



THE FOOD CRISIS AND LATIN AMERICA: Framing a New Policy Approach

Even though world commodity prices have somewhat stabilized since October 2008, the alarming increase in global food prices over the past thirty-six months continues to warrant immediate measures to address the failures in the global food system.

Rapidly increasing prices for staple foods from 2006 to 2008 culminated into a worldwide food crisis: inflation soared, food shortages were prevalent, and a lack of purchasing power among millions of the world's poor has led to widespread hunger and desperation. The consequences of this situation are far-reaching and far from being resolved. Today the global financial crisis dominates world headlines, but the virtual disappearance of the food crisis from the agendas of policy makers and from mainstream media coverage is misleading. Despite this decline in visibility, the dire effects of the food crisis on world hunger and poverty persist. With the prices of many commodity crops including corn, rice, wheat, and soybeans more than doubling over the past two years, millions have seen their access to basic foods jeopardized. The latest FAO reports indicate that another 40 million people have been pushed into hunger this year primarily due to higher food prices, bringing the overall number of undernourished people in the world to 963 million (compared to 923 million in 2007).¹

State governments have clamored to stem soaring inflation while the United Nations, international financial institutions, and other world leaders have proposed emergency funding, food aid in-kind, increased loans for agriculture, and expanded access to cash transfers for desperate populations.² In what has become not only an immense policy challenge but a wide-reaching struggle for basic needs, global leaders must continue to debate the best way forward and take steps toward effective change.

This Policy Brief examines the food crisis as it has affected Latin America and the Caribbean. As a result of the crisis, the number of hungry and malnourished Latin Americans has increased, boycotts and rioting have caused widespread social unrest, and governments have desperately tried to control food prices through emergency policy measures. Despite some relief as reflected in recent reports indicating a downward turn in commodity prices, store shelves across the region are still void of affordable food. With the U.N. Food and Agriculture Organization (FAO), Organization for Economic Cooperation and Development (OCED), and the U.S. Department of Agriculture (USDA) predicting food prices to stay well above the 2004 levels through 2015 for most food crops,³ the region's poor – the 200 million people living on less than two dollars a day – continue to struggle in meeting their most basic of needs.

While several factors are cited as short-term causes of the dramatic rise in food prices, much of the problem behind the lack of access to and affordability of food in the region is explained by the evolution of Latin America's trade and agricultural policy over the past three decades. Beginning in the 1980s, Latin America as a region enacted the most sweeping reforms to its trade policies in the world, and it produced dramatic increases in agricultural trade as a result. But have these gains done anything to shield the region from inflation in world commodity prices? Have they made Latin America more food secure? These are the questions this report seeks to answer. In sum, the reality of the food crisis - the suffering and the desperation - paints a vivid picture of Latin America's vulnerability despite its overall productivity in agriculture and its overall positive balance of trade in food crops. This crisis has exposed flaws in the neoliberal approach to economic development and thus implores that we seek alternative approaches for trade and agricultural policies.



FAO's most recent estimates indicate there are now 963 undernourished people in the world. Most of them live in rural areas where their main source of income is the agricultural sector. Photo Credit: FAO/Johan Spanner

Latin America's Food Crisis

Huge leaps in commodity food prices over the past 36 months have led to soaring inflation and scarcity throughout the world. Many of the major price increases were in basic staple crops: between 2006 and 2008, the average price for rice rose by 217 percent, wheat by 136 percent, and maize by 125 percent (Figure 1).⁴ The variety of short-term causes attributed to price increases include the slowing of production growth in grains, erratic weather patterns due to climate change, the decline of global stocks in grains, the rising price of energy, increased production of biofuels, and surges in speculative investment in commodity markets.⁵

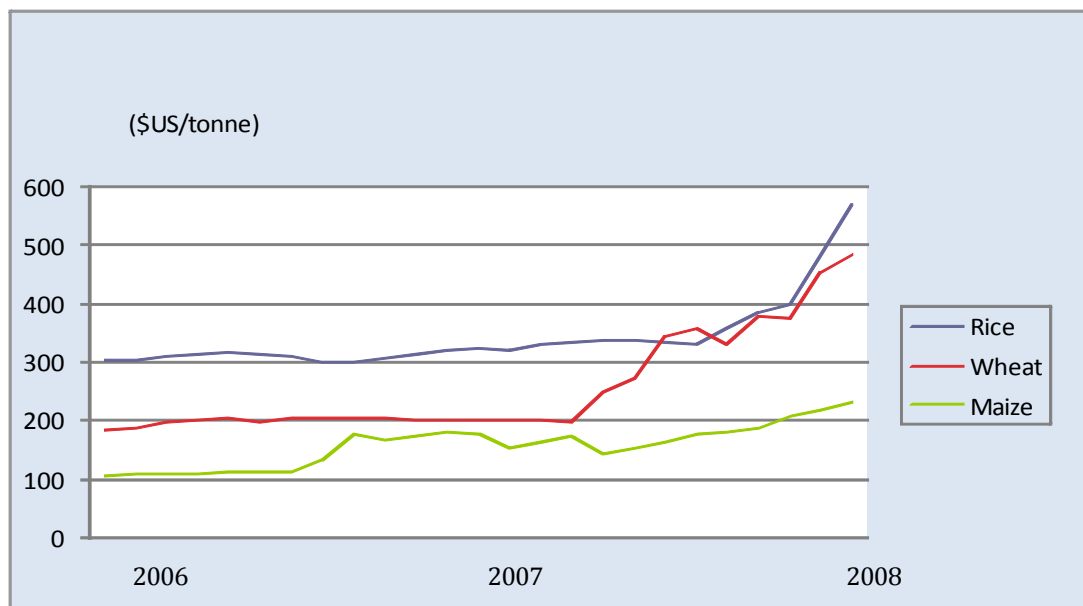


Many Latin American households across various socio-economic strata now have difficulty purchasing basic foods. This Venezuelan woman is cooking moro - a typical dish made of rice and beans. With prices for such staples having increased at alarming rates, families such as this one struggle in meeting daily food needs.

Photo Credit and Interview: Giuseppe Bizzarri/FAO

Not all countries and people have been equally affected, but overall, those suffering the most direct consequences are the poorest of the poor. U.N. Secretary-General Ban Ki-moon called the food crisis the "crisis for the most vulnerable,"⁶ as it is the poor who spend the greatest percentage of their income on food, and so are least able to purchase higher-priced food.

Figure 1: Cereal Price Increases 2006-2008



Source: *Crop Prospects and Food Situation*, No. 4, October 2008. FAO. p.1

Latin America has experienced severe inflation as a result of the food crisis, with seven countries seeing double-digit food price inflation over a three-year period.⁷ In countries like Honduras and Guatemala where poor households allocate nearly 70 percent of their spending on food, even small price increases place severe pressure on household finances and entire livelihoods.⁸ Today in Haiti, the price of a single sack of rice (1,500 goud) far exceeds the minimum wage of a day's work (70 goud), while a single cup of rice costs 19 goud and a cup of beans, 25 goud – about a third the earnings of an entire workday.⁹

Putting a stop to the positive trend of a growing Latin American middle class, the food crisis is now creating a new face of poverty in the region. A study produced by the Economic Commission for Latin America and the Caribbean (ECLAC) estimates the food crisis will cause up to 15 million Latin Americans to join the 70 million

Figure 2. Projections of Indigence and Poverty According to Food Price Increases

	2007 Projection		Projections considering price increases			
			Considering price increases of 15%		Considering price increases of 5%	
	%	Millions of people	%	Millions of people	%	Millions of people
Indigence [¶]	12.7	68.5	15.6	84.2	14.7	79.1
<i>Change with respect to the situation in 2007</i>			2.9	15.7	2.0	10.6
Poverty ^{¶¶}	35.1	189.5	37.9	204.5	37.0	199.6
<i>Change with respect to the situation in 2007</i>			2.8	15	1.9	10.1

* Indigence denotes those living in households whose daily income or consumption is less than 1 dollar per person

** Poverty denotes those living in households whose daily income or consumption is less than 2 dollars per person

Source: ECLAC (Economic Commission for Latin America and the Caribbean)

already living in extreme poverty (Figure 2).¹⁰ Moreover, projections from the FAO Committee on Food Security indicate hunger and malnutrition now rising, a sharp reversal after years of advancement toward World Food Summit (WFS) and Millennium Development Goal (MDG) targets for hunger reduction.¹¹ Overall, the number of malnourished Latin Americans is expected to increase by 6 million, from 45 million to 51 million people.¹²

How People are Coping

For many Latin Americans, the food crisis has meant scaling back and dealing with food shortages. In Venezuela, people formed lines around the block to buy food because basic foodstuffs such as meat, milk, and sugar were in such short supply.¹³ Popular protests from citizens groups and farm group alliances petitioned their leaders as eggs, milk, and cooking oil became unaffordable.

The most vulnerable have been forced to drastically reduce daily caloric intake resulting in increased health problems related to under-nutrition.¹⁴ “What we are seeing is the emergence of a new group of nutritionally and food-insecure people among the poorest strata of the population,” says World Food Program El Salvador Country Director who is coordinating a regional study of the impact of recent rising prices in the Central America.¹⁵ Initial estimates reveal that the actual calorie intake of an average meal in rural El Salvador today is roughly 60 percent of what it was in May of 2006.¹⁶

Where suffering has been widespread, citizens have reacted out of anger and desperation. In El Salvador, demonstrators marched in the streets banging pots and pans and demanding action to prevent the further inflation of food costs.¹⁷ In Haiti, a country overwhelmed by extreme poverty that has seen 50

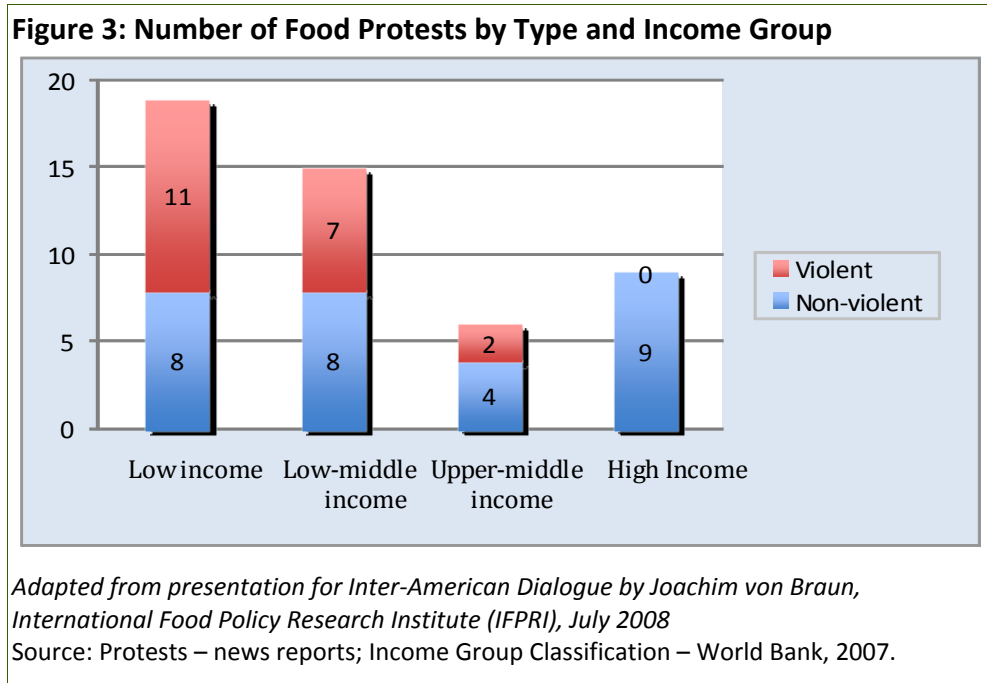


July 2008: An aid worker collects bags from the villagers at a distribution center in Jean Rabel, Haiti to be used for carrying rations of food supplies. The government of Mexico had donated 20 tons of food supplies for distribution by the United Nations Stabilization Mission in Haiti.
Photo Credit: UN Photo/Logan Abassi



April 2008: UN Peacekeepers secure the streets around Haiti's National Palace following the outbreak of protests against escalating food prices.
Photo Credit: UN Photo/Logan Abassi

percent increases in just five months for basic staples, mass protests exploded into rioting in April, as stores were looted and angry crowds rammed the gates of Haiti’s national palace. Throughout the region, forty-nine mass protests among both the rich and the poor (20 violent and 29 non-violent) have been documented since the beginning of 2008 (Figure 3).



Government Responses

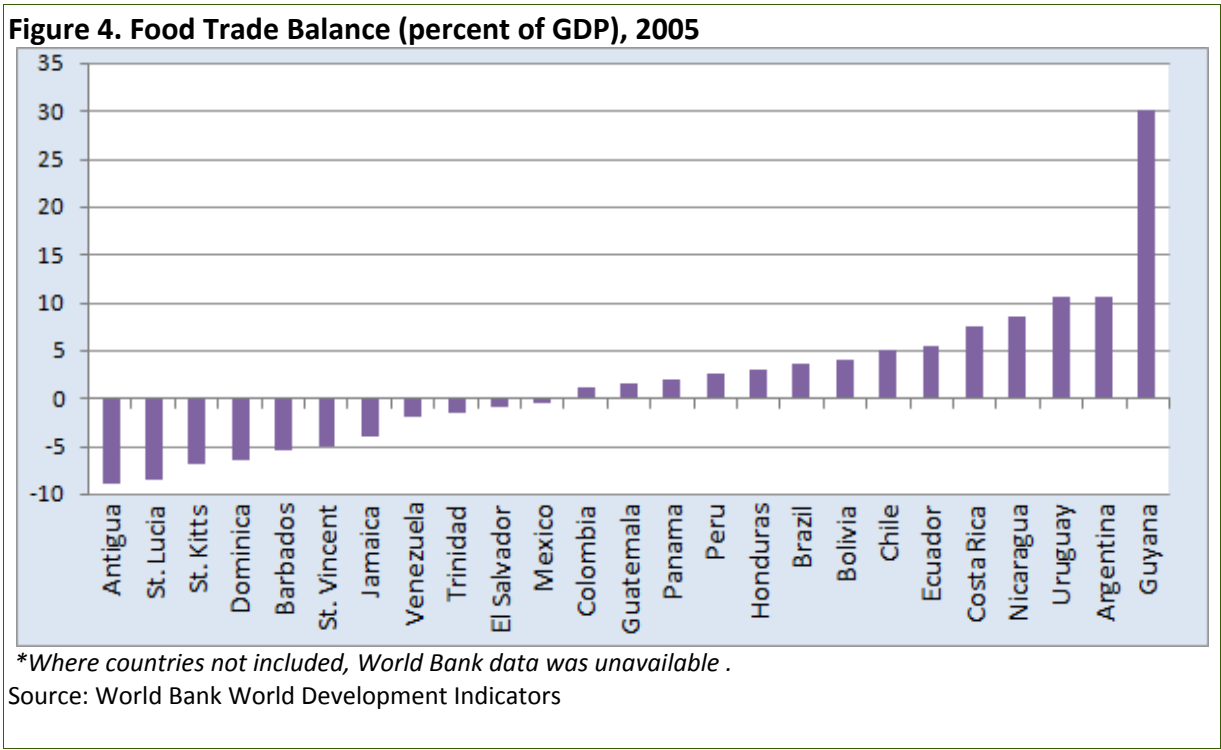
Governments throughout the region are attempting to hold down prices through a number of stop-gap, emergency measures. For example, Brazil announced temporary suspension of rice exports in April.¹⁸ Around the same time, Argentina suspended the sale of wheat to its principal importer, Brazil, in an attempt to curb inflation.¹⁹ In June, Mexican President Felipe Calderón struck an agreement with food producers to freeze prices for 150 products until the end of the year.²⁰ All in all, nearly every Latin American government has implemented one or more economy-wide policies to control inflation whether it be reducing or abolishing import tariffs, placing export bans on commodity crops, providing consumer subsidies, or reducing taxes on food grains.²¹

Many analysts generally criticize these stop-gap measures as they inhibit the functioning of free market forces. As one analyst from the Center for Strategic and International Studies points out, short-term measures such as Mexico’s price freezes distort the consumer price index and ultimately the ability of the government to implement other social and development initiatives.²² “The consumer price index is used to calculate minimum wages, other social benefits, and pensions, and the index will not give incorrect signals.”²³ A Senior Associate for Rights and Development at the Washington Office on Latin America agrees. “Holding down prices is a positive but short-sighted policy solution to the soaring food prices that are hurting poor households from Argentina to Mexico to the Caribbean. A long-term strategy that increases food supply and addresses the underlying reasons for the crisis must be developed.”²⁴

Latin American countries have also come together to seek collective solutions to the crisis. Leaders of several regional bodies including the Economic System for Latin America (SELA), the Latin American members of the Food and Agriculture Organization (FAO), and Inter-American Institute for Cooperation on Agriculture (IICA) convened in recent months to discuss the crisis. Among the various solutions proposed are targeted social programs for vulnerable groups and specific economic policies that control supply and demand of given commodities. In one of the more aggressive regional responses to the food crisis, ALBA (also known as Petrocaribe),²⁵ a trading bloc comprised of Venezuela, Nicaragua, Bolivia, Dominica, and Cuba agreed to a number of novel measures to promote food security among member countries. Nicaraguan President Daniel Ortega, Bolivian President Evo Morales, Cuban Vice President Carlos Lage, and Venezuelan President Hugo Chávez signed a series of accords to promote mutual agricultural development, create a joint food distribution network, and generate a [US]\$100 million ALBA food security fund backed by oil revenues.²⁶ This unique government-regulated distribution network, ALBA Foods, will be owned jointly by member countries and will adhere to policies agreed upon in the bloc’s Food Security Treaty.²⁷

Scarcity Amid Abundance

The scarcity and hunger resulting from the food crisis directly contrasts the robust agricultural productivity Latin America has seen in recent years. A region rich in land and natural resources, Latin America is a huge food producer and exporter of commodity crops. From 2000 to 2004, food production in Latin America increased at a rate of 3.5 percent per year, and in 2004, exports grew by an extraordinary 22.9 percent (nearly triple the 2003 growth rate of 8.9 percent).²⁸ Latin America is an overall net exporter of food, boasting a surplus of \$40 billion in agricultural crops and commodities; only the Caribbean Islands, Mexico, Venezuela and El Salvador are net food importers (see Figure 4 for breakdown of food trade by country).²⁹



Despite impressive levels of agricultural production and trade, extreme inequality plagues the region. For example, Brazil is the world's top exporter of beef, third-highest exporter of soy, and one of the world's biggest food producers, and yet 14 million of its 188 million inhabitants are hungry, while another 72 million do not have regular access to meals.³⁰ The FAO estimates that Brazil has enough food to provide up to 2,960 kilocalories a day per person, above the recommended 1,900 kilocalories.³¹

Why, then, does there exist scarcity amid such abundance? The scarcity Latin Americans are experiencing is clearly not a lack of supply, but rather a lack of purchasing power within countries where food sovereignty³² has been undermined over the past three decades. Small farmers and rural communities have rarely benefited from the opportunities that agricultural trade can offer. How can this be? The story begins with the history of agricultural production and trade in the region over the last thirty years.



Agricultural output has soared in the region for many commodity crops such as wheat, corn, and soy. Despite increased supply, decreased purchasing power among the poor as commodity prices increased has left millions without access to basic foods.

Photo Credit: FAO/H. Zhang

Latin America's Neoliberal Reforms

In the wake of the debt crisis of the 1970s, Latin American countries raced to adopt World Bank-mandated, IMF-enforced “structural adjustment programs” in order to be eligible for debt relief. Comprised of liberal economic measures, these so-called Washington Consensus³³ policies based on neoliberal theory promised the reinvigoration of economic growth: deregulation, privatization, and trade liberalization became the guiding economic principles for policy makers. Throughout the 1980s and 1990s, Latin American countries adopted sweeping reforms, which drastically liberalized trade, including slashing import tariffs, opening their borders to foreign goods and investment, and devoting their best land and financial incentives to commodity crop production for export – primarily to Northern markets. The details and effects of these policies will be further elaborated in the following sections.

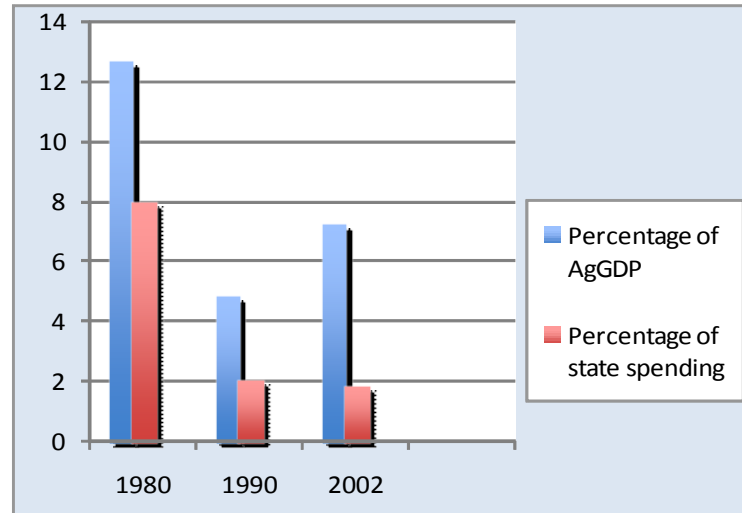
Liberalization: The Solution — or the Problem?

Liberal economic policies like decreasing public expenditure on agriculture and eliminating or reducing barriers to trade were major components of the larger neoliberal approach for spurring agricultural trade and production in Latin America.³⁴ Indeed, the agro-export sector has grown to occupy an important position in

many Latin American economies, and the overall balance of trade for the region presents an impressive surplus. However, the food crisis helped to expose the ways in which, despite net gains, these policies have actually decreased food security and undermined local production throughout the region. Is it worth the trade-off?

The withdrawal of state funding for agriculture increased the vulnerability of countries in the face of price shocks and import surges. Liberalization encouraged the withdrawal of the state from agricultural production.

Figure 5: Trends in public spending on agriculture for LAC, 1980-2002



Source: Akroyd and Lawrence (2007)

Argentina, for example, slashed agricultural expenditures by more than 80 per cent over the past two decades, and spending now barely reaches 1 percent.³⁵ In Guatemala, from the late 1980s to the late 1990s, the number of civil servants in the farming sector was reduced from over 20,000 to approximately 700, representing a loss of more than 95 per cent of government staff.³⁶ Overall, in Latin America and the Caribbean (LAC), real expenditure on agriculture declined sharply between 1980 and 1990 from \$30.5 billion to \$11.5 billion.³⁷ It has recovered somewhat since then (in 2002 it reached \$21.2 billion) but remains below the 1980 level (Figure 5). LAC also experienced the steepest decline in spending to agriculture as a proportion of total government expenditure, falling from 8 percent to less than 2 percent over the same period.³⁸

Furthermore, under liberal reforms, state marketing committees were eliminated. These committees (in other cases referred to as “marketing boards”) before existed in many countries as the entities responsible for the marketing and distribution of agricultural products. Such agencies used price floors to support producers and price ceilings to protect consumers. Their responsibilities included buying food from farmers, and storing, selling, and distributing commodities according to need and market supply. Under liberal reforms, such committees were eliminated across the region, deemed an inefficient usage of state funds. The market, they were told, would do the job of these committees, and they would do so more efficiently.

Reducing barriers to trade eroded food self-sufficiency and thus the food security of Latin American nations.

Many countries that were once food self-sufficient became net food importers. Between 1985 and 2002, average tariffs for the region fell from 50 percent to just over 10 percent.³⁹ This is particularly precarious for countries such as those in Central America where agriculture accounts for as much as a quarter of GDP and a third of all employment. In such cases, the flooding of domestic markets by foreign imports has completely undermined local production. For example, Haiti was self-sufficient in rice, its main staple, until the 1980s when trade liberalization policies took hold. Under IMF recommendation, Haiti slashed its rice tariffs from 35 percent to 3 percent in 1995, and today Haiti imports 82 percent of its rice.⁴⁰ In a similar story, Guatemalan imports of U.S. wheat, rice, and yellow corn have soared in recent years, and today only 2 percent of the

wheat now consumed in Guatemala is grown domestically. These levels of dependence on foreign imports ultimately leave the food security of the nation in the hands market mechanisms.

Latin America's 'Comparative Disadvantage'

The general response of the international community has largely been the continuation of business as usual. Major international bodies including the World Bank and the IMF have pushed for increased liberalization in order to confront the food crisis. While making supply available is an immediate need to stem hunger, long-term solutions to preventing future crises cannot allow current liberal policies to prevail in the global food system. There are several factors, which demonstrate why, under current production and trading systems, Latin America and the majority of the developing world have a distinct, systematic disadvantage vis-à-vis developed countries. When you break down the global food system to compare developed world versus developing world realities, the inherent defects are startling.

Unfair global trade rules systematically place most Latin American producers at a disadvantage while continuing to benefit Northern producers. Trade rules promoted by the World Trade Organization (WTO), World Bank, and the IMF allow rich countries' agriculture subsidies to artificially depress the prices of foods such as corn and wheat. In the U.S. and in Europe, agricultural subsidies are granted to farmers according to the quantity of commodity crops produced, which floods the market in commodity crops and drives down the global price.⁴¹ The EU channels nearly \$100 billion dollars a year to its farmers in subsidies under the Common Agricultural Policy (CAP), and the United States, nearly \$50 billion a year under the US Farm Bill.⁴² This puts Latin American farmers at a disadvantage for two reasons. One, developing country farmers cannot compete with these artificially depressed prices. Two, removing tariffs in developing countries and approving international trade agreements has meant that rich nations such as the U.S. are able to dump their heavily subsidized surplus crops in developing countries, thereby destroying their agricultural base and undermining local food production. Further, free trade agreements do not guarantee adequate safeguard mechanisms for developing countries to protect their vulnerable sectors in the case of price shocks or import surges.



In Venezuela, José works on a sugarcane plantation and makes the equivalent of \$32 USD per week. This income, combined with his wife's babysitting job, provides just enough money to feed their family. Theirs is the type of household – those making just enough to get by – who have greatly suffered from food price surges, and who have most likely descended into poverty as a result.

Photo Credit and Interview: Giuseppe Bizzarri/FAO

Latin America is disadvantaged by the fact that Northern companies have captured the markets along the value chain of most agricultural commodities. Rich countries control nearly every level of the value chain between a commodity's production and consumption from patented seeds, agro-chemicals, machinery, and even credit to trade these products in the first place.⁴³ It is commonplace in poor countries for a small number of intermediaries (traders, buyers, or brokers) to have the power to set prices in local markets when they buy produce directly from farmers. Notes a recent Oxfam report, "the greater the market power at each stage within the chain, the greater the difference between the original price received by the producer and the price paid by the end consumer – usually at the expense of small-scale producers, who have less bargaining power."⁴⁴ This is why, incredibly, small producers of *tortillas* in Mexico have seen a decline in their share of profits, from 0.29 percent to 0.24 percent since 2004, in spite of the fact that the price of tortillas has *doubled* in that time.⁴⁵ Without the ability to determine fair prices, Latin America's small producers will always be the losers.

Concentration of production within agricultural markets puts Latin American countries at a disadvantage. In our highly imperfect global agricultural markets, we see that the benefits of trade are not shared equally among countries or among large and small producers. Rather than distributing assets and services fairly, markets have become increasingly concentrated, with a few large companies and intermediaries becoming the main point of contact with markets for small farmers.⁴⁶ Wheat, corn and rice are produced in only ten countries of the world, and six companies control 85 percent of the global trade of grains, with three of them controlling nearly all trade of corn.⁴⁷ Cargill, the world's biggest grain trader, achieved an 86 percent increase in profits from commodity trading in the first quarter of 2008.⁴⁸ A recent study by the Washington Office on Latin America (WOLA) points out that in order to compete in such a concentrated and powerful sector of the global market, countries need a relatively high level of industrial development and infrastructure, a level that most Latin American nations have yet to reach. If you remove Argentina and Brazil from the equation, the report argues, the rest of Latin America has demonstrated little capacity to compete in major agricultural markets.⁴⁹ Export-led production is clearly not the answer, then, for those countries that remain. As UN researchers have noted, "free market rules in a context of highly concentrated property and imperfect and missing markets [lead] to the marginalization of otherwise perfectly viable enterprises."⁵⁰ As one Center for International Policy (CIP) analyst urges, "Institutions of global governance must take a hard look at the human cost of allowing a handful of transnational companies to control so much of our global food supply."⁵¹

The rise in demand for biofuels,⁵² particularly in the U.S. and the E.U., is another major factor affecting commodities markets and concentrating grains production. Due to rising prices of fossil fuels, fears over energy security and climate change effects, and U.S. and E.U. policies supporting biofuels (in the form of subsidies and tariffs on imports), production and the use of biofuels has skyrocketed over the past several years. The proportion of grains grown to produce biofuels is growing along with this demand, with the quantity of U.S. corn used to produce ethanol increasing by 53 million metric tons between 2002 and 2007 (accounting for 30 percent of the total global growth in wheat and feed grains use).⁵³ The rapid increase in biofuels production is further motivated by the U.S. Renewable Fuel Standard aiming to increase ethanol use by 3.5 billion gallons between 2005 and 2012 as well as the E.U. target of increasing the proportion of biofuels used in land transport to 10 percent by 2020.⁵⁴

This newly emerging global market for biofuels is leading to major shifts in land use, lowering grain stocks, and exacerbating speculative activity in commodity grain markets. Remarkably, these consequences related to

increasing biofuel production are responsible for a 70 to 75 percent increase in food prices, according to a recent World Bank report.⁵⁵ The FAO has expressed concern that crops for biofuels will compete with food crops for water, land, and capital and thereby increase food prices, putting at risk access to food for the poorest sectors.⁵⁶ Despite such warnings against the conversion of land use from food crops to oilseeds, the expansion of monocultures for biofuel crops under a corporate-controlled industrial agricultural system is moving ahead with little public debate and participation.⁵⁷ For example, agribusiness giant Archer Daniels Midland (ADM), one of the largest producers of ethanol from corn in the United States, has already diversified into soybean-based biodiesel in the U.S., Brazil and Europe, and in November 2008 expanded into sugarcane based ethanol through a \$500 million joint venture with Brazilian ethanol maker, Grupo Cabrera.⁵⁸ In effect, the sugar-ethanol industry is becoming further concentrated and vertically integrated at the same time as Brazilian peasants continue to struggle for access to land and agrarian reform.⁵⁹ These are clearly major issues that must be addressed in order to reconcile concerns over access to land and affordable food for Latin America's vulnerable sectors in the face of the rapidly growing biofuels industry.

Taking a Closer Look at Free Trade Agreements

Several Latin American countries including Mexico, Peru, Chile, and the Central American countries are engaged in bilateral or regional free trade agreements (FTAs) with the United States. Such agreements eliminate barriers to trade for certain products so that trade through specialization, division of labor, and via (the theory and practice of) comparative advantage.

While FTAs may stimulate trade for agricultural sectors, their impact on overall development has proven problematic. The example of Mexico is most telling. In the 1980s, under IMF recommendations, Mexico eliminated agricultural subsidies and price support programs for producers. Further, Mexico dismantled both its state marketing committees and the National Company for Popular Subsistence (CONASUPO, a body which retained 15 to 20 percent of production for distribution to remote areas).⁶⁰ Then in 1994, Mexico entered into the North American Free Trade Agreement (NAFTA) with the U.S. and Canada. Due to the growing demand in the United States for fresh fruits and vegetables, Mexico was in a perfect position to realize the benefits of its comparative advantage in agriculture.

The effects of NAFTA, however, have been disastrous for millions of Mexico's small producers, for its balance of trade, and in effect, for its state of food security. In 1990, an estimated 2.5 million producers farmed small or medium-sized plots, most growing and selling corn, beans, and other staples to local and regional markets, as well as some export crops such as coffee.⁶¹ While small producers expected to benefit from new "privileged" access to U.S. and Canadian markets, NAFTA essentially liberalized Mexico's already-developed export sectors, largely benefitting agribusinesses. NAFTA further reduced Mexico's import barriers, thereby allowing an influx of cheap (highly-subsidized) commodity crops from the U.S. and eliminating any chance of competition for local producers. For much of the food production sector, market control was absorbed by a handful of agribusinesses and intermediaries (seven transnational companies control 70% of Mexico's corn imports and exports, for example), and because NAFTA eliminated all controls on imports, these corporations can threaten to import rather than paying decent prices to local producers, leading to disincentives to produce.⁶² Thus, with cheap commodities flooding the market and without adequate government controls to protect these victimized sectors of producers, the price of key smallholder crops including corn, beans, and coffee fell nearly 50% overall in real terms, resulting *in the displacement of two million farmers since NAFTA went into effect.*⁶³

After 4,000 years of corn cultivation and production, Mexico is now a net importer of its main staple. Agricultural imports from the U.S. grew faster than Mexico's exports, leaving the country with a negative balance of trade for the sector. Further, Mexico's export sector is now largely dependent on multinational firms that dominate global agro-food chains.⁶⁴ NAFTA gave Mexico "privileged" access to the world's largest consumer market, and Mexico paid the price as increasing free trade only deepened longstanding structural inequalities in the Mexican countryside, aggravated balance of payments problems, and failed to stimulate the kinds of productivity improvements promised by NAFTA's proponents.⁶⁵

Latin American governments must take a hard look at the trade-offs before entering into Free Trade Agreements. First, they must examine structural inequalities among the countries involved and how this may reduce their potential to gain from increased trade. Two major structural inequalities among NAFTA countries are important to note: (a) more than 25 percent of the total labor force in Mexico works in primary agriculture, but in Canada and the United States, the comparable number is only 2 percent, and (b) whereas in the United States and Canada poverty exists only in isolated pockets, in Mexico more than 40 percent of rural inhabitants are poor and 25 percent are in extreme poverty.⁶⁶ These structural inequalities must be taken into account as they dictate the extent to which FTAs affect overall development. Yes, FTAs do in fact negatively impact small family farmers in the United States as well, but because they comprise 2 percent of the population as opposed to Mexico's comparable 25 percent, the effects to the U.S. labor force are negligible compared to the devastating blow to Mexico's labor force.

Second, governments must examine their capacity to intervene in market regulation when necessary. There is no doubt that liberalization has the potential to produce efficiency gains for agricultural producers who have some comparative advantage (such as the case with vegetables in Mexico). However, for producers to benefit, *policy must be utilized effectively to create conditions for efficiency gains through market participation.*⁶⁷ This is precisely what U.S. agricultural policy does by subsidizing its commodity crops. Thus, for Latin American governments, the implementation of targeted farm and economic policies is absolutely critical in order for their commodity crop producers to have a chance of competing under Free Trade Agreements with the United States or the EU where agricultural commodity subsidies are substantial. To fulfill this crucial role, Latin American governments will need to reexamine the terms of their FTAs as well as address issues of institutional weakness within their own countries and allocation of funds within their own budgets.

The Way Forward

According to former President Bill Clinton, the global food crisis shows "we all blew it, including me," by treating food crops "like color TVs" instead of as a "vital right" of the world's poor. "Food is not a commodity like others," he said. "We should go back to a policy of maximum food self-sufficiency... It is crazy for us to think we can develop countries around the world without increasing their ability to feed themselves."⁶⁸

The food crisis has presented a critical opportunity for world leaders and state governments to examine the inherent injustices of our food system, many of which stem from liberal economic policies that lack adequate market regulation. While short-term factors, including the production of biofuels and speculation by producers and investors, are in part to blame for the dangerous price surges, policy makers must reexamine

the fundamental questions behind the long-term causes that have undermined food security. Most importantly, the questions of trade, state investment in agriculture, and social programs for rural development must be addressed.

Despite recent tumbling of commodity prices, there is still much work to be done. Proposed solutions have not been adequate, and many are frustrated with the “bad faith rhetoric and empty promises” of the international community.⁶⁹ The FAO Rome Conference in June 2008 generated donor pledges of some \$22 billion, and yet by November 2008, only 10 percent of these funds had so far materialized.⁷⁰ Multinational bodies such as the World Bank have continued to offer solutions that call for deeper liberalization in agriculture and recommend market-based mechanisms to deal with market failures.⁷¹ The case of Latin America, however, demonstrates the failure of export-oriented agriculture and liberal economic policies in ensuring food security. While the international community increasingly acknowledges the particular importance of small-scale agriculture for poverty reduction, there must be greater recognition of the critical role of government in overcoming market failures in agriculture.



Numerous world leaders gathered in Rome in June 2008 to address the crisis and seek consensus on solutions. The conference's final Declaration also called for immediate expansion of food assistance and safety net programs to address the food needs of countries hit by the food price crisis. The conference generated donor pledges of some \$22 billion, and yet by November 2008, only 10 percent of these funds had so far materialized.

Photo Credit: FAO/Giulio Napolitano

Recommendations for a New Approach

In the short term, policy makers must take several vital measures:

Provide emergency and humanitarian assistance. Food aid must be immediate to prevent hunger and to stem growing poverty. State governments and the international community must respond with adequate financial support to ensure people's basic needs are met. Donors should be held accountable for the funds they have already pledged.

Implement or utilize existing social protection policies to stem hunger. Governments must invest in hunger-preventing social protections, focusing on children, women, and the poorest of the poor. Possible measures include cash transfers, food for work programs, food rationing, and school feeding programs.

Implement social programs to increase employment and productivity. Governments have an important role to play in providing opportunities for renewing productivity and increasing purchasing power among the poor. In the short term, governments can implement public work programs and minimum income guarantees to help put desperate households back on their feet.

In the medium and long term, states and international leaders must take a hard look at the following issues for renewing food security in Latin America and in the developing world:

Trade policies, agreements, and negotiations must include ample policy space for developing-country governments to ensure the competitiveness of local products and to guarantee national food security. This is the most important policy reform needed for Latin America. The region's food security cannot be controlled by a trade organization or liberal trade rules. *Governments must therefore retain the right to regulate imports to protect vulnerable sectors and to maintain or even increase tariffs when exports threaten food security.* Global trading rules must allow governments to utilize policy mechanisms to ensure their citizens access to food in the case of swings in supply and demand that threaten food security. Further, governments should be wary of entering into agreements that limit their ability to support their own national industrial development.

Government leaders and the international community must reconsider agricultural policies and free trade agreements, taking into account structural inequalities among participants in global trade. The failure of global trade rules is due in large part to free market policies and principles being applied equally where they should be applied selectively and contextually. As we have seen from Latin America's case, developing countries must be accorded special and differential treatment in agricultural trade on the grounds of food security, farmers' livelihoods and rural development. Policymakers cannot simply assume that deregulation and non-intervention are appropriate measures for all nations. International bodies should instead reexamine trade policies and agricultural subsidies taking into account the type of policy, its purpose, and whom it helps, as policy effects will vary widely among developed and developing countries.

Governments must embrace the productive potential of small farmers for overall economic well-being and food security. The productive potential of small farmers is substantial, as more than 20 percent of Latin Americans still live in rural areas. However, 58 million rural residents (46 percent of the rural population) live below the two-dollar per day poverty line. Thus, government support and organization is imperative for smallholders to be able to increase productive capacity and access markets. For policy makers, an overall shift in focus toward making smallholder agriculture more productive (rather than making monoculture production for export more productive) will not only help countries meet critical domestic food needs but will contribute to poverty reduction and rural development.

Governments must implement policies that favor small producers rather than large agribusinesses. Specific policies and programs should be created to spur the productive capacity and livelihood of rural populations. Latin American countries should follow the lead of Mexico and Brazil, two states that have allocated significant funds from their agricultural



Most of the world's farmers are small-scale farmers. As a group, these women and men are the biggest investors in agriculture. They also tend to be food-insecure. Put simply, policies must support their ability to make a profit with their farming so that they can feed their families throughout the year and reinvest in their farms by being able to purchase the necessary inputs. The sum of stable livelihoods of these people comprises the food security of entire nations.

Photo Credit: FAO/F. Botts

budgets for farmer support programs. These include measures like state subsidies to farmers per hectare of crops produced, small-scale loans to farmers, and direct purchases of crops from farmers. These policies keep small producers employed and stimulate production for domestic consumption.

Governments must maintain tight supervision over biofuel production. Oilseed production in Latin America has the potential to undermine food security and increase the control of transnational businesses. Governments should create specific provisions for land usage and conduct adequate research as to the effects of increasing oilseed production at the expense of food crops. Subsidies for biofuel production must be eliminated and the international community must rigorously examine the impact of biofuels on global food prices.

Measures must be promoted to contain the market power of transnational agribusinesses and loosen the concentration of production. As we have seen, export agriculture by itself is not an effective engine for broad-based development because production is far too concentrated, largely benefitting agribusinesses while decreasing the productive capacity of millions of small producers. High-input, industrialized monoculture farming encourages that all productive land be devoted to a few single commodity crops for export, which is not only dangerous for food security, but can devastate the ecological viability of farm lands. Governments should promote performance requirements (higher labor, social, and environmental standards) in an attempt to control the undue market power of transnational firms in the agro-food sector. Further, policies should promote crop diversification in order to reduce the concentrated market control of transnational businesses that benefit from monoculture-based agriculture.

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