



Statement before the U.S. Senate Committee on Foreign Relations

## American Food Aid: Why Reform Matters

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*The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute or Montana State University.*

Chairman Corker, Ranking Member Cardin, and distinguished members of the committee: Thank you for the opportunity to testify today about the future of U.S. food aid programs. I am honored to be invited to discuss these programs, their importance, and the need to reform them.

## **Summary**

The central goal of any government program should be to meet the program's core objectives as efficiently and effectively as possible. From their inception, US Emergency and other Food Aid Programs have accomplished a great deal in alleviating hunger, malnutrition, morbidity and mortality among the world's most desperately poor populations. However, they have not been nearly as efficient and effective as they can be and should have been in providing aid that mitigates the adverse effects of hunger and malnutrition of children and adults.

This has especially been, and continues to be, the case with respect to emergency food aid. A plethora of academic analyses and government reports (including a long sequence of General Accountability Office reports) have been remarkably consistent in drawing the following conclusions about the current US food aid program.

1. The current practice of monetization (allowing NGOs to sell food aid food shipped from the US in local markets and use the proceeds to fund their aid related programs) is highly wasteful and inefficient. Many NGOs deserve to have their food aid and food security related programs funded, but the programs should be funded directly with appropriate oversight about how the funds are used to ensure they are effective and efficient.
2. Agricultural Cargo Preference (ACP) is an exceptionally financially costly way of shipping food aid from the United States to the ports of entry in the regions where the aid is needed. Worse, in combination with the current requirement that food aid be mainly sourced from the US, the cargo preference requirement significantly contributes to otherwise unnecessary delays in delivering emergency food aid. The impacts of these delays have themselves had severe adverse effects on, especially, morbidity and mortality rates among children.
3. Agricultural Cargo Preference has been justified by Maritime interests as providing essential support for the maintenance of a US maritime fleet (including both ships and sailors) that will be essential for providing military preparedness needed to support the effective defense of the country in time of war.

The overwhelming weight of the empirical evidence is that ACP makes no, or at best minimal, effective contribution to maintaining the military preparedness of the United States through providing additional relevant and useable mercantile fleet capacity (in terms of both sailors and ships) for DoD purposes. In other words, the evidence makes nonsense of the claim that ACP plays any critical role with respect to US military preparedness.

4. Maritime interests have also made a related claim that ACP creates many thousands of high paying jobs and has large effects on the US economy, both by expanding the US Merchant Marine service and increasing port service activities as well as through what are called “multiplier effects.”

A recent US Department of Defense estimate of the direct marine service effects is that ACP increases the employment of sailors in the US Mercantile Marine fleet by between 375 and 495 jobs a year. Those jobs cost the taxpayer an estimated annual average additional outlay about \$100,000 per job over an above what would be otherwise be spent to transport US food aid from the United States to the destinations where the food is needed. These are funds that annually, under the current food aid programs, are directly reallocated from providing food aid to over 2 million very poor people a year.

A related further important humanitarian concern is that food carried under cargo preference by US flag ships is typically carried on old and slow ships (which adds to the labor and other costs incurred through the cargo preference program), delaying the delivery of the emergency food aid to the children and adults who need it. Barrett and Lentz (2014) point out that such delays result in increased malnutrition and morbidity among, perhaps especially, children.

Almost no “multiplier effects” or broader economy wide impacts derive from these maritime jobs, in part because they simply involve the reallocation of government funds from one use to another use, and in part because some of the international maritime sailor’s income is inevitably directly spent in foreign economies. In addition, in any case, multiplier impacts associated with new government spending are relatively small (multipliers are almost never estimated to be larger than about 1.8).

5. The primary beneficiaries of the agricultural cargo preference mandate are the private shipping companies, whose vessels are approved for and used to carry food aid shipments under the ACP. Effectively, ACP is a straightforward and relatively wasteful form of corporate welfare that imposes substantial humanitarian costs on some of the poorest and most desperately in-need families and children in the world by reducing the effectiveness of US Food Aid programs.
6. Permitting complete flexibility, or as much flexibility as possible, for USAID and other government food aid programs to locally and regionally source emergency and other forms of food aid is a more cost effective and faster method of delivering the needed aid than requiring sourcing from the United States. The humanitarian impacts of allowing substantial flexibility in sourcing food aid have consistently been estimated be very substantial, reducing nutrition deficiency related morbidity and mortality for an average of over four million children and adults on an annual average basis.

At the same time, permitting local and regional sourcing will have no measurable economic impacts on the incomes of US farmers or the overall performance of the US agricultural sector. Paradoxically, for many of the crops raised by US producers and used as food aid - such as corn,

wheat and rice - if anything a shift to local and regional sourcing will have positive rather than negative effects on the prices they receive for their crops. The reason: these are crops traded in global markets and a more efficient use of US food aid funds will increase global use and demand for those crops, albeit in very modest amounts relative to the global production of wheat, corn, rice and other food aid commodities.

### **Agricultural Cargo Preference: Issues and Evidence**

The following issues are central to any assessment of agricultural cargo preference as the policy is applied to US emergency and other food aid:

- (a). Does the US cargo preference program as applied to US food aid programs have a substantial and adverse impact on the cost of delivering food aid to the people who desperately need that aid?
- (b). Does the food aid related US agricultural cargo preference program in any substantive way enhance the military preparedness of the United States by expanding the capacity of the private US merchant marine service to support US military efforts in other countries?
- (c). Who are the primary beneficiaries of the government revenues that have to be spent as a result of the food aid related US cargo preference program? Is this just corporate welfare in disguise?
- (d). Does the food aid related US cargo preference program have substantive positive impacts on the US economy either through job creation within the US mercantile marine or by creating additional economic activity?

*(a). Does the US cargo preference program as applied to US food aid programs have a substantial and adverse impact on the cost of delivering food aid to the people who desperately need that aid?*

The evidence on the impact of cargo preference on the delivery costs of US food is unambiguous and large and is derived from multiple analyses by different sources. Perhaps the most careful academic study to date, by Bageant, Barrett and Lentz (2010), using conservative assumptions about the nature of the US Department of Transportation Marine Administration data available on food aid shipping costs, estimates that food shipped on US flagged cargo preference vessels costs 46 percent more than shipping the same aid at competitive rates. A more recent independent study by a research group at George Mason University obtained very similar estimates.

Quite stunningly, in fiscal year 2012 (October 1, 2011 to September 30, 2012) the General Accountability Office (2014) reported that 45 percent of Food for Peace funds was spent on food aid transportation while only 40% of those funds was spent on food aid. In contrast, for example, Canada spends 70 percent of its food aid budget on food aid (Barrett and Lenz, 2014). While part of the reason for the exceptional proportion of total US Food for Peace program outlays allocated to transportation is the current mandate to source most food aid from the U.S. rather than from local or regional markets closer

to the areas of need, the impact of the cargo preference requirement on those costs, conservatively estimated to be about \$150 million a year, is also substantial.

*(b). Does the food aid related US agricultural cargo preference program in any substantive way enhance the military preparedness of the United States by expanding the capacity of the private US merchant marine service to support US military efforts in other countries?*

The empirical evidence is also surprisingly clear on this issue. Cargo preference for food aid does little or nothing to increase the ability of the private companies that form the US Maritime Service to provide services to the Department of Defense (DoD) in time of a major war. That is, applying cargo preference requirements to food aid shipments has no effective impact on the military preparedness of the United States. Two relatively recent detailed analysis of registration (Bageant, Barrett and Lentz, 2010; George Mason University, 2015) have concluded that the overwhelming majority of US flagged ships approved for transporting foreign aid under the cargo preference mandate do not meet the criteria established by the Department of Defense for a mercantile ship to be viable for military purposes (only 17 of 61 ships appeared to meet the DoD criteria in 2006). Tellingly, most of the ships fail on to meet the DoD criteria on two important grounds: they are too old and they cannot be readily used as roll-on/roll off or liner container ships (they are bulk carriers or tankers) (Button et al, 2015). Employment effects associated with the food aid cargo preference mandate are also very modest.

The program is estimated by the Department of Defense to increase employment in the mercantile marine by between about 350 and 495 sailors with U.S. citizenship. In terms of the potential contribution of these individuals to the military preparedness of the United States, when compared to the numbers of navy personnel who leave the US Navy and Coastguard each year (well in excess of 30,000), many of whom can be rapidly retrained to serve as mercantile marine support personnel, these numbers are very modest. The estimated additional cost to the federal government of hiring these additional 350-495 sailors is approximately \$100,000 per sailor (Bageant et al, 2010; Button et al, 2014).

Additional so called “multiplier effects” almost certainly do not exist for two reasons. First, allocating the funds in other ways would have similar initial employment effects in term of numbers of jobs for US citizens (though not in the mercantile marine service) and, second, multiplier effects are in fact much smaller than indicated some recent mercantile marine industry supported studies, recently reviewed by Button et al (2015), have claimed. In the context of an economy that is enjoying some growth, a multiplier effect of one may be too small, but a multiplier effect of two is almost surely much too large, and one of 8.6 (a number used in one study of the employment effects of agricultural cargo preference program) is simply the product of a lively imagination.

*(c). Who are the primary beneficiaries of the government revenues that have to be spent as a result of the food aid related US cargo preference program? Is this just corporate welfare in disguise?*

The older US flag ships typically used for carrying cargo preference food aid have been estimated to have much higher operating costs than US flag ships used to transport goods between US ports because, as they have aged and become slower, these ships become much more expensive to run in terms energy efficiency, labor requirements, and other costs associated with maintaining them (Button et al; Bageant

et al). These additional costs associated with the US flagged older ships mean that they would almost surely not be competitive with other carriers in almost any other market (including ocean based transshipment between US ports that requires cargo preference carriage by US flag ships).

Thus, one reasonable interpretation of the food aid cargo preference program is that it allows the companies who own those ships to continue to make profits from them (Bageant et al; Barrett and Lentz; Button et al.). Effectively, therefore, the primary beneficiaries of the food aid cargo preference program are the companies that own the US flag ships that carry those cargos. Some of the US registered shipping companies, several of which appear to be owned and controlled through holding companies by large foreign based multinationals, seem to exist primarily because that is the way through which those companies can access economic profits from the food aid cargo preference program. Without that program, those older ships, which apparently do not meet the DoD criteria for militarily useful vessels, would otherwise be decommissioned.

*(d). Does the food aid related US cargo preference program have substantive positive impacts on the US economy either through job creation within the US mercantile marine or by creating additional economic activity?*

Any employment effects are trivial and in fact it is not clear that they are positive. Allocating the approximately \$100,000 per mercantile marine job elsewhere in the US economy could well have larger employment effects, depending on where the funds were allocated. The central public policy issue has nothing to do with employment per se, but with whether the food aid component of the cargo preference program increases military readiness in any substantive way. The answer provided by independent assessments of the program is consistently that such is not the case.

### **Local and Regional Sourcing: Issues and Evidence**

The evidence is unambiguous. As Lentz and Barrett (2014) and previous studies have consistently reported (for example, GAO, 2009; Barrett and Maxwell, 2005) local and regional sourcing result in substantial cost savings. Equally importantly, economically efficient sourcing from optimal suppliers and locations substantially reduces the time taken to deliver emergency food aid to where it is needed, dramatically reducing the morbidity and mortality effects on the target populations (Lentz and Barrett).

A politically relevant question is whether allowing for complete flexibility in sourcing food aid would adversely affect US farmers. Most food aid involves commodities traded on global markets such as corn and wheat. To the extent that food aid reform, crucially including a shift to local and regional sourcing, will enable the US government annually to purchase 50 to 60 percent more food aid with any given food aid budget (Lentz and Barrett), the impact will be to increase global annual demand for crops such as corn and wheat.

Clearly, the net effect would therefore be to increase average prices received by US and other farmers for those commodities. It is important to emphasize, however, that for commodities like corn, wheat

and rice, US food aid makes up very small proportions of total world consumption and therefore any price effects would essentially be unobservable. Even for small acreage commodities like peas and lentils, impacts on prices received by US farmers as a result of food aid purchases appear to be very small. For processed commodities like peanut butter, it currently appears that the US remains the optimal source for obtaining food aid. Hence economic impacts on US agriculture from ending the US sourcing mandate are likely to be very small and, in terms of prices received by US farmers could be beneficial (although miniscule in size).

### **The Practice of Monetization**

Monetization, the practice of shipping US food to foreign destinations to be sold by Non-Government Agencies in commercial markets to obtain cash to be used for other aid related projects, is simply a waste of resources (see, for example, GAO, 2011; Lentz and Barrett, 2014). The practice results in the NGOs obtaining 70 to 75 cents for every dollar of tax funds used in the monetization process. A much more effective use of such funds would be simply to provide the NGOs with grants to accomplish the relevant aid related objectives. Unequivocally, to ensure that such funds are used for the intended purposes, USAID and USDA would have to carefully monitor their use, but such monitoring is already needed in the context of the monetization process.

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