Sustainable Development Law & Policy

Volume 9
Issue 1 *Fall 2008: Global Food & Agriculture*

Article 3

# An Overview of This Issue: Closely-Linked Nature of Global Food and Finance

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## Closely-Linked Nature of Global Food and Finance

*by Siwa Msangi**

The tumultuous economic events of the past year have given us all a stark reminder of the closely-linked nature of the global food and financial economy, and the ability of market-level ripple effects to quickly spread from one corner of the globe to the other. In the case of the food crisis, the origin and underlying causes of these ripple effects are both diverse and complex in nature—as they include 'drivers' of change that are both socio-economic and environmental. While the role of crop-based biofuels in certain OECD countries might explain part of the rapid increase in prices for commodities like corn, the underlying causes of rapid increases in rice prices in East and Southeast Asia stem from a very different set of policies—some of which, in themselves, helped to magnify the original market shocks, and worsen the effects. Among such policies were export bans and unilateral trade actions, which tend to allow less room for flexibility in the system just at the time when it is needed most, and distort the market signals that might help to bring about needed corrections and adjustments.

Production-side shocks to food economies were driven by droughts, floods, or other extreme weather events that coincided with a much 'tighter' set of market conditions in many countries, where historically abundant stocks of grain reserves had slowly been run down over time, and demands had slowly been ramping upwards. The relatively low level of global grain stocks is largely due to either policy neglect or the desire to privatize the operation of the food system, so that a 'just-in-time' principle of inventory management could be exercised for the sake of efficiency. Some of these changes were driven by the incentives of structural adjustment regimes, others were brought about by a more laissez-faire attitude towards how food economies should be managed and the persistent belief that there's always plenty to be had from the market at low prices—which is clearly no longer always the case.

One of the deficiencies in the world socio-political and economic infrastructure that the food crisis has helped to bring to light is the widespread lack of compensating mechanisms that can provide social protection to those most in need of help. The 'low-hanging' fruit of price controls turned out to be a favored policy instrument for many governments eager to suppress the inevitable discontent that high food prices cause among highly-vocal, urban populations, and who lacked any other form of social protection programs. These price controls, while easy to implement, tend to dampen the very incentives and signals that food producers need to receive in order to boost their output, and help prices ease towards the lower levels that we're now beginning to see. When these highly-vocal populations begin to suffer the effects of high food prices, they also tend to be more cantankerous and critical of other less-desirable aspects of government policy—which is why low food prices are often the opium that poorly-performing governments prefer to give to their constituent masses.

The overall conclusion that we are forced to draw from these lessons of the recent past is that we live in a much tighter and more volatile world food market situation, where the failure of certain countries to maintain consistently high exports, for whatever reason, will result in a rapid escalation of prices and deterioration of socio-economic welfare for the world's poorest and most vulnerable. There may not be the 'fat' in the system that we might have taken for granted in the past, that might help us to stave off the worst effects of food price volatility for long enough to make the corrective measures needed to avoid high inflation. As we anticipate the growth of today's nearly 6.2 billion people into a global population of over nine billion in 2050—many of whom will be more wealthy and sophisticated in their diets and lifestyles—and contemplate the implications for global food supply, and the constraining effects of land degradation and climate change, we are given reason to pause. Malthusian doom is not upon us yet—but we must work to prevent his herald from appearing. Much work is yet to be done in strengthening agricultural production, distribution, and marketing systems in regions which have the worst-functioning infrastructure, and weak systems of agricultural extension and research. Multi-lateral effort needs to be applied, at a global level, to bolster the mechanisms of trade and commerce which can help smooth periods of turbulence and uncertainty. These efforts would allow for free movement of goods to where they're most needed and valued, but the markets, by themselves, cannot save us entirely. Good systems of governance and well-targeted public interventions need to be made to fill in gaps, as they arise, and step into the widest breaches that might suddenly appear on the path of development.

Such are the competing (and sometimes conflicting) demands of governance within these trying and turbulent times—to let the market-based incentives work when they're most useful, and to protect those who are least served by the market at the same time.

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