



LICOS Centre for Institutional Change & Economic Performance

K.U. Leuven - Centre of Excellence

# The Right Price of Food

**Johan Swinnen**

University of Leuven  
Centre for European Policy Studies (CEPS)  
Stanford University

Frankfurt, March 2012

# Papers

**“The Right Price of Food”**

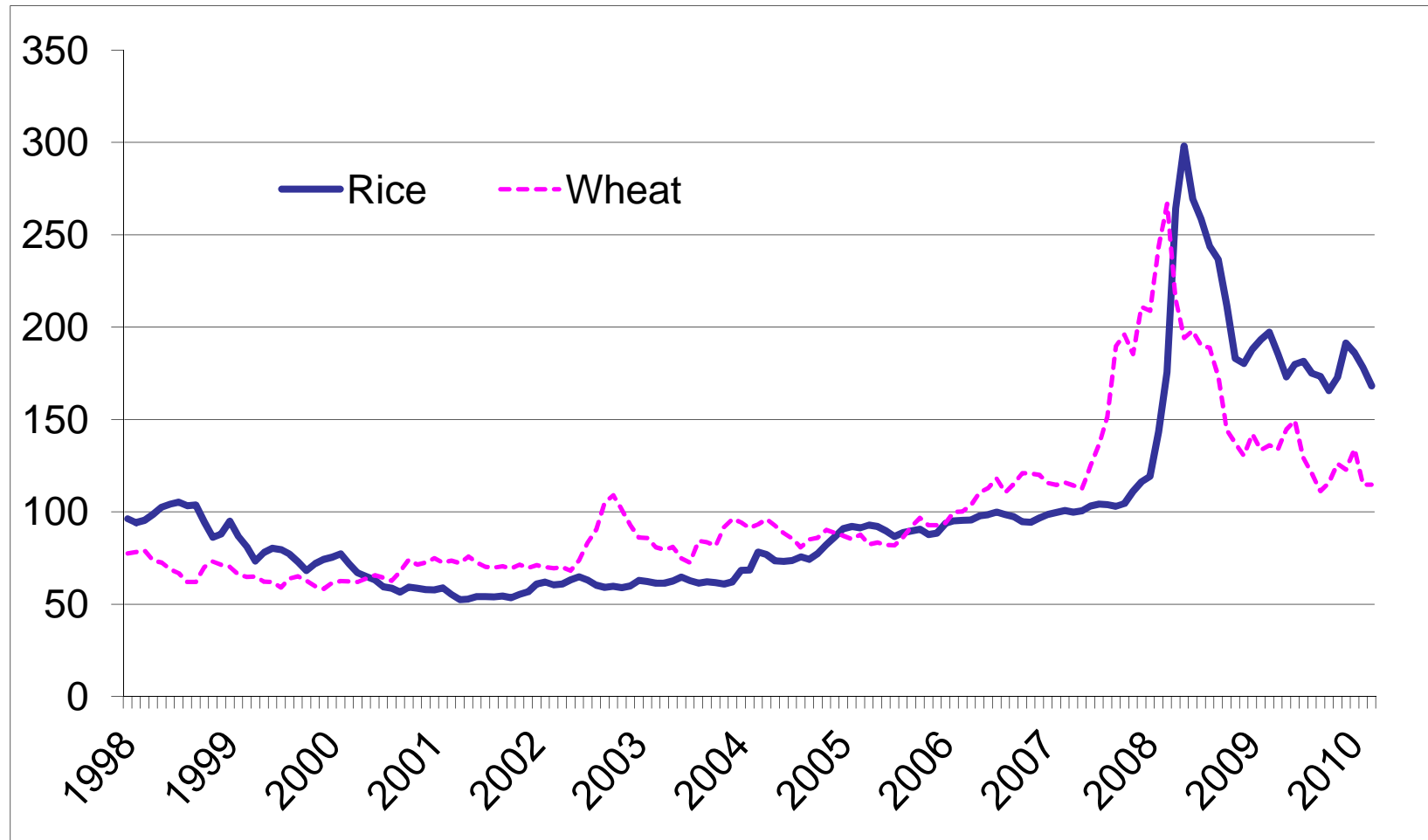
(in *Development Policy Review*)

**“Mixed Messages on  
Prices and Food Security”**

(in *Science*)

[www.econ.kuleuven.be/licos](http://www.econ.kuleuven.be/licos)

# The price of food ...



100 % = 1998-2010 period average

Source: FAOSTAT

# Some Basic Principles

- A simple model :
  - Small open economy
  - Two groups: producers & consumers
- When prices increase (decrease):
  - Producers gain (lose)
  - Consumers lose (gain)

# Making the model more realistic

1. Some HH are consumers and producers
2. Transmission of price changes is imperfect and differs between consumers and producers

# Making the model more realistic

3. Local changes may affect local prices
4. Exogenous shocks may be caused by “nature” or by “men”
5. Short-run effects differ from long-run effects
6. ...

# Making the model more realistic does not fundamentally change the basic results

1. When prices increase (decrease):
  - Producers gain (lose)
  - Consumers lose (gain)

[Size of these effects depends ... ]
2. The net benefits of price changes for a country and for HH should be (approx) symmetric

# Roughly symmetric effects - 1

- Countries that benefit most from low prices (if consume lot and produce little) will lose most from high prices



# Roughly symmetric effects - 2

- HH which only consume and do not produce are affected stronger than those which both consume and produce (with prices going in either direction)

## Roughly symmetric effects - 3

- HH which are strongly affected by world market prices both gain and lose more than HH living in remote areas

# Straightforward implications - 1

- Pre 2007: good for consumers, bad for producers;
- Post 2007: vice versa

# Straightforward implications - 2

- HH which suffered most from high food prices in 2008 (in well-integrated regions, no production) benefited most pre-2008
- Farm HH which did not benefit from high food prices (in remote places, no pass-through, consume most of the food) should have experienced limited negative effects pre-2008

How have these basic principles  
been communicated ?

# Oxfam :

In 2005 :

*“US and Europe’s surplus production is sold on world markets at artificially **low** prices, making it impossible for farmers in developing countries to compete. As a consequence, **over 900 millions of farmers are losing their livelihoods.**”*

## **Oxfam :**      **In 2005 :**

*“US and Europe’s surplus production is sold on world markets at artificially **low** prices, making it impossible for farmers in developing countries to compete. As a consequence, **over 900 millions of farmers are losing their livelihoods.**”*

## **In 2008 :**

*“**Higher** food prices have pushed millions of people in developing countries further into hunger and poverty. There are now **967 million malnourished people in the world....**”*

**IFPRI :**

**In 2003 :**

*“The combination of agricultural protectionism and subsidies in industrialized countries [and the resulting **low** agricultural prices] has limited agricultural growth in the developing world, **increasing poverty and weakening food security in vulnerable countries.**”*



**IFPRI :**

**In 2003 :**

*“The combination of agricultural protectionism and subsidies in industrialized countries [and the resulting **low** agricultural prices] has limited agricultural growth in the developing world, **increasing poverty and weakening food security in vulnerable countries.**”*

**In 2008 :**

- *“In 2007, rapidly **rising** food prices began to **further threaten the food security of poor people around the world.** ... The current food-price crisis can have long-term, detrimental effects on peoples’ health and livelihoods, and can contribute to the **further impoverishment of many of the world’s poorest people.**”*

# FAO (United Nations) :

In 2005 :

*“The long-term **downward** trend in agricultural commodity prices **threatens the food security of hundreds of millions** of people in some of the world's poorest developing countries.”*

# FAO (United Nations) :

## In 2005 :

*“The long-term **downward** trend in agricultural commodity prices **threatens the food security of hundreds of millions** of people in some of the world's poorest developing countries.”*

## In 2008 :

*“**Rising** food prices are bound to **worsen the already unacceptable level of food deprivation suffered by 854 million people**. We are facing the risk that the number of hungry will increase by many more millions of people.”*

# OECD, IMF, World Bank :

In 2003/4:

*“Many (developed countries) continue to use various forms of export subsidies that drive **down** world prices ... Because the **majority of the world’s poorest households depend on agriculture** and related activities for their livelihood, this is especially alarming.”*

# OECD, IMF, World Bank :

In 2003/4:

*“Many (developed countries) continue to use various forms of export subsidies that drive **down** world prices ... Because the **majority of the world’s poorest households depend on agriculture** and related activities for their livelihood, this is especially alarming.”*

In 2008/9 :

*“The **increase** in food prices represents **a major crisis for the world’s poor** ... Up to 105 million people could become poor due to rising food prices alone.”*

# Quotes : Out of Context ?

Answer : NO

1. Summarize key messages
  2. Key messages are essential
  3. Full reports :
    - PRE: no mention/emphasis on benefits of urban consumers or that poor rural households are net consumers
    - POST: strong emphasis on this; but no mention/emphasis on benefits for farmers
- [Examples: WB ; Oxfam ]

# 180° Turnaround in Communication

## WHY ?

Some hypotheses :

- Scientific progress
- Fundraising & legitimacy
- Role of media

# Scientific Progress

- Major improvements in models and analysis over past decades
- Problem does not appear to be **analysis**, but rather **communication**
  - Many of the organizations have research departments producing excellent and careful analysis
  - Issue is: how are these analytical results communicated to the outside world ?



P. Timmer, W. Falcon and S. Pearson, *Food Policy Analysis* (1983:11):

*‘ ... The incomes of the poor depend on their employment opportunities, many of which are created by a healthy and dynamic rural sector. Incentive prices for farmers are, in the long run, important in generating such dynamism and the jobs that flow from it.*

*But poor people do not live in the long run. They must eat in the short run, or the prospect of long-run job creation will be a useless promise. ...*

P. Timmer, W. Falcon and S. Pearson, *Food Policy Analysis* (1983:11):

*‘The **dual role of food prices** – determining food consumption levels, especially among poor people, and the adequacy of food supplies through incentives to farmers – raises an obvious **dilemma** for food policy analysts.*

...

# Fundraising & Legitimacy

- If you want to help the poor, funding is needed.  
Hence need to compete for attention of donors (or for internal funding in large organizations)  
=> communication is **partly fundraising** strategy
- With media reports on global protests, donors (and community at large) expect NGOs and IOs to focus their attention on suffering  
=> communication is **partly legitimacy** strategy

# Legitimacy & Communication

*“An NGO simply must be active in certain areas that the donors are paying attention to. If they are not, there is the sense that they are doing something wrong, that perhaps their projects are after all really not so worthwhile”*

*Rieff (1995, p.5)*

# The Impact of Mass Media

Two mechanisms:

- Desire of NGOs & IOs to appear in the mass media to raise funds and legitimacy
- Impact of stories in mass media on the policy analysis & communications through impact on donors' beliefs

Bad News  
and  
Good Policies ?

(what's the problem ?)

# Response from Oxfam

*“Oxfam’s role is to raise urgent issues up the agendas of policymakers, politicians and publics precisely to help the losers... this usually means a myopic focus on losers in messaging, albeit perhaps to the detriment of our academic credibility. ...”*

[on Dani Rodrik’s weblog]

# Response from Oxfam

*“ ..... But it does not follow that the result is bad policy-making. Why? Because whether Oxfam was drawing attention to the corrosive impact of dumping on food producers in 2005, or the calamitous effects of spiraling food prices on food consumers in 2008, its policy prescriptions remained the same.”*

[on Dani Rodrik weblog]



# Response from IOs

Similar.

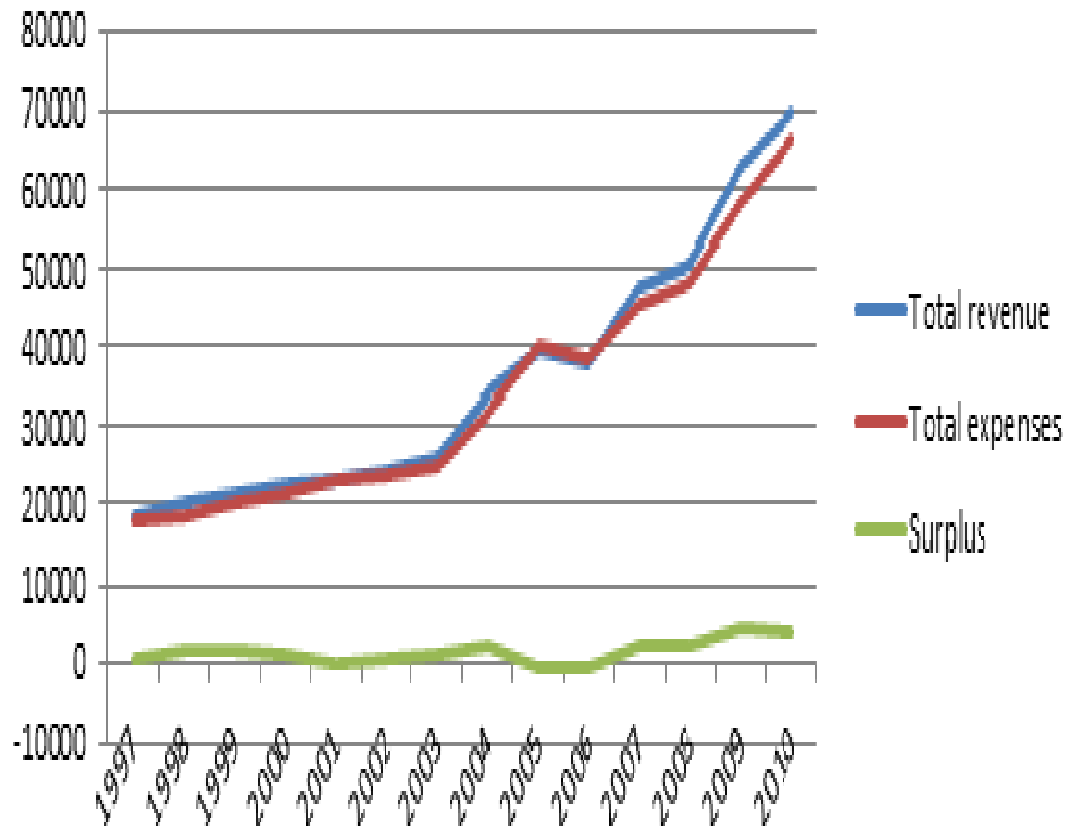
- yes, “their communication departments adjusted their message”
- but this allowed
  - to reach out to donors and to a major funding increase
  - to forward key policies and funding priorities on the international policy agenda
- Since policy advice has been consistent, this benefits the world.

## IV. Empirical questions

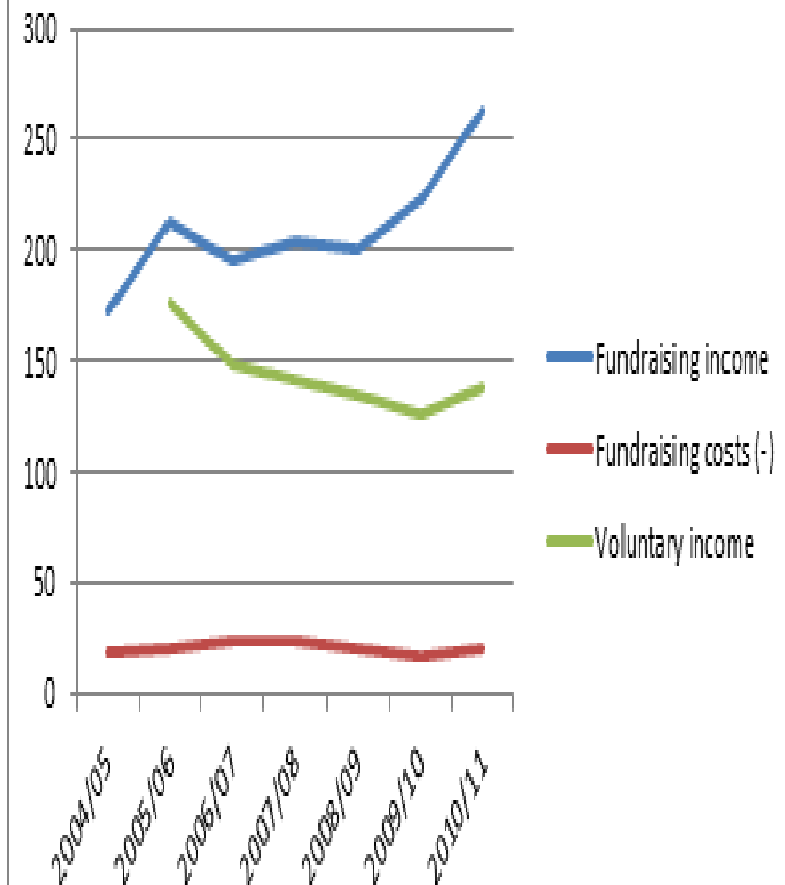
1. Has the communication strategy worked ?
2. Have the organizations been consistent in their policy advise ?

# 1. Did the communication strategy work ?

## IFPRI



## OXFAM - fundraising activity



# 2. Consistent policy advise ?

**Table 1.** Elements of policy communication before and after the food crisis

	ActionAid	Oxfam	FAO	IFPRI	OECD	World Bank
<b>Before</b>						
Poor farmers are net consumers	×	×	×	×	×	×
Liberalisation in rich countries	++ and ***	++ and ***	++ and **	++ and **	++ and **	++ and ***
Liberalisation in poor countries	-- and ***	-- and ***	+ and **	+ and **	+ and **	++ and ***
Elimination of exports bans (in poor countries)	×	×	×	×	×	++ and *
Investment in infrastructure	++ and *	++ and *	++ and **	++ and *	++ and **	++ and **
Target smallholders and marginal areas	++ and ***	++ and **	++ and **	++ and **	++ and **	++ and **
Support for biofuels production	×	×	×	+ and **	×	×
Reduce price volatility	×	×	+ and *	×	+ and *	++ and *
<b>After</b>						
Poor farmers are net consumers	**	***	***	***	*	**
Liberalisation in rich countries	++ and ***	++ and ***	+ and *	+ and **	++ and *	++ and **
Liberalisation in poor countries	-- and ***	-- and ***	+ and *	+ and **	+ and *	++ and **
Elimination of exports bans (in poor countries)	×	+ and **	++ and **	++ and **	++ and **	++ and **
Investment in infrastructure	++ and **	++ and **	++ and **	++ and **	++ and **	++ and **
Target smallholders and marginal areas	++ and ***	++ and ***	++ and **	++ and ***	++ and **	++ and ***
Support for biofuels production	-- and ***	-- and ***	- and **	-- and **	- and *	- and *
Reduce price volatility	+ and *	++ and **	+ and **	++ and **	++ and ***	++ and **

Source: Squicciarini and Swinnen (2011).

Note: +, agree; ++, fully agree; -, disagree; --, fully disagree; \*, low emphasis; \*\*, medium emphasis; \*\*\*, strong emphasis; ×, no information.

## 2. Consistent policy advise ?

- PARTLY
- YES: e.g.
  - Invest more in agriculture
  - Support small farmers
  - Trade policy
- NO: e.g.
  - Poverty effects of prices
  - Biofuels

# Trade (& market) policies

- Consistent advise of all organizations
- OECD, World Bank:
  - Pro trade (& market) liberalization

*["The right price is the undistorted price"]*
- Oxfam:
  - Rich countries should cut ag subsidies
  - Poor countries should protect their markets

# Inconsistencies

- Could “Consistent policies” be “inconsistent” ?
  - Oxfam: trade protection effects ?
  - WB & co: liberalization effects/motivation ?
- Change in perspective on welfare & poverty effects of prices ...
  - => conscious or unconscious ?

# Some other examples

- Biofuels
- Investments in African agriculture (“land grabs”...)
- Export restrictions
- ...



# Export restrictions

- Food export restrictions have been blamed for worsening the crisis (and for the suffering of the poor)
- However:
  - Restrictions have been imposed by countries with many poor consumers: eg India & China
  - Maybe the net effect is positive ? Maybe gains inside the poor exporters offset the benefits inside the poor importers ? (eg Timmer, 2009 )
- The lack of coherence in this discussion is worrying

# CAP Reform

## (a 500 billion \$ Question !)

1. How does this relate to the CAP reform discussions ?
2. What SHOULD be the outcome of the CAP reform discussions ?
3. What WILL be the outcome ?

# 1. The CAP: Back to the Future (or Forward to the Past) ?

- If the poor of the world suffer so much from high food prices, why not re-install the old CAP ?
- According to the post-2006 logic ...
  - Poor consumers in the world would love it
  - Poor farmers in the world don't care (either no passthrough of world market prices or net consumers)
  - EU farmers would love it
  - EU taxpayers would love it
  - EU consumers don't care since the concentrated supermarkets capture all the benefits anyhow

=> A Pareto Improvement par excellence ... ?

## 2. What should be the outcome ?

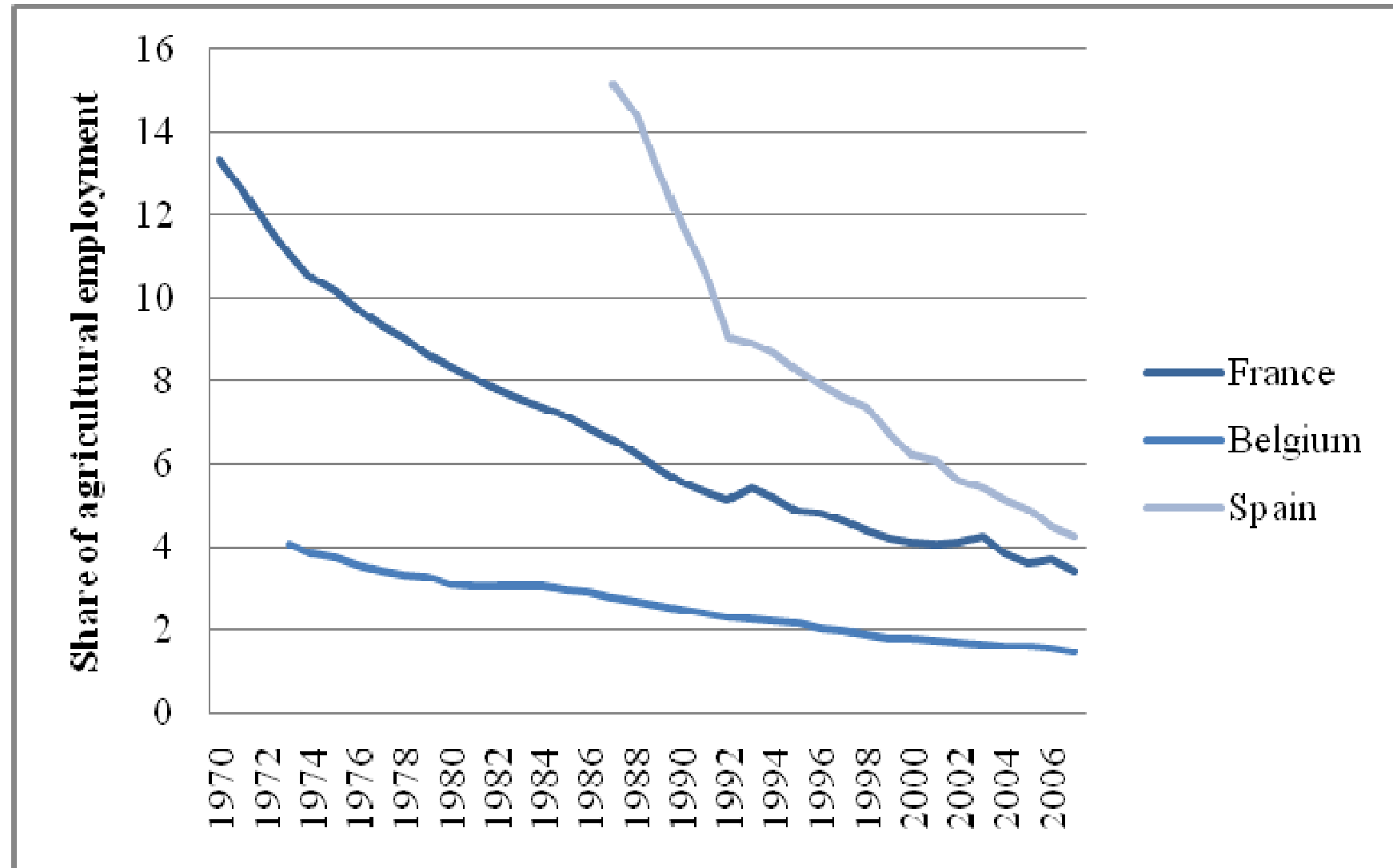
- Not : going back to the old CAP
- Current CAP is better
- Major shift towards innovation, R&D would be best

# CAP and farm incomes

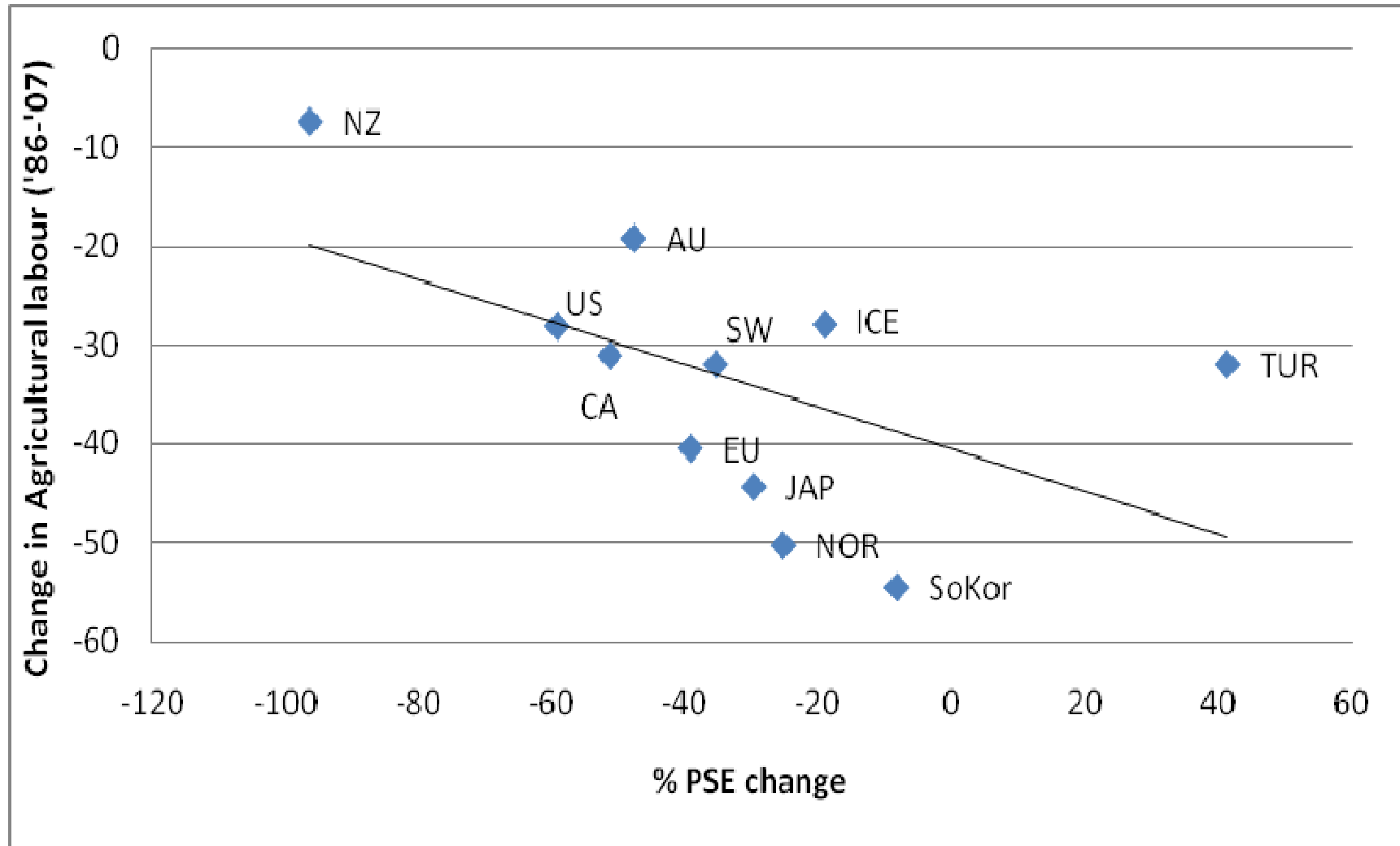
Have CAP/DPs been effective in past ?

- Short run: YES.
- Long run: NO

# Evolution of Share of Ag Empl



# OECD countries: Change in Ag Empl & Change in Protection

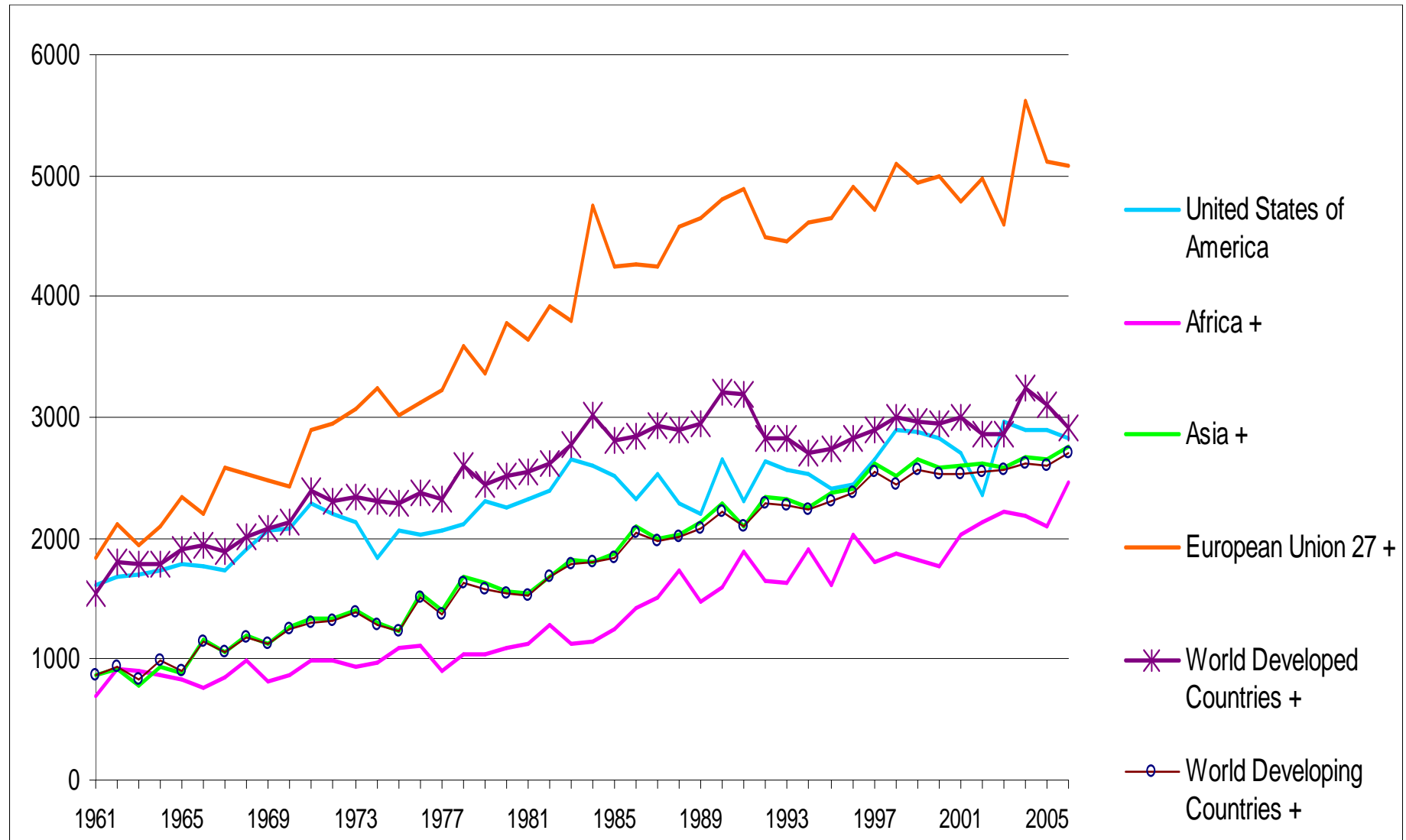


# Why ?

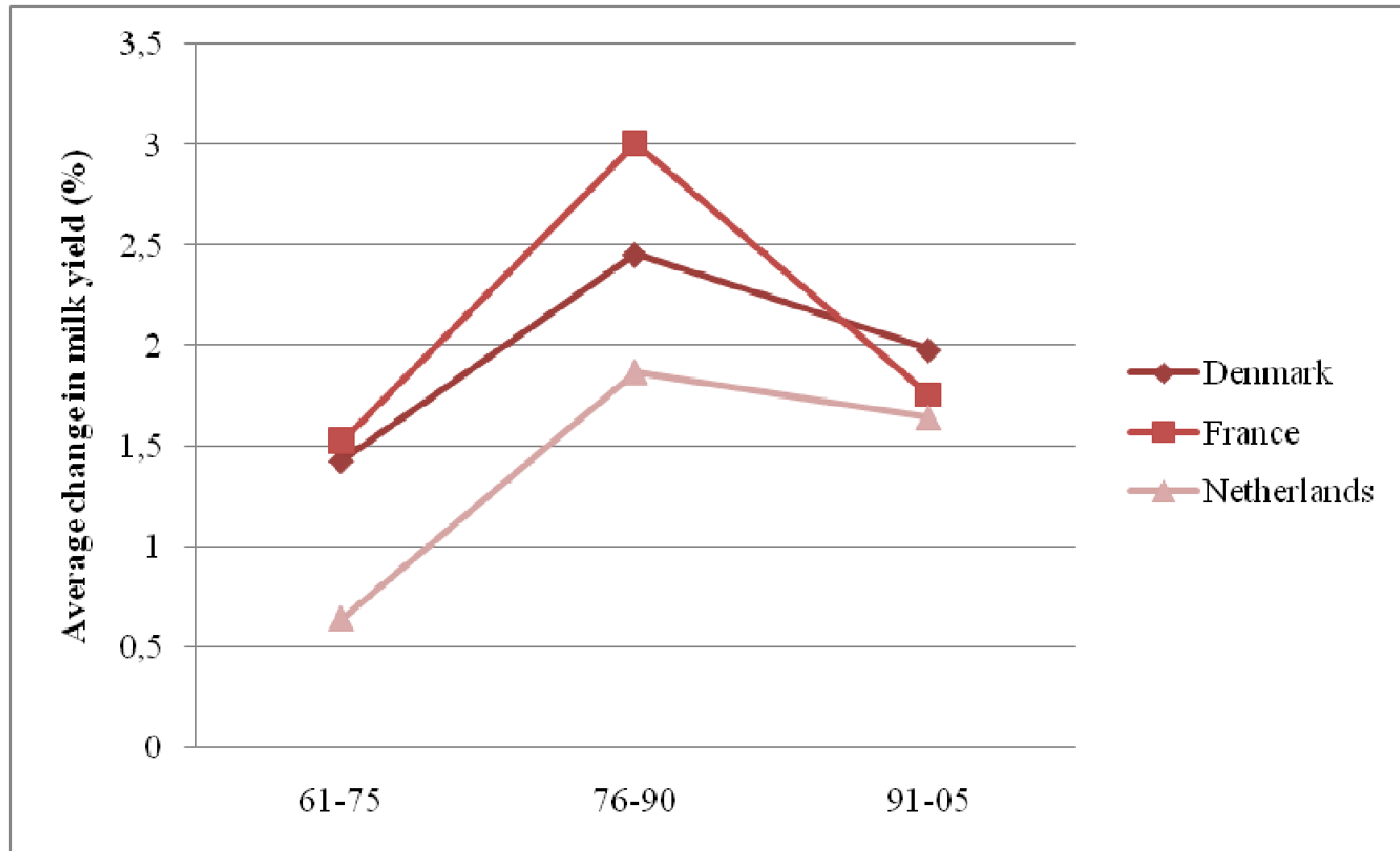
- Poor targeting
  - Old CAP: most productive farms get most benefits
  - Because of historical determinants of SFP this continues
- Policy rent dissipation
  - Strongest under old CAP
  - Improved with area payments and more with single farm payments, but only so far



# EU Wheat productivity evolution



# EU Dairy productivity evolution



# For future challenges ...

- CAP payments are not effective instruments
- Need for innovation & investments in R&D & technology (broad):
  1. To improve ag productivity (with more environmental, safety, and quality demands)
  2. To strengthen competitiveness
  3. To address pressures from climate change
  4. To reduce energy-dependency of food production
  5. To reduce pressure of bio-energy on food prices

3. What will be the outcome ?

Some lessons from previous  
CAP reforms

# THE PERFECT STORM

The Political Economy  
of the Fischler Reforms  
of the Common Agricultural Policy



**CE  
PS** CENTRE FOR  
EUROPEAN  
POLICY  
STUDIES

Edited by  
**Johan F.M. Swinnen**

[www.ceps.eu](http://www.ceps.eu)

# “The Perfect Storm”

The combination of

(a) Strong (external) reform pressures

- WTO, budget, food & environm. problems, ...

(b) Pro-reform commission

(c) Experienced commission

(d) Pro-reform institutional changes

(e) New (pro-reform) countries

All came together around 2002 ...

# Current Factors

- Budgetary pressure
  - The biggest puzzle ...
  - Legitimacy all over again ?
- External changes : food price evolutions & climate change ?
  - Output & inputs (energy, fertilizer)
  - Food vs feed
  - Volatility
- Institutional reforms : Co-decision
  - Main effect = power shift from Commission to Parliament (Crombez & Swinnen 2011)
  - Impact ? Depends on relative preferences (and relative lobby influences)
- New (inexperienced) Commissioner
- New decision-makers : new member states

# Hence ...

- From long run perspective: “*much ado about nothing*” ... ?
- Main outcome is likely a re-balancing of CAP support from West/Old to East/New NMS.



Thank you for your attention.

