Food Price Policy in an Era of Market Instability: A Political Economy Analysis

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14 Participating Countries (Bangladesh, Brazil, China, Egypt, Ethiopia, India, Kenya, Malawi, Mozambique, Nigeria, Senegal, South Africa, Vietnam, Zambia)

Collaborating Institutions: Cornell University, UNU-WIDER, and University of Copenhagen

European Union

United States
Were Food Price Fluctuations in the World Market Transmitted to National Markets?
Wheat Prices in the World Market, South Africa and Bangladesh, 2005-2012

Source: Baltzer (2013)
Rice Prices in the World Market, China and India, 2005-2012

Source: Baltzer (2013)
Maize Prices in the World Market, Malawi and Zambia, 2005-2012

Source: Baltzer (2013)
Real Food Price Indices in the EU and the World Market 2005-2012 (2005=100)

Source: Swinnen, Knops, and Herck (2013)
Cereal Prices in the EU and World Market 2005-2012

Source: Swinnen, Knops, and Herck (2013)
Policy Responses: Two Options

1. Decouple world market and domestic prices
2. Compensate losers
Decouple world market and domestic prices

– Trade policies to reduce price transmission
– Direct price control
– Removal of VAT on food
– Short term supply management
– Production expansions
Compensation

• Targeted cash transfers
• Targeted or untargeted food subsidies
• Increased public sector wages
The Policy Process and Consequences (1)

1. Ad hoc, delayed action
2. High fiscal costs
   - Revenue losses
     • Export bans
     • Import tariffs
     • Elimination of VAT
   - Program costs
3. Interference with price signal
The Policy Process and Consequences (2)

4. Poor targeting (intentional or not)
   - Transfers, safety nets
   - Food and fertilizer subsidies

5. Corruption

6. Cross-border trading

7. Selective enforcement of export bans

8. Untimely government procurement
Political Economy Lessons (1)

1. Protecting government legitimacy
2. Pursuing domestic policies irrespective of international consequences
3. Unitary government decision-making is unusual
4. Repeating past or expanding current policies
5. Relative power of stakeholder group varied
Political Economy Lessons (2)

6. Increasing urban bias
7. Smallholders versus larger farms
8. Mutual mistrust between government and the private sector
9. Foreign agencies had little influence
Recommendations

• Protect price signals
• Emphasize targeted compensation over price interventions
• Risk management tools for all system agents
• Seek high levels of price transmission
• Seek low levels of trade restrictions
Recommendations (2)

- Increase supply elasticities for food
- Improve management of cereal stocks
- Seek competitive behavior in supply chain
- Make demand for biofuel input price-related
- Strengthen international agreements regarding exporter behavior
- Improve public-private collaboration
Sources


• www.wider.unu.edu/foodpricepolicy