The causes of hunger

Imposing the liberal economic model

Liberalism is often attributed by some observers as one of the main causes of hunger in the world, and by others as one of the solutions to the problem of development and undernourishment. In this document, we will try to understand how the liberal model progressively took over during the last four decades and what it implies for the eradication or perpetuation of hunger in the world.

The issue of debt

In many countries after the time of independence, there was a period of intensive investment for development through the building of production infrastructure, investment in industry and heavy intervention of the newly independent state in the economy (e.g. subsidies to consumers, enforcement of stable food prices through government or parastatal organisations in charge of market management).

These efforts were strongly encouraged by the International Financial Institutions, particularly during the 70s when these organisations had huge quantities of liquidity (petrodollars) that resulted from the oil shocks that had occurred during that decade. The staff of these organisations were driven to promote investments with the view to recycling these funds, often to the detriment of the rigour that would have been required to ensure the profitability of the investments to be financed. It was then frequent to find in technical documents considerably overestimated expected results from the investments made (unrealistic yields, overstated areas, etc.). Many non-viable projects were thus funded that borrowing countries would never be able to pay back their loans to funding agencies.

Stabilisation and structural adjustment programmes

The decrease in price of agricultural and mining commodities observed during the 80s drove borrowing countries into a state of insolvency which led to debt renegotiations. The Bretton Woods organisations (IMF and World Bank) because of their mandate, and in case of the World Bank because of its role as main lender, took matters into their own hands. They implemented stabilisation and structural adjustment programmes in borrowing countries that were geared towards improving public finance conditions in exchange of policy conditionalities. Policies thus imposed aimed at reestablishing balanced budgets in the concerned countries by cutting expenditures and reducing trade deficits through currency devaluation so as to make imports more expensive and exports more attractive for consumers. These programmes also translated themselves into a withdrawal of the public sector from the economy, a decrease in public employment and social programmes, and diminishing - sometimes stalled - investments, as well as the privatisation of a large share of public organisations.

These policies were based on two main beliefs that are at the basis of liberalism:

- The public sector is, by essence, inefficient and it should therefore be reduced to essential primary functions leaving all other activities to the more efficient private sector

- The economy should specialise in what it can do best and stop performing activities in which it does not perform well and that produce goods that can be imported at a cheaper cost (what economists call comparative advantages): for this, borders need to be opened and tariffs on international trade abolished.

Unfortunately for the countries involved, these programmes have only rarely been successful. The measures adopted did not really improve sustainably the state of public finances but they drove a large part of the population of these countries into abject poverty and economic marginalisation. Indeed, in many countries, there were no private operators capable to take over activities from which the state was withdrawing. This led to the collapse of entire parts of the economy. Applying the theory of comparative advantages brought an increased specialisation of countries in areas in which they were already the strongest (in the case of agriculture, the production of tropical products inherited from the colonial period), and little space was left for efforts that could have been made for improving competitiveness in other areas through new investments. Finally, a strong increase in the availability of tropical products on world markets (all countries being encouraged to produce the same commodities) for which demand was limited (e.g. coffee, cocoa, tea, etc.) led to an even accelerated fall in commodity prices which further weakened the financial and economic situation of exporting countries. A vicious circle...

WORLD TRADE ORGANIZATION

WTO (World Trade Organisation)

These liberal policies were finally crystallised at the time of the creation of WTO on 1st January 1995. WTO is a follow-up to GATT (General Agreement on Tariffs and Trade) which had been created in 1948 by 23 countries[1] with the aim of setting and applying rules for the regulation of international trade. For a long time, negotiations within GATT did not deal with agricultural commodities. But the subsidy policies pursued by the US and Europe – contrary to the liberal economic policies that they have been advocating for non-

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[1] Australia, Belgium, Brazil, Burma, Canada, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, New Zealand, Norway, Netherlands, Pakistan, South Africa, Southern Rhodesia, Sri Lanka, Syria, UK and US.

industrial countries - had led to an oversupplied world market. This encouraged countries such as Argentina, Australia, Canada and New Zealand to call for adjustments that would give them a share of the market that would be more in line of their production potential. The negotiations that led to an agreement on agriculture and the creation of the WTO at the time of the signing of the Marrakech agreement in 1995, created a system where subsidies and protections were to be progressively dismantled. The base year taken as a reference for the founding members of WTO, and on which these reductions would have to be preformed was 1986-88. For new members after 1995, the reference was to be negotiable. Most of the countries which were implementing stabilisation and structural adjustment programmes, had already dismantled their subsidy and protection systems during the 80s. So these were very low, often non-existent, by 1986-88. Their adhesion to WTO, often accepted so as not to be marginalised from the rest of the world and excluded from the world market, resulted in a «legalisation» of these very liberal policies within WTO, thus setting economic liberalism as the background for the future.

In the meantime, industrial countries found ways to circumvent this liberalisation and maintain their subsidies by changing the way they were paying them out to their producers. This was made possible through the classification of subsidies in three categories within WTO according to the level of distortion they were introducing in commodity markets: highly distorting, slightly distorting and non-distorting subsidies, for which three WTO ‘‘boxes’’ were created (amber, blue and green). The so-called non-distorting subsidies (green box) were the only ones that did not have to be reduced according to WTO rules. Consequently, industrial countries progressively moved their subsidies from the amber and blue boxes to the green box where they could be maintained without reduction. This explains why total support to agriculture by OECD countries which was estimated in current US dollars by OECD at $344 billion in 1995-97 actually *increased* to $409 billion in 2011! ‘‘Do as I say, but don’t do as I do’’...

Consequences

The main consequence of imposing the liberal economic model on non-industrial countries has been to put producers with very different levels of productivity, scale and support in direct competition with each other. It is quite evident that under the circumstances the less productive and protected producers have little opportunity to see their living conditions improve and to graduate out of poverty and hunger

Some figures to illustrate this situation:

	United States	Mexico	Mali
Average cereal productivity (ton/ha 2010-2012)	6.6	3.4	1.4
Support to production/farm ($ 2012)	38000	1300	300*

* Estimate for 2010
Sources: FAO and OCDE

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