USAID distributes food commodities worldwide through Food for Peace, the largest food aid program in the United States. Here, USAID supplies arrive in Tunisia to benefit Libyan refugees.

TIES THAT BIND

In U.S. Food Aid Efforts, Humanitarian Relief and Domestic Interests Both Hurt and Help Each Other

BY CAROLINE TAN

In November 1996, more than 100 government leaders convened in Rome for the World Food Summit, a five-day conference called to address widespread nutrition problems and global capacity to meet future food needs. After nine meetings, the summit ended on Nov. 17 with a pledge to cut the number of chronically undernourished people — then at 841 million — in half by 2015.

In his closing remarks, Romano Prodi, prime minister of Italy and chairman of the summit, was optimistic. "If each of us gives his or her best, I believe that we can meet and even exceed the target we have set for ourselves," he declared. "Twenty years from now, that is how history will judge."

But just under two decades later, the world is far from meeting that objective. Thanks in part to the global recession and rising food prices, the number of hungry has gone up, not down: According to the Food and Agriculture Organization of the United Nations, there were nearly 870 million hungry people from 2010 to 2012.

One way the United States tries to help reduce hunger is through food aid. As the world's largest donor country, the United States allocates about $1.4 billion a year toward food aid, roughly half of the world's total. Sub-Saharan Africa is by far the largest recipient region of U.S. food aid, followed by Asia. (See charts.)

But not all of that money is spent on food itself. Because of the "tied aid" approach, in which a set amount of donated food must be grown in the United States and transported on U.S.-flagged ships, a large portion of the federal food aid budget goes toward shipping and storage costs. According to the U.S. Agency for International Development (USAID), less than 40 percent of food aid funding from 2003 to 2012 actually went toward food commodities. The rest covered storage and transportation costs — 25 percent each — as well as general administrative activities.

Rising transportation costs have caused the volume of food delivered to dip significantly over the last decade, falling from 5 million cubic tons to 1.8 million cubic tons annually. Even as food aid budgets increased, the number of starving people assisted by American food aid abroad dropped during the last three years from 15.5 million to 10.7 million.

Economists generally agree the tied aid policy makes the U.S. food aid program slower and less efficient. But they also agree that the program seeks to accomplish more than just humanitarian objectives. Tied aid benefits American producers, who enjoy the added business and guaranteed overseas markets for their crops. In a practical sense, it's unclear whether these two goals — supporting the domestic sector and pursuing a humanitarian mission — are at odds with one another: If donating food did not provide any benefits to the domestic economy, would Congress authorize it at all?

Origins of Tied Aid

The genesis of American food aid, says economics and agriculture professor Christopher Barrett of Cornell University,

PHOTOGRAPHY: USAID

was really "surplus disposal." Thanks to a policy of price support for agricultural commodities — in which the government bought large amounts of grain to stabilize markets when food prices were low — the United States faced huge agricultural surpluses by the 1950s. Food aid presented an easy way to clear that excess supply and save on storage costs.

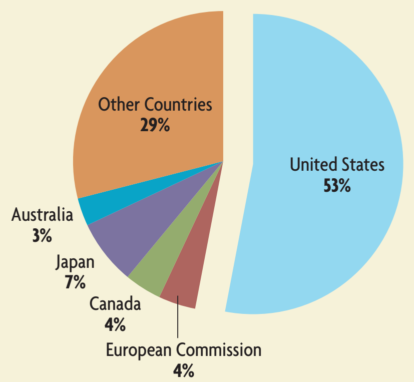
The current food aid program was officially established in 1954 through the Agricultural Trade Development and Assistance Act, better known as Public Law 480. Seven years later, President John F. Kennedy renamed the program Food for Peace, declaring, "Food is strength, and food is peace, and food is freedom, and food is a helping hand to people around the world whose good will and friendship we want."

The program was revised under President Lyndon Johnson by the Food for Peace Act of 1966 (FPA). Since its inception, FPA has been the main legislative vehicle for authorizing food aid, making up 50 percent to 90 percent of total annual food aid spending from 2002 to 2011. (To a lesser extent, the U.S. government also provides food assistance through other channels, including the Food for Progress Program, which is aimed at promoting development.) FPA consists of four primary programs, the most widely used of which is Title II, the "emergency and private assistance" program. Through Title II, U.S. food commodities are donated to meet emergency and nonemergency needs, including promoting economic development, typically in response to cases of malnutrition, famine, natural disaster, and civil strife. All U.S. food aid given under Title II must be grown within this country. (A small exception existed from 2009 to 2012, when the United States donated locally grown food through a $60 million pilot program.) Moreover, under the Cargo Preference Act, 50 percent of food aid must be delivered on U.S.-flagged ships; from 1985 to 2012, that requirement was 75 percent.

Initially, FPA seemed like a win-win situation: Friendly developing countries in need of food would receive free supplies from the United States, and in turn the United States would have somewhere to send its agricultural surpluses. Officials also reasoned that donating food would support foreign policy goals, improve America's image, and help develop strategic partnerships in the Cold War era.

In addition, policymakers believed tied aid could help capture new markets by introducing American goods into recipient countries. "It was officially and explicitly an objective of USAID to change food habits in developing countries," says Frederic Mousseau, consultant for international relief agencies and policy director at the Oakland Institute, an international policy research and advocacy group. "After years of aid, people change food habits and become used to American food. And when that aid stops, they will become clients of food production in the U.S." As an example, Mousseau's research has pointed to South Korea, which he says was one of the largest beneficiaries of U.S. food aid in the 1950s and 1960s and has since become among the biggest buyers of American agricultural goods.

Top Food Aid Donors, 2011



NOTE: Percentages based on contribution to total volume of food aid donated
SOURCE: World Food Programme

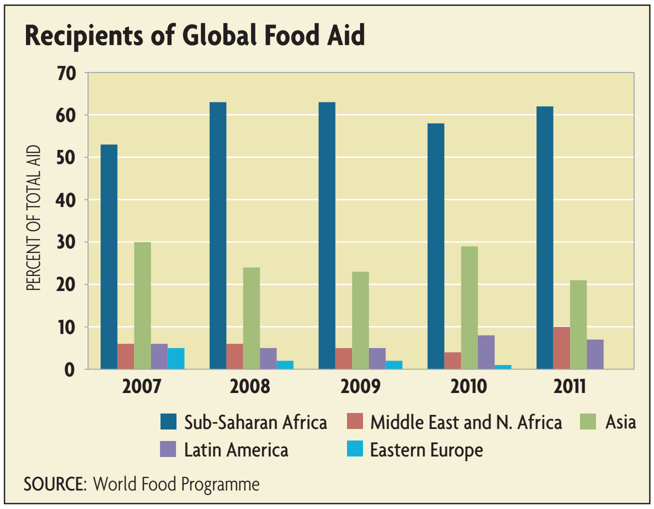
A Subsidy That Slows

The environment that prompted the tied aid system in the 1950s is no longer present. Food surpluses shrank in the late 1980s when the government began rolling back its aggressive price support policies. To justify keeping food aid tied, lawmakers have argued that the existing program helps American farmers and shipping companies, ensures higher-quality food donations, and enhances America's reputation abroad.

Indeed, though food aid accounted for less than 1 percent of total U.S. farm income in 2011, it has been important to the overall output of certain American food producers and shippers. According to a report by Mousseau, food aid from the mid-1980s to the mid-2000s made up about 34 percent of total American dry milk powder exports, 16 percent of rice exports, and 12 percent of wheat exports, as well as more than half of U.S. soybean oil exports. Thanks to the Cargo Act, the shipping industry received about $260 million from food aid transportation in 2002, a number that the charity organization Oxfam International says made up more than one-third of total program costs that year.

Tied aid might also be a way to subsidize American producers without upsetting U.S. trade partners. Subsidies, which often come in the form of cash grants, interest-free loans, tax breaks, or depreciation write-offs, have received pushback in the international sphere because of their tendency to distort markets by crowding out other exporters and causing prices to fluctuate. (See also "Agricultural Policy and Market Distortions," page 11.) During the 2005 Doha Round negotiations — an ongoing series of trade talks that began in 2001 among members of the World Trade Organization — participating nations, including the United States, discussed ways to correct trade distortions in global agricultural markets. The effort ended with an agreement to eliminate all export subsidies by 2013. Mousseau, though, argues that food aid has become a means for the United States to circumvent free trade norms because it "is seen not as a subsidy, but as humanitarian relief and a way to help poor countries."

Because transporting food abroad takes time, the tied aid system slows down America's overall food donation efforts. The Congressional Research Service reported that the tied aid



system delays food shipments by at least four months. A study by Barrett and Cornell University colleagues Elizabeth Bageant and Erin Lentz concluded that it cost taxpayers an extra $140 million in 2006 to ship food on U.S.-flagged ships, while the Oakland Institute estimated that tied aid more than doubles the overall cost of the food assistance program.

In a separate study, Barrett, Lentz, and Simone Passarelli, also at Cornell, found that procuring the food locally — meaning in or near the recipient country — reduced transportation time by nearly 14 weeks. For Barrett, that improvement is a worthwhile trade-off. "As soon as you recognize that the main thing food aid can do is meet humanitarian objectives, then what you most want is flexibility, because time matters, and your budgets are limited."

Reliance on tied aid among other donor countries has declined in part to reduce these inefficiencies and increase flexibility. In the past 15 years, the European Union (EU), Canada, and Australia have all untied their food aid programs, and the amount of global food aid that is tied has declined from 60 percent in the 1980s to less than 25 percent today. In fact, Mousseau says, the United States is the only country still legally required to tie food aid.

Political Economy

Given the recent trend among donor countries to untie food aid programs, why has the United States not chosen to follow suit? According to political economist Jennifer Clapp at the University of Waterloo, the answer lies partially in the structures of the federal authorities responsible for food assistance. For the EU, Australia, and Canada — which have all untied their food aid programs — untying occurred when food aid was run by foreign assistance and development ministries instead of agricultural agencies, which Clapp says insulated it from agricultural lobby groups. Both Australia and Canada also have parliamentary government systems, which means the legislature's ruling party and prime minister enjoy a more unified relationship, enabling more rapid policy change and facilitating reform. Making changes to the U.S. food aid program is much more difficult.

Some observers have wondered whether inefficiency is simply the price to pay for any food aid. Concerns that untying aid would hurt American producers could make it difficult for Congress to do so, especially for representatives from agricultural and shipping districts. It's hard to maintain support for food aid programs, Rep. Gerald Connolly, D-Va., told the *Washington Post* in May, unless they also benefit powerful stakeholders. President George W. Bush recommended untying food aid in every budget from 2006 to 2009, and he was rebuffed each time by Congress. Research supports the idea that food aid flows are linked to the composition of political parties represented in government: Economist Jared Pincin of The King's College found that the greater the variety of political parties in the donor government's legislature, the higher the allocation of food aid, suggesting food aid has been used as a tool to promote the needs of divergent interests.

If hunger relief and domestic concerns are inextricably bound, this would hardly be the first time that political realities made strange bedfellows in the world of food policy. For 40 years, Congress tied the provision of food stamps to its recurring farm bill, seen as the only way to amass enough support to pass either. The two were separated for the first time this summer, when controversial proposed cuts to the food stamps program held up the farm bill vote.

For people focused only on humanitarian gains, the question is whether untying the United States' food aid program would significantly reduce the volume of its food donations. When the European Union untied food aid in 1996, it saw a decline in total food aid delivered, according to data from the World Food Programme. Though Clapp points out that this trend has been one of the most powerful arguments among tied aid advocates for keeping aid tied, she cautions that there may be other factors at play. European governments have been gradually shifting focus from providing food commodities to funding infrastructural improvements that expand long-term access to food — causing total food shipments to decline but not necessarily indicating reduced government support for combating hunger. Neither Australia nor Canada have observed declines in food aid output after untying aid in 2006 and 2008, respectively.

Trying to Untie

In his 2014 budget, President Barack Obama proposed partially untying food aid to allow up to 45 percent of aid authorized under USAID's International Disaster Assistance (IDA) account to be procured locally or provided through cash transfers and vouchers. Obama's proposal also recommended expanding the food aid program by almost 30 percent to $1.8 billion; dividing FPA funding across three USAID-controlled accounts, the majority of which would go to IDA; creating new emergency food assistance funds; and eliminating food aid monetization — a practice in which food is donated to a country's government or to nongovernmental organizations that sell the commodities below market value to finance their development programs. The Obama administration said it expected these changes to expand the food aid program's reach to 4 million more people annually, increase the total volume of food delivered, and speed up delivery by up to 14 weeks.

Though it remains to be seen whether Obama's budget will pass, its sentiments have some bipartisan support on Capitol Hill. Reps. Ed Royce, R-Calif., and Eliot Engel, D-N.Y., proposed a joint amendment to the House of Representatives farm bill in June 2013 that would have allowed up to 45 percent of all U.S. food aid to be bought in or near recipient regions. The amendment was rejected last June, though the vote was close. Royce has also partnered with Rep. Karen Bass, R-Calif., to introduce the Royce-Bass Food Aid Reform Act, which would eliminate requirements that food aid be grown in the United States and transported on U.S.-flagged ships.

There are other ways that researchers suggest food aid policy could be changed to maximize benefits to recipient countries. One would be to focus on promoting "food sovereignty" — in other words, reducing a recipient country's reliance on international aid, similar to what the European Union has been doing recently. The United States could also switch to a cash vouchers and transfers system, donating money instead of food commodities in a system similar to the domestic food stamp program. This transition could give recipients more flexibility in deciding where and what kind of food to purchase, and would reorient the program more exclusively toward humanitarian objectives, even if at the expense of domestic benefits.

Barrett is optimistic that such reforms are on the horizon. "I have a very hard time believing that the American people and Congress are not willing to contribute anything to humanitarian relief if nobody in the United States is making money off it," he says. On the other hand, if 60 years of history are any indication, the U.S. government may well continue to structure food aid to benefit both humanitarian relief and domestic interests, especially in times of slow economic growth. **EF**

Readings

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BITCOIN *continued from page 20*

Grinberg believes that the businesses now involved with Bitcoin are taking those obligations seriously. "The grown-ups have entered the room, and they are trying to follow the rules. On top of that, they often have a deep well of experience in the financial services industry, which should give some comfort to the regulators that it's not just a bunch of money launderers," he says.

Currency Evolved

For regulators and many businesses, this is still a learning period. The European Central Bank released a study on digital currencies in October 2012, concluding that "authorities need to consider whether they intend to formalise or acknowledge and regulate these [currencies]." In the United States, regulators have thus far been cautiously optimistic about Bitcoin. In written testimony submitted to a November Senate hearing, Fed Chairman Ben Bernanke said that digital currencies "may hold long-term promise, particularly if the innovations promote a faster, more secure and more efficient payment system." Other countries, such as China, have restricted the use of Bitcoin, seeing it as a potential threat to financial stability.

Murck thinks Bitcoin still has some more growing to do before it is ready for mass consumption, but he is optimistic. Even if Bitcoin doesn't end up as the digital currency of choice, there could be others. Litecoin, a digital currency "mined" like Bitcoin but with a higher virtual stock of 84 million coins, has been billed as the "silver" to Bitcoin's "gold." And there are others springing up seemingly every week.

Selgin sees potential opportunities for monetary policy using money based on a synthetic commodity, like Bitcoin. If economists and central bankers could agree upon optimal monetary rules, then it might be possible to design a digital currency that carries out those rules automatically.

"It does provide some interesting food for monetary thought," he says. **EF**

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