



SUSTAINABLE FOOD SECURITY FOR ALL BY 2020

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SUMMARY NOTE

- Panel Discussion:** The Long Arm of Industrialized Countries: How Their Agricultural Policies Affect Food Security
- Panelist:** Alex F. McCalla, Professor Emeritus, Department of Agricultural and Resource Economics, University of California (Davis)
- Title:** The Devastating Impacts of Rich-Country Agricultural Policies on Poverty Reduction and Food Security in Developing Countries

As the development paradigm swung from inward looking, import substitution strategies (which generally taxed agriculture) to open economy, export-led growth, the role of agriculture as a leading sector emerged again as crucial. But agricultural sectors frequently have not lived up to their potential as engines of growth. There have been many propositions to "explain" this outcome: absence of appropriate technologies, overpriced input supplies, inappropriate sector and macroeconomic policies, and inadequate investment in public goods (education, research, health, and infrastructure). Sometimes lack of international opportunities is identified but is not expanded upon. It is my submission that the policies of the rich OECD countries, which protect and subsidize domestic agriculture, are major culprits holding back agricultural-led growth in many poor countries that are in the early stages of the demographic transition and economic transformation.

How can this be the case? Let me tell you the ways.

The anomaly of domestic agriculture policy is that rich countries tend to subsidize heavily a declining agricultural sector which at maturity contributes less than 5 percent to GDP, while poor countries, where agriculture is the dominant sector, tend to tax agriculture — directly and indirectly. In a world not interconnected through trade, it is probably only an issue for rich-country taxpayers and consumers that fewer and fewer large farmers are heavily subsidized. But in a globalized economy where most countries are linked by trade, it becomes a major issue for poverty reduction and food security in poor developing countries.

Rich countries' policy objectives are to support farmers incomes and they have historically have done it by supporting farm prices. However, how you do it depends on whether you are an exporter or importer:

- # *Exporter* — supports domestic prices either by guaranteeing minimum purchase price or making supplemental direct payments to hold internal prices above world price. This requires export subsidies and border control. Higher prices encourages production and discourages consumption leading to increased exports which, when dumped on the world market, depress world prices and increase price instability as countries export domestic instability.
- # *Importer* — life is simpler. Importers can manage the border to restrict imports, which raises domestic prices, increases production, reduces consumption, and reduces imports which also puts downward pressure on world prices. Eventually, high internal prices may so encourage domestic production that importers become exporters and begin to dump exports on the market using export subsidies, even further depressing world prices.

Do the stories sound familiar — the former sounds like the United States, the latter like the European Union.

What are the consequences for developing countries who are trying to pursue an agriculture-led growth and development strategy? They are many and severe.

First, developed-country policies depress world prices. It is clear why that hurts developing-country exporters of the same products (e.g., cereals). But should not it be good for food-importing countries? The answer is, in the long run, probably not. Yes, it saves foreign exchange. Yes, it may absolve countries from investing in rural and agricultural sectors, but it is shortsighted for most countries. It is okay for Hong Kong and Singapore who have no agricultural sector, but it is debilitating to a country where the majority of employment is still in the rural sector. Passing through low global price dampens domestic incentives to improve agricultural productivity — an absolute critical outcome if poor countries are going to "grow" out of poverty. But it is worse than this. Most countries have and will continue to produce the vast majority of their own food supply. On the average, trade makes up only between 10–12 percent of global consumption — numbers admittedly for grain but a fair approximation of all agricultural trade. If agricultural profitability is the key to poverty reduction, then deliberately depressing world price through subsidizing rich-country farmers is a bad policy, which has a devastating effect on poor countries.

But you say, poor countries are in the tropics and sub-tropics and rich countries are in the temperate zone, thus there is not an overlapping of commodities. Wrong — wheat, rice, and maize (corn), all commodities grown in developing countries, account for 60 percent of global calories but beyond this there is much competition in fruit, vegetable, livestock, and fish products. If these products are potentials for export-led growth, they run smack up against import barriers in developed countries. Worse still, domestic processors in rich countries are protected by tariff escalation, that is, by increasing tariff rates with each level of processing, which discriminates against value-adding employment-creating industries in developed countries.

There are further impacts because lack of export markets reduces foreign exchange earnings, making it more difficult to get out of debt.

Domestic price support policies and accompanying border controls in developed countries prevent their domestic adjustments to international instability and allows the export of domestic instability, increasing price instability in international commodity markets.

Even when rich countries agree to "decouple" payments there is no doubt that direct payment of the sort and magnitude as in the United States (US) and the European Union (EU), keep farmers producing and do impact prices.

It is overall a sad story.

There were things that happened in the 1990s that seemed to provide hope for an improving situation. The final Agreement on Agriculture in Uruguay Round appeared for the first time to bring a agricultural trade under the rules of GATT/the World Trade Organization and a new Round to press forward with reducing now tariffed barriers was to begin in 1999 and be completed in 2001.

Second, the U.S. Freedom to Farm Act seemed to be heading the US to direction of reduced farm policy expenditures and a phasing out of farm programs by 2002.

Third, the EU, under extreme budgetary pressure, was committed to reducing support prices and cutting back on export subsidies.

Unfortunately, none of these three promising possibilities is on track. The Seattle debacle has shaken the WTO and decisions about another Round have been delayed even though technical discussions in agriculture are happening. Second, the U.S. Congress and two administrations — both Democrat and Republican — have thrown enormous sums of money into agriculture to compensate for low prices. Proposals being floated for New Farm Legislation for 2002 and beyond seem to be heading back towards more, not less, government support for agriculture. And, third, EU use of export subsidies continues unchecked and prospects for further CAP reform are murky at best.

What are the implications for developing countries? Short answer — not good.

Reductions in subsidies to rich-country farmers, plus opening of their markets, would be a boon for many developing countries. It would lead to high and more stable world prices, improved rural incomes, and increased food security.

Will it happen soon? I used to be an optimist, but on this topic history has always emphatically proven me wrong. Should I continue to be an optimist who sees true reform around the next corner? I doubt it. Getting government out of agriculture in rich countries is going to be very difficult indeed — if it ever happens.