Expensive food

Steven Grover, ANP Photo

Recently, I was asked to say a few words on Dutch national radio about the global skyrocketing of food prices. Expecting that it would be an ego-boosting experience, I eagerly accepted. However, things did not quite work out as planned. I shocked the interviewer by pointing out the benefits associated with the current food price crisis. Benefits? He gasped for air and cried out, 'Riots in Haiti and elsewhere; widespread hunger among the urban poor in developing countries; UK prime minister Brown saying the food crisis is worse than the financial crisis hitting the globe; runaway inflation in the far East and now the International Monetary Fund (IMF) warns that the food crisis can trigger civil wars – are you sure we are talking about the same issue?'

I claimed it is about time that food prices went up.

Prices of food have almost doubled over the past year, and are now as high as they were in the mid-1970s. Uncomfortable – or worse – for those consuming more food than they produce, but not unprecedented. Recent price hikes followed bad harvests in Australia and other areas, and the implementation of various ill-conceived biofuel initiatives also drove food prices up. The International Food Policy Research Institute (IFPRI) in Washington, DC, expects that current biofuel policies will raise food prices substantially: maize by 26% and oilseeds by 18% in 2020. Moreover, rising incomes in countries such as China and India have increased demand for sophisticated foods, particularly for meat. But these developments should be applauded.

The 2008 World Development Report celebrates the positive role of the agricultural sector in advancing economic development and alleviating rural poverty. This celebration is a welcome change. Agriculture has long been perceived as a backward sector – best bled dry to support more promising activities elsewhere in the economy. Although 80% of the projects aimed at raising agricultural productivity yield rates of return in excess of 20%, international support for agricultural research has fallen dramatically from US$4 billion in the 1980s to US$1 billion today. Dutch development assistance was unfortunately no exception, and favoured interventions in the health and education sectors over efforts to raise productivity in agriculture. But the governments of many developing countries are also to blame. In Africa, only 7% of agricultural GDP is re-invested in agricultural research – about half of the share in Latin American and Asian countries. Many governments supported urban consumers at the expense of rural producers, and purposefully distorted the terms of trade against farming. Of course, support for farmers in the US and the EU that disrupted trade also did not help to create a flourishing African farming sector.

Faced with low prices and in the absence of a decent infrastructure – think of roads, but also more broadly of markets for inputs and outputs – it is no surprise that many small farmers opted for a subsistence strategy. Rising food prices are an incentive to turn to the market. But market incentives are not enough; enabling policies are also necessary. Currently the great majority of African countries are food importers. This could change if a concerted effort is made to boost agricultural productivity through various intensification schemes, and to reduce the stupefying transaction costs that must be incurred when trading fertilizer, crops and improved seeds. Rising food prices imply that all parties have incentives to work on this.

Unfortunately, the response to the food crisis may be a different one. Large-scale emergency food support for the urban hungry is arguably necessary to maintain social cohesion in societies, and can be defended on humanitarian grounds. But subsidizing food is a risky activity. It can be expensive and it can disrupt fragile budgets. Moreover, removing subsidies once they are in place is difficult. Matters become worse when exporters such as India and China start imposing restrictions on food exports 'to feed local consumers'. This may sound humane, but it aggravates the global crisis and again turns the tables against local farmers – pushing purchasing power from the rural poor to the urban poor, and reducing incentives to boost food production as 'domestic prices' are artificially lowered.

If we are going to take poverty alleviation and economic growth in Africa seriously, and if we are going to feed the estimated 9 billion people on the planet by 2050, then agricultural development in developing countries is a necessity. As a feel-good radio topic it is best avoided, but high prices can play a useful role in this respect. ■

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