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# CHOICES

2nd Quarter 2001

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## So They Say

### What agricultural and resource economists are finding about food, farm, and resource issues

■ **DOUBLY ENDANGERED SPECIES.** In a soon-to-be-published article, Zhang and Flick say, "Of the vast majority of endangered species that have some or [all of] their ... habitat on private lands, the likelihood of their thriving there is not bright if the current policy is not changed. Full recovery of these species, as mandated in the Endangered Species Act, is even more remote as private landholders have little incentive to provide additional habitats to endangered species, but much incentive to alter habitat to make it less attractive to endangered species ... Moving all of these species onto public lands seems to be an impractical solution for most endangered or threatened species." Zhang, D. and W. Flick. "Sticks, Carrots, and Reforestation Investment." *Land Economics*, in press.

■ **INDUSTRIALIZATION AND MARKETS.** Richard T. Rogers at the University of Massachusetts says, "The American food system continues to consolidate and industrialize as consumers splinter into more segments and technology allows catering to the diversity of demands while retaining large economies of scale. Economic markets can be incredibly efficient, but many traditional agricultural markets are being replaced by vertical integration, strategic alliances, and contracts. Little or no data exist on these private transactions; hence economic assessments are difficult and require industry cooperation, either willingly or forced by legal means." Rogers, R.T. "Structural Change in U.S. Food Manufacturing, 1958-1997." *Agribusiness* 17, no. 1(2001):3-32.

■ **THE VALUE OF ENVIRONMENTAL PERFORMANCE.** Konar and Cohen write that, "The primary objective of [our] study is to explore the relationship between firm-level environmental performance and [the value of] intangible assets. After controlling for the effect of a number of variables on firm-level financial performance, we find that poor environmental performance has a significant negative effect on the intangible-asset value of publicly traded firms. Firms in our sample have an average "liability" associated with environmental performance of about \$380 million in market value, which constitutes approximately 9% of the replacement value of tangible assets.... We believe our results are an important first step in understanding why large publicly traded companies invest in environmental-reputation capital." Konar, S. and M.A. Cohen. "Does the Market Value Environmental Performance." *The Review of Economics and Statistics* 83, no. 2(May 2001):281-289.

■ **THE RURAL HOSPITAL.** Sharon Avery, executive director of the California Health Care's Rural Healthcare Center says, "The hospital tends to be the No. 1 employer in a small community in terms of numbers of people that it employs — and it's an attraction for business development and to keep the community there.... So when a hospital is in trouble and it looks like it may fold, it affects access to health care and it also affects the health of the whole community

in terms of economics." As quoted in Rodriguez, E. "Rural Health Care: Is there a doctor in the house?" *California J* 32, no. 4(April 2001):10-13.

■ **CONVERTING TO ORGANIC.** O'Riordan and Cobb say, "So far we have sought to calculate the comparative environmental burdens associated with organic and non-organic agriculture. The best guess is a differential in favour of the organic farm of some £15 to £25 per hectare per year. We have stressed throughout how dangerously dependent are these figures on fragmentary scientific data and heroic assumptions ... If the amenity aspects of richer countryside scenery and species mix are also incorporated, then a figure of £40 per ha per year could be judged as the social value of organic production. We caution against using such a figure for policy." O'Riordan, T. and D. Cobb. "Assessing the Consequences of Converting to Organic Agriculture." *Journal of Agricultural Economics* 52, no. 1(January 2001):22-35.

■ **ECONOMIC INTELLIGENCE AND WOOL.** Richardson says: "Agricultural economists cannot entirely escape a share of the blame for large-scale policy failure in the wool industry and some appear to have contributed to it. People who were prominent members of the profession at some stage of their careers advocated, supported or implemented price stabilization policies in the wool industry. Others worked hard within the industry bodies to point out the need for objective analysis and market-sensitive policies, too often with limited impact. Perhaps in some cases they should have taken greater personal professional risks to precipitate better quality debate in the wool industry." Richardson, B. "The Politics and Economics of Wool Marketing, 1950-2000." *Australian Journal of Agricultural and Resource Economics* 45, no. 1(March 2001):95-116.

■ **UTOPIAN VISIONS.** Dani Rodrik says, "Joining the world economy is no longer a matter simply of dismantling barriers to trade and investment. Countries must also comply with a long list of admission requirements, from new patent rules to more rigorous banking standards. The apostles of economic integration prescribe comprehensive institutional reforms that took today's advanced countries generations to accomplish, so that developing countries can, as the cliché goes, maximize the gains and minimize the risks of participation in the world economy. Global integration has become, for all practical purposes, a substitute for a development strategy." Rodrik, Dani. "Trading in Illusions." *Foreign Policy*, March/April 2001, pp.55-62.

■ **CHOICES APOLOGIZES.** The cover of the First Quarter 2001 issue of CHOICES should have included a photo of Senator Richard Lugar (R-IN), at that time Chairman, now ranking Republican member of the Senate Committee on Agriculture, Nutrition, and Forestry. Through our error Senator Lugar's photo was not included.





# Agricultural Development Assistance In the New Millennium

In a world of increasing global trade, falling world grain prices, 800 million chronically hungry people, and a world awash in grain, it seems self-evident that redistribution of food, not more food production is needed. Why continue development assistance that helps poor farm-based people through productivity-enhancing technology? The simple answer is that poor people need income not handouts, and when 60 to 90 percent of the population lives on the land, as in most countries of Asia and Africa, the best way to raise their incomes is to increase the returns to the resources they control — their labor and land.

A peaceful world is in the interests of all people, and a world torn by civil conflicts or wars over land, water, and wealth degrades the lives of all. Once conflict ends, good governance is needed, and if economic development does not soon follow, the seeds of conflict germinate and grow anew. Clearly, our national interest lies in all people having adequate health, education, shelter, and food. And while government must maintain the rule of law, implement appropriate policies and provide for wise resource management, income earned by people themselves is the only sustainable pathway to adequate food, health, shelter, and education.

Distribution of “surplus” grain may well be needed to deal with the emergencies gen-

erated by war, civil disintegration, and natural disasters. But food aid is not the answer to long-term, chronic poverty for a few simple reasons. It is largely supply-driven and its availability does not necessarily meet needs. Funding for food aid is limited and controlled by domestic politics, not the needs of the poor. Most importantly, every society wants the dignity and self-respect that comes from paying its own way. No one likes being a charity case. Only by increasing their incomes will poor people in poor countries get adequate food, health, education, and shelter. When that happens they will be able to buy the food they need.

The record shows that development assistance works. Between 1970 and 1990 world population grew by 1.6 billion people, mostly in developing countries, and most of those additional people were fed by food produced within their own country. Over the same period the number of hungry people in the world fell by 150 million. South Korea and China have outstanding agricultural and economic growth records. India began somewhat later but now has firmly established agricultural growth in a growing economy. Bangladesh has shown impressive agricultural growth rates in recent decades. Aside from China, all these countries have been important recipients of U.S. development assistance. Most have become important trading partners, and some are important markets for U.S. farm exports.

The number of hungry people continues to fall gradually, but the reduction is concentrated in Asia while in much of Africa the number of food-insecure has risen. Within Africa some countries have been more successful than others, but the HIV/AIDS pandemic has left many rural households devastated. There are now mil-

lions of households headed by the elderly who are caring for AIDS orphans, now projected to reach 40 million by 2010. For these vulnerable households with rising dependency ratios, it is even more crucial to improve the productivity of agriculture, which they depend on for income and food. And there is hope that this can be done. In Senegal, Uganda, and a growing number of other countries, HIV/AIDS is being faced and fought with help from more developed nations. Agricultural development assistance can reinforce the economic base for progress.

Agricultural development, not redistribution of food, is needed for economic development. Peace and governance are preconditions. With them, dynamic technology and adequate incentives will generate agricultural development. These require production technology well-adapted to the agro-ecology; well-functioning markets for products and inputs including roads that connect producers and consumers; communications to provide price information; adequate financing to allow business to prosper; and policies that do not discriminate against agriculture. The role of governments in promoting these conditions, which can be supported by development assistance, is to establish appropriate policies, support the development of farming technology and provide other public goods like information, all the while being sure not to impose government monopoly or controls that discourage private enterprises that respond to market signals.

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*Robert W. Herdt is Vice President for Program Administration at the Rockefeller Foundation. This editorial represents the personal views of the author and not necessarily those of the Rockefeller Foundation.*





# CHOICES

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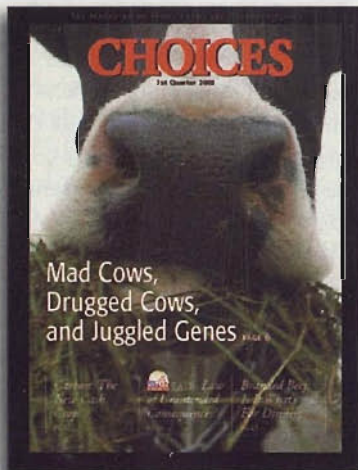
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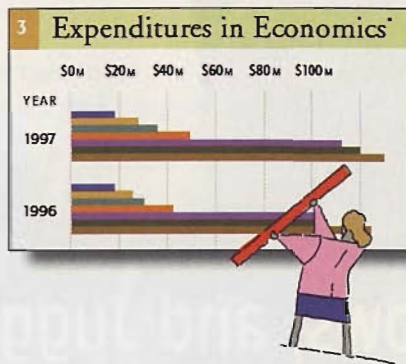


**ON THE COVER The Nose Knows** Public reactions to issues such as "mad cow" disease, bovine somatotropin in milk production, and genetically modified foods points up a need for open discussion of "purpose" and "necessity" as they relate to technological innovations in agriculture and food production.



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