

**FPIF Commentary**

Managing Food Prices

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In February 2003, French President Jacques Chirac complained at a Paris conference of a "conspiracy of silence" over commodity prices. Barely five years later, however, it seems as though everybody is talking about them.

At that time the problem was the collapse in prices, with coffee – a major export of poor countries – cheaper than it had ever been in real terms. But now the problem for poor countries is a steep increase in food prices.

How can a rise and a fall in agricultural prices *both* be a problem for the same group of countries?

After all, high agricultural prices ought to be good for poor countries and the poorest people in them. Most of the world's poorest live in rural areas and depend to a greater or lesser extent on agriculture for survival. Agriculture dominates their countries' economies, providing the bulk of employment, incomes, and export receipts. One might think they would all gain from higher prices.

Yet the story in 2007 and 2008 has been of social unrest from Argentina to Cameroon, from Ethiopia to China. In Haiti, the government [fell](#). The World Bank [estimates](#) that the doubling of food prices could push 100 million people deeper into poverty. What does it all mean?

Price movements have different effects on different groups of people within a country. Higher food prices can benefit farmers, but they also hit poor consumers hard. Small farmers will benefit at the times of the year when they sell cash crops. But as soon as they use up their own produce and have to buy food, they too will be hurt by high prices like any other consumer.

Here's why many of the poor – especially those who live in the 50 Least Developed Countries (LDCs) or the 30-40 countries at the bottom of the UN Development Program's [Human Development Index](#) – have lost out in both cases so far.

Falling Prices

The commodities trade was long considered an important element in the development debate. In the recent enthusiasm for free markets, however, it has been largely ignored. But the trade in foodstuffs remains critical. For instance, poor countries now import staple foods while in the past they did not. With some notable exceptions such as India and China, they are now commodity-dependent on *both* sides of their foreign trade, not just the export side as in the past. Far from disappearing, the commodities problem has doubled in significance.

For instance, since 1990 sub-Saharan Africa has switched from being a net exporter to a net importer of traditional domestic products such as cassava, corn, millet, sorghum, and sugar. Among the LDCs as a whole, net imports of rice increased by 124% from 1990 to reach five million tons in 2005, and those of wheat by 130% to 13.7 million tons. Without this big change in trading patterns, there might

have been no food crisis in 2008.

The last major commodities boom was in the late 1970s. Coming just before the era of structural adjustment and globalization, this period provides a useful comparison. I have compared the average prices of 22 important commodities between July 2005 and June 2008 with those of the years 1978-80. I deflated them by an index of developed countries' manufactured export prices (or close proxies of that index) to see what the commodity price changes meant for developing countries' trade in general.

Over this 30-year period, there were big increases in the real prices of a small number of mineral commodities. However, for most other commodities the data showed sharp *declines* in price. For example, since the late 1970s the prices of oil, iron ore, and copper have risen by 59%, 96%, and 103% respectively. On the other hand, real tin prices *fell* by 54% over this period, while those of aluminum and gold were little changed (down 1% and up 1% respectively). Phosphates also belong on the upwardly mobile list, with a 46% real price increase. Since 2007 the price of fertilizers has risen the fastest of all commodity groups. When coupled with the oil price, this trend suggests that the food crisis is above all a crisis of *intensive* agriculture, which depends heavily on energy inputs and large applications of fertilizer. In the long run, higher prices will most help those farmers who use few inputs. This mainly means smallholders and subsistence farmers, along with their households and anyone who works for them. The outlook for industrial forms of farming seems more uncertain.

Meanwhile, 12 of the agricultural prices I examined *fell* by large amounts over the 30-year period. The only important exception was bananas, which rose in price 17% in real terms. There were also insignificant changes in the prices of rubber (up 2%) and tropical logs (down 2%).

Among arable crops, the average real price of corn was 25% lower than in the late 1970s, while wheat was down 19%, rice down as much as 45% and soybeans down 28%. As a consequence, these crops have become much cheaper to import than manufactured goods.

More seriously still, the real prices of coffee, cocoa, sugar and cotton have fallen to less than half what they were in 1978-80. Coffee fell to 37% of its previous level, cocoa to just 35%, the international price of sugar to 44%, and cotton to 43%.

In other words, an exported ton of coffee or cocoa will pay for barely one-third as much in manufactured imports as it did in 1978-80: a crippling change in an exporting country's trade position, and debilitating for its agriculture as a whole. A country also has to export more than twice as much coffee or cocoa in order to import the same volume of *wheat* as back then.

Many of the world's very poorest countries, such as Ethiopia, Burundi, Côte d'Ivoire, and Burkina Faso, rely on such exports as coffee, cocoa, and cotton.

An Unfashionable Solution

The question of falling commodity export prices has clearly not gone away. That's what Chirac had in mind in 2003: the question was being ignored in the enthusiasm for unrestricted free markets, and even today few people are looking at it. The price performance of several commodities in particular over the past three decades holds an important lesson. For instance, two of the sharpest falls in real price were for coffee and tin. They were the subjects of famous International Commodity Agreements that regulated prices during the 1960s and 1970s. The Tin Agreement collapsed in 1985, and the price intervention clauses in the Coffee Agreement ended in 1989. In view of what has happened to those prices since that time, it seems the agreements were not such a bad thing after all.

Similarly, the real price of aluminum is almost unchanged over 30 years. It increased against one substitute product, tin, but fell in comparison with its biggest competitor, copper. Here too, a system of global supply management collapsed in 1984 – this one being of a commercial nature, administered by six companies that dominated aluminum production. It made prices more stable than the free-

market prices of today.

These three examples point to the unfashionable benefits of intervening in the commodities trade to regulate supplies. Such regulation adjusts the volumes traded to market changes rather than the prices. This introduces a greater element of stability into farmers' incomes. It favors the growers and reduces the market power of trading companies, food-processing corporations, and supermarkets.

Alongside this, developing countries must have the right to establish food stockpiles and regulate food imports by tariffs and other means, to enable their own farmers to produce enough food for national requirements. These policies have worked in both India and China over the last 40 years. In India, they were achieved with domestic and international support for the "Green Revolution," based on high-yielding hybrid varieties of rice.

The Chinese government pushed its farmers "to grow more grain ... than they would have done under free market conditions" in order to maintain a low degree of dependence on world grain markets, writes Peter Nolan, a leading expert on China's economic reforms, in his [book](#) *China's Rise, Russia's Fall*. This imposed high economic costs, but the government judged them to be worthwhile to reduce the country's dependence on the international economy. It still pursues similar policies.

Consider also some little countries like Mauritius and Barbados, which are better able than most to weather the food crisis. For more than 50 years they have benefited from guaranteed high prices for sugar, their main export crop, from the European Union and the Commonwealth before it. Thanks to pressure from the World Trade Organization, the EU is unfortunately abandoning that system. This system of preferences badly needs reform, but it should be retained in order to benefit poor countries in the future.

Likewise, EU policies to support banana growers have helped maintain rural employment on tropical islands both within and outside the EU's territory. It has supported banana growers in Spain's Canary Islands and France's Caribbean territories of Martinique and Guadeloupe with the highest subsidies by area in the whole of its agricultural policy, worth 3,500 euros per acre.

It also maintained preferential trade access for high-cost non-EU suppliers in Africa and the English-speaking Caribbean. This had an effect similar to the EU's sugar import policies, ensuring rural livelihoods in several small island states that have little opportunity for agricultural diversification.

The food crisis points to the need for regulating and managing the global markets of poor countries' main export and import crops, rather than expecting development to arise spontaneously from free trade.

Thomas Lines, a [Foreign Policy In Focus](#) contributor, is a freelance trade consultant and the author of [Making Poverty: A History](#), just published by Zed Books.

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