However large or small their income gains, poor women are widely believed to find empowerment in access to microcredit loans. According to the World Bank, for instance, microcredit empowers women by giving them more control over household assets and resources, more autonomy and decision-making power, and greater access to participation in public life. This defense of microcredit stands or falls with individual success stories featuring women using their loans to start some sort of small-scale enterprise, perhaps renting a stall in the local market or buying a sewing machine to assemble piece goods. There is no doubt that when they succeed, women and their families are better off than they were before they became micro-debtors.

But the evidence on microcredit and women's empowerment is ambiguous. Access to credit is not the sole determinant of women's power and autonomy. Credit may, for example, increase women's dual burden of market and household labor. It may also increase conflict within the household if men, rather than women, control how loan moneys are used. Moreover, the group pressure over repayment in Grameen's loan circles can just as easily create conflict among women as build solidarity.

Grameen Bank founder Muhammad Yunus won the Nobel Peace Prize because his approach to banking reinforces the neoliberal view that individual behavior is the source of poverty and the neoliberal agenda of restricting state aid to the most vulnerable when and where the need for government assistance is most acute. Progressives working in poor communities around the world disagree. They argue that poverty is structural, so the solutions to poverty must focus not on adjusting the conditions of individuals but on building structures of inclusion. Expanding the state sector to provide the rudiments of a working social infrastructure is, therefore, a far more effective way to help women escape or avoid poverty.

Do the activities of the Grameen Bank and other micro-lenders romanticize individual struggles to escape poverty? Yes. Do these programs help some women "pull themselves up by the bootstraps"? Yes. Will micro-enterprises in the informal sector contribute to ending world poverty? Not a chance. ❑

Sources: Grameen Bank, grameen-info.org; "Informal Economy: Formalizing the Hidden Potential and Raising Standards," ILO Global Employment Forum (Nov. 2001), www-ilo-mirror.cornell.edu/public/english/employment/geforum/informal.htm; Jean L. Pyle, "Sex, Maids, and Export Processing," World Bank, *Engendering Development; Engendering Development Through Gender Equality in Rights, Resources, and Voice* (Oxford University Press, 2001); Naila Kabeer, "Conflicts Over Credit: Re-Evaluating the Empowerment Potential of Loans to Women in Rural Bangladesh," *World Development* 29 (2001); Norman MacIsaac, "The Role of Microcredit in Poverty Reduction and Promoting Gender Equity," South Asia Partnership Canada, Strategic Policy and Planning Division, Asia Branch Canada International Development Agency (June, 1997), www.acdi-cida.gc.ca/index-e.htm.

FAIR TRADE AND FARM SUBSIDIES

How Big a Deal? Two Views

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In September of 2003, the global free-trade express was derailed—at least temporarily—when the World Trade Organization talks in Cancún, Mexico, collapsed. At the time, the inconsistency of the United States and other rich countries—pressing poor countries to adopt free trade while continuing to subsidize and protect selected domestic sectors, especially agriculture—received wide attention for the first time. Where does ending agricultural subsidies and trade barriers in the rich countries rank as a strategy for achieving global economic justice? Dollars & Sense *asked progressive researchers on different sides of this question to make their case.*

MAKE TRADE FAIR

BY GAWAIN KRIPKE

Trade can be a powerful engine for economic growth in developing countries and can help pull millions of people out of poverty. Trade also offers an avenue of growth that relies less than other development strategies on the fickle charity of wealthy countries or the self-interest of multinational corporations. However, current trade rules create enormous obstacles that prevent people in developing countries from realizing the benefits of trade. A growing number of advocacy organizations are now tackling this fundamental problem, hoping to open a route out of poverty for tens of millions of people who have few other prospects.

Why Trade? Poor countries have few options for improving the welfare of their people and generating economic growth. Large debt burdens limit the ability of governments in the developing world to make investments and provide education, clean water, and other critical services. Despite some recent progress on the crushing problem of debt, only about 15% of the global South's $300 billion in unpayable debt has been eliminated.

Poor countries have traditionally looked to foreign aid and private investment to drive economic development. Both of these are proving inadequate. To reach the goals of the United Nations' current Millenium Development campaign, including reducing hunger and providing universal primary education, wealthy countries would have to increase their foreign aid from a paltry 0.23% of GDP to 0.7%. Instead, foreign aid flows are stagnant and are losing value against inflation and population growth. In 2001, the United States spent just 0.11% of GDP on foreign aid.

Likewise, although global foreign direct investment soared to unprecedented levels in the late 1990s, most developing countries are not attractive to foreign investors. The bulk of foreign private investment in the developing world, more than 76%, goes to ten large countries including China, Brazil, and Mexico. For the majority of developing countries, particularly the poorest, foreign investment remains a modest contributor to economic growth, on a par with official foreign aid. Sub-Saharan Africa, with the highest concentration of the world's poor, attracted only $14 billion in 2001.

In this environment, trade offers an important potential source of economic growth for developing countries. Relatively modest gains in their share of global trade could yield large benefits for developing countries. Gaining an additional 1% share of the $8 trillion global export market, for example, would generate more revenue than all current foreign aid spending.

But today, poor countries are bit players in the global trade game. More than 40% of the world's population lives in low-income countries, but these countries generate only 3% of global exports. Despite exhortations from the United States and other wealthy countries to export, many of the poorest countries are actually losing share in export markets. Africa generated a mere 2.4% of world exports of goods in 2001, down from 3.1% in 1990.

Many factors contribute to the poorest countries' inability to gain a foothold in export trade, but the core problem is that the playing field is heavily tilted against them. This is particularly true in the farm sector. The majority of the global South population lives in rural areas and depends on agriculture for survival. Moreover; poverty is concentrated in the countryside: more than three-quarters of the world's poorest people, the 1.1 billion who live on less than one dollar a day, live in rural areas. This means that agriculture must be at the center of trade, development, and poverty-reduction strategies throughout the developing world.

Two examples demonstrate the unfair rules of the global trading system in agriculture: cotton and corn.

"It's Not White Gold Anymore". Cotton is an important crop in Central and West Africa. More than two million households depend directly on the crop for their livelihoods, with millions more indirectly involved. Despite serious social and environmental problems that have accompanied the expansion of cotton cultivation, cotton provides families with desperately needed cash for health care, education, and even food. The cotton crop can make a big difference in reducing poverty. For example, a 2002 World Bank study found a strong link between cotton prices and rural welfare in Benin, a poor West African country.

Cotton is important at a macroeconomic level as well; in 11 African countries, it accounts for more than one-quarter of export revenue. But since the mid-1990s, the cotton market has experienced chronic price depression. Though prices have rebounded in recent months, they remain below the long-term average of $0.72 a pound. Lower prices mean less export revenue for African countries and lower incomes for African cotton farmers.

But not for U.S. cotton farmers. Thanks to farm subsidies, U.S. cotton producers are insulated from the market and have produced bumper crops that depress prices worldwide. The global price of cotton is 20% lower than it would be without U.S. subsidies, according to an analysis by the International Cotton Advisory Committee. Oxfam estimates that in 2001, as a result of U.S. cotton subsidies, eight countries in Africa lost approximately $300 million—about one-quarter of the total amount the U.S. Agency for International Development will spend in Africa next year.

Dumping on Our Neighbor. Mexico has been growing corn (or maize) for 10,000 years. Today, nearly three million Mexican farmers grow corn, but they are facing a crisis due to sharply declining prices. Real prices for corn have fallen 70% since 1994. Poverty is widespread in corn-growing areas like Chiapas, Oaxaca, and Guerrero. Every year, large numbers of rural Mexicans leave the land and migrate to the cities or to the United States to try to earn a living.

The price drops are due to increased U.S. corn exports to Mexico, which have more than tripled since 1994. These exports result in large part from U.S. government policies that encourage overproduction. While Mexican farmers struggle to keep their farms and support their families, the United States pours up to $10 billion annually into subsidies for U.S. corn producers. By comparison, the entire Mexican government budget for agriculture is $1 billion. Between 2000 and 2002, a metric ton of American corn sold on export markets for $20 less than the average cost to produce it. The United States controls nearly 70% of the global corn market, so this dumping has a huge impact on prices and on small-scale corn farmers in Mexico.

To be fair, the Mexican government shares some of the responsibility for the crisis facing corn farmers. Although the North American Free Trade Agreement (NAFTA) opened trade between the United States and Mexico, the Mexican government voluntarily lowered tariffs on corn beyond what was required by NAFTA. As NAFTA is fully phased in, though, Mexico will lose the option of raising tariffs to safeguard poor farmers from a flood of subsidized corn.

What do Poor Countries Want? Cotton and corn illustrate the problems that current trade regimes pose for developing countries and particularly for the world's poorest people. African countries want to engage in global trade but are crowded out by subsidized cotton from the United States. The livelihood of Mexican corn farmers is undermined by dumped U.S. corn. In both of these cases, and many more, it's all perfectly legal. WTO and NAFTA rules provide near impunity to rich countries that subsidize agriculture, and increasingly restrict developing countries' ability to safeguard their farmers and promote development.

How much do subsidies and trade barriers in the rich countries really cost the developing world? One study estimates that developing countries lose $24 billion annually in agricultural income—not a trivial amount. In today's political climate, it's hard to see where else these countries are going to find $24 billion to promote their economic development.

The benefits of higher prices for farmers in the developing world have to be balanced against the potential cost to consumers, both North and South. However, it's important to remember that many Northern consumers actually pay more for food *because of* subsidies. In fact, they often pay twice: first in higher food costs, and then in taxes to pay for the subsidies. Consumers in poor countries will pay more for food if farm commodity prices rise, but the majority of people who work in agriculture will benefit. Since poverty is concentrated in rural areas, the gains to agricultural producers are particularly important.

However, some low-income countries are net food importers and could face difficulties if prices rise. Assuring affordable food is critical, but this goal can be achieved much more cheaply and efficiently than by spending $100 billion on farm subsidies in the rich countries. The World Bank says that low-income countries that depend on food imports faced a net agricultural trade deficit of $2.8 billion in 2000-2001. The savings realized from reducing agricultural subsidies could easily cover this shortfall.

Each country faces different challenges. Developing countries, in particular, need flexibility to develop appropriate solutions to address their economic, humanitarian, and development situations. Broad-stroke solutions inevitably fail to address specific circumstances. But the complexity of the issues must not be used as an excuse for inaction by policy-makers. Failure to act to lift trade barriers and agricultural subsidies will only mean growing inequity, continuing poverty, and endless injustice.

Sources: Xinshen Diao, Eugenio Díaz-Bonilla, and Sherman Robinson, "How Much Does It Hurt? The Impact of Agricultural Trade Policies on Developing Countries," International Food Policy Research Institute, Washington, D.C., 2003; "Global Development Finance: Striving for Stability in Development Finance," World Bank, 2003; Lyuba Zarksy and Kevin Gallagher, "Searching for the Holy Grail? Making FDI Work for Sustainable Development," Tufts Global Development and Environment Institute/WWF, March 2003; Oxfam's website on trade issues, www.maketradefair.com.

FALSE PROMISES ON TRADE

BY DEAN BAKER AND MARK WEISBROT

Farmers throughout the Third World are suffering not from too much free trade, but from not enough. That's the impression you get from most media coverage of the recent World Trade Organization (WTO) meetings in Cancún. The *New York Times*, *Washington Post*, and other major news outlets devoted huge amounts of space to news pieces and editorials arguing that agricultural subsidies in rich countries are a major cause of poverty in the developing world. If only these subsidies were eliminated, and the doors to imports from developing countries opened, the argument goes, then the playing field would be level and genuinely free trade would work its magic on poverty in the Third World. The media decided that agricultural subsidies were the major theme of the trade talks even if evidence indicated that other issues—for example, patent and copyright protection, rules on investment, or developing countries' right to regulate imports—would have more impact on the well-being of people in those countries.

There is certainly some element of truth in the argument that agricultural subsidies and barriers to imports can hurt farmers in developing countries. There are unquestionably farmers in a number of developing countries who have been undersold and even put out of business by imports whose prices are artificially low thanks to subsidies the rich countries pay their farmers. It is also true that many of these subsidy programs are poorly targeted, benefiting primarily large farmers and often encouraging environmentally harmful farming practices.

However, the media have massively overstated the potential gains that poor countries might get from the elimination of farm subsidies and import barriers. The risk of this exaggeration is that it encourages policy-makers and concerned non-governmental organizations (NGOs) to focus their energies on an issue that is largely peripheral to economic development and to ignore much more important matters.

To put the issue in perspective: the World Bank, one of the most powerful advocates of removing most trade barriers, has estimated the gains from removing all the rich countries' remaining barriers to trade in manufactured and farm products *and* ending agricultural subsidies. The total estimated gain to low- and middle-income countries, when the changes are phased in by 2015, is an extra 0.6% of GDP. In other words, an African country with an annual income of $500 per person would see that figure rise to $503 as a result of removing these barriers and subsidies.

Simplistic Talk on Subsidies. The media often claim that the rich countries give $300 billion annually in agricultural subsidies to their farmers. In fact, this is not the amount of money paid by governments to farmers, which is actually less than $100 billion. The $300 billion figure is an estimate of the excess cost to consumers in rich nations that results from all market barriers in agriculture. Most of this cost is attributable to higher food prices that result from planting restrictions, import tariffs, and quotas.

The distinction is important, because not all of the $300 billion ends up in the pockets of farmers in rich nations. Some of it goes to exporters in developing nations, as when sugar producers in Brazil or Nicaragua are able to sell their sugar in the United States for an amount that is close to three times the world price. The higher price that U.S. consumers pay for this sugar is part of the $300 billion that many accounts mistakenly describe as subsidies to farmers in rich countries.

Another significant misrepresentation is the idea that cheap imports from the rich nations are always bad for developing countries. When subsides from rich countries lower the price of agricultural imports to developing countries, consumers in those countries benefit. This is one reason why a recent World Bank study found that the removal of *all* trade barriers and subsidies in the United States would have no net effect on growth in sub-Saharan Africa.

In addition, removing the rich countries' subsidies or barriers will not level the playing field—since there will still often be large differences in productivity—and thus will not save developing countries from the economic and social upheavals that such "free trade" agreements as the WTO have in store for them. These agreements envision a massive displacement of people employed in agriculture, as farmers in developing countries are pushed out by international competition. It took the United States 100 years, from 1870 to 1970, to reduce agricultural employment from 53% to under 5% of the labor force, and the transition nonetheless caused considerable social unrest. To compress such a process into a period of a few years or even a decade, by removing remaining agricultural trade barriers in poor countries, is a recipe for social explosion.

It is important to realize that in terms of the effect on developing countries, low agricultural prices due to subsidies for rich-country farmers have the exact same impact as low agricultural prices that stem from productivity gains. If the opponents of agricultural subsidies consider the former to be harmful to the developing countries, then they should be equally concerned about the impact of productivity gains in the agricultural sectors of rich countries.

Insofar as cheap food imports might have a negative impact on a developing country's economy, the problem can be easily remedied by an import tariff. In this situation, the developing world would gain the most if those countries that benefit from cheap imported food have access to it, while those that are better served by protecting their domestic agricultural sector are allowed to impose tariffs without fear of retaliation from rich nations. This would make much more sense, and cause much less harm, than simply removing all trade barriers and subsidies on both sides of the North-South economic divide. The concept of a "level playing field" is a false one. Mexican corn farmers, for example, are not going to be able to compete with U.S. agribusiness, subsidies or no subsidies, nor should they have to.

It is of course good that such institutions as the *New York Times* are pointing out the hypocrisy of governments in the United States, Europe, and Japan in insisting that developing countries remove trade barriers and subsidies while keeping some of their own. And the subsidy issue was exploited very skillfully by developing-country governments and NGOs at the recent Cancún talks. The end result—the collapse of the talks—was a great thing for the developing world. So were the ties that were forged among countries such as those in the group of 22, enabling them to stand up to the rich countries. But the WTO remedy of eliminating subsidies and trade barriers across the board will not save developing countries from most of the harm caused by current policies. Just the opposite: the removal of import restrictions in the developing world could wipe out tens of millions of farmers and cause enormous economic damage.

Avoiding the Key Issues. While reducing agricultural protection and subsidies just in the rich countries might in general be a good thing for developing countries, the gross exaggeration of its importance has real consequences, because it can divert attention from issues of far more pressing concern. One such issue is the role that the IMF continues to play as enforcer of a creditors' cartel in the developing world, threatening any country that defies its edicts with a cutoff of access to international credit. One of the most devastated recent victims of the IMF's measures has been Argentina, which saw its economy thrown into a depression after the failure of a decade of neoliberal economic policies. The IMF's harsh treatment of Argentina last year, while it was suffering from the worst depression in its history, is widely viewed in the developing world as a warning to other countries that might deviate from the IMF's recommendations. One result is that Brazil's new president, elected with an overwhelming mandate for change, must struggle to promote growth in the face of 22% interest rates demanded by the IMF's monetary experts.

Similarly, most of sub-Saharan Africa is suffering from an unpayable debt burden. While there has been some limited relief offered in recent years, the remaining debt service burden is still more than the debtor countries in that region spend on health care or education. The list of problems that the current world economic order imposes on developing countries is long: bans on the industrial policies that led to successful development in the West, the imposition of patents on drugs and copyrights on computer software and recorded material, inappropriate macroeconomic policies imposed by the IMF and the World Bank. All of these factors are likely to have far more severe consequences for the development prospects of poor countries than the agricultural policies of rich countries. ❑

Sources: Elena Ianchovichina, Aaditya Mattoo, and Marcelo Olareaga, "Unrestricted Market Access for Sub-Saharan Africa: How much is it worth and who pays," (World Bank, April 2001); Mark Weisbrot and Dean Baker, "The Relative Impact of Trade Liberalization on Developing Countries," (Center for Economic and Policy Research, June 2002).

Update: As of July 2008, the WTO negotiations have failed to reach an agreement, particularly on the issue of farm subsidies. Developing countries, especially India and China, demanded a deeper cut in the farm subsidies provided to U.S. and EU farmers and a much lower threshold for special safeguard mechanism for farmers in the developing countries. Meanwhile, developed countries, especially the United States, were not ready to budge from their position of reducing annual farm subsidies from $18 billion to $14.5 billion. The EU countries spend a total of $280 billion to support domestic farmers, while the official development assistance by the OECD countries to the developing world was $80 billion in 2004).

The IMF and the World Bank pushed the agenda of the structural adjustment program in more than 70 countries. The resulting decline in government spending has forced the farmers of the developing countries to deal with the mounting costs of cultivation. This, coupled with the vagaries of world farm-products prices (thanks to the Northern protectionism) has been driving the farmers in the South to much despair and hopelessness, and in the case of some 190,753 Indian farmers, suicide.

—*Arpita Banerjee*