

Two other alternatives you may wish to consider are:

1. Tying this statement to a Thanksgiving Day announcement.
2. Waiting to incorporate it in the State of the Union Message.

(signed) Charles L. Schultze
Charles L. Schultze
Director

Attachments

Statement of the President

I have today initiated a series of actions directed at the mounting food crisis in the underdeveloped countries. Our objective is victory in the war against world hunger. Our basic strategy is to encourage a rapid increase in food production in the underdeveloped countries themselves.

Twenty-five years ago President Roosevelt looked beyond a world war to the securing of the freedoms which are the fruits of peace. One of those freedoms is Freedom from Want. Since that war we have kept faith with his vision:

first, in war-devastated areas through our relief and reconstruction efforts

then, in the developing nations with whom we have shared our postwar agricultural abundance and joined in their struggle for development.

In the past decade the United States has shipped over 137 million tons of food to developing nations. We have shared with them the technical miracles which have yielded our own remarkable productive capacity. We were among the

founders of the World Food Program and other international efforts to reduce hunger and increase agricultural production.

And these efforts have achieved results. During the past 12 years, food production in the major developing countries of the Free World has risen 26 percent. In many instances widespread famine has been averted. Roads, schools, hospitals, private and public enterprises of every description have been financed through the proceeds of our \$15 billion Food for Peace Program.

But I am deeply concerned at the mounting evidence that we are not winning this battle. Burgeoning populations are cutting deeply into the advances which have been made in food production in poorer countries. Some nations have become increasingly dependent upon United States food assistance to prevent mass hunger and starvation. Food consumption in 1961 was already well below minimal nutrition levels. And since 1961 per capita food consumption in these countries has actually declined. Unless strong measures are taken this trend will continue and indeed accelerate. The gap between food needs and what the developing countries are able to produce or buy commercially will more than double over the next decade.

Several courses lie open to us:

- . We could ignore the growing numbers of under-nourished people and the widening gap between the well-fed and the undernourished. This course would be shortsighted and unworthy of us as a nation. As hunger saps the strength of individuals, so it also gnaws at the vitality of nations. It means economic stagnation and political unrest. It threatens freedom and national independence. It invites external aggression and internal subversion. We can turn our face from hunger and malnutrition only at the expense of our conscience and at the ultimate peril of our security.

- . We could make up the gap by massive increases in shipments of American food aid. This course would be undesirable, for it would make developing countries indefinitely dependent on the charity of others for their food. It would be impractical, because our projections show that even with our enormous agricultural capacity we would not be able

to feed the undernourished world indefinitely. And in the end it would be self-defeating because it would stifle the growth of a vigorous agriculture in the less-developed countries.

- We could place main emphasis on helping other countries to develop their own food production, and through increased food aid shipments fill the immediate gap until their production can be expanded. This course would result in most rapid decline in dependence on food aid and in a more rapid rate of economic growth. It would also be the policy most conducive to an increase in commercial food exports. Most importantly, it is the best assurance of an adequate long-term food supply for the world.

Only the last alternative is consistent with our basic principles. With those to whom our assistance goes, we seek a relationship of mutual respect and mutual responsibility. A never-ending and ever-increasing flow of charity aid would not fit that relationship. It would sap responsibility,

poison the respect due between sovereign nations, and ultimately frustrate the very development it alleges to serve. The less-developed countries must intensify their own efforts to increase food production and to earn the foreign exchange to purchase what they cannot grow themselves. In this process we can be of invaluable assistance. And while they are about it, our food aid shipments can help to fill the food gap. But this must be a joint effort in which both we and they participate.

I propose that we set in motion a three-point program to meet the problem of world hunger:

1. Self-help. U. S. assistance -- both food aid and economic development assistance -- must be accompanied by rigorous efforts on the part of the developing countries to help themselves. The vigor of their efforts will determine the nature and scope of our assistance. Age-old agricultural and social practices which discourage increased farm productivity must be changed. Additional resources must be devoted to improvements in agriculture and agricultural marketing facilities. And all of this must go hand-in-hand with progress in education, health, and population control. We know that changes will not be easy. We also know that success can be realized.

In Taiwan, agricultural output has doubled over the last 15 years. This rapid growth is due largely to U. S. assistance in the form of seeds, tools, and fertilizer, and aid to farm credit institutions, farm-to-market roads, and irrigations' works.

In Pakistan, agricultural production has accelerated from a growth rate of 1 percent a year in the 1950's to 4 or 5 percent in each of the last 3 years. Key factors in this progress have been the introduction of tubewells for irrigation which reduces the high salinity of the land, the establishment of price incentives, and wider distribution of fertilizer to local farmers.

In Bolivia, after years of disruption following a revolution, agricultural production dramatically increased an estimated 10 percent last year. This transformation reflects reform in a feudal land system and U. S. assistance in improving roads, credit institutions, and marketing cooperatives.

2. Food aid. Even with maximum effort, a sharp rise in food production in the less-developed countries will not occur

overnight. In the meantime we must be prepared to continue, and even increase, our food aid shipments where the need is growing and self-help efforts are under way.

But our food aid program must be redirected:

- . It must be more closely linked with our other economic assistance. In this way both may be better used to encourage increased agricultural production in recipient nations. In view of our declining surplus stocks, most of this food aid will have to come from current production.

- . We must also continue, and where possible accelerate, the shift towards financing food aid through long-term dollar repayable loans. Such terms for food aid would be consistent with our practice in the case of other economic assistance. They also underline to recipient countries the importance we attach to food as a means of long-term economic development. In this transition we will have to take account of the external debt burden

of recipient countries as well as our own balance of payments situation.

- Finally, we must expand our attack on the problems of malnutrition, especially among infants and young children. This can be done through the manufacture and marketing of protein-enriched grain and milk products. Seventy percent of the pre-school age children in the developing countries suffer from malnutrition. And malnutrition is linked to retarded mental and physical growth. Moreover, many deaths among young children from relatively minor infectious diseases are actually related to undernourishment.

3. Agricultural development assistance. Where practical and far-reaching efforts are instituted by other countries to increase agricultural production, we are prepared to lend assistance adequate to the need. There is no magic formula in the success story of American agriculture. It flows from a compound of hard work, ingenuity, capital investment, and free institutions. Much of that success can be transferred to other countries -- if they are willing to take the steps to use it:

- . We can help them develop a framework of laws and market incentives to unlock the dynamic potential of millions of free individual farmers;
- . We can share the knowledge of our land grant colleges and research stations, of soils, seeds, fertilizer, and water and help them develop the research capability to apply and expand that knowledge;
- . We can share our experience with extension services, cooperatives, farm credit institutions, and market facilities and help in the development of parallel institutions;
- . We can provide needed fertilizer, machinery, and pesticides, and help them establish facilities to provide the necessary five-fold increase in their consumption. When conditions are favorable, private American investment can sharply accelerate the process of facility investment.

I propose to begin this new approach toward the problem of world hunger immediately. I have directed the Secretary of State, the Secretary of Agriculture, and the Administrator of the Agency for International Development

- . to redirect their current programs along these new lines to the maximum extent possible within existing authorities;
- . to develop, in cooperation with the Director of the Bureau of the Budget, procedures to insure that our food aid and economic assistance programs are closely linked, and in particular that they are related to vigorous agricultural self-help measures in the recipient nations;
- . to present to me such legislative proposals for the extension and amendment of the basic food aid legislation, P.L. 480, as are necessary to carry out the program I have outlined.

The United States is uniquely qualified to take the lead in a war against world hunger. Our primacy in agriculture is unchallenged. When communist agriculture is beset with shortages, ours produces in abundance. The experience of Pakistan, Taiwan, and Bolivia shows that this know-how can be transferred. We are ready to join fully in the fight to conquer hunger with those who are prepared to take the difficult steps necessary to win that fight.

I intend to transmit to the Congress, early in the next session, a detailed statement of this three-point program against world hunger, together with a request for such legislative authority as may be necessary to carry it out.

23-6

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF AGRICULTURE
THE ADMINISTRATOR, AGENCY FOR INTERNATIONAL
DEVELOPMENT
THE DIRECTOR, BUREAU OF THE BUDGET

Subject: Food crisis in underdeveloped countries

I have announced a new three-point policy to help meet the mounting food crisis in underdeveloped countries. The gap between the food demands of the less-developed countries and their ability to meet those demands is growing rapidly. Our interest in the stability and security of the Free World requires that this trend be reversed. A copy of my statement outlining the new policies is attached.

I request that you undertake the following steps to carry out these policies:

1. The Secretary of State, the Secretary of Agriculture, and the Administrator of the Agency for International Development should review their programs; determine what changes can be made, within existing legislative authorities, to redirect their programs along the lines outlined in the attached policy statement; and initiate those changes immediately. You should

make sure that each official charged with responsibility for carrying out food aid and economic assistance programs is thoroughly acquainted with the new policies. In particular you should convey to them my firm intention that all of our assistance programs encourage a rapid increase in efficient agricultural production among aid recipient countries.

2. In cooperation with the Director of the Bureau of the Budget, you should develop for my approval procedures to insure:

- . that food aid and other economic assistance are closely integrated.
- . that both forms of assistance are related to practical and vigorous measures to expand agricultural production in recipient nations.
- . that our food aid program is administered in such a way as to minimize its impact on our balance of payments.

In this connection negotiations with aid recipient countries should, wherever possible, encompass both forms of assistance in a comprehensive program.

3. Public Law 480, the basic authorizing legislation for our food aid program expires next year. You should develop proposals for extension of this legislation, together with such amendments as you believe necessary to carry out my policies.

By December 15 you should report to me on the steps you have taken and the procedures you have developed to reflect the new policy directives I have announced. By January 15 you should present to me the legislative proposals which you have developed.

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

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OFFICE OF
THE DIRECTOR

November 15, 1965

MEMORANDUM FOR MR. BUNDY

Attached are:

1. A proposed draft Presidential statement announcing a three-point program against world hunger.

2. A draft memorandum of instructions to Rusk, Freeman, Bell, and myself.

Could you please give this a quick review for basic substance (editing can come later). I would like to send it out to Bell and Freeman for comment as soon as possible.

You might want to consider the following possibilities:

1. Have this announced at the Cabinet meeting which, I understand, will be held this week.

2. Accompany it with the simultaneous (but separate) announcement of:

- . a \$50 million fertilizer loan to India, which I am told is ready to go.

The signal from the latter, given in pristine isolation, should be loud and clear.

Charles L. Schultze
Jmc

Charles L. Schultze
Director

Attachments

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Twenty-five years ago President Roosevelt looked beyond a world war to the securing of the freedoms which are the fruits of peace. One of those freedoms is Freedom from Want. Since that war we have kept faith with his vision:

first, in war-devastated areas through our relief efforts

then, in the developing nations with whom we have shared our postwar agricultural abundance.

In the past decade the United States has shipped over _____ million tons of food to developing nations. We have shared with them the technical miracles which have yielded our own remarkable productive capacity. We were among the founders of the World Food Program and other international efforts to reduce hunger and increase agricultural production, and eliminate hunger.

And these efforts have achieved results. During the past 12 years, food production in the major developing countries of the Free World has risen 26 percent. In many instances widespread famine has been averted. Roads, schools, hospitals, private and public enterprises of every description have been financed through the proceeds of our \$ _____ billion Food for Peace Program.

But I am deeply concerned at the mounting evidence that we are not winning this battle. Burgeoning populations are cutting deeply into the advances which have been made in food production in poorer countries. ~~Per capita food production in these countries has actually declined in the past three years.~~

Some nations have become increasingly dependent upon United States food assistance to prevent mass hunger and starvation. Food consumption in 1961 was already _____% below minimal nutrition levels. And since 1961 per capita ^{consumption} food production in these countries has ^{actually} declined. Unless radical measures are taken this trend will continue and indeed accelerate. The gap between food needs and what the developing countries are able to produce or buy commercially will triple over the next decade.

Several courses lie open to us:

- We could ~~ignore~~^{ignore} the growing numbers of undernourished people and the widening gap between the well-fed and the undernourished. This course would be shortsighted and unworthy of us as a nation. As hunger saps the strength of individuals so it also gnaws at the vitality of nations. It means economic stagnation and political unrest. It threatens freedom and national independence. It invites external aggression and internal subversion. We can turn our face from hunger only at the expense of our conscience and at the ultimate peril of our security.

- We could make up the gap by massive increases in shipments of American food aid. ↗

↖ This course would be undesirable, for it would make developing countries ~~XXXXXX~~ indefinitely dependent ~~on~~ on the charity of others for their food. It would be impractical, because our projections would show that even with our enormous agricultural capacity we would not be able to feed the undernourished world indefinitely.

And in the end it would be self-defeating because it would stifle the growth of a vigorous agriculture in the less developed countries.

- We could place main emphasis on helping other countries to develop their own food production, and through increased food aid shipments fill the immediate gap until their production can be expanded. This course would result in most rapid decline in dependence on food aid and in a more rapid rate of economic growth. It would also be the policy most conducive to an increase in commercial food exports. Most importantly it is the best assurance of an adequate long-term food supply for the world.

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With those to whom our assistance goes, we seek a relationship of mutual respect and mutual responsibility. A never-ending and ever increasing flow of charity aid does not fit that relationship. It saps responsibility, poisons the respect due between sovereign nations, and ultimately frustrates the very development it alleges to serve. The less developed countries must intensify their own efforts to increase food production and to earn the foreign exchange

to purchase what they cannot grow themselves, ~~that~~ ^{and} In this process we can be of invaluable assistance. And while they are about it our food aid shipments can help to fill the food gap. But this must be a joint effort in which both we and they participate.

I propose that we set in motion a three-point program to meet the problem of world hunger:

1. Self help. U. S. assistance--both food aid and economic development assistance--must be accompanied by rigorous efforts on the part of recipients to help themselves. The nature and scope of our assistance will be dependent upon the vigor of their efforts. Age-old agricultural and social practices which discourage increased farm productivity must be changed. Additional resources must be devoted to improvements in agriculture and agricultural marketing facilities. And all of this must go hand-in-hand with progress in education, health, and population control. We know that changes will not be easy. But we also know that indefinite U. S. donations serve only to postpone rather than to solve the problem. We also know that success can be realized

- . in Taiwan (data)
- . in Pakistan "
- . in ^{Bolivia}~~Costa Rica~~ "

2. Food aid. Even with maximum effort, a sharp rise in food production in the less developed countries will not occur overnight. In the meantime we must be prepared to continue, and even increase our food-aid shipments, where the need is growing and self-help efforts are under way.

But our food aid program must be redirected:

- . It must be more closely tied together with our other economic assistance. In this way both may be better used to encourage increased

agricultural production in recipient nations. Moreover, in recent years our prudent farm policies have produced a steady decline in the surplus commodities on which food aid programs have been based--a fact which dramatizes the importance of viewing food aid in the context of helping the less developed countries build their own capacities to feed themselves.

. We must also continue, and where possible accelerate, the shift towards financing food aid through long-term dollar repayable loans. Such terms for food aid/^{are} consistent with our practice in the case of other economic assistance. They also underline to recipient countries the importance we attach to food as a means of long-term economic development. In this transition we will have to take account of the external debt burden of recipient countries as well as our own balance of payments situation.

. Finally, through protein enrichment of food, we must mount a specific attack on the problems of malnutrition, especially among infants and young children (data...examples).

3. Agricultural development assistance. Where practical and far reaching efforts are instituted by other countries to increase agricultural production, we should be prepared to lend assistance. There is no magic *formula* in the success story of American agriculture. It flows from a compound of hard work, ingenuity, capital investment, and free institutions. Much of that success can be transferred to other countries--if they are willing to take the steps to use it:

- . We can share our knowledge of soils, seeds, fertilizer, and water and help them develop their own research capabilities;
- . We can help them develop policies, farm credit institutions, farm-to-market roads, and market facilities;
- . We can provide needed fertilizer, machinery, and pesticides,

and help them establish facilities to provide their own.

When conditions are favorable, private American investment can sharply accelerate the process of facility investment.

- . We can devote more attention in our agricultural research to the problems of developing countries.

I propose to begin this new approach toward the problem of world hunger immediately, ^I and have directed the Secretary of State, the Secretary of Agriculture, and the Administrator of the Agency for International Development

- . to redirect their current programs along these new lines to the maximum extent possible within existing authorities;
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that this know-how can be transferred. We are ready to join fully in the fight to conquer hunger with those who are prepared to take the difficult steps necessary to win that fight.

I intend to transmit to the Congress, early in the next session, a detailed statement of this three-point program against world hunger, together with a request for such legislative authority as may be necessary to carry it out.

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DRAFT 11/15/65

**MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF AGRICULTURE
THE ADMINISTRATOR, AGENCY FOR INTERNATIONAL
DEVELOPMENT
THE DIRECTOR, BUREAU OF THE BUDGET**

I have announced a new three-point policy to help meet the mounting food crisis in underdeveloped countries. The gap between the food demands of the less developed countries and their ability to meet those demands is growing rapidly. Our interest in the stability and security of the Free World require that this trend be reversed. A copy of my statement outlining the new policies is attached.

I request that you undertake the following steps to carry out these policies:

1. The Secretary of State, the Secretary of Agriculture, and the Administrator of the Agency for International Development should review their programs; determine what changes can be made, within existing legislative authorities, to redirect their programs along the lines outlined in the attached policy statement; and initiate those changes immediately. You should make sure that each official charged with responsibility for carrying out food aid and economic assistance programs is thoroughly acquainted with the new

policies. In particular you should convey to them my firm intention that, wherever possible, all of our assistance programs encourage a rapid increase in agricultural production among aid recipient countries.

2. In cooperation with the Director of the Bureau of the Budget, you should develop for my approval procedures to insure:

- . that food aid and other economic assistance are closely integrated.
- . that both forms of assistance are related to practical and vigorous measures to expand agricultural production in recipient nations.

In this connection ~~your~~ negotiations with aid recipient countries should, wherever possible, encompass both forms of assistance in a comprehensive program.

, that our food aid program is administered in such a

way as to minimize its impact on our balance of payments.

3. Public Law 480, the basic authorizing legislation for our food aid program expires next year. You should develop proposals for extension of this legislation, together with such amendments as you believe necessary to carry out my policies.

By December 15 you should report to me on the steps you have taken and the procedures you have developed to reflect the new policy directives I have announced. By January 15 you should present to me the legislative proposals which you have developed.

Attachment

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WORLD HUNGER AND U.S. FOOD AID POLICY

I. Summary and Recommendations

The less developed world is becoming steadily less able to feed itself. The growth of agricultural production in the poor countries is just keeping pace with population growth, while rising incomes are causing food demand to increase rapidly. In terms of grain, on which all of the analysis in this paper is based, unless far-reaching steps are taken, the gap between this demand and what the poorer countries are able to produce or buy commercially will triple over the next decade.

U.S. food provided through P.L. 480 since 1954 has been instrumental in averting mass starvation and promoting development. But, due to the successful rationalization of our domestic agricultural policy, the surplus situation which has characterized the program from its inception to the present time is rapidly disappearing.

This dilemma presents us with three alternatives:

- we could taper off food aid and let the LDC's subsist on what they can produce or buy commercially. This approach would force the LDC's to divert scarce foreign exchange from investment to food imports and would lead to intolerable political results.
- we could try to fill the widening gap entirely through food aid. This would present almost insurmountable administrative obstacles, limit the growth in farm output in LDC's, and promote their permanent dependence on foreign supplies that would become inadequate in less than a generation.
- we could use our food and other economic assistance to stimulate an increase in food production within the poorer countries themselves. This approach would require an increase in technical and

capital assistance and a temporary increase in food shipments, directed toward filling the food gap and toward encouraging local production.

The third of these alternatives is recommended. It offers:

- an ultimate decline in the poor countries' dependence on handouts,
- a more rapid rate of economic growth and an increase in U. S. commercial exports,
- the only long run means of assuring an adequate food supply for mankind.

The United States is uniquely qualified to offer this alternative to the developing world. Our leadership in agriculture is unchallenged. We have the food, the materials, and know-how to make success possible.

We recommend:

- a greatly stepped-up effort to stimulate increased food production in the LDCs,
- a specific attack on the problems of serious malnutrition, particularly among infants and young children, through all forms of assistance,

This requires a number of policy steps:

- we must actively use both food aid and dollar aid in an integrated program to accomplish these objectives.
- recipient nations, in their economic planning, will have to devote substantially more of their own resources to an increase in agricultural production,
- P.L. 480 must be extended and should be amended to provide for a gradual hardening of terms of food aid from concessional "sales"

for local currency to dollar-repayable loans on the same terms

as other development aid,

- restrictions on farm exports by recipient countries should be relaxed and soon removed.

The estimated cost of the recommended program, in billions of dollars, would be as follows:

	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Food aid (Grain Only)		1.52	1.68	1.12
Dollar Aid to Agriculture		<u>1.14</u>	<u>1.44</u>	<u>1.45</u>
Total		2.66	3.12	2.57

[These figures will be examined to see whether or not they stand up. On the basis of that examination, we will recommend their inclusion or deletion.]

II. The Overall Situation

In the last several years, the poor countries of the world have been losing the race against mass hunger. For the less developed world as a whole, per capita grain production has not risen since 1952, even though rising personal incomes have increased demand. Despite U.S. food aid amounting to \$1.6 billion per year, per capita food consumption in these countries has actually slipped since 1961-- and the 1961 level itself was well below minimum acceptable standards. Moreover, the nutritional content of the food which is available is seriously deficient. There is growing evidence that, in very young children, such severe protein and vitamin deficiencies result in irreversible damage to mental as well as physical growth.

Economic growth and internal stability in the poor food importing countries cannot survive this trend. If it is allowed to continue, the inevitable consequences will be mass human suffering, political unrest and violence.

Unless the current trend is radically altered, the food gap will assume more and more disastrous proportions throughout the next two decades at least, even assuming the most extraordinary progress in family planning programs. The citizens of the less developed world should attain minimum acceptable consumption standards (which the UN sets at 2400 calories per day) by 1975. Our total foreign aid strategy should lead to over-all economic growth which will permit effective demand for at least that level of food at prevailing prices. Even assuming the maximum increase in LDC agricultural production foreseeable under existing and currently planned programs, this demand will create an annual food gap of 42 million tons by 1975 and 88 million tons by 1985. Forty-two million tons is larger than the entire current U.S. wheat crop, and 88 million tons would exceed total U.S. production capacity even if all reserve acres were brought back into production. In other words, even the massive agricultural capacity of the United States cannot fill the world's food gap indefinitely.

III. U.S. Food Aid

For the past decade, U.S. food aid under Public Law 480 has been able to fill most of the gap between what the LDC's are able to produce or buy and their growing demand--though total percapita consumption has remained below minimum standards and is nutritionally inadequate. In addition to its humanitarian aspects of providing food to the hungry, P.L. 480 has made major contributions to economic development. Since the recipient countries would have had to import the food they could not grow to feed their people, the often-generous terms of P.L. 480 have saved them previous foreign exchange which could then be devoted to growth-stimulating investments.

Though, in this respect, it promotes development in much the same way as dollar assistance, food aid has traditionally been treated quite differently. Efforts to maintain domestic farm income by supporting production in excess of commercial requirements in the 1950's led to the accumulation of large surplus stocks and to

strong pressure to move these stocks. Surplus disposal efforts led, in turn, to the statutory separation of food aid from other assistance and to a political preference for using "surplus food" rather than "dollars" for assistance purposes whenever possible. Recently, U.S. food aid has been equal to more than one-fourth of total Free World Financial assistance to the LDC's--about \$1.8 billion compared to a total of roughly \$6 billion a year in official loans and grants.

The separation of food aid from dollar aid has also meant that it is available on very different terms. Two of the four Titles of P.L. 480 provide for grant donations of food outside of market channels:

Title II (\$114 million in 1965) authorizes commodity donations for emergency disaster relief and for economic development in cases where the purpose cannot be achieved by a local currency sale. The latter authority has been used primarily for grants to governments for school lunch programs, food for work programs and farmer cooperative programs to increase hog or poultry production.

Title III (\$320 million in 1965) authorizes the donation of commodities to selected American voluntary agencies for their overseas programs--including feeding children in schools and clinics, support for orphanages and other institutions, and distribution of food to refugees and other needy families.

Two other titles authorize sales of any commodities declared by the Secretary of Agriculture to be surplus to U.S. domestic or commercial export needs (whether or not they are in surplus CCC stocks):

Title IV (\$214 million in 1965) provides for long-term dollar credits, with interest comparable to that on AID dollar loans but with much shorter grace and repayment periods.

Title I (\$1,140 million in 1965) authorizes sales for inconvertible foreign currencies. A substantial portion of the proceeds can be made available in the form of loans or grants to the recipient country.

The economic impact of Title I sale terms varies widely among countries. In 27 countries, mainly in Africa and Latin America, the ~~large~~ share of the proceeds reserved for ordinary U.S. uses, together with loan repayments, sharply reduces the amount of local currency the U.S. government would otherwise buy with dollars to meet its expenses there. Title I "local currency" sales thus cause current and/or future losses of dollar exchange to these countries very much greater than would be the case under dollar-repayable development loans, or even, in some cases under a Title IV credit. At the other extreme, three-fourths of current and prospective "sales" are to seven major recipient countries where we have an overabundance of currency resulting from past sales and loans. Here, Title I sale and loan agreements are effectively grants, since the reservation of a share for U.S. uses and the repayment of loans simply add to an already excessive supply of these countries' currencies.

Thus food aid is being made available under P.L. 480 on less stringent criteria and often on more generous terms than are available for dollar aid. Over three-of food aid has effectively been on a grant basis and less than one-fourth on a credit basis; this relationship is in the opposite direction for dollar assistance.

But, the changing U.S. supply situation forces us to a re-examination of the food aid program. From 1955 to 1960, American farmers produced 125 million tons of grain in excess of commercial demand. P.L. 480 programs during those years bled off 76 million tons of this excess production, and stocks rose by } 50 million tons. Since that time, the land retirement and other production control programs to which income support is now tied have resulted in a sharp reversal. From 1961 to 1964, grain production was only 29 million tons greater than commercial demand

and food aid amounted to 67 million tons. Thus 38 million tons, or more than half, of food shipments came from reductions in stocks.

If present farm programs work as planned, all food aid must soon come from current production. This is already true of shipments of vegetable oil, rice, and tallow. According to the Secretary of Agriculture, CCC stocks of wheat will be down to reserve levels by well before 1970. Thus, in less than four years, our surplus stocks will have disappeared and continuation of P.L. 480 shipments will mean that we must deliberately relax production controls to encourage the production of food for aid. Indeed, since stock reductions have been less than P.L. 480 shipments in each of the past four years (see table i), this has already been done to some degree. The cost of buying food expressly for P.L. 480 shipments in this way is less than it appears, because we thereby avoid the cost of keeping the food out of production through acreage controls. Thus, the net cost of buying grain out of current production is about half (?) as much as the support prices themselves. But the fact remains that our domestic farm policies will no longer produce food which will accumulate in CCC stocks if a "gap" is not found for it to fill.

IV. The Policy Alternatives

A. We could ~~not~~ permit our food aid program to wither along with our food surplus by strictly limiting production to the levels required to meet commercial domestic and export demand. This is feasible under current domestic farm legislation. Though it is the course with the lowest budget cost, it is an unrealistic option. Without compensating increases in dollar aid, it would:

-- force developing countries to spend a cripplingly large part of their scarce foreign exchange resources on essential food imports,

-- drastically undermine, and in some cases reverse, their current rate of development,

- give rise to severe food shortages with accompanying malnutrition, misery and violence,
- cost the U.S. its leadership in the world-wide fight against hunger.

B. We could expand P.L. 480 programs to the full extent needed to fill the widening gap between current trends in the agricultural production of LDC's and their more rapidly rising food demand. To meet minimum consumption standards would require a progressive expansion of the food aid program from its present level to \$4 or \$4.5 billion annually by 1975. This, too, is probably technically feasible under existing legislation, since the Secretary of Agriculture has discretion in setting price and production control levels, but he would almost certainly need additional statutory authority to depart so radically from the expressed intent of the domestic farm program. During the next decade this alternative would require the return to production of about one-half of the grain acreage currently in reserve. This alternative, too, is unrealistic; it would:

- require an almost impossible increase in shipping and port capacity and in administrative mechanisms to distribute the food,
- risk chronic depression of LDC agricultural markets and production,
- undermine the progress of the recipient countries toward self-support and toward the ability to buy U.S. agricultural and other exports on a commercial basis.
- make the LDC's desperately dependent on food aid for their daily bread.

Most important, food aid cannot carry the burden indefinitely. By bringing back into production the full 50 million acres of grain land now diverted, we

could double the size of the U.S. wheat crop and triple the amount of grain available for food aid--at an annual cost of \$6 billion a year without end--but by 1985 even this would no longer be enough. Our full productive efforts could no longer provide to a hungry world even its minimum food requirements.

C. It is clear that a combination of increased food production in the LDCs and continued food aid is essential to welfare, to development, and in the long run to survival. Under this recommended alternative, we could stimulate the developing countries to meet their own needs while, in the meantime, providing the food aid necessary to achieve minimum consumption levels and to reduce malnutrition. To be effective, this alternative requires:

- stringent and politically difficult self-help measures by the recipient countries,
- an increase in our inputs of technical assistance, fertilizer, and other forms of dollar-financed aid,
- a recognition that food is not a "free resource" and that it must be used along with dollars to encourage greater emphasis on accelerated food production in the LDC's.

Our long-term objectives require that the growth of LDC agricultural production increase from its present average annual rate of 2.6 percent, just enough to keep pace with population growth, to 4 percent by 1975. Though this would be the most dramatic improvement in the history of world agriculture, it is both possible and necessary. The cost of this policy would rise gradually, from our present level of \$1 billion in grain shipments and \$.45 billion in dollar aid to agriculture, to over \$3 billion by 1975. But thereafter the cost should decline with the shrinking requirement for food aid. The distribution of this program ^{by country} would depend upon the same considerations which now determine the size and nature of our assistance to other sectors--the importance of a country to U.S. interests and its willingness to undertake

the necessary self-help measures--remembering that special humanitarian considerations may also apply to food shipments.

The business of expanding agricultural production is complicated, costly and slow. But our own success, and the rapid progress that we have helped to achieve in Israel, in Taiwan, and more recently in Pakistan, make us confident that it can be done. If it is successful, this alternative would:

- ultimately reduce rather than increase the poor countries' dependence on handouts,
- result in a more rapid rate of growth in these countries by improving the productivity of the largest and poorest part of their populations,
- make possible an eventual increase in U.S. commercial exports,
- lead to a lasting increase in world food production which can permanently keep pace with rising demand.

V. How We Go About It

Except in a very few fortunate situations such as the eastern slopes of the Andes, expanded production cannot come from opening virgin lands. The increase must come from improved yields on existing farms. The job must be done by the developing countries themselves, who must make far-reaching policy changes and devote substantial additional financial resources to their agricultural sectors. Though small relative to their own efforts, our advice, leverage, and inputs of food, fertilizer and machinery are essential to the success of this approach. The needs vary widely from country to country, but three types of bottlenecks are common to almost all of them.

1. The farmer does not have adequate incentive to adopt innovations which would increase his output. In all too many LDC's, antiquated land tenure systems, the need for changes in the tax structure, unfavorable price relationships, and a

lack of goods which he wants to buy leave the farmer with little reason to increase his production and little insurance against floods or crop failure. Assurance of minimum prices, protection from disaster, and other incentives for change are essential to increased production. Without them, the farmer has no motivation to experiment with modern methods of production, invest in fertilizer and machinery, or make full use of sound irrigation practices. The necessary policy changes are not expensive in money terms. A relatively few highly placed technical experts can provide the necessary advice. The principal requirements are analysis, persuasion, good will and time. Willingness to undertake the hard policy reforms needed should be a prime condition of dollar aid and food aid, ~~equipment~~.

2. The institutions which make the desired changes possible are weak or non-existent. A dynamic and progressive agricultural sector needs support from research facilities, farm credit institutions, education and extension services, and distribution facilities. The creation of these institutions is primarily the task of the poor countries themselves, but they cannot do the job without large amounts of technical advice--on how to establish and run the schools, research labs, and credit cooperatives; how to use available water and seed strains; and how to applying modern plowing and planting practices. The U.S. has the most advanced technical expertise available in the world today. Over the next few years we will need to increase the number of agricultural technicians serving overseas from the present level of less than 1,000 to at least double that number. The cost, too, will double, from \$43 million to over \$80 million a year.

3. The necessary raw materials are not available. We can teach the less developed world to build its own irrigation systems and farm-to-market roads and to produce an abundance of its own fertilizer and pesticides from its own raw materials, but we will have to provide part of the machinery, phosphates and other basic inputs at first. Fertilizer is the key to the success of this effort. One million dollars of fertilizer can yield enough grain to feed 200,000 people for a

year; one million dollars of wheat will feed only 70,000 people for a year. To achieve our goals, fertilizer use by the LDC's needs to increase more than five-fold, to almost 20 million nutrient tons a year, by 1975. The high foreign exchange cost of setting up plants and importing the necessary raw materials will place a large and growing burden on our dollar aid program over the next decade. Total financing requirements will rise to \$1.35 billion, ~~about~~ three times the ^{present} level. Private investors appear willing to undertake an important share of the necessary job, but this will depend upon the policies adopted by the LDC's and other aspects of the "investment climate."

Under this alternative, the value of grain shipments would increase from the present level of just over \$1 billion to \$1.7 billion in 1975. After that, they can be expected to decline sharply as the gap narrows through increases in local production. Unless new high productivity wheat strains make substantial increases in yields possible, this will require the temporary return to production of about one-quarter of the acres now idle. ~~Under this alternative,~~ ^{or} food aid would serve both the humanitarian purpose of avoiding severe hunger and the hard bargaining purpose of helping to secure the necessary policy reforms and reallocations of LDC resources. Its usefulness by itself as a negotiating tool is restricted by its history as a surplus commodity to be "disposed of" and by basic humanitarian considerations which make the threat of withholding it less real than the threat of withholding dollar aid. However, if food and dollar aid are carefully tied together in an integrated development package, we can get considerably more negotiating mileage from it than we could get from the dollar portion alone.

The obstacles to rapid progress are at least as high in the age-old agricultural systems of the developing countries as elsewhere in these backward economies. We will be changing ways of thinking and working accepted for centuries; we will be upsetting income and property distribution systems which have shaped ancient societies; we will be tinkering with power structures which have determined who's

who in these countries since time began.

In a sense, it is easier to contemplate unending expansion of direct food shipments than to undertake these challenges. But, as with all the rest of the development problem, the only politically acceptable solution is a long-term effort to enable the poor countries to stand on their own feet. This political necessity is reinforced, where food is concerned, by the stark fact that we can now see a point on our present road where even our enormous productive capacity can no longer provide the critical margin between hunger and an adequate diet.

VI. The Food Aid Program -- A Proposal

When P.L. 480 comes up for renewal during the next session of Congress, the Executive Branch should recommend statutory authority which would encourage the transfer of food aid programs as rapidly as possible from sales for local currency to sales for dollars.

Over 15 percent of all P.L. 480 sales are now made on a Title IV basis. Many more could be shifted immediately or within a short time to a dollar repayable basis without harming economic growth prospects ^{provided that} if they were subject to development loan terms (up to 10-year grace and 40-year repayment periods, interest rates of 1% during the grace period and 2 1/2% or more thereafter). This would:

- remove the "handout" character of much of P.L. 480 and come closer to a business-like approach,
- greatly enhance coordination among the various types of assistance,
- encourage the change in LDC attitudes which we must have to make food aid a more effective bargaining tool,
- require both donors and recipients to consider food and dollars as scarce resources subject to the same criteria of allocation,

- reduce the uneven and often arbitrary economic impact of the program,
- attack the confusing and controversial facade of "foreign currency sales."

The recipients would derive a greater immediate benefit through full use of the sales proceeds for investment, and the ultimate return to the U.S. would be enhanced through repayment in dollars. The nature and extent of the shift would take into account the short-run impact on the U.S. balance of payments. In those cases where the prompt deposit of local currencies for U.S. uses involves a substantial dollar saving for us, the program would remain ^{temporarily} under the authority of Title I or an offsetting down payment would be included in the terms of the Title IV sale. [The specifics of this aspect of the proposal ~~would~~ still require substantial additional staffing out.]

There are a few countries, accounting for most of the value of P.L. 480 sales, where the shift from local currency sales to even the most generous dollar-repayable credits in the near future would be contrary to our national interest. These include countries where the food is now effectively granted, either through grants of the sales proceeds for the common defense (Viet-Nam and Korea) or because we hold such large excesses of their currencies that we cannot use the sales proceeds or loan repayments in any event (India, Pakistan, Tunisia, U.A.R.) There are a number of other excess currency countries, but either they already receive Title IV terms or their prospects of being able to repay dollars within a 40-year period are great enough to justify the transfer. In ^{the few} ~~these~~ countries mentioned, however, the burden of dollar-repayable debt is already so great relative to the prospects for repayment in the foreseeable future that ~~it~~ almost to double it suddenly and without the transfer of any new productive resources would seriously undercut our whole foreign assistance effort. For these countries, the P.L. 480 program must continue to provide grants in the disguise of Title I

"sales" or be shifted to an actual grant basis under title II. Both of these approaches would serve our own political, military, and economic interests, but the latter one is preferable because it would also:

- make the form reflect the reality,
- clear the way for focussing food aid negotiations on substantive rather than financial issues,
- halt further accumulation of excess currencies, making possible an end to that serious and irrational irritant to our relations with those countries.

Grants for disaster relief and for economic development (Title II) and grants for distribution through private voluntary agencies (Title III) should be continued. In particular the administration of the Title III program should see to it that the programs undertaken through food grants are fully consistent with our assistance strategy for the recipient country.

VII. Political Acceptability

This is a politically acceptable way to attack the world food problem. Through the recommended program--which would amount to a commitment of almost \$30 billion of the next decade--we would strongly reaffirm U.S. leadership in agriculture and our commitment to averting starvation. We would be capitalizing on the growing wave of interest in this subject both at home and abroad and could probably enlist the support of all but the most implacable opponents of foreign assistance in any form. The potential opponents of the program fall into two major groups:

- those who have urged all-out emphasis on food aid as a means of supporting domestic agriculture,
- those fearful of competition from LDC agricultural exports.

Advance consultation with the first of these groups could show them that this approach, too, proposes increased food aid, but as part of a program which is less expensive, and makes the only sense in the long run. To the latter, we

could demonstrate that it offers a greater prospect of increased U.S. commercial exports than does the cessation of food aid, and perhaps than the option of concentrating on food aid alone.

Table 1. ---U.S. grain production, exports and end-of-year stocks, 1953-64^{1/}

Crop Year Beginning	Production	Domestic Uses	Gross Exports			Stocks	Added To Stocks
			Commercial	Concessional	Total ^{2/}		
----- Million Metric Tons -----							
1953.....	130	-	7	3	10	54	-
1954.....	131	108	7	5	12	65	11
1955.....	136	116	6	11	18	67	2
1956.....	136	111	8	15	23	69	2
1957.....	147	118	11	9	20	78	9
1958.....	171	129	13	11	24	96	18
1959.....	167	133	13	14	27	103	7
1960.....	179	136	15	16	31	115	12
1961.....	162	141	18	17	35	101	-14
1962.....	160	137	18	16	34	90	-11
1963.....	173	135	25	17	41	87	- 3
1964 ^{3/}	160	131	22	17	39	77	-10
1970 Est. ..	-	162	28	-	-	-	-

1/ Data include all grains--wheat, rye, rice, corn, oats, barley and grain sorghums.

2/ Differences between total exports and sum of commercial and concessional exports due to rounding.

3/ Preliminary.

4/ This decline in domestic consumption, an exception to the historic and accepted trend, reflects the market drop in cattle feeding during a period of low beef prices.

Bundy (71)

26

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON

OFFICE OF
THE ADMINISTRATOR

23 OCT 1965

MEMORANDUM FOR: The Honorable McGeorge Bundy
The White House

This responds to your memorandum of October 6th regarding the world food situation and U.S. food aid policy.

We agree with the guidelines and with the additions suggested by Secretary Freeman to points II.1. and II.2. to make them consistent with point I.5.

Dave

David E. Bell

Francis:

I seem to have

got ahead of him

last week - will

you straighten out?

↓ promulgated a version

not for an Ag with support.

Return file to McG-B.

10/23/65



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

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1- Bates 10/11
2- RT

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RECEIVED
McGEORGE DUNDY'S OFFICE

OCT 11 1965

1965 OCT 11 PM 5 17

MEMORANDUM

To: McGeorge Bundy, Special Assistant to the President

From: Orville L. Freeman, Secretary of Agriculture

Orville L. Freeman

Subject: Comments on Guidelines Incorporated in "Suggestions for Position to Be Taken by U.S. Officials in Discussing the World Food Situation and U.S. Food Aid Policy"

These Guidelines are helpful. I believe they would be even more useful if expanded somewhat in accord with the following suggestions. These suggestions do not change the principal impact of the guidelines presented, but I think they help to resolve some possible inconsistency between the items listed under I. and those under II.

Add to II. 1. Any indication of change in U.S. food aid policy, except for the increased emphasis on relating food aid to the economic development, especially agricultural development, in the LDC's.

(This would make this item consistent with Item I. 5.)

Add to II. 2. Any comment on the Administration's view of next year's P.L. 480 legislation, except to note that the Administration is studying whether (and what) changes may be needed to meet Item I. 5.

Item II. 3. is not clear as it is now phrased, and should be either clarified or deleted. U.S. farm policy is obviously related to food aid at present if only because food aid comes from surplus stocks (primarily) and the volume of surplus stocks depends on farm policy. No official could deny this. The Secretary of Agriculture gets constant questions on this matter.

I would therefore suggest deleting Item II. 3. Instead, a seventh item could be added under I. to indicate that it would be appropriate to note that, while policies relating to domestic agriculture and policies relating to food aid do complement each other, neither should be dependent on the other.

Item No. II. 4. is acceptable as it is.

THE WHITE HOUSE
WASHINGTON

26-b

October 20, 1965

MEMORANDUM FOR

THE SECRETARY OF STATE
THE SECRETARY OF AGRICULTURE
THE ADMINISTRATOR, AID

SUBJECT: Guidelines on U. S. official position on the
world food situation and food aid policy

On October 6 I circulated to you a draft memorandum on the above subject. I have now heard from the Department of State that it is in complete agreement with these guidelines, and I have had no complaint from any other agency. Accordingly, I hope that we can all now agree to follow these guidelines until we get different instructions from the President.

McGeorge Bundy
McGeorge Bundy

SUGGESTIONS FOR POSITION TO BE TAKEN BY U. S. OFFICIALS IN DISCUSSING THE WORLD FOOD SITUATION AND U. S. FOOD AID POLICY

I. The following topics can be usefully and appropriately discussed:

- 1. The seriousness of the problem of world hunger.
- 2. The problem of malnutrition.
- 3. The need for effective concern with the problem of population.
- 4. The accomplishments of our food aid program to date.
- 5. The need to relate food aid to the economic development of LDC's and to other forms of aid, particularly the need for LDC's to make a major effort to develop their own agricultural sectors and for many of them to increase the emphasis given to agriculture in their overall development planning. In this connection, it is appropriate to point out that the present food-exporting countries cannot feed the world indefinitely.
- 6. The continued careful attention and serious study given this important subject by the U. S. Government.

In these areas the existing record of the President and of other officers is strong and clear. We should not hesitate to refer to it.

II. The following topics should be avoided, as premature at this time:

- 1. Any indication of change in U. S. food aid policy.
- 2. Any comment on the Administration's view of next year's P. L. 480 legislation.
- 3. Any discussion of the implications of U. S. farm policy for food aid.
- 4. Any implication that this problem is one which is about to come to a point of major decisions at the White House. It is essential that the President's control over the timing and content of any new decisions and actions not be prejudiced by any member of his own Administration.

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26-d



DEPARTMENT OF STATE

WASHINGTON

October 19, 1965 RECEIVED
McGEORGE BUNDY'S OFFICE

16257

~~CONFIDENTIAL~~ enclosure

1965 OCT 20 PM 2 15

MEMORANDUM FOR MR. McGEORGE BUNDY ←
THE WHITE HOUSE

Subject: Department of State Comment on Sugges-
tions for Position to Be Taken by US
Officials in Discussing the World Food
Situation and US Food Aid Policy

The appropriate offices within the Department have
reviewed your enclosed memorandum on the World Food
Situation and US Food Policy.

We are in complete agreement with the statement and
the present guideline form.

W.C. Miller
for Benjamin H. Read
Executive Secretary

Enclosure:

Bundy-Rusk memorandum,
October 6, with attachment.

~~CONFIDENTIAL~~ enclosure

THE WHITE HOUSE
WASHINGTON

26-2
1625.

~~CONFIDENTIAL~~

October 6, 1965

MEMORANDUM TO: Secretary of State ✓
Secretary of Agriculture
Administrator, Agency for
International Development

Because of the importance and difficulty of the problem of the world food situation and U. S. food policy, those of us in the White House who are concerned with the problem have been working on ways of making sure that the Administration does not step on its own toes in this area in the next few months. We have worked out the attached one-page statement of suggestions for the position to be taken by U. S. officials, and with the consent of my colleagues, Schultze, Califano and Reuter, I send it to you for your comment. If we can all agree on something along this line, I think we can do a better job for the President in protecting his decision-making responsibilities, but we would welcome comments as to the precise form these guidelines should take.

McGeorge Bundy
McGeorge Bundy

DECLASSIFIED
E.O. 12356, Sec. 3.4(b)
White House Guidelines, Feb. 24, 1983
By QCA, NARA, Date 11-2-89

cc: Dir, BOB
Mr. Califano
Mr. Reuter

~~CONFIDENTIAL~~