

Agriculture in the Global Economy

HUNGER 2003

13th Annual Report on the
State of World Hunger



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Institute

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Printer: HBP, Hagerstown, Md.

Cover photos: PhotoDisc, Jim Stipe, FAO, Margaret Nea

Manufactured in the United States of America
First Edition Published in March 2003
ISBN 1-884361-11-0

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Foreword

Many people will face uncertainty this year. A worldwide economic slowdown means that hundreds of millions of poor families find it even more difficult than usual to provide food for their children. Wars and natural calamities threaten the very survival of millions of people.

While the number of undernourished people in the world has been gradually declining for several decades, the number may be increasing right now. Hunger crises have struck many countries.

One bright spot is the Bush administration's proposal to increase development assistance by \$5 billion annually for poor countries that demonstrate their ability to use the money well. Funding would be channeled through a new Millennium Challenge Account, with the money increasing to the new level between 2004 and 2006. This could be a significant step forward in the fight against global poverty and hunger. Bread for the World's main campaign in 2003, *Rise to the Challenge: End World Hunger*, aims to win funding for the Millennium Challenge Account and keep it focused on reducing hunger and poverty.

While more development assistance is needed, hungry and poor people also must be able to earn a living on an ongoing basis. Most hungry people in developing countries live in farming communities. They work hard to grow their crops, but protectionism keeps some of their products out of the world's biggest markets. The prices they receive for their crops locally are sometimes depressed by imports of subsidized crops from industrialized countries.

The 2003 Hunger Report, *Agriculture in the Global Economy*, urges the United States and other industrialized countries to live up to their free-trade rhetoric and work to eliminate trade-distorting farm policies. That would open opportunities for millions of struggling families to work their way out of hunger and poverty.



Rick Reinhard

Many Bread for the World members live in farm states. In preparation for this report, Bread for the World Institute staff visited California, Minnesota and North Carolina to talk with farmers and rural community leaders. While these people expressed concern about the severe hunger in poor countries, they also expressed anxiety about what the reduction of government subsidies might do to small farmers and rural communities in this country.

In fact, *Hunger 2003* finds that the current system subsidizes a small minority of farmers, and a few wealthy farmers and farm corporations receive huge payments. But most farmers get no help. Some of the money could be better spent on rural development, conservation programs and assistance to poor people in rural communities. These approaches help rural America without hurting poor farmers in developing countries.

U.S. agriculture also could draw some benefit from progress against hunger and poverty worldwide. Hungry families typically spend about three-fourths of their income on food. So when their incomes increase, they mainly buy more food, including some imported food. Take Southeast Asia: As it reduced hunger and poverty, it became a dynamic market for U.S. agricultural exports.

The book of Proverbs in the Old Testament says, "A poor person's field may produce abundant food, but injustice sweeps it away."

The world's richest nations need to reform their farm policies to serve the needs of rural America and, at the same time, give hungry farmers in poor countries a fighting chance to improve their livelihoods.

A handwritten signature in blue ink that reads "David Beckmann". The signature is fluid and cursive, with a long, sweeping underline.

David Beckmann
President
Bread for the World and
Bread for the World Institute

Executive Summary

The world today produces enough food to feed everyone. Yet when farmers in Mozambique sink their hoes into dark red soil, most toil not knowing whether they and their children will go to sleep hungry that night. They face hunger despite hard work because they do not produce everything they need and often receive low prices for what they produce. This state of affairs happens partly because the United States and other developed countries flood Mozambique's markets with cheaper products – subsidized by taxpayer dollars.

Of the 840 million people in the world who are undernourished, nearly three-fourths live in rural farming communities and will continue to do so for generations. Agriculture is central to their ability to earn a living and feed their families. But for developing countries to build their economic potential, the 2003 Hunger Report, *Agriculture in the Global Economy*, finds that industrial-

...industrialized countries like the United States and European Union members should live up to their free-trade rhetoric and work together to eliminate trade-distorting subsidies and tariffs.

ized countries like the United States and European Union members should live up to their free-trade rhetoric and work together to eliminate trade-distorting subsidies and tariffs. As structured, the global agricultural system is stacked against poorer countries.

Many Americans believe the old saying, "Give a man a fish, and you feed him for a day. Teach him how to fish, and you feed him for a lifetime." They want U.S. foreign policy and development assistance to reflect this truism. According to a 2002 survey commissioned by the Alliance to End Hunger, nearly 40 percent of Americans polled say the most effective way to fight world hunger is to help farmers in poor countries produce more food. The second most popular solution is to promote more open markets and economic development in poor countries.

Yet the United States and other developed countries continue to protect their agriculture by paying some

farmers more than \$300 billion in subsidies annually – six times what they give in development aid. Because these payments encourage farmers to produce more, world agricultural markets are glutted with subsidized crops like corn, cotton, sugar and wheat, ultimately leading to lower prices for all farmers.

Current U.S. farm policy enables it to export certain commodities at prices well below production costs; corn, for example, is priced at 20 percent below costs. Though many developing countries have the advantage of cheap land and labor, their farmers cannot compete with these subsidized prices. Unable to sell their products even in national and local markets, poor farmers and rural communities are condemned to a cycle of poverty and hunger.

The current system of agricultural subsidies is not the best way to deal with poverty and economic decline in rural America either. Less than half of U.S. farmers receive subsidies. Economically stressed communities in rural areas would be better served through economic development initiatives, business promotion, job training, infrastructure development and direct assistance to poor families. Subsidies have been in place for generations, and some farmers would need time and help to adjust without them. But a better path must be found that supports America's rural economies and provides U.S. farmers with feasible options without distorting global markets.



Marty Lueders



Marty Lueders

Last year, the Bush administration took a significant step forward in the fight against global poverty and hunger by proposing to increase development aid by \$5 billion annually for poor countries that demonstrate their ability to use the money well. Funding would be channeled through a new Millennium Challenge Account, with the money increasing to the new level between 2004 and 2006. If achieved, this increase should include important new funding for agriculture and rural development. But poor countries also need access to U.S. and other developed country markets for their agricultural products.

New research released in this report indicates that the elimination of subsidies and protection in industrialized countries would allow developing countries to triple their annual net agricultural trade (exports minus imports), from \$20 billion to \$60 billion. That is about two-thirds the value of all development and humanitarian aid provided by industrialized countries. Getting European countries to liberalize agriculture is especially

important to developing countries, but reforms in North America and Japan also are needed. The impact of liberalization would vary among developing countries, and some low-income food-importing countries would need help in coping with less food aid and higher food prices. But over time, nearly all developing countries, especially poor rural populations, would benefit from the liberalization of agriculture.

In fact, liberalizing agriculture is in the interest of rich and poor alike. The estimated gains to all countries from the elimination of trade-distorting subsidies and tariffs in developed countries would be \$100 billion, according to the International Monetary Fund. Most of the gain would go to consumers in industrialized countries themselves.

Reducing world hunger also would contribute to peace and security. And it would increase demand for agricultural products. Poor, hungry families spend most of any increase in income on food, including food imports. As East Asia reduced poverty and hunger in recent decades, it became a dynamic market for U.S. agricultural exports.

Of course, trade alone cannot solve the many complex problems facing poorer countries. Developing countries themselves must support agricultural and rural development with research and agriculture extension, roads and communication networks, credit, and storage facilities. Property rights and involving poor people in decision-making processes, especially women, also are important. Industrialized countries can help by increasing poverty-focused development assistance. But reforming global agriculture would raise farm prices and improve export prospects, so that hungry rural people have more opportunity to work their way out of poverty.

The many powerful interests at stake in global agriculture will make reform difficult. But unless the reform process begins, farmers and their families in Mozambique and other poor countries will not escape the grip of poverty and food insecurity. Farmers and communities in rural America will face continuing economic decline as well.

The farm policies of industrialized countries are contributing to the persistence of world hunger. Yet an agricultural system that really works to sustain rural communities and feed the world is within reach.