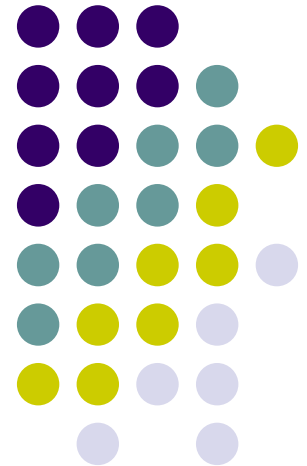


Food Price Crisis, Poverty and Agricultural Trade Reform

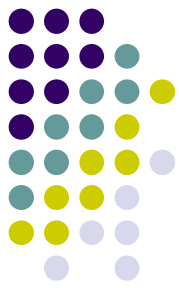
Will Martin and Maros Ivanic*

World Bank

14 May 2009



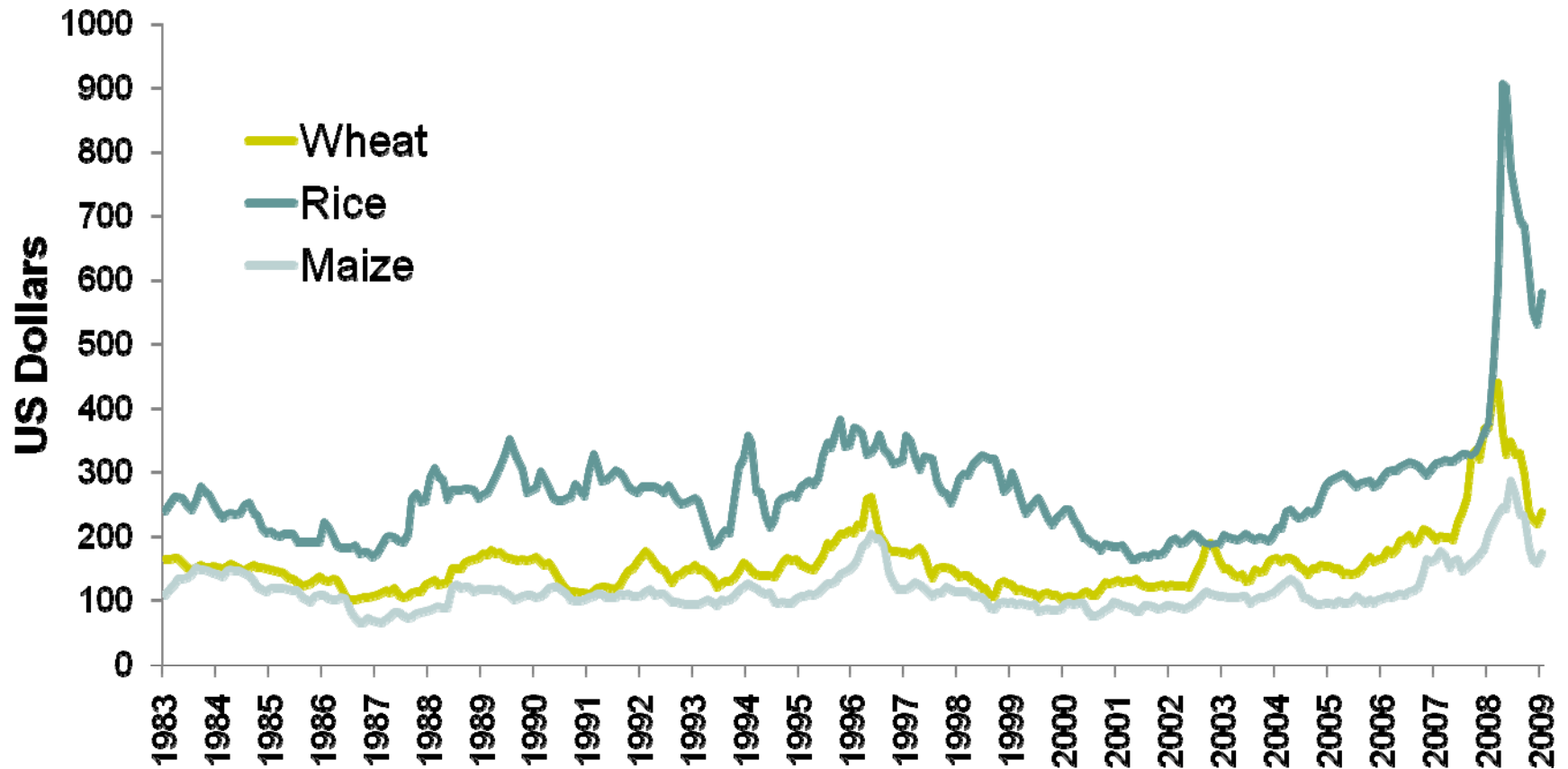
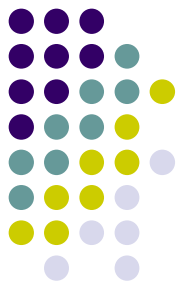
*This presentation reflects the views of the authors alone



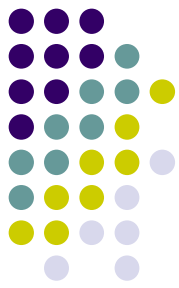
Key issues

- Impacts of high food prices for rural incomes, and 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

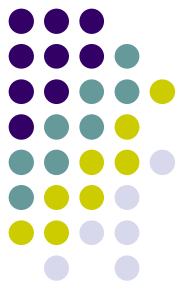


Impacts of high food prices on poor people an empirical question



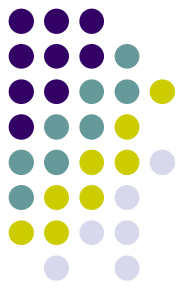
- Rural people are almost always poorer than urban, but
 - Poorest spend 75% of their income on staple foods
 - Poor farmers don't gain much from higher food prices
 - Many are net buyers of staple foods
 - In contrast with rich countries rural prosperity not clearly determined by agricultural prices
- Net impacts on poverty depend on whether the gains to poor net sellers outweighed by the losses of poor net buyers
 - Not enough to know whether poor people are predominantly net buyers or sellers

To examine this question



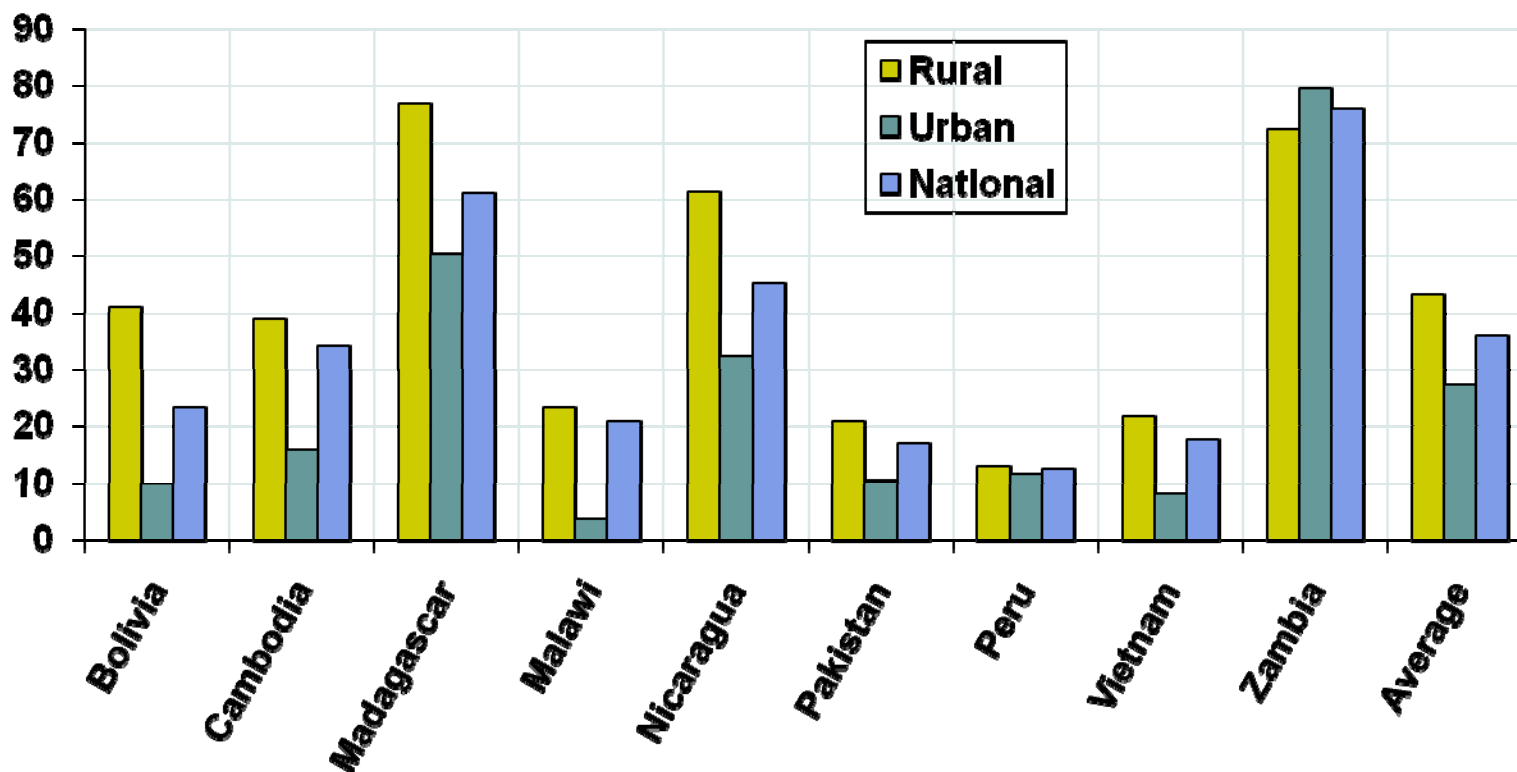
- Obtained data on household production, purchases & sales of major staple foods
 - maize, wheat, dairy, rice, sugar, beef, & chicken
 - sales of unskilled labor
- Obtained household survey data for ten low-income country-periods
 - Bolivia, Cambodia, Madagascar, Malawi, Nicaragua, Pakistan, Peru, Vietnam,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

Assessing impacts in poor countries

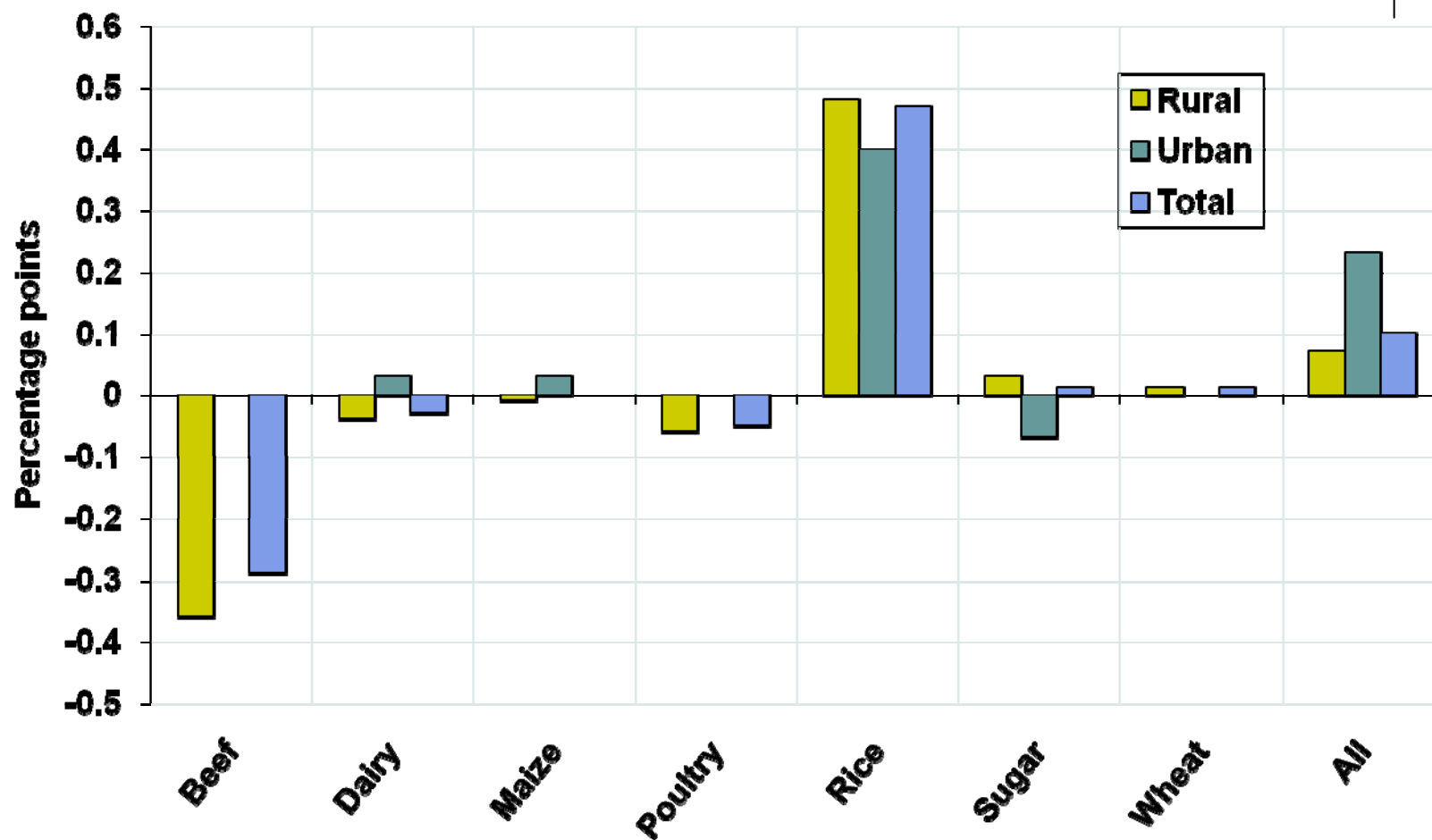


1. First check whether rural poverty rates are higher than urban
2. Assess impacts of 10 % price changes of staple foods to see which are important
 - Assess impacts on household welfare
 - Calculate impacts on poverty rates & gaps
3. Consider food price changes between 2005 and first quarter of 2008

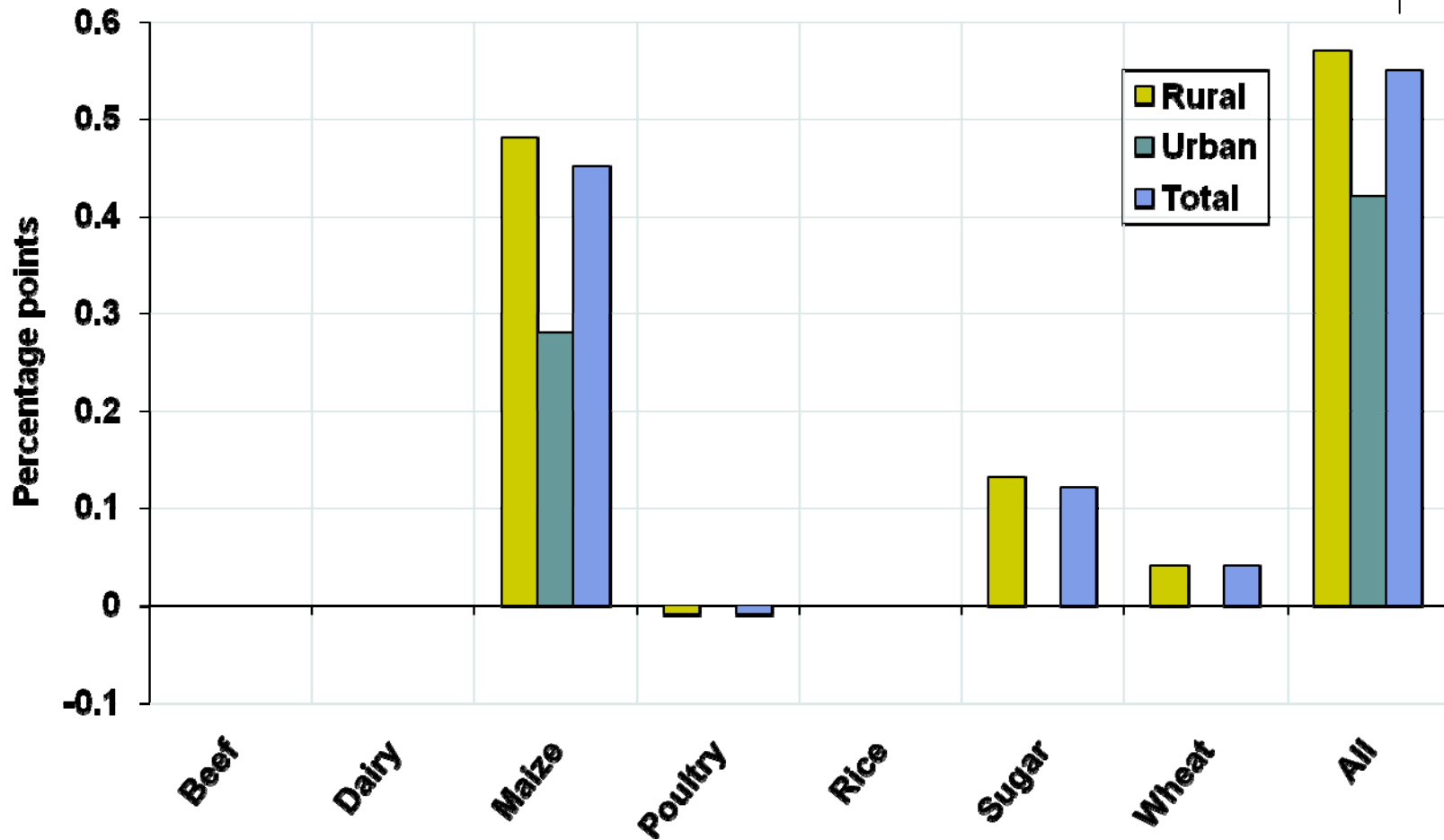
Rural poverty rates higher in 8 of 9 countries



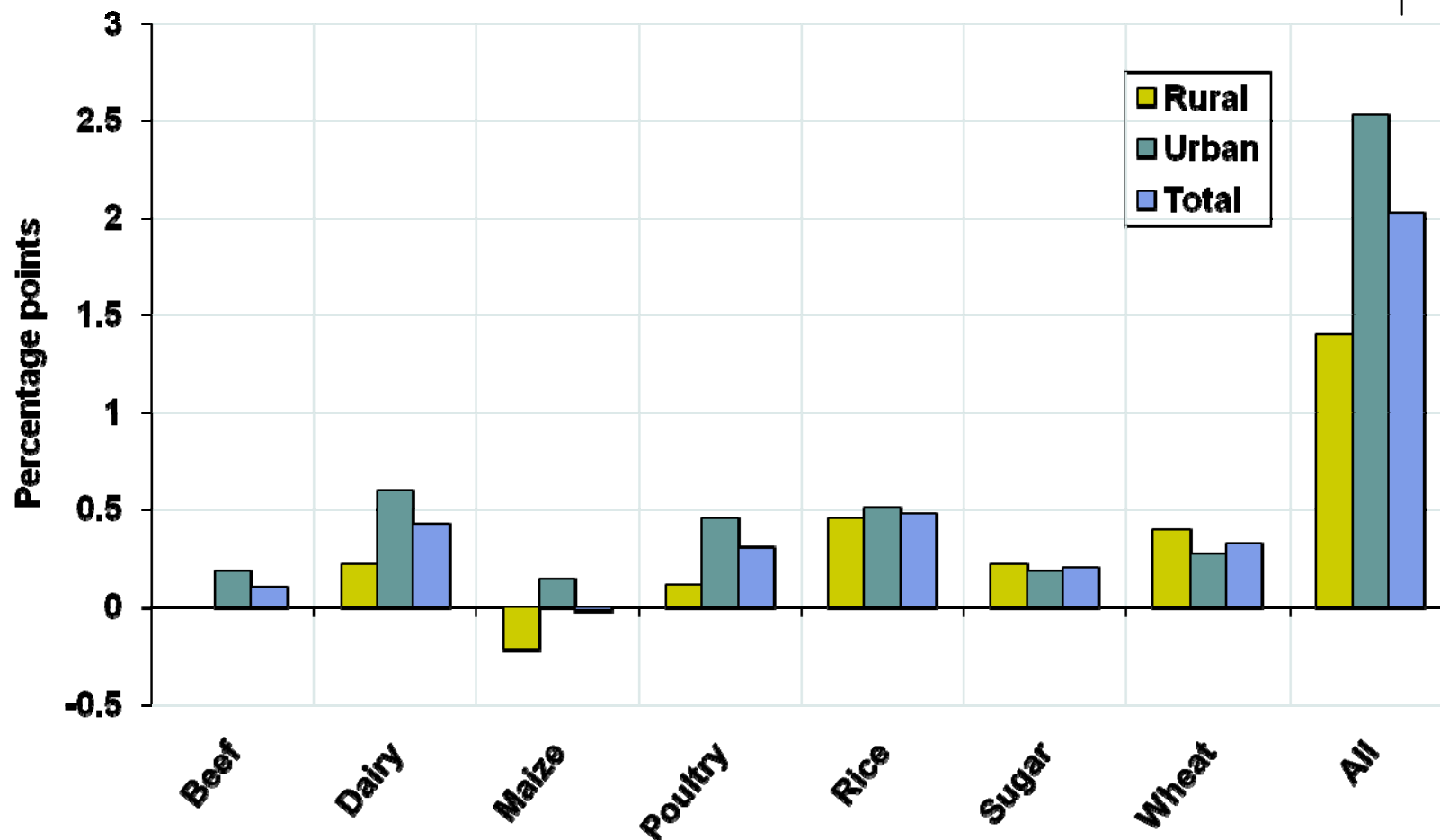
Change in poverty rates: Cambodia



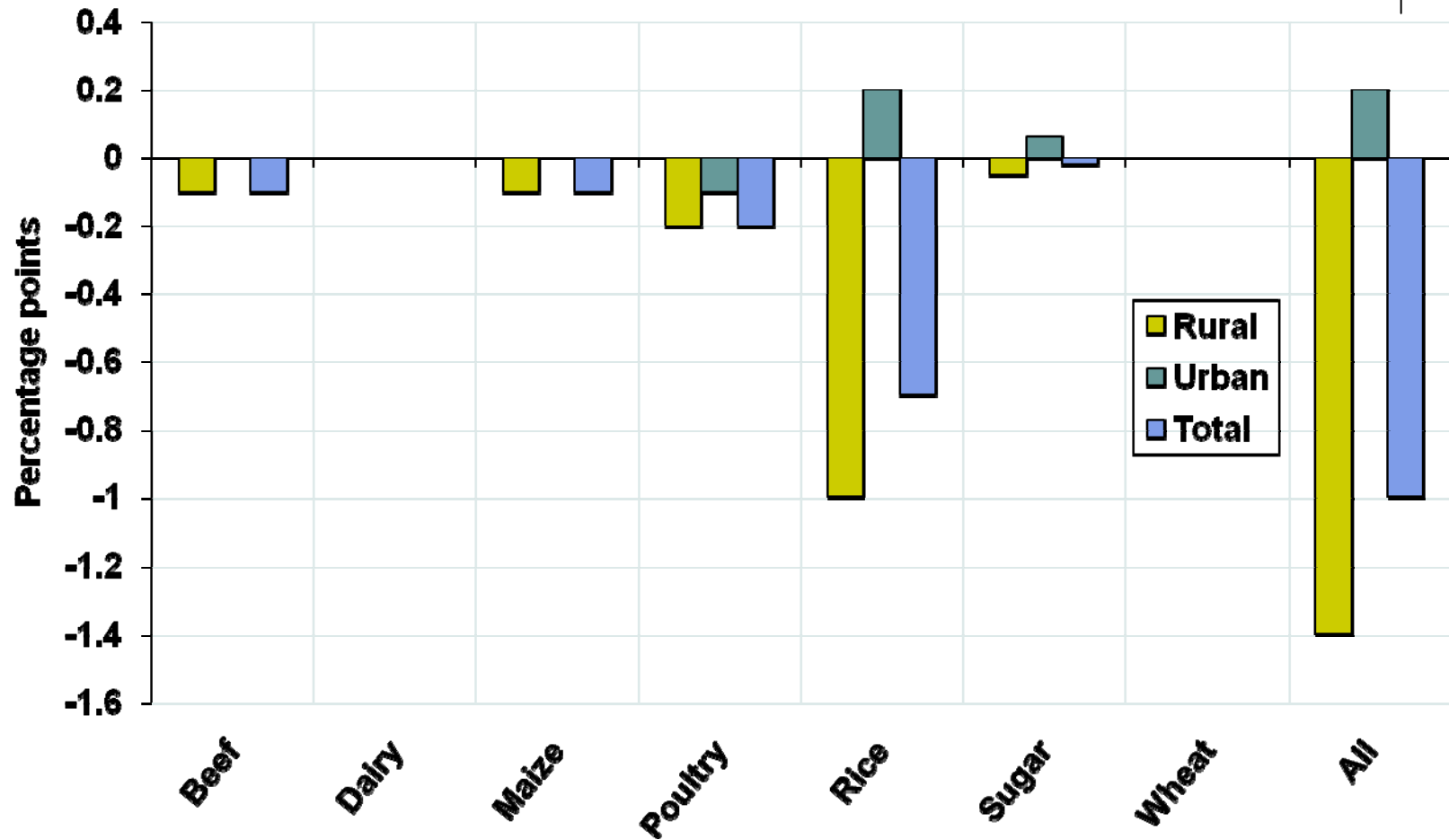
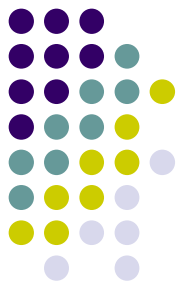
Change in poverty rates: Malawi



Change in poverty rates: Nicaragua

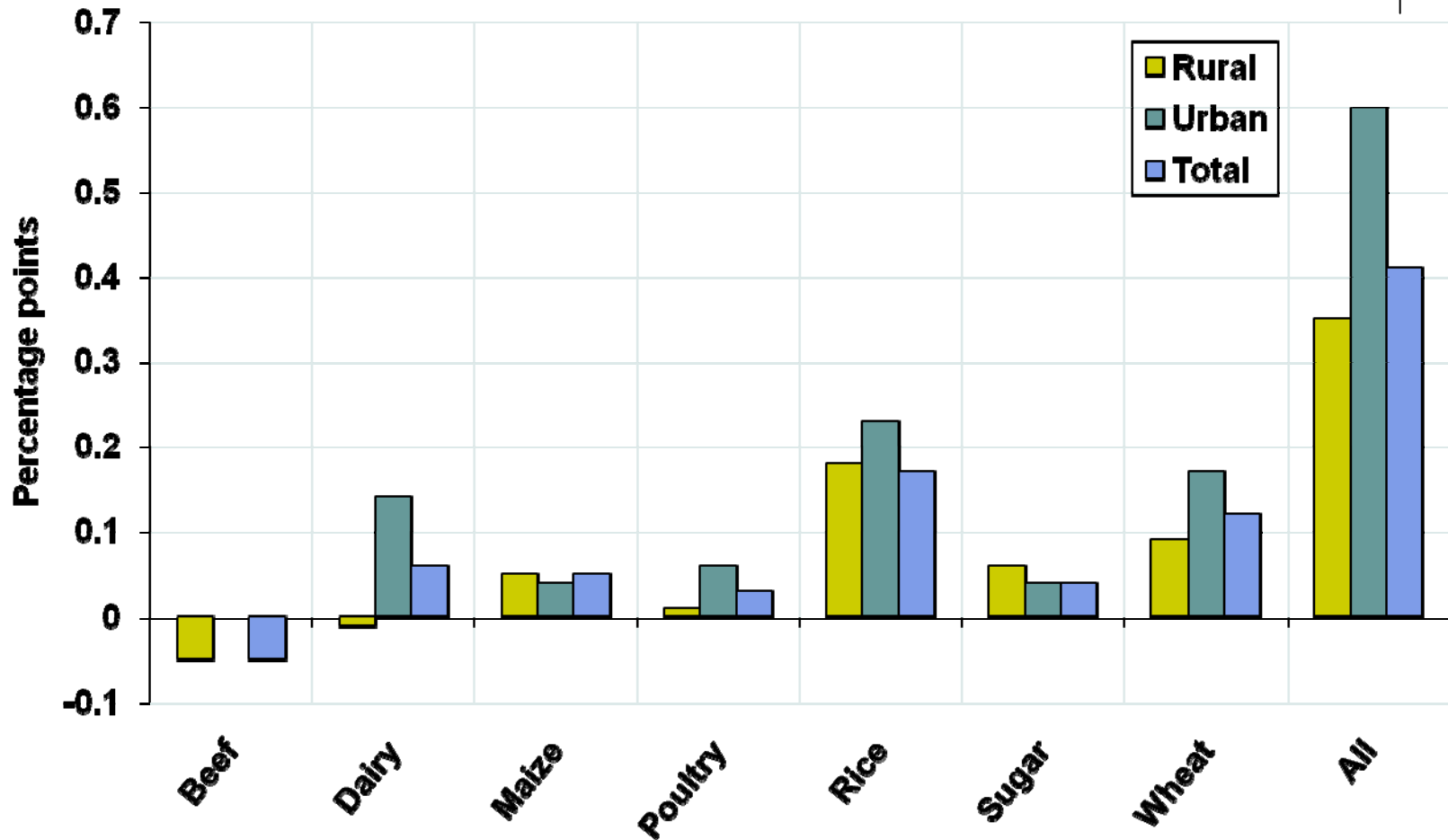


Change in poverty rates: Vietnam





Change in poverty rates: Average

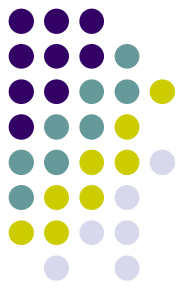


Recent food price changes: 2005–(1Q)2008



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

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



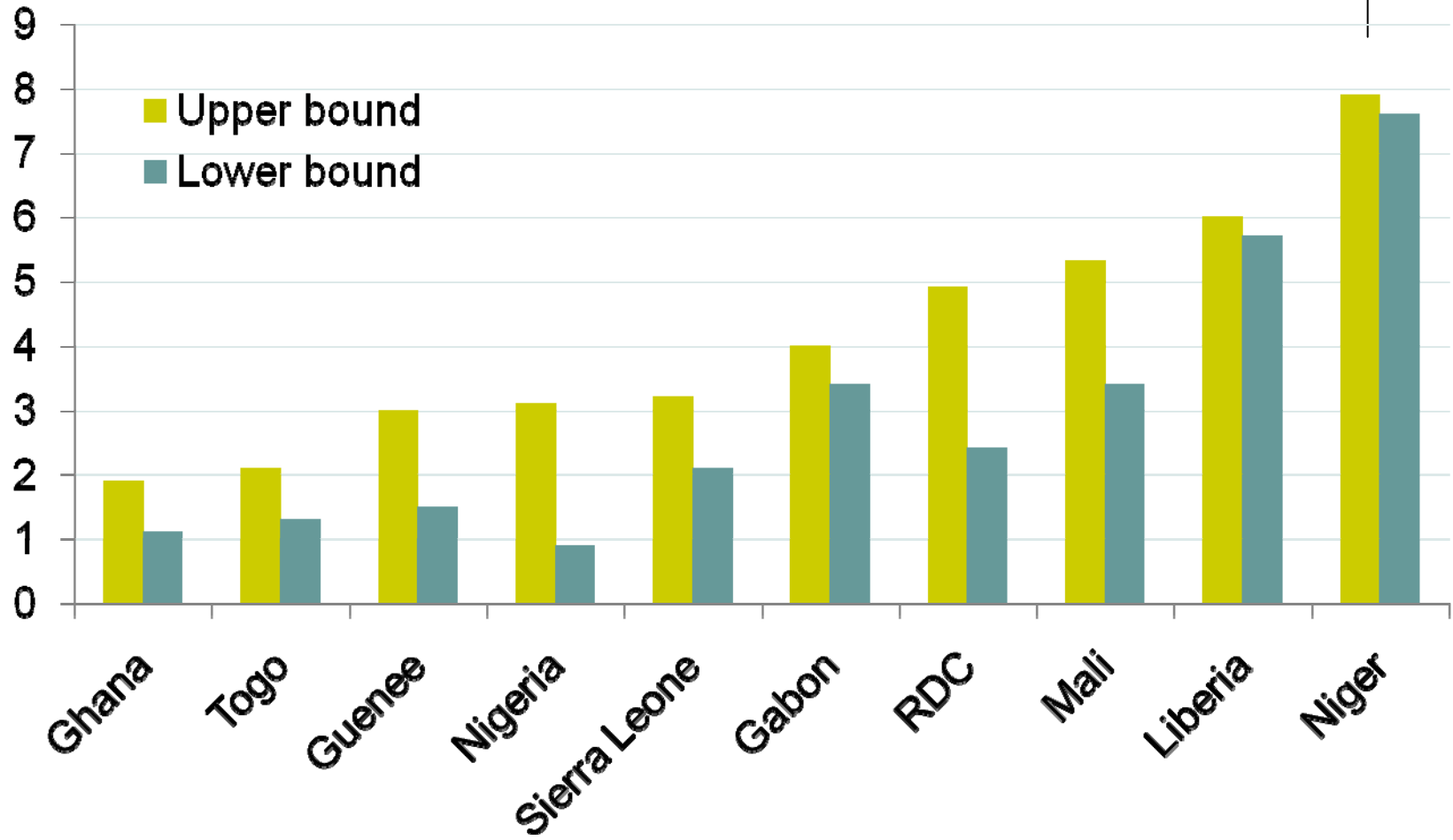
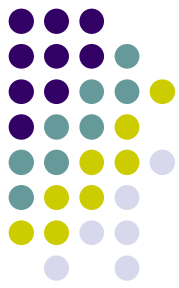
- Raises average poverty rates in our sample of nine countries (in percentage points)
 - Rural: 4.2, urban 5.0, total 4.5
 - With 2.3 billion people in low-income countries = **105 million** people thrown into poverty
- Historical rate of poverty reduction since 1984 has been 0.7 percentage points/ year
 - Suggests a loss of about **7 years** in poverty reduction
- Based only on short-run impacts
 - Longer-term impacts may be more favorable

What do most studies find?



- Most obtain similar results to ours
 - Food price rises raise 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
 - Who highlight the diversity of net buyers/sellers

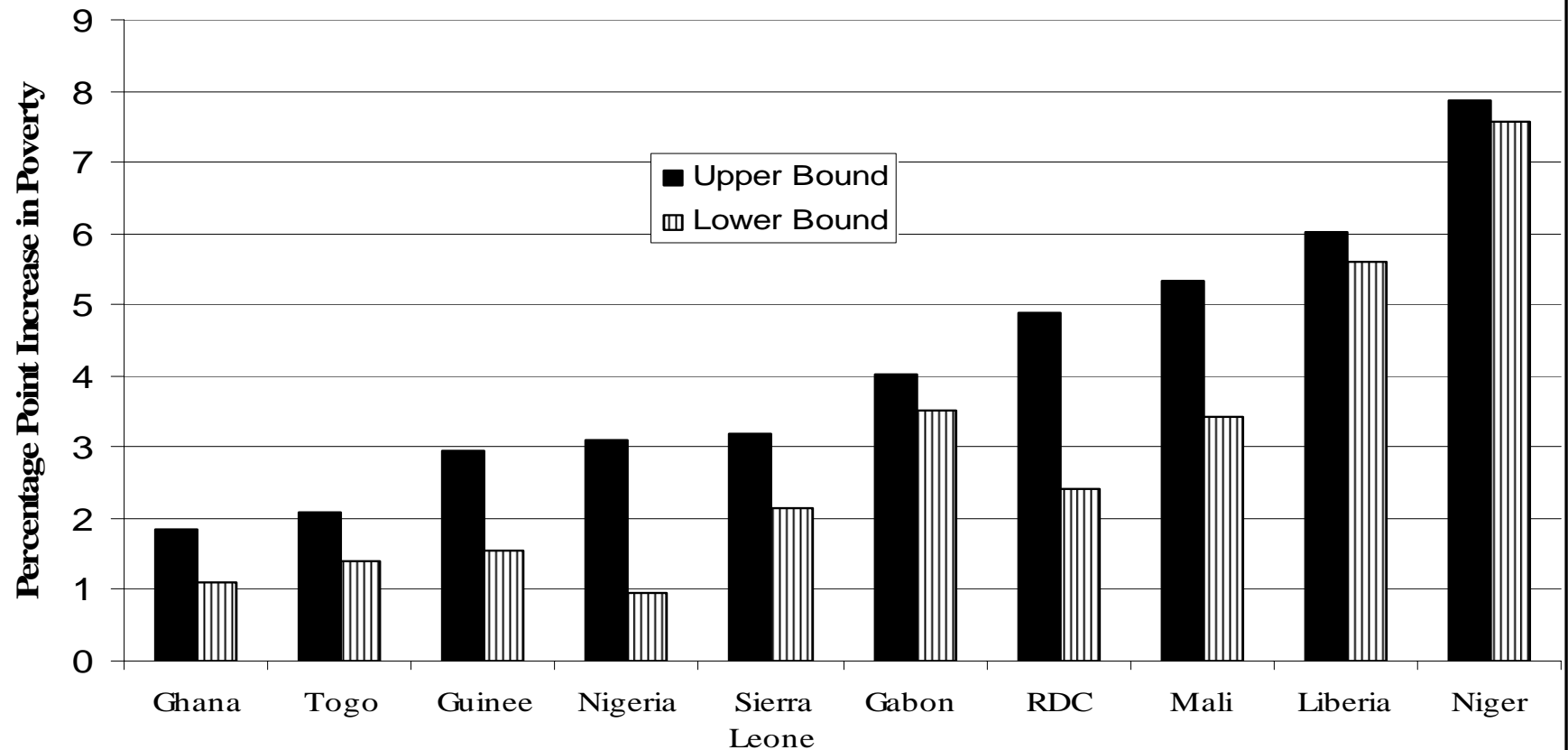
Wodon & Zaman—poverty impact of 50% price rise

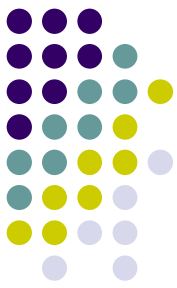


Wodon & Zaman -- $P \uparrow 50\%$



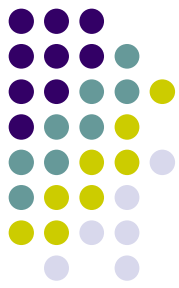
Figure 1: Upper and Lower Bound Poverty Impacts





Reasons for differences

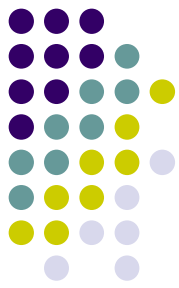
- Country coverage
- Commodity coverage
- Methodology



Commodity coverage

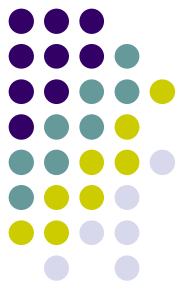
- Risk of higher prices increasing poverty is much higher for staple foods
 - Higher cash crop prices reduce poverty
- Moving to the broader WTO definition of agriculture can reverse the impact on poverty
 - Contains many non-staple foods whose price increase creates opportunities for the poor to produce goods they do not consume

Methodological differences



- Some studies consider different (or no) impacts on household income
- Labor market representation differs widely
 - Ravallion found long-run reversal of poverty impacts in Bangladesh when wages adjusted
 - Polaski et al find rice price rise reduce poverty in India
- Global liberalization causes a wide range of domestic prices to fall
 - not just food price changes

Principles of Economic Policy



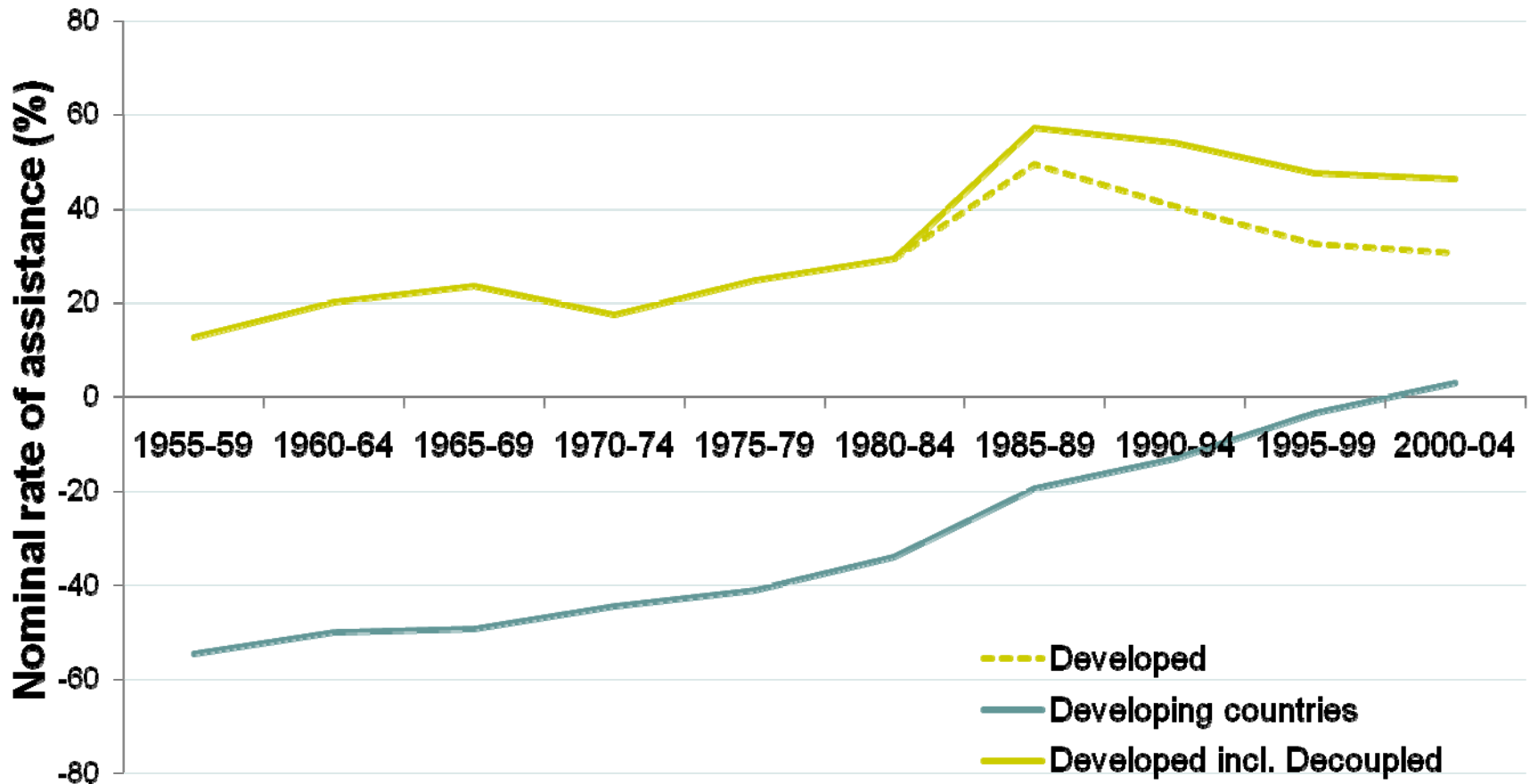
- Protection generally unhelpful for food security
- Taxation of export crops—usually cash—not good
- The desirability of price insulation debated
 - Potentially helpful for individual countries, but increases the instability of world markets
- Investments in research and development very desirable
-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



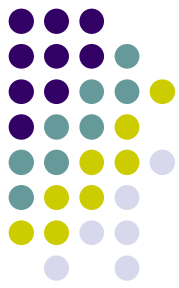
Protection?

- 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 and hence food security
 - In both short and long run
- WTO disciplines reduce industrial country insulation and shocks to developing countries

Changing nature of world agricultural protection



Safety-net policies important in poor countries

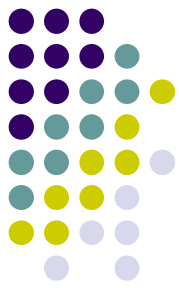


- Much more effective—where feasible—than policies targeting food prices for all
 - Food aid
 - Cash transfers
 - School food programs
- Short-term support to producers?
 - Subsidization of fertilizers, seeds etc to help increase agricultural supply

Longer term



- Improving technology in developing countries frequently has enormous returns
- Appears to have been serious under-investment in the past
 - Rates of return on public investment of 50%/year
 - Suggests under-funding of public research
 - Great scope for public-private partnerships
- Other sectors such as infrastructure, health interventions may be similarly underinvested



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 taxes/restrictions
 - Desirable to increase investments in R&D, infrastructure