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Viewpoints

The *Natural Resources Forum* is publishing a special issue on Sustainable Agriculture and Rural Development for November 2007. The Viewpoints in this issue will focus on agricultural subsidies.

Experts address the question:
"In your view, do agricultural subsidies in developed countries benefit or harm the majority of the poor in developing countries?"

Subsidized agricultural exports to developing countries and, worse, food aid kill the output markets of smallholders there, who encompass the majority of the world's poor. Especially in sub-Saharan Africa, this unfair competition, together with blatant neglect of agriculture in public policy, hampers agricultural growth. Throughout history, agricultural growth has been the engine of overall economic growth. As such, subsidies and public support to agriculture make a lot of sense. In today's high- and middle-income countries, such support was vital for agricultural growth, which, in its turn, triggered growth in other sectors. Stagnating growth and poverty are the other side of the same coin. Therefore, poor countries should set stiff tariffs for agricultural imports and refuse food aid in kind. This would yield better prices and stimulate their own agricultural production. Import tariffs and aid in cash would provide revenue to enable governments to support smallholder agriculture and agrarian reform. As agriculture is a mode of production of many competitors, there is no risk of inefficient state-protected monopolies as in industrial protection. Thus, import tariffs would allow sharing of the benefits of developed countries' agricultural subsidies enabling a pattern of economic growth that eradicates poverty.

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While developed country subsidies negatively impact poor farmers in the developing world, there is a large category of 'the poor' who currently benefit, and whose fate should be carefully considered when advocating the removal of subsidies. The 'poorest of the poor' are frequently in acute need of food aid from developed countries — with the provision of such aid facilitated by agricultural subsidies. This category of the poor, 1) are faced with desperate survival problems which precludes concern about where the next meal comes from, 2) frequently need food aid to endure a bad year so as not to sell remaining productive assets, 3) often live in ecological / policy / governance environments that result in chronic food shortage and continual food aid need, 4) can be suddenly thrust into the 'poorest of the poor' category by natural or human derived disaster (earthquakes, conflict, global warming), and 5) includes growing numbers of urban poor whose household economies benefit from the cheapest food possible. As a former Country Representative for the Famine Early Warning System in Ethiopia, I observed livelihoods, and analyzed market, remote sensing, and field assessment data that revealed the enormity (and political volatility) of this 'poorest of the poor' category.

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The agricultural subsidies mechanisms have been under continuous use in developed countries, due to political pressures by national farmers. Economically, they must be evaluated through the Pareto efficiency conditions on a worldwide scale. Output and income stabilization are continuous strategic goals for farmers globally. For well organized farming groups, such as those in developed nations, there will always be a natural proclivity to press for increasing government intervention through direct subsidies. One example is production flexibility contracts

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payments (PFC), which provide additional operating capital to US farmers. On a macroeconomic scale, the sustainability of local agricultural output depends on lower imports of farm products, including those from developing countries. As a consequence, developing nations face lower agricultural output, food supply and farming incomes. As the agricultural sector of developing countries has a significant share of added value output, besides a strong participation of the lower income *stratum*, they are significantly affected.

Therefore, the Pareto efficiency conditions do not prevail and the poor people and farmers of developing countries, as well as consumers worldwide and taxpayers of developed nations, are the most negatively impacted groups.

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Given the level of economic inequality in the world, agricultural subsidies and tariffs should be adjusted to address long-term income generation potential for those with the fewest alternative livelihoods, rather than an immediate economic determinism, based solely on short-term gains. Ostensibly, subsidizing farmers in the developed world might limit income potential for farmers in developing countries. However, the larger ecological question to ask is: where might agriculture flourish most efficiently in terms of environmental resource limitations? Subsidies and tariffs should be calibrated to address this question. Therefore, if subsidies are being given to farmers to grow crops in fertile volcanic soil in a developed country with abundant water availability, they might make more sense as compared to farming incentives for poor farmers in a highly arid but impoverished developing country. As the growing crisis of desertification in Central Asia shows, we need an integrated policy response to the issue of agricultural subsidies. While the responsibility of developed countries to provide resources for addressing this challenge remains, the old North–South divide on the matter is not sustainable. The poor deserve a lasting solution to their predicament and not the politicized short-term fix that might be offered by quick market access.

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A news report[1] states that 25,000 American cotton farmers receive subsidies of US$ 4 billion when at the same time farmers in Burkina Faso made a loss of US$ 81 million as cotton prices fell, affecting the livelihoods of almost 15 million people in countries like Chad, Burkina Faso and Benin. However, developed countries within the EU have taken initiatives to check this impact through commitments declared in Mali, 2005. These commitments include reduction of export subsidies for cotton, tariff and quota free access for African cotton producers to the EU Market under the ‘Everything But Arms’’ system, exceptional treatment of cotton in WTO negotiations and decoupling of 65% of EU subsidy support for cotton production. But analysis shows that domestic factors like the existence of a government monopoly in supply of inputs for cotton production, inefficiency in procurement of inputs by producer associations and private traders, outdated production technologies, and lack of warehousing storage infrastructure and credit have reduced the production of value added end products from African cotton impacting export earnings from value added products. Therefore, a holistic approach must consider external factors like subsidies as well as internal factors when judging the impact of developed country subsidies on international trade of products like cotton and the effects on the poor people of developing countries.[2]

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Agricultural subsidies in developed countries harm the majority of the poor in developing countries, because the poor people cannot compete favourably with those farmers in the developed countries whose inputs are subsidized. The cost of production of one commodity in the developed countries is low while the cost of production of a similar commodity in the less developed country is high. In addition, cheaply produced commodities like milk suffocate markets in the developing countries as they are cheaper compared to the commodities produced in less developed countries which are not subsidised.

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[1] From *The Times*, April 9 2007, “The farmers ruined by subsidy”.
[2] The views expressed here are personal.

Agricultural subsidies in developed countries harm the majority of the poor in developing countries while offering only marginal benefits to subsidized agriculture. In many developed countries, agriculture operates on a large scale using the most advanced technology, and is run by a few rich farmers, who do not really need to be subsidized. Subsidies make the products very cheap relative to those in developing countries where farming is small scale, uses traditional technology, and involves a huge number of rural poor peasants. Farmers will be reluctant to continue farming due to lack of economic incentive. Many poor peasants will be jobless and rural economies will not be sustained, since economic growth, in many developing countries, is strongly related to agricultural growth and rural sectors, e.g., Indonesia, where more than 50% work in the agricultural sector. If many poor peasants were to lose their jobs, the poverty level would increase substantially as the economy of the country slows down.

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Not all agricultural subsidies in developed countries are harmful to developing country producers. They might, for example, help producers reduce inputs to protect the global environment and, in any case, nations have the sovereign right to protect their agricultural industries and consumers. However, advantage has been taken of Africa's weak capacity to negotiate its own interests. This is changing. Governance is improving, there is greater African unity and there is real sustained economic growth. This makes African countries more attractive markets in addition to being increasingly sources of scarce minerals. Africa will be a more effective player in WTO and other negotiations and agricultural subsidies will be addressed from that increasingly favourable vantage point.

Africa's growing negotiating capacity will mitigate the adverse outcomes of agricultural subsidies in developed countries. In short, Africa will increasingly demand reciprocity in agricultural production and trade in general.

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As Bill Gates said, when launching the agricultural development program for the world's richest foundation, "no country has gotten rich without raising productivity in its agricultural sector." Agricultural subsidies in rich countries impede this process. These subsidies have a long history (starting in 1688 England with the advent of the Corn Laws), but extensive and aggressive protection of farmers in these countries has only been around for half a century (PL-480, the surplus disposal program in the US, started in 1954). What has been the impact on developing countries? In the short run, over five years or so, the impact has been to lower food prices. Since poor people spend a large proportion of their budget on food, these lower prices have raised the welfare of the poor; but only in the short run. Over the longer run, the artificially low prices in world markets have reduced incentives in developing countries to invest in their agricultural sectors, taken market share away from their farmers, and generally induced an urban bias to development efforts. The net effect has been to slow agricultural development and the structural transformation, which is the only sustainable path out of poverty.

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There is a plethora of evidence to show that agricultural subsidies in the developed countries drive down world agriculture prices and affect the competitiveness of agriculture produce from the developing countries, as is the case of corn from Brazil and cotton from Africa. It also drives impoverished farmers out of business. Developing countries, often affected by natural calamities and extreme climatic variations (e.g., floods in Bangladesh, India and China and prolonged droughts in East Africa) are no match for developed countries with agricultural subsidies and advantageous geographical locations. Governments of developing countries are compelled to divert their scarce resources to provide aid to rehabilitate affected areas, mostly occupied by the poor, rather than to enhance their agricultural capabilities. Not only does this make a large proportion of the resource poor agricultural-dependent population in the developing countries vulnerable, it makes them risk-averse too. Their hard work is negated by the failure to realize economies of scale due to small landholdings, lack of institutional credit, agro-processing and marketing infrastructure. This implies that the agricultural subsidies in developed countries put the poor in developing countries at a double disadvantage and thereby erodes the well-being of the majority of the poor in the developing countries.

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Agricultural production is most successful and beneficial to farmers and the population in general when it is tied to the market forces of supply and demand. Agricultural subsidies can be structured to encourage production or can be "negative" subsidies which pay farmers NOT to produce. Developing country economies are linked to agriculture as a primary engine for growth and prosperity. By competing artificially with developing countries through subsidies, developed countries distort natural advantages, flood markets with crops and depress incomes in developing countries. Equally important is the question of income distribution policies in developing countries. Even if a developing country is prospering, skewed income distribution which does not support lower income sector growth and smaller producers through appropriate fiscal and monetary policies is bound to impact negatively on the majority of poor people.

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