

The Political Economy of Food Price Policy: AN OVERVIEW

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In the mid-1970s, international real food prices started a decreasing trend that lasted for about 25 years. Prices then stabilized around a slightly increasing trend for five to six years until mid-2007, when they began a steep increase, reaching a peak around the middle of 2008. Since then, international real prices have been volatile with several peaks and troughs. Such food price volatility, which is caused by a combination of factors—including extreme weather events, market disruptions, government policy, and investor behavior—is likely to continue and possibly amplify in the future. It presents a major challenge for the world's policy makers. While much has been written about the nature, content, and causes of food price fluctuations since 2007, little is known about the processes that led to the policy responses and the relative power, behavior, and influence of the participating stakeholder groups. Understanding how and why governments responded as they did will help enhance existing knowledge of the political economy of food price policy and assist governments in their policy making as they confront future food price fluctuations.

The project

To gain such additional knowledge, researchers from 14 developing countries as well as the United States and the European Union (EU), came together around a project coordinated by Cornell University, UNU-WIDER, and Copenhagen University and funded by these organizations as well as the Bill and Melinda Gates Foundation. These researchers completed a study of the political economy of food price policy since 2007 in each of the 16 countries along with syntheses of the findings from the 16 studies. This brief provides some key findings.

Price transmission was high in some countries and low in others.

The extent to which changes in world market prices were transmitted to national markets varied greatly among the 16 countries depending on the degree of openness, the trade policies followed, and the nature of domestic markets and infrastructure. Price transmission was high in open economies, such as South Africa, and in heavily import-dependent countries, as for wheat in Bangladesh. Low transmission occurred in countries that used trade policy effectively to regulate foreign grain trade, such as China and India, and in landlocked countries, such as Malawi and Zambia. Fluctuations in cereal prices in the world market and the EU were highly correlated, but the fluctuations in the international composite food price index were barely noticeable for the EU consumer, primarily because the relative weights given to individual commodities differ between the international index and the EU index and because the cost of the food commodity accounts for only a small share of the consumer price in the EU. This situation illustrates the potential for misinterpretation of the impact of fluctuations in international commodity prices on consumers.

Policy responses aimed to reduce or compensate for price increases.

Although the policy responses varied greatly among the study countries, most were aimed at either (1) moderating domestic food price increases and volatility or (2) compensating select groups for the increasing and volatile food prices. Examples of the former include

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This brief is based on 20 papers produced by a research network on the Political Economy of Food Price Policy coordinated by Cornell University, UNU-WIDER and the University of Copenhagen.

The complete papers are available at: http://www.wider.unu.edu/research/current-programme/en_GB/Political-Economy-of-Food/.

The policy briefs can be found at: www.foodpolicy.dyson.cornell.edu.

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export bans and reduced import tariffs, removal of the value-added tax (VAT) on food, release of grain stocks, and fertilizer subsidies and other policies to expand agricultural production. The main policy interventions to compensate consumers for the higher prices were targeted cash transfers and food subsidies and increased public sector wages. In most of the countries, the transfers and food subsidies were targeted at either lower-income urban groups or all urban consumers, consistent with a strong urban bias. This response may be explained by governments' overriding goal of maintaining or strengthening their legitimacy, avoiding riots and other instability, and protecting consumer purchasing power. Yet the resulting demand increase undercut efforts to keep food prices from rising unless supplies were increased simultaneously. Governments sought to expand supply through fertilizer subsidies and some very limited public investments in agriculture and rural infrastructure.

Many of the policy interventions were of an ad hoc, emergency nature and frequently delayed because of lack of market information, conflicts among government agencies, and extended deliberations among stakeholder groups. Most of the countries experienced high fiscal costs, partly because of revenue losses from export bans, import tariffs, and the elimination of VAT and partly because of the cost of new programs and the expansion of existing ones. Other challenges to policy implementation included corruption, informal cross-border trade that eroded export bans, selective enforcement of export bans, and untimely government procurement of grain to replenish stocks at a time of high prices.

The relative power of various stakeholder groups to influence food prices varied across countries. In a few

cases, associations of large farmers, traders, or wheat millers played an important role. The voice of consumers was heard primarily through riots and threats of riots. Although much lip service was paid to smallholder farm families and other rural poor, they played little or no role in policy design. Armed with data showing that a large share of smallholders was net buyers of food, policy makers justified attempts to keep food prices low, failing to recognize that low food prices during the 1980s and 1990s were a major reason why many smallholders had become net buyers. Converting them to net sellers will require public and private investments in agriculture and rural infrastructure as well as the transmission of market prices to them.

Mutual mistrust between government and the private sector is widespread.

Mistrust between governments and the private sector was identified as a major challenge to the design and implementation of sound government policies and appropriate behavior by the private sector. Governments engaged in unpredictable behavior resulting from lack of transparency, erratic policy interventions, and conflicting policy initiatives by various government ministries and agencies (the unitary government decision-making model appears not to represent reality in most study countries). These factors contributed to hoarding, speculation, and inefficient business transactions in the private sector, which in turn contributed to a lack of transparency and an unstable political and market environment. Breaking this vicious circle appears important to improving food policy in several of the study countries.

THE POLITICAL ECONOMY OF FOOD PRICE POLICY

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