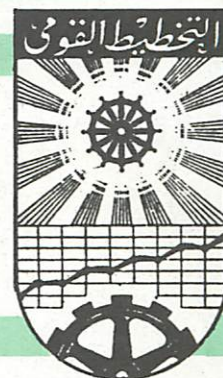


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AMERICAN FOOD AID AND ITS IMPACT  
ON THE EGYPTIAN ECONOMY

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## 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:-

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

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 Donation Disposal 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. & 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 16th, 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.