

# The 2008 World Food Crisis

*By Jomo Kwame Sundaram*

## **The Great Hunger of 2008**

Lack of food is rarely the reason people go hungry<sup>1</sup>. Even now, there is enough food in the world, with a bumper harvest this year, but more people cannot afford to buy the food they need. Even before the recent food price spikes, an estimated billion people were suffering from chronic hunger, while another two billion were experiencing malnutrition, bringing the total number of food-insecure people to around three billion, or almost half the world's population. The recent sharp increases in food prices are likely to drive the number of people vulnerable to food stress even higher, with at least another 100 million likely to be chronically hungry. Even before these price spikes, about 18,000 children died daily on average as a direct or indirect consequence of malnutrition (Associated Press, February 18, 2007).

The rapid and simultaneous rise in world prices for all basic food crops—corn (maize), wheat, soybeans, and rice—along with other foods like cooking oils is having a devastating effect on poor people all over the world. The effects have been felt around the world by all except the truly wealthy. Almost everybody's standard of living has been reduced as the middle class becomes increasingly careful about their food purchases, the near poor drop into poverty, and the poor suffer even more. With increased hunger and malnutrition, the young, old, infirm and other vulnerable groups will die prematurely or be harmed in other ways.

It is useful to distinguish between longer term and more recent developments in trying to understand and address the current global food crisis.

## **Longer term problems**

The major increases in crop yields and food production associated with the Green Revolution from the 1960s to the 1980s – with considerable government and international not-for-profit support – gave way to new policy priorities in the 1980s. By then, the threat of starvation had receded in most of the world, and the effort in wheat, corn and rice was not extended to other crops, especially those associated with water-stressed agriculture in arid areas of sub-Saharan Africa. Meanwhile, with Europe, the United States and Japan offering their own farmers large subsidies to encourage production, food became abundant worldwide, and prices fell. For the rich countries, these subsidies and associated

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- I am grateful to David O'Connor, Anis Chowdhury and Rudi von Arnim for their comments and input, but do not implicate any of them.

<sup>1</sup> As Josette Sheeran, the head of the UN's World Food Program, has said, "There is food on shelves but people are priced out of the market." (*The Guardian*, February 26, 2008). *New York Times*, December 2, 2002, headline "Poor in India Starve as Surplus Wheat Rots". *Wall Street Journal*, June 25, 2004, headline "Want Amid Plenty, An Indian Paradox: Bumper Harvests and Rising Hunger". Fred Magdoff (2008). "The world food crisis". *Monthly Review*, 60(1), May: 1-15. Also see Guha-Khasnobis, B, S S Acharya and B. Davis [eds] (2007). *Food Insecurity: Vulnerability and Human Rights Failure*. Palgrave Macmillan, Hammonds Worth, and Guha-Khasnobis, B, S S Acharya and B. Davis [eds] (2007). *Food Security: Indicators, Measurement and the Impact of Trade Openness*. Oxford University Press, Oxford.

protection not only ensured food security, but were also a form of social protection for those in the countryside.

Agricultural experts have, for years, warned of the risks of the flagging efforts to boost food output. "People felt that the world food crisis was solved, that food security was no longer an issue, and it really fell off the agenda," Robert S. Zeigler, the director general of the International Rice Research Institute (IRRI), told the *New York Times*<sup>2</sup>.

As food supply growth slowed<sup>3</sup>, demand continued to grow, and not only due to population increase. From 1970 to 1990, food supply grew faster than the population. Between 1960 and 1970, global grain yields grew by 2.6 per cent per year on average. From 1990 to 2007, the average annual increase rose by less than half, i.e. by 1.2 per cent yearly<sup>4</sup>. But after 1990, the trends have been reversed as the food supply growth rate fell below population growth, according to a US Department of Agriculture source cited by the *New York Times*. The numbers from the World Bank's *World Development Indicators* (WDI) do not support this claim as food production rose by around 36 per cent in 1990-2004 as population grew by only 21 per cent<sup>5</sup>. In recent years, the world has been consuming more grain than it has been producing, cutting into reserves and driving up prices. Early in 2008, as stocks declined further, and investors abandoned their previously preferred financial assets, international grain prices rose sharply.

Meanwhile, many developing countries, most notably China with its large population, have experienced unprecedented economic growth. With higher incomes, diets have shifted towards greater meat and dairy consumption, with increased requirements for grain for animal feed. There has been a tendency to blame the food crisis on such increased consumption<sup>6</sup>.

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<sup>2</sup> The following discussion on the decline of funding for agriculture, especially for research, draws heavily on Keith Bradsher and Andrew Martin (2008). 'World's Poor Pay Price as Crop Research Is Cut'. *New York Times*, May 18.

<sup>3</sup> Rice yields per acre in Asia have stopped rising; there has been no per acre increase for at least a decade, while yield increases are not expected in the near future (*Rice Today*, January–March 2008).

<sup>4</sup> Bruce Stokes (2008). 'Food is different'. *National Journal*, 7 June.

<sup>5</sup> The discrepancy may be due to some treatments of all cereals as food for human consumption, while some cereals are actually used as animal feed and more recently to produce biofuels.

<sup>6</sup> 'Food crisis: Rice blames it on better diet in India, China'. *The Economic Times* (India), 29 April 2008.

This view had been articulated earlier by the Executive Director of the United Nations World Food Programme; see Sheeran, Josette (2008). 'The new face of hunger'. Center for Strategic and International Studies, Washington, DC, 18 April.

According to the World Food Programme country page for India, 'nearly 50 percent of the world's hungry live in India, a low-income, food-deficit country'. While economic growth has probably increased incomes and food consumption for many, many more seem to be worse off. 'The consumption of cereals declined from a peak of 468 grams per capita per day in 1990-91 to 412 grams per capita per day in 2005-06, indicating a decline of 13 per cent during this period. The consumption of pulses declined from 42 grams per capita per day (72 grams in 1956-57) to 33 grams per capita per day during the same period' ('Agricultural production and food availability', *Economic Survey of India, 2007-2008*, Ministry of Finance, Government of India, 2008). The average Indian eats about 178 kg of grain annually compared to 1,046 kg by the average American, i.e. almost six times as much. US per capita grain consumption rose from 946 kg per year in 2003 to 1046 kg in 2007 while Indian per capita grain consumption remained static over the same period (Subodh Varma. 'The U.S. eats 5 times more than India per capita'. *The Times of India*, 4 May 2008). According to the 2007 Arjun Sengupta Report of the National Commission for Enterprises in the Unorganized Sector, the total number of poor and vulnerable increased from 732 million in 1993-94 to 836 million in 2004-05, while 77 per cent of India's working population lives on a little over

Having neglected food security and the productive sectors of their economies for several decades, many developing countries' governments now also lack the fiscal capacity to increase public spending in order to increase food production and agricultural productivity. In recent decades, many developing countries have implemented policies recommended or required by the IMF, the World Bank, and even some western NGOs working in the poor countries of the third world. This trend has greatly reduced policy space in developing countries, especially fiscal space.

The problem has been exacerbated by the significant drop in official development assistance for agricultural development in developing countries. Aid for agriculture fell by more than half in the quarter century after 1980 -- from \$8 billion in 1984 to \$3.4 billion in 2004 in 2004 US dollar terms -- as agriculture's share of total development assistance fell from 17% to 3%. The biggest cutbacks have affected grants to agriculture in poor countries from the governments of wealthy countries and in loans from development institutions that these governments control, such as the World Bank. The Bank cut its lending for agriculture from \$7.7 billion in 1980 to \$2 billion in 2004.

The Green Revolution had led to the creation of a global network of research centres focusing on agriculture and food production, primarily in developing countries, with 14 institutes in Asia, Africa and Latin America, such as the International Rice Research Institute (IRRI) in the Philippines and the International Maize and Wheat Improvement Center in Mexico. Known collectively as the Consultative Group on International Agricultural Research (CGIAR), these research centres have experienced significant budget cuts and face further deep cuts. Commercial seed supplier Monsanto spends seven times as much on agricultural research as these 14 institutes together<sup>7</sup>.

Agricultural research and development has fallen for all crops in all developing countries, while cuts in agricultural research continue. Adjusting for inflation and exchange rates, rich countries cut such grants by about half from 1980 to 2006, from \$6 billion to \$2.8 billion yearly, with the US alone cutting from \$2.3 billion to \$624 million. The United States is cutting, by as much as three quarters, its \$59.5 million annual support for the CGIAR network. All this has adversely affected research on crops and pests, as well as agricultural extension programs to help farmers adopt improved farming methods. Instead of trying to stay ahead of rapidly evolving pests and the changing climate to ensure global food security, support for agricultural research has declined disastrously<sup>8</sup>.

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half a US dollar a day. (also see Indulata Prasad and Anuradha Mittal (2008). *The blame game: Who is behind the world food price crisis?* Policy brief, July, The Oakland Institute, Oakland, CA)

<sup>7</sup> Stokes, *op. cit.*

<sup>8</sup> The case of IRRI research funding and the brown plant hopper menace – discussed in the excellent article by Keith Bradsher and Andrew Martin (2008). 'World's Poor Pay Price as Crop Research Is Cut'. *New York Times*, May 18 – is illustrative:

IRRI researchers say they know how to create rice varieties resistant to the brown plant hopper menace, but that budget cuts have prevented them from doing so. In the 1980s, IRRI employed five entomologists (insect experts), overseeing 200 staff, compared to one entomologist with 8 staff in May 2008. Not surprisingly, corridors at IRRI have many empty offices. But even with a sudden reversal of fortunes for agricultural research, it will take time to produce results.

In the case of the brown plant hopper, there will be no quick fix following years of neglect. After all, the insect is not a new problem. In the 1960s, IRRI pioneered ways to help farmers grow two and even three crops annually, instead of one. But with rice plants growing most of the year, the hoppers — which live only on rice plants — have longer to multiply, feed and cause problems. IRRI responded by testing

As budgets have been cut, spending on plant-breeding programs – needed to improve crop productivity – has declined. IRRI’s budget, which comes from governments, foundations and development institutions such as the Asian Development Bank, has been halved – after adjusting for inflation – since the early 1990s. As a result, ‘[s]everal dozen important varieties of rice have been lost from the institute’s gene bank through poor storage. Promising work on rice varieties that could withstand high temperatures and saltier water — ideal for coping with global warming and the higher sea levels that may follow — had to be abandoned’<sup>9</sup>.

### *Trade liberalization*

The conventional wisdom holds that a free market economy, with minimal government interference, would function more efficiently, and thus become more productive<sup>10</sup>. Hence, governments should stop subsidizing farmers to purchase fertilizers, stop being involved in the marketing, storage and transportation of food, or credit provision, and just leave farmers alone. Following advice to this effect, including from international development agencies, many developing country governments reduced their subsidies for small farmers and consumers, making their lives more difficult<sup>11</sup>.

Rich countries have continued to subsidize and protect their farmers, and their agricultural subsidies and tariffs have undoubtedly undermined food production in developing countries. However, cutting farm subsidies will increase food prices, at least initially, while reducing agricultural tariffs alone will not necessarily lead to an increase in food production in poor countries without complementary support. Some food security advocates have called for rich countries to compensate for the adverse consequences of their own agricultural subsidies and protectionism by providing additional foreign aid to the developing world, targeting production efforts that enhance food security.

Since the 1980s, governments have been pressed to promote exports to earn foreign exchange and import food. Although enhanced agricultural production is

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thousands of varieties of wild rice for natural resistance, found four types of resistance and bred them into commercial varieties by 1980. But brown plant hoppers soon adapted, and the resistant strains lost their effectiveness in the 1990s. An important insecticide also lost its effectiveness, as the hopper became able to withstand doses up to 100 times those that used to kill it. And as the hopper adapted, IRRI was being undermined.

No fewer than 14 new types of genetic resistance have been discovered to address the hopper problem. But with the budget cuts, IRRI has not bred these traits into widely used rice varieties. Even if funding materializes immediately, it would take 4-7 years to do so. Meanwhile, the hoppers pose a growing threat. In May 2007, China announced it was struggling to control the rapid spread of the hoppers there, which threaten to destroy a fifth of the harvest.

<sup>9</sup> Bradsher and Martin (2008).

<sup>10</sup> Joel Millman and Roger Thurow (2008). ‘Food crisis forces new look at farming – Poor nations, and their donors, now rethink emphasis on free trade’. *The Wall Street Journal*, 10 June: A1. A World Bank commissioned review acknowledged “In most reforming countries, the private sector did not step in to fill the vacuum when the public sector withdrew” (*New York Times*, October 15, 2007). According to Jeffrey Sachs, “The whole thing was based on the idea that if you take away the government for the poorest of the poor that somehow these markets will solve the problems....But markets can’t step in and won’t step in when people have nothing. And if you take away help, you leave them to die” (*New York Times*, October 15, 2007).

<sup>11</sup> In 2007, Malawi decided to reverse course and reject the policy recommendations received and reintroduced subsidies for fertilizers and seeds. Farmers used more fertilizers, yields increased, and Malawi’s food situation greatly improved (*New York Times*, December 2, 2007).

desirable, much of the recent emphasis has been on export crop production. While this may help a country's balance of payments, export-oriented agriculture does not ensure sufficient food. Export-oriented agriculture can induce investment in producing higher-priced luxury crops, rather than the lower-priced food crops needed to meet the needs of the domestic population.

Instead of developing their own agriculture, many poor countries have turned to the world market to buy cheap rice and wheat. In 1986, Agriculture Secretary John Block called the idea of developing countries feeding themselves "an anachronism from a bygone era," saying they should just buy American. Increased food production and lower food prices have undoubtedly contributed to poverty reduction in much of the world, but the consequences are complex. Higher food prices affect different poor people in different ways, with food producers possibly benefiting while all others will be worse off.

Some countries that were *previously self-sufficient in food now import* large quantities of food. Net food imports are now true for most developing countries, including sub-Saharan Africa. Madagascar President Marc Ravalomana<sup>12</sup> noted that, 25 years ago, Africa had a surplus of exports in cereals, rice, soy beans and other food products. "Over the years, we increasingly shifted toward imports of these products". Thus, food security went the way of various other government interventions associated with the earlier period of high growth and rapid development associated with the 'Golden Age'. But food should not be treated as just another commodity, and governments should develop appropriate policies, infrastructure, and institutions to ensure food security (not to be equated with total self-sufficiency) at the national or regional level.

Following the recent food price hikes, some countries have lowered tariffs to reduce the impact of much higher prices of imported food, but such stop-gap efforts have had marginal impacts at best. Others -- mainly, but not only net food importers -- have restricted food exports to insulate their populations from rising international food prices by limiting the option of exporting food for higher prices<sup>13</sup>. Such export restrictions have undoubtedly further limited supply to a relatively small international rice trade, thus contributing to price increases, especially for rice.

The World Bank and the WTO still claim that agricultural trade liberalization offers the medium-term solution to the current food crisis even though eliminating food subsidies will raise food import costs in the short term<sup>14</sup>. Even if completed, the Doha Round does not envisage very significant reduction of agricultural subsidies and tariffs, but would further undermine national food security measure while ensuring greater international dependence on relatively few major food exporters associated with the Cairns group. While higher food prices may make food production in developing countries -- for domestic markets and for export -- more attractive to farmers, this will not necessarily reduce food prices, the root of the current crisis. If food prices decline, the incentive to continue food production may be undermined once again<sup>15</sup>.

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<sup>12</sup> Neth Dano (2008). 'Diverse proposals by political leaders at 'food crisis summit'. *SUNS - South North Development Monitor* #6489, 5 June.

<sup>13</sup> Adil Ali (2008). 'India's export ban on foodgrains: A measure to ensure availability of food for its poorest citizens'. The Oakland Institute, Oakland, May.

<sup>14</sup> Such claims are even disputed by advocates of trade liberalization, e.g. see Jagdish Bhagwati and Arvind Panagariya (2008). *Financial Times*

<sup>15</sup> Governments can procure crops from food producers at guaranteed prices or subsidize production, and sell at affordable prices. Such food security policies were widespread before structural adjustment

In any case, the complete elimination of agricultural tariffs and non-tariff trade barriers is certainly not on the agenda in the Doha Round. The reduction of such trade barriers is likely to mainly benefit existing agricultural exporters of the Cairns group, rather than most poor developing countries. Also, it is now increasingly acknowledged – e.g. in the ‘aid for trade’ discussion -- that new productive capacities and capabilities do not emerge automatically following trade liberalization, but need to be supported by appropriate government support measures. Hence, it becomes necessary to ensure a strong domestic supply response with strong public support for domestic productive capacity building.

#### *Other longer term trends*

Other medium and long-term factors have contributed to the current food crisis including:

\* The *growing demand for meat* among those newly able to afford it has increased the use of food crops to feed livestock. Total meat in the world quadrupled from 71 million tons in 1961 to 284 million tons in 2007 (Magdoff 2008). Developed countries have blamed fast growing developing countries, such as China and India, for the food price increases, emphasizing the grain requirements of increased meat production, though FAO trend data do not support this claim.

\* *Over-fishing* is reducing this important animal protein source for many; the consequently higher fish prices thus further burden the poor and the near poor. The problem is acute for both marine as well as fresh water fishing, and the growth of fish farming has proved to be problematic for both ecological as well as nutritional reasons. There is relatively limited progress towards resolving the very complex issues involved.

\* Weather has also adversely affected agriculture in many parts of the world. *Climatic changes* associated with accelerated greenhouse gas emissions are believed to have exacerbated water supply problems, speeding up desertification and water stress, and worsening the unpredictability and severity of weather phenomena, e.g. the decade-long drought in Australia.

\* Forests have long been an important source of food (e.g. forest fruit, ferns, tubers, fauna) for many rural dwellers living close to subsistence<sup>16</sup>. Continued *deforestation* for logging, agricultural land cultivation and other purposes have not only reduced the natural carbon sink potential -- thus accelerating climate change -- and biodiversity functions they have long contributed to. The international community has failed to develop equitable deterrents to deforestation and incentives for forest conservation.

\* Another reason is the *loss of farmland* to other uses. Growing population pressure, urbanization, other non-agricultural uses of land as well as the attraction of non-food agricultural production (e.g. for horticulture) have reduced farm acreage available for food production, while agricultural land is increasingly used to produce commodities other than food, such as bio-fuels<sup>17</sup>.

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programs came in the 1980s. Subsidies and controls are obviously distortions, but the cost of such distortions should be weighed against the benefit of food security and vulnerability to poverty.

<sup>16</sup> Nasi, R., Brown, D., Wilkie, D., Bennett, E., Tutin, C., van Tol, G., Christophersen, T. (2007).

*Conservation and Use of Wildlife-Based Resources: The Bushmeat Crisis*. Secretariat of the Convention on Biological Diversity, Montreal, and Center for International Forestry Research (CIFOR), Bogor. Technical Series no. 33, 50 pages. <http://www.cbd.int/doc/publications/cbd-ts-33-en.pdf>

<sup>17</sup> Fred Magdoff (2008). “The political economy and ecology of biofuels”. *Monthly Review*, Summer.

\* *Soil erosion* is a slow and insidious process, with ominous implications for agricultural productivity in the long term. Most problematically, the inexorable pressures on commercial farmers' short-term interests to maximize net agricultural income threaten soil quality and the efficacy of soil conservation efforts. The quality of top soil, crucial to agriculture, has been declining over the years owing to a variety of reasons related to agricultural and land use practices<sup>18</sup> such as pollution, mono-cropping, misuse of fertilizers, etc. *Water supplies*, so essential for agricultural irrigation, are also under threat as underground aquifers and other sources of water supply are being depleted or compromised by such factors.

Finally, fewer and fewer transnational agri-businesses now dominate marketing, production, and inputs<sup>19</sup>. This comes largely at the expense of small farmers and consumers, particularly the poor, who are forced to trade in a less competitive environment in situations of asymmetric power. Transnational corporations processing agricultural commodities, manufacture and sell food as well as agricultural inputs enjoy increasingly *monopolistic and monopsonistic market power*, enjoying attendant rents<sup>20</sup>. In other words, with such industrial concentration, "market competitiveness begins to decline, leading to higher spreads between what consumers pay and producers receive"<sup>21</sup>. The four largest agro-chemical companies now control 60 per cent of world fertilizer supply compared to 47 per cent in 1997, while the top four seed supply corporations have a third of the world market, rising from 23 per cent over the same decade<sup>22</sup>. Moreover, with less government support, rural credit has often become prohibitively expensive. Although a few agri-businesses have encountered specific problems, most have been profiting exceptionally with the recent price increases.

As such longer term trends exacerbated over recent decades, the stage was being set for a food emergency.

### **Recent developments**

The acceleration of growth in developing countries in the last half-decade has been associated with high primary commodity, especially energy prices. Ocampo and Parra (2008) have emphasized that the boom has mainly involved minerals, particularly oil, rather than agriculture. The prices of the sixty agricultural commodities traded on the world market increased 14 per cent in 2006 and 37 per cent in 2007 (*New York Times*, 19 January 2008). But even among agricultural commodities, world food prices have risen since 2006, especially since early 2008, following the flight of investment from other financial assets to agricultural futures. Nevertheless, Ocampo and Parra (2008) point out that recent agricultural price increases have barely reached the average post-war prices in most cases.

Corn prices began their rise in the third quarter of 2006 and soared by some 70 per cent within months. Wheat and soybean prices also skyrocketed during this time and are now at record levels. The prices for cooking oils (mainly from soybean and palm

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<sup>18</sup> *Financial Times* (2008). Soil under strain. 17 July.

<sup>19</sup> Julie Jargon (2008). 'Reaping what foreign growers sow: US farmers score big profits selling crops from abroad'. *New York Times* July 15, 2008.

<sup>20</sup> E.g. see 'Supermarket Giants Crush Central American Farmers'. *New York Times* December 28, 2004.

<sup>21</sup> World Bank, *op. cit.* For example, the share of the coffee retail price paid by US consumers going to coffee-producing countries declined from a third in the early 1990s to about 10 per cent in 2002.

<sup>22</sup> Stokes, *op. cit.*

oil)—an essential foodstuff in many poor countries—have rocketed up as well. Rice prices have also more than doubled in the year ending in the first quarter of 2008<sup>23</sup> and have almost tripled in recent times. Some other reasons for these recent food price increases will be mentioned below, but for Donald Mitchell of the World Bank, biofuels production is the principal reason:

“The increase in internationally traded food prices from January 2002 to June 2008 was caused by a confluence of factors, but the most important was the large increase in biofuels production from grains and oilseeds in the U.S. and EU. Without these increases, global wheat and maize stocks would not have declined appreciably and price increases due to other factors would have been moderate....The rapid rise in oilseed prices was caused mostly by demand for biodiesel production in response to incentives provided by policy changes in the EU beginning in 2001 and in the U.S. beginning in 2004. The large increase in rice prices was largely a response to the increase in wheat prices rather than to changes in rice production or stocks, and was thus indirectly related to the increase in biofuels. Recent export bans on grains and speculative activity would probably not have occurred without the large price increases due to biofuels production because they were largely responses to rising prices. Higher energy and fertilizer prices would have still increased crop production costs by about 15-20 percentage points in the U.S. and lesser amounts in countries with less intensive production practices. The back-to-back droughts in Australia would not have had a large impact because they only reduced global grain exports by about 4 percent and other exporters would normally have been able to offset this loss. The decline of the dollar has contributed about 20 percentage points to the rise in dollar food prices.

“Thus, the combination of higher energy prices and related increases in fertilizer prices and transport costs, and dollar weakness caused food prices to rise by about 35-40 percentage points from January 2002 until June 2008. These factors explain 25-30 percent of the total price increase, and most of the remaining 70-75 percent increase in food commodities prices was due to biofuels and the related consequences of low grain stocks, large land use shifts, speculative activity and export bans....most other studies have also recognized biofuels production as a major factor driving food prices. The increase in grain consumption in developing countries has been moderate and did not lead to large price increases. Growth in global grain consumption (excluding biofuels) was only 1.7 percent per annum from 2000 to 2007, while yields grew by 1.3 percent and area grew by 0.4 percent, which would have kept global demand and supply roughly in balance. This was slower than growth during 1995-2000 when wheat, rice and maize consumption increased by 1.4, 1.4 and 2.6 percent per annum, respectively.

“The large increases in biofuels production in the U.S. and EU were supported by subsidies, mandates, and tariffs on imports. Without these policies, biofuels production would have been lower and food commodity price increases would have been smaller. Biofuels production from sugar cane in Brazil is lower-cost than biofuels production in the U.S. or EU and has not raised sugar prices significantly because sugar cane production has grown fast enough to meet both the demand for sugar and ethanol.”<sup>24</sup>

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<sup>23</sup> ‘High Rice Cost Creating Fears of Asia Unrest’. *New York Times*, 29 March 2008.

<sup>24</sup> Donald Mitchell (2008). ‘A Note on Rising Food Prices’. Policy Research Working Paper 4682, July, Development Prospects Group, World Bank, Washington, DC.



Some bio-fuels are clearly far more cost-effective and energy-efficient than others, while different bio-fuel stocks have very different opportunity costs for food agriculture (e.g. sugar has not experienced any significant price increase). Developed countries have provided generous subsidies and other incentives for such increased bio-fuel production within their boundaries while developing countries encouraging bio-fuel production have provided far less ‘market-distorting incentives’ to farmers.

According to Brazil’s President Lula<sup>25</sup>, sugar cane cultivation only takes up 1% of the country’s total arable land, with only half of that for ethanol production. He also claimed that ethanol production in Brazil does not encroach on the Amazon where only 21,000 ha are planted with sugarcane on previously degraded pasture land. India, on the other hand, claims to be developing biofuels using non-cereal biomass, crop residues and cultivating jatropha on degraded land. On the other hand, the United States claims that only 2-3 per cent of the 43 per cent global food price increase forecasted is due to biofuels. Hence, the debate over bio-fuels in relation to food availability needs to be far more nuanced, differentiated and specific if we are not to throw the baby out with the bathwater of some undoubtedly poor bio fuel policies in recent years, especially in the wealthy economies.

The *increase in oil prices* has also affected food prices. Commercial agriculture uses a great deal of oil and natural gas for running machinery, producing chemical fertilizers and pesticides, drying crops and transportation. In the United States, Europe and elsewhere, crops are increasingly being grown to produce bio-fuels. Thus, producing corn for ethanol or soybean and palm oil for bio-diesel undermines the use of these crops for food. In 2007, over 20 per cent of the entire US corn crop was used to produce bio-ethanol although the process does not yield much additional energy over what goes into producing it!

Speculation and hoarding are also contributing to the food price spikes. In addition, more securitization, easier online trading, and other financial market developments in recent years have facilitated greater speculative investments, especially in commodity futures and options markets, including those affecting food<sup>26</sup>. As the US sub-prime mortgage crisis deepened and spread in early 2008, speculators started investing in food and metals to take advantage of the “commodities super cycle” as the greenback’s decline relative to other currencies has induced investment in commodities instead. Falling asset prices in other financial market segments, following the sub-prime mortgage meltdown in the United States, may be more important for explaining the recent surge in food prices than supply constraints or other factors underlying longer-term gradual upward price trends.

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<sup>25</sup> The rest of this paragraph draws from Neth Dano (2008). “Diverse proposals by political leaders at ‘food crisis summit’”. *SUNS - South North Development Monitor* #6489, 5 June.

<sup>26</sup> OECD (2008). *The Relative Impact On World Commodity Prices Of Temporal And Longer Term Structural Changes In Agricultural Markets: A note on the role of investment capital in the US agricultural futures markets and the possible effect on cash prices*. TAD/CA/APM/CFS/MD(2008)6. Trade And Agriculture Directorate, Committee For Agriculture, Group on Cereals, Animal Feeds and Sugar, Group on Meat and Dairy Products, Working Party on Agricultural Policies and Markets, 27-28 March 2008. Bart Chilton (2008). ‘Why the London loophole should be closed’. *Financial Times* June 23. Conventional economic theory justifies speculation as conveying relevant market information, but has little to say about speculation due to adverse circumstances affecting other investment options; see Goldman Sachs (2008). *Commodities Research: Speculators, index investors, and commodity prices*. 29 June.

### **U-Turn in Food Policy?**

As is clear from the above, the World Bank has been central to the fate of food security and agriculture over the last three decades, especially by reducing funding for investments in agricultural infrastructure, support institutions and research as well as by promoting trade liberalization. The mid-2007 publication of the *2008 World Development Report* on agriculture for development was the first World Bank flagship publication on the subject after more than a quarter of a century<sup>27</sup>.

The 3-5 June 2008 food summit in Rome saw the articulation of many different ostensible solutions to the world food crisis in the short and medium term<sup>28</sup>. The starkest difference was probably between Food and Agriculture Organization (FAO) Director General Jacques Diouf on the one hand and the alliance of the Washington-based international financial institutions, the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD), led by World Bank President Bob Zoellick, with the former calling for a renewed commitment to food security as the latter urged agricultural trade liberalization as the solution despite the Bank research findings to the contrary (e.g. Mitchell 2008).

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<sup>27</sup> This is not the place to try to summarize or criticize the entire report. The report offers a comprehensive review of many aspects of agricultural production and distribution, even addressing previously unaddressed or poorly addressed issues -- for the World Bank -- such as peasant organizing, political voice, unequal market power, ecological concerns and gender equity.

Surprisingly, the report lacks historical perspective and does not have much to say about the decline of agricultural production in many developing countries. However, the report does acknowledge policy mistakes, making careful references to the consequences of structural adjustment programs (e.g. p. 138). Importantly, chapter 4 of the WDR acknowledges that trade liberalization generates winners as well as losers, and acknowledges that “the overall effect of trade policy reform on farm incomes of food staple producers in the poorer developing countries is likely to be small” (p. 112). The trade openness discussion focuses on export expansion with little acknowledgement of the problems associated with import growth. With no reference to the 1948 Havana Charter’s commitment to trade reform to accelerate growth and create employment, it equates trade reform with trade liberalization, and presumes that trade must be liberalized; in this view, governments are expected to compensate the losers but the report does not specify any mechanisms for international compensation for lost revenue as well as productive and trade capacities and capabilities due to trade liberalization, thus taking a step backward in the aid for trade dialogue.

WDR 2008 acknowledges that transnational corporations dominate a number of agricultural markets, and that “growing agribusiness concentration may reduce efficiency and poverty reduction impacts” (p. 135). It has little to say about corporate power although it acknowledges asymmetric market power and the differential impacts of policies on different segments and strata of agrarian populations. “Concentration widens the spread between world and domestic prices in commodity markets for wheat, rice, and sugar, which more than doubled from 1974 to 1994. A major reason for the wider spreads is the market power of international trading companies” (p. 136). While apparently sympathetic to peasant organizing and enhanced political voice at the national level, it is silent about the challenges posed by asymmetric and undemocratic economic and political power at the international level.

Agricultural financing has begun to recover recently at the World Bank, perhaps due to the preparation and publication of the *2008 World Development Report* on agriculture as well as the current food crisis. The Bank has already agreed to double lending for such programs in Africa, and with the ongoing food crisis, it is likely that such institutions will be expected to commit more to supporting a revival of food agriculture.

<sup>28</sup> Oxfam (2008). ‘The time is now: How world leaders should respond to the food price crisis’. Briefing note, Oxfam, Oxford; Young, Sophie, and Anuradha Mittal (2008). *Food price crisis: A wake up call for food sovereignty*. The Oakland Institute.

At the Rome meeting, Diouf<sup>29</sup> also criticized the failure of rich country governments following the 1996 World Food Summit despite the preparation of many agricultural plans and programmes by many developing countries as well as regional organizations. Consequently, aid for agriculture has fallen in real terms by more than half from \$8 billion in 1980 to \$3.4 billion in 2005. He noted the existence of a carbon market worth \$64 billion in developed countries, but with no funds to prevent deforestation of an average of 13 million ha annually. In addition to protective tariffs, \$11-12 billion were provided as bio-fuel subsidies in 2006, diverting 100 million tons of cereal from human consumption to bio-fuels. According to Diouf, OECD countries provided \$372 billion in subsidies for agriculture in 2006; in one country alone, food worth \$100 billion was wasted annually; excessive consumption by the world's obese costs \$20 billion annually while the world spent \$1.2 trillion on arms purchases in 2002.

The World Bank's Independent Evaluation Group (IEG) has assessed the development effectiveness of Bank assistance in addressing constraints to agricultural development in Africa over the period 1991–2006 in a pilot for a wider assessment of Bank assistance to agriculture worldwide. The study's central finding is that *agriculture has been neglected by both governments and the donor community, including the World Bank.*

The Bank's strategy for agriculture has been gradually subsumed within a broader rural focus, which has diminished agriculture's importance. As much food agriculture in developing countries is deemed to have limited export potential compared to other cash crops, food crops have generally been especially neglected. Like other advocates of trade liberalization, the commitment to food security has been substituted in favour of the notion of 'global food security', with developing countries encouraged to maximize export earnings to pay for food imports and other requirements in a new, ostensibly welfare-maximizing international division of labour.

Both due to and contributing to this, the technical skills needed to support agricultural development adequately have also declined over time. The Bank's limited—and, until recently, declining—support for addressing the constraints on agriculture has not met the diverse needs of a sector requiring coordinated intervention across a range of activities and efforts.

Bank lending has been thinly spread over various agricultural activities -- such as research, extension, credit, seeds, and policy reforms in rural space -- with little recognition of the synergy among them to effectively contribute to agricultural development. Although there have been areas of comparatively greater success, results have been limited because of weak linkages, e.g. of research with extension, and the limited availability of complementary and critical inputs such as fertilizers and water. Hence, the Bank has made little contribution to African agricultural progress in particular as the original Green Revolution's focus on rice, wheat and corn ignored most African food crops, especially those suited to water-stressed conditions, increasingly prevalent in much of the continent.

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<sup>29</sup> Neth Dano (2008). 'Diverse proposals by political leaders at "food crisis summit"'. *SUNS - South North Development Monitor* #6489, 5 June.