

Food Price Crisis, Poverty and Agricultural Trade Reform*

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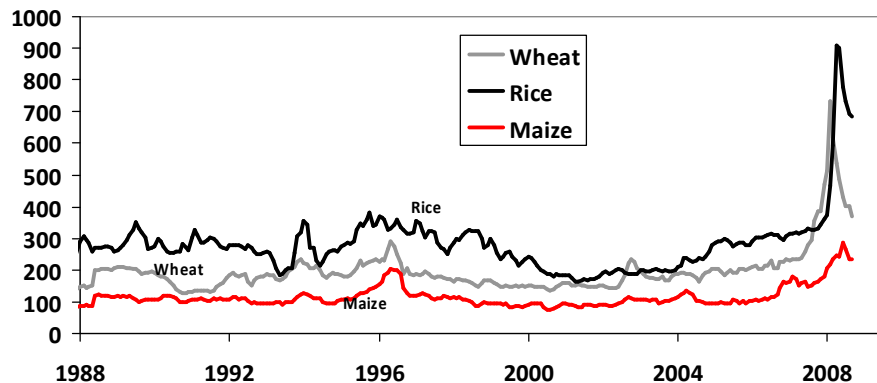


* Presentation to Conference on *Future Food Scarcities*, University of Minnesota.
This presentation reflects the views of the authors alone

Key issues

- | Impacts of high food prices for poverty in poor countries
- | Why do different studies get different results?
- | Should agricultural trade and development policies be reconsidered?

Dramatic rise in food prices



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Impacts of high food prices on poor people an empirical question



- | Rural people are almost always poorer than urban, but
 - | Poorest spend 75% of their income on staple foods
 - | Poor farmers don't gain much from higher food prices
 - | Many are net buyers of staple foods
- | Net impacts on poverty depend on whether the gains to poor net sellers outweighed by the losses of poor net buyers

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To examine this question



- | Obtained data on household production, purchases & sales of major staple foods
 - | maize, wheat, dairy, rice, sugar, beef, & chicken
 - | And sales of unskilled labor
- | Obtained household survey data for ten low-income country-periods
 - | Bolivia, Cambodia, Madagascar, Malawi, Nicaragua, Pakistan, Peru, Vietnam (98,04), Zambia
- | Used World Bank \$1 per day poverty rates

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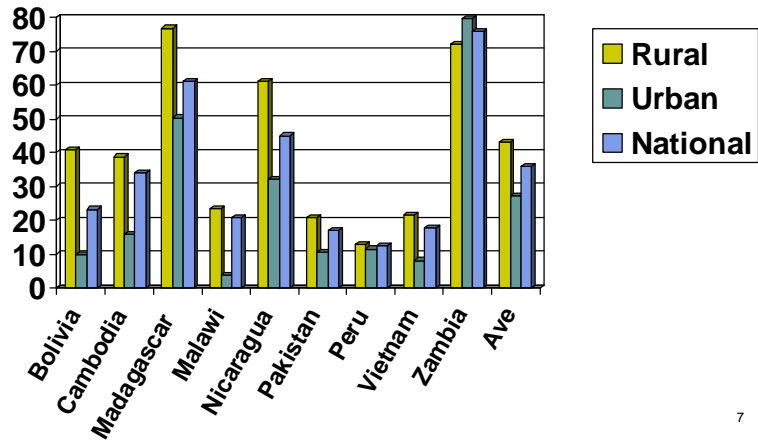
Assessing impacts in poor countries



1. First check whether rural poverty rates are higher than urban
2. Assess impacts of 10 % price changes of staple foods to see which are important
 - | Assess impacts on household welfare
 - | Calculate impacts on poverty rates & gaps
3. Consider food price changes 2005-8(Q1)

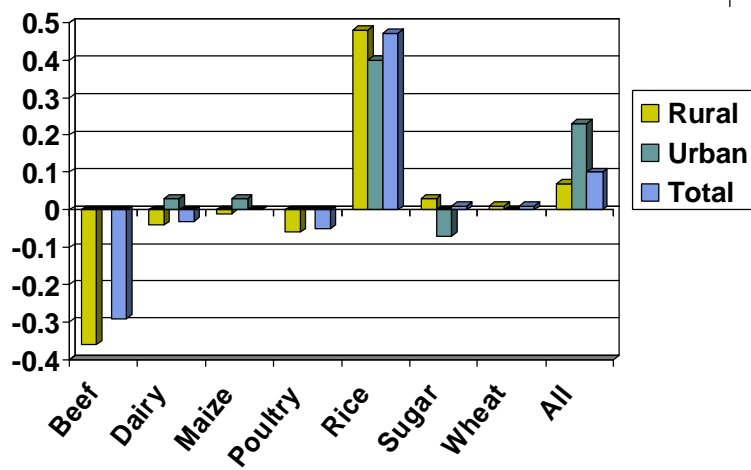
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Rural poverty rates higher in 8 of 9 countries



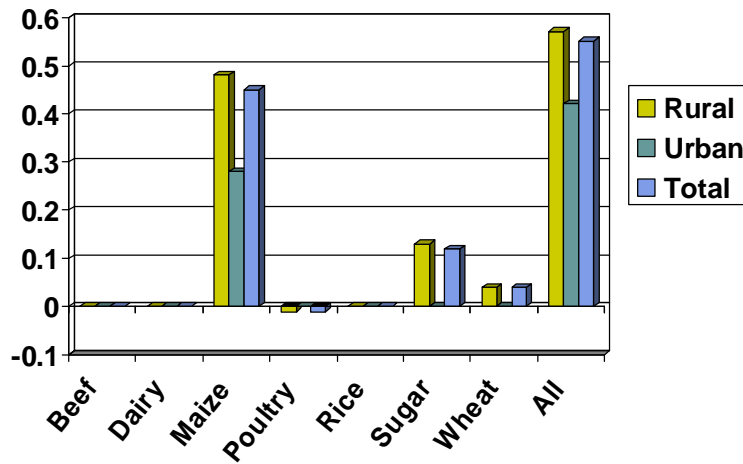
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Cambodia: % pt change in poverty rates



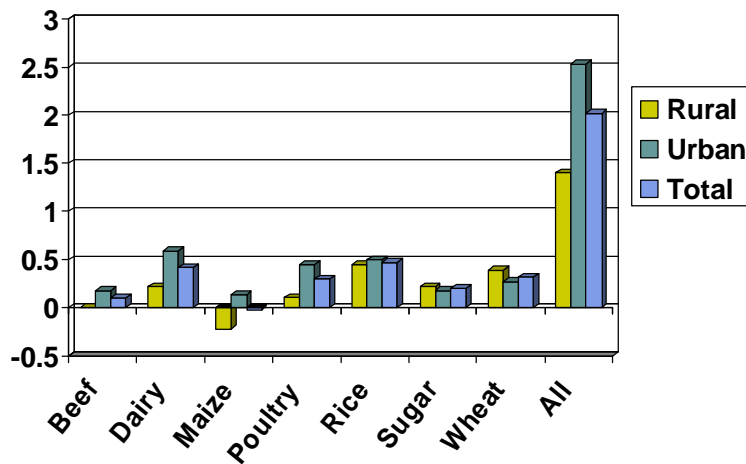
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Malawi: % pt change in poverty rates



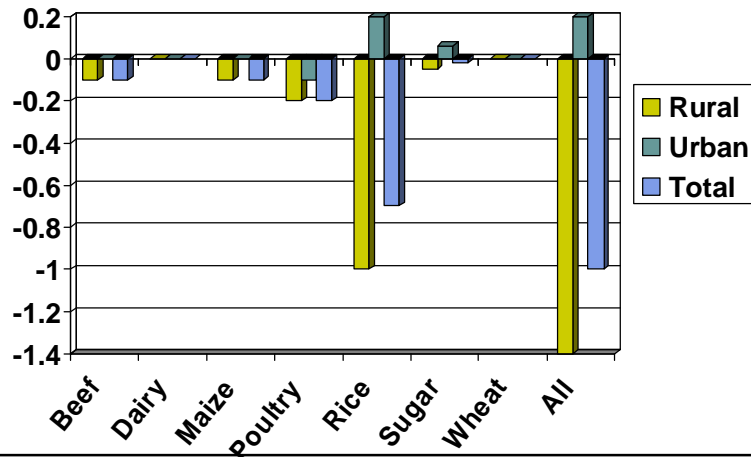
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Nicaragua: % pt change in poverty rates



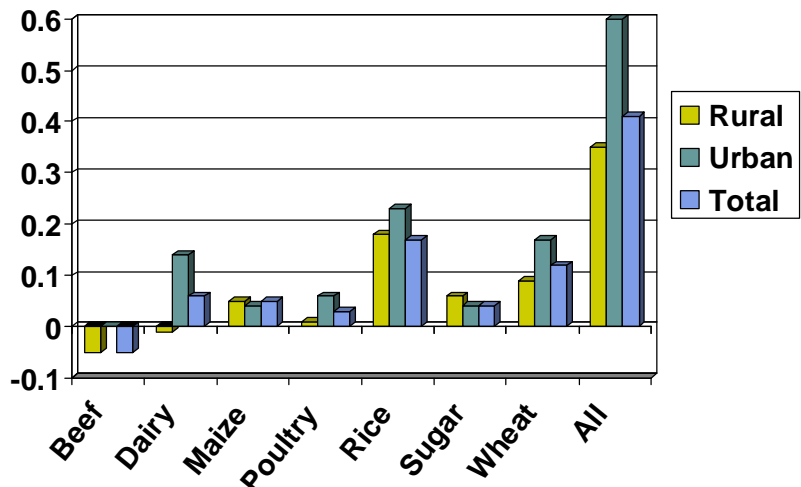
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Vietnam 04: % pt change in poverty rates



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Average: % pt change in poverty rates



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2005-08(Q1) price changes



- | Big increases in world prices
 - | Dollar devaluation & increases in other prices reduce the impact
- | Many countries have changed trade policies
 - | Export restrictions lowered prices in Vietnam & others
 - | Tariff redns lowered domestic prices in many cases
 - | Assume only 66% of price rise transmitted from world prices to domestic

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Percentage point change in poverty rates at \$1/day:



- | Raises average rural poverty rates in our sample of nine countries by 4.2% pts, urban by 5.0% pts and Total by 4.5% pts
 - | With 2.3 billion people in Low-Inc cties = **105 million**
- | Historical rate of poverty reduction since 1984 has been 0.7 percentage points/ year
 - | Suggests a loss of about **7 years** in poverty reduction
- | Based only on short run impacts. Longer term impacts may be more favorable

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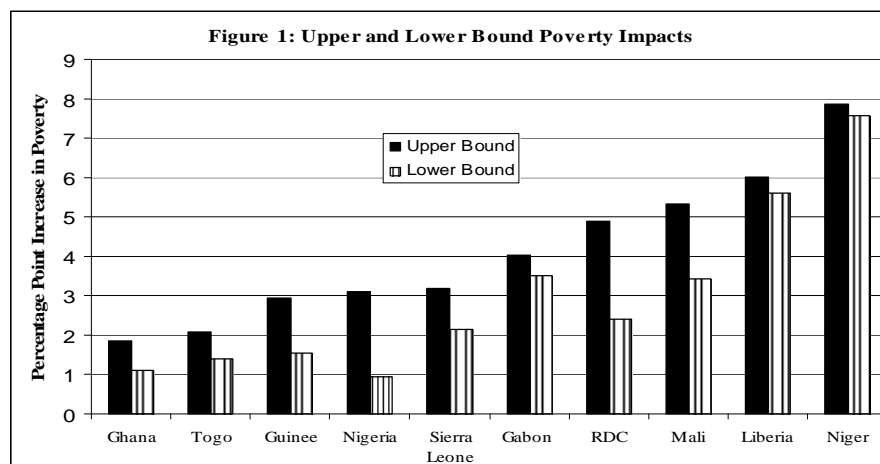
What do most studies find?



- | Most obtain similar results
- | Food price rises increase poverty in most low-income countries
 - | Our case of Vietnam also has precedents
 - | Minot and Goletti 1998
- | Wodon and Zaman for Africa, Inter-American Development Bank for LAC, AsianDevB for Asia
- | Most poor people are net buyers
 - | Questioned by Aksoy and Izik-Dikmelik
 - | But no assessment of poverty changes

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Wodon & Zaman -- P↑ 50%



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Reasons for differences



- | Country coverage
- | Commodity coverage
- | Methodology

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Commodity coverage



- | Risk of higher prices increasing poverty is much higher for staple foods
 - | Including cash crops will quickly reverse the sign
 - | Moving to the broader WTO definition of agriculture can reverse the impact on poverty
 - | WTO includes many non-staple foods whose price increase creates opportunities for the poor to produce goods they do not consume

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Methodological differences



- | Demand only vs expenditure-income
- | Global libn raises world prices
 - | But causes domestic prices to fall, on average, in the developing world
 - | Quite different from effects of a food price rise
- | Labor market representation
 - | Ravallion found long run reversal of poverty impacts in Bangladesh when wages adjusted
 - | Polaski et al find rice price \uparrow reduce poverty in India
 - | when export prices rise, producer real wages fall & employment increases

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Some Principles for Agricultural Trade Policy



- | Protection generally unhelpful for food security
- | Taxation of export crops-usually cash-not good
- | The desirability of price insulation debated
 - | Potentially helpful for individual countries, but increases the instability of world markets
- | Investments in R&D very desirable
- | Social safety net programs for SR problems
- | Long term food security comes from raising incomes

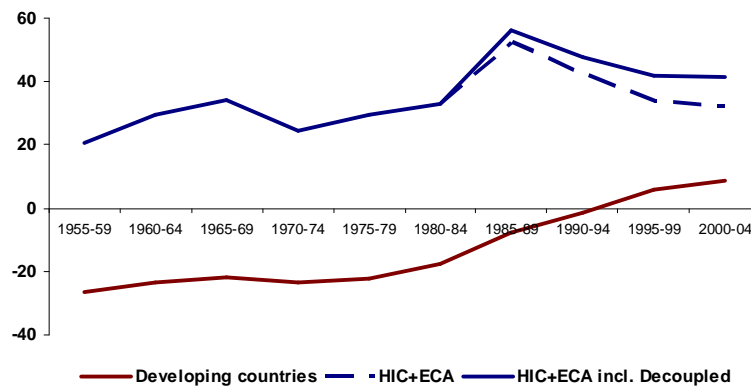
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Protection?



- | Will raise national output, reduce national consumption, raise self-sufficiency
- | But self-sufficiency is not food security
 - | Food security depends on whether people—especially poor people-- have access to food
 - | Higher prices resulting from protection are likely to reduce access to food, & hence food security
 - | In both short and long run
- | WTO disciplines reduce industrial country insulation and shocks to developing countries²¹

Changing nature of world agricultural protection



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Safety net policies important in poor countries



- | Much more effective--where feasible-- than policies targeting food prices for all
- | Food aid
- | Expand social protection programs such as cash transfers, school food programs
- | Short term support to producers?
 - | eg fertilizers, seeds- to help increase agricultural supply

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Longer term policies in developing countries



- | Improving technology in developing countries frequently has enormous returns
 - | Infrastructure, health interventions may be similar
- | Appears to have been serious under-investment in the past
 - | Rates of return on public investment of 50%/year
 - | Great scope for complementary public-private investments
 - | Key role for aid-for-trade

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To conclude

- | It appears that increases in prices of staple foods raise poverty in poor countries in the short run
 - | Our results suggest these effects are currently large
- | Some studies give different results
 - | Sometimes due to use of global liberalization experiments
 - | Or to differences in labor market impacts
- | Most traditional policy recommendations intact
 - | Protection raises self sufficiency, but reduces food security
 - | Social safety nets a better response than trade measures like export restrictions
 - | Desirable to increase investments in R&D, infrastructure