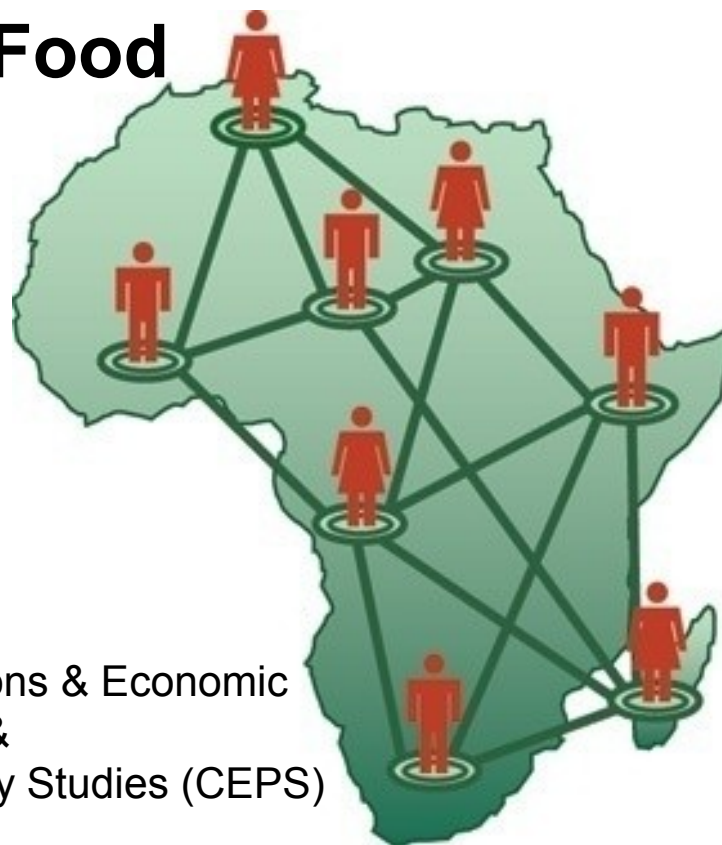


The Right Price of Food and Food Policy



Presented by:

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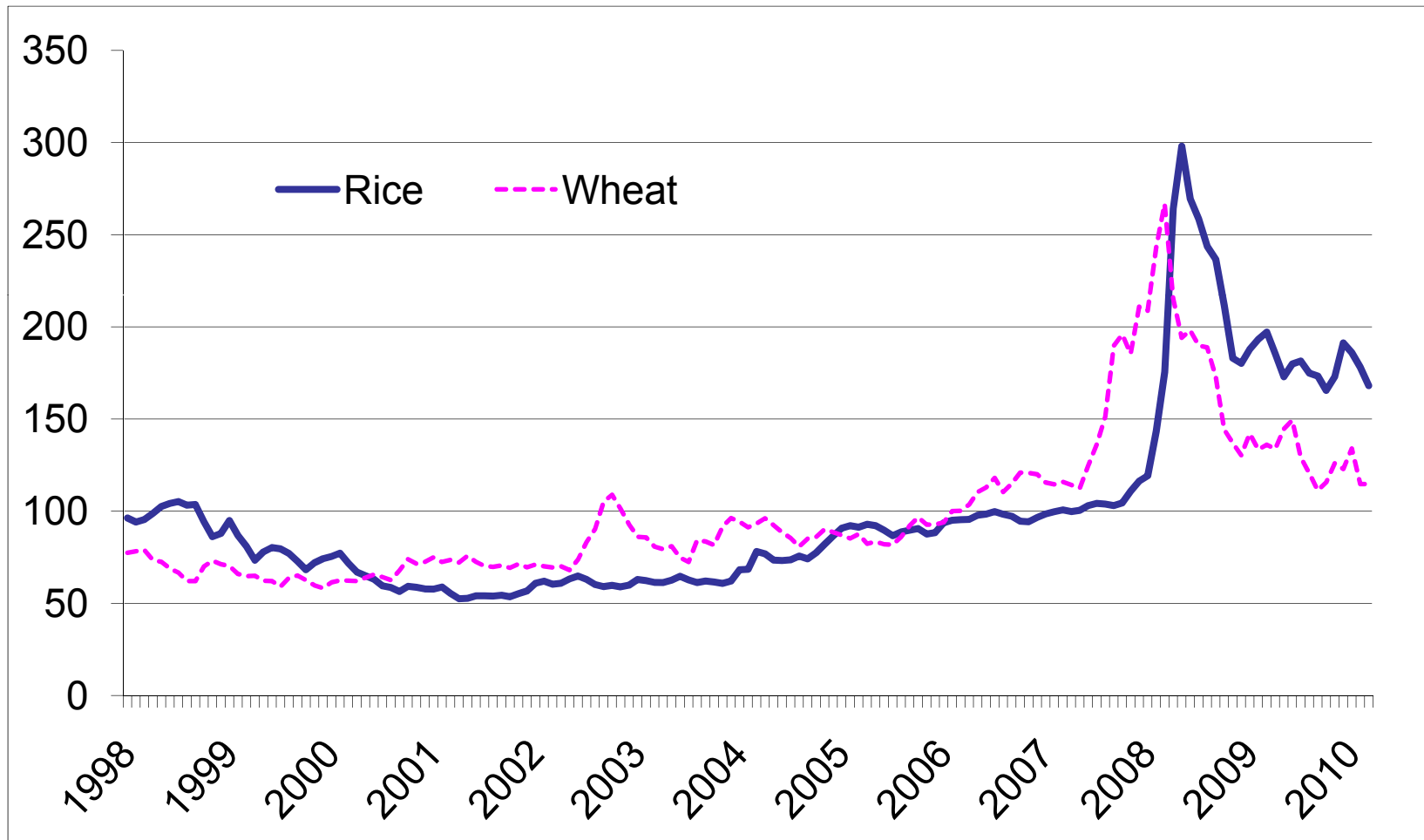
LICOS Centre for Institutions & Economic
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*Please check the latest version of this presentation on:
<http://www.agrodep.org/first-annual-workshop>*

The price of food ...



100 % = 1998-2010 period average

Source: FAOSTAT

Some Basic Principles of Food Policy Analysis

- A simple model :
 - Small open economy
 - Two groups: producers & consumers
- When prices increase (decrease):
 - Producers gain (lose)
 - Consumers lose (gain)

Making the model more realistic

1. Some HH are consumers and producers
2. Transmission of price changes is imperfect and differs between consumers and producers
3. Local changes may affect local prices
4. Exogenous shocks may be caused by “nature” or by “men”
5. Short-run effects differ from long-run effects
6. ...

Making the model more realistic does not fundamentally change the basic results

1. When prices increase (decrease):
 - Producers gain (lose)
 - Consumers lose (gain)

[Size of these effects depends ...]
2. The net benefits of price changes for a country and for HH should be (approx) symmetric

Roughly symmetric effects

- Countries that benefit most from price low prices (if consume lot and produce little) will lose most from high prices
- HH which only consume and do not produce are affected stronger than those which both consume and produce (with prices going in either direction)
- HH which are strongly affected by world market prices both gain and lose more than HH living in remote areas

Straightforward implications

- Pre-2005: good for consumers, bad for producers; 2006-2008: vice versa
- HH which suffered most from high food prices in 2007 (in well-integrated regions, no production) benefited most pre-2006
- Farm HH which did not benefit from high food prices (in remote places, no pass-through, consume most of the food) should have experienced limited negative effects pre-2005

How have these basic principles
been communicated ?

Oxfam :

In 2005 :

*“US and Europe’s surplus production is sold on world markets at artificially **low** prices, making it impossible for farmers in developing countries to compete. As a consequence, **over 900 millions of farmers are losing their livelihoods.**”*

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In 2008 :

*“**Higher** food prices have pushed millions of people in developing countries further into hunger and poverty. There are now **967 million malnourished people in the world....**”*

FAO (United Nations) :

In 2005 :

*“The long-term **downward** trend in agricultural commodity prices **threatens the food security of hundreds of millions** of people in some of the world's poorest developing countries.”*

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In 2008 :

*“**Rising** food prices are bound to **worsen the already unacceptable level of food deprivation suffered by 854 million people**. We are facing the risk that the number of hungry will increase by many more millions of people.”*

OECD, IMF, World Bank :

In 2003/4:

*“Many (developed countries) continue to use various forms of export subsidies that drive **down** world prices ... Because the **majority of the world’s poorest households depend on agriculture** and related activities for their livelihood, this is especially alarming.”*

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In 2003/4:

*“Many (developed countries) continue to use various forms of export subsidies that drive **down** world prices ... Because the **majority of the world’s poorest households depend on agriculture** and related activities for their livelihood, this is especially alarming.”*

In 2008/9 :

*“The **increase** in food prices represents **a major crisis for the world’s poor** ... Up to 105 million people could become poor due to rising food prices alone.”*

Quotes : Out of Context ?

Answer : NO

1. Summarize key messages
2. Key messages are essential
3. Full reports :
 - PRE: no mention/emphasis on
 - benefits of urban consumers
 - poor rural households are net consumers

 - POST: strong emphasis on this; but no mention/emphasis on benefits for farmers

Implications : Any ?

What's the problem ?

- These organizations just want to help those who suffer, so what's the problem ?
- Problem is :
 - there are always gains and losers and this should be recognized
 - a policy framework should be coherent
- Two examples

Ex 1: Export restrictions

- Food export restrictions have been blamed for worsening the crisis (and for the suffering of the poor)
- However:
 - Restrictions have been imposed by countries with many poor consumers: eg India & China
 - Maybe the net effect is positive ? Maybe gains inside the poor exporters offset the benefits inside the poor importers ? (eg Timmer, 2009)
- The lack of coherence in this discussion is worrying

Ex 2 : The CAP: Back to the Future (or Forward to the Past) ?

- If the poor of the world suffer so much from high food prices, why not re-install the old CAP ?
 - According to the post-2006 logic ...
 - Poor consumers in the world would love it
 - Poor farmers in the world don't care (either no passthrough of world market prices or net consumers)
 - EU farmers would love it
 - EU taxpayers would love it
 - EU consumers don't care since the concentrated supermarkets capture all the benefits anyhow
- => A Pareto Improvement par excellence ... ?

180° Turnaround in Communication

WHY ?

Some hypotheses :

- Scientific progress ?
- Urban bias & relative incomes ?
- Fundraising & legitimacy ?
- Role of media ?

Does it matter ? (Part II)

Response from Oxfam & IGOs :

- “Messages help fundraising, policy attention”
- “Policy attention & fundraising is good”
- “Basic policy advise does not change”

Does it matter ? (Part II)

- “Basic policy advise does not change”
- Partly true, partly not.
 - Yes: Trade policies
 - Yes: invest in agriculture / help small farmers
 - No: biofuels
 - No: poor farmers and prices

Does it matter ? (Part II)

- “Basic policy advise does not change”
- Consistency or Ideology ?
- Constant or consistent message ?
 - Eg Oxfam: Why cutting EU subsidies or raising SSA tariffs if farmers are net food consumers ?

Impact of food prices & hunger: what do we know ?

The food crisis & food security

Estimates from Simulations

- FAO, USDA and World Bank estimates of the welfare impact of the 2007/2008 global food crisis conclude that somewhere between **75 to 160 million people were thrown into hunger or poverty.**
- E.g. Ivanic and Martin (2008): “105 million people in poverty”

The food crisis & food security

Estimates from Self-Reporting

Headey (2011, IFPRI) :

- self-reported food insecurity from the Gallup World Poll (GWP),
- covered almost 90% of the developing world population
- global self-reported food insecurity fell sharply from 2005 to 2008
- estimates ranging from 100 to 360 million people.
- Because : rapid economic growth and limited food price inflation in China and India

The food crisis & food security Estimates from Self-Reporting

Verpoorten et al (2011) :

- Focus on SSA
- self-reported food insecurity from AfroBarometer
- Covered 69,000 individuals in 16 Sub-Saharan African countries over the period 2002 to 2008
- (Representative for > 50% of SSA population)

AB “food security” question

- *“Over the past year, how often, if ever, have you or anyone in your family gone without enough food to eat?”*
- *0=Never, 1=Just once or twice, 2=Several times, 3=Many times, 4=Always”*

AB food security changes 2005-08

AGGREGATE :

1. the share who were never food insecure decreased by 3%, (shift entirely to the category of going without food once or twice.)
2. no change in the share who experienced hunger many times or always.
3. FS (strongly) positively correlated with economic growth and (limited) negatively with food prices

	2002	2005	2008
<i>Panel A: food insecurity 1</i> <i>(AT LEAST ONCE)</i>			
Total	0,53	0,52	0,53
Urban	0,41	0,43	0,44
Rural	0,60	0,58	0,60
Food Importers (ST)	0,52	0,43	0,52
Food importers (LT)	0,50	0,48	0,51
Food exporters (ST)	0,54	0,55	0,49
Food exporters (LT)	0,55	0,56	0,55
GDP growth $\geq 3.7\%$	0,49	0,52	0,50
GDP growth $< 3.7\%$	0,57	0,53	0,57

	2002	2005	2008
<i>Panel B: food insecurity 2</i> <i>(several times & more)</i>			
Total	0,38	0,36	0,36
Urban	0,27	0,26	0,27
Rural	0,44	0,42	0,41
Food Importers (ST)	0,39	0,34	0,35
Food importers (LT)	0,38	0,34	0,34
Food exporters (ST)	0,38	0,37	0,32
Food exporters (LT)	0,38	0,37	0,37
GDP growth $\geq 3.7\%$	0,34	0,36	0,31
GDP growth $< 3.7\%$	0,42	0,36	0,41

	2002	2005	2008
<i>Panel C: food insecurity 3</i> <i>(many times or always)</i>			
Total	0,17	0,17	0,16
Urban	0,10	0,10	0,11
Rural	0,21	0,21	0,19
Food Importers (ST)	0,17	0,16	0,15
Food importers (LT)	0,18	0,14	0,15
Food exporters (ST)	0,18	0,19	0,13
Food exporters (LT)	0,16	0,19	0,16
GDP growth $\geq 3.7\%$	0,14	0,17	0,12
GDP growth $< 3.7\%$	0,20	0,17	0,20

Papers @ LICOS

1. **“The Right Price of Food”**
2. **“The Market for Policy Communication”**
3. **“Bad News and Good Policies”**
4. **“Food Prices and Food Security in Africa”**

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