Managing Food Price Volatility: Discussant Remarks on Peter Timmer Presentation

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Food Security Group
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Presentation at
Stanford University, Center for Food Security and the Environment
May 26, 2011,
Summary of Peter’s presentation:

1. Price volatility is a major *economic* problem – price stability contributes to economic growth
2. Food price volatility is a major *political* problem. Policy analysts need to address these real problems to be taken seriously by policy makers
   “greater attention needs to be devoted to “second-best” approaches at the national level” (Timmer, p. 2)
3. What to do?
   i. Help households cope with price risks
   ii. Help countries stabilize domestic food prices, with minimal spillover to global markets
   iii. Help regional organizations provide productive forums for coordinated food reserve policies
1. Price volatility is a major *economic* problem
   • Price stability contributes to economic growth
   • So let’s encourage governments to stabilize
My concerns:

• Yes, price stability contributes to economic growth

• But price stabilization efforts don’t necessarily contribute to price stability
  • Government’s track record in stabilizing prices has been mixed at best
States intervening most heavily in markets and trade to stabilize prices suffer the most price instability

Source: Chapoto and Jayne (2009)
My concerns:

• Hence, the relationship between price stabilization and economic growth is tenuous at best
• Massive costs – and foregone investment in productivity-enhancing public goods
• Price stabilization efforts are often the smokescreen for patronage
My Conclusion #1:

• Despite there being benefits to price stability, many governments fail to promote it via price stabilization policies

• No solid evidence that countries that stabilize have greater productivity growth than those that do not
  • Peter presents no empirical support for his view
Peter’s conclusion #2:

1. Food price volatility is a major *political* problem. Policy analysts need to address these real problems to be taken seriously by policy makers
   - “greater attention needs to be devoted to “second-best” approaches at the national level”
My concerns:

• Lack of clarity about what the fundamental problem is.
• Food price instability ≠ high food prices
• Most analyses show that high food prices is the much more important and dangerous problem
• Barrett and Bellemare (2011) conclude: “We could find no rigorous evidence” that political unrest is due to price volatility
• Evidence that stabilizing against low prices is a much more effective way to improve welfare
Who benefits from government efforts to raise food prices? (Zambia 2008)

<table>
<thead>
<tr>
<th></th>
<th>N=</th>
<th>Farm size (ha)</th>
<th>Asset values (US$)</th>
<th>Gross rev., maize sales (US$)</th>
<th>Gross rev., crop sales (US$)</th>
<th>Total hh income (US$)</th>
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</thead>
<tbody>
<tr>
<td>Top 50% of maize sales</td>
<td>30,150</td>
<td>7.2</td>
<td>3,703</td>
<td>3,199</td>
<td>3,354</td>
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<tr>
<td>Rest of maize sellers</td>
<td>467,320</td>
<td>1.9</td>
<td>257</td>
<td>172</td>
<td>252</td>
<td>1,272</td>
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<tr>
<td>Households not selling maize</td>
<td>1,010,014</td>
<td>1.1</td>
<td>129</td>
<td>0</td>
<td>57</td>
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Source: Central Statistical Office, Supplemental surveys, 2008
• Government efforts to raise food prices tend to be regressive – hurting the poor
• Is there any evidence to suggest that food prices are becoming more volatile?
Higher price levels – the long view

World Bank World Price Indices for Grains and Fertilizer (Pink Sheet) 1960-2011
Higher price levels – the long view

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1960-2011

80% rise (no change in CV)

110% rise
Higher price levels?

World Bank World Price Indices for Grains: Nominal and deflated with SSA and World per capita GDP (1960-2011)
Higher price levels? (2)

World Bank World Price Indices for Grains: Nominal and deflated with SSA and World per capita GDP (1960-2011)
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Higher price levels? (4)

World Bank World Price Indices for Grains: Nominal and deflated with SSA and World per capita GDP (1960-2011)

2008 and 2011 peaks lower than previous peaks ...

SSA GDP deflated
Zambia, maize affordability
Zambia, bread affordability
Kenya, maize affordability

Poverty Rate

GDP per Capita

Year

1970
1980
1990
2000
2010

Poverty Rate, $1/Day
GDP per capita
My conclusion:

- Little evidence to suggest that food prices are becoming more volatile
- GDP and wages are rising faster than food prices in most developing areas, including most of Africa
- Agree that farmers producing a surplus are hurt by low prices, but efforts to raise farm prices often hurt the poor
- High food prices is the major problem – and the strategies for addressing structurally high food prices differ from the strategies to address price volatility
Evidence on returns to alternative investments and policies to achieve broad based growth
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<th>The Economist</th>
<th>IFPRI study</th>
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# Ranking with respect to *agricultural growth*: Evidence from Asia

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## Ranking with respect to poverty reduction: Evidence from Asia

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Peter’s opening question in his paper: “Is there any way for good economics to be politically sensible?”

Peter’s conclusion:

- good economics must take account of political realities – policy analysts will be ignored if their prescriptions ignore governments’ preferences for price stability
My conclusion:

- Not so quick to give in to 2\textsuperscript{nd} best approaches.
The world has achieved many important policy changes once viewed as politically infeasible not long before they happened:

- Economic reform in eastern Europe
- Current changes in Middle East
- Economic policy liberalization in Sub-Saharan Africa – a very different place than it was 20 years ago

So...let’s not underestimate what kind of policy reform is possible or set our sights too low.
• Therefore, I would have liked to see Peter put more focus on the policy and investment strategies that represent the best prospects for sustainable poverty reduction and livelihood improvement, rather than arguing that liberalization options are not politically feasible without 2nd best options involving price stabilization.
What to do – concretely?

Peter:

• Help households cope with price risks
• Help countries stabilize domestic food prices, with minimal spillover to global markets
• Help regional organizations provide productive forums for coordinated food reserve policies
• Treat stable food prices as a “good” rather than a “bad”
My list of concrete actions:

• Encourage a shift in public budgets from price stabilization (some of which is often destabilizing) to investments with proven track record in reducing poverty and promoting income growth!
  • Sound macroeconomic management
  • Crop science / R&D / National ag research systems
  • Viable farmer extension systems
  • Basic education and health
  • Road, rail, port infrastructure
  • Sustainable use of world’s available water
  • How to maintain crop productivity and yield stability in face of climate change
  • rules-based as opposed to unpredictable government actions in markets (trade bans, sudden changes in marketing board operations, etc)
Why not go after the low-hanging fruit?
What to do? Short-term

• Distinguish between emergency reserves and buffer stocks
  • The former are smaller, meant to cover gap until imports can arrive
  • The latter are explicitly meant to stabilize prices and so need to be large
    • Very poor record in most developing countries: High cost, opaque management lead to market disruption
  • Regional buffer stocks would face even greater problems
What to do? Short-term (2)

• Combine relatively small emergency reserves with robust safety nets
  • Reserves = 2-3 months consumption max
  • Layered safety nets
    • School feeding
    • Conditional cash transfers
    • Temporary food aid
• Remember that consumers can and do substitute from high-cost to low-cost calorie sources
  • From maize/wheat to cassava, sweet potato, sorghum, millet
  • From refined maize meal to coarser maize meal
What *not* to do

- Large-scale government procurement and buffer stock policies
  - Zambia lost $300 mill (nearly 2% of its GDP in 2010) on its maize operations last year

  - Stabilizing well could be good economics
  - But stabilizing badly is *neither* good economics nor good politics
Thank you