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The Negligible Welfare Effects of the International Food Aid Provisions in the 2014 Farm Bill

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As of 2013, globally, 840 million people were estimated to be food insecure (FAO, 2013). With an annual average budget of about $2.2 billion over the past decade (Schnepf, 2014a), international food assistance from the U.S. government (USG) cannot possibly support all food insecure individuals. As a result, the USG, like other major food assistance donor countries, has increasingly concentrated its assistance on populations affected by natural disasters and "complex emergencies" involving conflict, where food assistance's positive impacts are greatest (Barrett and Maxwell, 2005). A growing body of rigorous evidence strongly indicates that increased flexibility for the USG to choose the most appropriate form of food assistance for a given food emergency could reach more individuals, faster, and with greater recipient gains, for the same budget, than has been feasible to date given the legislative restrictions on the use of food aid funds. Currently, most of those funds must be used to make food aid purchases in the United States and then those purchases are shipped from the United States to recipient countries on U.S.-registered ships at a relatively high cost.

While the Agricultural Act of 2014—commonly known as the 2014 Farm Bill—moves U.S. international food aid and food assistance policies in the right direction, ultimately it falls far short of what could be done. Globally, over the past decade, international food assistance has been radically reinvented by most donor countries (Barrett, Binder, and Steets, 2012). The Canadians, Europeans, and other donors now procure little or no food from within their own borders. Instead, they provide cash and vouchers, and increasingly rely on local and regional procurement (LRP) whereby food aid commodities are acquired in recipient or neighboring countries rather than being shipped from the donor country. In 1994-95, 13% of all global food aid (by value) was LRP; by 2010, that number had increased to 67%. The United States has been far slower to embrace new forms of food assistance, becoming increasingly isolated and now almost the sole provider of old-fashioned, transoceanic food aid, responsible for 89% of global deliveries in 2011.

Recent studies have reported that LRP, cash, and vouchers are faster and typically more cost effective (U.S. Government Accountability Office (GAO) 2009; and Lentz, Passarelli, and Barrett, 2013). For example, a nine-country study found that, on average, the cost savings for grains purchased locally relative to grains purchased within the United States was 53%. For pulses and legumes, the average savings was 25%, although there were little to no savings from locally or regionally purchasing processed products such as vegetable oil and corn-soy blend (Lentz, Passarelli, and Barrett, 2013). The same study also reported that, on average, LRP, cash, or vouchers reduced food aid delivery times by 13.8 weeks relative to transoceanic food aid. The savings in delivery times were even more substantial for aid targeted for landlocked countries (Lentz, Passarelli, and Barrett, 2013). Increasing the timeliness is particularly important for food-insecure children because the first 1,000 days of a child's pre- and post-natal existence—from conception until a child turns age two—is the most critical window for nutrition during a person's life (Black et al., 2013). A savings of 14 weeks in the delivery of food assistance can have a substantial, lifelong effect on human capital development with important and significant long-term implications for economic growth and poverty reduction.

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The International Food Aid Provisions of the 2014 Farm Bill

Emergency food aid represents a tiny share of the total estimated cost of the 2014 Farm Bill, about 0.4% (Mercier, 2014). Both the U.S. Department of Agriculture (USDA) and the U.S. Agency for International Development (USAID) receive food assistance funding under the farm bill with about 75% allocated to USAID's Title II (Food for Peace) emergency and development programs.

In fiscal year (FY) 2012, Food for Peace delivered 1.4 million metric tons of food to recipients in 44 countries, worth $1.6 billion (USAID, 2013). Food for Peace also receives funding through other programs and, in 2013, under the Emergency Food Security Act, the program provided $373 million for LRP, cash, and vouchers in 19 countries. USDA also runs smaller food assistance programs, including the McGovern-Dole Food for Education program and Food for Progress (USDA and USAID, 2013).

The food aid provisions in the 2014 Farm Bill authorize several changes relative to the 2008 Farm Bill. First, the provisions increase the allocation of Title II funds to section 202(e) from 13% to 20%, an increase of about $100 million. 202(e) offers cash funding to cover non-commodity costs associated with food aid programs such as administrative costs. The farm bill also relaxes some of the restrictions on the use of those funds in providing food aid (USAID, 2014a; and Mercier, 2014). As a result, USAID now has more flexibility to give operational agencies cash for programming that complements food deliveries (for example, maternal and child health center staffing).

Through USAID's ability to draw on more 202(e) cash funding, the agency can also curtail the practice of "monetization" of U.S. food aid—the process in which aid agencies sell U.S. food aid in developing countries to raise cash needed for food security projects (Barrett and Maxwell, 2005; and GAO, 2011). Monetization had become widespread, routinely accounting for more than half of Title II non-emergency food aid and more than 90% of Food for Progress resources over the last two decades. But monetization wastes millions in U.S. taxpayer dollars and has often proved disruptive to regional markets. In FY 2012, Title II food aid monetization had only a 75% cost recovery rate and, therefore, wasted $32 million of taxpayer dollars—enough to feed more than 800,000 additional individuals—while USDA's Food for Progress monetization yielded only 58 cents of revenue for aid agencies for every taxpayer dollar spent procuring and shipping the commodities (GAO, 2011). The practice has, therefore, been eliminated by most other donor countries. Even some aid groups, such as CARE and Technoserve, have turned down funds generated through monetization. The USAID argues that the ability to use 202(e) funds rather than proceeds from monetization to provide various forms of aid will enable the agency's aid programs to reach 600,000 more people per year (USAID, 2014a).

Second, the farm bill authorizes an $80-million-per-year LRP program to replace a previous pilot program managed by USDA. This increase in the flexibility with which food assistance can be delivered represents only 3% of total U.S. food assistance funding. Further, it remains to be seen whether Congress will appropriate resources for this new program. In FY 2012, USAID reported that LRP cost about 20% less than emergency Title II programs (USAID, 2014b). Because the program will be run by USDA, however, it runs a real risk of not being integrated well with core Title II emergency programs that are run by USAID.

Other changes to the farm bill may also improve food aid programming at the margin. First, USAID is required to improve its reporting on costs, including on monetization programs that generate 70 cents on the dollar or less (Congressional Research Service (CRS), 2014). Greater transparency about grossly inefficient monetization events could curtail them and may help make the case for more cash-based assistance. Second, the 2014 Farm Bill extends efforts initiated in the previous 2008 Farm Bill to improve food aid quality and safety (CRS, 2014). Third, the farm bill authorizes $10 million per year (up from $8 million per year) to fund prepositioning of food, a practice that improves delivery times, albeit at higher costs relative to non-prepositioned, transoceanic food aid or LRP (GAO, 2014).

These provisions all represent modest progress in the direction of flexibility, cost-effectiveness, and timeliness. Nevertheless, and far more importantly, the 2014 Farm Bill failed to relax the core restrictions placed on the Food for Peace programs managed by USAID. Title II food aid must still be purchased in the United States and shipped abroad under an anti-competitive restriction on ocean freight called "cargo preference" that compels the USG to send at least 50% of all food aid (measured by volume) on American-flagged vessels (GAO, 2007). In FY 2006, shipping on U.S.-flagged vessels cost 46% more than shipping the aid at competitive freight costs (Bageant, Barrett, and Lentz, 2010). In fact, more recently in FY 2012, American taxpayers spent more Food for Peace aid funds on transport and handling (45%) than on food (40%) (GAO, 2014b; and USAID, 2014c). By contrast, Canada spends roughly 70% of its food aid budget on commodities because it does not face the same anti-competitive restrictions, especially on

shipping, and makes far more extensive use of LRP, cash, and vouchers.

Further, the 2014 Farm Bill failed to relax a "hard earmark" enacted in the 2008 Farm Bill that restricted the USAID administrator's ability to reallocate non-emergency resources to cover emergency needs. The 2014 Farm Bill replaced the former expenditure minimum with a provision that between 20% and 30% of funds—or a minimum of $350 million per year—be spent on non-emergency food aid programs (CRS, 2014). This still, almost surely inadvisably, limits the flexibility of the administrator to respond to unanticipated emergencies. For example, had Super Typhoon Haiyan devastated the Philippines in August or September 2013 (at the end of the USG fiscal year) instead of in early November (at the start of the new fiscal year), the USG would not have had emergency food aid funds to respond to the disaster.

Looking Forward to the 2019 Farm Bill

The formidable political challenges associated with reforming USG food aid policy—in particular, the influence of several powerful special interest groups committed to maintaining the status quo—explain why the 2014 Farm Bill failed to generate the considerable potential economic efficiency and related substantial economic welfare gains that might have been generated by the Obama Administration proposal to permit up to 45% of Title II food aid to be sourced outside the United States in order to accelerate delivery and reduce costs. The U.S. maritime industry, which benefits from preferential treatment under the Cargo Preference Act, has the most to lose from food aid reform (Bageant, Barrett, and Lentz, 2010). Clapp (2014) found that politicians who received more than $10,000 from shipping groups voted against reforming food aid by 7 to 1, noting "money talks" (p. 2). Indeed, shortly after the 2014 Farm Bill was enacted, shipper interests slipped two provisions into the 2014 Coast Guard and Maritime Transportation Act of 2014 (passed by the House but not, at the time of writing, by the Senate) that would increase cargo preference from 50% to 75% and end any public oversight of the wasteful practice (Barrett and Lentz, 2014). In spite of the modest progress in food aid reform included in the 2014 Farm Bill, the prospect of backsliding towards even more inefficient and ineffective U.S. food aid programs is very real.

Nonetheless, given how far the 2014 Farm Bill international food aid provisions fell short with respect to accomplishing the global welfare gains that could have been achieved, food aid reform remains high on the agenda of many other interests and many legislators. Most recently, in its 2015 budget request to Congress, the Obama Administration reiterated many of its 2014 proposals for food aid reforms. Not inconsequentially, the Obama Administration proposals were similar to reforms unsuccessfully proposed by President George W. Bush. Moreover, Senator Chris Coons of Delaware and Senator Bob Corker of Tennessee introduced the bipartisan Food for Peace Reform Act in the Senate in June 2014 which also included analogous food aid reform initiatives.

These efforts all aim to improve the efficiency and humanitarian impacts of U.S. international food assistance programs by expanding LRP funding and ending cargo preference and monetization. The USAID has estimated that, if 25% of emergency resources were to be untied as in President Obama's FY2015 budget request, those funds could be used to reach up to 2 million more people per year (USAID, 2014b). Fully untying resources could result in an additional 4 to 10 million more people being reached (Elliot and McKitterick, 2013).

Any domestic impacts of removing restrictions on the use of food aid funds will likely be limited to the maritime industry. Various estimates developed by the U.S. Department of Defense, USAID, and independent economic researchers all indicate that ending cargo preferences would only affect six to 11 mainly outdated vessels—none of them militarily useful—for which there is little commercial demand (Bageant, Barrett, and Lentz, 2010; and USAID, 2014d). The costs would fall mainly on those fixed factors of production—the antiquated ships that cannot readily find commercial traffic—even under the Jones Act provisions that require all trade among U.S. ports be carried on U.S.-flagged vessels constructed in the United States, owned by U.S. citizens, and crewed by U.S. citizens or permanent residents. The number of workers affected would likely measure in the low hundreds, split between mariner and shore-based support positions. These potential job losses should be compared against 4-10 million acutely malnourished people who would receive food aid at the extensive margin with the resulting cost savings. In other words, roughly 10,000 additional hungry people are not being fed for each domestic shipping job protected. Those are stark tradeoffs.

The USG can and does use existing programs, like the Maritime Security Program (MSP) created in 1996, to ensure support for militarily useful vessels and merchant mariners. The USG pays $186 million each year to the owners of 60 vessels in the MSP in return for the promise that the vessels and crews will be available for military use if needed.

Direct payments, rather than indirect and wasteful subsidies that increase USAID and USDA food aid shipping costs, offer a better way to meet the need for American-flagged sealift capacity for national security. To cushion the impact of the reductions

in food aid cargoes, the USG could invest $50,000 per worker for retraining to help any adversely affected mariners and port workers transition to more commercially sustainable jobs. Since the excess taxpayer costs resulting from cargo preference are an estimated $100,000/year for each mariner involved in shipping food aid (Bageant, Barrett, and Lentz, 2010), such a policy adjustment offers a win-win-win opportunity: save taxpayers money, feed hungry people, and help those whose jobs are tied to outdated, commercially nonviable vessels to transition to jobs with better prospects.

There is ample evidence about how to make international food assistance more responsive to recipient needs, faster, cheaper, and healthier. The 2014 Farm Bill made modest progress but fell well short of its potential to act on that evidence. The questions now are whether policymakers will respond to the evidence, and how donors and practitioners can best use the greater flexibility that access to cash, voucher, LRP, and transoceanic food assistance can provide.

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