

# **Rising Food Prices: Causes, Effects, and Actions Needed**

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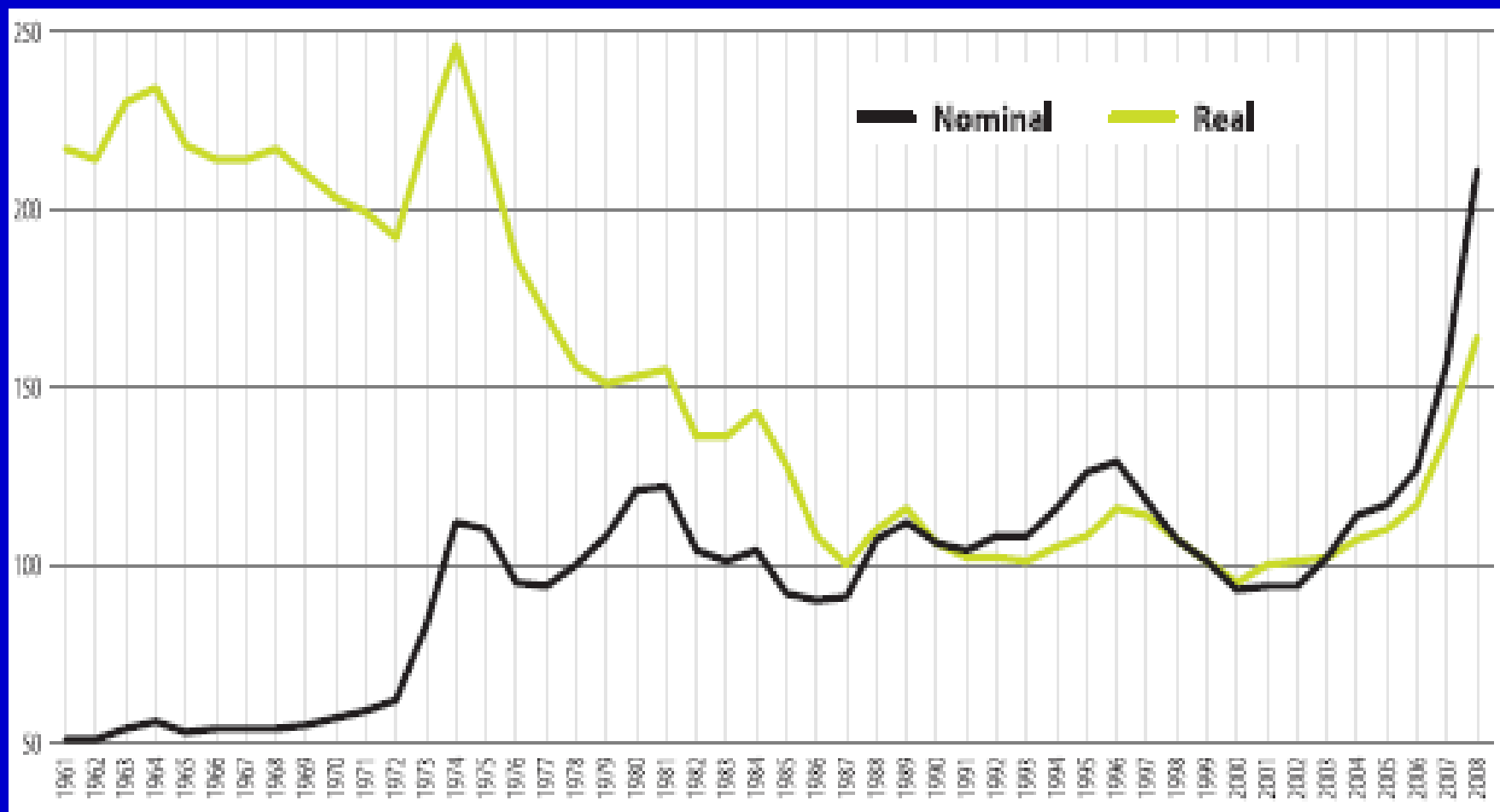
# Overview

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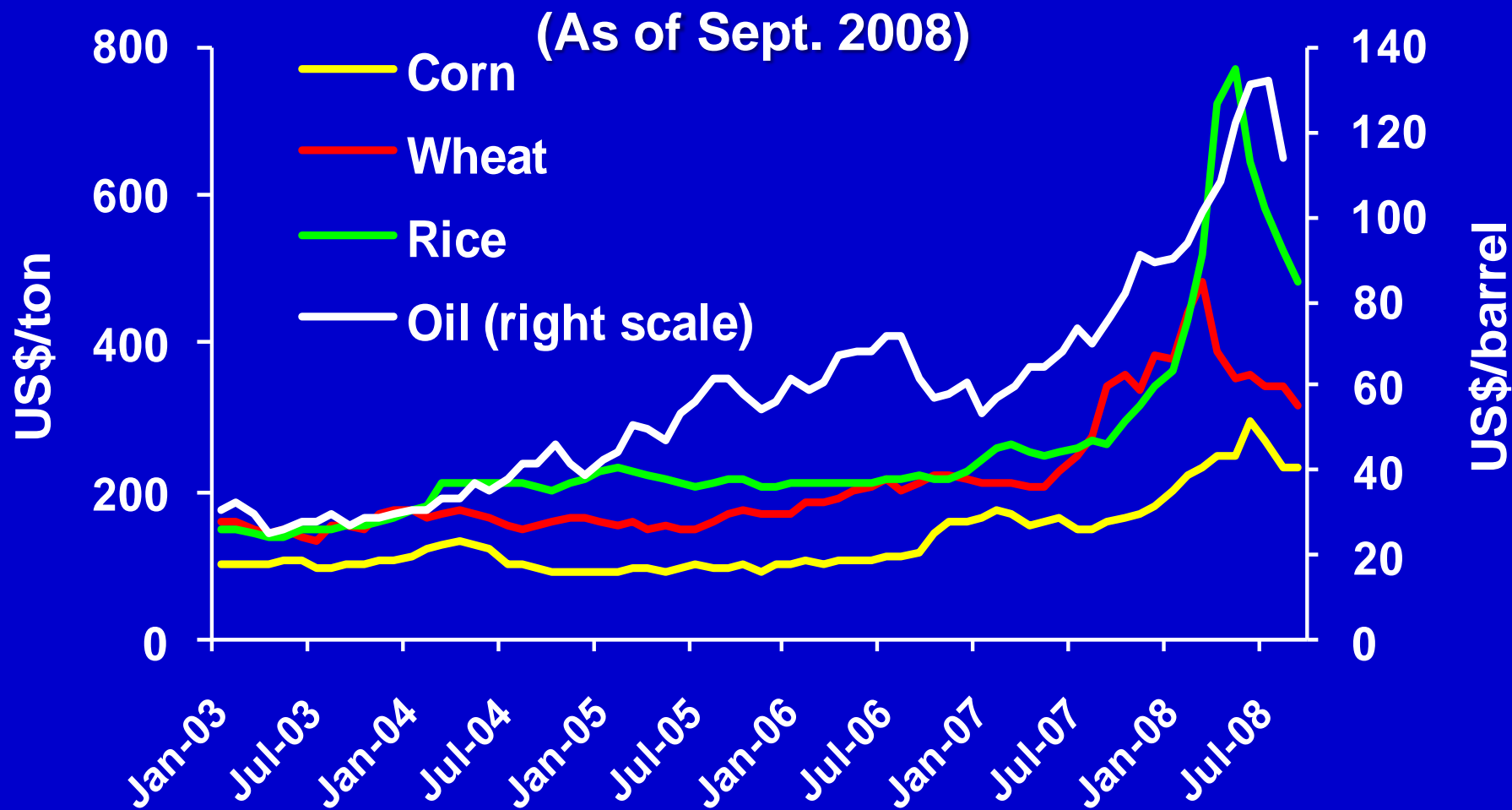
- **Price developments and causes**
- **Impacts on the poor and hungry**
- **Priorities for action**

# Most sustained and significant increase of food prices in 3 decades

Annual FAO Food Price Index 1998-2000=100, 1961-2008

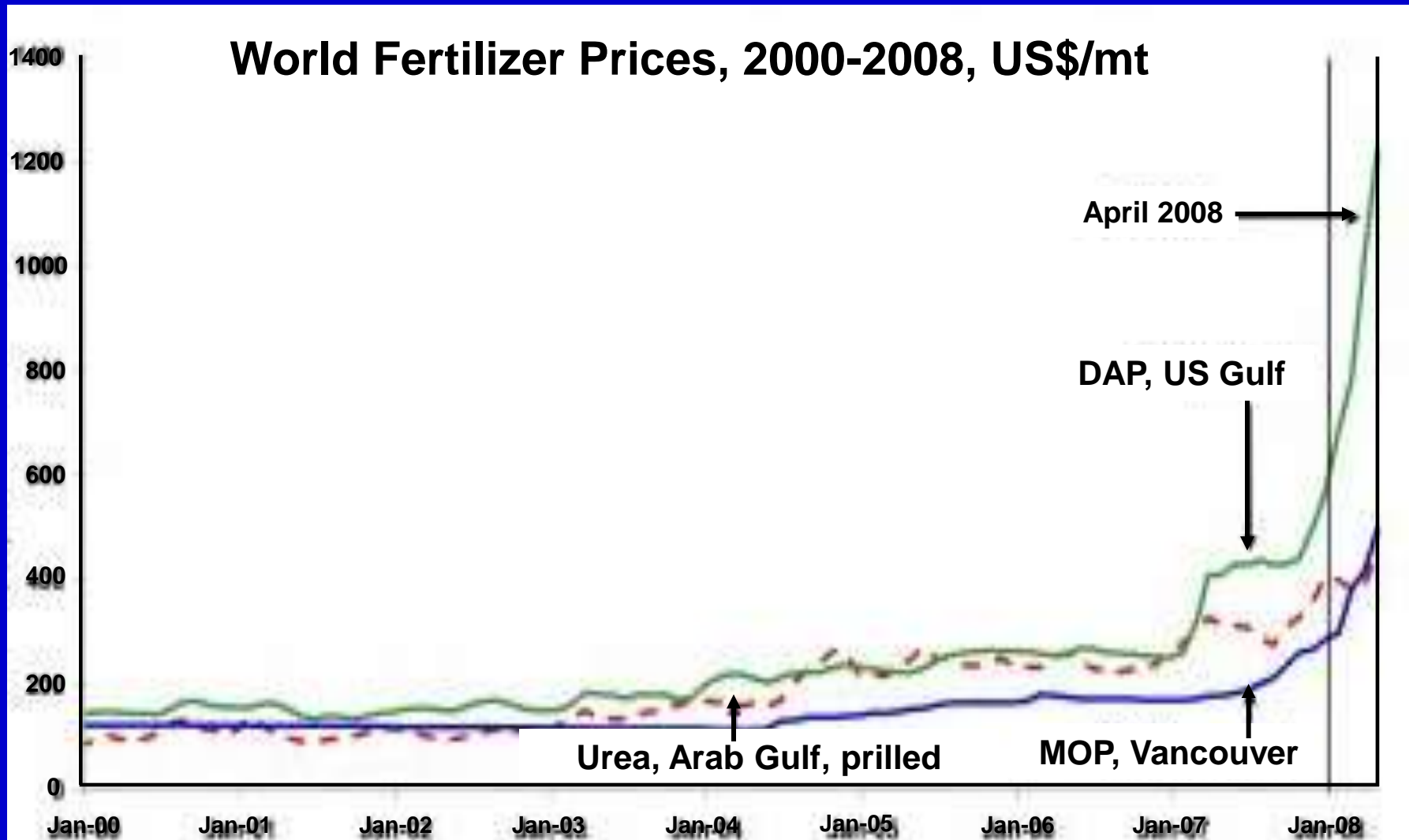


# Higher and more volatile prices



**Since Jan. 2003, maize and wheat prices doubled, rice prices tripled, oil prices quadrupled**

# Soaring global fertilizer prices



# Sources of the price increase

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

# (1) Income and population growth

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- **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**

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

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

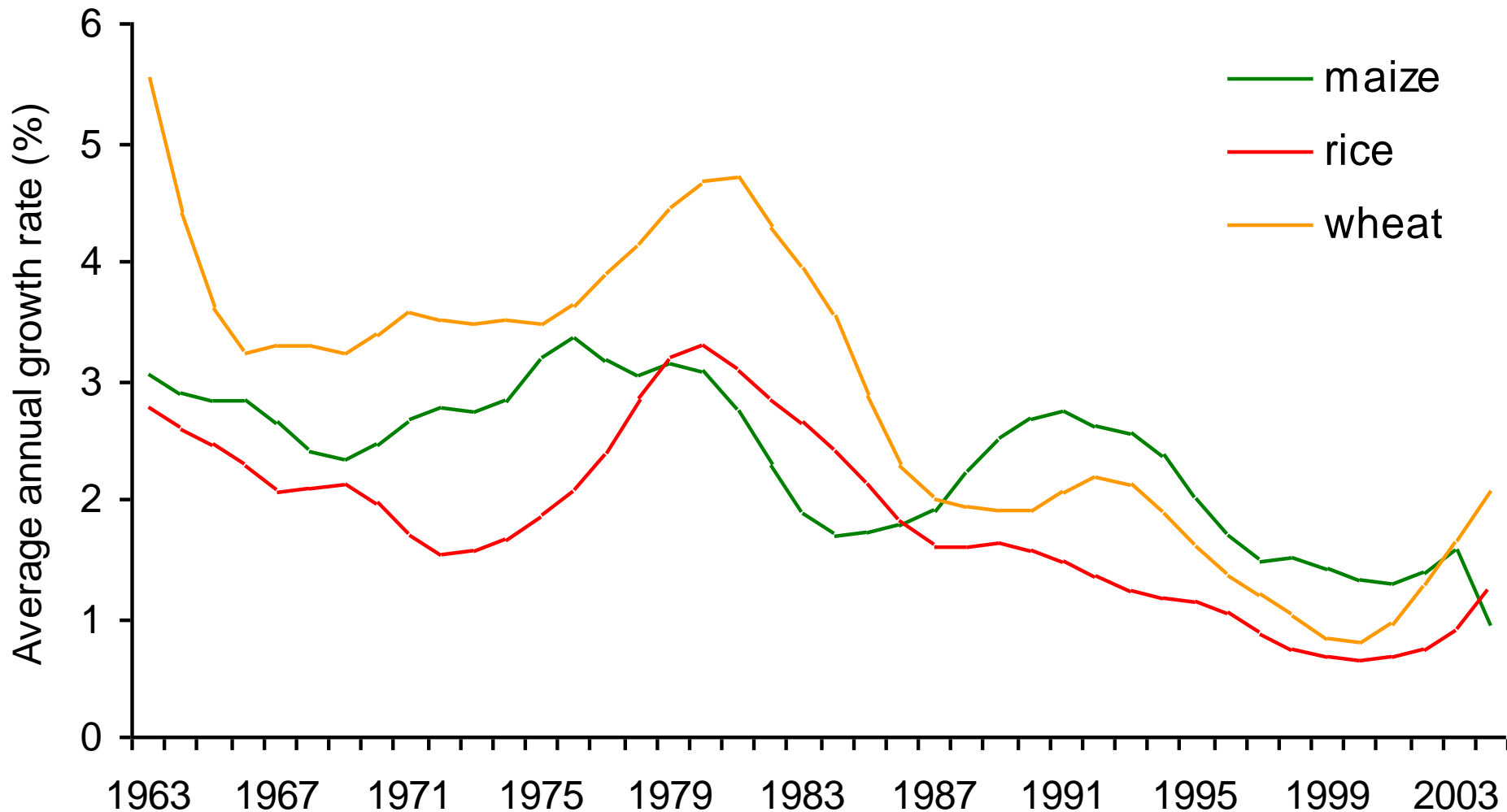
**Generous developed country subsidies for biofuels and energy crops distort markets**

**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**

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- **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

	Trade restriction	Trade liberaliz.	Consumer subsidy	Social protection	Increase supply
<b><u>Asia</u></b>					
Bangladesh	X		X	X	X
China	X	X	X		X
India	X	X	X	X	X
Indonesia	X	X	X		
Malaysia	X		X		X
Thailand	X		X		X
<b><u>Latin America</u></b>					
Argentina	X	X	X		X
Brazil	X	X			X
Mexico		X	X		X
Peru		X	X	X	
Venezuela		X	X	X	X
<b><u>Africa</u></b>					
Egypt	X		X	X	X
Ethiopia	X		X	X	X
Ghana		X			X
Kenya					X
Nigeria		X	X		X
Tanzania	X	X	X		

# Overview

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- **Impacts on the poor and hungry**
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# Looking beneath the \$1 a day line (2004)

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## Poor

(\$ .75 cents – \$1)

**485 million people**



## Medial poor

(\$ .50 cents – \$ .75 cents)

**323 million people**

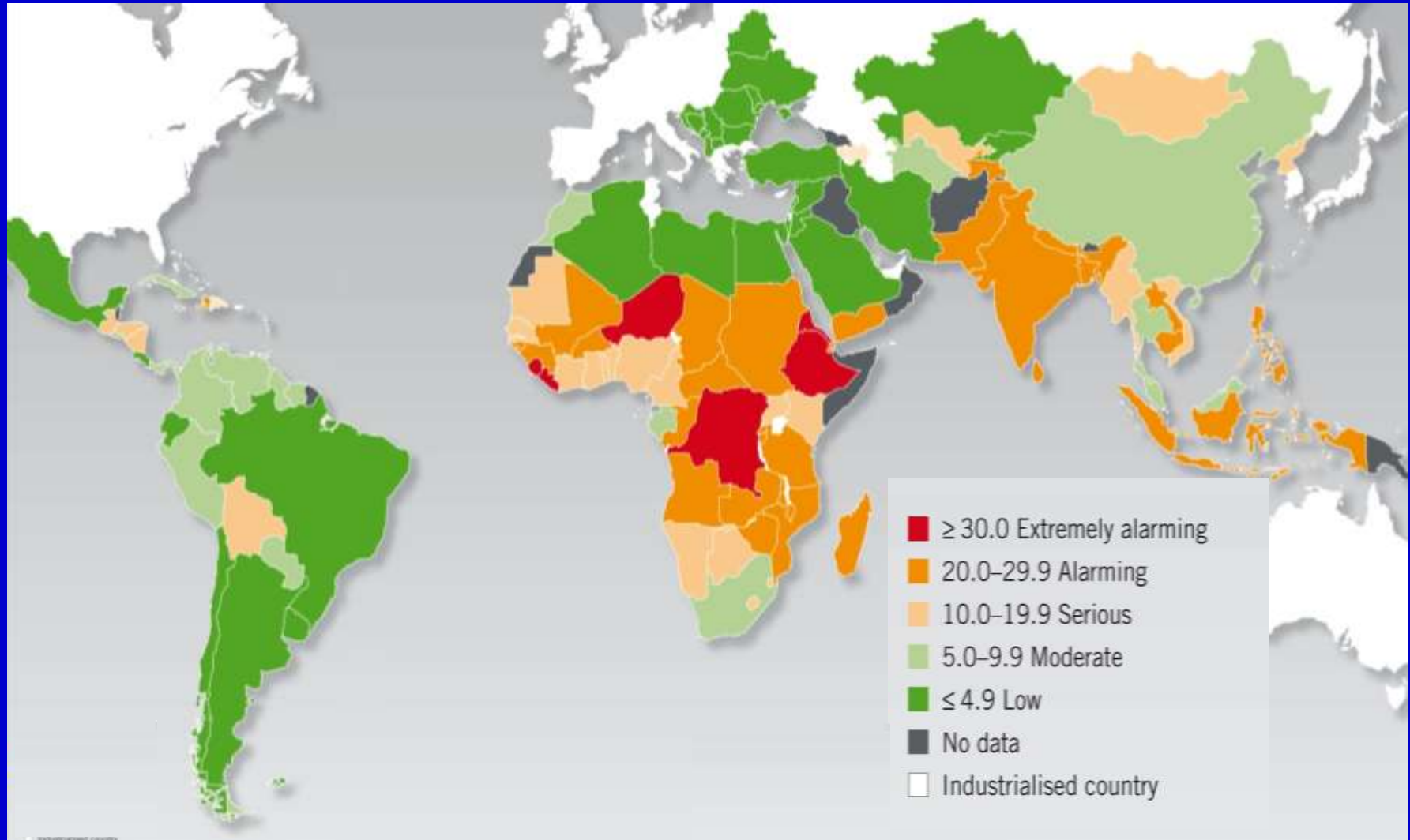


## Ultra poor

(less than \$ .50 cents)

**162 million people**

# World map of hunger: 2008 GHI by severity



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

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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.
- **Near East / North Africa** 4 mil.
- **Sub-Saharan Africa** 24 mil.



# Impact of High Prices

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- **At country level**
  - Net food exporters gain
  - Net food importers struggle
  - Impact within a country depends on price transmission
  
- **At household level**
  - Net sellers benefit
  - Net food buyers harmed – the majority of the poor



# Impacts of high prices on the poorest

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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)**

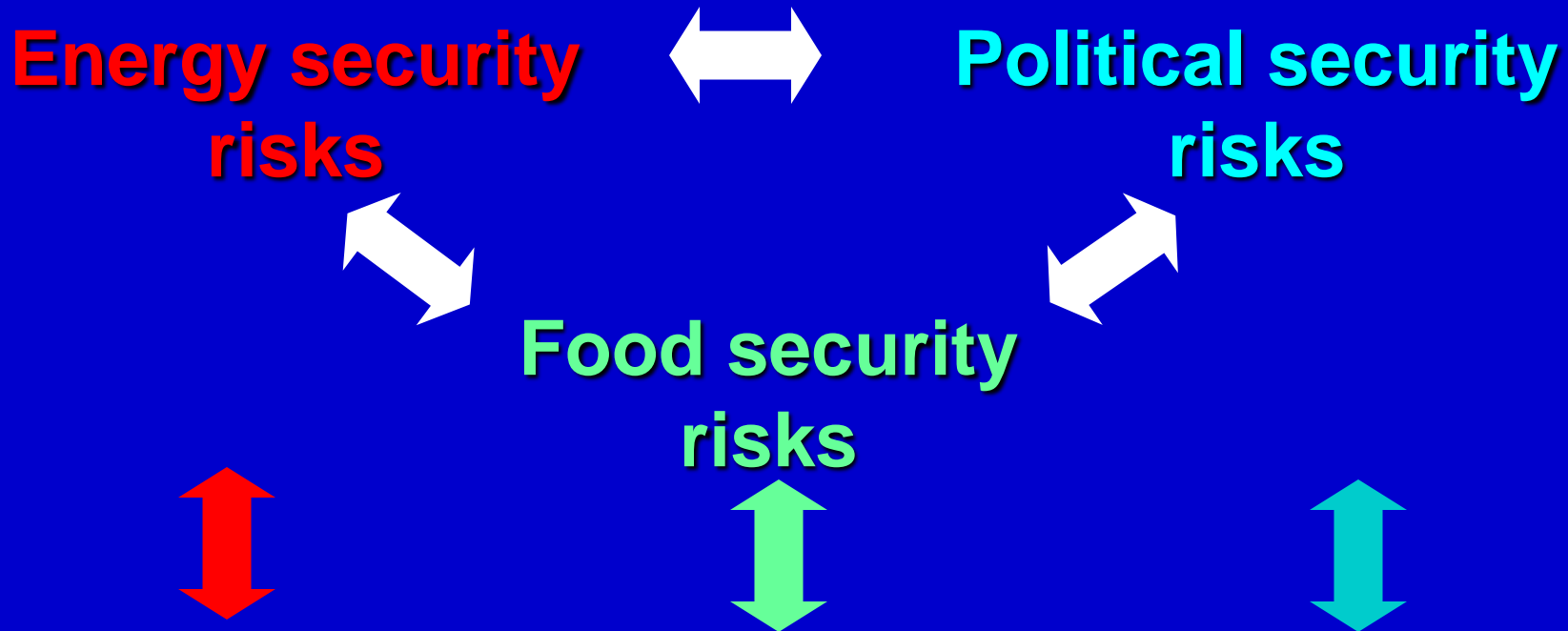
# **Irreversible consequences with long-term impact**

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- **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

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**+ 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**

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# The food crisis is not overcome, actions are needed now

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## 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

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- 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

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## 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

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- **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



# Implementation of actions must be sound

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- **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