effect is conceptually distinct from savings that accrue from income earned as wage payments under food-for-work programs as presented in the analysis of Srivastava, et al.

The macroeconomic implications of I_3 for domestic savings and national investment could be significant. Estimates of MPS in LDCs generally fall in the range of 10-20% for normal income and significantly higher for transitory income based on consumer budget analysis (Hyun, et. al.; Kelley and Williamson; Williamson). Where food aid is a significant proportion of total food supply, the potential investment effect resulting from increased household savings should increase both the real quantity of savings (and investment) and the rate of savings, assuming that the marginal propensity to save is positively associated with increasing income.

Schuh recently called attention to the human capital investment potential of food aid which can be viewed as a fourth distinct form (I_4). This emphasis is consistent with Schultz Nobel lecture which argues that improvement in population quality is the decisive factor in improving the welfare of poor people (pp. 11-14). Similar improvements may be possible through institutional changes induced by food aid such as food stamp programs (Schuh).

The Disincentive Question Revisited

The developmental role of P.L. 480 labors under the shadow of disincentives. The Bellmon amendment to P.L. 480 requires that each country agreement be predicated upon the explicit determination that disincentives for farmers in recipient countries will not result from the food aid agreement. In addition to price disincentives, policy disincentives may arise if recipient governments neglect their agricultural sectors because of an overdependence on U.S. food aid.

The persistence of concern about potential price disincentives of food assistance programs attests to the power of Schultz' (1960) seminal contribution wherein the disincentive issue was raised as a theoretical possibility. While this fear continues to haunt program administrators and has become a rallying cry for critics of the program, the bulk of evidence indicates that it is an exaggerated concern.

Two decades of research on the disincentive issue were recently assessed by Maxwell and Singer leading them to conclude that price disincentives can probably be, and mostly have been, avoided "...by an appropriate mix of policy tools" (p. 231). Only 6 of the 21 studies they reviewed reported any significant disincentives, and 4 of the 6 were based on the Indian experience. Also, Isenman and Singer criticized previous econometric work in this area for ignoring "...the dynamic effects of the food aid on growth in output and employment and, hence, on demand for food grains in subsequent periods" (p. 211).

Blandford and Von Plocki respecified and evaluated earlier econometric models of food aid impacts and found that both the value and the sign of elasticity measures were sensitive to the time period studied resulting in contrary conclusions about the price responsiveness of farmers and highly variable estimates of production declines in India. Their results call attention to the need for sensitive measurement of data for particular time periods for particular countries and warned against generalizing beyond these particulars.

Hall's recent analysis of the effects of Title I wheat imports on Brazil's grain sector lends further support to the position that disincentives must be carefully analyzed on a country-specific basis. Hall discovered that government revenues gained by selling wheat to mills at prices above the import price were used to subsidize higher domestic price supports for producers. This effect was captured in a wheat support price equation and led to the conclusion that a sustained increase of 1,000 metric tons of P. L. 480 wheat would result in a 108% increase in Brazil's domestic grain production (p. 27).

These findings are consistent with Schuh's recent emphasis on the importance of implicit taxation schemes, common in many LDCs, to the potential incentive effect that could be created by P.L. 480. Government pricing policies are generally geared to provide low-cost food to urban populations. P.L. 480 may, in some cases, provide the leverage and resources to strengthen recipient governments' resolve to maintaining sufficiently high incentive prices to rural producers.

Conclusions

Public support for a more significant developmental role for P.L. 480 is evident in recent legislative changes in the program, particularly Title III. A series of supportive and interrelated decisions of a political and economic nature will be essential if these intentions are to be realized. The purpose of this paper was to stress the interrelationships between a creative, strategic political role and a commitment to fundamental economic development programs wherein P.L. 480 serves as a proactive tool for development. Although P.L. 480 is a minor proportion of total international resource flows, its developmental contribution may be significantly enhanced if the rates of return and dynamic implications of food aid investment streams are analyzed. Future research should be oriented toward meeting this objective. Simultaneously, such research should determine the complementarity between food and non-food aid, and conditions under which incentive price structures can be created by P.L. 480. These tasks represent a formidable research and educational challenge worthy of our immediate attention, and promise high payoff in terms of public policy.

FOOTNOTES

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1. Analysis completed for the USDA Special Task Force on P.L. 480 (on which I served as staff coordinator) indicated that this dollar value may represent essentially no net budget outlays for the U. S. since P. L. 480 costs offset expenditures on domestic support programs.

2. I would place strictly humanitarian and emergency uses of food aid outside this classification to avoid the irresolvable debate over U.S. motives.

3. The most popular examples are Brazil, Taiwan, South Korea, and Spain. For further discussion of this point see USDA, Report of the Special Task Force on P.L. 480.

4. Emma Rothschild pointed out that the poorest countries received in 1973 and 1974 less than one-fifth of the food aid levels received in the mid-60s, and not enough to prevent suffering from famine in Asia and Africa (p. 289). P.L. 480 wheat exports dropped from 4 million metric tons (MMT) in 1972 to 1.4 MMT in 1973 (USDA, Appendix C).

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