

This PDF is a selection from a published volume from the National Bureau of Economic Research

Volume Title: The Economics of Food Price Volatility

Volume Author/Editor: Jean-Paul Chavas, David Hummels, and Brian D. Wright, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-12892-X (cloth); 978-0-226-12892-4 (cloth); 978-0-226-12892-4 (eISBN)

Volume URL: <http://www.nber.org/books/chav12-1>

Conference Date: August 15–16, 2012

Publication Date: October 2014

Chapter Title: Comment on "Food Price Volatility and Domestic Stabilization Policies in Developing Countries"

Chapter Author(s): Shenggen Fan

Chapter URL: <http://www.nber.org/chapters/c12817>

Chapter pages in book: (p. 306 – 309)

- Williams, Jeffrey C., and Brian D. Wright. 1991. *Storage and Commodity Markets*. New York: Cambridge University Press.
- World Bank. 2006. *Managing Food Price Risks and Instability in an Environment of Market Liberalization*. Washington, DC: World Bank.
- . 2009. *Improving Food Security in Arab Countries*. Washington, DC: World Bank.
- . 2010. *Food Price Increases in South Asia: National Responses and Regional Dimensions*. Washington, DC: World Bank.
- . 2012. “Using Public Foodgrain Stocks to Enhance Food Security.” Agricultural and Rural Development, Economic and Sector Work 71280-GLB, July. Washington, DC: World Bank.
- World Food Programme, International Center for Trade and Sustainable Development. 2011. “Emergency Humanitarian Food Reserves: Feasibility Study, Cost-Benefit Analysis and Proposal for Pilot Programme.” <http://ictsd.org/i/agriculture/114530/?view=details>.
- Wright, Brian D. 1979. “The Effects of Ideal Production Stabilization: A Welfare Analysis Under Rational Behavior.” *Journal of Political Economy* 87 (5): 1011–33.
- . 2001. “Storage and Price Stabilization.” In *Marketing, Distribution and Consumers*, edited by Bruce L. Gardner and Gordon C. Rausser, 1B, part 2, 817–61. Amsterdam: Elsevier.
- Wright, Brian D., and Jeffrey C. Williams. 1982a. “The Economic Role of Commodity Storage.” *Economic Journal* 92 (367): 596–614.
- . 1982b. “The Roles of Public and Private Storage in Managing Oil Import Disruptions.” *Bell Journal of Economics* 13 (2): 341–53.
- . 1988a. “The Incidence of Market-Stabilising Price Support Schemes.” *Economic Journal* 98 (393): 1183–98.
- . 1988b. “Measurement of Consumer Gains from Market Stabilization.” *American Journal of Agricultural Economics* 70 (3): 616–27.
- World Trade Organization (WTO). 2004. “WTO Agriculture Negotiations: The Issues, and Where We Are Now.” http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd00_contents_e.htm.

Comment Shenggen Fan

When countries experience food price spikes, their governments often feel compelled to implement price stabilization measures, which can follow a plan or be ad hoc, depending on the severity of the shock and the level of prior preparation of the countries. Planned actions may include countercyclical management of public food reserves, targeted safety nets, market-based risk management instruments, and investing in agricultural research and development. Governments may also take recourse to unplanned stabilization policies, such as universal food subsidies or trade policy adjustments. During

Shenggen Fan is director general of the International Food Policy Research Institute.

This discussion draws from Fan, Torero, and Headey (2011). For acknowledgments, sources of research support, and disclosure of the author’s material financial relationships, if any, please see <http://www.nber.org/chapters/c12817.ack>.

the 2007 to 2008 food crisis, for example, India weathered the shock through its countercyclical trade policies, particularly by banning exports.

This chapter by Christophe Gouel provides a well-organized review and analysis of the different elements of food price stabilization policies that are especially relevant for developing countries. Coordination problems between governments in their food trade policies present some of the biggest challenges toward effectively responding to food price spikes. The lack of trust between public and private agents in the absence of effective safety nets to protect the poor is also an important challenge in the domestic food market. The chapter discusses these important challenges with great breadth and depth. In the next section, I present some ideas to further enrich the discussion of food price stabilization policies and link the International Food Policy Research Institutes (IFPRI)'s own work to overcome these policy challenges.

Summary of Discussion

The chapter discusses how countries' domestic food policies (mainly through trade and storage policies) can impact the stability of world prices. However, there is the need to recognize country heterogeneity in its discussion, such as whether countries are large or small (as measured by the size of their economy and population), and whether these countries are major exporters or importers of important tradable agricultural commodities. In particular, the chapter should pay more attention to countries such as Brazil, China, India, Russia, and the United States for their importance in affecting the global food trade system. The policies that these countries choose can easily affect global food prices and food security in low-income countries that depend on food imports to feed their population. Furthermore, the chapter should also differentiate between agricultural commodities that are being traded at world markets. Rice, wheat, and maize, for example, make up 90 percent of all cereal crops traded in the world and are interlinked, but also driven by different factors such as the trade and storage policies of major exporting and importing countries for the respective commodities.

As a response to food price shocks, the chapter discusses the significance of social safety nets serving to mimic the first-best policy of providing insurance or futures markets by providing countercyclical transfers. IFPRI has also in the past been supporting efforts to either establish or expand social safety net programs to protect the most vulnerable groups, particularly women and young children, in developing countries from shocks. IFPRI, for example, has been engaged in evaluating the impact of Ethiopia's Productive Safety Net Program (PSNP), which is one of the largest social safety net programs in Africa, covering some 7.5 million primary beneficiaries in 2009. According to the World Bank, nearly 80 percent of

the population in the poorest countries currently lacks effective safety net coverage, underscoring the importance of its expansion (World Bank 2012).

In the long term, there would be high returns to combining these safety nets with other interventions that increase productive capacity and improve the nutrition and health of the poor. Food price volatility risk can be substantially reduced by policies and investments that promote agricultural growth, in particular smallholder productivity, especially in the face of climate change. Extreme weather situations are major contributors to price volatility by affecting agricultural production as evidenced by the 2012 drought in the United States and other major producing countries. Policies that ensure that small farmers have opportunities to increase their productivity and income are likely to have high returns. There are also a number of potentially promising steps for national governments, as well as global and regional institutions, such as improved smallholder access to inputs such as seeds and fertilizer—through lower transport and marketing costs, improved market infrastructure, and greater competition, as well as financial and extension services and weather-based crop insurance.

An international working group should also regularly monitor the world food situation. Key institutions, including the Food and Agriculture Organization of the United Nations (FAO), the United Nations Conference on Trade Development (UNCTAD), the World Bank, the World Food Programme (WFP), and the United States Department of Agriculture (USDA), in collaboration with local partners, should pay close attention to developments in food supply, consumption (including for biofuels), stocks prices, and trade, as well as agricultural commodity speculation. This will help quickly detect any imbalances and facilitate swift responses. In this regard, IFPRI's excessive food price variability volatility early warning monitoring system is a useful tool.

With regard to countercyclical trade policy, the chapter rightly recognized that if countries engage in trade restrictions in the face of food price spikes, the payoff would be collectively low, as these measures reduce risk sharing between countries. Although export bans may help to secure domestic food supply, they lead to tighter markets for other exporting countries and induce panic purchases by food-importing countries, both of which lead to further price increases and volatility. In addition, eliminating export bans could benefit domestic food markets, since export bans tend to inhibit domestic production response, which could potentially exacerbate domestic supply problems.

The chapter also discusses in detail the important role that national public stock policies play in stabilizing food prices and the challenges surrounding them. Going beyond national public stocks, IFPRI has proposed for governments and international organizations to establish a global (or regional) emergency grain reserve to address the effects of food price crises for the most vulnerable. This reserve could be created through donations of grain

stocks from large food exporters, such as the United States, Canada, and France, and large food producers such as China and India. The reserve could be owned and managed by an institution such as the World Food Programme, which already has a global food management system in place, including strong logistical capabilities. To some extent this process is already underway—the Association of Southeast Asian Nations plus China, Japan, and South Korea (ASEAN+3) emergency rice reserve is an example. A well-organized global emergency grain reserve system, with clear accumulation and release rules, could potentially be better at smoothing aggregate shocks than national public shocks that are highly susceptible to capture by farm lobbies.

Finally, the author acknowledged that biofuel policies in the United States and European Union contribute to the volatility of international and domestic food markets by diverting food from both domestic and global food markets. For example, about 40 percent of total maize production in the United States is currently used to produce ethanol. IFPRI recognizes this policy's negative impact on the poor and has consistently recommended that existing biofuels policies and subsidies should be curtailed and reformed in order to minimize impacts on food price volatility.

References

- Fan, S., M. Torero, and D. Headey. 2011. "Urgent Actions Needed to Prevent Recurring Food Crises." Policy Brief 16. Washington, DC: International Food Policy Research Institute.
- World Bank. 2012. "3 out of 5 People in Developing Countries Lack Safety Nets." Press Release 2012/380/HDN. Washington, DC: World Bank. <http://go.worldbank.org/WLLWY0ACY0>.