

World Bank admits: subsidies push up land prices!

OVER 800m people in the developing world are suffering from under-nutrition. Experts gathered in Rome in November to discuss the problem at the World Food Summit but no solutions were proposed that would liberate people who now suffer for the want of nourishing food.

It is believed that seven out of ten hungry people in the world are women. The estimate for Africa is 80% and 60% in Asia, and the level is rising. As men migrate to the cities, observers have noticed what they call "the feminisation of agriculture and poverty".

Some of the large voluntary aid agencies sent observers to Rome to demand that governments from the rich countries should donate money to help the poor. But none of them was able to propose institutional reforms that would reduce people's dependence on aid and enable them to produce all the food that they need.

POVERTY will continue to increase in the Third World no matter how great the scale of foreign aid from the private and public sectors. This claim is based on the thesis that property rights are structured in such a way that it is impossible to achieve sustainable growth under current conditions. The primary source of the problem is the distribution of rights of access to land; and the character of the tax system which has been designed to oblige those who extract the unearned rent of land and natural resources.

The story of Brazil illustrates the policy failures in every other country that employs the current approach to so-called market economics. It also illuminates how the same defective laws on property and taxation force human suffering to intersect with the abuse of the environment.

The United Nations Children's Fund (UNICEF) has just issued a report which states:

In Brazil, one major reason for the drive

to colonise Amazonia has been to reduce the pressures for land reform in the north east and south east. Hundreds of thousands of poor landless people ... have moved to Amazonia in search of a more adequate and stable livelihood.¹

The reason: fertile land in other parts of Brazil is unused or seriously under-used. This is affirmed in a new report by the World Bank, which repeats a now well-established fact that smaller farms would be more labour intensive and more productive than extensive farms.

But the World Bank has no answer to the political problem of the resistance to land re-allocation. So income redistribution and subsidies have become the tools for trying to alleviate the suffering. But what are the economic consequences of the subsidies (the second-best solution to the intransigence of the owners of large estates)? The World Bank notes that there has not been a reduction in rural poverty despite government programmes. Why? It offers the explanation:

The major reason is that the benefits of agricultural programmes in Brazil were captured in the form of high prices for land, which is very unequally distributed.²

In other words, the people who are creating the problem in the first place are the main beneficiaries of the action to try and offset the damage they are inflicting on society! The capitalisation into higher land prices of the subsidies that are supposed to help the poor then become further obstacles to both a more efficient farm sector and strategies for protecting the environment. As sub-marginal land acquires an artificial commercial price, the pressure mounts for extending non-profitable agriculture deeper into the Amazon basin. Rare species of life do not stand a chance in the onslaught of this economic dynamic!

But who pays for the subsidies? The

urban poor. As the World Bank readily acknowledges (page 80):

The distortionary employment effects from high payroll taxes - which account for virtually all contributions - are adverse and significant and hit the poor the hardest.

Successive Brazilian governments have not been able to challenge the power of the landowners, but we may assume that they have not intended to enrich this class by raising the unearned rents from land via the public exchequer. But that is the economic reality under the present fiscal arrangements. This economic outcome is not peculiar to Brazil. It is part of the logic of economic life. We have to live with the laws of economics and deal with them in a correct way. Rent of land and all natural resources will go up, one way or the other, and we cannot ultimately escape the obligation to decide what to do with them in the interests of both the public and of the biological organisms whose fate is also determined by the politics of the human species.

It is the failure to understand the laws as they manifest themselves in the land market that unwittingly drives us to intensify our global social and ecological problems.

For the well-meaning aid agencies, the choice is stark: either continuing on the current treadmill, knowing that they will never be able to catch up with the demand for help from the under-nourished millions; or reshaping their strategies to empower the peoples of the Third World to redesign their economies in ways that can realistically provide both economic efficiency and social justice.

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REFERENCES

1. David Satterthwaite *et al*, *The Environment for Children*, London: Earthscan, 1996, p.130.
2. World Bank, *Poverty Reduction and the World Bank*, Washington DC, 1996, p.79.