

UK PARLIAMENTARY INQUIRY
INTO THE GLOBAL FOOD CRISIS

The **Politics of Global Food Security**

DOMESTIC PRODUCTION
GUARANTEED IMPORTS
ENLARGED RESERVES

J T WINKLER
Nutrition Policy Unit
London Metropolitan University

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The global food crisis of 2008 will return. Most of the causes were long-term trends that --- unless we act --- will increasingly squeeze world food supplies over coming decades.

The recent falls in commodity prices, brought about by the recession, offer us respite, in which to re-organise for the future. The Inquiry is therefore timely, because it creates an opportunity, rare in political life, to prepare pre-emptive action.

In doing so, we must take into account how the recent crisis is interpreted by **politicians** as well as by **economists**.

TWO RATIONALITIES

Food riots occurred in at least 37 poor countries. Political leaders there responded with a variety of emergency actions to maintain domestic food supplies, including food export taxes, controls and prohibitions. In Haiti, where people were reduced to eating clay patties laced with cooking oil, the government was overthrown.

Many economists have observed, correctly, that politicians' interventions contributed to the price surges in international commodity markets. Their actions were not "economically rational".

In fact, these politicians were acting sensibly, but by the rules of a different rationality. One of the principal functions of government in any political system --- seldom written into constitutions, but first equal with defence of the realm --- is to ensure adequate food for the nation.

In the affluent West, this is often forgotten. The long post-WWII prosperity has made excess food more of a problem than deficits. In this context, the crisis of 2008 almost seemed a "black swan", a rare event, albeit with catastrophic consequences when it happens.

In the developing world, in contrast, food shortages are a constant. Most of the world's billion hungry people live in poor developing countries. And when chronic hunger becomes acute, immediate relief is called for, whatever its cost-effectiveness.

In the decades ahead, we face a combination of rapid population growth, accelerating climate change, and shrinking resources of land, water and energy --- a "perfect storm" in Beddington's metaphor --- that would make food shortages more frequent.

Therefore, the political interventions of 2008 may also be repeated, however irrational they seem to economists.

The leaders of poor countries are unlikely to be stayed by reassurances that global markets will solve shortages in due course. In food emergencies, an inversion of Keynes' famous adage applies --- in the short term, we will all be dead --- unless the people get food now.

Scepticism has been reinforced by the contrast between subsequent developments in international and domestic markets. While the price surges of last year have receded at a global level, local food prices in many poor developing countries have not declined in parallel. What has gone up has stayed up. For political leaders in these countries, the "global food crisis of 2008" continues in 2009.

Therefore, it is important to understand the logic that underlay politicians' responses last year. The lessons may apply more broadly, not just in emergencies.

If, as many predict, we face a continuing compression of the global supply-demand balance, then many countries, developed as well as developing, may feel compelled to reconsider their food supply arrangements. Hence, the political interventions of 2008, may also be harbingers of a long-term change in the global food system:

**PRIORITY TO GUARANTEEING DOMESTIC
FOOD SUPPLIES, REDUCING DEPENDENCE ON
IMPORTS FROM INTERNATIONAL MARKETS.**

Attempts to prevent future shortages would vary with national circumstances. But three basic actions are likely to be common:

- INCREASING DOMESTIC PRODUCTION
- GUARANTEEING FOOD IMPORTS
- ENLARGING RESERVES

INCREASING DOMESTIC PRODUCTION

Consensus on the need to increase food production is near universal. But adequate supplies at global level will not solve the problems of poor deficit countries, if those supplies are vulnerable to erratic disruptions or available only at extortionate prices.

One pragmatic response to reduce uncertainty is to raise domestic food production, under the ultimate control of national governments. The aim would not be autarky, but a higher level of self-sufficiency, adequate to provide a minimum diet to citizens in case of ruptures to foreign supplies.

Another widespread agreement is on the need to raise agricultural productivity and yields, especially in Africa. Many agronomic improvements --- low, intermediate and high tech --- are feasible.

The tried and proven instrument, however, is to raise guaranteed prices to farmers. They are very responsive to price incentives, as the EU's butter mountains and wine lakes exemplified.

Many have urged price increases for farmers in developing countries, on equity as well as production grounds --- the desirability of balancing rural with urban incomes reinforces the need to reduce the flight from the land.

The same economic logic applies in Europe and America as in developing countries. Price incentives are likely to be an important part of most national policy packages, because they stimulate more rapid gains in output, while productivity rises over a longer term.

One consequence, however, is the need to protect local farmers and higher-priced domestic production from cheap imports in good years. Which is why most agricultural policies have traditionally included controls on some imported foods. If priority is given to food security, they are even more likely to be part of the package.

During the extended, still unfinished Doha Round of trade negotiations, many pious hopes were expressed for a more open world market in agricultural commodities. In the light of the crisis of 2008, the more realistic prospect is increased import controls.

Such policies are often anathematised as protectionism. From a political perspective, they are simple prudence, a way of protecting the people from potential privation.

In any case, increasing domestic self-sufficiency does not mean an end to international trade. Many commentators work with a simplistic dichotomy, either an idealised concept of "free trade" or a return to 1930s "protectionism. There are many intermediate options. Some are discussed in the following sections.

Many economists would argue that all nations increasing their food self-sufficiency simultaneously is an inefficient way to feed the

world. Again, they would be correct. Such policies would raise food prices, when the long-term prospect is already upwards.

However, fearing repeats of the violence of 2008, political leaders in poor countries may prefer a secure food system to an efficient one. In many areas of life, there is a trade-off between continuity of supply and lowest cost sourcing. In food, in the 21st century, at national level, the balance may swing towards food security.

GUARANTEEING FOOD IMPORTS

For important foods, where sufficient domestic production is impossible or expensive, a complementary policy would seek to guarantee delivery of however much must be imported. After last year's experience, poor developing countries will not relish being caught in a bidding war for scarce food supplies against richer buyers in an open and rising world market. It is a risky basis for feeding a nation.

In theory, the likely alternatives are clear --- to strengthen or create regional and bi-lateral supply arrangements.

Regional trade associations commonly offer member states incentives to trade with one another. Hence, stable long-term supply patterns develop. To take an example close to home, two-thirds of Britain's food imports come from other EU members.

Arrangements within regional groups vary. But usually, while there are advantages to intra-community trade, there is no obligation to sell to other members. There is nothing to stop partner countries from opportunistically switching to international buyers willing and able to pay more, especially when world market prices are rising. So while regional trade associations provide some supply security, they offer no watertight guarantees.

The same is true of the many preferential access arrangements that exist between individual countries or groups of countries. Usually, they make it expedient for preferred suppliers to be reliable. But there is no certainty, if temptation and opportunity arise for higher returns elsewhere.

Attempts to strengthen regional and preferential arrangements could take many forms. Legal or contractual requirements to maintain supplies to established partners in all circumstances might

be tried. But they could prove difficult to enforce, especially within the time frames of emergency food shortages.

Additional inducements to continuity may become necessary parts of the package, if climate change creates chronic supply tightness and hence a permanent sellers' market.

Uncertainties are even greater with bi-lateral trade relations. One option for enhancing food security, open to some, is to create reciprocal trade dependencies, where each country needs what the other provides. Cuba's developing relations with Venezuela and China are good examples.

A distinctive 21st century instrument for food security has emerged. Food importing countries in the Middle East and Asia have bought or leased land in less developed countries with under-performing agricultural systems. They undertake to invest in infrastructure and technical development, in return for first option on the resulting production. Deals between Saudi Arabia and Indonesia, South Korea and Sudan are two of many examples.

Whether these arrangements prove mutually beneficial or forms of neo-neo-colonialism depends on the terms and conditions, among other factors. At this early stage, it is premature to judge.

But they are indisputably a response to the prospect of food insecurity. Bi-lateral production agreements between nations are a different model of agricultural trade.

ENLARGED RESERVES

One factor in the 2008 crisis was the historically low level of stocks for internationally traded cereals. They declined over recent years in developing countries (diminished priority for agricultural investment) and also in developed economies (cost-cutting "just-in-time" delivery systems).

Scant reserves created physical difficulties in covering the shortages that emerged in so many countries. They also created economic difficulties, stimulating speculation in commodities, driving the extraordinary price increases in the first half of 2008.

In consequence, many poor people in developing countries could not afford to buy food, even when it was available. Some governments were equally vulnerable. They too could not afford

additional supplies on international markets. Politicians were exploited by speculators like everyone else, on a grander scale.

When the supply of anything is deficient, its price normally rises. But the ability to draw on cereal reserves in times of shortage usually dampens price increases.

However, when it is widely known that reserves are too small to compensate for shortages, then it becomes certain that prices will increase. Inadequate reserves meant that commodity markets offered a dead cert, one-way bet for speculators.

And in 2008, there were a lot of speculators about. Financial institutions, including hedge funds, had suffered large losses on sub-prime mortgages and their derivatives. They needed to recover quickly. Commodity markets became the remedy of choice.

New food security policies, therefore, may also include attempts to control commodity markets and to increase food reserves.

Commodity futures markets have a positive function in the real economy. For example, food manufacturers, who will be in business years hence, need to ensure continuous supplies of raw materials.

However, in practice, most buyers of futures contracts are not real users of the commodities, but financial operators who see them as a business opportunity. The aim therefore would be constrain speculators, without impeding users. One option is to require high initial deposits on futures contracts, analogous to margin requirements when buying shares.

Some such mechanism is actually probable, because of the broader reform of the financial system now underway. If share markets were regulated but commodity markets were not, then food futures would become the preferred playground for punters.

The underlying problem --- inadequate food reserves --- also needs to be dealt with, nationally as well as internationally, for nutritional reasons as well as economic ones.

The difficulty with reserves, however, is that they are expensive to maintain, at global level prohibitively so. In good times, they look like an unnecessary cost. No one ever enjoys paying for insurance.

For world markets, von Braun and Torero have proposed a relatively low-cost "virtual" reserve, under international management, to inhibit speculators by credibly threatening intervention. It would

require much co-operation among member states, but the shock of 2008 might suffice as a catalyst.

Even so, national governments would still need substantial physical stocks under their control. To pre-empt protests when imported supplies run short, politicians need real food for real people. Smoother functioning global markets are economically necessary, but not politically sufficient.

One challenge is to spread or collectivise the costs. Reserves created by regional trade associations are an option. Inventory requirements for all parties in the domestic food chain are another, though not easy to enforce.

Another challenge is to ensure that national reserves are under public control, to ensure priority distribution to those who need them most during shortages.

One of the ironies of speculative surges like 2008 is that stocks actually increase --- in the form of hoarding by local traders. They withhold supplies, waiting for prices to rise. For example, in Thailand, a major food exporter, the Minister of Agriculture complained, in the middle of the speculative frenzy, "the 2007 rice harvest is in, but we don't know where it is".

Gaining public control over private stocks during emergencies will be difficult in poor developing countries. But it is necessary, both to alleviate hunger and to control extortion.

CONCLUSION

The global food crisis of 2008, and the prospect of its repetition, will provoke many responses to improve food security. This note has focussed on three of the most probable.

All have two characteristics in common. First, they are the responses practicing politicians are likely to take, rather than economists. Some may seem economically irrational. But in the decades ahead, increasing priority is likely to be given to food security rather than market efficiency.

Second, they are relevant not only to developing countries, but also to developed. We live in an international food system. So, this has been a description of possible policies for Britain as well as Africa.

Nothing in this paper should be seen as an argument against improving the functioning of global food markets. The events of 2008 demonstrated beyond dispute that reforms are necessary. International trade in agricultural commodities is essential and will remain so. But in an age of climate change, additional options are needed. And national political leaders in poor countries are particularly sensitive to that need.

In its early years, the subject of economics was called political economy. In time, the adjective was dropped, and so too a distinctive contribution to understanding. But if we are to create long-term food security for the world, we must put the politics back into political economy.