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*Policy Responses to Food Price Volatility*

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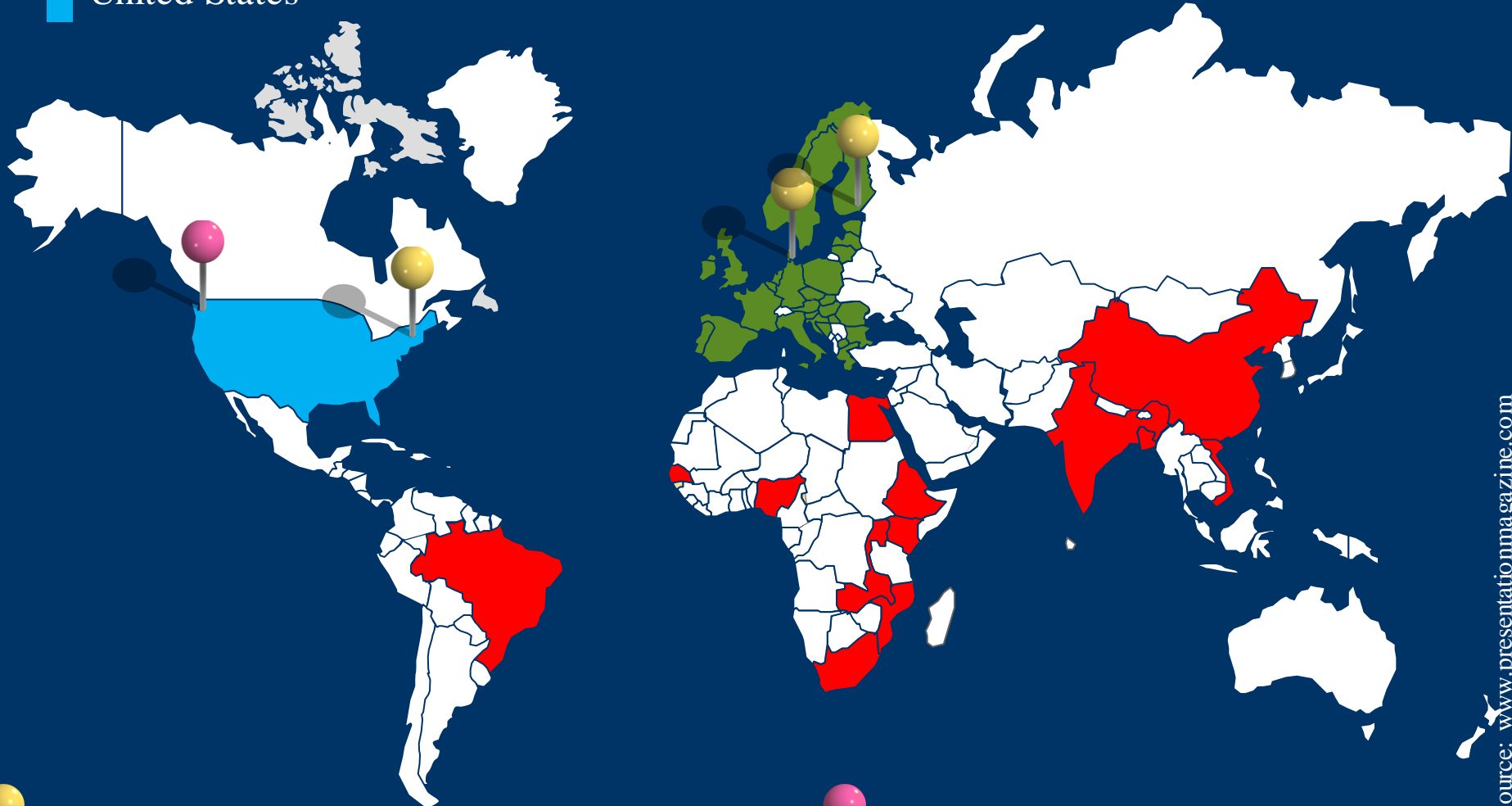
**Seminar/webinar, USAID**

*February 2, 2015*

14 Participating Countries (Bangladesh, Brazil, China, Egypt, Ethiopia, India, Kenya, Malawi, Mozambique, Nigeria, Senegal, South Africa, Vietnam, Zambia)

European Union

United States



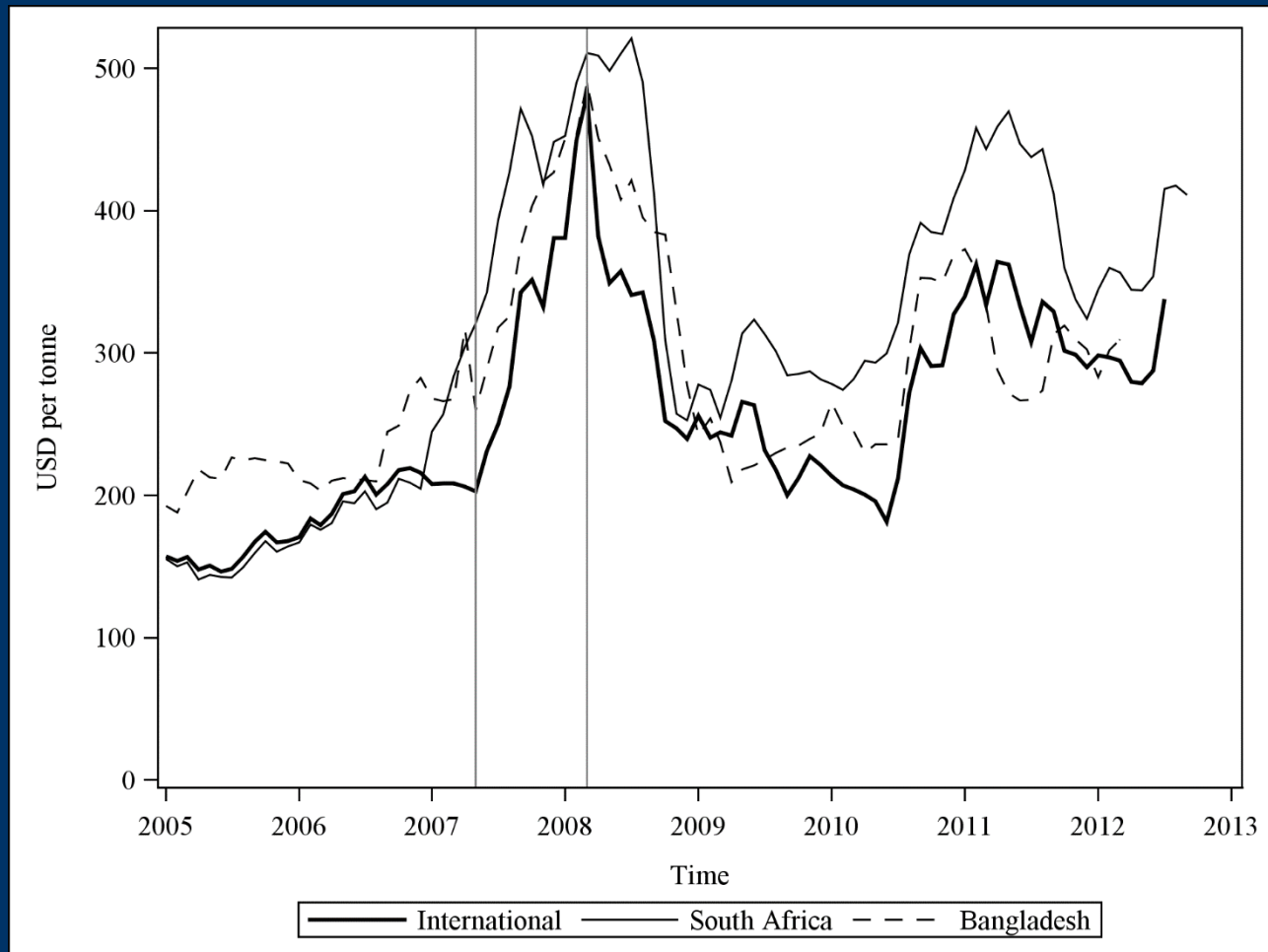
Collaborating Institutions: Cornell University, UNU-WIDER, and University of Copenhagen

Bill & Melinda Gates Foundation



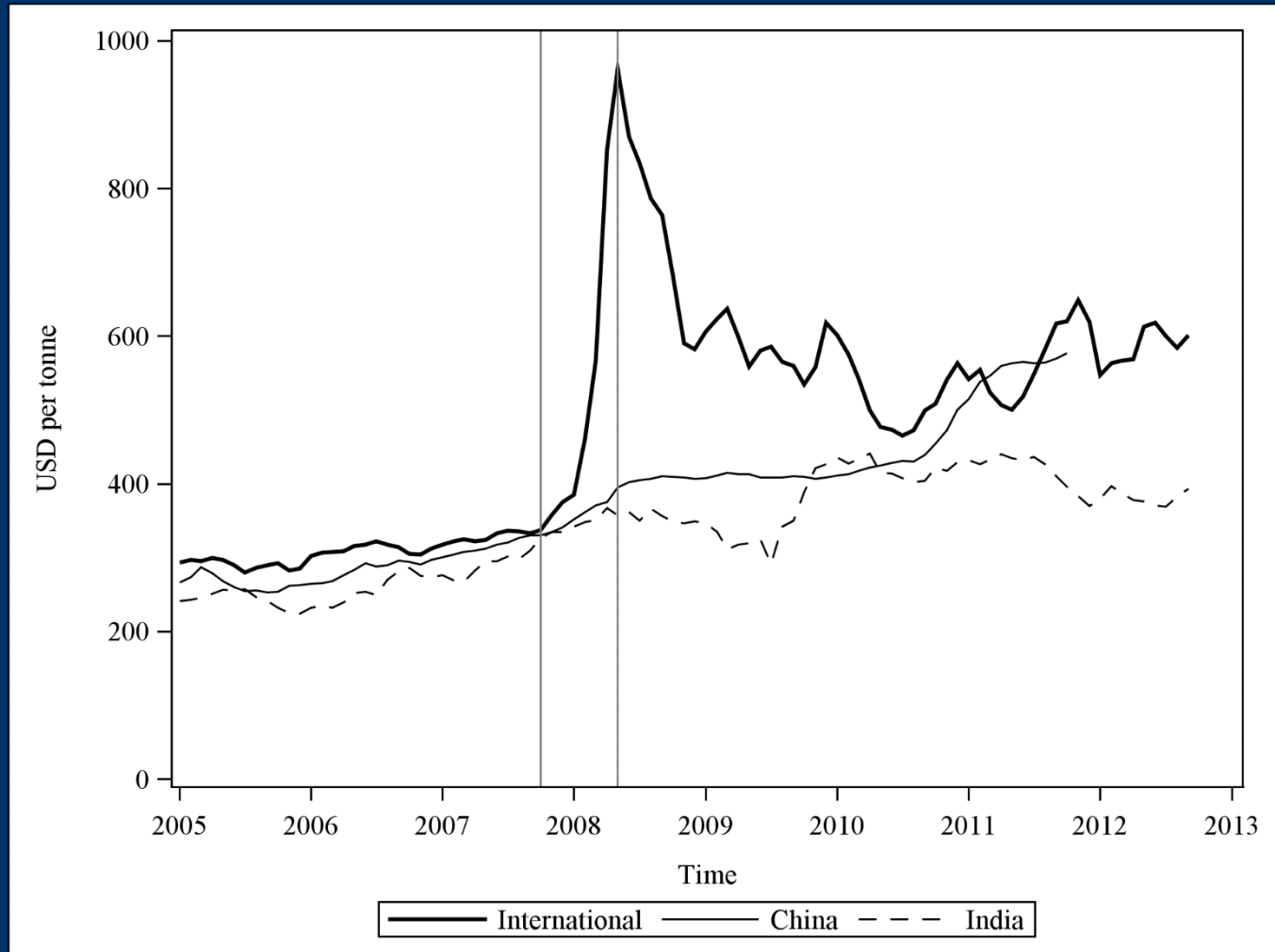
# Were Food Price Fluctuations in the World Market Transmitted to National Markets?

# *Wheat Prices in the World Market, South Africa and Bangladesh, 2005-2012*



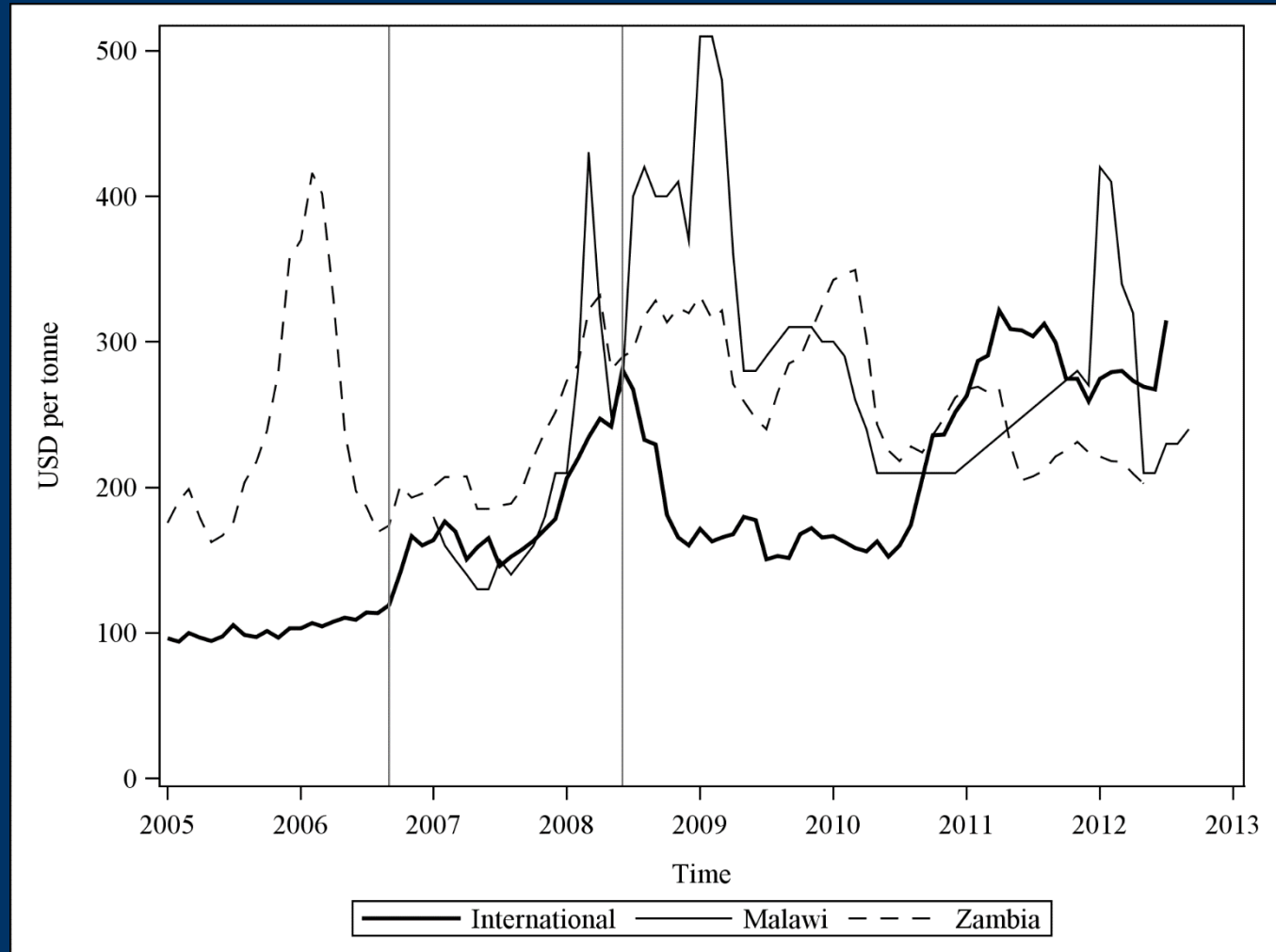
*Source: Baltzer (2013)*

# *Rice Prices in the World Market, China and India, 2005-2012*



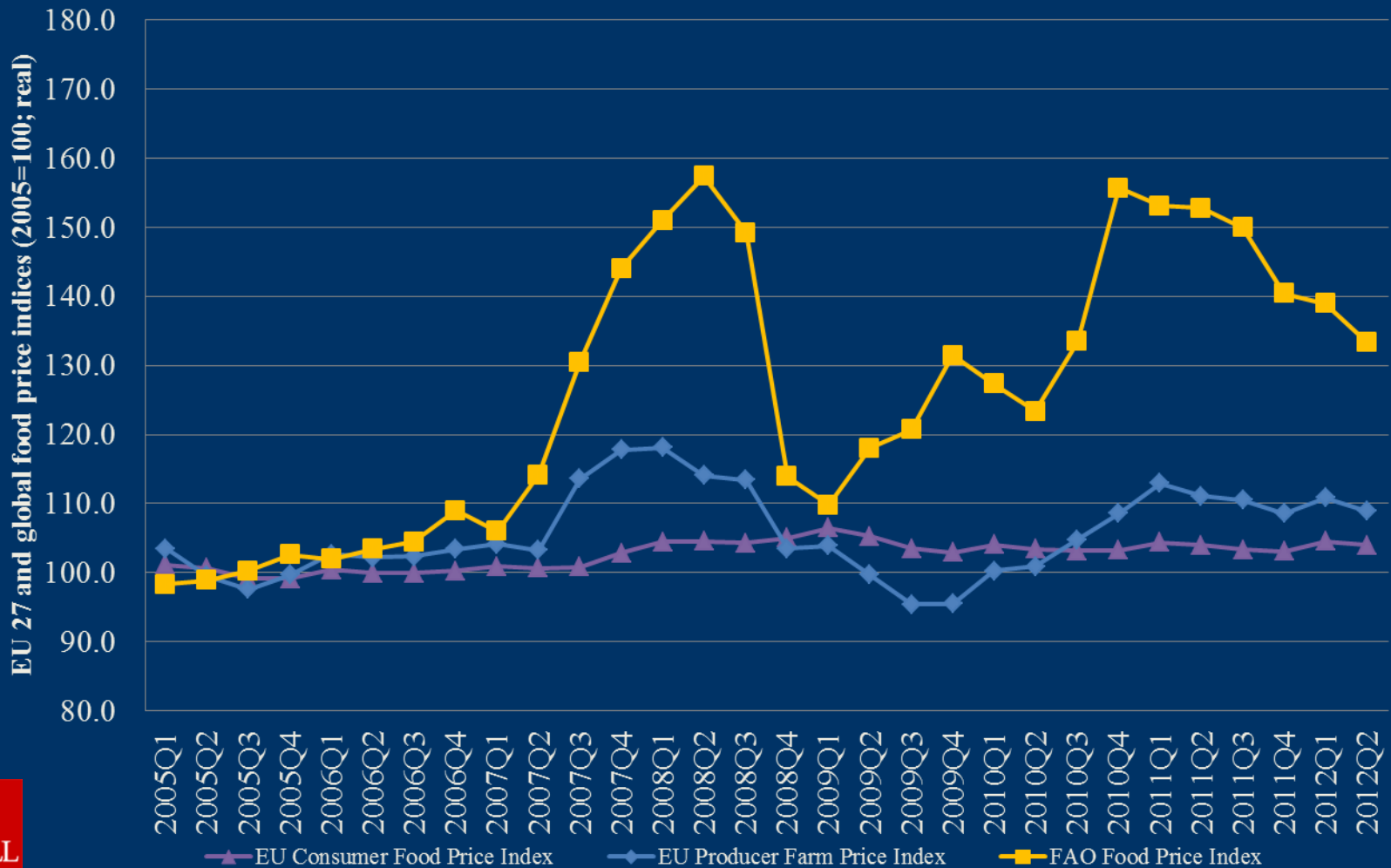
Source: Baltzer (2013)

# *Maize Prices in the World Market, Malawi and Zambia, 2005-2012*



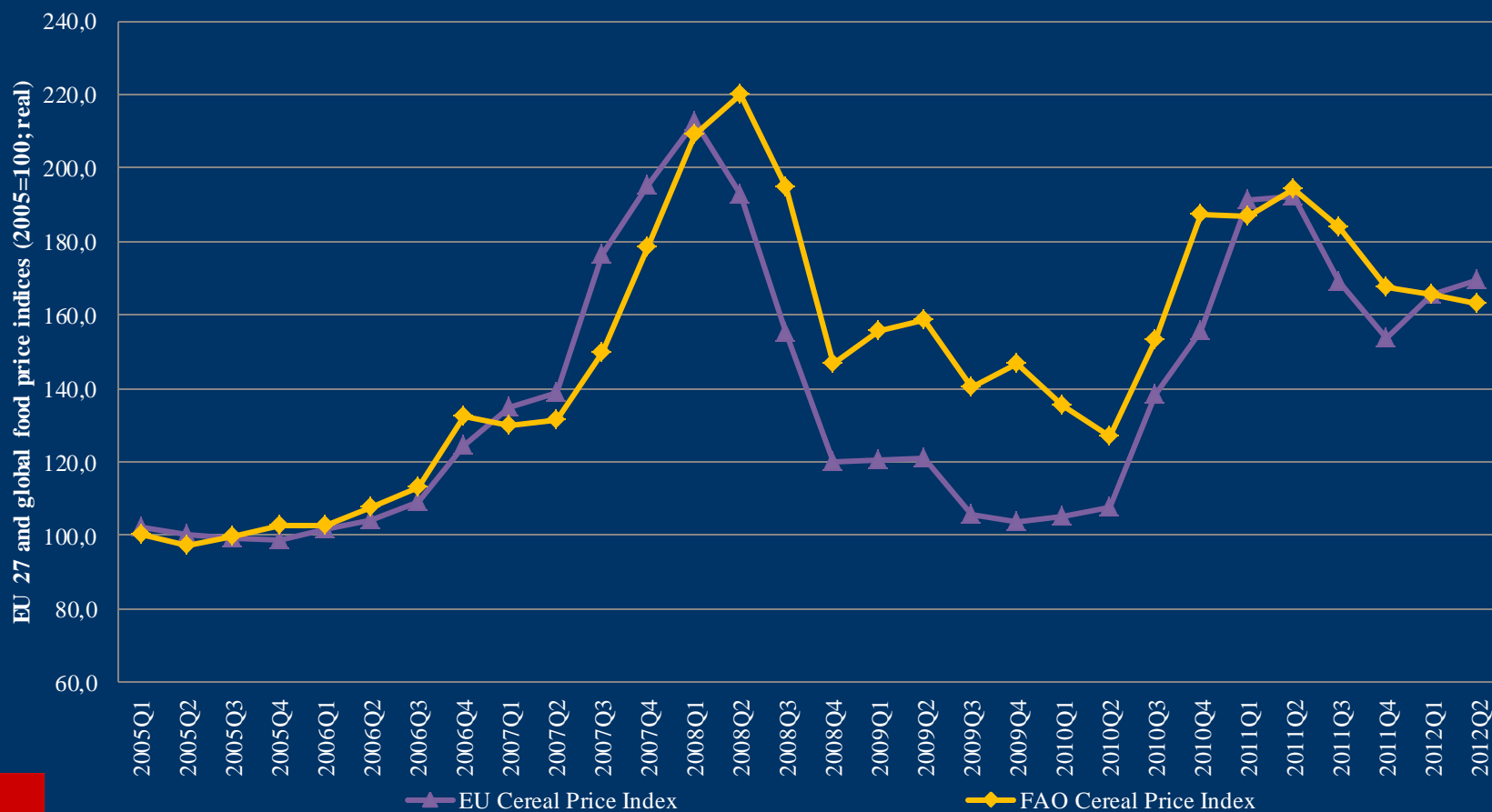
*Source: Baltzer (2013)*

# Real Food Price Indices in the EU and the World Market 2005-2012 (2005=100)



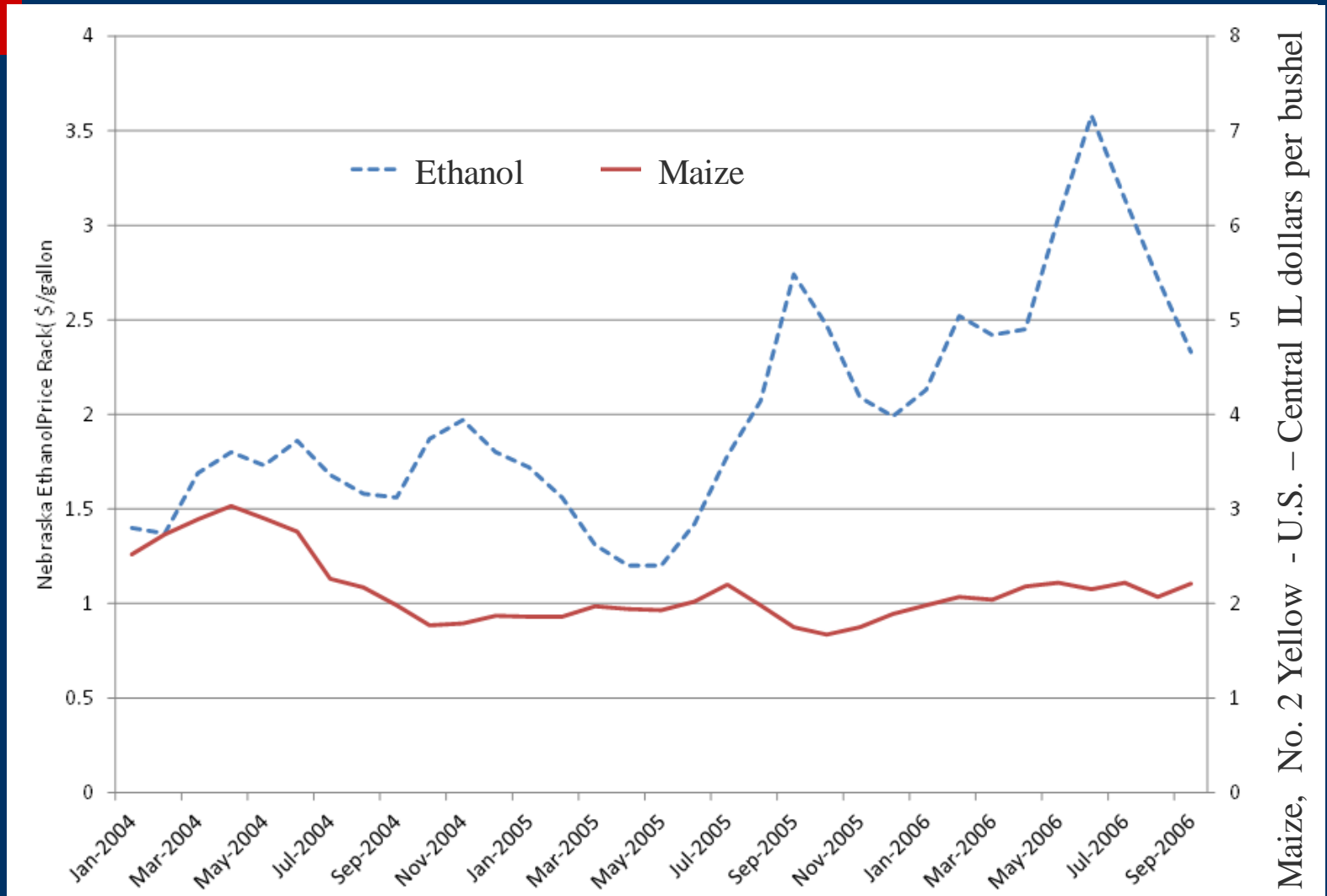
Source: Swinnen, Knops, and Herck (2013)

# Cereal Prices in the EU and World Market 2005-2012





# *U.S. Ethanol and Maize Prices, 2004-2006*



*Source: Rausser and de Gorter (2013)*

# U.S. Maize and Ethanol Prices, 2007-2012





# Policy Responses: Two Options

1. Decouple world market and domestic prices
2. Compensate losers

# *Decouple world market and domestic prices*

- Trade policies to reduce price transmission
- Direct price control
- Removal of VAT on food
- Short term supply management
- Production expansions

# Compensation

- Targeted cash transfers
- Targeted or untargeted food subsidies
- Increased public sector wages

# *The Policy Process and Consequences (1)*

1. Ad hoc, delayed action
2. High fiscal costs
  - Revenue losses
    - Export bans
    - Import tariffs
    - Elimination of VAT
  - Program costs
3. Interference with price signal

# *The Policy Process and Consequences (2)*

4. Poor targeting (intentional or not)
  - Transfers, safety nets
  - Food and fertilizer subsidies
5. Corruption
6. Cross-border trading
7. Selective enforcement of export bans
8. Untimely government procurement

# *Political Economy Lessons (1)*

1. Protecting government legitimacy
2. Pursuing domestic policies irrespective of international consequences
3. Unitary government decision-making is unusual
4. Repeating past or expanding current policies
5. Relative power of stakeholder group varied



# *Political Economy Lessons (2)*

6. Increasing urban bias
7. Smallholders versus larger farms
8. Mutual mistrust between government and the private sector
9. Foreign agencies had little influence

# *Lessons for Policy Assistance*

1. Do not assume unitary government decision-making process
2. Expect strong urban bias
3. Expect strong bias in favor of large-scale farming: Rhetoric vs. action
4. The evidence-base for policy decisions is weak
5. Mutual mistrust between public and private sector may be an important hindrance to broad-based economic growth

# Recommendations

- Protect price signals
- Emphasize targeted compensation over price interventions
- Risk management tools for all system agents
- Seek high levels of price transmission
- Seek low levels of trade restrictions

# Recommendations (2)

- Increase supply elasticities for food
- Improve management of cereal stocks
- Seek competitive behavior in supply chain
- Make demand for biofuel input price-related
- Strengthen international agreements regarding exporter behavior
- Improve public-private collaboration

# Sources

- Per Pinstrup-Andersen (Editor). Food Price Policy in an era of Market Instability. Oxford University Press, 2015.
- [www.wider.unu.edu/foodpricepolicy](http://www.wider.unu.edu/foodpricepolicy)