FOREIGN AID
and
U.S. NATIONAL INTEREST
with
PARTicular ATTENTION
to the
FARM PROBLEM

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May 14, 1965
Honors Thesis
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In the last twenty years, the United States has sponsored foreign aid programs which have amounted to nearly ninety-seven billion dollars. Traditionally, there have been several aims or purposes given to justify these programs which have involved such a tremendous amount of U.S. tax money. In most instances, the leading argument for the continuance of foreign aid programs is that such assistance is designed to preserve or further the national interest of the United States and not acts of charity. The national interest justification is summarized by the following statement:

"Governments are not individuals, and cannot be expected to act like individuals. Their duty is not to themselves but to the interests of their respective peoples...In granting aid to others, we must bear carefully in mind that each of us is the guardian of his own interest, and we must not expect to be the objects in the future of sentiments and manifestations of gratitude in which no other government can indulge. This applies to these measures of our government which are great and deliberate acts of state, taken with due regard to, and in the pursuit of, a careful appraisal of the interest of our country."2


In other words, U.S. aid to other nations should be extended because the U.S. has decided that its undertakings are worthy ones from the standpoint of its national purposes.

Throughout its history, the national interest of the United States has varied. From the American Revolution to the Civil War, the United States was largely an agricultural nation. National interest was thus identified with agrarian expansion. In the farming age, the United States acquired Louisiana, Florida, Texas, Oregon, California, and New Mexico in an effort to further the national interest. However, by the end of the nineteenth century, the U.S. had become an industrial nation. This shift in the economic situation brought with it a change in foreign policy; instead of seeking new farmlands, the national interest was identified with finding new markets for industrial products, access to new materials, and openings for American capital. The U.S. annexed some overseas areas such as Hawaii, the Philippines, and Puerto Rico and secured control of Cuba and Panama. Manufacturers, traders, shipowners, and financiers were prominent in advancing the new concept of national interest.

By the 1920's, the American economy had become greatly international in character. The farm surplus created after World War I and America's failure to resolve the problems which this surplus created, added to America's complex industrial mechanism, kept her to the fore in the world.

Ibid., p. 2.
Economic and humanitarian impulses became more closely linked than previously and, in the face of the world-wide challenge of Communism, forced a redefinition of self-interest. The new concept of national interest became the preservation of national security. For Americans, security is synonymous with liberty. A vision of long-term security is a vision of a world where the boundaries of freedom are advancing, not retreating. "To secure the blessings of liberty to ourselves and our posterity"—that has become the real national interest of the United States. This ultimate American self-interest requires the preservation of freedom wherever possible. Thus partially by the force of world events, partially because of economic circumstances, and partially because of humanitarian impulses, the majority of Americans came to feel that in its own enlightened self-interest, the United States must retain world leadership for the process of "extending the boundaries of freedom." This desire to retain world leadership helps to justify U.S. foreign aid programs.

The first purpose or aim of U.S. foreign assistance often presented is military preparedness, designed to preserve our position of world leadership. Many believe that it is vital to U.S. national security that the underdeveloped nations of the world be stable, peaceful, and independent—

5 Ibid.
not necessarily allies, and certainly not "satellites," but independent. Deeply resented poverty and a frustrated desire to progress are not conditions in which stability, peace, and independence can be expected to grow. Therefore, American military and defense support aid is designed primarily to maintain or promote the political integrity and economic stability of underdeveloped nations threatened by Communist penetration. Secretary of State Dean Rusk stated U.S. national interest in such a purpose before the House Committee on Foreign Affairs this year. "The foreign aid programs of the 1960's--as it was in the 1940's and 1950's--is planned and administered to serve the vital interests of the United States. U.S. foreign policy and security would be in great jeopardy without the aid programs."

A second rationale for foreign aid programs is economic self-interest. It is believed that the implementation of our foreign economic policy often bears directly on the interests of certain segments of the U.S. domestic economy as well as on the national interest as a whole. Raising the national incomes of other countries makes them better customers and better suppliers, thus increasing trade to the mutual advantage of the U.S. and the less-developed countries. Economic growth in areas comprising one-half of the globe and where over one billion people live could

not fail to enrich world trade and investment opportunities for the United States.

There are many ways in which American money could be invested at home which would provide employment and raise our standard of living. However, some believe that if the money is invested abroad, it will bring more long-range benefits to the donor. As the more vigorous and productive countries develop in the less-developed areas of the world, their desire for U.S. exports increases, which is beneficial to the U.S. economy. Statistics show that a much higher rate of U.S. exports go to highly developed countries than to the less-developed ones. There is also the view that stagnation elsewhere in the world may hinder the development of the U.S. economy itself.

U.S. foreign economic aid is frequently tied to our military purposes. Some contend that the major aim of America's foreign economic policy is to accelerate economic growth in underdeveloped countries on the grounds that poverty-stricken nations are a threat to the security, peace, and freedom of the American people. Experience has shown that static, agricultural nations are more vulnerable to Communist penetration and stand little chance of maintaining political stability.

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Thus economic growth is second only to internal security as a symbol of common purpose in U.S. foreign aid programs. It follows, then, that U.S. foreign aid should be directed toward assuring that the aided countries are at least potential allies of the United States and have not made any advanced military commitment to a potential enemy of the U.S.

The third reason for foreign aid programs is the humanitarian belief that the U.S. has a moral obligation to help the poverty-stricken peoples of the world. President Kennedy stated this reason in his Inaugural Address:

"To these peoples in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them to help themselves, for whatever period is required—not because the Communists may be doing it, not because we seek their votes, but because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich." 10

As individuals and as a nation, the United States has had a traditional humanitarian concern with the well-being of people everywhere.

To fulfill its military, economic, and moral purposes in the national interest, the United States began a series of foreign aid programs which have continually expanded since World War II. At the start, aid programs were undertaken as temporary measures to achieve a limited objective. In recent years, however, foreign aid has come to be accepted

as a major long-term instrument of U.S. foreign policy.

The first major program began with Lend-lease in the war years, 1941 to 1945. Lend-lease was followed by a Post-War Relief program from 1946 to 1948, which gave emergency food, clothing, and shelter to U.S. war-torn allies. The Marshall Plan was then used to restore the European economy from 1948 to 1951. In 1950, President Truman proposed his "Point Four" program with the purpose of giving technical assistance to underdeveloped countries. This original program ended in 1961 but has been extended by similar assistance projects. From 1952 to 1961, the United States also began a Defense Support program to meet the challenges of the Cold War. It granted specific aid to countries for common defense. The U.S. began to grant development loans in 1958 designed to implement specific projects in underdeveloped countries. The 1960's, called "The Decade of Development" by President Kennedy, consist of aid to underdeveloped countries to combat social and economic problems.

United States foreign aid is distributed in several different forms. The first form is military assistance. "Military aid is transfers of military equipment, grants and loans for the purchase of military equipment or to

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12 President's Task Force on Foreign Economic Assistance. op. cit., p. XX.
pay military expenditures for the defense of the recipient country." Today's military assistance stems largely from the "Mutual Security Act of 1957." As amended, this law remains the legislative framework of most military foreign aid programs sponsored by the U.S. It provides for weapons and war materiel as well as military training for less-developed countries. The law also provides for defense support. Such supporting assistance is designed to maintain present governments in power and to prevent Communist takeovers. It includes supplies such as military hardware and standing armies as well as dollar grants to supplement their domestic production by importing products from the U.S. A Contingency Fund is also maintained by the United States which can be drawn on to meet special military emergencies.

Another aspect of U.S. military aid is the collective military effort. This effort includes expenditures on military constructions overseas, air bases, procurement abroad of military materiel, and the expenditures of U.S. Armed Forces stationed abroad. From 1955 to 1963, U.S. military aid has averaged yearly from $1.5 billion to $2.5 billion, or from approximately one-third to one-half of all foreign aid given by the U.S. in any one year.

14 Fainsod, op. cit., p. 906.
15 Reynolds, op. cit., p. 715.
16 Fainsod, op. cit., p. 907.
17 Chart I.
The great amount of tax money spent for military aid has been consistently justified in the national interest because its ultimate purpose is the preservation of U.S. security in the face of Communist threats throughout the world.

The United States has also given economic and technical assistance in several forms. One example came in 1963, when the U.S. pledged $500 million to the Latin American countries under the "Alliance for Progress" program. Of this, about seventy percent was loans and thirty percent grants. Grants are outright gifts for which no payment is expected; and loans are credits given with specific obligations to repay, usually with interest. The U.S. also gives aid through international organizations such as the United Nations, the World Bank, and Aid for International Development Association. The U.S. pays about one-third of the World Bank funds, a large portion of the maintenance of the U.N., and in 1962, paid $1.6 million in loans and grants through AID.

The U.S. government also aids underdeveloped countries indirectly by encouraging American private investment overseas. Such investments increase foreign capital and their ability to export and import. American investment in underdeveloped countries is of two types. The first is portfolio investment, wherein Americans buy securities issued by

19 Reynolds, op. cit., p. 712.
foreign corporations. The second type is direct investment, in which American businesses set up subsidiary or affiliated companies in another country. This second type is almost the exclusive form, especially in the mining and oil industries.

The federal government has sought to promote development by private resources in economic fields where non-government aid can be effective through the "Foreign Assistance Act of 1964." This act emphasized the role of private enterprise in furthering the economic development of underdeveloped countries. It was designed to promote private assistance in developing technical skills and mobilizing local resources. The government offered a tax credit of thirty percent to all private investment in foreign countries. For every seventy cents of private investment, the government would add thirty cents. Thus an investor gets a higher rate of return on his investment. Also, the government guarantees investors against risks of inconvertibility, confiscation and loss due to war, revolution, and insurrection in many countries. In the past, political instability has been a deterrent to private investment; this act was partly designed to protect investors against this deterrent.

It is believed by advocates of present foreign aid programs that each is in the national interest of the U.S. Military assistance, government encouragement of private

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20 Ibid., p. 708.
21 House Committee on Foreign Affairs, op. cit., p. 47.
investments in other countries, and economic and technical assistance ultimately lead to a more stable world where freedom can flourish and U.S. national security can be preserved.

Besides the security significance of foreign aid programs to U.S. national interest, such programs have several areas of economic significance. Many Americans, such as Hans Morgenthau of the University of Chicago, argue that the benefits to the U.S. economy are not sufficient to warrant the costs. They consider the enormous public debt, heavy burden of taxes, the rapid exhaustion of unrenewable natural resources, the fact that one-fourth of our own people are living in relative poverty, and the inflation resulting from a deficit in the U.S. balance of payments as sufficient reasons for curtailing foreign aid programs. An examination of the ways in which some of these areas effect the American economy in relation to foreign aid is thus pertinent and significant.

The first area of examination is the problem of exhaustion of U.S. natural resources. In relation to this problem, America's role in the international economy should be examined. The U.S. is by far the leading market for the world's production of primary products. It receives one-eighth of the free world's exports, and exports about one-fifth of all the goods exported.

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22 Jiggins, op. cit., p. 2.
23 Fainsod, op. cit., p. 874.
The United States is by far the most important supplier of international capital. Growth in private investment overseas has also given American business an increasingly important state in foreign economies. The U.S. is heavily and increasingly dependent on imports from foreign nations for substantial proportions of many raw materials. For example, the U.S. imports from one-sixth to one-third of its petroleum, iron ore, copper, and rubber; one-half of its wool; most of its tin, nickel, bauxite, lead, zinc, diamonds, and asbestos. In industry, the transportation, construction, mining, and service industries depend on foreign trade for a substantial part of their business. Altogether it is estimated that about seven percent of the U.S. labor force depends on foreign trade.

Even though U.S. exports average only about six percent of its Gross National Product and imports about five percent, it is clear that they are tremendously important to the rest of the world as well as to the United States. U.S. imports increase the buying power of foreign countries, many of which rely on exports as a main source of income. If world buying power is exhausted, world markets for U.S. goods disappear. Thus to prevent depression at home, the U.S. in its own interest must strive to increase the buying power of the world. One method of fulfilling this necessity is to increase imports from foreign countries. It is also

clear that the jobs and incomes of millions of American workers and farmers depend directly on U.S. ability to export. Indirectly, if their incomes are decreased by cuts in exports, the rest of the economy would be affected by their inability to buy goods and services.

Foreign aid affects export-import exchange by increasing the general level of foreign incomes, thus enabling them to be better potential customers of the U.S. Foreign aid, by stabilizing foreign economies, also has an indirect effect on the general level of the American economy. Collapses in foreign economies can have deepening and prolonging effects on the American economy. The classic example of this was the Great Depression.

The effect of foreign aid domestically is partly determined by the fact that American preferences and conditions are often imposed upon the host governments of the aid. By legislation, executive agreements, detailed project agreements, and government regulations, the federal government serves the national interest in distributing foreign aid. In no year has less than two-thirds of the amount of economic aid been spent within the United States. Policies and contracts with foreign nations are designed to maximize purchases within the U.S. Presently, the proportion spent

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in the U.S. is estimated at eighty percent. Thus the U.S. economy prospers from the sale of goods to foreign nations financed by foreign assistance. Also three-fifths of our economic aid is now in the form of repayable loans which means the United States will eventually derive double benefits from the money.

The U.S. imposes another important "string" on foreign aid in keeping with its own economic interest. U.S. legislation states that at least fifty percent of the tonnage of goods financed by U.S. loans must be shipped on U.S. flag vessels unless the aid-receiving countries wish to pay for the shipping themselves. U.S. laws also state that all shipments to our Armed Forces overseas must go in American ships. The net effect of such laws is subsidization of the American shipping industry and the restriction of foreign competition.

Another area of foreign aid effects which has caused considerable concern is its impact on the United States balance of payments and inflationary pressures. The opinion of many foreign aid advocates is that when the U.S. economy is not operating at full capacity, the resources devoted to foreign aid will create no difficulties of supply or inflationary pressures. Instead, foreign aid can make a helpful contribution to the fuller development and utilization of domestic

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28 Ibid.
productive capabilities and employment.

The transfers of economic assistance to other nations noticeably affects the U.S. balance of payments. During the last few years, public attention has focused on this problem. As a result of public pressure, the federal government has inaugurated programs designed to reduce U.S. foreign deficit and outflow of gold. These programs have provided that the procurement of most manufactured goods from funds given by the United States must be confined to the U.S., that the procurement of agricultural commodities must be wholly from U.S. sources, and that most U.S. goods bought by foreign aid must be transported by American shipping.

When U.S. economic aid funds are used directly to purchase goods and services in the United States, the economic aid programs exercise no direct influence on the U.S. balance of payments. However, the economic assistance not used to purchase U.S. goods and services does affect U.S. balance of payments. Such assistance includes cash loans to development banks whose methods of operation make efforts to restrict procurement of U.S. goods very difficult. It includes cash grants to countries where procurement of U.S. goods is impractical if the objectives of the aid are to be achieved. Voluntary contribution to international organizations under economic aid appropriations also affect U.S. balance of payments. Military transfers are frequently excluded from

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31 Ibid.
32 Ibid., p. 169.
33 Ibid., p. 170.
the balance of payments accounts because it is believed that they have no real impact on the international flow of trade, since the items would not have otherwise been bought.

Clearly, if a country spends our aid outside of the United States, the aid appears as negative on our balance of payments accounts. When our total receipts from exports of goods and services and inflow of foreign long-term capital are insufficient to cover our total payments for imports, private capital outflow, and government expenditures abroad, a deficit in U.S. balance of payments occurs. However, while the overall deficit in the U.S. balance of payments has increased substantially, the direct effects of foreign aid expenditures on the net balance of payments position has changed very little from 1953 to 1960.

The final segment of the U.S. economy to be examined in relation to foreign aid effects is the agricultural industry. There are several reasons for an examination of this particular segment. First of all, the farmer is the "bulwark of our economy." Without his service in producing the commodities that generate the economy, industry would collapse. Approximately twenty-five percent of U.S.

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national income is spent in the purchase of foods alone.  
Secondly, farmers now represent about sixteen percent of  
our total population, and among these people is the highest  
proportion of low incomes of any major industry in the U.S.  
economy, regardless of the criterion used to judge income  
levels. Lastly, the management of the huge farm surplus  
is directly tied to foreign aid programs. The sharing of  
food supplies has always been a major issue, perhaps because  
of the vital and immediate relationship between food and  
life itself. Despite the Communist claims of ulterior  
imperialistic motives, people in the U.S. generally hold the  
value that one who has been "fortunate" and blessed with an  
abundance of goods should share his good fortune. This  
value is deeply rooted in the American society. The im-  
portance of this value has been strengthened by U.S. desire  
to speed economic growth in underdeveloped areas as an  
extension of its struggle for international political  
stability, in light of both U.S. national interest and the  
interest of aid recipients.  

Because of the complexity of the agricultural industry  
and its significance in the U.S. economy, an investigation  
of the nature of farmers' problems and the efforts to solve  
them seems appropriate and necessary. The root of farmers'  
problems is overproduction; there are several aspects of

36 Nathaway, Dale E. Government and Agriculture. The  
37 Ibid., p. 131.
overproduction. Total productivity is rising rapidly, experiencing a twenty-five percent rise from 1950 to 1960. Since 1940, the use of farm machines doubled, fertilizer use doubled, but labor was halved, showing the declining use of labor and increased use of capital. Also there has been a very slow growth of demand for farm goods even though the U.S. population growth is booming. Along with this factor, there is low responsiveness of demand to price changes. A large decline in farm prices brings about only a small increase in consumption of them. Finally, there has been an inadequate flow of resources out of farming. The combination of these five conditions has resulted in a persistent excess of resources in farming, leading to low incomes for farmers and overproduction.

Low incomes and overproduction in agriculture have served as a stimulus for public action. Pressures on government are present to bring farm incomes more nearly in line with incomes of other occupations, to make more efficient use of resources in the economy and thereby increase the Gross National Product, and to enable farmers to participate in the benefits of economic growth. Another important pressure is to make the best use of U.S. agricultural abundance abroad. The question to be considered is what is the public policy which is most in the national interest and

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which will reduce or remove the disequilibriums in agriculture. One can only examine the previous and current programs and their effects on agriculture in an effort to decide which one seems most proper.

This study will be confined basically to programs involving surplus management since foreign aid programs in agriculture are most closely allied to the surplus. First the meaning of surplus must be clearly defined. "Surplus is the amount that cannot be sold in normal competitive channels of trade at an established or agreed-upon price, with no subsidy of any kind." Since 1951 U.S. surpluses have grown steadily, in spite of large and expensive programs intended to limit production and increase consumption. In 1962, the U.S. had $7.7 billion of surplus. The cost of storage has been running $.6 billion yearly or $1.7 million a day. The cost of this surplus represented in 1962, an average investment of twenty-eight dollars for every person in the United States.

Most agricultural economists and statisticians think that the U.S. will have substantial agricultural surpluses for many years in the future. Allowing for increased population and rising levels of living, studies by Black, Daly, and Barton suggest that in the next twenty-five years, U.S.

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40 Ibid., p. 6.
41 Ibid., p. 5.
markets for farm products may increase by fifty percent. At the same time, U.S. farm population may drop. Yet potential increases in improved farm technology are so great, the U.S. should have no difficulty in meeting the expanded needs.

Since economists agree that the farm surplus is not likely to disappear in the next few years and since the presence of this surplus creates burdens for U.S. farmers and taxpayers, government programs to manage this surplus seem clearly in the national interest. However, the management of this surplus presents one basic problem: Economic costs of alternative programs and their effects upon prices, farm incomes, domestic consumption, and foreign trade must be determined.

One of the early methods of surplus management was begun during the New Deal Era. This method, destroying surplus, included burning coffee, killing baby pigs, and pouring kerosene on potatoes. It proved to be a most effective way of raising prices, but widespread opposition appeared against this destruction. The opposition stated that to destroy good food that could be used was contrary to the public interest. No one likes to see good milk dumped into the gutter when some are hungry. Thus since the 1930's, the federal government has been involved in little intentional destruction of food.

Another method is surplus diversion. "Surplus diversion
means taking part, or all, of the surplus out of its normal competitive market, and transferring it to some other market, where it is generally sold at a lower net price." For example, a dairy farmer sells 24,000 hundredweight of milk per day, driving the price down to three dollars a cwt. His daily income would be $72,000. He could destroy part of the milk, 4000 cwt., and sell the remaining 20,000 at five dollars a cwt. His income would be $100,000. However, if he diverts the 4000 cwt. at Class II price for cream and butter at three dollars per cwt., his income would be $12,000 per day. He sells the rest at five dollars for an income of $100,000. His total daily income would be $112,000, an income larger than gained from the other two methods of management.

**Diversion of surpluses to needy people in the United States is a third method of management.** A number of domestic food programs that subsidize the consumption of farm products are being used today. These include school lunch programs, school milk programs, and food stamp-plans. In 1959, the Department of Agriculture distributed about 707 million pounds of surplus foods to needy families, and institutions received one and a half million pounds. However, in 1961, President Kennedy proposed a plan which has increased the program. The donated foods are no longer only those owned by the Commodity Credit Corporation, the government storage

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46 Ibid., p. 17.
47 Ibid., p. 38.
organization for farm surpluses. Eight pilot stamp programs were begun in West Virginia, Pennsylvania, Kentucky, Illinois, and Minnesota, which included about 140,000 needy persons. In 1961, about 13.5 million school children participated in the school lunch program. The federal government spent $94 million in cash and $133 million in commodities. About $82 million was spent under the milk program. However, food sales increased by eight percent, and the diets of participants also improved.

A fourth method of surplus management is to divert farm products into different forms or uses. Most agricultural products can be sold in many different forms for many different uses. Wheat, for example, can be made into flour, into breakfast cereals, into alcohol, or into an ingredient of poultry feed. Milk can be sold as fluid milk, as cream, as butter, as dried milk, or as casein. The ideal case for diversion into different forms or uses is one in which (a) surpluses are diverted into a noncompeting use, (b) the demand for the noncompeting use is very elastic with respect to its price, and (c) the demand for the non-competing use can be readily expanded by advertising, promotion, and other means of market development. At this point little research has been conducted to divert food products into other uses. However, such research may in the future prove to be a valuable means of surplus disposal.

In 1968, when farm prices and incomes began to decline, 48

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48 Hathaway. op. cit., p. 281.
a decision was made to initiate a fifth program for surplus management—price supports. The main object of price supports is to raise agricultural prices and farmers' incomes. If the market cannot absorb all the corn, cotton, or many other crops at prices that are declared to be reasonable, it was made possible for farmers to get "non-recourse" loans on the surplus. That is the federal government would lend him the equivalent of the reasonable price. If the market price rose, the farmer could take back his corn or cotton; if not, he could turn it over to the government and keep the money.

Price supporting has become the main machinery of aiding farmers. The U.S. Congress requires the Secretary of Agriculture to support the prices of a number of major farm products and has set levels of support—generally in terms of percentages of parity prices (that is, prices computed to have the same purchasing power as the base period, 1910 to 1914). Obviously the federal government administers most of the diversion operations and taxpayers fit the bill. The federal organization, the Commodity Credit Corporation, buys the surplus, sells it at a loss, and thus absorbs the cost of the surplus diversion program. The farmer gets the Class I price for his entire crop including the surplus.

Under the price support program, federal expenditures have risen from about one billion dollars in 1948 to five billion dollars in 1961. By 1961, the Commodity Credit
Corporation had accumulated stocks of farm commodities for which it had paid nine billion dollars. The cost of storing stocks alone runs around one billion dollars a year. This seems an extraordinary expensive way to solve the surplus problem.

Of the programs for surplus management discussed, it appears that all are not in the national interest. Surplus diversion to lower priced commodities clearly yields a greater income to the farmer, at no direct expense to the taxpayers. Diversion of surplus to needy people is financed by taxpayers, but it reaps benefits to many of our people as well as to farmers. It also may be argued that such programs booster the American economy as a whole. The most expensive program for taxpayers is the price support program. Clearly, the program aids farmers at the expense of the taxpayers. At the same time, it is difficult to justify price supporting as being in the public interest.

The threat of nuclear warfare confronts the United States with a new aspect of the surplus problem. The urgent storage problem is a problem of civil defense rather than one of managing farm surpluses. Might it not be in the public interest to take steps to establish reserve stocks of food to protect ourselves and our allies from the dangers of nuclear warfare? At this point little reward has been paid to the possibility of using the farm surplus for national defense. However, the Department of Agriculture should

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review its holdings and maintain adequate stocks of key foods. The present volume is enough, but is mostly wheat, corn, and cotton. Others such as canned milk, dried eggs, and other non-perishables should be maintained. The federal government could far better justify using one billion dollars annually for food storage if Americans felt such expense was for national defense rather than to booster farm incomes and prices.

When large supplies of farm products are depressing market prices, a natural remedy is to divert part of the surplus to export markets. In the past export assistance has been the main outlet for surpluses and is the area which is of primary concern in a study of foreign aid. In 1954, the U.S. Congress passed Public Law 480 which authorized several ways of disposing of domestic farm surpluses. This provided for free donation of farm surplus, for the sale of surplus for dollars under long-term supply contracts, and the sale of surplus products for local foreign currency. Activities under this program amount to about one to one and a half billion dollars a year.

The purposes of export diversion called currently the "Food for Peace" program are several. The primary purpose is to get rid of unwelcome surpluses; secondly, to raise farmers' prices and incomes; thirdly, to build future markets; fourthly, to improve diets and nutrition abroad; fifthly, to aid foreign and domestic economic development and prosperity.

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50 Reynolds. op. cit., p. 714.
51 Ibid.
and finally, to promote international stability and peace. There are some fallacies associated with this program. The United States assumes that friendly nations contribute to a stable, orderly world, and unfriendly ones do not. This belief has been shaken by some disastrous experiences with friendly, unstable governments. The fallacy of "stomach communism" is also frequently expounded. This belief assumes that a nation will become friendly to the United States if we give them food. However, some poor friendly nations exist; some rich communist ones. A third fallacy is the belief that giving food abroad is what foreigners want or what is best for them. It is erroneous to think farm products, however cheap, are a substitute for dollars or other items which foreign nations want from the United States. It is believed that if farmers produce especially for abroad and the government distributes this food, it will raise farmers' incomes. The fundamental question is, will the U.S. aid world economic development more or less if it uses its resources to produce farm products and sells them abroad or to produce other needed products and thus encourages world farmers?

The huge agricultural export program stems from the Agricultural Trade Development and Assistance Act of 1954, better known as PL 480. This law specifically authorizes surplus diversion to exports. From 1954 to 1958 alone, the U.S. sold almost four billion dollars worth of farm

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Hathaway. op. cit., p. 71.
products to foreign nations under PL 480.  

By 1961, agreements were signed for the sale for foreign currency of commodities costing the Commodity Credit Corporation $10.9 billion and having an export value of $7.6 billion. Sales of wheat accounted for more than half of this total. Such high sales of wheat are conducted under the International Wheat Agreement made in 1949. Under this, the U.S. agreed to export at least a stated minimum amount of wheat, and consuming countries agreed to pay at least minimum prices for a certain amount. The export prices have usually been substantially below the domestic wheat price, requiring the payment of an export subsidy. In the past few years, well over one half of U.S. agricultural exports have received some such kind of government assistance. Besides direct subsidies on exports, the U.S. government makes surplus food available for CARE packages to be sent to the needy peoples of the world. Private donators pay only for the mailing of goods. Counting Commodity Credit losses on exports, payments to exporters on commercial sales, storage and transportation charges on exports, the CCC spends anywhere from five to nine billion dollars yearly--much of this total being losses.

The scope and cost of export diversion have been briefly

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53 Painsod. op. cit., p. 872.
54 Mathaway. op. cit., p. 282.
55 Waugh. op. cit., p. 45.
56 Mathaway. op. cit., p. 270.
presented. More importantly, one must consider the effects and appeal of such programs, in connection with U.S. national interest and the interests of the recipients. Foreign aid or export diversion has a great deal of appeal as a partial solution to surplus management. Export diversion offers the attainment of certain commonly held values such as sharing U.S. abundance, enhancing economic growth, and encouraging political stability. Foreign aid exports distribute income, by and large, according to the individual producer's contribution to output. They avoid interference with the individual producer's operation of his business, and they provide incomes for farmers higher than would be realized in the absence of such programs.

In a sense, U.S. export-diversion programs cost nothing. Assuming that the U.S. has surpluses of given kinds and sizes, it could give them away free—even pay foreigners to take them—and make a better income for farmers than if it sold them domestically and depressed market prices in the U.S. Thus export-diversion is one of the most effective ways of supporting farmers' incomes. This conclusion assumes, of course, not only the absence of retaliation in the form of higher duties in importing countries, but also effective measures to prevent foreign countries from selling back our surpluses to us at a profit.

Since surplus stocks have little positive net value to the U.S., as long as the positive value of these products to the recipient countries exceeds the cost of transporting
them, there is a gain by such action. However, it is very difficult to measure the value of U.S. agricultural aid to recipient countries. Underdeveloped countries have received more assistance from the U.S. in the form of agricultural commodities than they would otherwise have received. But without this assistance, and the burdens they impose on the American taxpayer, they might have received other assistance more valuable to them and less costly to the United States.

The United States should also consider the effects of export diversion on foreign exporters. Diversion of food surpluses to exports at low prices, often called dumping, can be a serious form of unfair competition with other agricultural exporting nations. The export of food surpluses by barter, by acceptance of nonconvertible currencies, and selling at less than domestic prices is certainly a form of dumping. However, if the U.S. abandons all farm programs, allowing world prices to drop as low as necessary to move its surpluses, the damage to foreign markets would be much greater. Thus the present U.S. programs for surplus disposal seem more conducive to a stable world economy than would be present without them.

It is evident that the programs presented will not completely exterminate surplus resources in U.S. agriculture, even at high levels of program operations and expenditures. However, they offer a partial solutions to the problem of overproduction. Indeed, the chance of doing away with agricultural surpluses in the next few years is almost
non-existent. These agricultural surpluses affect every American citizen. They threaten the farmer with low incomes. They result in expensive programs that cost taxpayers a great deal of money. Of the programs considered, one should weigh the cost, effects, and advantages of each to decide which one seems most in the national interest of the American people, and which one most adequately maintains our built-in values. It is evident that the primary achievement of foreign aid programs in agriculture is to serve the interests of the American farmer. However, insofar as they have a positive value to the recipient countries, they help to create a more stable world. In the final analysis, a more stable world enhances the national security of the United States.

The aims of American foreign aid and the effects of foreign aid on the American economy have been briefly examined. The underlying question throughout the examination was, is foreign aid in the national interest of the United States? Obviously, the inclusion of the agricultural industry was an effort to determine the effect of foreign aid programs on this particular segment of the U.S. economy and to determine the feasibility of continuing such programs in this area.

This study has made increasingly clear that U.S. aid sometimes involves wastes and misplaced assistance. Yet for all the wastes and miscarriages, the sum of the outpouring of aid has achieved many valuable political,
economic, and military ends. Without it, Greece and Turkey would probably have passed under Soviet domination, Italy and France might have become unstable, and much of Southeast Asia might have been under Communist leadership. India—the best advertised showcase of foreign aid—probably has been saved from anarchy; and Taiwan and Israel have achieved phenomenal growth rates.

This study has led to another conclusion: Senator J.W. Fulbright expressed this conclusion in the following manner: "In the long run, no policy can be sustained by the sole force of cold-blooded self-interest. If we are at all sincere in our aspiration to achieve a world community of nations, we must bring something of the same spirit to our modest efforts to assist the poor nations in their struggle for a decent life. We must recognize that aid is a humane as well as a practical program." In every instance, one may not be able to justify foreign aid in the practical interest of the United States, but the justification comes from the fact that the program seems morally right.

In actuality, aid programs are but a tiny fraction of the productive power of the U.S. economy, comprising a very small percentage of the Gross National Product. The amounts proposed for development assistance seem to be modest compared to the promises the programs hold for both

the United States and the world. For the richest country in the world to say that it cannot supply a very small fraction of its output to poorer countries is factually wrong and morally indefensible.
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PERIODICALS


