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Farm Subsidies: Devastating the World's Poor and the Environment

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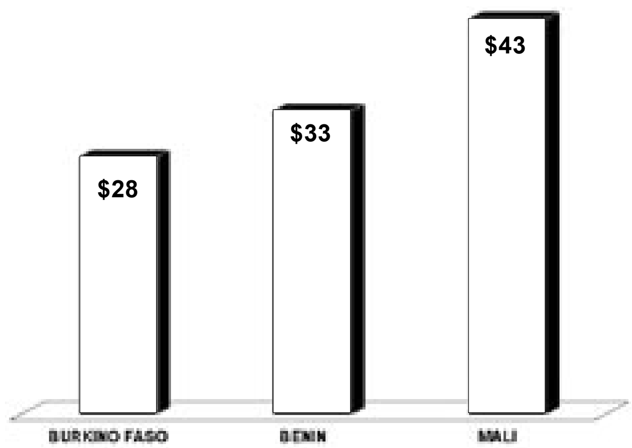
Subsidized agriculture in the *developed* world is one of the greatest obstacles to economic growth in the *developing* world. In 2002, industrialized countries in the Organization for Economic Cooperation and Development (OECD) spent a total of $300 billion on crop price supports, production payments and other farm programs. These subsidies encourage overproduction. Markets are flooded with surplus crops that are sold below the cost of production, depressing world prices. Countries with unsubsidized goods are essentially shut out of world markets, devastating their local economies. Moreover, farm subsidies lead to environmental harm in rich and poor nations alike.

Prosperous countries give about $50 billion to $55 billion annually in foreign aid to underdeveloped nations. If developed nations reduced their subsidies and eliminated trade barriers — such as import tariffs protecting domestic producers from international competition — this aid would arguably be unnecessary and rural poverty might be significantly reduced.

Historically, agriculture has been a major pillar — if not the foundation — of developing economies because it provides food security, creates employment and generates local capital. For example, in 1790, nearly 90 percent of the U.S. workforce was employed in agriculture. By 1900, farmers dropped to 38 percent of the labor force, and today they account for less than 1 percent. Agriculture accounts for less than 1 percent of U.S. gross domestic product (GDP). Similar trends in other OECD countries indicate that the path to development begins with agriculture.

Export Losses in Three Countries Due to U.S. Cotton Subsidies (2001-2002, millions of dollars)



Note: Assumes 11 cents per pound net increase in world cotton price.

Source: International Cotton Advisory Committee.

Hindering Third World Growth. Every dollar, yen or euro poured into the agriculture sectors of rich nations makes developing countries' farm sectors that much less competitive. The "dumping" of agricultural commodities at prices lower than the cost of production is devastating to developing countries, since most depend almost entirely on only one or a few products. Every year, farm subsidies cost developing countries about $24 billion in lost agricultural income. Cotton is an excellent example:

- World cotton prices have fallen by half since the mid-1990s and, adjusted for inflation, are now lower than at any time since the Great Depression of the 1930s.
- Despite the plunge in prices, cotton production in the United States grew 42 percent between 1998 and 2001.

Due to subsidies, American cotton farmers receive up to 73 percent more than the world market price for their crop. To compensate for falling prices, U.S. cotton subsidies have doubled since 1992, and in 2001-2002 America's 25,000 cotton farmers received a $230 subsidy for every acre of cotton planted — a total of $3.9 billion. By comparison, wheat and maize subsidies amount to $40 to $50 per acre.

Cotton Subsidies Harm Africa. American cotton subsidies cost sub-Saharan Africa $302 million in 2001-2002 alone, according to Oxfam International, an antipoverty organization.

Specifically, West Africa's Burkina Faso lost 1 percent of its GDP, and export earnings declined 12 percent due to competition from subsidized U.S. cotton. In Burkina Faso, 85 percent of the population (more than two million people) depends on cotton production and over half the population lives in poverty. The cost to produce a pound of cotton is one-third the cost in the United States, but farmers there cannot compete in world markets against American cotton. There are similar problems in other countries that also rely heavily on cotton.

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In 2001-2002, Mali's GDP fell 1.7 percent and export earnings dropped 8 percent; and Benin lost 1.4 percent of its GDP and 9 percent of export earnings.

Subsidies have devastated Central and West Africa, where more than 10 million people depend directly on cotton production. Millions more are indirectly affected because cotton is also the major source of foreign exchange and government revenue. The International Cotton Advisory Committee (ICAC) estimates that ending U.S. cotton subsidies would raise world prices by 26 percent, or 11 cents per pound. The results for African countries dependent on cotton exports would be substantial:

- Burkina Faso would gain $28 million in export revenues;
- Benin would gain $33 million in export revenues;
- Mali would gain $43 million in export revenues. [See the figure.]

These additional revenues would help stabilize developing economies, fuel development, reduce dependence on foreign aid and significantly improve the lives of millions of people.

Environmental Impacts of Subsidies on Rich Countries. According to the World Trade Organization, "higher subsidies, such as provided for in the 2002 U.S. Farm Bill, lead to an intensification of agricultural production in OECD countries which can generally be considered detrimental to the environment in terms of exposure to pesticides and fertilizers, habitat destruction and land degradation…."

Indeed, in order to produce more, farmers convert wetlands to agriculture, intensively use fertilizers and pesticides, and divert water from rivers and streams. For example:

- Roughly half of U.S. wetlands lost from 1986 to 1997 — more than 300,000 acres — were converted to agricultural use.
- Fertilizer and pesticide runoff from farmlands contribute to destructive algal blooms and the 7,000-square-mile dead zone that appears every summer in the Gulf of Mexico off the coasts of Louisiana and Texas.
- Subsidized water diversion for irrigation in California has contributed to a 60 percent to 80 percent decline in fish populations in the Trinity River and record low numbers for many species in the San Francisco Bay-Delta ecosystem.

Indirect Impact of Farm Subsidies on Poor Countries. "Wealthier is healthier" is a catch phrase in development and environmental economics. Health improvement is directly related to rising incomes, and research also shows that once incomes and economic development reach a certain level, countries devote increasingly larger portions of their resources to environmental protection. Policies that prevent the Third World from accessing markets limit poor nations' ability to improve the environment.

Many human-health and environmental problems might be remedied with proceeds from growth in the agricultural sector. For instance, developing countries would have more funds to provide safe water sources; every year, 2.5 million people perish from dysentery and other intestinal diseases due to lack of clean drinking water.

Countries could also afford better medical care and access to tools to fight diseases. For example, more than 2 million people, mostly in sub-Saharan Africa and Asia, die from malaria each year due to lack of access to effective pesticides like DDT and the high costs of effective malaria treatments. In Uganda alone, malaria kills about 400 people per day.

Additional revenues from agriculture would also allow poor countries to invest in the infrastructure necessary to deliver electricity and natural gas to rural areas. Millions of Africans die each year from cardiovascular diseases caused in part by poor indoor air quality, often a direct result of burning dung and wood for cooking fires and heat. Acute lower respiratory infections claim 4.5 million lives per year, mostly in the Third World.

In addition, wildlife populations in developing countries are devastated as an indirect result of agricultural subsidies. At current prices, poaching often provides more revenue than farming and wildlife is frequently seen as competition for land and a threat to crops. Furthermore, farmers are often unable to afford fertilizers and pesticides that increase the available yield from a given amount of land — thus they must use more and more land just for subsistence agriculture.

Conclusion. Farm subsidies eat up federal revenue and make little, if any, economic sense. They also hold back progress in developing countries and result in severe environmental damage. Ending subsidies would benefit the federal budget, third-world farmers and the environment. The International Monetary Fund (IMF) estimates that eliminating various agriculture subsidies in rich countries would raise global welfare $100 billion.

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