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## HOW AMERICAN FOOD AID KEEPS THE THIRD WORLD HUNGRY

### INTRODUCTION

Americans have a proud history of being charitable, concerned about the well-being of their fellow man at home and overseas. The federal government's Food for Peace program, which provides food for less developed countries, is testimony to this. Yet ironically, and tragically, Food for Peace, formally known as P.L. 480, has been one of the most harmful programs of aid to Third World countries. While sometimes alleviating hunger in the short run, the program usually lowers the price at which Third World farmers can sell their crops. This depresses local food production, making it harder for poor countries to feed themselves in the long run. Food for Peace, in fact, is mainly an aid program for U.S. farmers, allowing them to dump their surplus crops in Third World countries, while the U.S. taxpayer foots the bill, and the poor in less developed countries bear the ultimate high cost. Food for Peace, despite its grand title, hinders agricultural development in such countries and makes a mockery of American humanitarian rhetoric.

**Market Incentives for Farmers.** As such, the Food for Peace program, now in its 34th year, should be phased out. American food aid should be restricted to humanitarian relief for droughts or disasters. In place of Food for Peace, the U.S. Agency for International Development (AID) should promote policies that will give farmers in less developed countries market incentives to produce more food to feed their own people. AID should encourage and assist with technical advice the dismantling of state marketing monopolies in such countries, so that farmers will be free to sell their crops for whatever price the market will offer.

## THE EARLY FOOD PROGRAM

Since the end of World War II, the U.S. government has provided enormous amounts of food to other countries as part of its foreign aid. While humanitarian concerns certainly have been some of the motivation for this, the federal government has relied on food giveaways domestically and overseas to keep prices high for American farmers and to dispose of the crop surpluses generated by government agricultural programs. In the late 1940s and early 1950s, the Marshall Plan, which sought to assist in the reconstruction of Europe, provided the engine for dumping American food surpluses abroad. But by the early 1950s, Europe was back on its feet, and the surpluses in the U.S. farm belt began piling up.

The Food for Peace program, also known as Public Law or P.L. 480, was created in 1954 to help solve the problem of huge U.S. farm surpluses resulting from generous federal government commodity price guarantees. The farm program, in effect, forced the federal government to purchase crops. The P.L. 480 program gave Washington means for dispersing of these surpluses, while, it was hoped, helping to alleviate hunger in other countries.

**Spending \$20 Billion.** P.L. 480 assistance is divided into a number of legal titles. Under Title I, food is sold to less developed countries at concessional prices, and with special low or zero interest loans, at prices roughly 65 percent below the market price. Under Title II, food is donated to less developed countries for use in local development projects and to fight malnourishment. Under Title III, passed in 1977, food bonuses were extended to countries that sought to help their private sectors. Section 108, added in 1985, is similar to Title III but requires profits made by recipient countries from sales of U.S. food assistance to be returned to an AID account to be used to help private sector development in the recipient country. Section 416, which is not part of P.L. 480 but is a separate agriculture act, provides free surplus commodities for less developed countries. The combined budget for P.L. 480 and Section 416 assistance in 1987 was \$1.6 billion. Since 1954, the U.S. has spent \$20 billion on P.L. 480.

## DISTORTING THE MARKET

American food aid to less developed countries under the P.L. 480 program, while meant to alleviate starvation, has made it more difficult for recipients to feed their peoples. Local food production has been discouraged by American food dumped in these markets. For example, in the 1950s and 1960s, massive U.S. wheat dumping in India disrupted India's agricultural market. Assistant Secretary of Agriculture George Dunlop speculated in 1984 that American food aid may have been responsible for the starvation of millions of Indians.<sup>1</sup> U.S. officials have conceded that massive food aid to India, Indonesia, and

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1 Interview with author, June 15, 1984.

Pakistan in the 1960s "restricted agricultural growth by allowing the governments to 1) postpone essential agricultural reforms, 2) fail to give agricultural investment sufficient priority, and 3) maintain a pricing system which gave farmers an inadequate incentive to increase production."<sup>2</sup>

In 1976, an earthquake hit Guatemala, killing 23,000 people and leaving over a million homeless. Just prior to the disaster, the country had harvested one of the largest wheat crops on record, and food was plentiful. As earthquake relief, the U.S. rushed 27,000 metric tons of wheat to Guatemala. The U.S. "gift" knocked the bottom out of the local grain markets and depressed food prices so much that it was much harder for villages to recover. The Guatemalan government ultimately barred the import of any more basic grains.

The August 25, 1982, *Kansas City Times* reported that the Peruvian agriculture minister begged the U.S. Department of Agriculture not to send his country any more rice, fearing that it would glut the local market and drive down prices for struggling farmers. But the U.S. rice lobby turned up the heat on Washington, and the Peruvian government was told that it could either take the rice or receive no food at all.<sup>3</sup>

**Keeping Crops from Market.** U.S. food aid is still having devastating effects. A report by the AID Inspector General found that food aid "supported the Government of Egypt policies...which have a direct negative impact on domestic wheat production in Egypt." In Haiti, U.S. free food is widely sold illegally in markets next to Haitian farmers' own crops, thus driving down prices received by the Haitians. A development consultant told the House of Representatives Appropriations Subcommittee on Foreign Operations in 1979, "Farmers in Haiti are known to not even bring their crops to market the week that [P.L. 480 food] is being distributed since they are unable to get a fair price while whole bags of U.S. wheat are being sold."<sup>4</sup> In May 1984, ten people were killed in Haiti when government troops fired on crowds rioting to protest corruption in the U.S. Food for Peace program.

In Jamaica, according to economist Scott D. Tollefson, Food for Peace has created a great disincentive to food production.<sup>5</sup> Typical was the situation in late July 1984 when Jamaica was suffering a shortage of rice, the major staple. This led to a near political crisis. Attracted by increased prices for rice substitutes, small farmers rushed their goods to the market. Days later, 4,890 metric tons of rice arrived from the U.S. under P.L. 480, the first installment of an allocated 16,000 tons costing U.S. \$5 million. The U.S. rice sent the prices of substitutes tumbling, causing serious hurt to local producers.

U.S. AID helped Jamaica in 1984 design a food stamp program that was soon feeding almost half of the island's population. Carl Stone, a political scientist at the University of

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2 U.S. Government Accounting Office, "Disincentives to Agricultural Production in Developing Countries," November 26, 1975.

3 As reported in James Bovard, "The Continuing Failure of Foreign Aid," *Cato Institute, Policy Analysis #37*, January 31, 1986.

4 James Bovard, *The Wall Street Journal*, July 2, 1984.

5 Scott D. Tollefson, "Jamaica: Limits of a Showcase Policy," *SAIS Review*, Summer/Fall 1985.

Jamaica observes: "The existing food stamp program is a mockery to any real commitment to local agriculture. Our poor people are being subsidized to buy imported food when our farmers can't sell their produce because of low levels of consumer buying power."<sup>6</sup>

**Discouraging Domestic Production.** The Food for Peace program has repeatedly harmed Somali farmers. A 1987 Agency for International Development Inspector General audit of the P.L. 480 Title I Program in Somalia concludes, "Nearly all Title I food deliveries to Somalia in 1985 and 1986 arrived at the worst possible time, the harvest months, and none arrived at the best time, the critical hungry period....The consensus of the donor community was that the timing of deliveries lowered farmers' prices thereby discouraging domestic production."<sup>7</sup> Prices received by Somali farmers fell very sharply just at harvest time. U.S. corn entered the Somali market at prices less than half the market price. Extensive corn and wheat remained unsold in government warehouses, hanging over the market and depressing prices. The Inspector General concluded, "The cause of this situation was USAID/Mogadishu's unwillingness to reduce the Title I program in line with improved Somalia food production."

Sometimes U.S. officials themselves encourage harmful, nonmarket policies. In Morocco, U.S. AID personnel suggested that the government buy up domestic wheat and thereby drive up wheat prices. In the Philippines, a 1986 P.L. 480-sponsored program called for that government to use the proceeds of the donated food sales to buy up and inflate the domestic food prices.

When food aid does not undercut local farmers, it often replaces food that the recipient country would have purchased on international markets anyway. In a July 2, 1984, *Wall Street Journal* article, one analysis found that almost 90 percent of P.L. 480 donations to Brazil simply replaced grain that nation would have purchased from the U.S. and elsewhere. The General Accounting Office reports that many countries have decreased their commercial purchases from the U.S. while continuing to receive P.L. 480 handouts.

## PROMOTING GOVERNMENT INTERVENTION

American food aid has often forced or allowed governments to take repressive actions against their own people. For example, in Senegal in 1985 and 1986, the Food for Peace program resulted in the government closing the local rice markets in order to force Senegalese to buy U.S. rice. The Senegalese are among the few peoples in the world who prefer broken rice to whole-grain rice. Food for Peace does not offer broken rice. Senegal could have purchased broken rice relatively cheaply from Thailand. Instead of doing that, Senegal accepted a U.S. donation of rice. Observes a former U.S. AID official: "What we had to do was force the marketing board marketing rice to hold off every other kind of rice because otherwise consumers would not buy U.S. rice." On the days when the U.S.-donated rice arrived, the government would prohibit any other kind of rice from being sold. The money from the sale of donated rice went to the government's development fund and from

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6 *Ibid.*

7 Agency for International Development, Inspector General Audit, January 26, 1987, p. 10.

there, typically, into the pockets of politicians. These events occurred when the U.S. was pressuring the Senegal government to let the free market rather than the government set the price for rice.

**Paying Farmers Less.** Mozambique has been one of Africa's largest P.L. 480 recipients in recent years, with P.L. 480 aid rising from \$8 million in 1983 to \$75 million in 1987. Yet, while the Mozambicans are flooded with free American food, Mozambique government policies are destroying the country's farmers economically. Until recently, the government was paying farmers less than half the value of their crops. It is no wonder that food production is higher in the areas of Mozambique controlled by rebels than in the areas controlled by the government, which receives the P.L. 480 food donations. *The Wall Street Journal* reported on November 18, 1984, that 100,000 Mozambicans starved that year. Much of this tragedy was because of the government's agricultural policies.

Free American food gives foreign governments a license to repress their own farmers. Agricultural production in Ethiopia has been disrupted by the government's villagization program, which has forced millions of peasants to abandon their countryside homes and live in government-controlled villages, often far from their own farms. The resettlement program has shifted millions of Ethiopian farmers from the highlands to tropical areas, where their traditional farming techniques are of little value. And the government refuses to pay farmers a market price for their crop, thereby discouraging production. During the 1985 Ethiopian famine, donated food, moreover, was used as "bait" to capture hungry peasants who were then forcibly transported from the north of the country to the south. Much of the U.S.-donated food, moreover, simply rotted on the docks of Addis Ababa while the government used donated trucks as human cattle cars.

## SUGAR PROGRAM DUMPING

The U.S. government's sugar program has undermined foreign sugar growers to the benefit of fewer than 12,000 American sugar growers. The aim of the program is to reduce U.S. imports of foreign sugar. The State Department estimates that the reduced sugar sales to the U.S. have cost Central American and Filipino farmers over \$500 million a year in recent years. To help those countries hurt by the sugar program, the Reagan Administration has created the "Quota Offset Program." This gives free food to countries hurt by reductions in sugar sales to the U.S. In 1986, the U.S. dumped almost \$200 million in free food on Caribbean countries and the Philippines through the Quota Offset program. As *The Wall Street Journal* reported, "By flooding local markets and driving commodity prices down, the United States is making it more difficult for local farmers to replace sugar with other crops."<sup>8</sup> In the same article, then Deputy Assistant Secretary of State Richard Holwill is quoted as observing, "It makes us look like damn fools when we go down there and preach free enterprise."

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8 *The Wall Street Journal*, September 26, 1986.

## TITLE II AND CORRUPTION

P.L. 480's Title II provides direct donations of food for projects in Third World countries. Such projects are usually supervised or administered by private voluntary organizations.

The usual routine for P.L. 480 programs, as one Senate Agriculture Committee report describes it, is for an AID representative to visit a country, find a reason for a project, launch the project, and keep it going for years, regardless of need or results.<sup>9</sup> Many of these programs have fed the same people for more than a decade, thereby permanently decreasing the demand for locally produced food and creating an entrenched welfare class.

**Against the Grain.** Roughly a quarter of Food for Peace Title II spending goes for the Food for Work program, which is supposed to pay local peasants to work on development projects, such as roads in their own regions, which would benefit them directly. FFW projects are intended to increase agricultural productivity but typically are only make-work schemes. FFW workers often labor to improve the private property of government officials or large landowners. In his book *Against the Grain*,<sup>10</sup> economist Tony Jackson reports that the FFW in Bangladesh, then the largest FFW program in the world, "results in increased inequity" and "strengthens the semi-feudal system which now controls most aspects of the village life." The workers were supposed to receive a certain amount of U.S. food as pay. In fact, they were paid less than this; to make matters worse, the government of Bangladesh diverted U.S. wheat to other purposes, paying the workers with inferior, infested wheat.

According to Jackson, in the Dominican Republic, shoddy AID FFW program management "led to giveaway programs, a road project that proved to be a footpath leading nowhere, agricultural projects for which FFW incentives were not needed." In many places, rural residents neglect their own farms to collect generous amounts of food for doing little or no work on FFW projects. FFW has contributed to a shortage of agricultural labor at harvest time.

**Failure to Improve Nutrition.** Much of the food donated under P.L. 480 Title II is targeted for school food or health programs for mothers and children. AID claims that these programs supplement local food output and reduce malnutrition. However, a 1982 AID audit of targeted food assistance in India, the largest recipient under this program, concludes, "The maternal/child health program has not improved nutrition and the school feeding program has had no impact on increasing school enrollment or reducing the drop out rate." Even though targeted food assistance has been ineffective, CARE (the private voluntary organization that administers the program for AID in India) and AID's India mission "have resisted efforts to arrange an orderly transfer of program responsibilities to the Government of India."

Administrators of the Title II programs are supposed to give recipients instruction in nutrition and family planning. Yet in Tanzania, Catholic Relief Services was giving

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9 Interview with author, June 15, 1984.

10 Tony Jackson, *Against the Grain* (Oxford, England: OXFAM, 1982).

recipients only three hours of instruction per year. A 1983 AID Inspector General report finds that this free food in Tanzania and elsewhere in Africa has created permanent doles; people who could feed themselves no longer bothered to grow enough food. The Inspector General concludes: "This type of perpetual feeding has little potential or benefit; rather, it tends to make communities dependent on donated food." Another AID audit concludes that "program methodology in Kenya (and elsewhere in Africa) creates an unlimited demand for [foreign donated] food... The long-term feeding programs in the same areas for 10 years or more have great potential for [creating unwelcome] food production and family planning disincentives."

The official Catholic Relief Services policy manual for Food for Peace programs states, "Any child under the age of 5 years is eligible to be registered in the program. All children should be encouraged to stay in the program until the age of five." AID auditors found that over half the children receiving free food were not nutritionally substandard. AID operators have been passing out free food in some villages for over a decade, and several feeding centers have reported that they would have to give out free food for at least another decade.

**Lack of Accountability.** The General Accounting Office examined 22 operational plans by private voluntary organizations for 19 African countries and found that 14 "did not include specific and measurable goals and criteria for measuring implementation progress, 15 lacked adequate discussions of monitoring and evaluation systems for ensuring accountability and assessing program benefits, 12 lacked adequate explanations of how programs would be phased over to local institutions, and 16 lacked adequate financial information."<sup>11</sup> AID missions in less developed countries do not routinely receive from private voluntary organizations information such as numbers, locations, descriptions, and results of projects and had to specifically request it for review. Mission officials made very few visits to projects. Officials in two missions indicated that visits are generally to accommodate visitors, such as congressional and GAO staffs.

## FAILED EFFORTS TO ENCOURAGE REFORM

Congress repeatedly has mandated that P.L. 480 should encourage private sector development in the Third World. In 1977, Congress created a Title III program to provide special bonuses to countries that changed policies to help the private sector. Yet very few countries have applied for Title III conditional aid, since they know they will get free or cheap food regardless of what policies they follow.

Congress effectively admitted the failure of Title III in 1985 by adding a new program, so-called Section 108 assistance. This is to channel P.L. 480 sales proceeds to private organizations in the Third World while encouraging expanded market opportunities for U.S. agriculture exports. Much of the Section 108 money has gone into development finance companies in poor countries which often pay large kickbacks to influential

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<sup>11</sup> U.S. General Accounting Office report, "Food Aid: Improving Economic and Market Development Impact in African Countries," December 1987.

politicians. Development finance companies in general have a very poor record in the Third World and have proved a poor means for foreign donors to aid the private sector.

### THIRD WORLD MISUSE OF FREE FOOD

American food assistance to less developed countries often is misused by recipient governments. For example, the Congo, instead of using P.L. 480 donations to feed its people, sold free food in 1983 to buy a small arms factory from Italy.<sup>12</sup> In March 1984, *The New York Times* reported that AID believed Ethiopia was selling its donated food to buy more Soviet weaponry.<sup>13</sup> Mauritius insisted on receiving only the highest quality rice — and then used it in hotels to feed foreign tourists.<sup>14</sup> Cape Verde begged for more emergency relief aid at the same time that it was exporting wheat donated by other countries.<sup>15</sup>

**Bread for Donkeys.** In other cases, food aid is squandered because of government price controls. Bread is so cheap in Egypt that U.S. P.L. 480 wheat is often baked into loaves and fed to donkeys. A 1987 General Accounting Office report notes that Pakistan has used P.L. 480 money to prevent a cutback of public sector employees.<sup>16</sup> Money from P.L. 480 often is used to support national agriculture bureaucracies — even though they repress the farmers. In the Philippines, in 1986, considerable P.L. 480 money went to the Ministry of Agriculture and Food, even though the Ministry was sanctioning a state monopoly that was defrauding farmers.<sup>17</sup> P.L. 480 sale proceeds are often used for general government expenses, even though bloated central governments and meddling bureaucracies are perhaps the Third World's largest curse.

In addition to this misuse of P.L. 480 assistance, recipient governments often neglect to file reports for years on how food aid is used. Nevertheless, AID continues shipping them millions of dollars more of free food every year.

### AMERICAN MISMANAGEMENT

Management of the P.L. 480 program has been extremely inept. Each year, the Administration requests a certain amount of aid for each country. Once the money is appropriated, the designated recipient country becomes confident that the aid will be

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12 AID Semiannual Report of the Inspector General, March 31, 1984, p. 32.

13 *The New York Times*, March 21, 1984.

14 *The Wall Street Journal*, July 2, 1984.

15 Agency for International Development, "Improvements Are Needed in AID's Assistance Program in Cape Verde," June 25, 1980.

16 General Accounting Office, "Foreign Aid: Information on U.S. International Food Assistance Programs," March 27, 1987, p. 24.

17 General Accounting Office report, "The Philippines: Distribution and Oversight of U.S. Development and Food Assistance," November 7, 1986.

delivered. As such, the U.S. has little bargaining power to use food aid to persuade foreign countries to reform their agricultural sectors.

**Never Canceling Agreements.** Food for Peace administrators have not penalized countries flaunting their agreements with the U.S. As the General Accounting Office concluded, "According to AID, the Food Aid Subcommittee has never canceled agreements because of poor performance on economic development provisions, although the signing of subsequent agreements is sometimes delayed until governments submit annual self-help measure implementation reports. For example, AID officials acknowledge that Kenya's poor record of compliance with self-help measures had not been a significant factor in determining subsequent year program levels."<sup>18</sup>

A 1987 Inspector General report finds that agreement with Sudan was so sloppy that "Sudan was required to deposit [in its development account] \$71 million less than it received for the donated P.L. 480 commodities."<sup>19</sup> A 1986 AID Inspector General Audit of the P.L. 480 Title I Program in Morocco concludes "US/AID Morocco was unable to account for the proceeds generated by Title I agreements totalling \$193.3 million or to ensure the Government of Morocco complied with the agreements."<sup>20</sup>

The 1985 Food Security Act provided new guidelines for P.L. 480. Yet it took AID sixteen months to issue new regulations. And an investigation by the House Government Operations Committee found that AID had misinterpreted the new guidelines and imposed a policy exactly opposite of what Congress had intended, simply because of sheer incompetence.<sup>21</sup>

## CARGO PREFERENCE PRIVILEGES

The 1985 farm bill requires that at least 75 percent of all donated commodities be shipped in U.S.-owned carrier vessels. This provides a windfall to the U.S. merchant marine. It costs five times more to ship emergency food aid to Zambia on an American merchant marine ship than on a competing foreign ship. In some cases, shipping charges amounted to almost as much as the food donated.

Certain cities also benefit greatly from Food for Peace — 90 percent of the business of the Port of Milwaukee consists of P.L. 480, Section 416 food aid. Even though it often costs more to ship food aid from the Great Lakes, the 1985 farm bill specifically mandates that at least half of all food aid shipments must pass through Great Lakes ports.

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18 General Accounting Office, "Food Aid: Improving Economic and Marketing Development Impact in African Countries," December 21, 1987, pp. 14-15.

19 General Accounting Office, "Liberia: Need to Improve Accountability and Control over U.S. Assistance," July 16, 1987, p. 16.

20 Inspector General Audit, November 21, 1986, p. 16.

21 House Government Operations Committee, "Poor Management Is Impeding the Food for Peace Program," March 29, 1988, p. 11.

The cargo preference subsidies are allegedly to preserve U.S. merchant ships in case they are needed in a national emergency. Yet a recent Senate Agriculture Committee report concludes, "Rather than encouraging the development of improved U.S. vessels, the program encourages the continued use of semi-obsolete and even unsafe vessels which are of little use for commercial or defense purposes."<sup>22</sup>

## THE CAUSE OF WORLD HUNGER

American food assistance programs fail to address the primary cause of the inability of Third World countries to feed themselves: government economic repression of farmers. In most less developed countries, especially in Africa, farmers must sell their crops to government marketing boards. These state monopolies usually set the price of farm products below the costs of production. In Cameroon in 1986, for example, farmers received only 29 percent of the world market price for their coffee. In Tanzania, the state marketing system is so inefficient that farmers use illegal private traders to send their crops to market. Recently, the government cracked down on this activity, leaving 300,000 tons of various crops stranded in the field. The marketing board in El Salvador, for example, pays farmers only 28 percent of the market price for their coffee. Since 1982, this monopoly, with U.S. AID indirect assistance and approval, has contributed to the 50 percent drop in Salvadoran coffee production.

Third world governments pursue such policies for the short-term political gain of securing their own power base. Food purchased from farmers for below the cost of production or world market price can be sold cheaply to urban dwellers. This keeps the potentially volatile cities, with their armies of bureaucrats, calm and loyal to the regime. In other cases, food purchased cheaply from farmers is sold at high prices on the world market with the government pocketing the profits. U.S. food policy does nothing to get at the root cause of this agricultural problem. In fact, by providing cheap food, the problem is exacerbated.

## CONCLUSION

The charitable motivations behind the U.S. P.L. 480 Food for Peace program are laudable. The problem is that the program discourages food production in less developed countries and does not get at the roots of world hunger. The program is costly and wasteful. U.S. interest groups and corrupt officials in Third World countries too often benefit at the cost of starving people in these countries.

Congress and the Administration should insist on humanitarianism that also is effective in eliminating worldwide hunger. Under such a program AID should restrict U.S. food handouts to emergency situations like drought or natural disaster. P.L. 480 assistance as an ongoing program seeking markets in which to dump excess U.S. farm commodities should be eliminated. Short-term humanitarian aid will assure that people in less developed

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<sup>22</sup> Bovard, "The Continuing Failure of Foreign Aid," *op. cit.*

countries are fed in event of physical catastrophes, but will not create long-term disincentives to farmers. The U.S. should assure that such aid reaches the people in need and is not diverted by politicians in such countries.

In addition, AID should promote market-oriented agriculture in less developed countries. Many less developed countries could feed themselves if their farmers were free to produce what they want, send their crops to market via private carriers, and sell their crops at a price set by the market, not by a government board and not distorted by U.S.-donated food. The AID Administrator must make certain that no AID funds go to help countries establish or maintain state marketing boards. AID also must provide technical information on how to dismantle such operations.

Worldwide hunger is a tragedy that the U.S. is correct to be concerned about. Unfortunately, P.L. 480 Food for Peace has failed to deal with the problem. If a more effective means is adopted, it will help poor countries feed themselves and make hunger a thing of the past.

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