

# THE BRETTON WOODS INSTITUTIONS AND FOOD SECURITY IN DEVELOPING COUNTRIES

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## 1. Introduction

Food security is still not a well-understood concept. Thus, at the onset some conceptual clarity is in order. First, food security is not determined solely by the capacity of a country to produce food. In fact, food security may be better served, in certain national context, by producing less food domestically. Food security is determined by a host of factors such as global food production, trade policies, terms of trade, agriculture policies, income distribution patterns, and social security. It is not a problem confined to the agriculture sector. So, the solution to food insecurity does not lie in the domain of agriculture policy alone.

Food security is not synonymous with food self-sufficiency. Food security is the capacity to obtain the required quantum of food rather than the ability to produce all the food needs. Thus food security is a state of affairs where: "all people at all times have access to safe and nutritious food to maintain a healthy and active life." Hence, food security may be defined as the availability of an adequate supply of food, which people can access, to obtain their food needs (basket of basic commodities) at prices they can afford. The FAO emphasizes the three "a"s in food security: availability, access, and affordability.

Food security has several levels of attainment. Global food security is discussed in the context of population to food equation. If the world population's basic food needs exceed global food production, then this disequilibrium will threaten global food security. Then there is regional food security. Third, there is national food security when a country produces some food for its people and has the capacity to import its other needs of food with the earnings from exports. Finally, there is the attainment of food security at the household level, particularly households at low income levels. It is a distributional issue of vital importance. Needless to say, in this context, Prof. Sen's observation that some people can still starve even when plenty of food is available and his explanation that "entitlements" people have to exchange for food are just as important.

Institutions like FAO focus mainly on global food security while various regional blocs focus on their regional food security. The Bretton Woods institutions focus on national food security, but the focus is mostly at the macro-level. The approach of Bretton Woods institutions in addressing the food security issues at the macro level

is based very much on trade policy and finding market-based solutions in the rural economies. Little importance is given to the non-level playing field that exists in global agricultural trade and it is assumed that the comparative advantage doctrine determined by trade policy can ensure food security at the household level if other domestic distortions are removed. Let us examine this line of argument in a little more detail.

## 2. Trade Policy and Food Security

Bretton Woods institutions have profound faith in the market mechanism doctrine. The stabilization and adjustment policies advocated to developing countries by these institutions are based on this faith. Trade policy is seen as an important pricing instrument that will allow efficient allocation of resources which in turn will enhance growth. This growth, it is assumed, will be an effective income policy to enhance welfare. This means that a country should be allowed to develop according to its comparative advantage. More specifically it means that in the agriculture sector, those areas with comparative advantage should develop and other areas should gradually give way for cheaper imports from the rest of the world.

Once the comparative advantage takes over in the development process, the Bretton Woods institutions argue that the earnings from exports (both industrial and agricultural) could finance the imports necessary, including food, and it is believed that as long as the country could secure all the food requirements both by domestic production and by importing, food security could be achieved. The basic problem with this argument is that it views food security more at macro level and views food insecurity as a macro-level economic problem. It does not view food security from the micro level or from the household perspective.

In the area of trade liberalization, South Asia has gone quite far especially in the agricultural sector compared to many other regions. This has happened especially after the WTO came into operation in early 1995 (see, for instance, Athukorala, 2000). Tentative estimates show that the Production Subsidy Effect (PSE) for agriculture to be less in South Asia compared to all other regions of the world (Table 1). In other words, it shows that most of the public support systems in the form of agricultural subsidies in other regional blocs remain at a higher level than that of South Asia.

Despite the Agreement on Agriculture (AOA), most developed countries still protect their agriculture sector. The USA, for instance, protects sugar imports and the American consumer has to pay twice the world market price for sugar. Besides, USA protects tobacco, ground nuts, dairy products, and beef. The EU restricts trade liberalization in wines, citrus fruits, tobacco, vegetable oils, tomato, and dairy products. Japanese consumers pay eight times the world market price of rice since Japan protects its rice farmer. Agriculture subsidies vary from one-third of farmers' income in the USA to one-half in the EU to two-third in Japan (Kannan et al., 2000).

This reality implies that if the comparative advantage doctrine is allowed to freely determine agricultural growth in South Asian countries, the more subsidized agricultural exports of developed countries will displace most agricultural products in South Asia. It follows that until the world is free from agricultural policy distortions and surpluses in the North, South Asia will have to follow an agricultural policy where there are departures from the comparative advantage doctrine, i.e., producing at a higher price than at international prices. This could be justified by arguing that international prices themselves are highly distorted by massive subsidies in developed countries.

**Table 1 : Production Subsidy Effect (PSE)**

Country/Region	PSE (%) Range
USA	3-17
Japan/Korea	65-70
Cairnes Group	45-50
South Asia	-5

*Source: Gulati (2000).*

South Asian agricultural exports will not only have to compete with cheaper agricultural products in regions such as Europe but also face other well-known problems resulting from the AOA such as market access, technical barriers, sanitary and phyto-sanitary regulations, etc. They will have to face adverse terms of trade in the absence of schemes introduced by the UNCTAD such as commodity price stabilization schemes and common funds. The Compensatory Financing Facility introduced by Bretton Woods institutions is no match for schemes operated by UNCTAD in the 1970s and 1980s.

Bretton Woods institutions, time and again, advise South Asian countries to remove distortions in the agricultural sector such as massive subsidies in fertilizer, irrigation, etc. They also advocate removing distortions in the land market and rural credit markets. The fact remains that however much you remove these distortions, South Asian agriculture cannot be competitive in the global and domestic markets as long as subsidies prevail in developed countries

and their surpluses are dumped in the South Asian markets. It is because of this fact that large transnational corporations involved in agriculture in developing countries such as Sri Lanka ask for special tariff protection for expanding their activities in the domestic market (Athukorala and Kelegama, 1998). In such cases the trade-investment nexus in fact works against trade liberalization.

In short, free trade cannot guarantee food security at the household level because the main source of income of bulk of the poor is from the agriculture sector. When the agriculture sector gradually erodes from the economic system there is no guarantee that another sector in the economy will absorb the masses uprooted from the agriculture sector and enhance their income in the medium term. Even if it does, there are many people who are reluctant to leave the agriculture sector as agriculture is a way of life for most households in developing countries (see, for instance, Kelegama, 2000).

### 3. Poverty and Food Security

As is well known, the cost of the Bretton Woods structural adjustment programmes is borne mainly by the poor segments of the population in developing countries of South Asia. During the early 1980s, the emphasis of Bretton Woods institutions was on adjustment with growth with hardly any emphasis on a safety net for the poor. It was only in the mid-1980s that the Bretton Woods institutions realized the cost of adjustment and came up with the idea of "adjustment with a human face". In fact in the area of food security, Bretton Woods institutions only concentrated on the availability of food and the accessibility of food but not on the affordability of food.

The change in thinking that came in the mid-1980s was further strengthened in 1990 when the World Development Report fully focussed on poverty alleviation. Gradually the World Bank came to terms with the need for a strong safety net to go hand in hand with structural adjustment programmes. After Jim Wolfensen took over as the President of the World Bank, there was renewed emphasis on household poverty. He emphasized on "inclusion" in the growth process – i.e., the poor should be accommodated in the development process. In other words, the affordability to food received attention. It was realized that creating a stable macroeconomic environment and reducing inflation alone would not be adequate in increasing the ability to purchase food by the poor. Alleviating poverty was seen as the biggest challenge in the context of addressing household food security. The World Development Report (2000/2001), to a great extent, reflects this new line of thinking.

It was realized that trade policy alone cannot address household food security. That an income policy had to go hand-in-hand with trade policy to address the issue was recognized. Obviously a safety net in the form of an income transfer may address the poverty problem in the short run but may not get the people out of the poverty trap. It may create a dependency syndrome and not

necessarily address the basic food security requirement. So, how could we address this problem? This brings us back to agriculture sector development and enhancement of the rural farmer income, which was addressed in Section 2.

At the household level, the food security is best addressed by complementing a temporary income policy with a strategy to enhance agricultural production. An agriculture production enhancement strategy addresses food security more directly than through industrial development and exports. Increased agricultural production could be conceived as an effective strategy for poverty alleviation, reduction in unemployment, and in increasing rural incomes, improvement in income distribution, and enhanced food security (Sanderatne, 2000). This is especially so if adequate alternative sources of employment are not available in most rural areas.

#### **4. Public Distribution/Purchasing Systems and Food Security**

Bretton Woods institutions undermine the role of public distribution/purchasing systems. Public distribution/purchasing systems involved with food security are gradually losing their role with the market mechanism taking over food distribution. In addition, with the Bretton Woods institutions' advocacy of privatization of public enterprises or closing down of state owned enterprises, these public distribution/purchasing systems are losing their identities. All this seems to be happening when the private sector is not coming up with alternative distribution/purchasing systems where the public sector played a role earlier.

In the case of a food crisis, emergency, hoarding of goods by the private sector before festivals, etc., public distribution institutions played a key role. By maintaining buffer stocks and releasing them to the market at the appropriate time, the public distribution systems ensured that private monopolies/cartels did not escalate food prices according to their profit requirements. Bretton Woods institutions assume that developing countries have effective competition policies to safeguard hoarding, cartels, monopolies, etc. This is not the case, and in fact most South Asian countries are yet to devise proper competition policies.

Public purchasing institutions played a role in addressing frequent fluctuations of prices of agricultural commodities and the vulnerability of the farmer. Purchasing staple food at guaranteed prices ensured farmer well-being. For example, in Sri Lanka, after the Paddy Marketing Board ceased to function, many farmers in the rural districts found it extremely difficult to market their paddy at prices at which they could recoup their costs when cheap imported rice was freely available in the market (Kelegama, 2000). It is true that public institutions involved in purchasing at a guaranteed price have to be subsidized by the government. Bretton Woods institutions assume that once these institutions are closed down not only will the budgetary burden to the government be

curtailed but also market-based solutions to farmers' problems will emerge in the economic system.

It is argued that price stabilization schemes based on market instruments such as developing "future's markets" will replace the role played by public purchasing systems. However, price stabilization measures through the market mechanism are slow to emerge in South Asian countries due to the lack of other supporting institutions and general underdevelopment. In Sri Lanka, for instance, the Govi Sahanaya scheme introduced by the Central Bank as a future market device failed to be an effective replacement to public purchasing (Kelegama, 2000). Therefore, until market-based institutions fully establish themselves, it is imprudent to totally undermine the role of public purchasing systems in ensuring food security. It is important to note that the burden of sustaining public purchasing systems on the State budget is miniscule compared to wastage and conspicuous consumption in most developing countries. The Bretton Woods institutions' argument that the market will in the long run address all market failures is unrealistic because as Keynes once said: "in the long run we are all dead".

#### **5 Conclusion**

After World War II, the European countries became concerned about food availability and they gave extra emphasis on achieving food self-sufficiency with massive subsidies and protection. By pursuing such a policy Europe not only became self-sufficient in certain foods, but also acquired food surpluses. The surpluses in turn were dumped in less developed countries, and these countries in turn resorted to more protectionist methods to develop their own agriculture. Thus, global trade in agriculture came to be characterized by large-scale distortions and it was never clean. With the passage of time, the European farmer lobby became politically influential and never wanted to give up the protection they enjoyed. And that is precisely why it took nearly 40 years to bring the agricultural sector into the Uruguay Round and give it a rule-based trade regime. Even though the Agreement on Agriculture came into operation on 1 January 1995, subsidies in European countries still remain at a high level compared to most other regions.

The Bretton Woods institutions have hardly played a role in creating a level playing field in agricultural trade when advocating reforms of the agricultural sector in South Asian countries. They consider this as something under the WTO agenda, and that the WTO will effectively implement a rule-based regime for agricultural trade under the Agreement on Agriculture. Second, until about the mid-1980s the Bretton Woods institutions strongly believed in the trickle down doctrine of growth and gave less importance to income policy and welfare programmes in addressing household food security problems. Third, they advocate blanket privatization (overestimating the strength of the private sector in developing countries), giving little importance to the role of public food distribution/purchasing systems.

Any departures from the neo-classical comparative advantage doctrine are seen as a major distortion and thus the room for a domestic agriculture policy is restricted. There is some softening of this policy stance in the World Development Report (2000/2001) where ownership of policy by countries implementing reform is emphasized. It is high time that Bretton Woods institutions view food security from a multi-dimensional perspective of economic, political, and social rather than the narrow macroeconomic perspective alone. This is particularly important because the current world food stock is just enough to take care of current requirements and any major imbalance in food supply is likely to lead to a crisis (Kannan et al, 2000).

In the context of the Bretton Woods agenda several questions could be posed. First, to what extent should a country allow pure comparative advantage to determine its agricultural policy? From a food security perspective, to what extent can a country make a departure from the notion of comparative advantage? (To use protection to produce agricultural items at a price higher than international price.) If such a departure is going to be very costly, is it worth following such a strategy? Second, the challenge now for the South Asian policy makers is how to design a targeted safety net programme that effectively addresses the problem of household poverty while at the same time ensuring that such programmes do not become too much of a burden on the domestic budget. From the food security perspective it is best that a targeted poverty alleviation programme is well integrated with agriculture and rural development. How can we design such a holistic programme? Are the Bretton Woods institutions now looking at such a strategy given the fact that 'social inclusion' is an important item in their agenda? Third, how can the public distribution/purchasing systems be restructured to suit a market economy in the absence of market-based instruments to perform their role?

Finally, we need a composite index to measure overall food security in a country. Bretton Woods institutions have not come up with such an index though they came up with various indices such as Purchasing Power Parity GDP (PPP-GDP), Physical Quality of Life Index (PQLI), etc., for other development indicators. It is high time that economists came up with an aggregate household food

security index which takes into account all the quantifiable determinants of food security. Such an indicator would not only assist developing countries to design more effective policies for household food security, but also make Bretton Woods institutions (on the basis of the revelations of such an indicator) rethink their current stance on agriculture sector reform in developing countries.

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