Rising Food Prices: Causes, Effects, and Actions Needed

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Overview

• **Price developments and causes**
• **Impacts on the poor and hungry**
• **Priorities for action**
Most sustained and significant increase of food prices in 3 decades


Pandya-Lorch, IFPRI, October 2008
Since Jan. 2003, maize and wheat prices doubled, rice prices tripled, oil prices quadrupled. 

Source: Data from FAO 2008 and IMF 2008.
Soaring global fertilizer prices

World Fertilizer Prices, 2000-2008, US$/mt

Sources of the price increase

1. Income and population growth
2. Energy and biofuels
3. Slow agricultural response
4. Market and trade policy
(1) Income and population growth

- **Income growth (2005-07 per annum)**
  - 9% in Asia, 6% in Africa
  - 2% in industrialized countries

- **Population growth of more than 1% per year**

- **Since 2000, global cereal use for:**
  - Food ▲ 5%, feed ▲ 8%, industry ▲ 38%

- **Non-cereal demand rises dramatically**
  - 6 kg grain generates 1 kg beef
  - 3 kg grain generates 1 kg pork
  - 2 kg grain generates 1 kg poultry

(2) Energy and biofuels

Energy prices traditionally affected agric. **input** prices (fertilizer, pesticides, irrigation, transport)

Now, they also affect agric. **output** prices through opportunity costs

Generous developed country **subsidies** for biofuels and energy crops distort markets

**Biofuel demand contributed to 30% of the increase of grain prices in 2000-07**

Source: Rosegrant 2008
(3) Slow agricultural response: Declining productivity growth

(4) Market and trade policy: Distorting ad hoc measures

• **Export bans/restrictions:**
  - Reduce global market size, increase volatility, harm import-dependent trading partners
  - Stimulate cartel formation, undermine trust, encourage protectionism
  
  E.g. Argentina, China, India, Indonesia, Russia

• **Price controls:**
  - Reduce farmers’ incentives to produce more
  - Divert resources away from those who need them most

  E.g. China, Egypt, Malaysia, Pakistan, Russia
Variety of government policy responses

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Source: IMF, FAO, and news reports, 2007-08.
Overview

- Price developments and causes
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- Priorities for action
Looking beneath the $1 a day line (2004)

**Poor**
($.75 cents – $1)
485 million people

**Medial poor**
($.50 cents – $.75 cents)
323 million people

**Ultra poor**
(less than $.50 cents)
162 million people

Source: Ahmed et al. 2007.
World map of hunger: 2008 GHI by severity

The number of hungry increased in 2007, mainly due to high food prices

The number of undernourished in 2007 increased by 75 mil. since 2003-05 (to 923 mil.)

- Asia / Pacific 41 mil.
- Latin America / Caribbean 6 mil.
- Sub-Saharan Africa 24 mil.

Sources: FAO 2008.
Impact of High Prices

• At country level
  - Net food exporters gain
  - Net food importers struggle
  - Impact within a country depends on price transmission

• At household level
  - Net sells benefit
  - Net food buyers harmed – the majority of the poor
Impacts of high prices on the poorest

Driven by *initial conditions* and *adjustments* in labor, finance, and goods markets

- Level of inequality below the poverty line (up)
- Exclusion and discrimination (up)
- Level of diet (low) and nutritional deficiencies (high)
- Wage rate adjustments among unskilled labor to changing prices (slow)
- Capability to respond to market opportunities (small)

A 50% increase in food prices in Bangladesh = 25% more prevalence of micronutrient deficiency in women and children (Bouis 2008)
Irreversible consequences with long-term impact

- Deterioration of nutritional status of women and preschool children
- Withdrawal of children esp. girls from school
- Distress sale of productive assets and decrease of purchasing power
The food crisis tradeoffs and effects

Energy security risks ↔ Political security risks

Food security risks

+ Mass protests in about 60 countries
  Violent: Bangladesh, Egypt, Guinea, Haiti, Honduras, Tunisia, etc.

+ The poorest suffer most and do so silently

+ Inflation and macro-economic imbalances

+ Environmental sustainability consequences

Pandya-Lorch, IFPRI, October 2008
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The food crisis is not overcome, actions are needed now

IFPRI’s proposal:

• **Emergency package**: for immediate food assistance and availability needs
  
  *Implement immediately*

• **Resilience package**: to meet ongoing and future challenges in the food system
  
  *Phase in now for future impact*
Policy actions: Emergency package

1. Expand emergency and humanitarian assistance
   International (price indexed) and national

2. Eliminate agricultural export restrictions
   Reduces price levels by up to 30%

3. Fast-impact production programs in key areas
   Poorest 50% of farmers in Africa - partly publicly funded = US$2.3 billion per annum

4. Change grain and oil seeds bio-fuel policies
   Reduces maize price 20%, wheat 10%
Policy actions: Resilience package

5. Calm markets with:
   Market-oriented regulation of speculation
   Establish global (virtual) grain bank

6. Invest in social protection
   Focus on child nutrition, women, and poorest

7. Investments for sustained agric. growth
   Global incremental public agric. investment for MDG1 = US$14 billion per annum

8. Complete the WTO Doha Round
   Strengthen rule based trade
Improved information and monitoring needed

- **Information is not available:**
  - Everywhere
  - Quickly enough
  - At the needed level of disaggregation

- **Information strengthening and monitoring needed through:**
  - Internet-based portal
  - Capacity-strengthening toolbox
  - Facilitation of fast data collection and estimations

Source: Benson et al. IFPRI 2008.
Implementation of actions must be sound

- **Country-driven and -owned programs** – with prioritization and sequencing

- **Costs**: Face the high investment needed; the benefits for people, growth, security are huge

- **New international governance architecture of agriculture, food, and nutrition needed**

- **Accountability** at international and national levels: independent monitoring and assessment