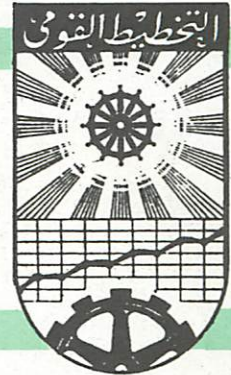


# ARAB REPUBLIC OF EGYPT

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AMERICAN FOOD AID AND ITS IMPACT  
ON THE EGYPTIAN ECONOMY

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## C O N T E N T S

### HISTORICAL BACKGROUND

#### Chapter One : THE EFFECTS OF FOOD AID ON RECIPIENT COUNTRIES

- 1) Price Disincentive Effect.
- 2) Shift of Consumption Pattern.
- 3) Political Abuse.

#### Chapter Two : MOTIVES OF THE DONOR COUNTRIES

- 1) Attacking Emergency Situations.
- 2) Tool of Foreign Policy.
- 3) Market Development and Surplus Disposal.

#### Chapter Three : AMERICAN FOOD AID AND THE EGYPTIAN ECONOMY

- 1) The Past and Present Trends.
- 2) The Analysis of P.L. 480 Program to Egypt.
- 3) Effects of American Food Aid on Egyptian Economy.

### CONCLUSION

### REFERENCES

### BIBLIOGRAPHY

## PREFACE

The topic of food aid has evolved greatly over time. This resulted in continuous re-assessment of food aid programs on the part of recipient - and donor.

The present paper aims at evaluating the motives that lie behind the food aid programs of the donor country and its effects on the economy of the recipient country.

Egypt, a country which has become the major recipient of American food aid since the re-establishment of the American/Egyptian relations in 1974, stands as a good example for applied analysis in this concern.

The paper discusses such questions: Does food aid help the Egyptian farmers to increase their incomes and food production capacity? Does it further U.S.A. trade and policy aims? Does it lead Egypt to accelerate its development plans? Or does it contribute to further increase of Egyptian dependency on the donor country? And how does food aid support the improvement of income distribution in Egypt?

Therefore, this paper deals with the past and present trends of American food aid, the analysis of the F.L. 480 program to Egypt, and the effects of American food aid on the Egyptian economy.



### Historical Background

In the early 1950's U.S. Farmers were calling for something to be done with the huge agri-surpluses threatening their incomes, "These surpluses represented a terrible dilemma. The farm lobby would not allow them to be put on the domestic market. And if dumped on the world market, grain prices would drop by a dollar a bushel. U.S. grain corporations were opposed to such a disruption of their international commercial market."<sup>1)</sup> In 1952 a group of large and medium sized farmers proposed that food deficit countries would be allowed to cover U.S. food imports in local currency instead of U.S. dollars. The Government responded positively by passing the Public Law 480 Title I. During the period 1954-1959, the U.S. was able to ship over \$5 billion worth of grains, or 28% of total American agricultural exports. Nonetheless, the surpluses continued to mount to reach the highest stocks in history by 1959. Again, the policy makers succeeded in modifying P.L. 480 by asking recipient countries to import American capital goods for light industry in dollars. Assistant Secretary of State W.L. Clayton declared his conviction that the World Bank financing for such capital goods "would certainly be a very good one for U.S. Agricultural exports, because as you help develop

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1) Lappe F.M. and Collins J., "Food First: Beyond the Myth of Scarcity", Houghton Mifflin Company, Boston, 1977, P. 329.



them industrially, you will shift their economy to an industrial economy, so that I think in the end you would create more markets for your agricultural products,"<sup>2)</sup>

Helping American Corporations to build import-demanding industries abroad was not enough. P.L. 480 provides that food aid is conditioned by an agreement to purchase American agricultural commodities on commercial terms in the future.

By late 1975, U.S. Congress issued H.R. 9005, a new assistance bill in which 80% of all P.L. 480 commodities must be directed to countries with per capita incomes of less than \$250.

It seems suitable to end this section with Senator Hubert H. Humphrey's words:

"I have heard---that people may become dependent on US for food. I know that was not supposed to be good news. To me, that was good news, because before people can do anything they have got to eat. And if you are looking for a way to get people to lean on you and to be dependent on you, in terms of their cooperation with you, it seems to me that food dependence would be terrific",<sup>3)</sup> 1975.

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2) W.L. Clayton, Assistant Secretary of State, U.S. Congress, House of Representatives, Hearings on H.R. 2211, Bretton Woods Agreement Act, Committee on Banking and Currency, 79th Cong. 1st Sess. March 9, 1945 PP. 275, 282; cited by Michael Hudson in Super Imperialism.

3) Holt, Rinehart and Winston, N.Y., "The Economic Strategy of American Empire", Praeger, New York. 1972, PP. 92-93.

## Chapter (1)

### The Effects of Food Aid on Recipient Countries

There has been a growing criticism of food aid effects on the economy of recipient countries. The fundamental drawbacks include the following:-

#### 1- Price disincentive effect

Theodore Shultz was the first to write extensively on the value of U.S. farm surpluses to developing countries. T.W. Schultz expressed much pessimism about the possible price disincentive effects of food aid on agricultural production in recipient countries. Schultz gives an example that the effect of a 1 percent increase in food supplies on price is measured by the reciprocal of the price elasticity of demand.<sup>1)</sup> Others disagreed with him by either denying any production responsiveness to price changes in developing countries that wipe out possible disincentive effects or by accepting production responsiveness but considered that he overstated the price effect.

Mann<sup>2)</sup> developed an econometric model to measure the price and production impacts of P.L. 480 imports on the Indian Economy. The model was based on 5 main simultaneous equations: (1) a supply equation, (2) a demand equation, (3) a commercial import equation, (4) a withdrawal from-stocks equation, and (5) a market clearing identity. The model showed a negative impact of food aid on prices and agricultural production in India, though the applicability of the model is

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1) Shultz, T.W. "Value of U.S. Farm Surpluses to Underdeveloped Countries", J.Farm Econ., 42 (Dec. 1960): 1019-30.

2) Mann, Jitendar S., "The Impact of Public Law 480 on Prices and Domestic Supply of Cereals in India", J.Farm Economics, Vol. 49, Feb 1967 PP. 131-146.



invalidated by the fact that it contained only one demand equation. "This in effect ignored the role of mode of distribution adopted to distribute aid commodities and its impact on prices and production of domestic producers".<sup>1)</sup>

Fisher's analysis<sup>2)</sup> shows that, if aid enters domestic markets in addition to production, the consequences on supply and prices in the recipient country are reduced in accordance with demand and supply elasticities. Also, if the food is distributed without charge to those who cannot afford to pay for it, there will be no impact on domestic price and production.

However, if the donated food were sold on the domestic market, the revenue would be equivalent to the domestic counterpart of general economic aid. Similarly, re-export of food donations could be a convenient source of foreign exchange. The following equations clarify fishers' analysis:-

$$\begin{aligned}
 S(P) + I &= D(P) \\
 \Delta S + \Delta I &= \Delta D \\
 S \frac{\Delta S}{S} + \Delta I &= D \frac{\Delta D}{D} \\
 SE \frac{\Delta P}{P} + \Delta I &= DM \frac{\Delta P}{P} \\
 \frac{\Delta P}{P} &= \frac{-\Delta I}{SE - DM} \\
 \frac{\Delta S}{S} &= \frac{\Delta S}{\Delta P} \cdot \frac{P}{S} \cdot \frac{\Delta P}{P} = \frac{-SE \Delta I}{SE - DM} \\
 \frac{\Delta D}{D} &= \frac{\Delta D}{\Delta P} \cdot \frac{P}{D} \cdot \frac{\Delta P}{P} = \frac{-DM \Delta I}{SE - DM} > 0
 \end{aligned}$$

Where S (P) = Supply produced by domestic farms

I = Imports

D(P) = Demand in the country

SE = Price elasticity of supply

DM = Price elasticity of demand

The analysis of Srivastava et al.<sup>3)</sup> shows that there is a way to minimize the negative price, production, and income impact on agriculture by creating

1) Srivastava, U.K. et al., "Food Aid and International Economic Growth", The Iowa State University Press, Iowa, 1975, P. 39.  
 2) Fisher, F.M., "A theoretical Analysis of the Impact of Food Grains Imports on Agricultural Production in Recipient Countries", Journal of Farm Economics, vol. 45, 1963, pp. 863-75.  
 3) Ibid, 1.63.



a differentiated market for food aid commodities in the recipient countries. The Indian example of fair-price shops is of considerable interest to recipient countries. It would raise the real income of the Consumers, minimize the negative effects of aid, and increase the beneficial effects. In spite of the fact that what happened in India is not adequate in itself to prove their hypothesis, still production policy can reduce or eliminate the disincentive effect as long as there is some supply response, whereas supply elasticity is probably not-zero, but nonetheless quite low. <sup>1)</sup>

#### Shift of Consumption Pattern

Food aid can involve the introduction into a country of a crop that is not domestically grown, thus inducing people to change their food preferences and shift from a domestically grown crop (rice in most Asian Countries) to wheat, which makes people dependant on U.S. food aid, thus the country may be reluctant to increase wheat imports from major wheat-exporting countries. Many cases can be cited to illustrate this. Sri Lanka is one of the countries where wheat and wheat flour have replaced rice as the major staple. The hidden danger of a consumption shift in these countries is continuous dependency on donor countries to increase their commercial imports.<sup>2)</sup> Most food aid is bought on credit, and thus increases indebtedness that is already a burden for many poor

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1) Abbot F.C. /Sarris A.H. and Taylor L. "Grain reserves, Emergency Relief, and Food Aid", in Policy Alternatives for a NECO, William R.C. (ed.) Praeger Publishers, New York, 1979, P. 197.

2) For more details see:

Timmer P. and Guerreiro, "Food Aid and Development Policy", Paper Presented at the ADC/FTN Conference on "Improving the Developmental Effectiveness of Food Aid", Colombo, Sri Lanka, August 18-20, 1980.



countries. Moreover, food aid may result in changes in food preferences that are not necessarily nutritionally or economically favorable. To promote market development for Donor Countries, much effort has been concentrated on training bakers and baking demonstrations for housewives in developing countries, that resulted in a 16% increase in wheat consumption. Unless income also rises, this consumption shift could well result in a displacement of a local food that might be nutritionally superior.<sup>1)</sup>

### 3- Political Abuse

Wallerstein describes the principal attraction of food aid as a foreign policy instrument in "...its capacity to achieve political objectives through either of two opposing strategies: offering food as an incentive to reinforce certain desirable behavior patterns on the part of the recipient country, or withdrawing (or threatening to withdraw) food as a political sanction for behavior considered inimical to U.S. interests".<sup>2)</sup> In a number of cases the U.S. administration used food aid to serve political interests in recipient countries. U.S. food aid was used against Egypt because it was considered an "aggressive" nation. The argument for ceasing food aid to Egypt, was that by providing it the United States freed funds that Nasser used for aggression against nations

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1) Austin, J.E. and Wallerstein, M.B., "Toward a Development Food Aid Policy", M.I.T. International Nutrition Planning Program, Center for International Studies, Cambridge, Mass., December, 1977. P.24.

2) Wallerstein, M.B., "Food for War-Food for Peace: United States Food Aid in a Global Context", the MIT Press, Cambridge, Mass., 1980, pp.121-122.



friendly to the United States, i.e., Israel and Yemen (detailed discussion will follow later). In 1972 the Nixon administration refused to send food aid to the Chilean government, "to make Chile's economy scream"<sup>1)</sup>. The embargo of concession and commercial food imports from the US resulted in the social discontent that led to the overthrow by the constitutional government in September, 1973. There was a quick offer of food aid to Chile in 1973 following Allende's overthrow-a reward for those likely to side with political and economic interests of the U.S.

Although congressional restrictions on Political abuse of food aid were subsequently imposed, still we find that food aid goes to governments that have close relations with the United States to favor political allies of these countries.

Pearlberg argues that the time of food power as a valuable instrument of diplomacy, particularly for the United States, has now passed. Pearlberg summed up the situation by saying, "There will be at least three points at which any attempt to wield food power can meet frustration:

Within the domestic political system of the subject nations, where foreign policy leaders may find themselves unable to maintain effective control over the volume and direction of their own external food trade.

Within the domestic political system of the target nation, where the threat of even the reality of a food-trade interruption may be inadequate or inappropriate to produce the desired modification of behavior.

Between the subject and the target nation, within the international food trading system itself, where the target nation may find a low-cost alternative

1) Excerpts from interview with Richard M. Nixon by David Frost, transcript from television program, 25 May, 1977, The New York Times, 26 May, 1977, F. 40.



to food-trade dependence upon any nation attempting to exercise food power<sup>1)</sup>. As a result for food power to be successful, U.S. leaders must be able to manipulate U.S. food exports at will, governments in target nations have no way other than adjusting their policies to side with political and economic preferences of the U.S., and the world food trading system must provide these target-nation leaders with no low-cost means to avoid dependence on U.S. food. The case of withholding food from Egypt in 1967 proves that all three of these conditions are seldom met. First, cutting food aid to Egypt left the Egyptian leader in a stronger position than before with the people as they recognized that the U.S. had attempted to exercise political power in its own interests against humanitarian considerations. Second, President Nassar succeeded in his political appeal to obtain wheat supplies from other sources in the world market at no higher cost.

One more point should be clarified when comparing the "food weapon" to the "oil weapon", as the prophets of food power insist that "we could make OPEC look sick if we were just to use what our agriculture gives us."<sup>2)</sup> First, U.S. farmers cannot sustain mounting surpluses that earn more than \$22 billion every year in foreign exchange, on the other hand oil-exporting countries can shut off their supplies with no negative impact on their economies in view of their enormous monetary reserves and revenues larger than their economic absorptive capacities. Second, the food weapon goes to countries with small

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1) Pearlberg, R.L. "The Failure of Food Power" in "The Role of U.S. Agriculture in Foreign Policy" edited by Fraenkel R.M. et al., Praeger Publishers, New York, 1979 Page 39.

2) "Food Power: The Ultimate Weapon in World Politics" Business Week, December 15th, 1975.



populations but large monetary reserves that enable them to find even a high cost alternative to food imports, whereas the oil weapon might be more effective with industrialized countries heavily dependent upon foreign oil suppliers. Third, U.S. as a superpower cannot exercise food power with its international and humanitarian obligations while oil exporting countries have not the same obligations.



## Chapter (2)

### Motives of the Donor Countries

The donor countries have certain motives while formulating their food aid programs. These motives may affect the recipient countries in various degrees. The principal motives cover the following items:-

#### I. Attacking emergency situations

The very aim of food aid is a humanitarian one. It aims at attacking hunger and reducing malnutrition. There were large food transfers from the U.S. after World War I and World War II, principally to Europe, to starve off wide-spread food shortages and possible famine. After 1954, following the passage of the P.L. 480 act, more systematic and large scale emergency food relief has been witnessed. American traditions of international food transfers take different forms: emergency relief, supplementation programmes, and government-to-government food aid. A considerable part of American food aid is donated by individuals or church-related groups because of their humanitarian concerns. Food donations are granted to needy countries under PL 480 Title II food aid, which unlike Title I, aims to provide relief at no direct cost either to Governments or individuals hit by natural disaster and hunger.

Title I represents food commodities that are provided on a concessional-scale basis. Concessional sales are made of market prices but with long-term arrangements for repayments at low interest rates.



Though loans are given with low interest rates, it increases the indebtedness that is already a burden for the poor countries.

## 2. Tool of Foreign Policy

Food aid was, and is still, seen as a means for the United States to encourage certain political behavior on the part of the recipient country. The case of South Vietnam and Cambodia, where congressional cutbacks were circumvented by the U.S. administration award of \$461.5 million in Title II loans could well illustrate that role. Also, the withholding of food aid for non-commercial, political reasons has been undertaken by the United States several times in recent history before "food as a weapon" was thought of in connection with the advent of (OPEC) market power and the prospects of resource politics on a world scale.

Food aid to Egypt was cut off when Egypt was considered an aggressive nation at that time. Also, the food aid given by the Nixon administration to the Government of Chile was cut off in 1973 when Allende came to power.

Conceptually, food aid can be applied as diplomacy power in three forms: denial, priority access, or discriminating pricing. Denial seems to be insignificantly efficient because food aid represents a minor part of total food imports, and alternative supplies can be obtained from other sources on the world market, although at a higher cost. Priority access can be effective in shortage conditions; nonetheless, the needy do not get much because food is given to less needy nations.



Discriminatory pricing has the disadvantages of the other two forms without equal advantages. Recent convictions of the limits, or even the failure, of food diplomacy reflect the inherent ineffectiveness of its use.

### 3. Market Development and Surplus Disposal

Food aid has been described as an effective means to improve the relative market position of the U.S. as a donor country.

Local currencies received under Title I PL 480 sales to finance market development programmes in the U.S. have been used effectively. These programmes are partly financed by the foreign currencies received under sales using local currency. The U.S. has the right to convert a limited amount of local currencies to hard cash to be used in its market development activities, and in part by private groups to promote trade fairs, trade centers, marketing and utilization research. In fact, these kinds of market promotion activities can be applied by any nation whether or not engaged in food aid operations.

The U.S. government has encouraged the American farmers to increase their production to benefit from the strong world food demand as well as to balance the deficit of the non-farm trade sector caused by increasing U.S. oil imports. In fact, the growing emphasis on food exports has had no positive effect on food aid. The reason might be the curtailment of Title II commodity deliveries and little interest or incentive on the side of producers to sell food to the government for use as food aid, as they oppose political interference in



U.S. agricultural exports (concessional and commercial).

Also, surplus disposal and market development are closely connected with domestic American farm programs aimed at finding markets for mounting American surpluses. Economists who thought there would be no problem with American food surpluses are now disappointed because the crisis is over and projections of production to the year 1990 and after indicate that American farmers will be able to produce substantial food surpluses in the future.<sup>1)</sup>

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1) - Hopkins R.F. and Puchala, D.J., "Global Food Interdependence-Challenge to U.S. Policy", Columbia University Press, New York, 1980, P. 174.



Chapter

American Food Aid and The Egyptian Economy

1. The Past and Present Trends

American-Egyptian relations have had ups and downs for almost 20 years. An observer of that long history could easily see different phases of the relationship that could be classified as follows:-

1. The First Phase	1954-1966	Limited Assistance
2. The Second Phase	1967-1973	Cessation of Aid
3. The Third Phase	1974-1981	Unrestricted Assistance

1. The First Phase: Limited Assistance (1954-1966)

After the institutionalization of American food aid in 1954 with the passage of Public Law 480, Title I, food shipments to Egypt began in 1955.

During the period 1955-1964 American food shipments to Egypt totalled \$690 million or 11.7% of its total food aid. This was channelled primarily through government to government programs, voluntary relief agencies and the World Food Program. Egypt was the fourth recipient country (following India, Yugoslavia and Pakistan), and such aid helped prevent widespread undernutrition among selected target-groups (e.g. supplementary feeding for pregnant women and school lunch programs for children). Egypt, a country that gained its independence in 1956, was somewhat sensitive in its assessment of the connection between American foreign policy and food aid. When the United States backed out of



the Aswan High Dam project, it gave Gamal Abdel-Nasser the impression that the U.S. administration wanted to deprive his country from modernization and industrialization. As a result, Nasser increased dependence on USSR whose good intentions appeared in financing the building of the High Dam as well as arms shipment to Egypt.

The Kennedy administration attempted to improve relations with Nasser as a response to the advices of Rusk, Bowles and Badeau against an aggressive U.S. policy:

"We have no illusions that any broad understanding with Nasser is possible. We do feel, however, that modest assistance is useful to help the U.A.R. meet its massive challenge on industrialization and over-population and to make it clear that there is a continuing alternative to full reliance on communist-block assistance.... This position reflects our considered view that efforts to modify specific policies would only (a) make progress on such problems even more difficult than at present; (b) make it more difficult for the U.A.R. to follow a genuine neutral course; and (c) afford new opportunities for communist exploitation."1)

In addition, president Kennedy sent economist Edward Mason of Harvard University to the U.A.R. to assess Egypt's future development plans and need for

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1) Memorandum from Dean Rusk to President Kennedy, May 5th, 1961. (Rusk 1961).



foreign assistance. On his return, Mason Warned the Kennedy administration that U.S. failure to help in the U.A.R.'s economic and social plans would further Egypt's close relations with socialist countries. On the basis of the Mason's Report, President Kennedy decided to approve a \$390 million multi-year PL 480 agreement to assist Egypt with its on-going plans (i.e. the first Egyptian five-year plan).

In September 1962, after the Yemenian revolution against the monarch (Imam Ahmed), Abdalla Salal, the leader of the Yemenian army, appealed to Nasser to back his revolution against what he called foreign intervention. The move of Egyptian army to Yemen was considered by U.S. as an intervention in Yemen and a threat to the Saudi Monarch and oil supplies to U.S. As a result, the U.S. policy aid slowed suddenly down. On November, 23rd., 1964, U.S.-Egyptian diplomatic relations came to a critical turn when the U.S. Information Service Library, and the marine detachment building were burned in Cairo by Congolese students who demonstrated against the landing of Belgian paratroopers from American planes for a rescue operation in Stanleyville. U.S.-Egyptian relations were further strained on December 19, 1964, when a U.S. oil company plane was shot down after it approached a military zone near Alexandria and ignored instructions to land. Before the latter events took place, a request had, in fact, previously come from the Egyptian Government for \$35 million worth of food to alleviate a shortage. The anti-Egyptian representatives inside the Congress used the restriction of public law 480 assistance to "aggressor



nations" which was aimed at the U.A.R. to convince the U.S. administration to declare that, because of U.A.R.'s actions inimical to foreign policy interests of the United States and anti-American sentiments, consideration of food aid would be delayed until 1965.<sup>1)</sup> Yet Nasser's reaction was:

"The Americans want to give us aid and dominate our policy, I say we are sorry, we are ready to cut our rations and minimize our daily consumption so that we keep our independence."<sup>2)</sup>

Again, P.L 480 shipment were resumed after an agreement was signed on January 3rd., 1966 by Abdel Moneim El-Kaisouni, the deputy premier for economic affairs, and American ambassador Lucius D. Battle, providing \$56 million in food aid on the condition that repayment was required in dollars rather than local currency, and the agreement was applicable only for a six-month period when there would be a pause for a review of Egyptian-American relations. Because there is always a time-lag between commitments and actual delivery, shipments were delayed until mid-1966.

## 2. The Second Phase: The Cessation of Aid (1967-1973)

In the aftermath of the 1967 Israeli-Egyptian war, the Egyptian intelligence announced that the U.S. sixth fleet in the Mediterranean was involved in

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1) For more details See:

Toma A. Peter, "The Politics of Food for Peace", the University of Arizona Press, Tucson, 1967, PP. 92-94.

2) Information Dept., "The Speeches of President Nasser", Vol.IV, Cairo, 1967.



the military attack on Egypt on June, 5th., 1967. As a result, the Egyptian leadership broke off diplomatic relations with the United States on June 6th, 1967. The U.S. administration reacted strongly by cutting-off food shipments to Egypt. The 1967 domestic wheat production in Egypt amounted to 1.5 million tons creating a deficit of 2.5 million tons. Yet, it became clear that U.S. administration had adopted a political attitude rather than a humanitarian one. At that time the Egyptian food reserve was sufficient only to cover 15 days. Nasser appealed to the Soviet Union for wheat, and the Russian leadership reacted with no delay by diverting wheat shipments from Australia destined for the Soviet Union to the port of Alexandria, confirming to Nasser that human needs cannot be used as a political game.

" The threat and application of U.S. Political sanctions did have a moderating influence on the Nasser's regime, particularly when it was:

1) in severe need of food or 2) in a period of cool relations with Moscow"<sup>1)</sup>

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1) Wallerstein B.M., Op.Cit., P. 129,



### 3. The Third Phase: Unrestricted Assistance (1974-1981)

The 1973 war between Egypt and Israel had proved Egypt's capacity to exploit heavy U.S. dependence on Arab oil. "Shipping wheat to Egypt is never free from political considerations and never will be. To assure the continued flow of Arab and, above all, Saudi Arabian-oil, American policy makers and increasingly the public at large have recognized the benefits of cooperation. A recognized covariant relationship exists."<sup>1)</sup>

In the winter of 1973-1974, U.S. Secretary of State, Henry Kissinger visited Egypt. While in Egypt he cabled Washington, proposing that substantial amounts of grain be shipped to Egypt as a sign of American good intentions towards the Egyptian people at a time when Egypt was suffering from high indebtedness and lack of foreign exchange to pay for food imports. An initial amount of grain plus additional amounts during 1974 were shipped to Egypt. In return, the U.S. administration expected Egyptians to resume diplomatic relations after a six-year break and to work toward disengagement with Israel and a solution for Arab-Israeli conflict formulated in Washington not in Moscow.

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1) Merriam J., "U.S. Wheat to Egypt: The Use of An Agricultural Commodity as a Foreign Policy Tool", in (The Role of U.S. Agriculture in Foreign Policy), Frankel R., Hadwiger Don F., and Eraule W.P., (eds.), Praeger Publishers, New York, 1979, P. 100.



2- The Analysis of P.L. 480 Program to Egypt.

During the period 1955-64 Egypt received an amount of PL 480 equal to \$ 690 decreased to \$ 220 during the period 1965-74.

In a study of P.L 480 to Egypt, Umstott's analysis shows that PL 480 shipments were closely related to a shift from a 7% cost of living increase between 1955 and 1961 to a 5% decrease between 1961 and 1963.<sup>1)</sup>

Since the re-establishment of diplomatic relations between Egypt and the United States in 1974, Egypt has become the major recipient country of commodities financed under the U.S. P.L. 480 since the start of the program.

US P.L. 480 program to Egypt includes three titles:

- Title 1 = Concessional sales
- Title 2 = donations for the needy
- Title 3 = food for development

Title 1, concessional sales:

Title 1, the concessional sales part of the PL 480 program, allows developing countries to buy US agricultural products for dollars, but payments can be extended over 20 years, and interest rates are much lower than with commercial financing.

For those countries not capable of going directly to 20 year dollar credit sales, title 1 does allow for credit sales on 40 years terms with grace

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See: Umstot H.D., "Public Law 480 and other Economic Assistance to UAR," USDA, ERS Foreign Rept., 83, June 1964.



periods on principal repayments of up to 10 years. The law also allows payment in local currencies, with the understanding that US can eventually exchange these into dollars. However, this option has never been exercised-in practice with Egypt or any other PL 480 recipient country.

On January 1, 1974 the first PL 480 title 1 agreement after the re-establishment of diplomatic relations was signed with Egypt. During the last 3 years, shipments under PL 480 title I/III to Egypt has increased dramatically in value from \$1.3 billion in 1975-77 to \$2.3 billion by the end of 1981 represents 33.4 percent of the total value of title 1 PL480 commodities shipped to all countries in FY 1981. shipments, in 1982 will increase the total to approximately \$2.5 billion. (See Table 1).

On December 21, 1981 a new Public Law title 1 agreement was signed with Egypt. The agreement provides 1.1 million metric tons of wheat and wheat flour worth \$ 200 million to be delivered during fiscal year 1982. An additional allocation of 400,000 tons is to be provided during 1982 under titles I/III Amendments. Terms of the FY 1982 Agreement are the same as for 1981-an initial payment of 5 percent and 31 installement payments is 10 years after the date of the last delivery of commodities in each calender year. The initial interest rate is 2 percent during the 10 year grace period and 3 percent interest for the remaining 30 years that principal and interest payments are made, (See table 1).

#### Title II: Donations for the Needy

Title II is the food donation program of PL 480 for those overseas who are less fortunate such as:-



Table 1 --EGYPT: U.S. Shipments Under Public Law 480, Titles I/III  
by Quantity and Market Value, U.S. Fiscal Years 1975-1981

(Data in thousands)

Commodity	FY 1955-77	FY 1978	FY 1979	FY 1980	FY 1981 <sup>1/</sup>	TOTAL
Tobacco						49.13
Metric tons	49.14	-	-	-	-	97,121
Market value <sup>2/</sup>	97,121	-	-	-	-	
Wheat						12,305.17
Metric tons	8,220.04	.968.16	1,081.65	1,035.32	1,000.0	1,273,194
Market value <sup>2/</sup>	655,581	116,583	151,961	177,569	171,500	
Wheat Flour						5,104.07
Metric tons	3,641.54	345.68	352.95	386.90	375.00	676,578
Market value <sup>2/</sup>	336,344	61,214	77,357	96,163	103,500	
Beans, dry edible						3.0
Metric tons	3.00	-	-	-	-	1,030
Market value <sup>2/</sup>	1,030	-	-	-	-	
Corn						1,223.01
Metric tons	1,160.50	-	-	62.51	-	82,600
Market value <sup>2/</sup>	72,945	-	-	9,655	-	
Other						96,462
Market value <sup>2/</sup>	96,462	-	-	-	-	
TOTAL						2,226,985
Market value <sup>2/</sup>	1,259,483	177,797	229,318	285,387	275,000	

<sup>1/</sup> Programmed.

<sup>2/</sup> U.S. Dollars.

Source: U.S. Department of Agriculture and Agricultural Counselor.



- a) death difference for victims of earthquakes, hurricanes, volcanoes, floods, draughts and civil strife.
- b) these foods have also helped in the ongoing battle against world hunger and malnutrition. More than \$ 8 billion worth of U.S. agricultural products have been donated under title II since 1955.
- c) they serve as the mainstay of many school lunch, prechool feeding and mother-child health care programs around the world.
- d) they also figure importantly in the U.S. commitment to help the world's needy become self-sustaining through economic and agricultural development.
- e) under title II, U.S. farm products are used in food for work programs to pay foreign workers for their labour on such public projects as building schools and roads, improving village water and sanitation system and digging wells and irrigation ditches.

Most of the food shipped under title II is donated through nonprofit U.S. voluntary agencies such as CARE (Cooperative for American Relief Everywhere), Catholic Relief Services, Seventh Day Adventist Services, Lutheran World Relief, American Joint Distribution Committee, and the Cooperative League of the United States.

Title II donation are also made directly to receipient governments, mostly for large emergency feeding programs, and through multilateral organisations such



as UNICEF (United Nations International Children's Emergency Fund) and the World Food Program (WFP).

The WFP is financed by voluntary contributions of commodities, services, or cash by members of UN and FAO. Most of the food is distributed as part of the wages of people employed in development projects. The U.S. and other donors make commitments to the WFP every 2 years.

As far as Egypt is concerned, title II program of PL 480 includes the following commodities:-

- a) wheat flour - (A.P. flour, 72%)
- b) wheat soy blend (WSB)
- c) bulgar wheat-(crashed parboiled wheat)
- d) corn soy milk (CSM)
- e) instant corn soy milk (ICSM)
- f) no fat dried milk (NFDH)
- g) vegetable oil-(cooking oil)

The above mentioned commodities are shipped to Egypt through the following agencies:-

- a) World Food Program (WFP)
- b) U.S. Department of Agricultural (USDA)
- c) Catholic Relief Services
- d) Cooperative for American Relief Everywhere



The title II PL 480 commodities are channelled to the following Egyptian programs:

- Maternal Child Health Care (MCHC - Ministry of Health)
- School Lunch Program
- Egyptian Family Association
- Beduins and non - Beduins in Sinai region
- Orphans Institutions.

The school lunch program is concerned with the rural children of primary schools in 8 governorates (Ismailia, Suez, Giza, Sharkia, Gharbia, Dakahlia, Damietta, Khaliubia and Port Said).

According to the school lunch Program, the children of the primary schools in the previous listed governorates are given a lunch meal composed of:-

- 20 grm, cheese + 1 loaf aish baladi (142 grm). 82% ext. (for three days)
- Halva or dates + 1 loaf aish baladi (142 grm). 82% ext. (for the other three days).

There is a phase over period during which it is expected that Egypt will be covering 75% from the loaf of aish baladi weight while the remaining 25% will be covered by U.S. By the year 1986 it is planned that Egypt will be covering totally the loaf of aish baladi given to the children of the school lunch program.



Title II donations to Egypt have been fluctuated much over the last 8 years since the renewal of Egyptian-American diplomatic relations, both in quantity and value.

In 1975, Egypt received 29,37 MT commodity donations valued at \$ 11,085,000. In 1976, Title II donations dropped to 19,889 metric tons worth \$ 5,425,000. There was an down ward trend from 65,131 metric tons valued at \$ 15,894,000 in 1979 to 44,176 metric tons worth \$ 20,608 in 1981 . PL 480 title II donations for 1982 programmed 44,176 metric tons valued at \$ 20,608,000. Approximately, 88 percent of 1981 commodity donations to Egypt.

#### Title III: Food for Development

Title III, which was added to PL 480 in 1977, is also designed to help the World's needy to help themselves.

In particular this title is concerned with bettering the lives of small farmers, tenants, sharecroppers, landless agricultural workers and others who depend for their livelihood on agricultural and related activities.

Basically, Title III-known as Food for Development-allows foreign government to purchase U.S. agricultural commodities on title I terms and resell these commodities in their own countries. However, instead of paying the U.S. for commodities they may use the proceeds from local sales (or the commodities themselves) for self-help projects which increase farm production, improve storage, transportation and distribution of farm products, or improve the



Table 2

Title II Free Donations to Egypt  
during the period 1975-1982.

<u>Year</u>	<u>Recipient</u>	<u>Commodity MT</u>	<u>\$ Value</u>
1975	700,000	29,037	11,085,000
1976	547,000	19,889	5,425,000
1977	1,315,000	44,671	10,588,103
1978	1,714,000	55,329	9,395,000
1979	1,933,000	65,131	15,894,000
1980	2,386,549	45,268	16,765,000
1981	2,436,000	53,180	22,993,000
1982	2,331,084	44,176	20,608,000
13,36 ,633		356,681	112,753,103

Source: U.S. Aid - Cairo.



quality of rural life through health and nutrition or family planning programs.

As the currencies are used, an equivalent dollar value to the title I debt is offset.

A country must be eligible for a title I agreement before a title III program can be approved.

Also, since title III provides for development programs in addition to what the recipient country is already doing, adequate technological and economic analyses and review are required in designing the program as well as in monitoring and evaluating progress.

In 1979, the first title III agreement was signed with Egypt. The agreement provides \$ 75 million grant for 5 years which means \$ 15 million each year to be deducted from annual loan payment. This grant is used in financing infrastructure project in some governorates.

### 3- Effects of American Food Aid on Egyptian Economy

In the following part the researcher analyses the effects of Food-aid Programs on Egyptian economy. The effects of food aid can be analysed from a number of different perspectives:-

1. The disincentive effects on local food production
2. Income distribution consequences.
3. Impact on development.
4. Market development.
5. Dependency.



### 1) The Disincentive Effects on Local Production

Disincentive effects are generally believed to be of two kinds: A direct effect through the impact of the aid on prices farmers receive and indirect or policy effect on sectoral policies.

In the latter case, the argument is that the availability of food aid enables governments to avoid directing development resources to agriculture, or to persist in discriminatory price and food policies in the pursuit of cheap food policies.

In the case of Egypt, food aid has been sufficiently important, compared with the domestic food supply. PL 480 make up almost 20% from the domestic food supply.

It is believed that disincentive effect on local production resulted from the significantly lower prices paid to the farmers compared with import prices and consumer prices. Table (3) shows that during a period of 15 years prices received by farmers were lower than both import and consumer prices which resulted in discouraging Egyptian farmers to grow wheat and made them seek crops other than wheat for the sake of higher profitability, besides, there is an argument that the availability of food aid did not become an incentive to direct development resources to agriculture, in order to increase the food capacity of the country.

For further studies on this incentive effects, the researcher believes that there are three main factors that should be analyzed in order to evaluate the negative effect of food aid on farmers prices.



Table (3)  
Farm gate, Consumer and import prices of  
wheat in Egypt during the period 1964 - 1980

Year	Import Prices per M.T	consumer Prices	Farm - gate Prices
1964	-	43.8	31.24
1965	-	45.0	31.95
1966	30.3	53.8	34.79
1967	31.4	73.8	35.76
1968	30.0	49.5	34.08
1969	26.	48.7	34.79
1970	24.9	55.6	41.18
1971	29.1	55.8	37.63
1972	31.0	56.8	37.62
1973	37.0	60.1	40.47
1974	103.4	72.0	49.70
1975	79.5	77.9	54.67
1976	65..	74.7	49.70
1977	53.2	82.4	57.57
1978	56.6	102.6	65.67
1979	77.1	97.5	68.16
1980	-	144.3	93.72

Source: Ministry of Agriculture, Inst. of Agricultural Economic Research.



1. The relative importance of food aid compared with the domestic supply.
2. How food aid is introduced in the local economy.
3. The institutional arrangements that prevail within the country.

## 2) Income Distribution Consequences

Special emphasis has been put on the effect of food aid in improving the income distribution in Egypt.

One of the main elements of Egyptian government policy is to subsidize the prices of basic food commodities at low prices to make it available to low income and potentially explosive population of the country.

Government subsidies for wheat and flour, corn, beans, lentils, edible oil, tallow, red meat, chicken, fish, tea, sugar, rice and others increased from L.E. 332.9 million (396.2 million \$) in CY 1977 to L.E. 1.690 million (\$ 2.011 million) in fiscal year 1981/1982<sup>1)</sup> (See table 4)

A few years ago (1976) serious concerns were raised about the size and growth in food subsidies in relation with food assistance. Most of the studies show that about 20% of Egyptian budget is allocated for food subsidies, and that subsidised food hardly reach the rural consumer because of the food distribution system.

As a result, the U.S. and the International Monetary Fund put much pressure on the Egyptian government to halt subsidies for essential foods. Halting the subsidies meant higher prices, a highly unpopular measure for those who live near or below poverty line.

1) Crittenden A., "A World to Feed-Egypt: Dependence on Imports of Food", in New York Times., November, 1981.



Table (4)

Development Trends of Government Subsidies

(1973 - 1982)

in T.E \*

Year	Total Value
1973	108
1974	418
1975	621.9
1976	427
1977	164
1978	679
1979	1177
1980/81	1563
1981/82	2000
1982/83	2040

1) President Speech on the Occasion of July Revolution, El.Ahram Daily Newspaper. July 27, 1982.

\* This Includes Basic Foods and Others.



Egyptian government announced the price increase of basic food products in an attempt to cut back the subsidies. Bloody riots broke out around the country and government seemed threatened "These riots shook a regime that needs a strong political base in pursuit of economic reforms and in its efforts to achieve a negotiated peace with Israel".<sup>1)</sup> To restore political stability and possibly prevent any further upheavals, the U.S. quickly reserved its policy and extended additional food supplies under PL 480 and security supporting assistance programs.

Since that time, Government policy continues to be directed toward providing the low income population with essential foods at low prices. The government of Egypt is currently studying various proposals among them different intervention programs that would target the benefits of subsidies to the needy and at the same time reduce the subsidy bill to the government.

### 3) Impact on Development

Food aid can contribute to development in a number of different ways:-

- a) It could alleviate balance-of-payment constraints, thereby freeing up foreign exchange for development purposes.
- b) It gives the recipient government greater command on domestic resources,
- c) Lowers the price of food in the recipient country based on the fact that food is wage good. With low food prices, it is possible to keep nominal wages lower in the industrial sector, thereby stimulating industrialisation.

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1) Fraenkel R.M. et al., "The Role of U.S. Agriculture in Foreign Policy", Praeger, N.Y., 1979 pp. 103-104.



Much evidences show that the effect of food aid on development programs in Egypt was not a positive one. With more control on local resources, the government of Egypt has encouraged a market-oriented development policy rather than direct government intervention and this has resulted in corruption and many deficiencies. Besides, these resources were used in low-pay-off investments and the case as such, their contribution was not substantial.

Above all, the continuous dependency on American food aid and foreign loans will result in some negative effects because of the increasing share of the foreign world in both GNP and NDP.

#### 4) Market Development

Market development (as it is described before) is an important source of the political support for food aid, and is one of the reasons that domestic support in the donor country for this form of foreign assistance has been sustained in the face of declining support for other forms of foreign assistance.

A look at the data of agricultural commodity imports from U.S. leaves little doubt as to the efficacy of food aid as a basis for market development.

Egypt is the an example of current-PL 480 title I sales recipients that have become a good U.S. commercial customers. At the moment, Egypt is the leading Arab market for U.S. agricultural products in view of its large size of population and consumers spending the largest part of their incomes on food. Egypt is the leading Arab market for a sizable list of U.S. agricultural commodities, including wheat and wheat flour, corn, tallow, tobacco, soybean meal and frozen poultry.



Egypt was the 11th most important market for U.S. farm products in 1977-up from 15th place in 1976. This move put Egypt ahead of India, France, Belgium and Poland, Countries that had preceeded Egypt in 1976,. In 1976 U.S. agricultural products to Egypt valued at \$ 453.6 million.

In 1977, the record increased to \$ 540 million or 19 percent more than the record of 1977. Again the record reached a new high of \$ 650 million in 1978.

Egypt imports of agricultural commodities from all sources reached \$ 2 billion in 1978 up from \$ 1.8 billion in 1977 and \$ 1.5 billion in 1975. A number of factors ensure a major U.S. farm market in Egypt. These factors are:-

1. Remittances from 3 million Egyptians now work in OWAPEC countries and send back over \$ 2 billion annually.
2. Suez Canal revenues worth to \$ 1 billion annually after its last deepening.
3. Egyptian exports of petroleum valued at \$ 1 billion in 1980.
4. The movement to the city by Egyptian farmers whose patterns of consumption are changed for better.
5. The urban encroachment into arable land which means a loss in production that must be compensated by either increasing yield per unit of land or importing food to close the gap between the level of consumption and level of production.
6. A new tendency among farmers remaining on the land to grow vegetables and fruits for both domestic market and export because of its higher profitability and cash return.



All the above mentioned factors have encouraged the government of U.S. to undertake certain market development activities through a country project statement (CPS). The CPS program in Egypt is an integral part of the overall effort to develop the Egyptian market for U.S. food and agricultural products.<sup>1)</sup>

#### 5) Dependency

A frequent criticism of food aid is that it nurtures dependency on the part of the recipient country. "Presumably, this is more likely with food aid than with regular financial assistance because of the institutional arrangements which evolve around payment-in-kind programs and because of the perceived disincentive effects of food aid".

Egypt, more than almost any other country in the developing world, is dependent upon foreign countries and food aid for its daily bread. Wheat imports represents about 75% of the present total consumption.

There is a growing reliance on food shipments from the U.S. In the biggest food aid program in the world, the U.S. ships 1.5 million metric tons of wheat to Egypt each year, which translates roughly into one of every five loaves of bread produced by Egyptian bakeries.

Food reliance on U.S. government is too dangerous because it involves an incentive to reinforce certain desirable behaviour pattern on the part of Egyptian government.

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1. For more details See: American Embassy, Egypt: Annual Agricultural Situation Report, Attache Report, Cairo, March 1982 PP. 36-37 .
  2. Foreign Agriculture, "The Effects of Food Aid", USDA, Washington D.C., April, 1979, PP. 8.



Directly after the death of President Sadat, the New York Times published an article in which the future of food aid to Egypt was questioned. (Some diplomats here fear that in the aftermath of Mr. Sadat's death, the American public will lose its enthusiasm for picking up so much of Egypt's food bills. "You'd be crazy to project this kind of food aid for more than the next three or four years". Commented one state department official in Cairo. "If the peace process fails we will cut it, and if it goes we won't need it". Other officials here stress, however, that for the next couple of years, aid levels will, if anything, increase. "Our support is more a political than economic question," said Donald Brown, head of the 127-person United States aid mission here, the largest in the world. "In the short run, the political decision will be to maintain it"<sup>1)</sup>.

The debatable question among Egyptian Economists: whether Egypt should waste its scarce land and precious water on crops which can be imported from extensive agriculture countries or grow crops which Egypt has a comparative advantage in producing them? will find in the previous analysis a good argument, why Egypt should continue growing wheat so that its political sovereignty will not be subjected to American food aid.<sup>2)</sup>

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1. Critenden A., Op. Cit.

2. Agricultural Economic Integration with the Sudan seem to be one of the good solution for this dilemma.



## CONCLUSION

The topic of food aid is a very debatable subject. There has been a continuous reassessment of food aid programs, their direction, implementation problems and impact on the part of recipient and donor.

The evaluation of food aid impact on Egyptian economy shows the following facts:-

- 1) American food aid to Egypt sustains further political dependency on the donor as long as P.L. 480 makes up 20% of total domestic wheat consumption. Shipping wheat to Egypt is never free from political considerations and never will be.
- 2) Food aid contributes to the development of human capital. This is because, the stock of human capital is increased by investment in improved nutrition, housing, formal schooling and training programs. Food aid contributes to the formation of human capital within the household in a number of ways. It improves the nutrition status of the poor families, enables the poor wives to withdraw from the labor force to give more care to their children, and increases the schooling rates.
- 3) Food aid played a major role for expanding the market of U.S. farm products. At the moment, Egypt is the leading Arab market and one of the major commercial customers for U.S. farm products.
- 4) Food aid has a deleterious effect on local producer. This resulted from the significantly lower prices paid to the Egyptian farmers compared with the import prices and consumer prices.



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