Food Security: A Function of Market Opportunities

Last year's food crisis once again highlighted a disturbing trend: numerous countries simply do not produce enough food to feed their own populations and cannot import enough additional food to fill the gap at affordable prices. What is particularly alarming is that many of these countries once produced far more than they do now: a number are performing well below proven historical capacity.

One of the reasons offered for poor production is the lack of higher yielding inputs (such as improved seeds and fertilizers) and a paucity of efficient technology (such as drip irrigation systems or mechanized farming equipment). Without these resources – especially on increasingly degraded farmlands – it is unlikely that some countries can ever produce enough to feed themselves or even their neighbors.

These resources are available in world markets. Efficient technologies and improved seed varieties are used extensively in highly productive countries, yet are virtually absent on the average farms of poor countries. As a result of this and other factors, many poor populations are faced with chronic food insecurity, and even starvation.

As a general rule, farmers do not deliberately starve themselves or others. They will produce as much as they can eat or sell, whichever is greater. And food riots of last summer suggest that they could sell a lot more than they are producing.

So why don't farmers produce more? Available technology would permit them to redeem and improve degraded land, or simply produce more within given limitations. Twenty or thirty years ago, many were producing far more than today, with fewer resources.

The problem is not lack of technology, because the technology is available. The problem is that buying and using the technology is just not worth the effort.

Food production is a function of market opportunities. When farmers can profitably sell more, they produce more. In highly productive countries, farmers will invest in fertilizers, equipment, and improved techniques to meet the demand for their products. They do this because they can recoup the cost of the investments by increased sales – even when the prices do not increase (and sometimes even when the prices drop).

Poor farmers often cannot sell their produce profitably. The price of investment is not offset by increased sales, because the opportunities for trade are beset on every side by costs and risks that whittle away their earnings. And these farmers, especially poor smallholders laboring in the tropics, know better than anyone whether it is worth their while to invest their time and scarce resources in something that does not pay off.

It seems that the business climate in food insecure countries is generally hostile to the business of agriculture. Tariff barriers, non-tariff barriers, monopolies and other constraints raise the costs and lower the quality of fertilizers, seeds and equipment. Poor

physical infrastructure limits producers' abilities to get their goods to market. Distortive subsidies and unbalanced taxes discourage private capital investment in agro-production and food processing. Petty and grand corruption siphon off needed income. While none of these constraints explains the entire problem, together they deter investment and production, just as a school of piranhas keeps wise swimmers out of the water.

A recent USAID study highlighted a disturbing anomaly. The study[1] looked at the delays of importing and exporting around the world, but converted the delays into "tariff equivalents." That is, if a country could replace their delays with tariffs – let's call them *internal* tariffs – the costs of delays could be quantified. The numbers are revealing.

For Africa, external tariffs are not particularly high by world standards. Internal tariffs, however, are the highest in the world – three times higher than the total cost of external tariffs. Only about one third of the delays are due to bad roads and port facilities. The rest come from policies that impose unnecessary, economically damaging costs on producers – excessive bureaucracy, inefficient port management, petty bribery along the transport corridors, and inappropriate licensing restrictions.

Internal constraints stand in the way of improved technologies and resources, which are essential if the Green Revolution is to take off in countries with deep food insecurity. Farmers cannot obtain newer technologies at cost-effective prices because of a variety of local barriers and constraints to doing agribusiness. What they are able to produce beyond their own immediate needs is often subject to so many unnecessary internal costs that production becomes uncompetitive and unprofitable.

Sometimes the costs arising from a poor business climate are so high that a country suffers from perpetually low productivity. Should drought or plague appear, the results move from regrettable to catastrophic. Humanitarian aid can then save lives for a year or two, but until the policy and business climate enables farmers to trade their excess profitably in the local, regional and international marketplaces, they are unlikely ever to produce enough excess to avoid humanitarian crises.

These problems must be addressed internally. Improved tariff regimes and sensible agricultural policies in the rich world may open markets somewhat, but not enough.

Smart food security policy responses will require a comprehensive approach, one that enables farmers to operate in an environment where the Green Revolution can expand and thrive. For this to happen, farmers must be able to trade and invest effectively and profitably. Otherwise, our investments in their technology will pay dismal returns, and merely put off the next crisis for a few years without solving the underlying problems of food insecurity.

[1] USAID, "Calculating Tariff Equivalents for Time in Trade", March 2007. http://staging.bizclir.browsermedia.com/galleries/publications/Calculating%20Tariff%20Equivalents%20for%20Time%20in%20Trade.pdf