

How to deal with food price instability?

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Food insecurity & price instability

- Before the Industrial Revolution, food insecurity was a problem of scarcity plus poverty
- Today, it has become a problem of poverty amidst global plenty
 - *Global plenty has become a major cause of poverty by hampering agricultural growth in poor countries*
- Price instability is an exacerbating factor because it hurts poor people and discourages investment in agriculture
- Attacking it makes attacking other causes of hunger no less important
 - *Stimulating pro-poor agricultural growth by public investment in hard & soft infrastructures, protection against cheap imports, land reform in latifundia areas etc.*

Causes of food price instability

- Environmental fluctuations

- *Local disturbances*
- *Global disturbances (solar cycles, El Nino etc.)*

Less effect today thanks to cheap transport

Especially since 19th century breakthroughs increased the global potential for food production

- Man-made fluctuations

- *Cobweb cycles*
- *Speculative bubbles*

Downturns accentuated by treadmill mechanism

Global energy markets are unregulated

Especially now that fossil fuels are being depleted and new conversion techniques are cheapening biofuels

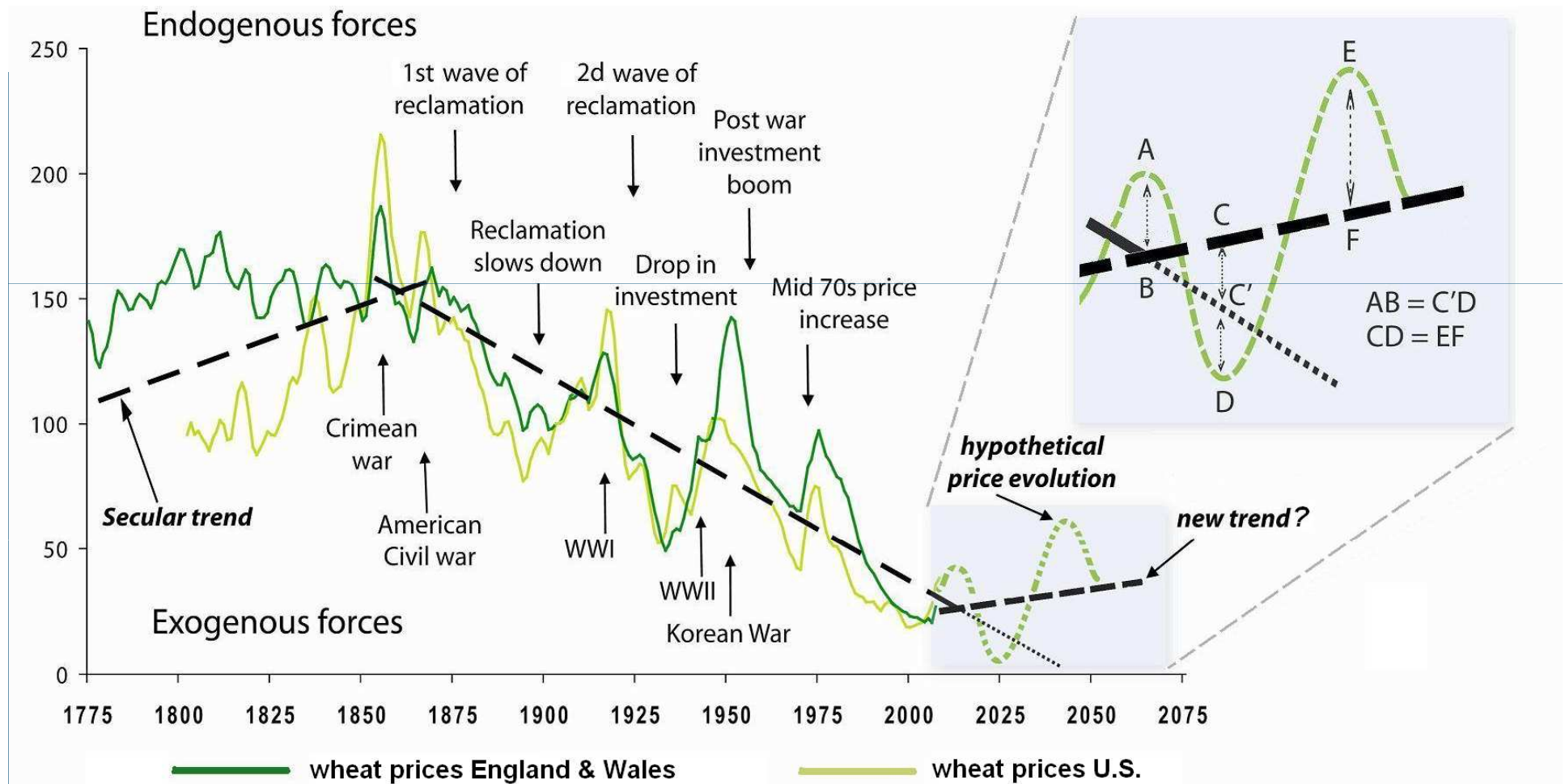
- Fluctuations in fossil fuel prices

Global energy use in 2050 = 6 x current farm production

- Exhaustion of technical carrying capacity

Today, depletion of Green Revolution (land, water, phosphate, room for raising potential crop yields with existing plant metabolic efficiencies)

Causes of food price instability



How to cope with food price instability?

- Stabilize international prices within adequate price bands
 - *High enough to stimulate timely investment in future production capacities, not too high for poor consumers*
- Combine this with:
 - *Responsible energy policies (stabilization of energy markets, support of research for really new energy sources)*
 - *No-regret policies that can mitigate any future scarcity*
 - Global social security system to slow population growth
 - Research for sustainable yield increases
 - Discouragement of feedlot beef, development of attractive meat substitutes
- Don't exaggerate the possibilities of private arrangements
 - *Futures markets reduce price risk, not price instability (they rather aggravate instability by speculative bubbles)*
 - *Insurance against price fluctuations is infeasible without heavy subsidization*

Experiences with price stabilization

- Local/national grain reserves (since long ago)
 - *Became insufficient by globalization*
- National trade policies (since early modern time)
 - *Shifted problems to international markets (export bans, dumping)*
- Multilateral arrangements (since 1930s)
 - *Commodity agreements*
 - Buffer stock-only schemes failed by funds depletion
 - Export retention schemes not up to overproduction
 - Proposals for more far-reaching agreements killed by rich countries
 - *Multi-commodity arrangements: proposed by Keynes (Bretton Woods) and UNCTAD (IPC), but killed by rich countries*
- Food aid (since 1950s)
 - *More forthcoming during global overproduction than global scarcity*
 - *Have been used for disguised dumping and political arms twisting*

League of Nations, USDA, Keynes a.o. in 1930s-40s: need for multilateral disciplines

USDA 1940s: 'production controls needed' (intended by GATT but thwarted by US and EU)

Remedies used: multilateralization (WFP) and monetization

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NB:

These experiences predate the new competition from biofuels and the depletion of Green Revolution potentials!

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Other ideas

- Global trade liberalization
 - *Helps against local environmental disturbances, but not against global disturbances and manmade fluctuations*
- Virtual reserves
 - *Anti-speculation funds help against speculative bubbles, but not against other causes of price instability*
 - *In case of real global scarcity, ‘virtual reserves’ don’t help. The ‘virtual reserves’ of the rich will then outcompete the ‘virtual reserves’ of the poor*

An ideal package

Remember:

This should be combined with other policies (increasing carrying capacity, discouraging feedlot beef, energy policies, etc.)

- Allow poor countries to use variable tariffs and all other countries to use fixed tariffs. Ban green/blue box payments
- Define adequate international price bands (that ensure sufficient investment)
- Use regional food reserves to defend them
 - *Automatic buying when regional prices fall below the (tariff adjusted) floor price, automatic selling when they exceed the (tariff adjusted) ceiling price*
 - *Regionally managed under international supervision*
- Use trade quotas to prevent reserves from overflowing
 - *Maximum export & minimum import quotas for high- & middle-income countries*
 - *Automatic tightening when total grain stores exceed pre-agreed maximum volumes*
- Restrict agro-fuels/materials to prevent reserves from drying up
 - *Automatic restrictions on agro-fuels/materials when total grain stores fall below pre-agreed minimum volumes*

Is this politically feasible?

Probably not tomorrow...

...yet one can be too much impressed by what seems politically feasible or not. Without out-of-the-box thinking you may never end hunger

...moreover, the food & financial crises have opened a new window of opportunity