

FOOD CRISIS, ECONOMIC CRISIS AND AGRICULTURE

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Abstract

FAO estimates that 1.02 billion people are undernourished worldwide in 2009. This represents more hungry people than at any time since 1970 and a worsening of the unsatisfactory trends that were present even before the economic crisis. The increase in food insecurity is not a result of poor crop harvests but because high domestic food prices, lower incomes and increasing unemployment have reduced access to food by the poor. In other words, any benefits from falling world cereal prices have been more than offset by the global economic downturn. 2009 has been a devastating year for the world's hungry, marking a significant worsening of an already disappointing trend in global food security since 1996. The global economic slowdown, following on the heels of the food crisis in 2006–08, has deprived an additional 100 million people of access to adequate food. There have been marked increases in hunger in all of the world's major regions, and more than one billion people are now estimated to be undernourished. The fact that hunger was increasing even before the food and economic crises suggests that present solutions are insufficient and that a right-to-food approach has an important role to play in eradicating food insecurity. To lift themselves out of hunger, the food-insecure need control over resources, access to opportunities, and improved governance at the international, national and local levels. A healthy agriculture sector can provide an economic and employment buffer in times of crisis, especially in poorer countries. However, past experience of economic crises suggests that investment in agriculture may soon decline. In this work paper we point the fact that agriculture can play its role as an engine of growth and poverty reduction and act as the longer-term pillar of the twin-track approach to fighting hunger. Indeed, increased investment in agriculture during the 1970s and 1980s helped reduce the number of undernourished. Due attention must also be given to developing the rural non-farm sector in parallel with agriculture, which is another key pathway out of poverty and food insecurity.

Keywords: poverty, food security, economic crisis, healthy agriculture sector

1. INTRODUCTION

In late 2008, as international food and fuel prices continued to fall, there was some optimism that the developing countries might be decoupled from the crisis and recession that had started in the advanced economies.

1.1 The current crisis is different from past crises

While developing countries have been hit by many crises in the past, the current economic turmoil is different in at least three important aspects. First, the crisis is affecting large parts of the world simultaneously and, as such, traditional coping mechanisms at national and sub national levels are likely to be less effective than they were in the past. Previous crises that affected the developing countries tended to be confined to individual countries or several countries in a particular region.

Under such circumstances, these countries tended to rely on large exchange-rate depreciations to help them adjust to macroeconomic shocks, while remittances (money sent home from family members working in other areas or countries) represented an important coping mechanism, especially for poorer households.

During the 2009 crisis, however, many countries have seen a substantial decline in remittance inflows.

The scope for real exchange-rate depreciation is also more limited in a global crisis, as it is not possible for the currencies of all developing countries to depreciate against one another; some must appreciate while others depreciate. This situation has left developing countries with less room to adjust to the rapidly changing economic conditions. The second key difference is that the current economic crisis emerged immediately following the food and fuel crisis of 2006–

2008. While food commodity prices in world markets declined substantially in the wake of the financial crisis, they remained high by recent historical standards.

Also, food prices in domestic markets came down more slowly, partly because the US dollar, in which most imports are priced, continued to appreciate for some time, but also, more importantly, because of lags in price transmission from world markets to domestic markets.

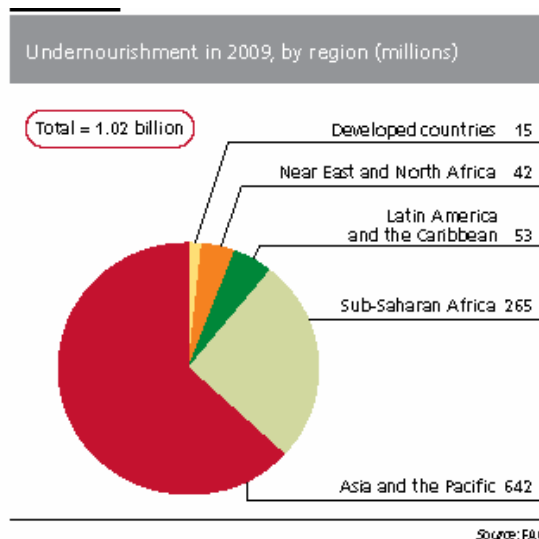
At the end of 2008, domestic prices for staple foods remained, on average, 17 percent higher in real terms than two years earlier. This represented a considerable reduction in the effective purchasing power of poor consumers, who spend a substantial share of their income (often 40 percent) on staple foods.

1.2 Undernourishment estimates for 2008 and 2009

In spite of the negative consequences of the food and fuel crisis on the world's poorest and most vulnerable population groups, better-than-expected global food supply in 2007–08 has led FAO to revise its earlier estimates of undernourishment for 2008 down to 915 million (from 963 million).

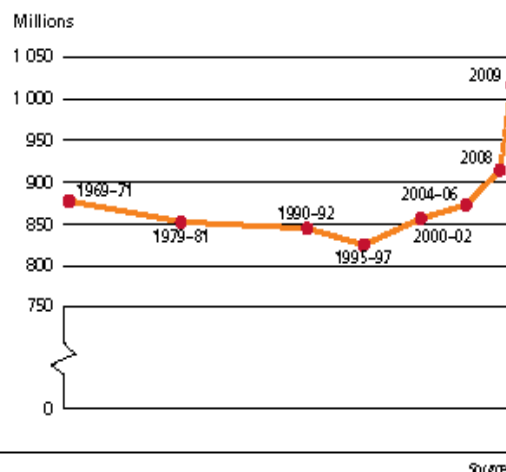
However, based on projections produced by the United States Department of Agriculture (USDA) Economic Research Service – the economic crisis is expected to *increase* the number of food insecure by about 9 percent in 2009, which comes on top of a projected baseline increase of 2 percent for 2009 even in the absence of crisis (see Figure 1 for a regional breakdown).

When applied to the revised FAO undernourishment estimates, these projections imply that the number of undernourished in the world will have risen to 1.02 billion people during 2009, even though international food commodity prices have declined from their earlier peaks. If these projections are realized, this will represent the highest level of chronically hungry people since 1970.



Source: FAO.
Figure 1 Undernourishment in 2009, by region (millions)

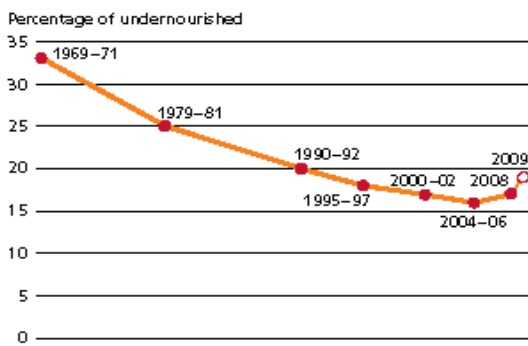
Learning from the past: number of undernourished in the world, 1969–71 to 2009



Source: FAO.
Figure 2 Learning from the past: number of undernourished in the world, 1969-2009

While the number of hungry people has been increasing since the mid-1990s, the number of undernourished in the world was actually declining in the 1970s and 1980s in spite of relatively rapid population growth during those decades (Figure 2), and the proportion of undernourished in developing countries was declining quite rapidly (Figure 3).

The declining trend in the proportion of undernourished in developing countries has been reversed

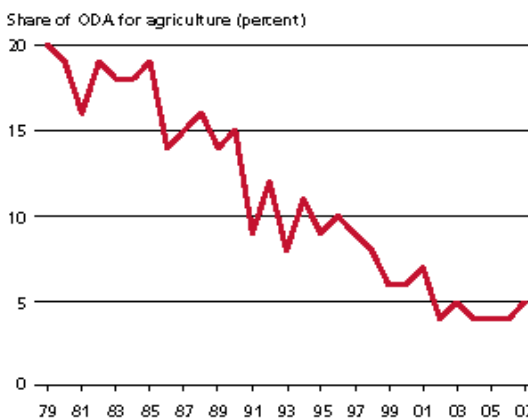


Source: FAO.

Figure 3 The declining trend in the proportion of undernourished in developing countries has been reversed

At that time, especially in the wake of the global food crisis of 1973-75, large investments in the agriculture sector (including for scientific research, rural roads and irrigation) led to rapid growth in cereal yields (Figure 4) and lower cereal prices that, in turn, significantly reduced food insecurity.

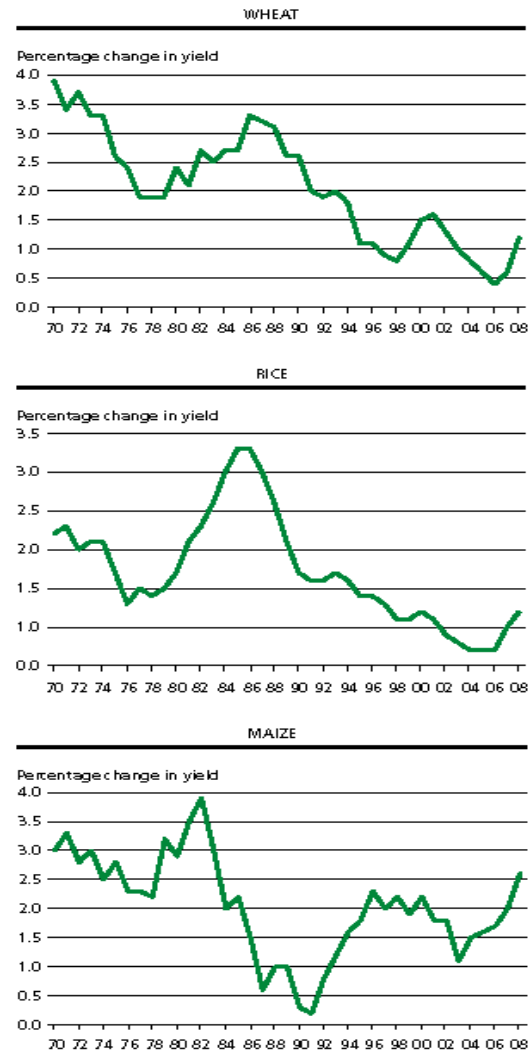
Aid for agriculture has declined



Note: ODA = official development assistance. Source: OECD.

Figure 5 Aid for agriculture has declined

Investment in agriculture is needed to rejuvenate cereal yield growth rates



Note: Data represent the average annual percentage increase in yield between successive rolling five-year periods (e.g. data for 1970 refer to the increase in average yield comparing 1966-70 with 1961-65). Source: FAO.

Figure 4 Investment in agriculture rejuvenate cereal yield growth rate

During those decades, the proportion of official development assistance (ODA, i.e. development aid contributed by donor governments) devoted to agriculture was also relatively high (Figure 5).

During the 1990s and the current decade, however, the number of undernourished has risen, despite the benefit of slower population growth, and the proportion of undernourished increased in 2008 (Figure 3). In the same period, the proportion of ODA devoted to

agriculture declined substantially; in 2007, after adjusting for inflation, the level of ODA was 37 percent lower than in 1988. Rice and wheat yield growth has also slowed substantially. Maize yield growth has increased, but this may be attributable to the fact that a much greater proportion of research and development (R&D) for maize is in the hands of the private sector compared with rice and wheat, and private R&D has been responsible for an increasingly large share of total R&D.

Given the increased importance of biofuels and the new linkages between agricultural and energy markets, increased cereal yields, if achieved, may not necessarily continue to lead to lower cereal prices. Because the world energy market is so much larger than the world grain market, grain prices may be determined by oil prices in the energy market as opposed to being determined by grain supply. Even if this proves to be the case, however, higher cereal yields will still help reduce poverty by raising revenues for small farmers and increasing demand for rural labor. Thus, it is time to learn from the past and re-invest in the agriculture sector to reduce food insecurity and poverty.

1.3. The importance of investing in agriculture and public goods

The World Bank's *World Development Report 2008* clearly shows that agriculture can make substantial contributions to economic development and poverty alleviation in the least developed countries.

Even though this role is reduced substantially in middle-income countries, agriculture continues to play a crucial role in alleviating poverty, which remains disproportionately rural in spite of the falling relative importance of agriculture in national economies.

To fulfill its role as an engine of growth and poverty alleviation, however, agriculture itself needs to grow. And agricultural growth cannot be achieved and sustained without investing in agriculture. Unfortunately, in countries where the socio-economic role of

agriculture is largest, public investment in agriculture tends to be relatively very low. Public investment in agriculture as a percentage of agricultural GDP is lowest in agriculture-based economies (around 4 percent) and largest in urbanized developing countries (around 15 percent).

As discussed earlier, the most rapid progress in reducing food insecurity was made when the level of ODA allocated to agriculture was much higher than it is today.

The problem of underinvestment in agriculture is compounded during times of economic turmoil such as the current global economic slowdown, because when both private and public budgets contract, investments tend to be cut to a greater extent than other expenditures in all sectors – including agriculture. It is as yet uncertain how the current economic environment is affecting capital stocks (including machines, livestock and trees) in agriculture, but history tells us that during economic crises and the years that follow, capital stocks decline as a consequence of reductions in investment.

After the debt crisis of 1982 there was a marked reduction in agricultural capital stocks in developing countries (similar declines occurred in developed countries). It is therefore important that, during and following economic crises, investment in agriculture receives decisive support from both the private and public sectors. For investments in agriculture to fully materialize, a business environment that promotes private, domestic and foreign investment in not only agriculture but also all other sectors needs to be in place. Such an environment includes respect for the rule of law, good governance and macroeconomic stability.

Private investment in agriculture requires accompanying public investment. For example, by integrating a fertile region, a public road makes private investments in that region more profitable. Research has shown that in countries as diverse as China, India, Uganda and the United Republic of Tanzania, investments in agricultural research and rural

roads contribute substantially to poverty alleviation.

1.4. Strengthening governance mechanisms for world food security

The persistence of undernourishment and its aggravation during the recent food and economic crises underscore the need for improved global food-security governance to address fundamental weaknesses in the fight against hunger.

In spite of ongoing global food-security analysis and timely warning of likely immediate and long-term problems, such knowledge has not been translated effectively into appropriate and timely policies, programs, institutions and response mechanisms.

The attention currently focused on global food insecurity should be utilized to tackle the root causes of hunger and show how future crises could be avoided by addressing long-term challenges to food security such as rural poverty, inappropriate policies and strategies, and insufficient investment in food and agriculture. Such objectives would require coherent and coordinated action over the longer term. To be addressed in a sustainable manner, they require common policies, strategies and programs and also strengthened capacity for implementation and monitoring of interventions. To that end, the governance of the fight against food insecurity needs to be consolidated at the global level, drawing and building on existing structures.

Initiatives to revitalize the global governance of world food security should consider past experiences and ongoing global changes. Civil society has become more prominent in the public debates that influence policy and shape public opinion at the national, regional and global levels, and it has also become more involved in the affairs of the UN.

Moreover, the world economy, including food systems, has become more interconnected and globalized, with a shock in one country now reverberating across the globe more than it would have done in the 1970s.

Nongovernmental organizations, farmers' organizations and the private sector should be engaged in policy and program design to remedy the negative effects of such economic shocks.

To ensure a more effective and efficient global agriculture, food and nutrition system, the governance of world food security must:

- provide science-based analysis and advocacy concerning the key determinants and possible evolution of food security;
- help coordinate and strengthen international, regional and national strategies, policies and programs for sustainable agriculture and food security;
- promote actions that encourage investment in agriculture while maintaining focus on equitable, broad-based sharing of resources;
- strengthen coherence among food security policies and related issues such as climate change, environmental sustainability and natural resource management;
- monitor progress and the results of past and present policy measures, as well as the effectiveness and efficiency of resource mobilization;
- influence governments and other key stakeholders to commit themselves to clearly defined, time-bound goals and actions to eradicate hunger and food insecurity and to develop ways to monitor these goals.

2. CONCLUSION

1. It is critical to work within the whole agricultural value chain to achieve the goal of providing healthy and affordable food for all while protecting the environment.

2. This means that cooperation and coordination between all stakeholders is essential.

3. Mainstreaming sustainable agricultural ecosystem practices is an objective that must be shared by industry, the conservation community and consumers.

4. Formal knowledge, new technologies and practices need to be combined with

appropriate local and traditional knowledge to develop long-term, sustainable solutions.

5. Governments must accept their role. They are failing when more than 1 billion people live in hunger.

6. The international community must accept its joint responsibility to deliver an effective right to food.

7. A global deal, able to tackle multiple and simultaneous crises is needed and unions must be part of it at nation level.

8. If we fail to take action, the impacts of climate change and food crisis will negatively affect environmental, economic and social development.

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