



## Information to guide policy responses to higher global food prices: The data and analyses required

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### ABSTRACT

National decision makers must understand the degree to which their country and population groups within it are exposed to the negative effects of higher global food prices or could exploit new economic opportunities offered by higher prices. This paper provides a conceptual overview of the range of data and analyses that will permit leaders and analysts serving them to assess the broad implications of higher global food prices for a country and its population groups. What we find is that there are a relatively small number of types of policy responses that governments might take in the face of a food price rise. Consequently, relatively well-defined sets of data need to be compiled and types of analyses used by government to generate the information needed to broadly guide efforts to prevent food price increases from becoming crises and to derive any possible benefits. International joint action can be employed profitably both to collect this data and to build national capacity to conduct the analyses needed to guide policy formulation and general program design in the face of the risks and the opportunities of higher food prices and to evaluate the effectiveness of those policy responses.

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### Introduction

Strong upward trends in global food prices in 2007–2008, in late-2010, and again in mid-2012 have led to concern that hunger and poverty will increase across the world as the access of the poor to affordable food is reduced. At the same time, higher food prices provide an incentive and opportunity for many developing countries to strengthen the contribution their farmers make to national economic growth and poverty reduction. Although a coordinated response at international and regional levels is needed to help mitigate the adverse effects of higher global food prices, national governments in particular face the challenge of responding to their citizen's immediate food and nutritional needs, while stimulating the agricultural sector to increase food supply. The adequacy of any global response to significant increases in global food prices depends to a large degree on the policy- and program-related reactions of national-level policymakers around the world.

Policymakers in developing countries often do not, however, have sufficient information to gauge the likely effects of the higher global food prices on their country and to implement appropriate policy actions. For example, the imposition of domestic food price controls as a reaction to higher food costs can be expected to limit farmers' incentives to increase the production of food crops in subsequent cropping seasons. It is clear that many national leaders require better information to assess the impact of higher food prices on their country, on its economy, and, in particular, any adverse effects on vulnerable population groups, as well as to design and implement national policies and programs to address the risks and opportunities these higher prices present.

This paper provides an overview of the data and analytical tools national leaders require to assess the impact of higher global food prices and to design and implement policy responses. Since the implications of high food prices differ widely across countries and across groups within each country, policy responses must be adapted to country-specific needs and conditions. However, as described in this paper, relatively consistent sets of data and analytical tools are required to guide broad policymaking in countries affected by higher global food prices.

The next section provides an overview of how higher global food prices affect national economies, the welfare of households, and the well-being of individuals within those households. We then turn to consider in more detail the specific effects of higher food prices and the factors that condition or determine the degree

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to which these effects operate. The types of broad policy responses to higher food prices that governments might implement and the strengths and weaknesses of specific policy actions are described in the fourth section. The final substantive section of the paper then considers the information needed to assess and respond to the impact of higher global food prices in a country and the data and analyses required to generate that information. We end the paper with brief concluding remarks to highlight that international efforts can be usefully undertaken to assist governments in effectively responding to the adverse effects brought about by higher global food prices, as well as to exploit any economic opportunities associated with the increased prices.

### Conceptual framework for understanding the impact of higher global food prices

Fig. 1 provides a framework for understanding the context of the policy issue addressed by this paper. The key elements in tracing the effects of higher global food prices at the national level and below are presented in the top half of the figure, and the pathways for policy analysis and policy action are diagrammed in the lower half. This figure is necessarily simplified; several of the elements are described in further detail later.

The process starts at upper left with the interaction of factors governing global demand for and supply of food. The factors most commonly highlighted as contributing to increases in global food prices in recent years include increased costs of food production, processing, and marketing due to higher energy costs; the use of food crops for biofuel production; growing meat consumption that stimulates increased demand for animal feed; poor harvests in certain major agricultural regions, due primarily to adverse weather conditions; consistent underinvestment in agriculture over past decades; disincentives to agricultural production and trade stemming from protectionist or distortionary trade policies; and speculative behavior by both governments and commercial agents (see Abbott et al., 2008, 2009; FAO, 2008; von Braun et al., 2008). The weights of these factors at global level have differed and changed over time, but the product of their interactions has been episodes of sharply higher food prices.

Higher global food prices have effects at a range of scales—national, household, and individual—and across a range of sectors of any national economy. The impact of higher global prices on each country and its citizens depends, however, on local conditioning factors. For example, the degree to which global price changes are transmitted to the national economy depends on a country's structure of imports and exports, transportation costs, and trade policy. Similarly, the degree to which higher local food prices affect household welfare depends on the importance of net food purchases relative to the size of the household budget. Note, however, the double-ended arrow running between effects and conditioning factors in Fig. 1 – the effects of the high food prices will alter the conditioning factors to some degree. For example, high food prices may result in fiscal deficits (effect), which in turn limit investment in infrastructure (conditioning factor).

Feedback effects are the final element in tracing the effects of a global rise in food prices at the national level and below. These feedback effects are shown in the diagram by the looped arrow and the reverse arrow running from the effects to the factors governing global demand for and supply of food. The initial effects of rising global prices will themselves lead to a cascade of second-round effects that may reinforce or mitigate the initial effects, whether at the level of the national economy or the individual household and its welfare. Although these feedback effects are strongest within a country, as shown by the looped arrow, the impact of some of them will contribute to further changes in global food prices, particularly through the regional and international impact of a country's trade and agricultural policies.

The pathways for policy analysis and policy action in response to higher global food prices are diagrammed in the lower half of Fig. 1. For a national government to design and implement effective policy in response to higher global food prices, its leaders and policy analysts must understand the degree to which the country and population groups within it are exposed to risks or opportunities presented by the higher prices. This understanding requires information on the characteristics—the conditioning factors—of the country and vulnerable population groups within it that determine how they are likely to be affected, information on global demand for and supply of food, and information on the national effects of higher global food prices, both initially and in second-round feedback processes.

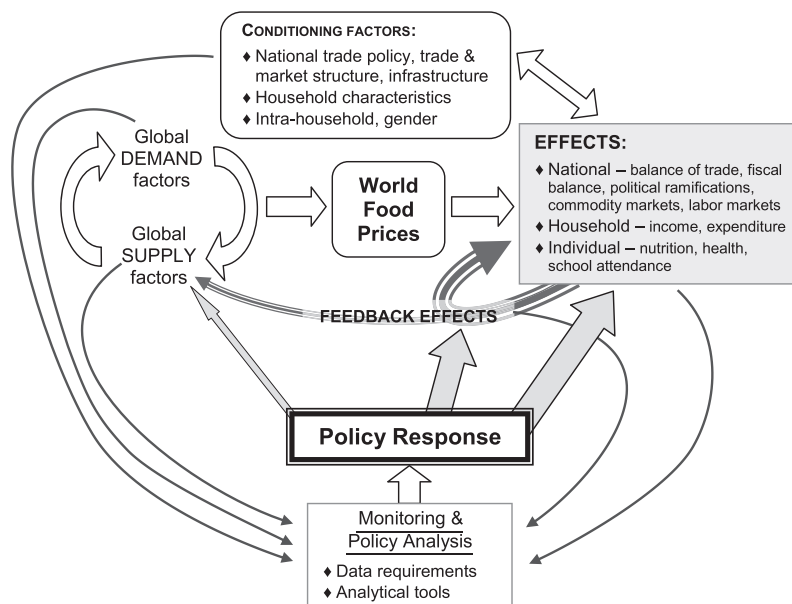


Fig. 1. Linking policy and policy analysis in addressing the effects of higher global food prices at national level and below – a conceptual framework.

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