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The Right Price of Food

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The Right Price of Food

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Abstract

Only a few years ago the widely shared view was that *low* food prices were a curse to developing countries and the poor. The dramatic increase of food prices in 2006-2008 appears to have fundamentally altered this view. The vast majority of analyses and reports in 2008 and 2009 state that *high* food prices have a devastating effect on developing countries and the world's poor. This reversal of opinion raises questions about the old and the new arguments and about the proposed remedies. It also raises questions about the causes of this dramatic turnaround in analysis and policy conclusions. In this paper I document these changes in perspective and I discuss potential implications and offer hypotheses on the cause of the change in views.

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Introduction

"Only Socrates knew, after a lifetime of unceasing labor, that he was ignorant.
Now every high school student knows that. How did it become so easy ?
What accounts for our amazing progress ?"

Allan Bloom, 1987 [1]

In his famous book *"Getting Prices Right"*, Peter Timmer (1986, p.13) posed the question *"What is the "right" price for an agricultural commodity ?"*. He goes on to argue that we can only determine the right price of food if we take into account a wide variety of effects of prices, both on efficiency and on income distribution.[2] This logic, obviously, assumes that we can in fact determine the impact of food on various groups in a country and across the globe. Somewhat surprisingly, the 2007-2008 food crisis seems to have challenged this assumption. The food crisis has led to a wide set of reports and public statements analyzing and suggesting remedies for the crisis. The puzzling thing about the post-crisis statements is that many seem to ignore pre-crisis analyzes and to convey a dramatically opposed view.

Only a few years ago the widely shared view was that *low* food prices were a curse to developing countries and the poor. The following statement from the Food and Agricultural Organization (FAO) of the United Nations on the state of the world food markets and its implications for developing countries represents the common view as recently as 2005: *"The long-term downward trend in agricultural commodity prices threatens the food security of hundreds of millions of people in some of the*

[1] The Closing of the American Mind, New York: Simon and Schuster, 1987, p. 43

[2] Timmer (1986, p.13) also explains that *"[e]conomists have an easy answer to the question, but only in a world of perfect information, with competitive markets, without other government interventions … and without political concerns for the impact on income distribution."*

world's poorest developing countries where the sale of commodities is often the only source of cash."[3]

The dramatic increase of food prices in 2006-2008 appears to have fundamentally altered this view of the food system. The vast majority of reports in 2008 and 2009 state that *high* food prices have a devastating effect on developing countries and the world's poor. A typical example is the following statement from the 2008 annual report of the International Food Policy Research Institute (IFPRI): *"In 2007, longstanding disruptions to the world food equation became widely evident and rapidly rising food prices began to further threaten the food security of poor people around the world. … The current food-price crisis can have long-term, detrimental effects on peoples' health and livelihoods, and can contribute to the further impoverishment of many of the world's poorest people."*[4]

This reversal of opinion – which, as I will document in this paper, was widespread – raises questions about the correctness of the old and the new arguments and about the proposed remedies. It also raises questions about the causes of this dramatic turnaround in analysis and policy conclusions.

In this paper I review the positions of a variety of organizations active in the food policy arena and review a series of hypotheses to explain their apparent change of views as reflected in their public statements. More specifically, I start by presenting a simple framework to assess welfare effects of food price changes. Then, I document that many organizations have indeed changed their message, and quite radically so. Next, I discuss some of the policy implications, and how they conflict

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[3] FAO newsroom, *Agriculture commodity prices continue long-term decline*, 15 February 2005, Rome/Geneva. http://www.fao.org/newsroom/EN/news/2005/89721/index.html

[4] IFPRI, Annual Report 2007-08, p. 3

with earlier arguments in food policy. In the last section I present some hypotheses to explain the observed changes in food policy arguments.

Food Price Effects: Some Basic Principles

Before reviewing analyses and policy statements let us first present some basic principles on the effects of food price changes – which I presume are generally known but, given the variety of conclusions presented, it appears useful to start by setting the framework.[5] Consider first a simple model of an open economy with two groups, producers and consumers of food, where prices are determined at the world market with local production or consumption having no impact on global prices (i.e. the so-called small country assumption in international trade theory). In this situation, a change in world market prices (caused by some external factor which is exogenous to the country) affects producers and consumers, but in opposing directions: consumers gain and producers lose from a decline in prices, and vice versa when prices increase.

To make this model more realistic one can consider several extensions. First, in reality the distinction between producers and consumers may not be so simple. Many rural households in developing countries are both producers and consumers of food and are thus affected in different ways by price changes. The net household effect depends on their net consumption status. Second, the change in world market prices may differ from the change in the local prices and the latter may even differ for local producers and local consumers, as these changes are affected by various policies (trade policy, taxes, …), by infrastructure and institutions, and by the industrial organization of the food chain. Third, local production and consumption may also

[5] For more elaborated and sophisticated models see e.g. the textbooks on agricultural, food, and development policy analysis of Bruce Gardner (1988), James Houck (1986), Peter Timmer (1986) and Elisabeth Sadoulet and Alain de Janvry (1995).

affect local prices, in addition to exogenous external shocks. Fourth, the "exogenous" shocks may be caused by nature (e.g. the weather) or by men (e.g. changes in trade policies or consumption or production in other countries). Fifth, short-run effects may differ from long-run effects, as pass-through may take some time.[6]

What is important for our purposes is that, first, all these extensions do not fundamentally change the basic result of the simple model: when prices go up consumers lose and producers gain, and vice versa. Hence, when rich countries increase (reduce) export subsidies which leads to a decline (increase) in world markets, this will benefit (hurt) urban consumers and net consuming rural households in poor countries and hurt (benefit) net producing rural households in poor countries. The size of the benefits/losses though will depend on various factors, such as local policies, institutions, the food chain organization, time, etc..[7]

Second, the net benefits of price increases and decreases for a country should be roughly symmetric. Countries that benefit most from price decreases (e.g. if they consume lots of food but produce little) will lose most from price increases. The same holds at the household level within a country. Households which only consume food and do not produce food will be affected stronger when prices change than households which both produce and consume food. Another implication is that households which are directly affected by world market prices will gain or lose more than those living in areas largely isolated from market transactions when world prices change.

[6] There are more factors that would need to be taken into account in a truly complete model. For example, not only "exogenous" shocks will affect producers and consumers, but also "endogenous" price changes, with the latter caused, for example, by faster productivity growth in agriculture. In addition, one would have to consider general equilibrium effects (considering not just food market effects but also effects through/on markets for labor, capital, services, other inputs and outputs). For example, as other prices (eg energy, fertilizer, etc.) changed together with food prices, this may need to be taken into account as well.

[7] In extreme cases the size of the effects could actually be reduced to zero.

A straightforward implication of these basic principles is that low food prices on the world market in most of the pre-2005 period benefited consumers and hurt farmers in developing countries, and vice versa in the 2006-2008 period.

Another implication is that households which suffered strongly in 2007 from high food prices (e.g. they lived in urban market centers and produced little food themselves) would have benefited significantly from low food prices prior to 2005. Inversely, some rural households may not have benefited (much) from the high prices in 2007 (e.g. because they live in remote places with poor pass-through of prices from the world market or because they consume all their food production themselves). These rural households would also have experienced limited negative welfare effects from the low food prices prior to 2005.

Surprisingly, however, while these basic principles are well known, we do not find them reflected in most arguments put forward in the food policy debate. For example, there has been hardly any mentioning of the benefits of low food prices for urban consumers and net consuming rural households during the pre-2006 low price era, and there has been very little emphasis in more recent statements on the benefits for producers in poor countries from high food prices.

A 180° Turnaround in Food Policy Analysis & Communication

Before trying to understand why this is the case, let me first document that this was indeed the case, i.e. that there are conflicting analyses and communications prior to 2006 and afterwards, and that there is a lack of consistency in analysis and policy recommendations. I will document my claims by a series of quotes from various organizations' own communications of analyses and policy recommendations. Afterwards I will discuss whether these quotes are representative and address the critique that this approach may not be appropriate by taking quotes out of their context.

Analyses from NGOs

To start, let us take a look at statements from some of the non governmental organizations (NGOs) working in the area of food policy before and after the food crisis. In 2005, Oxfam International argues that:

> *"US and Europe['s s]urplus production is sold on world markets at artificially low prices, making it impossible for farmers in developing countries to compete. As a consequence, over 900 millions of farmers are losing their livelihoods."*[8]

Three years later, at the height of the food crisis, Oxfam International's view is that:

> *"Higher food prices have pushed millions of people in developing countries further into hunger and poverty. There are now 967 million malnourished people in the world…."*[9]

To put it simply: this organization claims that whatever happens to prices -- either decreasing (pre-2006) or increasing (post-2006) -- hundreds of millions of people will end up in poverty.

Other NGOs share this analysis: prior to 2006 they claim that low food prices are hurting the poor and creating food insecurity; after 2006 they claim that high prices are hurting the poor and leading to food insecurity. To illustrate this, compare the following statements from the Bread for the World Institute. In their 2005 annual report they write that:

> *"The agricultural trade and subsidy policies in the United States, European Union and Japan are harming poor people in developing countries. The harm done by far*

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[8] OXFAM International, *International celebrities get dumped on at the WSF*, 1 November 2005 (underlining added). http://www.oxfam.org/en/node/283

[9] OXFAM International, *Lessons from the food price crisis: Questions & Answers*, 15 October 2008 (underlining added). http://www.oxfam.org/en/campaigns/agriculture/food-price-crisis-questions-answers

exceeds the good done by development assistance… The net result is continuation of poverty, hunger and related misery."[10]

In 2009 annual report the same organization states that:

"*Food prices are soaring worldwide****.*** *For the world's poorest people in developing countries—who spend up to 80 percent of their income to buy food—the situation is even more devastating."*[11]

The apparent contradiction in these statements is obvious. One justification for the statements could be that they refer to different groups in society (farmers in one case, urban consumers in the other case). However, the lack of emphasis on this and the absence of recognition that other groups may benefit is striking.

These are not even the most extreme examples. In several cases the excuse that the conflicting arguments are due to focusing on different groups (while selectively ignoring other groups) cannot even be used. For example, consider the following statements from Oxfam Solidarité from as recently as 2006:

"The prices of products traded at the world markets are too low and do not allow the majority to live decently. … As a consequence of this competition at low prices, local prices fall, worsening poverty … This causes poverty, migration and malnutrition." [12]

However, after the food crisis, the same organization claims that:

"The FAO predicts a new price increase in 2009. This crisis of agricultural prices affects in the first place the poorest populations, mostly rural, which spent more than half their revenues to feed themselves." [13]

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[10] Bread for the World Institute, 2005 Annual Report, p.44

[11] http://www.bread.org/learn/rising-food-prices/ or http://www.breadblog.org/hunger_in_the_news_1/

[12] Own translation. The original statement *: « Les prix des produits échangés sur les marchés internationaux sont trop bas et ne permettent plus à la majorité de vivre décemment…Pour faire face à cette concurrence à bas prix, les prix locaux chutent, aggravant la pauvreté …. S'en suit alors pauvreté, exode et malnutrition. » (*OXFAM Solidarité , *Les revendications*, 21 novembre 2006). http://www.oxfamsol.be/fr/Les-revendications,723.html.

[13] Own translation. The original statement *: « [L]a FAO prévoit une nouvelle hausse des prix en 2009. Cette crise des prix agricoles affecte en premier lieu les populations les plus pauvres, en majorité rurales, qui dépensent plus de la moitié de leurs revenus pour s'alimenter. » (*OXFAM Solidarité, *Agriculture : le G8 doit changer de cap!*, 20 avril 2009). http://www.oxfamsol.be/fr/Agriculture-le-G8-doit-changer-de.html.

This organization thus argues that the <u>same</u> group (poor rural people) is hurt by <u>low</u> prices (in 2005) and hurt by <u>high</u> prices (in 2009).

One explanation for these observations could be that one should not expect anything else from NGOs. One may argue that, after all, these are advocacy groups and their primary objective is not to provide objective and carefully balanced analyses, but rather to raise attention to problems and to pressure governments to do something about it, or to raise funds for their own projects.[14]

Analyses from International Organizations

Let us therefore next consider the views of international institutions which are not (expected to be) advocacy groups but which are expected to provide analyses and recommendations to enhance social welfare, such as the FAO, IFPRI, OECD, the IMF and the World Bank. Interestingly, these institutions seem to have adjusted their analyses and policy communications similar to NGOs. Consider the following examples from these organizations. In 2005, <u>FAO</u> writes that:

> *"The long-term downward trend in agricultural commodity prices threatens the food security of hundreds of millions of people in some of the world's poorest developing countries."* [15]

In 2008, the leading officials of FAO declare that :

> *"The number of hungry people increased by about 50 million in 2007 as a result of high food prices"* [16]

> *"Rising food prices are bound to worsen the already unacceptable level of food deprivation suffered by 854 million people. We are facing the risk that the number of hungry will increase by many more millions of people."* [17]

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[14] For economic models of NGOs, see e.g. Aldashev and Verdier (2010), Andreoni and Payne (2001), Chau and Huysentruyt (2006); for an analyses of "what NGOs do", see e.g. Werker and Ahmed (2008). See also further in this paper.

[15] FAO newsroom, *Agriculture commodity prices continue long-term decline*, 15 February 2005, Rome/Geneva. http://www.fao.org/newsroom/EN/news/2005/89721/index.html

[16] FAO Director-General Jacques Diouf, 3 July 2008, European Parliament Conference, Brussels. http://www.fao.org/newsroom/EN/news/2008/1000866/index.html

Let us next compare the following statements from the IFPRI Annual Reports. The first, from the 2002-03 Annual Report (p.22) states that:

> *"The combination of agricultural protectionism and subsidies in industrialized countries has limited agricultural growth in the developing world, increasing poverty and weakening food security in vulnerable countries."*

In contrast, the 2007-08 IFPRI Annual Report (p.5) states that:

> *"In 2007, rapidly rising food prices began to further threaten the food security of poor people around the world. … The current food-price crisis can have long-term, detrimental effects on peoples' health and livelihoods, and can contribute to the further impoverishment of many of the world's poorest people."*

Similarly, before the food crisis, reports from the OECD, the World Bank, and the IMF discussing the effects of trade liberalization for developing countries typically state that liberalization will help the poor by increasing world prices as rich countries cut their agricultural subsidies. This is illustrated by the following quotes from the OECD, the World Bank, and the IMF, respectively:

> "*Many (developed countries) continue to use various forms of export subsidies that drive down world prices and take markets away from farmers in poorer countries. … Much of this support depresses rural incomes in developing countries while benefiting primarily the wealthiest farmers in rich countries."*[18]

> "*The combination of depressed world prices and developing country policies which tax agriculture relative to industry have discouraged farm output and hence lowered rural incomes. Because the majority of the world's poorest households depend on agriculture and related activities for their livelihood, this … is especially alarming."*[19]

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[17] FAO Assistant Director-General Hafez Ghane, May 2008, Rome. http://www.fao.org/newsroom/EN/news/2008/1000845/index.html

[18] OECD, *Cancún and the Doha agenda: The key challenges*, 10-14 September 2003 [Also repeated in the Declaration by the Heads of the IMF, OECD and World Bank, 4 September 2003] http://www.bfsb-bahamas.com/photos/old_images/Declaration.pdf

[19] World Bank, *Agricultural trade liberalization: implication for developing countries*, 1990

"The numbers leave no room for doubt. Industrial country protectionism in the agricultural sector inflicts considerable hardship on the citizens of developing countries."[20]

In contrast, during the food crisis of 2007-2008, these three organizations, like NGOs and the FAO and IFPRI, communicate very different effects of food prices. This is illustrated again by several quotes from the OECD, the World Bank and the IMF, respectively:

"When food prices skyrocket this can quickly pose a threat to the lives of the poorest, particular in developing countries." [21]

"The situation (high food prices) …could set back welcome progress in many developing countries towards growth, development and poverty reduction… poor people, particularly those living in urban areas, are already suffering"[22]

"The increase in food prices represents a major crisis for the world's poor."[23]

"Preliminary estimates suggest that up to 105 million people could become poor due to rising food prices alone."[24]

"Millions of consumers could fall into extreme poverty due to higher food prices, and millions more already under the poverty line are likely to experience a further deterioration in their living standards." [25]

"The rapid increase in food prices has had an adverse impact on poverty, and effectively denied many poor people access to food."[26]

[20] IMF, *Agricultural Trade Reform: The Role of Economic Analysis*, 3-4 November 2004 http://www.imf.org/external/np/speeches/2004/110404.htm

[21] OECD, Ensuring food security for the world's poor: Questions and Answers, 07 May 2009. http://www.oecd.org/document/50/0,3343,en_2649_37401_42666830_1_1_1_1,00.html

[22] Rising food prices and developing countries, Speech by Angel Gurría, OECD Secretary-General, 21 May 2008. http://www.oecd.org/document/11/0,3343,en_2649_33721_40651723_1_1_1_1,00.html

[23] World Bank, *Rising Food Prices in Sub-Saharan Africa: Poverty Impact and Policy Responses*, Policy Research Working Paper 4738, October 2008, p. 1. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/10/01/000158349_20081001111809/Rendered/PDF/WPS4738.pdf

[24] World Bank, *Double Jeopardy: Responding to High Food and Fuel Prices, G8 Hokkaido-Toyako Summit,* July 2008, p. 4. http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21827681~pagePK:64257043~piPK:437376~theSitePK:4607,00.html

[25] World Bank, *Poverty Effects of Higher Food Prices. A Global Perspective*, Policy Research Working Paper 4887, March 2009, p. 23

In summary, (virtually) all the major international organizations that focus on food and agricultural policy issues globally have shifted from emphasizing how low food prices, often argued to have been caused by rich country agricultural policies, cause poverty and food insecurity in developing countries in the pre-2006 period to emphasizing that high food prices cause poverty and food security in the post-2006 period, without mentioning the benefits (in either period).

Out of Context ?

An obvious critique on my arguments here is that I am making false claims by taking statements out of context and that I am just selecting one element of a broader and more complex message and that the full analyses are more complete and nuanced. It is of course true that these quotes are taken out of their context – that's why they are quotes to begin with – and that reading the full documents may provide more nuance.

However, I would still argue that these quotes quite accurately represent the key arguments in the context of the current debate. First, in the vast majority of the cases these quotes summarize quite well the key message of the reports. This argument is particularly important because "key messages" are crucial for these organizations as target audiences (political decision-makers and the general public) have no time to read long reports. Therefore, the organizations spend effort and time in developing "key messages" and their communication strategy is typically focused on such key messages. The rest of the policy document is typically to substantiate, but

[26] IMF Food Security and the Increase in Global Food Prices, Speech by Mark Plant, IMF Deputy Director, Policy Development and Review Department, 19 June 2008. http://www.imf.org/external/np/speeches/2008/061908.htm

not to deviate from the key message[27]. Hence, the quotes as I have listed them here do represent the key arguments made.

Second, even if one reads the full report and one takes on board all the nuances, there remain striking differences in the pre- and post-2006 analyses and conclusions. For example, in very few of the reports published before the recent food price increases is there any mention of the fact that urban consumers in developing countries benefit (and the few that do mention it do not consider it as a major element). Neither is the argument made that many poor rural households are net consumers, and may thus benefit from low food prices.

Yet, the (mirror versions of these) arguments are emphasized very strongly in all the post-2006 reports. All the attention there goes to the losses of these two groups. Paradoxically, at the same time very little attention is paid to benefits for poor farmers in these reports. Both observations are in total contrast with the pre-2006 arguments.

Do Poor Farmers Benefit from High Food Prices ?

A potential justification of this bias in focus and arguments is that poor farmers were hurt by low agricultural prices before 2006 but that consumers did not benefit from low food prices and that during the 2006-2008 period of high prices poor farms did not benefit from high prices but that poor consumers did get hurt.

It is well known that in developing countries there exist a variety of market imperfections and transaction costs which may influence the extent to which consumers and producers are affected by price changes. Some have used such

[27] In fact, any academic researcher who starts working for such organizations is reminded from day one to move complicated analyses and sophisticated messages to the appendix and the footnotes and to focus on bringing out the key messages in simple, easy to understand, sentences. I have extensive personal experiences on this.

arguments to argue, for example, that consumes were strongly negatively affected by the food crisis, while prices for farmers increased very little, if at all.

I find these arguments not convincing as an explanation for the bias in policy messages. First, if farmers in rural areas are not (very much) affected by the high prices, then how can one argue that many poor rural households are negatively affected by the price increases since they are net consumers? If prices do not benefit (net producing) farmers, they should not harm net food consuming households living in the same rural areas.

Second, the problems of imperfect price pass-through between farms and consumers (domestic or international) is of course not new and not restricted to a period of high prices. These problems are due to a combination of institutional, policy, and infrastructural constraints. If they are important – as they are in many regions of developing countries – they should have also have limited the pass-through of low prices to farmers in the pre-2006 period. Continuing along the same logic, as urban consumers would have been more directly affected, this should then have caused more positive aggregate (net) effects of low food prices than generally argued in the pre-2006 period.[28]

Policy Implications (What's the Problem ?)

An explanation of these observations could be that the objective of the organizations is to assist those in need, i.e. those who are negatively affected by shocks. When prices fall (are low) farmers are negatively affected and, therefore, aid and policy focus should be targeted towards them. When prices increase (are high) consumers are negatively affected and they should attract most policy attention and aid. Hence,

[28] Additional arguments are that farmers may not have benefited because their costs (in particular fertilizer and energy) went up by more than the price of their output (food). This is an important point, but to draw conclusions one should take into account the extent to which poor farmers rely on external inputs.

when conditions change, attention will shift from one group to another depending on how they are (relatively) affected, i.e. who is benefiting and losing from the change. If this is indeed the case, instead of worrying about this, one may instead appreciate the change in policy attention and international organizations' re-focus towards those who are in need. Hence: what's the problem ?

The problem is the policy messages that are being communicated and recommended, and the fact that they seem to ignore that there are always winners and losers. In addition, one should expect a good policy framework to be coherent and be relevant and correct both when prices go up and when they go down.

Recommendations to assist developing country consumers, such as cutting export restrictions in food exporting countries, would hurt poor farmers in food importing countries and food consumers in food exporting countries. In fact, export restrictions in food exporting countries with many poor people (such as India and Thailand) have been blamed by international organizations for hurting poor consumers in food importing countries. However they have benefited poor consumers in food exporting countries – and some experts have argued that these governments have indeed made the right policy choice.[29] Similarly, policy recommendations intended to help developing country farmers prior to 2005 -- such as cutting export subsidies from the EU – typically ignored that they would hurt consumers in developing countries.

In summary, even if the objective of NGOs and international organizations is to assist those who are negatively affected by food price changes, this is no excuse for overly simplistic policy analyses and conclusions. Quite the contrary, also then the

[29] See e.g. Timmer (2009).

policy choices are difficult and involve trade-offs, and would benefit from careful analyses and nuanced messages.

Back to the Future or Forward to the Past ?

The Old CAP as a Model for Global Food Security ?[30]

To illustrate the importance of the analyses of NGOs and international organizations for actual policy debates and choices, I refer to some ongoing policy debates. The considerations which I explained above have led me to make some ironically-intented suggestions at several occasions (including once in a World Bank informal expert group discussion and at an FAO expert workshop). I argued that those who do believe that poor farmers in developing countries are not affected by changes in world market prices and that poor country' consumers are affected severely by the high global food prices should maybe recommend the EU (and the US) to turn back their agricultural policy reform efforts of the past 20 years and re-install their old policies. In the EU's case this means turning back their reforms to decouple agricultural subsidies and re-installing the old Common Agricultural Policy (CAP) with high intervention prices, import tariffs and export subsidies. Under this policy system, EU farmers were protected from imports by high tariffs and EU farmers received prices much higher than the world market, stimulating EU agricultural production and surpluses. World market prices were pushed down by the EU import tariffs and by the export of surpluses with export subsidies. My ironical

[30] There is a related but distinct discussion on the role of governments to stabilize markets in volatile food markets. The European Commission is emphasizing the importance of stable CAP payments in a volatile market environment. Timmer (2009) discusses the trade-off in domestic benefits for 3 billlion rice consumers in Asia (as countries such as China, India and Indonesia have isolated their rice economies from the recent turmoil in global markets through trade and domestic policies) versus the resulting increase of market instability for 500 million rice consumers in the rest of the world – in particular to Africa and other poor countries.

claim was that everybody would then presumably be better off: many European farmers would love it since they returned to their high price system; EU taxpayers would no longer have to pay decoupled farm payments; poor country consumers would have low prices again; and poor country farmers would not care since they were unaffected by world market price changes according to this logic. A Pareto improvement if ever there was one … .[31]

After generations of economists have dismissed the old CAP as a highly distortive system – both domestically and internationally -- and have asked for its reform or outright dismissal and after almost twenty years of consecutive EU CAP reforms that have substantially reduced the trade distortions, I presumed the irony was obvious and the implications clear. We need a much more balanced and nuanced set of analyses and policy recommendations of the current situation which recognizes both the costs and benefits of price changes and policy actions.

Yet, the irony is not obvious to everybody apparently. Instead some have embraced the new policy focus and communications for advocating certain policies. For example, inside the EU various groups have actually started using "food security" (including global food security) as an argument to defend the 50 billion euro of subsidies which are each year paid to EU farmers from the EU budget. In fact the main EU farm lobby (COPA-COGECA) and the EU association of land owners (ELO) argue that food security should be a key motivation for continuing the subsidization of EU agriculture in the future.[32]

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[31] To be fully Pareto improving, one should also consider the negative impact on EU consumers. However, in the same ironical logic, since they are supposedly rich (actually many are not) and since price declines are typically assumed to be captured by the big retail chains (actually they are not) this would probably not be considered an issue by those following this logic.

[32] Statement by Mr. Pekkonen, DG of COPA-COGECA, during debate in Brussels on 19 November 2009 (at the launch of the economists CAP reform call) and various ELO reports.

Moreover, recently the United Nations explicitly praised the attractiveness of the old CAP as a model:

> *"While the establishment of the EU Common Agricultural Policy (CAP) in 1962 had 'many negative externalities', … the policy is a good example of how to achieve food security in a given area."*[33]

That the old CAP raised EU food prices, thereby hurting urban consumers in the EU and thus *lowering* food security in the "given area" and that the "negative externalities" have been attacked by all international organizations (literally from "left" to "right", i.e. from Oxfam to the IMF) as being detrimental for poor country farmers -- see all the pre-2006 quotes above as an illustration -- does not seem to be a major concern to those who are making such statements.

The Political Economy of (Food) Policy Analysis and Communication

In this last section I discuss some potential explanations – in addition to the arguments made earlier (in the policy implications section) – for the puzzling observations that I have outlined above.

Scientific Progress (Analysis vs Communication)

Maybe the simplest explanation is that the analyses and arguments in the past were wrong and the recent food crises, in combination with improved economic modeling and better data, has contributed to better analysis and improved insights. There certainly has been significant progress in economic models and data to measure the impact of global price changes and policies on developing country households,[34]. The simulation results of the most recent economic models are more reliable, more

[33] UN special rapporteur on the right to food, Interview with EurActiv on 26 November 2009 (www.euractiv.com)

[34] There are a series of improvements in data and models in this area, including in models run by OECD, FAO, IFPRI, GTAP, the World Bank, etc.

precise and more detailed in their impact assessments. For example, recent studies based on the integration of global trade models and household data come to very nuanced conclusions on the effects of liberalization and price changes. Hertel et al (2007) find that the reduction of export subsidies and domestic support of rich countries, on average, increase poverty in their sample of 15 developing countries because these reforms raise world prices for staple foods, including wheat, maize, dairy and rice. At the same time rich countries' tariff reductions reduce poverty in developing countries because they improve the revenues of farms. The net effect of liberalization in their analysis is a reduction in poverty.[35]

However, the issue is not the outcomes of the models, but instead the communication of their results and the policy messages that have been derived from them. In the same way that benefits for poor consumers from low market prices have not been emphasized in the past,[36] benefits for poor farmers from high prices are not emphasized now. In fact, several organizations published analytical reports with detailed findings and carefully nuanced interpretations and conclusions around the same time when their communication departments released communications on the food price issues which demonstrated the shift in emphasis (bias) which I have documented above.[37] For example, in the light of the careful modelling work and analyses of trade liberalization which, among others, Kym Anderson, Tom Hertel, Will Martin, Alan Winters and their colleagues of the World Bank have done over the

[35] See also the interesting exchange on this issue between Dani Rodrik, Tom Hertel and Will Martin on Dani Rodrik's weblog.

[36] Very few pre-2006 studies emphasize the benefits of low food prices for the poor. Note also that many model runs of trade liberalization in agriculture show that the impact for Africa is negative, precisely because Africa is a net consuming region and is benefiting more from low food prices (as consumer) than it is losing (as producer).

[37] See, for example, Anderson et al (2010), Christiaensen and Demery (2007), Hertel and Winters (2006) and the 2008 World Development Report, all published by the World Bank, Sarris and Morrison (2010) published by FAO and the policy analyses in various OECD reports on the state of agricultural markets and policies over the past decade.

years,[38] consider two major World Bank reports intended for wide distribution, one after/during the food crisis (the 2008 World Development report) and one before the food crisis (the World Bank's 2002 Rural Development Strategy "Reaching the Rural Poor") and what they communicate in their overview and executive summaries on trade policy.

The 2008 World Development Report (Overview, p 10) states that in developing countries "*liberalization of imports of food staples can also be pro-poor because often the largest number of poor, including smallholders, are net buyers. But many poor net sellers (sometimes the largest group of poor) will lose …*" The emphasis is on how low prices benefit the poor. Better than many reports of other organizations, it also explicitly recognizes the losses for households/farms who are net sellers.

Now compare this to the 2003 Rural Development Strategy report (Executive Summary, p xvii): "*A major reason both for the limited growth of agricultural trade and for the inability of developing countries to enlarge their share of this trade is high protection in the large markets of the industrial world. High subsidies and other forms of trade protection impair developing countries' ability to compete in global markets with farmers from the industrial world. They also encourage surpluses that have been sold on world markets, depressing world prices and undermining the potential contribution of agriculture to global prosperity. … It is crucial that the industrial countries liberalize their agricultural markets by removing access for developing countries' products and by phasing out subsidies.*" The argument and emphasis here is very different: there is no mention of a difference between staple foods and other agricultural commodities. The entire message is about how depressed

[38] For surveys and overviews of model improvements and their insights, see e.g. Anderson and Martin, 2007; Anderson et al 2010; Ivanic and Martin, 2008; Hertell et al 2007, 2009; Hertell and Reimer, 2005; Winters et al 2004.

world market prices (and rich country subsidies) hurt developing country farmers. There is no mention whatsoever of the benefits for consumers, or how a reduction in rich country export subsidies would benefit the urban or rural poor net consumers. (And neither is there in the rest of the report.) I would argue that these statements, taken from two major strategic reports of the World Bank, are fully consistent with the argument I make in the paper.

In summary, the problem does not appear to be (lack of) scientific progress or quality of *analysis*, but the interpretation and *communication* of the results of the scientific studies. In fact, some colleagues involved in research in or for these organizations – when confronted with the arguments made in this paper – reacted that they sometimes hardly recognized the relationship between their analytical work and the policy messages sent by the communications departments to the external world and the media. They wondered where, when, and why the policy nuances and careful analytics had been left behind.

Urban Bias and Relative Incomes

For decades the poor situation of African farmers has been caused at least partially by policies which were said to be “urban biased”, i.e. favoring urban interests and at the detriment of rural farmers through (implicit) taxes. This, in fact was one of the main conclusions from the famous Krueger, Schiff and Valdes (1992) study of the World Bank, which contributed to the motivation for structural adjustment programs in the 1990s. These programs have contributed to reduce taxation of developing country farmers, as documented by the recent World Bank study led by Kym Anderson (Anderson, 2009).

The 2007-2008 food crisis has led to a surge in attention to food policy caused by pressure from urban interests.[39] As soon as urban protests reached the streets and the media, international organizations have reacted much like local politicians and paid a disproportionate amount of attention to the problems of urban consumers.

There are a variety of explanations for the urban bias in developing countries. Urban consumers, when hit by a negative relative income shock, such as an increase in food prices, will react politically, e.g. through demonstrations.[40] Since they are concentrated in cities and are easier to mobilize (lower transportation and lower organization and communication costs) than dispersed farmers in distant rural areas, they may receive disproportionate attention and policy favors from policy-makers.[41] It may be that a similar urban bias effect plays a role in drawing reactions and policy attention from international organizations, e.g. through global media markets.

Fundraising and Legitimacy

If one wants to help the poor or stimulate development, funding is needed. NGOs need to invest in fundraising activities in an environment where various NGOs compete for attention and funding of donors (e.g. Andreoni and Payne, 2003; Rose-Ackermann, 1982). In this perspective, the statements listed above could be interpreted as part of a marketing strategy by NGOs.

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[39] See Hendrix et al (2009) and Maas and Matthews (2009) for empirical political economy analyses on the determinants of protests and riots against the food price increases.

[40] This shift in policy attention reflects the relative income effect, which is widely observed to be a determinant of food and trade policy. When prices fall (are low) farmers are negatively affected and aid and policy focus is targeted towards them. When prices increase (are high) consumers are negatively affected and they attract most policy attention and focus. Hence, when conditions change, attention will shift from one group to another depending on how they are (relatively) affected, i.e. who is benefiting and losing from the change. The relative income effect in agricultural and food policy was emphasized by, for example, de Gorter and Tsur (1991), Swinnen and de Gorter (1993) and Swinnen (1994).

[41] The organization cost argument was made first by Olson (1965) and has been applied to agricultural and food policy by, for example, Anderson and Hayami (1986) and Gardner (1987).

While academic studies analyzing this have focus on NGOs, the general argument to focus on the costs and ignore the benefits of price changes as a marketing strategy may apply more widely.[42] All international organizations -- be it NGOs or IFPRI, the World Bank, FAO – use to some extent funds from public or private donors to operate and implement their projects – or subgroups within these organizations have to compete internally for funding. While their funding sources may differ, in a world where financial means are limited and where there is continuous pressure to demonstrate relevance and importance of budget spending on particular items, projects or divisions within large organizations, all these organizations face a demand to demonstrate the importance of their work. Focusing their reports and analyses on those hurt by price changes may fit in such strategy to show relevance and importance – and may thus help in securing and raising funds.

A closely related argument is that, with mass media reports focusing on those hurt by changing food prices – in particular consumers post 2006 – the donor community, the organizations' shareholders, and the public at large may expect (or even demand) that these organizations focus their attention on those who are suffering from price changes. If they would not publicly react to the reported problems, then it would hurt their legitimacy as development organizations. This could undermine overall support for their existence.

For some organizations discussed here, the objective is directly linked with addressing negative welfare consequences. Others, however, should be expected to focus more on the overall (aggregate) welfare effects. Hence for the first group of

[42] Most academic research on the behaviour of international organizations has focused on their lending strategies and much less on their communication or fundraising strategies (see e.g. Aldenhoff (2007); Dreher, Sturm and Vreeland (2009), Vaubel et al. (2007)).

organizations, the incentive to bias their message may be stronger, both for fundraising purposes and for their legitimacy.

Mass Media and Policy Communication

The arguments above already point at the important role of the media in inducing organizations to act, either in order to preserve their legitimacy, to raise funds, or as a consequence of pressure from the public at large or their stakeholders.

There are two important, but distinct, mechanisms at work in the interaction between these organizations and the mass media.[43] The first mechanism is the impact of stories that appear in the mass media on the actions (analysis and policy focus) of the organizations. The second mechanism is the desire of the organizations to appear in mass media in order to achieve their objectives.[44]

Several characteristics of mass media are relevant to explain these mechanisms (McCluskey and Swinnen, 2010). First, the agenda setting effect of the media in international and aid policy, has sometimes been referred to as the "CNN factor" (Hawkins, 2002). It refers to the process by which the media influences policy by invoking responses in their audiences through concentrated and emotionally based coverage, which in turn applies pressure to governments to react. Similarly, the absence of media coverage reduces priority in agenda-setting (Jakobson, 2000). In this logic, public officials react to media news because they see it as a reflection of

[43] A rapidly growing literature documents other effects of mass media on development such as its effect on political accountability (e.g. Besley and Burgess (2001), Djankov et al (2003)) and its impact on reducing corruption in public policy (Francken et al (2008), Reinikka and Svensson (2005)).

[44] The latter is analyzed in detail by Cottle and Nolan (2007) who conclude that *"aid agencies have become increasingly embroiled in the practices and predilections of the global media and can find their organizational integrity impugned and communication aims compromised. These developments imperil the very ethics and project of global humanitarianism that aid agencies historically have done so much to promote."(p862).*

public opinion (Kim, 2005).[45]

Several studies have analyzed the impact of media coverage of poverty, humanitarian crises, and natural disasters on humanitarian and foreign aid flows. Van Belle, Rioux and Potter (2004) and Kim (2005) find that a higher level of media attention to developing countries problems leads to more aid in several developed countries. Eisensee and Stromberg (2007) argue that disaster relief decisions and aid allocations are driven by media coverage of disasters but that other newsworthy events may crowd out this news coverage.

Second, media attention is typically concentrated around "events" or "shocks" (Swinnen and Francken, 2006).[46] Hence, sudden changes with dramatic effects, such as the 2008 food crisis, not only present important challenges to the international organizations in addressing these, but also important opportunities for development organizations to capture media attention and signal their relevance and importance to their donors and the public.

A third factor is that the public at large will be more interested in media reports concentrating on negative (development) effects. This follows from the so-called "bad news hypothesis". Media consumers in general tend to be more interested in negative news items than in positive news items, ceteris paribus. This demand effect of the media market drives mass media to pay more attention to "bad news" (McCluskey and Swinnen 2004).

In combination, these factors create a set of incentives for international organizations to emphasize the negative welfare implications in their analysis and

[45] Some have questioned the importance of these effects (Natsios, 1996) and argue that the media is more likely to follow politics than lead it (Strobel, 1996). A more nuanced argument is forwarded by Robinson (2001) who explains that the media can be a powerful source in leading policy makers but primarily when there is great uncertainty or limited information.

[46] For example, Swinnen and Francken (2006) find that virtually all the attention to globalization, trade and development issues in mass media is concentrated around 'international summits'.

policy communications, and to de-emphasize the positive effects around the food crisis in 2007-2008. In doing so, they were more likely to attract media coverage on their work and, in turn, more likely to reach a wide audience and to influence policy-makers. Such a media strategy could have a direct effect in influencing public and private donations and policies of governments in the short run and an indirect effect in encouraging appreciation and legitimacy for their work and the organizations themselves – which could lead to support in the long run.

Some Concluding Comments

As discussed above, there are several reasons/motivations which may explain why policy messages of NGOs and international organizations may be biased by emphasizing the negative welfare effects changes and ignoring positive welfare effects.

Policy Bias

The main question, of course, is to what extent this bias in focus and communication of effects is affecting policy-making, and ultimately welfare and development. The answer to this question is difficult since it depends on various assumptions regarding (a) the processing of these sets of information by voters, policy-makers and the organizations themselves, (b) the type of welfare function one has in mind, and (c) the political economy of policy decisions –at various levels. That said, it is likely that (ultimately) a bias in the analysis and the policy messages does influence policy-making, and, thus welfare and development.

Land Grabbing and Headline Grabbing

Finally, the issues discussed here are relevant beyond the food price debate.[47] The analysis and policy communication on issues such as the effects of biotechnology, foreign investment in developing countries, including the so-called "land grabbing" debate, the supermarket revolution etc have been influenced by similar mechanisms.

Another example is the recent debate on foreign investment in land in Africa has been captured by the term "land grabbing" – a concept which in itself emphasizes the potentially negative implications. This is somewhat remarkable given the empirical evidence on the huge benefits that farmers in other parts of the world have gained from foreign investments in the food system. In fact, I and several colleagues have argued at several occasions that foreign investment in the agri-food system has been a crucial factor behind the post-1995 growth in agricultural productivity and performance in Eastern Europe, with major positive spillovers for small and large farms (Dries and Swinnen, 2004; Gow and Swinnen, 1998; Swinnen, 2002), as it appears to be at least in some places in Africa (Maertens et al 2009).

However, from a media strategy and communications perspective, coining the process by the term "land grabbing" has been a remarkable success as the term is now widely used to describe the process and its risks.[48] The potential problem of course is

[47] The food crisis itself also affected the communication on other policy issues. For example, for most of the 1980s and 1990s, biofuels and biochemicals were seen as a potential source for enhancing farm incomes. As an alternative outlet for agricultural commodities, they were seen as potentially providing an opportunity to stop the long-run downward trend in prices for farmers. This perspective has changed totally with the recent food crisis to the extent that biofuels have been called "a crime against humanity" by a UN special rapporteur on food in 2007.

[48] Some examples of reports by international organizations and media which have picked up the concept:

- Cotula L., Vermeulen S., Leonard R. and Keeley J., 2009. "Land grab or development opportunity? Agricultural investment and international land deals in Africa", FAO, IIED and IFAD.
- Von Braun J. and Meinzen-Dick, R., 2009. "Land Grabbing" by Foreign Investors in Developing Countries: Risks and Opportunities, IFPRI Policy Brief 13, April 2009
- FAO, 2009. "From Land Grab to Win-Win", FAO Economic and Social Perspectives, Policy Brief 4, June 2009 ftp://ftp.fao.org/docrep/fao/011/ak357e/ak357e00.pdf

that with such a negative connotation it has become much more difficult to communicate an unbiased evaluation of the benefits and costs, the pros and cons, of foreign investment in land in Africa. If evidence would show that such investment would be beneficial for the local population, it is now certainly more difficult to overcome opposition to "land grabbing".

Similarly, the focus on one side of the effects in the food policy debate both before and after the recent food crisis is likely to have a cost in terms of policy-making and thus in terms of welfare and poverty reduction.

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