



# Managing Food Price Volatility: Discussant Remarks on Peter Timmer Presentation

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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

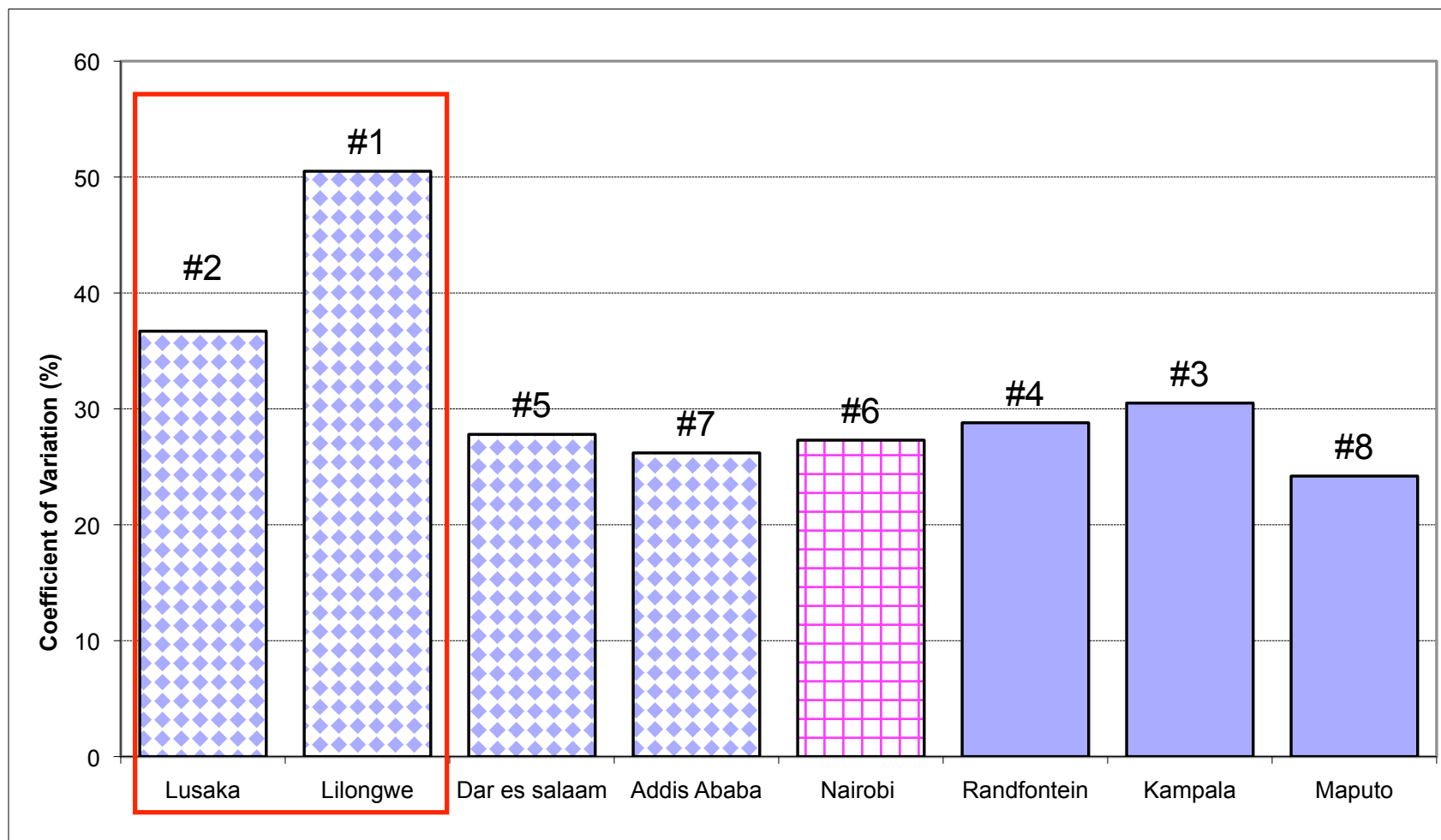
# Peter's conclusion #1

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  $\neq$  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

## Who benefits from government efforts to raise food prices? (Zambia 2008)

	N=	Farm size (ha)	Asset values (US\$)	Gross rev., maize sales (US\$)	Gross rev., crop sales (US\$)	Total hh income (US \$)
Top 50% of maize sales	30,150 (2%)	<b>7.2</b>	3,703	3,199	3,354	7,624
Rest of maize sellers	467,320 (30%)	<b>1.9</b>	257	172	252	1,272
Households not selling maize	1,010,014 (67%)	<b>1.1</b>	129	0	57	756

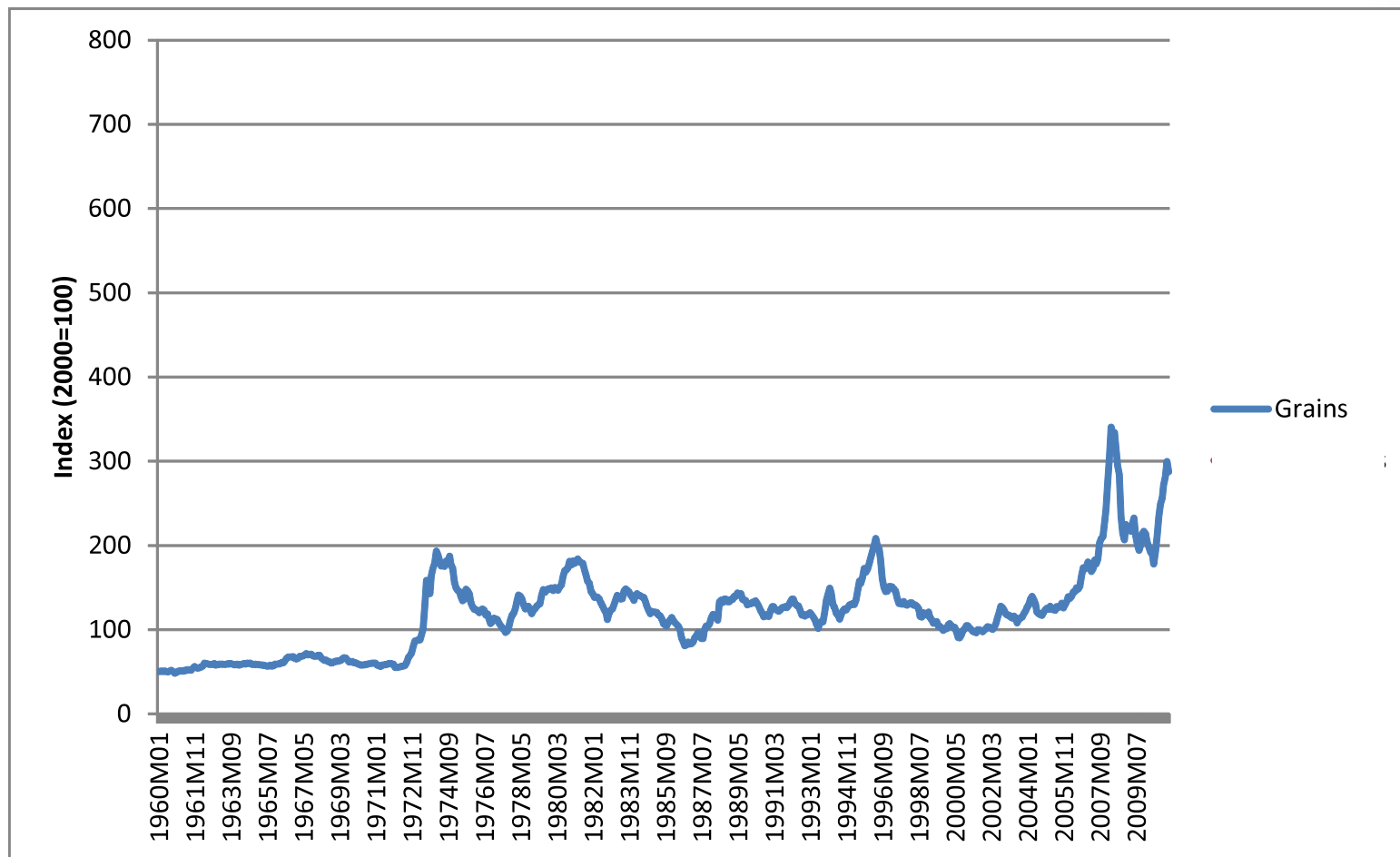
Source: Central Statistical Office, Supplemental surveys, 2008

- 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?

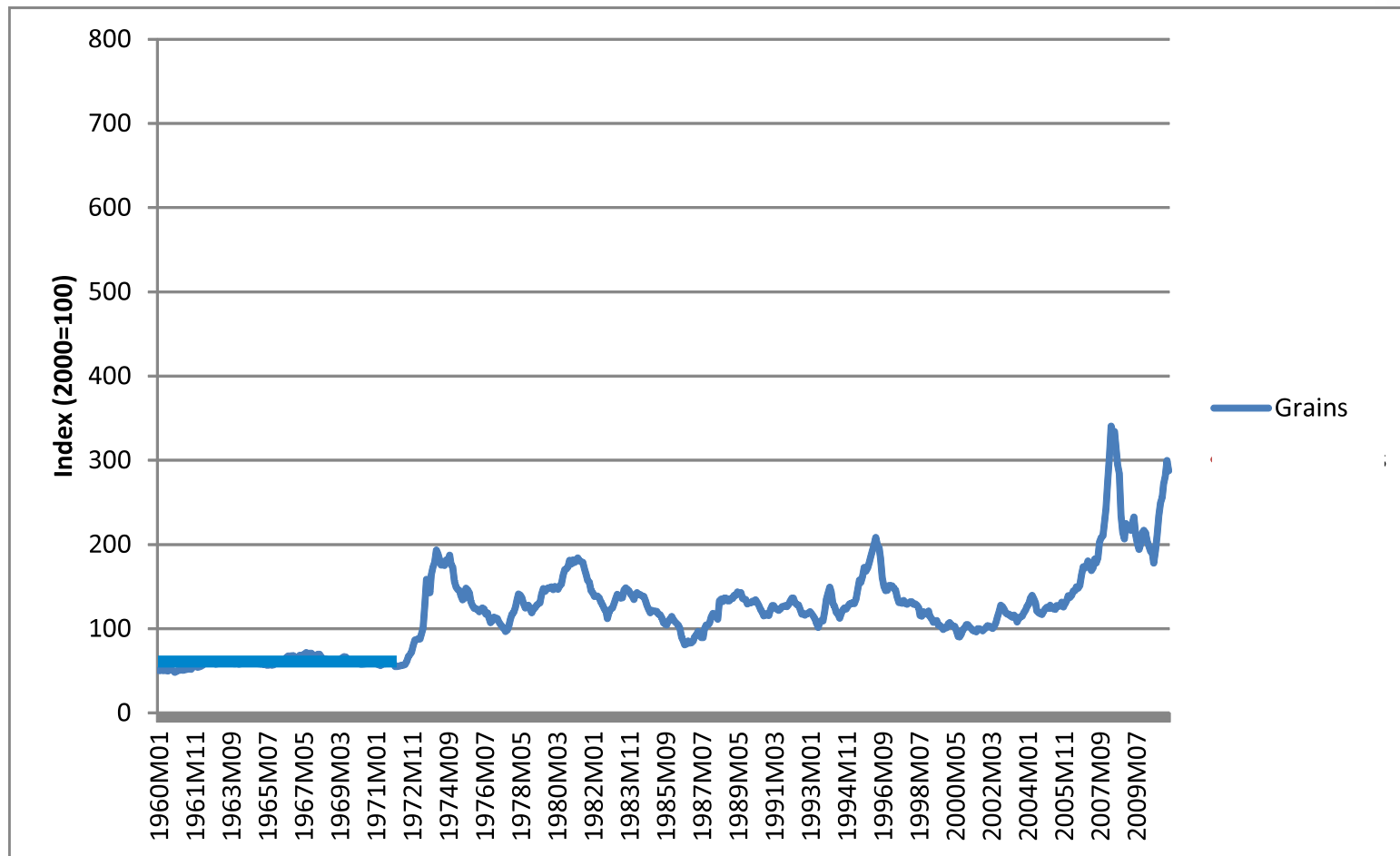
# Higher price levels – the long view

World Bank World Price Indices for Grains and Fertilizer (Pink Sheet)  
1960-2011



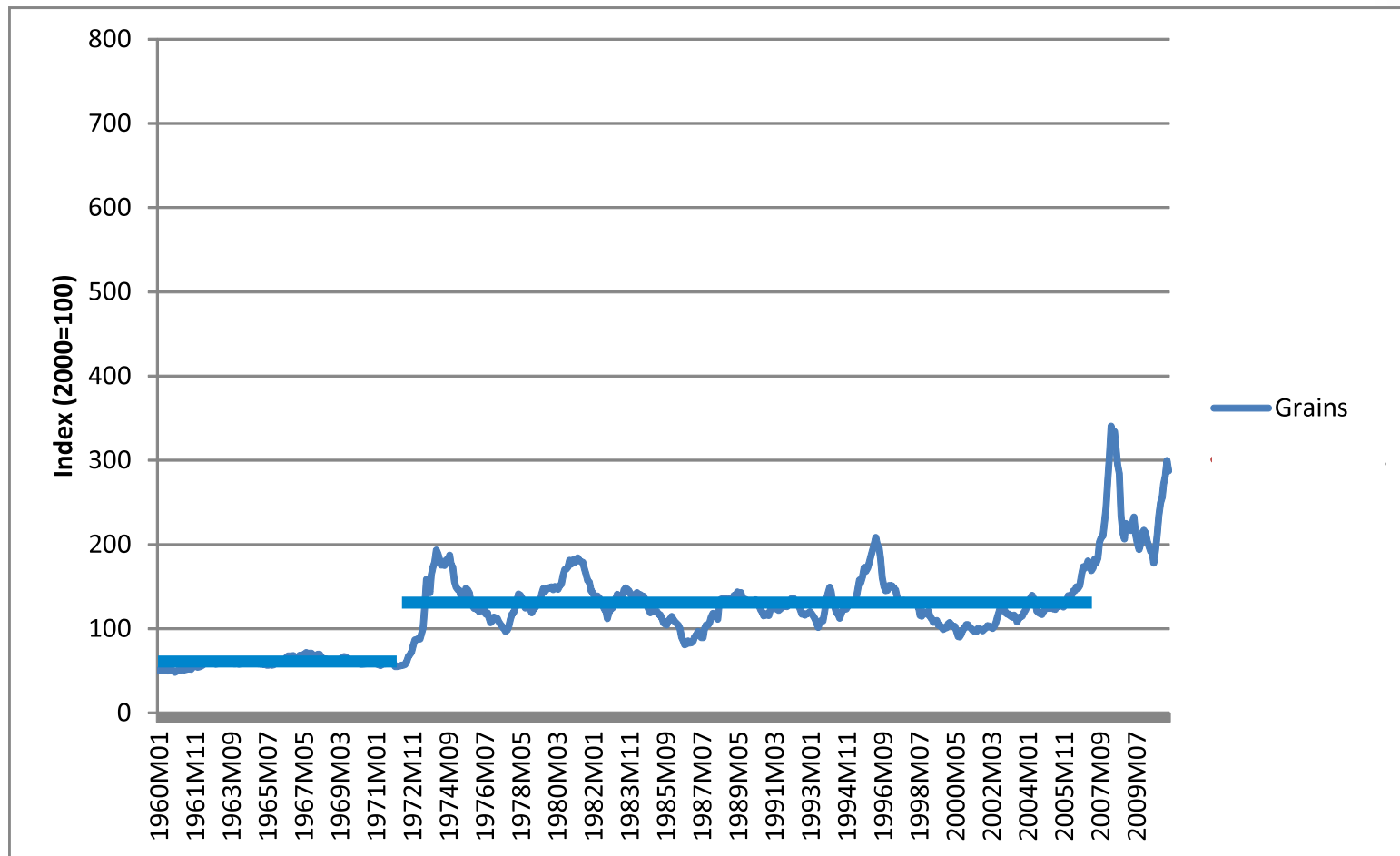
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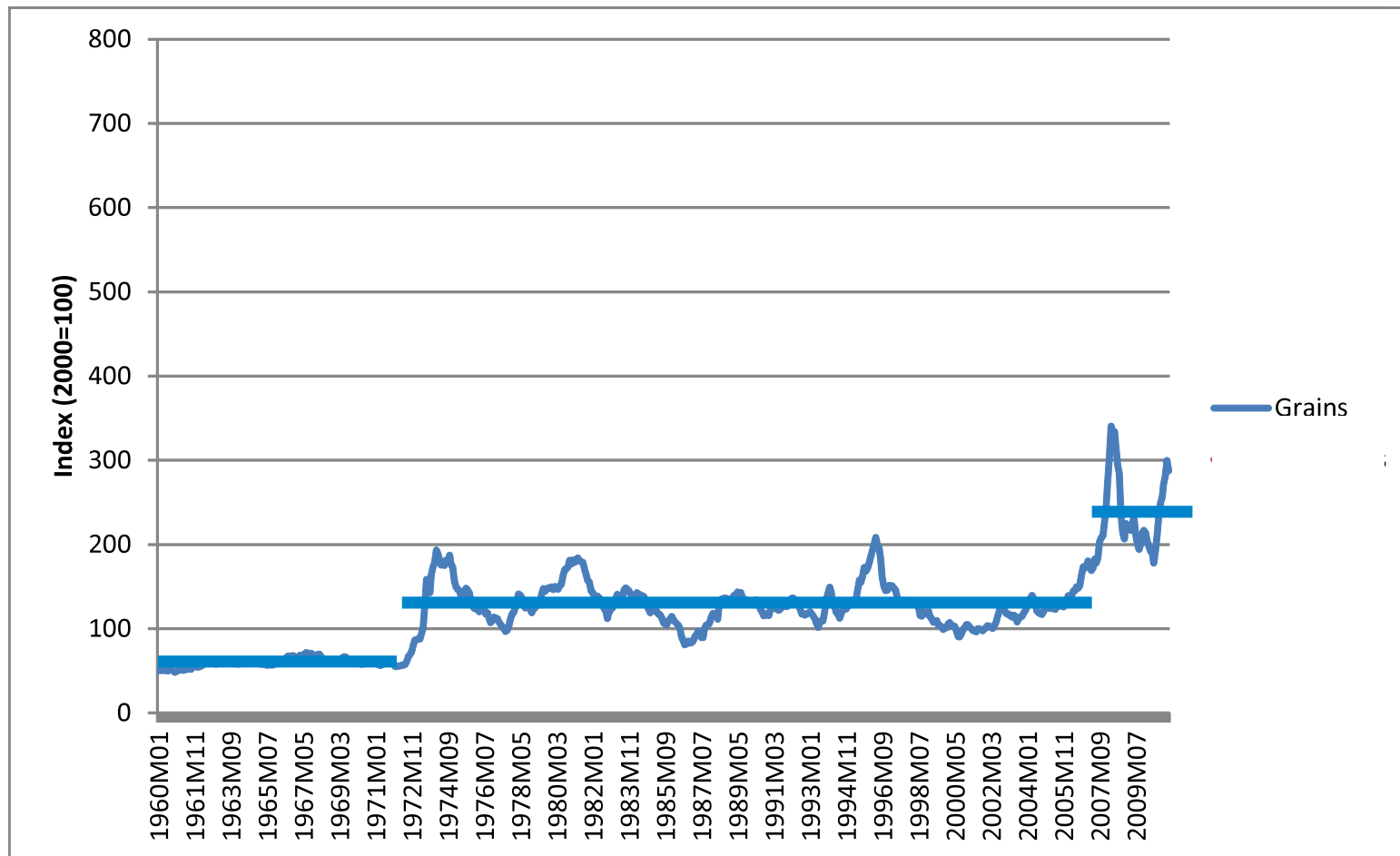
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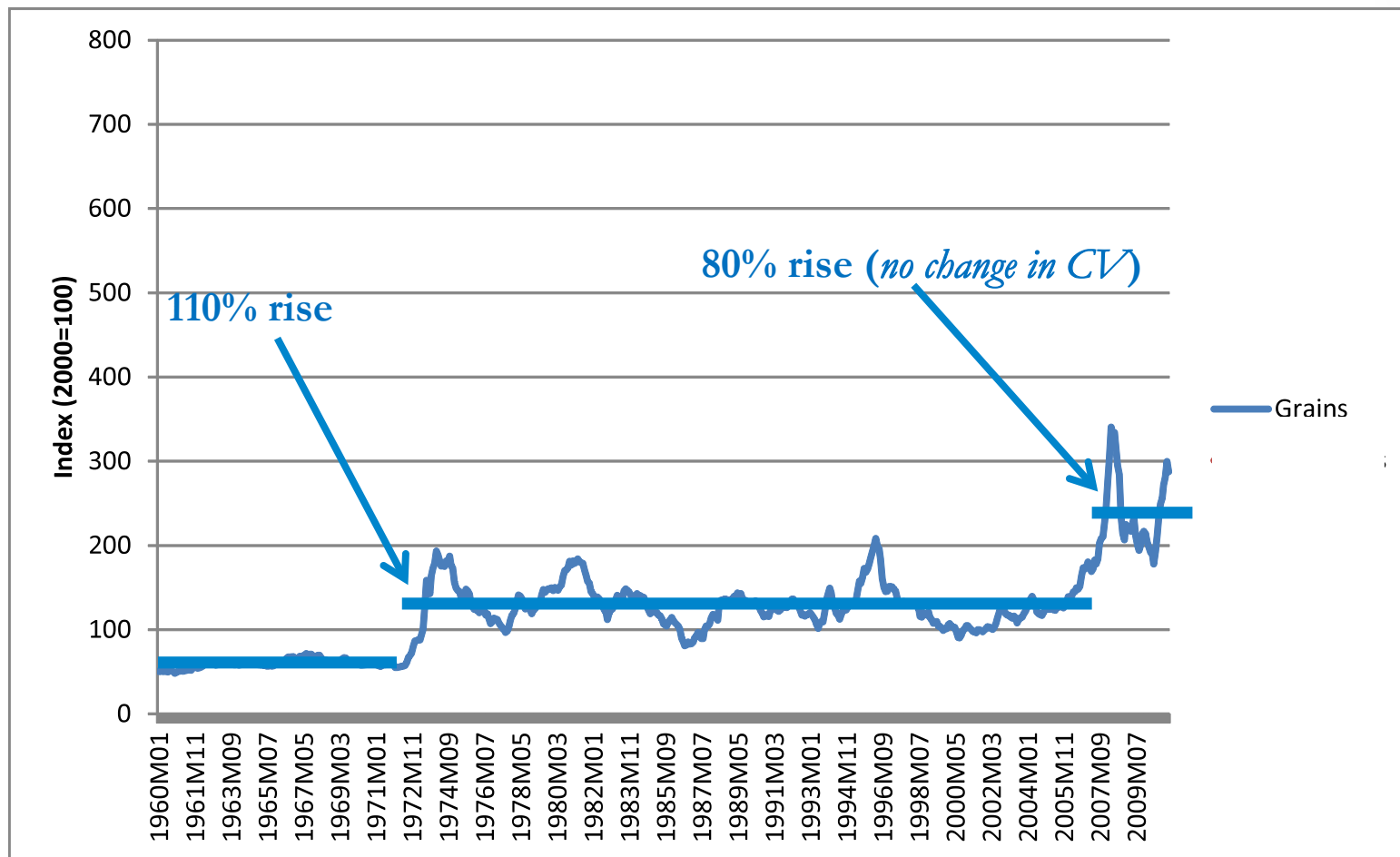
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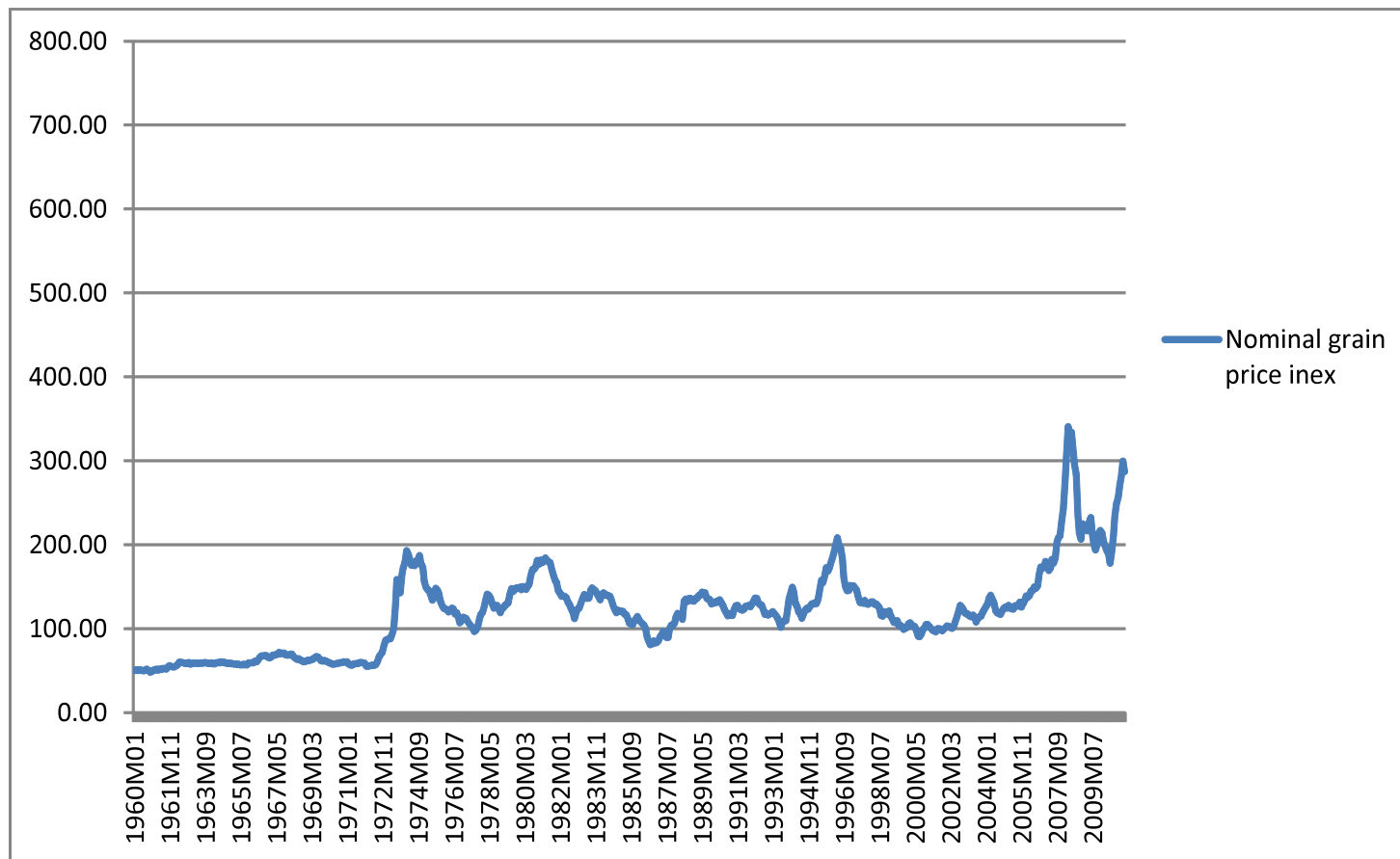
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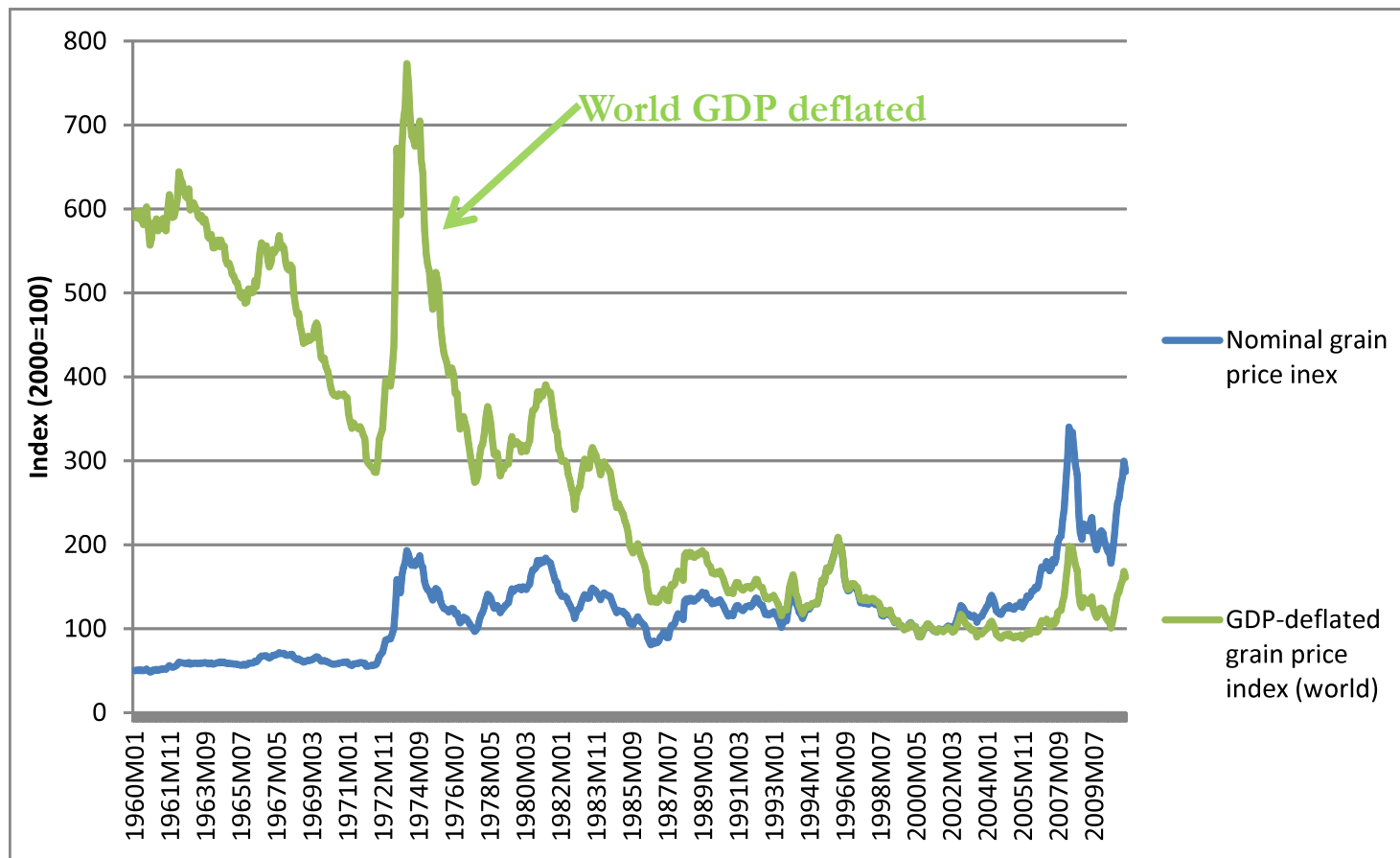
# Higher price levels?

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



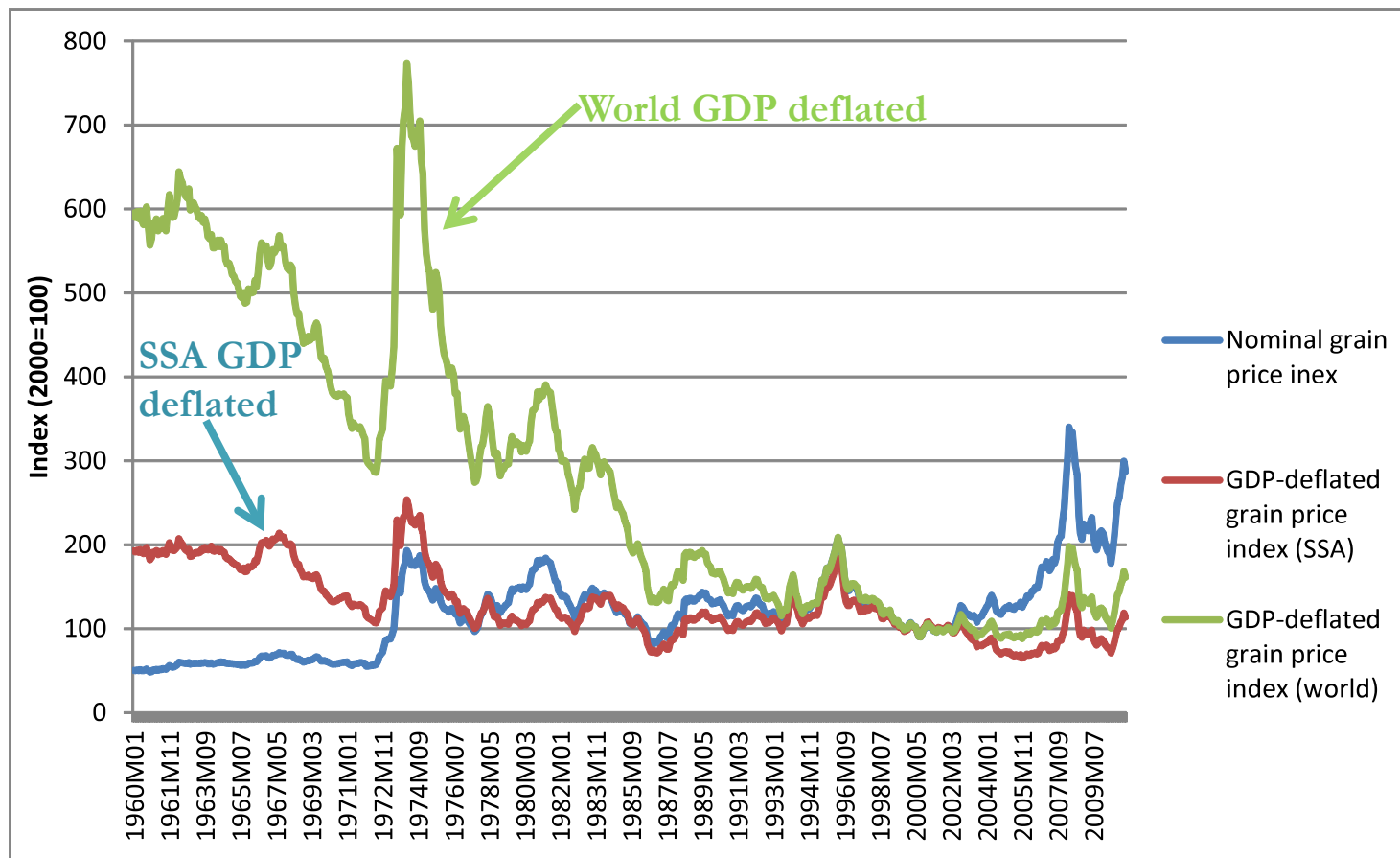
# Higher price levels? (2)

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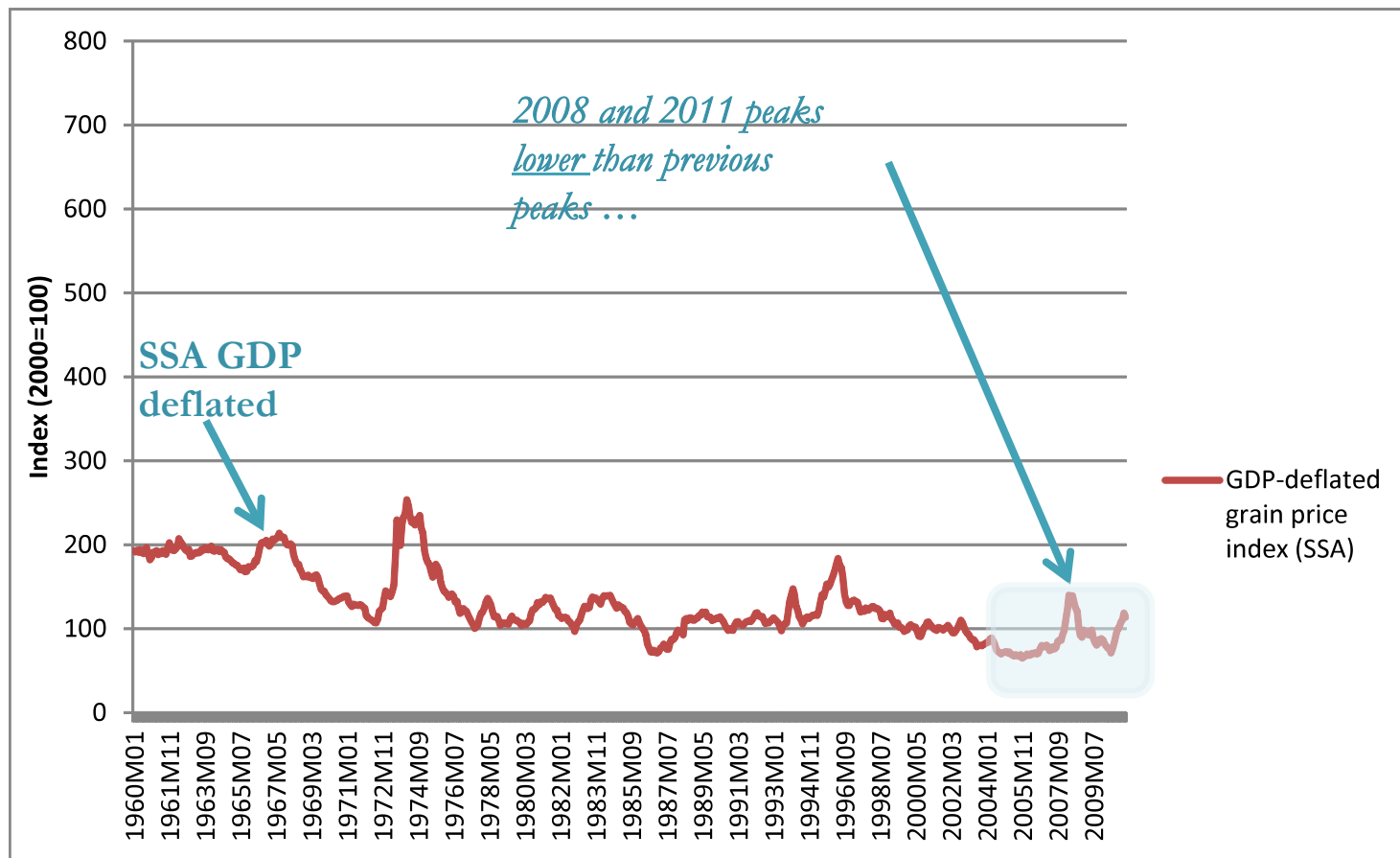
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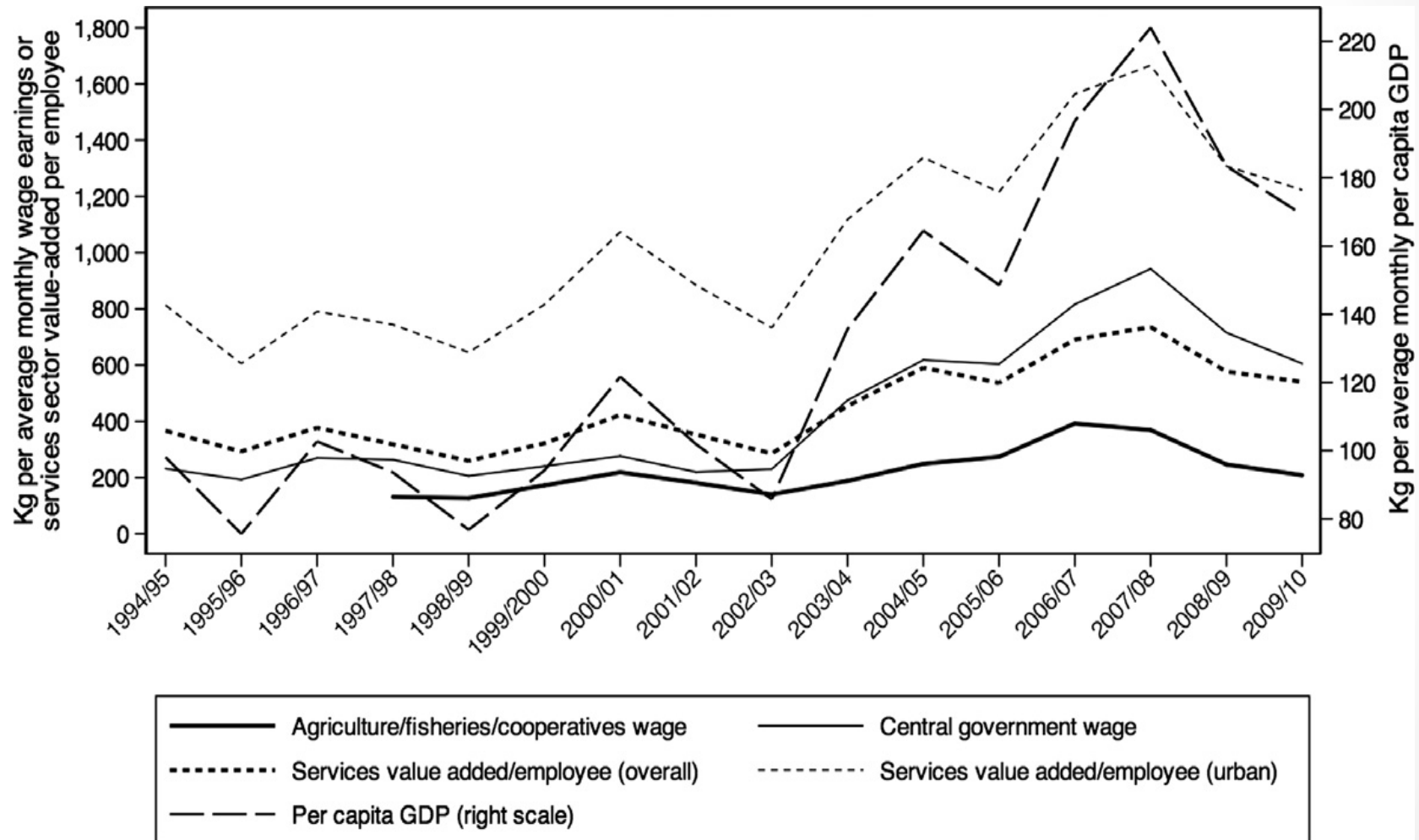


# Higher price levels? (4)

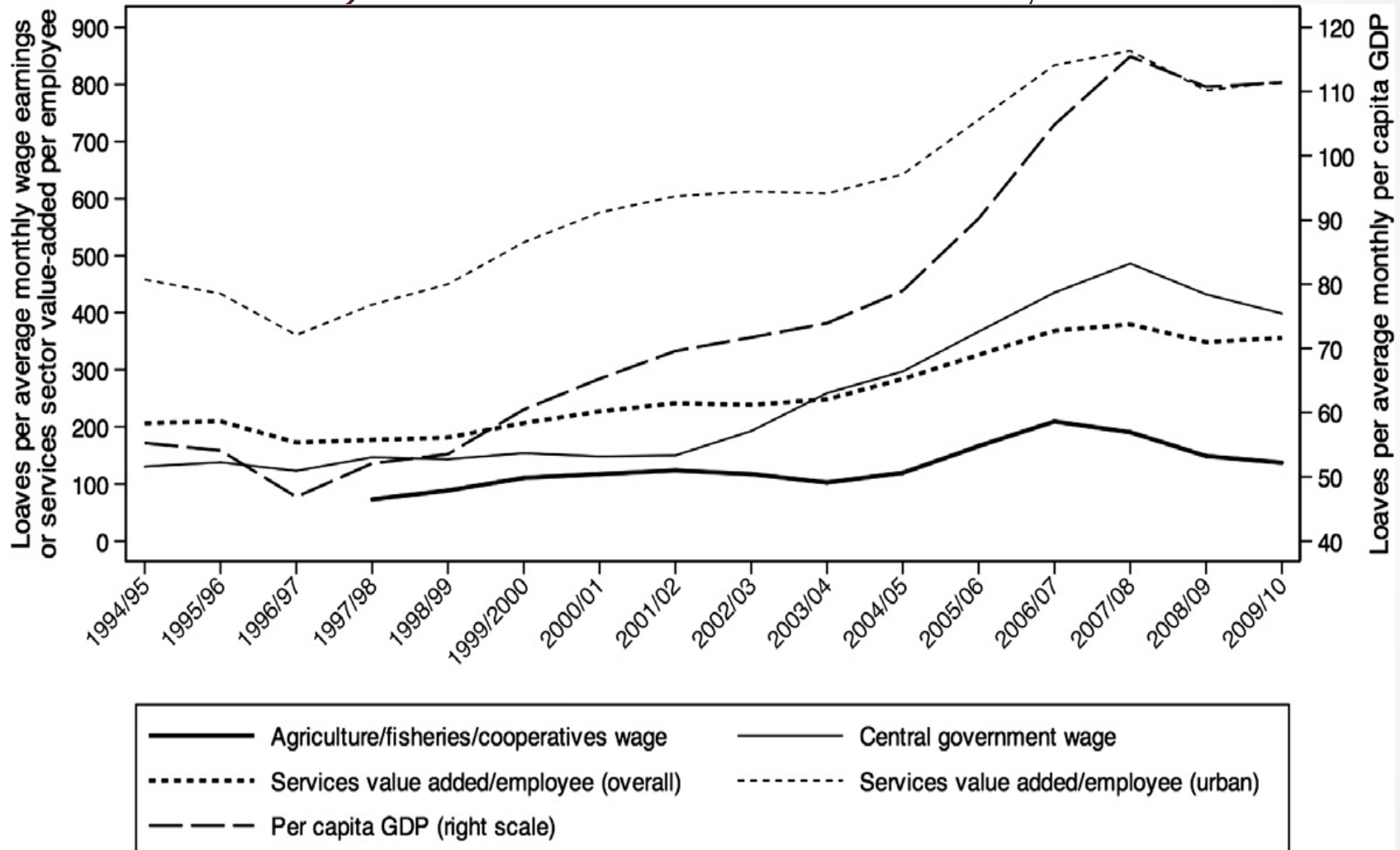
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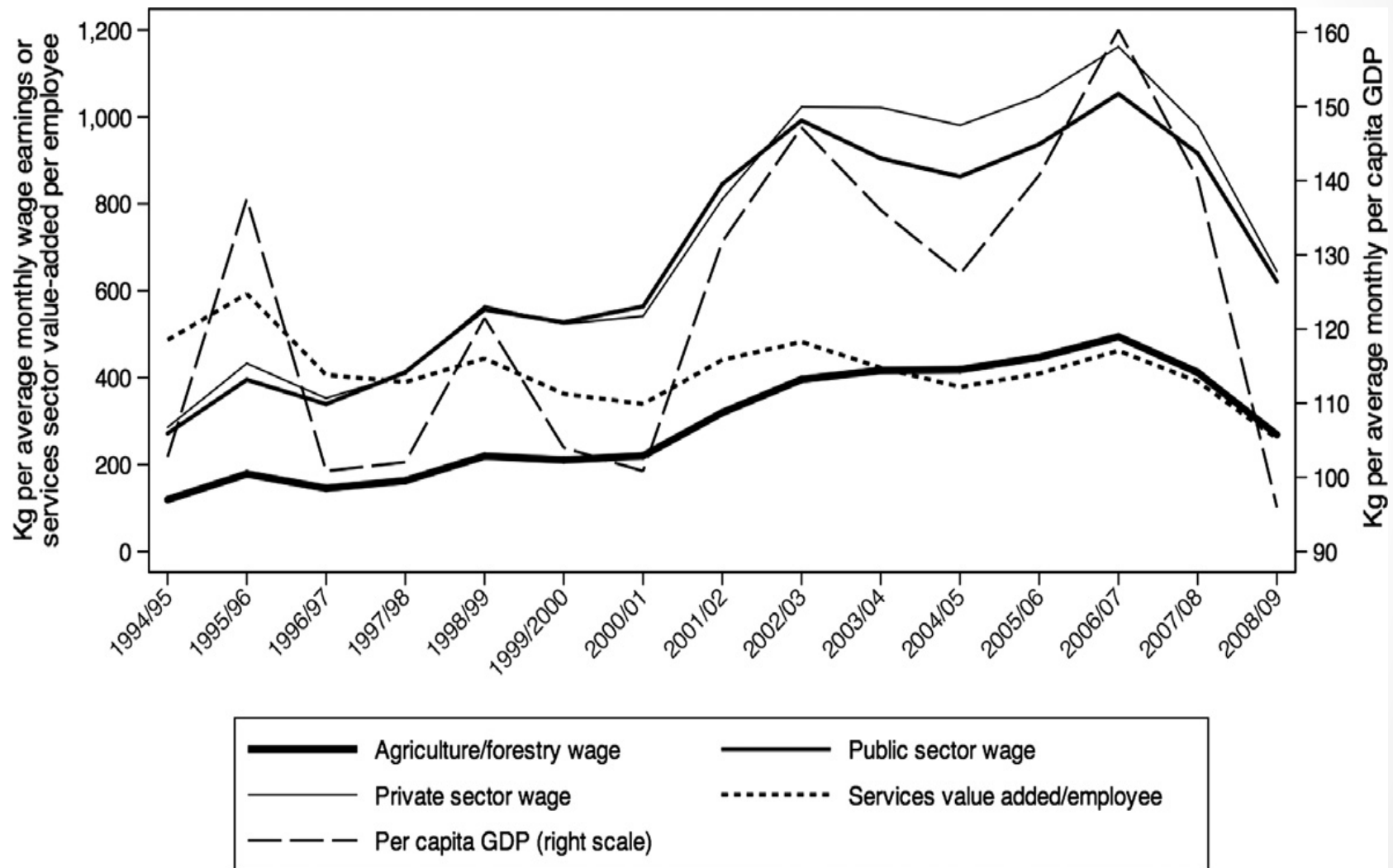
# Zambia, maize affordability



# Zambia, bread affordability

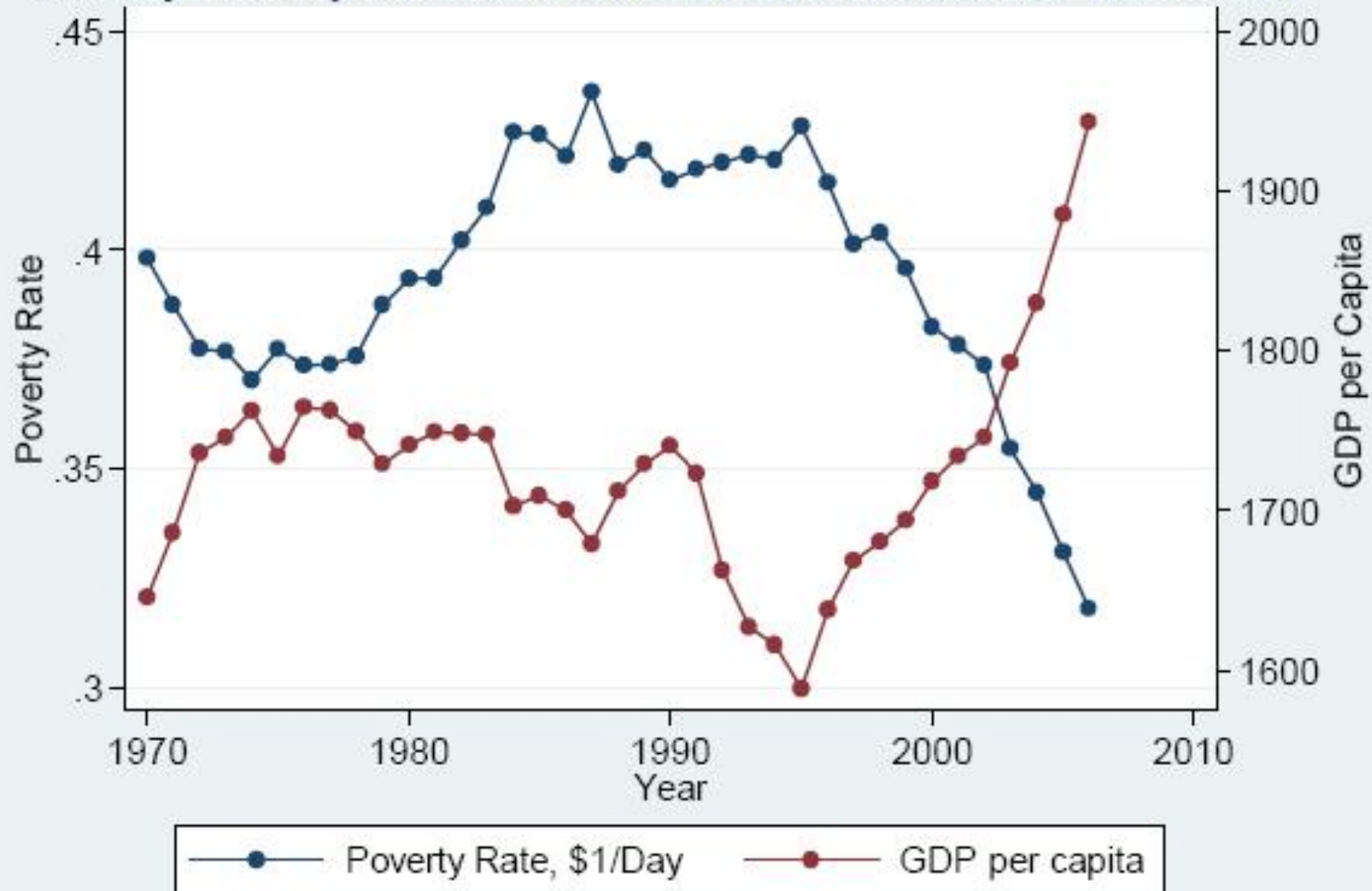


# Kenya, maize affordability






# \$1/Day Poverty and Growth in Sub-Saharan Africa, 1970-2006



## 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

## Ranking of Alternative Investments: Meta-Study Evidence from Asia and Africa

	The Economist	IFPRI study
Policies		
Road investment		
Agricultural R&D		
Agricultural extension services		
Credit subsidies		
Fertilizer subsidies		
Irrigation		

Ranking with respect to *agricultural growth*:  
Evidence from Asia

	The Economist	IFPRI
Policies	1	
Road investment	2	1
Agricultural R&D	3	2
Agricultural extension services	4	
Credit subsidies	7	3
Fertilizer subsidies	5	4
Irrigation	6	5

Ranking with respect to *poverty reduction*:  
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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<sup>nd</sup> 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 2<sup>nd</sup> 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*

