

AEC 841
MODULE 4I--FOOD SAFETY NET PROGRAMS

- I. The course to date has stressed *effective demand* as a motor of the food system
 - A. Helps determine what is produced, where, in what form. Prices as a synthesizer of information on nature of demand and costs of supply.
 - B. Major force in food system dynamics
 - C. But every economy has people who have insufficient effective demand. How does one deal with that problem without disrupting the advantage of the market to reach those who do have effective demand? Leads to question of safety nets.
 - 1. In developing countries, often tied with external assistance, in the form of food aid and food subsidies.
 - 2. In industrial economies, various forms of consumption subsidies, such as income transfers, food stamps, and free food distribution.

- II. In all cases, one of the first line of defense is helping the market serve as many people as possible, through driving down the costs of food for a given bundle of product attributes (including marketing services). (Total costs may rise over time as more services are demanded)
 - A. Linked to the efficiency dimension in judging food system performance.
 - B. Also tied to the equity dimension, in the sense that poor spend a higher proportion of their income on food than the rich. Therefore, increases in the price of food, due either to inefficiencies, monopoly power, or other restrictions in supply (e.g., due to weather) act like a regressive tax.

- C. Even when system is workably competitive and reasonably efficient, some may lack adequate access to food--Food insecurity as problem of inadequate access rather than just shortfall in supply of food.
- D. Most societies develop special programs to help improve access of the food insecure to food. Design issues:
1. Should you give assistance? Answer in almost all societies is yes, at least for some proportion of the population. But much of the debate is how widely to cast the net. Who deserve aid? (Title of 1996 Welfare Reform law: "Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996.")
 2. In what form do you give assistance? Food (or claims on foods--e.g., food stamps) vs cash grants. Belief that access to food is somehow a more fundamental right than access to other goods and services--Implicitly, society doesn't want to accept hunger as a logical outcome of its chosen system of income distribution. Food as a "merit good." Why not just give poor income and let them how to decide how to use it?
 - a. Do food markets work (e.g., in Rwanda, Ethiopia; emergency relief where there are floods, etc.)?
 - b. Do decision makers take welfare of family members into account the way the gov't would? (Money going to drink, etc...)

- c. Do individuals do what is "best" for them? Question of knowledge, self motivation, etc.
 - d. Political economy— Building the coalition for food aid in industrial countries often involves presenting it as a way to expand domestic demand for locally produced agricultural products.
3. How does the food assistance program interact with the rest of the food system? I.e., does it serve to reinforce or disrupt the rest of the food system.
- a. Society can't afford to subsidize food for everybody. So there is need to let market serve those who do have effective demand while assuring access to those who don't. Generalized subsidies can go to extremes--e.g., cheap bread in Sudan, Egypt.
 - b. If you run the food assistance program without taking account of its impacts on food merchants, farmers, etc., can disrupt ability of food system to serve those with purchasing power, leading to more burden on public authorities.
4. How do you deal with leakages? Problem of targeting assistance. -- tradeoff between cost of leakages and cost of controlling access (monitoring costs). Necessary to restrict access to "deserving poor" both to:
- a. Keep financial costs under control

- b. Build political support
- c. Options for targeting (and discuss problems with each):
 - (1) Geographical targeting
 - (2) Seasonal targeting
 - (3) Administrative targeting
 - (a) Income levels
 - (b) Asset levels
 - (c) Nutritional status
 - (4) Self targeting
 - (a) Cash and food for work
 - (b) Fair price shops
 - (c) Self-targeting foods
- 5. Balancing multiple objectives of food assistance programs
 - a. Helping improve food security of poor
 - b. May also be seen as a way of dealing with other food system problems--e.g., as means of disposing of surpluses generated by agricultural support policies.

III. Examination of US food assistance programs in light of these considerations

A. Current Range of activities

- 1. Governmental activities (overhead from Manchester)
 - a. 67% of dollar volume goes through food stamps.

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- b. Another 22% goes through school feeding.
 - c. About 10% in WIC
 - d. About 1% in other programs
 - e. Total = 2.5% of federal budget
2. Private initiatives--food banks, food closets, soup kitchens
- a. Safety net for those who don't qualify or know about gov't programs--referral agencies
 - b. Links to food manufacturing and food service--Accept out of date goods, new product flops, etc.
 - c. Market segmentation/market reinforcement
- B. Cf. free commodity distribution vs. cash grants vs. food coupons--History of US on this issue. Linked to:
- 1. Aims of food distribution system--from surplus disposal to income assistance
 - a. Free commodity distribution started in 1930s--continued to 1961
 - b. Free distribution reappeared in 1980s with surplus commods, esp. dairy products. Same origin within the US as external food aid. Some similar complaints, esp. about commodity content and its impact on diet--full fat cheese, peanut butter, butter, etc.
 - c. Food stamps with initial high purchase requirement
 - d. Efforts to reform welfare to pure cash grants

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- (1) initial efforts failed
 - (2) Tried to cash out food stamps--failed
 - (3) 1979--removed purchase requirement to make similar to a cash grant.
 - (4) But continued concern about "food stamp fraud" - i.e., illegal conversion of stamps to cash. Move behind effort to shift to electronic cards.
- C. Importance in building political base for programs--e.g., in US, vote trading for food stamps. Food assistance now over half of the "farm bill."--31.2 billion out of \$60.2 billion program
- D. WIC program--Special Supplemental Food Program for Women, Infants, and Children--started as pilot program in 1972 and made national program in 1974.
1. Targeted (see below)
 2. Limited to specific foods--milk, peanut butter, cheese, eggs, vit. C foods, etc.-- Some battle to get on the distribution list (\$1.8 bil/yr market)
 3. Linked to counseling on nutrition and health
 4. All evaluations give it a very high mark, with only a few criticisms re:
 - a. Discouragement of breast feeding
 - b. Fat content/animal protein content/restrictions on organic/fresh
- E. General shift from commod distribution to income grant, although WIC remains tightly controlled

F. Relations with rest of food industry

1. Movement from commodity distribution to voucher reinforces demand in system for food
2. Movement from restricted voucher to cash grant reduces positive impact on food industry--see Friday readings.
3. Jockeying to get included

IV. Targeting

A. Food Stamps Program Means Test--Run through state social services

1. no more than 130% of poverty line (3x USDA thrifty diet)
2. Limits on assets (\$4500 for car; \$2000 in liquid assets)
3. Work registration requirement if unemployed. Tightened with 1996 Welfare reform act.

B. WIC

1. Pregnant and lactating women and kids under 5 (if funds permit)
2. 185% of poverty level.
3. Coupons tied to analysis of client's diet
4. Dispute on breast feeding

C. School lunches--cash and commodity distribution

1. Subsidies on all
2. Free or reduced price on some--
3. Disputes on fat and sodium content

4. Impact seems positive--also a vote getter--Cf. Reagan admin.'s attempt to reclassify ketchup as a vegetable.
- D. Private initiatives--Food banks, food closets, soup kitchens
 - a. Growth in 80s
 - b. Link to mfrs for products that flop--tax write-off
- V. Questions of leakages--particularly with food stamps--monetization
- A. Is that a problem?
 - B. Impact on nutrient intake?
 - C. Move to electronic cards
- VI. Scope for self-targeting?
- A. Economic rationale
 - B. Social stigmas of self targeting?
 - C. Political tradeoffs in targeting - Desire from budgetary side to limit expenditures; desire from political side, particularly in poor countries, to spread benefits, particularly if bulk of the population is poor.
- VII. Implications for other countries?
- A. In many developing countries, key issues:
 1. How do you finance safety net?
 - a. How to get productivity growth in economy to support safety net?
 - (1) How widely is the net cast? Problems, e.g., in Sri Lanka in 70s with free rice ration.

- (2) Role of well functioning food market in spurring broader productivity growth.
 - b. Role of food aid as external financing mechanisms.
 - (1) Food aid as a second-best form of aid? Similar to arguments about direct distribution vs. vouchers (food stamps) in the US
 - (a) but political realities make food aid additive to other forms of aid (although this may be changing with WTO rules)
 - (b) Scope for disruption of local food markets high with food aid, in part because of logistical challenges (getting the commodity where it is needed in time) and in part because of the informational challenges (knowing enough about how local food systems operate to know how to intervene sensibly.)
 - (2) Alternative of cash distribution or cash for work? Most evaluations find that it is more efficient.
- 2. How do you implement a food-aid based safety net.
 - a. What commodity do you provide?
 - (1) Disputes about biasing consumption patterns of recipients.

- (2) Can you identify a self-targeting food? E.g., yellow maize meal in E. Africa. NB often marketing policies have prevented emergence of such products to serve the poor, and food aid may be one way to introduce such products, if you allow the market to work—example of Zambia in early 1990s.
- b. 2 approaches to using food aid to support the safety nets: :
- (1) Direct distribution, e.g., via school feeding, food for work, etc. Ideal with free distribution is to give to those who lack effective demand so that you don't displace commercial demand, or you increase their demand at same time that you increase supply. Although this is our image of food aid, only 1/3 to 1/2 of food aid actually moves through direct distribution.
 - (2) Monetization--food aid sold and receipts used to finance some sort of development action, often aimed at improving the food system.
 - (a) Recipients of direct distribution often monetize food aid--development of secondary markets because:

- i) Poor targeting--recipients may not need all that food.
 - ii) Recipients have other needs as well.
- (b) New AID (BHR) requirements that monetization help reinforce the markets.
- (c) To fund specific projects--e.g., title II via PVOs. Typically in the past, the food aid has been just looked at as a source of financing with little consideration of how injecting it into the system affects the food system. Increasing interest in PVOs on this issue.
- (d) To fund policy reform--Title III--now abolished. Often linked to broader market reforms--e.g., in Mali. Note decline in title III. Here, as in food for work, how receipts are used can be critical to longer-term food security.
- (e) Local and regional purchases--Many countries have gone this way, but current debate in US, which cost Natsios his job as USAID director (iron triangle of agribusiness, shippers, and NGOs).

- (f) At what price do you monetize if you don't want to disrupt market? Need to get something akin to import parity price, but how to establish this? Need for market information systems.
 - (g) Whom do you sell to, and under what conditions? Tradeoff between administrative costs and potential impact on market structure (reinforcement of oligopoly).
 - (h) E.g. of experience in Southern Africa in drought and Mozambique on who captured the benefits.
- (3) Movement to food stamps?
- (a) Peterson proposal--convert domestic support programs for ag. in industrialized countries to international food stamps.
 - (b) administrative costs
3. Continuing challenge of how to balance the two. Will probably always need to accept some degree of assistance leakage