

Testimony of Andrew S. Natsios
House Financial Services Committee Hearing
May 14, 2008
“Contributing Factors and International Responses to the Global Food Crisis”

I would like to thank the Committee for the opportunity to testify today on an important issue: the rapidly rising price of food. While this crisis presents grave risks to human life and the potential for terrible suffering, it can also be the catalyst for a new world wide campaign to spread the Green Revolution of the 1960's to areas of the world which are yet untouched by it particularly in sub-Sahara Africa. We should set as an international objective the end of the specter of famine and severe food insecurity in our time. We can do this through a two pronged approach: a much greater investment in agricultural development and reforms to our food aid programs. This is a very complex subject to address in a short time, so I will limit myself to five key points.

1. **The locus of the potential crisis points.** The principle areas of greatest food insecurity are in South and Central Asia, North Korea, and Sub-Sahara Africa. The risk of the current price rise evolving into a famine in some of these areas, particularly North Korea, is very high. The North Korean famine of the mid-1990's which killed at least 2 ½ million people was principally an urban famine, and the incipient famine now developing there is also likely to be urban as well. It is also the case that urban famines are politically much more destabilizing than those in rural areas where poor people die in silence. In urban areas they demonstrate, they riot which often leads to political explosions. During the Sahelian famine of the early 1970's 11 of 13 governments in affected African countries fell to coups driven by inadequate governmental responses to the famine. While we should respond to the current food crisis for purely humanitarian and ethical reasons, we ignore the strategic and political consequences of this crisis at our peril.

Most people in most countries can adjust or cope with *slowly* rising food prices. What they can not do easily is to deal with *rapidly* rising prices, which what we are now witnessing. Usually rapidly rising prices in very poor, traditionally food insecure countries with large destitute populations frequently leads to starvation and death.

2. **Investing in agricultural development.** The cause of food insecurity and acute malnutrition in Sub-Sahara Africa (apart from civil war) is three fold: regressive trade and agriculture policies which discourage food production and trade between countries, declining donor investment in agricultural development, and poor or non-existent rural infrastructure particularly roads. The real answer to food insecurity particularly in Africa is economic growth particularly through agricultural development. More donor government funding for agricultural development and rural roads in Africa should be the first and principal response.

MCC is the only US government foreign aid program which is now spending substantial money to build roads and invest in agriculture: this is because the MCC is not earmarked. However only well governed countries benefit from the MCC. The focus of a new U.S. agriculture initiative should be to connect farmers to markets, to use science to improve agricultural productivity, to lower northern and southern trade barriers to food and to support and encourage both large scale commercial and small scale subsistence agriculture. I want to commend in particular the excellent work the Gates Foundation is doing in agricultural development as well as Bob Zoellick's recent announcement of the World Bank's new agriculture initiative to address food insecurity.

In Ethiopia, one of the most food insecure countries in the world, the USAID budget in FY 2007 totaled \$462 million which is made up of 50% HIV/AIDS, 38% for food aid, and 7% for maternal and child health, 1.5% education, 1.5% economic growth, and 1.5% for agricultural development. More than 80% of the Ethiopian people are subsistence farmers, and yet only 1.5% of the budget is for agricultural development. This is because there is no earmark for agriculture and so when other earmarks for say education, HIV/AIDS, the environment, or micro-credit are increased, the non-earmarked accounts are all cut, further distorting priorities. USAID filed five annual budgets with more funding for agriculture and most of the money was cut out of the budget (only Iraq and Afghanistan saw large agricultural funding increases), so it is not because the agency has not asked.

- 3. Food aid reform.** We also need food aid reform which will phase out monetization of food aid as an NGO mechanism to fund their programs, because it frequently has a depressive affect on agricultural markets particularly in Africa. We should move toward a mixed system of locally and US purchased food aid. Local purchases can be used to develop agricultural markets in developing countries: the President's reform proposal to allow 25% of Title II of the Food for Peace budget to be used for local procurement makes great sense and should be adopted as it is written. Under the current system about 60% of the cost of food aid is ocean freight, land transportation and distribution costs; only 40% actually goes to purchase food. We can save some those handling charges by moving to local purchase system. The Food for Peace budget is only .3% of our food exports, so the proposal will have no affect on prices.

Without President Bush's reform USAID will not be able to respond adequately to these price increases and the potential crisis these will cause. We conservatively estimate that the President's proposal could save up to 50,000 lives in emergencies around the world. The Farm Bill reported out of committee yesterday includes a small pilot program of \$60 million over five years--\$12 million a year out of an annual food budget of \$1.2 billion--controlled by USDA instead USAID. It is inadequate to respond to the current crisis; we don't need a pilot program, as the World Food Program of the UN has been doing local procurement successfully for many years. As disturbing as this failure is, the bill also contains another very troubling provision which places a hard earmark on

non-emergency food aid of between \$375 and \$450 million with a convoluted and impractical waiver provision. The net affect of this will be to reduce emergency food aid for crises around the world which will put refugees and internally displaced people, such as those in the camps in Darfur, at great humanitarian risk. It would also massively increase the level of monetization of food aid with very damaging consequences to African agriculture. It is troubling that the Farm Bill ties the hands of USAID's food aid managers and force a redirection of food aid in a very damaging direction just as we are going into one of the most serious food crisis in modern times. This provision should be removed immediately. I hope the President vetoes the Farm Bill as it is currently written.

Apart from these operational complications there is another reason to support this reform. And that is the opportunity for positive economic effects on local agriculture in the recipient country. In Africa, for example, two-thirds of the 200 million people who suffer hunger are small-scale farmers, primarily engaged in subsistence production because they find too few buyers for any larger harvest.

A crisis in Ethiopia in 2003 illustrates the dilemma. Widespread drought occurred in the low-lying areas of the country and the very dry northern highlands. Some 12-15 million people were at risk of hunger and starvation. But in the central and southern highlands of Ethiopia, farmers were producing a bumper crop of corn and other cereals. There was no market for the locally produced grains, and prices collapsed.

Had USAID had more flexibility, it could have purchased some of the crops, helping distribute some of the excess Ethiopian corn production, permitting as many as 500,000 smallholder farmers to sell their local corn. USAID assistance would have kept prices firm and demand high, but US law did not allow local purchases with the food aid budget. The only option was to import grain from the USA. (previous three paragraphs are taken from an Op-Ed by Dr. Norman Borlaug and me in the WSJ on May 2)

4. **New counter famine tools.** We should use this food crisis to develop a new tool box of counter famine tools, customized to local conditions, to aid us in preventing price rises from mutating into famine. These include efforts to intervene where hoarding, a typical response to rapidly rising food prices, is occurring by releasing existing food stocks on the commodity markets to stabilize and then reduce prices to a more sustainable level. This market intervention is needed right now. Some of the rapidly rising price of rice in Asia is a function of hoarding. If the Japanese and Chinese governments would release a million tons of rice onto Asian commodities markets it would break the dangerous hoarding cycle now under way. Both governments could do this with no risk to their own population. We should also consider cash distributions (particularly to woman headed households) instead of food aid, for destitute populations in inaccessible areas so they can purchase food themselves on local markets, which is almost always available even in an emergency. Finally we should consider market

interventions to stabilize prices including auctioning food off in local markets were prices have risen too high too quickly, so that more people who can afford some food purchases through these markets, and fewer will require food aid.

5. We should end agricultural subsidies in western countries and move to an entirely free market in food, world wide including in developing countries.

I would conclude by endorsing the idea of an international trade agreement for all countries, including the United States and developing countries, to phase out all agricultural export and production subsidies which damage agriculture in poor countries. Several World Bank simulations show that 70% of the benefit of free trade in increased economic productivity is attributable to the repeal of developing countries' trade restrictions on each other. So lower trade barriers is as important for wealthy northern countries as it is for southern countries.