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**Response to Questions for the Record Received from Senators Corker and Menendez
Supplement to testimony before the United States Senate Committee on Foreign Relations
Hearing on “Modernizing the Food for Peace Program,” October 19, 2017**

Dear Chairman Corker and Senator Menendez:

Thank you for the additional questions you sent following the October 19 Senate Committee on Foreign Relations hearing on “Modernizing the Food for Peace Program.” I am happy to address these for the written record. Below please find your questions in *italics*, followed by my answers. I begin with Chairman Corker’s questions.

1. *You mentioned the human toll from keeping the Food for Peace program unreformed in the Farm Bill—at least 40,000 needless deaths among children. What is the basis for that estimate? Is there any hard corroborating evidence?*

Two different paths both yield a coarse-but-conservative estimate of 40,000 child deaths per year due to the waste arising from statutory requirements related to (i) domestic procurement, (ii) cargo preference, and (iii) monetization that currently restrict United States food aid programs.

First, the United States government (USG) wastes \$350-400 million each year on those three requirements relative to more flexible, best practices.¹ The best current estimates are that it costs roughly \$125 per child life year saved to manage the acute malnutrition that routinely arises in the wake of natural disasters and conflict.² Simple division suggests that waste of \$350-400 million effectively costs at least 3 million child life-years annually. Given global life expectancy at birth of roughly 70 years, a conservative estimate is that we sacrifice roughly 40,000 children’s lives annually because of antiquated food aid policies.³

¹ Erin C. Lentz, Stephanie Mercier, Christopher B. Barrett (2017), *International Food Aid and Food Assistance Programs and the Next Farm Bill* (Washington: American Enterprise Institute). Several passages in this written testimony draw directly on that report.

² Zulfiqar A. Bhutta et al., “Evidence-Based Interventions for Improvement of Maternal and Child Nutrition: What Can Be Done and at What Cost?” *Lancet* 382, no. 9890 (2013): 452–77.

³ This is a conservative estimate because it makes the strong assumptions that only infants die and that life expectancy at birth equals the global average (rather than the shorter life expectancies that prevail in

The second route to the 40,000 child deaths estimate is similarly conservative. A recent peer-reviewed study in a leading academic journal reports the first known rigorous estimates of the impacts of constraints on USG food aid programs on severe acute malnutrition among children and resulting child mortality.⁴ That paper estimates that eliminating the cargo preference and domestic procurement restrictions on US food aid policy could reduce child mortality in northern Kenya by 16 percent during severe drought episodes, a 0.7 percent drop in the absolute child mortality rate. Very conservatively, of the more than 41 million people served last year by the Food for Peace program alone,⁵ one-sixth are children. A 0.7 percent absolute reduction in the mortality rate of roughly 6 million children likewise yields a conservative estimate of 40,000 child lives saved. And please keep in mind that estimate ignores the benefits accruing to the lives and livelihoods of the adults.

2. *Based on your analysis of how Farm Bill requirements divide resources between feeding starving people and program overhead, does Food for Peace operate more like a humanitarian program or a maritime and agricultural subsidy program?*
- a. *Reforming the program would only reduce—not eliminate—reliance on U.S. commodities in lieu of more effective means of feeding people. Can we say unequivocally that this reduction would have little or no impact on our maritime and agricultural industries?*

Even were the Congress to fully eliminate the domestic procurement requirement on US food aid, surely a significant share would be purchased in the US. The simple reason is that ours is the most productive agricultural economy in the world. For deliveries to nearby destinations in the western hemisphere, and of processed, micronutrient-enriched products such as vegetable oils, therapeutic rations, and highly nutritious blended products, US suppliers are typically lower cost than are suppliers in developing countries.⁶ And adequate, safe supplies are not available in all recipient nations at all times, so best practice based on response analysis will often call for commodities to be shipped from the US rather than procured locally or regionally or provided for using cash transfers or vouchers.⁷

most food aid recipient nations), thereby maximizing the child life years lost per death, thus minimizing the estimated number of deaths.

⁴ Alex Nikulkov, Christopher B. Barrett, Andrew G. Mude and Lawrence M. Wein, "Assessing the Impact of U.S. Food Assistance Delivery Policies on Child Mortality in Northern Kenya," *PLOS ONE* 11, 12 (December 20, 2016), <http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0168432>.

⁵ See USAID's Fiscal Year 2016 Food For Peace Fact Sheet: <https://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/quick-facts/fiscal-year-2016-food-peace>.

⁶ Erin C. Lentz, Simone Passarelli, Christopher B. Barrett (2013), "The Timeliness and Cost-Effectiveness of the Local and Regional Procurement of Food Aid," *World Development*, 49(9): 9-18.

⁷ Erin C. Lentz, Christopher B. Barrett, Miguel I. Gomez and Daniel G. Maxwell (2013), "On The Choice and Impacts of Innovative International Food Assistance Instruments," *World Development* 49(9): 1-8; Christopher B. Barrett, Robert Bell, Erin C. Lentz and Daniel G. Maxwell (2009), "Market Information and Food Insecurity Response Analysis," *Food Security* 1(2): 151-168.

Those reductions would have no or negligible discernible effect on United States maritime and agriculture performance. That claim is supported by a large body of careful research, produced by a variety of researchers and institutions which all arrives at a common conclusion: farmers and mariners do not benefit from US food aid programs, while a small number of ship owners and food processors do.⁸

The reason is intuitive. Food aid is tiny compared to the relevant markets.

Food aid commodity procurement in the US amounts to just hundreds of millions of dollars in a several hundred billion dollar US agricultural industry that is tightly integrated into a nearly \$4 trillion global agricultural economy. Food aid procurement has no effect on the prices farmers receive, even for the handful of commodities for which US food aid programs absorb five percent or more of domestic production, such as sorghum, lentils, dried beans or peas.⁹ Not a single rigorous study has ever found an effect of US food aid procurement on American farmers for the simple reason that farm prices and incomes are driven by global markets, not by US food aid programs.

Similarly, the few hundred mariners on US flagged ships that carry US food aid under cargo preference are an infinitesimal share of the almost 55,000 mariners qualified to crew and operate the reserve sealift fleet.¹⁰ The roughly two dozen US-flagged vessels that carry food aid under cargo preference restrictions are likewise a tiny share of the more than 38,000 US flagged coastal freight vessels operating under the Jones Act.¹¹ Food aid cargoes simply do not drive employment or compensation in the highly competitive international ocean freight market.

So who benefits if it is not farmers or mariners? A very small number of vessel owners and food processors (e.g., millers). Statutory restrictions are anti-competitive and thereby generate higher costs and windfall profits to those protected by cargo preference and domestic procurement provisions. A now somewhat dated study estimated that the large corporations that sold cereals to USG food aid programs earned an average price premium of 8 percent above market level.¹²

⁸ Among just the most recent such studies, see, for example, Phillip J. Thomas and Wayne H. Ferris (2015), *Food Aid Reforms Will Not Significantly Affect Shipping Industry or Surge Fleet*, George Mason University report; US Government Accountability Office (2015), *International Food Assistance: Cargo Preference Increases Food Aid Shipping Costs, and Benefits Are Unclear*, GAO 15-666; Stephanie Mercier and Vincent Smith (2015), *Military Readiness and Food Aid Cargo Preference: Many Costs and Few Benefits* (Washington: American Enterprise Institute); and Lentz, Mercier and Barrett (2017).

⁹ Mercier and Smith (2015).

¹⁰ GAO (2015).

¹¹ Maritime Administration estimate: <http://www.marad.dot.gov/ships-and-shipping/domestic-shipping/> (accessed October 15, 2017).

¹² Christopher B. Barrett and Daniel G. Maxwell (2005), *Food Aid After Fifty Years: Recasting Its Role* (London: Routledge).

Similarly, the few owners of a small number of US-flagged bulk and break bulk vessels – many of them foreign corporations – earn 23-46% more relative to open market ocean freight rates.¹³

As other major donor countries – Canada, the European Union, etc. – recognized that the restrictions they had once placed on their own food aid programs generated no significant, widespread gains for their farmers or shippers but did cause real losses that impeded effective humanitarian response, they all ended those restrictions.¹⁴ It is time the US similarly recognized that present restrictions hurt the effectiveness of humanitarian response without generating significant domestic gains.

3. *One of the scare tactics used by the maritime industry is to claim reforms would undermine our national security and sealift capacity. Is that even remotely true based on your research?*
 - a. *GAO found that the Navy's Strategic Sealift Officer Program has never been used for sealift—and the Navy stated they can meet virtually all our sealift needs. Ships capable of moving military cargo receive a \$5 million subsidy every year. Is there a case to be made that we have sufficient sealift capacity without cargo preference—at least without it applied to civilian and humanitarian shipments?*

Detailed studies consistently find that existing sealift capacity provided by the Military Sealift Command, the Ready Reserve Fleet, and the Maritime Security Program – not to mention the Jones Act fleet – provides many times the vessels and mariners needed even under a Stage III deployment, in which the US military must fight more than one major theater war at once.¹⁵

4. *Maritime unions have negotiated for themselves pay and benefits that are not sustainable in the global market. Maritime industry has ensured that it takes three years for a ship to become U.S. flagged. Yet, maritime blames the lowering of cargo preference requirements on food aid as the reason why their fleet is diminishing. What is the real cause of their decline?*

The international ocean freight market is highly competitive. A Maritime Administration study based on (unaudited) data provided by shipping companies found that the daily operating costs of US-flagged ships average 270 percent more than comparable foreign vessels partly because, in general, US-flagged ships are older, smaller, and slower than foreign competitors.¹⁶ These cost structures are unsustainable in a competitive market.

The US flag fleet has indeed declined sharply over time. In 1955, the first full year following the Cargo Preference Act of 1954, US-flagged ships carried 25 percent of US foreign trade; today,

¹³ Lentz, Mercier and Barrett (2017).

¹⁴ Christopher B. Barrett, Andrea Binder and Julia Steets, editors (2011), *Uniting on Food Assistance: The Case for Transatlantic Cooperation* (London: Routledge).

¹⁵ Those studies are cited and summarized in Lentz, Mercier and Barrett (2017).

¹⁶ Lentz, Mercier and Barrett (2017), drawing on MARAD data.

that share has plummeted to 1 percent. The size of the fleet in terms of vessels has also declined substantially over the same period, from 1,075 vessels in 1995 to 175 in December 2016.¹⁷

But the argument that decreased cargo preference leads to a diminishing fleet defies logic. The most basic tests of that hypothesis come from the two moments when the cargo preference proportion of food aid cargo changed. From 1954-1986, only 50% of food aid cargo was subject to cargo preference restrictions. The US fleet declined in size over that period. In 1986, the share increased to 75%. Yet the fleet kept shrinking. Then in 2012 cargo preference coverage fell from 75% to 50% again. And the decline continued. Changes to cargo preference have had zero effect on the steady reduction in the size of the US flag fleet, which arises entirely due to the industry's cost structure.

Let me now turn to the questions from Senator Menendez.

1. *Given the number of humanitarian emergencies around the world, including famine or famine warnings in four countries, what is the appropriate balance between emergency and non-emergency humanitarian assistance, particularly food assistance?*

Non-emergency (so-called 'development') food assistance is extremely important in advancing longer-term food security, poverty reduction and economic growth objectives. The returns to many non-emergency interventions supported by US non-emergency food aid are high.

The highest returns nonetheless come from saving lives and protecting the scarce assets of poor populations in times of disaster. A significant body of research finds that unmitigated shocks in low- and middle-income communities often cause catastrophic losses from which families can never recover economically, not to mention the emotional trauma of loved ones' lives lost.¹⁸ Safety nets supported, in part, by humanitarian aid, including US emergency food assistance, are essential to protecting vulnerable people from poverty traps. Indeed, effective safety nets can also induce investment by the poor by offering some assurance that in times of disaster they will not have to liquidate their livestock, businesses, etc. just to feed their families, thereby reducing poverty relative to spending just on cash transfers for longer-term development.¹⁹

¹⁷ US Department of Transportation, US Maritime Administration(2016), "U.S. Flag Privately Owned Merchant Fleet, 1946-Present," <https://www.marad.dot.gov/wp-content/uploads/pdf/US-Fleet-Summary-Table-1946-2016.pdf>

¹⁸ Much of this literature falls under the topic of 'poverty traps' and is summarized in Christopher B. Barrett, Teevrat Garg and Linden McBride (2016), "Well-Being Dynamics and Poverty Traps," *Annual Review of Resource Economics*, 8: 303-327, and in Christopher B. Barrett, Michael R. Carter and Jean-Paul Chavas, editors (2018), *The Economics of Poverty Traps* (Chicago: University of Chicago Press and National Bureau for Economic Research).

¹⁹ For an analytical explanation, see Munenobu Ikegami, Michael R. Carter, Christopher B. Barrett and Sarah Janzen, "Poverty Traps and the Social Protection Paradox", chapter 9 in Barrett, Carter and Chavas (2018). For empirical evidence see Nathan D. Jensen, Christopher B. Barrett and Andrew G. Mude (2017), "Cash Transfers and Index Insurance: A Comparative Impact Analysis from Northern Kenya," *Journal of*

This is the basic reason why virtually every year for decades the USAID Administrator has exercised the authority to use as much of the total Title II budget for emergency needs as necessary to respond to humanitarian disasters, obviating the statutory direction to meet a non-emergency minimum. This authority has without question diverted funds from other effective nonemergency food aid projects that build rural roads, provide school lunches, or enhance smallholder farmers' productivity. But saving lives and preventing disaster victims' collapse into poverty traps is the best use of food assistance. The populations affected by disasters and war are at all-time highs globally. Currently, there is insufficient food assistance available to address food insecurity associated with those emergencies, so resources should be provided where the bang for the food aid buck is greatest and where funds are most needed.

- 2. In what ways can we best leverage and utilize American-based companies and constituencies with strong connections to recipient countries? Often these organizations find they are unable to break through bureaucratic structures at USAID and contracting offices, preventing them from delivering much needed assistance and relief.*

USAID works with a range of partners based in the US and recipient countries. In my experience, they are always seeking new partners, especially American ones, able to provide high quality, affordable, safe products. The domestic sourcing and cargo preference restrictions imposed on the present procurement system (administered by USDA) make it much harder for new suppliers and constituencies to assist in disaster response because statutory restrictions limit the flexibility of humanitarian agencies. By ending or relaxing existing restrictions, the Congress can enhance the responsiveness of USAID and its partners, including to US-based companies and constituencies eager to assist recipient countries.

- 3. How does Food For Peace coordinate with international relief organizations including the World Food Program? How do we ensure that we are most effectively utilizing our resources and those provided by others in the international community?*

USAID works very closely with its partners here and abroad. For many years, the United Nations' World Food Programme (WFP) has been the largest single partner, by dollar or physical volume, with US international food assistance programs. WFP and a range of other highly impactful and professional relief and development organizations – CARE, Catholic Relief Services, Mercy Corps, Save the Children, World Vision, and others – are constantly refining their operating practices to continuously improve performance. The global humanitarian response system operates at a level of efficiency and effectiveness never before seen. And that is a very good thing given the unprecedented demands placed on the system.

- 4. What specific steps can Congress take to ensure that we are maximizing efficiencies of direct food aid and monetized support for countries in crisis?*

Development Economics 129: 14-28.

The specific steps the Congress can take are those that reduce unnecessary expenses and maximize the flexibility with which USAID and its relief and development partners around the world can respond to humanitarian emergencies and long-term development needs.

First, eliminate or sharply reduce the domestic procurement requirement on all US international food assistance programs.

Second, eliminate cargo preference restrictions on US food aid or direct the Maritime Administration to fully reimburse USAID and USDA for all excess costs incurred due to cargo preference so that the implicit subsidy of a few US-flagged ship owners is explicit and not taken from the scarce budgets used to feed starving people in disasters abroad.

Third, end required monetization and replace food aid programs, such as USDA's Food for Progress program, that monetize virtually all commodities with cash appropriations that can achieve more with lower budgetary outlays, since USDA recovers only 58 cents on the dollar in that program.²⁰

5. *Owing to the disastrous policies of Nicolas Maduro and ongoing repression, Venezuelans on average last year lost twenty pounds because of chronic shortages of basic goods and services. Furthering his grip on power, Maduro has refused to allow humanitarian shipments into Venezuela. What steps can the United States government or private organizations take in this scenario to support the people of Venezuela?*

I have no expertise on Venezuela and thus am unable to provide guidance on this specific context.

6. *How can we work with neighbors in the region, notably Colombia, where some Venezuelans are able to access basic provisions?*

Again, I lack the relevant geographic expertise to provide helpful commentary on this important issue.

Senators, thank you very much for your insightful questions and for your interest. I am grateful for the opportunity to contribute insights from my nearly quarter century of research on these and related topics. Please do not hesitate to contact me if I can be of further assistance.

²⁰ US GAO (2011), "International food assistance: Funding development projects through the purchase, shipment, sale of US commodities is inefficient and can cause adverse market impacts." <http://www.gao.gov/assets/330/320013.pdf>