

# **The International Food Aid Policies of the United States**

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## **Introduction**

The goal of food aid foreign policy should be to provide the greatest amount of aid to as many people as possible. However, the current food aid foreign policies of the United States (US) have strayed from this fundamental objective. In some instances, the country's economic interests in these policies have overshadowed its original humanitarian goals. At the same time, the government must balance these goals with its available budget. The US government can achieve this balance by reforming its food aid foreign policy to improve its efficiency. This brief will summarize current US foreign food aid policies, present three options for reforming these policies, and argue that the US should restructure the system by which it currently buys and sends

food aid, as well as divert funds from development projects to emergency relief.

## **Background of the Case**

The US is currently the largest donor of food aid in the world (Lawrence and Provost). It provides food aid through six main programs, all of which the Department of Agriculture and U.S. Agency for International Development (USAID) administer. The largest of the six is Food for Peace. The program was created when President Eisenhower signed the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). The program aimed to relieve the US of its surpluses by sending them to impoverished countries on favorable loan terms in local currency (US, Congress, State Dept.). Today, Food for Peace uses its allotted budget to purchase agricultural surpluses from American producers. The program then donates these goods to recipient countries through private voluntary organizations, as

well as the World Food Program. In the Fiscal Year 2016, the Food for Peace program provided nearly \$2.8 billion million in food assistance to fifty-five countries (USAID).

In recent years, the goals of the US's food aid system have expanded from humanitarian relief to also include its own economic advancement. In the US, highly mechanized, large-acreage farms—which are often attached to larger agribusinesses—can produce more food at a lower cost than local farmers in the countries receiving food aid. When these agribusinesses produce a surplus, the US government buys the surplus above the market price and ships it overseas, which it then provides for free or well below that market price in the recipient country (Shah). When food aid is not part of an emergency relief program, dumping free or subsidized food into these countries undermines local producers who cannot compete with subsidized prices (Arsenault).

Aid recipients often favor US subsidies because they are cheaper than domestic products. As a result, local producers must fend off unfair international competition to remain in business; this undermines their position in both domestic and global markets. Furthermore, selling particular agricultural products below their market prices can eliminate a country's comparative advantage in that product, thereby hindering their opportunities for international trade on favorable terms (Shah). Consequently, recipient countries remain trapped in a cycle of dependence on the US for the same resources that impede their domestic agricultural production (Clay). These subsidies may appear cheaper, but if the recipients had instead purchased domestic agricultural products, their money would have multiplied several times as it circulated through the economy due to a macroeconomic concept known as the multiplier effect (Shah). Through the

intersecting effects of agricultural subsidies on recipient countries, these food aid policies further tilt the global marketplace for agricultural products toward the US.

Additionally, the US often attaches conditions to both free and subsidized food aid, even in times of emergency. For example, during the summer of 2002, USAID offered \$50 million in food aid to Zimbabwe during a famine. However, Zimbabwe could only receive the aid if it purchased genetically modified maize from the US. For the US, ridding itself of its genetically modified surpluses allowed its farmers and agricultural corporations to remain subsidized without compromising its own market. For Zimbabwe, the genetically modified food's contamination of its local, unmodified crops still has the potential to eventually eliminate indigenous crops and threaten the livelihood of local farmers who produce them. Yet, despite the potential for long-term detriments to Zimbabwe's

agricultural supply, genetically modified food is often the only acceptable form of food aid from the US (Shah). The potentially harmful conditions attached to food aid at the commercial benefit of the US have underscored the evolution of US food aid foreign policy into both a humanitarian and economic endeavor.

The US' current international food assistance policies also exhibit structural mismanagement through monetization and counterproductive food aid purchasing and shipping requirements. Monetization is a process by which the government donates to charities in the form of food aid rather than money. These charities then proceed to sell the food in other countries and use the proceeds for development efforts in those countries. Monetization can drain government funds by complicating the food aid delivery process. In 2013, the US government found that monetization wasted \$219 million over a three-year period

(Schaefer and Riley). Furthermore, when locals buy subsidized agricultural goods from these charities, monetization disrupts local markets and undermines a recipient country's economy—the same economy these charities aim to develop through monetization (Dugger).

Another structural issue that prevents food aid from reaching more people is the requirement that the government must purchase 100 percent of Food for Peace aid from US producers and ship fifty percent of it on US vessels (Brown), (Wroughton and Zengerle). These requirements waste money because purchasing food locally in aid recipient countries is cheaper than purchasing food in the US. For example, buying locally produced pulses—the dried seeds of legume plants—locally can be as much as 31% cheaper (Schaefer and Riley). One reason for this difference is the additional cost of shipping American goods abroad. The average cost of purchasing

American food and delivering it by sea have increased from \$390 per metric ton in 2001 to \$1,180 in 2013. The sharp increase in these prices over a short time period indicates that the costs of buying and shipping US food aid will continue to grow, which will further exacerbate the inefficiencies of Food for Peace's requirements (Schaefer and Riley). These structural issues prevent the US from fully utilizing its budget for food aid, which detracts from the amount of food it can provide to people in recipient countries.

The US' current food aid foreign policy demands the Administration's attention due to the adverse evolution of its goals and the mismanagement of its resources. These weaknesses have threatened to perpetuate—rather than alleviate—starvation in recipient countries, thereby exacerbating a major humanitarian issue in which the US sought to intervene. Furthermore, the mismanagement of resources wastes

taxpayer dollars that the US could have either returned or invested elsewhere.

Despite the need to repair US food aid foreign policy, powerful stakeholders may obstruct reform, which further necessitates the Administration's action. Large agricultural corporations comprise one of the most influential stakeholders. The three American companies that provide the most contracted food aid are Archer Daniels Midland (ADM), Cargill, and Bunge. The government buys their surpluses, which these agribusinesses have produced through farm subsidies, at above-market prices. In fact, since food aid only represents 0.2 percent of the total American agricultural output, the US government's purchase of American farmers' surpluses for food aid has little impact on individual farmers. Instead, the majority of the money that the government uses to buy food aid goes to these corporate agribusinesses. For example, in 2003, Cargill and ADM provided one-

third of all food aid (Brown). These corporations also engage in extensive lobbying efforts to support their commercial interests. In the first three months of 2012, ADM, Cargill, and Bunge reported lobbying expenses of \$360,000, \$340,000, and \$230,000, respectively (Lawrence and Provost). The high expenses with which they can further their interests demonstrate their political clout and influence.

Agricultural interest groups are also stakeholders in US food aid foreign policy. For example, the American Farm Bureau Foundation has criticized suggestions to cut farm subsidies due to the perceived elimination of safety-nets for farmers, such as federal crop insurance, which compensates farmers for crops lost to natural disasters or revenue lost from global market changes (ICTSD). Agricultural interest groups and the farmers they represent have a stake in the extent to which the US government subsidizes its farmers, which

can affect the amount of food aid the US dumps overseas. US charities involved in food aid programs are also stakeholders because they benefit financially from the current monetization policies. The money they receive from selling food aid in a particular region contributes to the development efforts they hope to achieve in that region. In fact, fifteen charities have publicly defended monetization (Dugger).

### **Analysis and Presentations of Options**

#### *Option I*

The Administration can pursue several options to improve the US' current food aid foreign policy. One of these options involves expanding US food aid programs by broadening the definition of "emergency" food aid, reforming—but continuing—monetization, and advocating for food aid as a tool for economic development in recipient countries. Politicians have contested the US' practice of sending food aid to recipients in

times other than an emergency. By expanding the definition of an "emergency" to include a greater number of circumstances, policymakers gain a more substantial, uncontroversial basis for sending food aid to countries who need it. As a result, more countries who are in need of food aid but whose circumstances did not meet the definition of an "emergency" can receive assistance (Singer). This approach would also involve a wider use of monetization. In particular, it would limit restrictions on monetization to allow funding for the US' non-food costs of food aid programs, such as feeding programs for children (Singer).

Most importantly, this policy option centers on facilitating economic development for food aid recipients. Food aid can allow for recipient countries' development by allaying the burdens of repaying structural adjustment loans from the International Monetary Fund (IMF) and

the World Bank. Food aid would provide resources to offset the effects of strict adjustment policies and focus its assistance on vulnerable populations, such as children, the unemployed, and other groups who may struggle after their country implements adjustment reforms (Singer). Also built into this approach is the argument that peace is connected to economic development, which is connected to agricultural development. The US can facilitate these processes by providing food aid to 'developing' countries (Herdt). Furthermore, these countries' development could benefit the American economy. When countries with less wealth grow rapidly through development assistance, their demand for food generally grows more rapidly than domestic producers can meet it. These countries will then turn to countries such as the US to satisfy their higher demand, which will provide the US with more international markets for its products (Herdt).

However, this approach also has potential drawbacks. Using food aid to mitigate the effects of structural adjustment policies provides a short-term solution to a long-term problem. If the US wishes to involve itself in foreign countries' structural adjustment and development policies, it could do so through a different foreign policy tool than food aid, such as using its wealth and hegemonic status to advocate for less powerful countries that receive structural adjustment loans. Moreover, loosening restrictions on monetization could deprive recipients of food aid and waste money. Also, by placing food aid in the hands of private, non-governmental organizations, the US hinges its entire development plan on American political actors. This approach creates the risk that the development programs they facilitate will disappear once they leave the country (Farmer).

*Option II*

Another option is to reduce and reform US food aid policy by capping subsidies to farmers with incomes over a certain threshold, significantly reducing international food aid through the Food for Peace Program, replacing some of its services through monetization, and raising the portion of food aid that must be shipped on US vessels from fifty percent to 100 percent. This is the Administration's current, preliminary proposal. The implications for this policy option include a decrease in strong protections for farmers earning over \$500,000. This reduction would save the US government money, which it could spend on further reforming its food aid practices. The cuts to subsidies could also discourage surpluses, thereby decreasing the amount of food aid dumped into recipients' markets. The Administration's current proposed policy option would reduce food aid by \$1.7 billion under Food for Peace, thereby reducing the amount of food aid the US

could send abroad through the program. This option favors monetization over the goods-based food aid system of Food for Peace (ICTSD). Diverting funds from Food for Peace eliminates further investment in the program's costly requirements to buy 100 percent of food aid from American producers and ship at least half of it on US vessels (Brown). Therefore, reducing the Food for Peace budget could reduce the portion of the food aid budget that the US government wastes on fulfilling these requirements. Additionally, changing Food for Peace's requirements from using US vessels to ship food aid fifty percent of the time to 100 percent could create more US jobs in the shipping industry (Wroughton and Zengerle).

A drawback of this option is its effect on American farmers who depend on federal crop insurance programs, which this option advocates reducing for high-income farmers. Cutting federal crop insurance



could eliminate safety-nets for farmers and inhibit agricultural development. A drawback to reducing the Food for Peace program's budget is the subsequent reduction in the amount of food aid countries receive in the form of food itself. Such a reduction could worsen the level of starvation in recipient countries, especially those who receive aid for disaster relief (USAID). Additionally, increasing the percentage of Food for Peace aid that must be shipped on US vessels exacerbates an inefficiency of the program that this approach is intended to mitigate. By requiring 100 percent of food aid to be shipped on US vessels, the US would spend more money than if it bought and delivered the food closer to the recipient country. Moreover, a greater percentage of the food would take longer to reach its destination, which could worsen starvation in recipient countries who need emergency relief aid.

### *Option III*

A similar policy option would also aim to reform the US's international food aid policies to curb wastefulness, but this option would focus on eliminating the program's inefficiencies rather than reducing the budget for food aid itself. Specifically, it would eliminate monetization, remove Food for Peace's aforementioned buying and shipping requirements, cut the budget for food aid sent for development, and divert most of the difference to food aid sent for emergency relief. Additionally, like the previous option, this policy option would cap subsidies for higher-income US producers. However, it would focus the majority of these limits on wealthy agricultural corporations, who benefit most from the practice of dumping subsidies, rather than individual farmers (Brown). One benefit to eliminating monetization and Food for Peace's aforementioned requirements is that the US government could use the money it saves to

provide a greater quantity of food aid or return more money to taxpayers. Since a large portion of the food aid for development is sent through monetization, the government could use the money it saves from ending monetization for emergency relief instead, which would benefit more people in need of assistance (Shah).

Additionally, reducing the portion of food aid sent for development purposes would encourage aid recipients to establish their own development systems independent of American political actors. Development programs run by locals and not American charities or other non-governmental organizations would encourage these programs' sustainability: Even if American political actors leave the region, development programs would stay (Farmer).

Capping subsidies for corporate agribusinesses would limit the output of genetically modified agricultural surpluses. If the government bought fewer surpluses

from large agribusinesses and capped subsidies, it would discourage these corporations from continuing to produce surpluses, as there would be one fewer avenue through which they could sell them. Therefore, the US would have fewer surpluses to dump onto other countries in the form of food aid. This would also lessen the conditions the US would need to place on emergency food aid in order to protect its agricultural markets. For example, the US could avoid requiring a country enduring a famine, such as Zimbabwe in 2002, to accept genetically modified surpluses that threaten its indigenous crops. A limit on agribusiness subsidies and a higher budget for emergency relief food aid could thereby shift the focus of food aid foreign policy from economic gains to humanitarian assistance.

The cost to the individual workers these agribusinesses employ, however, is one potential drawback of this policy option.

Even if the reduced protections are aimed at agribusinesses rather than individual farmers, the working-class employees of these corporations may suffer as a result. They may see a decrease in pay or benefits if the corporations that employ them experience a drop in business from the government's reduction in surplus purchases. Another drawback of eliminating monetization and cutting the food aid budget for development is the possibility that these policies could ultimately hinder development rather than encourage it. Development programs run entirely by American political actors, such as the programs run by charities who receive food aid through monetization, can be unsustainable. However, these programs may provide the financial foundation for local actors to establish their own programs.

### **Conclusion and Recommendations**

Drawing from an investigation of current food aid practices and the analysis of

each policy option, this brief recommends that the US pursue Option III. This policy option would eliminate the wasteful inefficiencies of current food aid policies without reducing the amount of food aid people receive. Ending monetization will allow the government to put the same funds to more productive uses, eliminate monetization's market-distorting effects in recipient countries, and place more agency over development projects in the hands of the people they affect. Eliminating Food for Peace's requirements to buy 100 percent of food aid from American producers and ship fifty percent of it on American vessels will save money, which the government can use to feed more people or return to taxpayers. USAID estimates that, compared to buying and shipping food aid from American producers, purchasing food aid from producers in recipient countries can deliver food to recipients in critical need eleven to fourteen weeks faster and at a cost of

twenty-five to fifty percent cheaper. As a result, the US could use the same funding to feed between two and four million additional people (Schaefer and Riley). By purchasing more food aid closer to the area receiving it, the US government can save both time and money, which will better fulfill the humanitarian objective of the US's food aid programs.

This policy option will also curb the practice of dumping surpluses into other countries' markets in the form of food aid. Capping protections for corporate agribusinesses will discourage them from producing surpluses because they will be unable to sell as many of their surplus goods to the government above the market price for a profit. As a result, the government will have fewer surpluses that it can dump into other countries' markets under the guise of development efforts. Therefore, these countries will retain their comparative advantages and establish themselves in the

global marketplace without American subsidies impeding that process. In this way, the shift from using food aid for development projects to disaster relief will actually facilitate recipients countries' development by avoiding interference with local markets. This option could also reduce the potential cost of capping subsidies to US farmers' livelihood by focusing on reduced protections for wealthy agribusinesses, which provide the majority of food aid in the form of genetically modified surpluses (Lawrence and Provost).

By saving money and giving more autonomy over development programs to locals, the US can shift its focus away from development food aid and toward emergency relief. One drawback of this reform is that it may impede the extent to which American charities can provide a financial foundation for local-led development projects through monetization. However, independent local programs will

ultimately be more sustainable because they will not rely on foreign political actors for their survival (Farmer). Furthermore, by limiting conditionalities on food aid in times of emergency, the US can feed more people in recipient countries affected by an emergency and avoid the risk of introducing an incompatible crop that threatens local farmers' livelihood. As a result, the US will remove its unintentional barriers to recipient countries' economic growth by avoiding interference in local markets. This policy option better accomplishes the US' food aid foreign policy objectives and is ultimately more sustainable than its current practices.

By pursuing its own economic interests and perpetuating structural mismanagement, the US's current food aid foreign policies have strayed from the ultimate objective of providing the most benefit to the greatest number of people. Resolving the structural issues with the current policies will save money, which the

government can then use to buy more food. Moreover, by limiting the extent to which it subsidizes corporate agribusinesses and buys their surpluses, the government will be able to further prioritize its humanitarian efforts over its economic pursuits. Furthermore, by scaling back on the amount of food aid used for dumping and foreign development projects, the US will prevent its food aid policies from damaging recipient countries' economies. As a result, these countries will be more likely to reach a point where they are not dependent on US food aid to feed their people. The government will then be able to focus on the humanitarian, rather than economic, objectives of its food aid foreign policy.

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