

Managing food price risks and instability in a liberalizing market environment: Overview and policy options

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Abstract

Managing food price risks and instability is a major challenge in the midst of ongoing food market reforms. Key findings from the papers in this special volume revolve around five broad areas: (i) the sources and magnitudes of food price instability in different country contexts; (ii) the economic and social costs stemming from price instability; (iii) the lessons from food market reforms to date; (iv) the design of policy reforms in ways that promote efficient and stable market development and protect the interests of the poor; and (v) potential policy responses to food price instability in a liberalizing market environment.

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Introduction

Food price risks and instability are perennial issues that have dogged food policy debates for decades, especially in low-income countries. Recently, these issues have taken on new urgency in the midst of ongoing food market reforms. Some countries appear

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reluctant to liberalize food markets because of fears about the impacts on food price instability, or out of the conviction that food prices have become more unstable in countries that have already liberalized. Other countries have initiated market reform programs but later reversed them. Concerns over food price instability and its social and political costs have arguably been the Achilles heel of many food market reform programs.

The papers in this special issue were motivated by the need to revisit the problem of food price instability and risk in low-income countries, and to investigate the effectiveness of alternative policy responses in a liberalizing market environment.² Each of the papers was presented at an international workshop of academics and practitioners where they were discussed and evaluated.³ They represent a diversity of views on how food price instability should be managed. However, the objective in this overview paper is to synthesize the contributions and highlight key policy paths for moving forward.

The workshop was designed to address five key questions:

1. What do we know about the sources and magnitudes of food price fluctuations?
2. What do we know about the magnitudes (actual and potential) of the economic and social costs stemming from food price fluctuations?
3. What is the status of food market reforms, and what can be learned from the experience to date?
4. How can countries sequence reforms in ways that promote efficient and stable market development, and protect the interests of the poor?
5. What are appropriate policy responses to food price risk and instability in a liberalizing market environment?

The papers in this special issue address selected aspects of these five questions, and this synthesis paper provides an overview of the main take-home messages that emerged from the exercise.⁴

The problem and its magnitude

Country context matters

The importance and consequences of food price risk and instability differ by country context. Countries where food consumption is dominated by one major staple—for example, rice in much of Asia and in Madagascar, wheat in Pakistan and the Middle East/North Africa, white maize in Eastern and Southern Africa, and millet/sorghum in the Sahelian countries of West Africa—are where the poor are most exposed. These countries can be further classified according to their exposure to world food price shocks (i.e. the extent of integration with world markets), and their exposure to shocks from domestic production variability.

² Food price *instability* refers to *any* abrupt change in price, irrespective of whether it is predictable. Food price *risk* is associated only with the unpredictable shocks. Both instability and risks may have costs that vary according to context (see World Bank, 2006).

³ The workshop was held in Washington DC, USA, 28th February and 1st March, 2005. The complete set of papers as well as a more detailed synthesis report is available at http://www.passlivelihoods.org.uk/default.asp?project_id=240&nc=4921.

⁴ A comprehensive synthesis is provided in World Bank (2006).

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