

# The Proposition's opening statement

Jul 29th 2008 | HOMI KHARAS

## **The media sensationalises the impact of high food prices with images of hunger and civil unrest in far-flung places like Port-Au-Prince and Cairo.**

But these images miss the point. The world needs more food and less poverty. In a market economy, higher prices provide the incentive to produce more.

Ever since Malthus there have been worries that exponential growth in global population will outstrip global food supplies. But Malthus was wrong. Only a small part of today's demand for food is due to population growth, despite the fact that 90m people are being added to our planet every year. The bigger impact is felt from the rapid income growth in our \$60-trillion global economy. Much of this growth today is in poor but populous countries, like China and India. As they become richer, they eat more food. A "chicken in every pot" is a realistic dream for billions of the world's new middle class.

To produce this chicken demands an ever-increasing stream of feed-grains. The three drivers of demand for food—population growth, income growth and the shifting pattern of consumption towards meat—suggest that food output might need to be doubled in the next 30 years. This is the demand story.

For many years, food supply has kept up with and surpassed demand. Modern agricultural technology, based on cheap fossil fuels, delivered productivity gains. But for the last ten years, supply growth has faltered, and with high energy costs it cannot be put back on track. This was disguised for a time by running down mountains of grain stored in silos in the bread baskets of the world. But now it is clear that limits to agricultural expansion at the low prices of 2000/01 are being reached. The reality is that less than one-half of the world's land area is suitable for agriculture and in net terms, the irrigated land area is falling. Soil erosion, salinisation, acidification and nutrient depletion contribute to declining land quality. Biofuel crops are taking away arable land from food. The world's grain silos are emptying.

The good news is that higher food prices are exactly what is required to restore balance in the market. With rising demand and constrained supply the iron law of economics permits no other response. In a market economy, when demand exceeds supply, prices rise. Higher prices discourage consumption, but they also encourage more investment and enhance production.

Anyone who doubts the link between food prices and agricultural investment should take a close look at the stock price of the world's largest producer of agricultural equipment, John Deere. While most US shares have taken a beating, John Deere's share price has doubled and has split two-for-one in the last two years. High food prices are encouraging farmers to invest heavily in new equipment. This pattern is being repeated across the world, with investments in equipment, storage and land improvements.

More food is already being produced in response to higher prices: forecasts for cereals production in 2008 by the Food and Agriculture Organisation show a significant increase. This should come as no surprise. When prices fell steeply between 1997 and 2002, cereal production declined. Now that prices have risen back to the levels of the mid-1990s, cereal production has resumed its upward trend. Productivity is on the rise.

More profits for farmers does not mean a benefit to humanity. Some have argued that rising food prices hurt the poorest of the poor. The World Bank suggested that today's higher food prices could push 100m more people into poverty.

Unfortunately, the World Bank's flash estimate, which was based on an extrapolation from a nine-country study, has not stood up to scrutiny. The reality is that the impact of high food prices depends on each household's income and consumption patterns. Beyond this, the impact also depends on what happens to labour, land and credit markets. As a further complication, domestic agricultural prices in most countries do not mirror world prices but also reflect government tax and subsidy policies. All these factors have to be taken into account to understand the impact of high food prices on household welfare.

The Asian Development Bank (ADB) has just completed a study including the three countries with the largest rural populations in the world: India, China and Indonesia.

Consider India, which has a long history of subsidising agricultural input and output prices. According to the ADB, this has led to a system which is "unproductive, financially unsustainable, and environmentally destructive; ... (it) also accentuates inequality among rural Indian states." Higher world food prices might be just the push needed by India, along with many other countries, to persuade it to reform its agricultural pricing system and provide new opportunities for its desperate farmers.

The ADB report also analyses China in some detail. It concludes that rural households in China should enjoy a significant reduction in the incidence of poverty as a result of high food prices. Although some urban households will be made worse off, these are the same households which have seen steady growth in wages in the last few years and have a middle-class living standard. In fact, a short while ago many analysts claimed that the greatest risk to China's development was the growing gap between income levels in urban and rural areas. With today's food prices, that problem has receded.

The outcome in Indonesia appears to be more mixed. Urban low-income and landless labourers would become poorer, while small and medium farmers would be better off. Indonesia has large numbers in both these groups, so many people would be affected. On

average, the ADB simulations suggest that there would be about the same number of winners and losers, so average national poverty would remain unchanged.

It is surely true that high food prices will cause hardship to many. The suffering of those in Cairo, Haiti and much of Africa is real. The spectre of hunger is ugly. That cannot be denied and should not be forgotten. Nor should we leap to the conclusion that food prices at today's levels are here to stay. But for the majority of the world's poor, to be found among the 1.7 billion rural residents of India, China and Indonesia, the dream of a "chicken in every pot" is becoming more attainable because world food supply is rising again. That is the upside for humanity from today's high food prices.

## The Opposition's opening statement

Jul 29th 2008 | JOACHIM VON BRAUN

**Rising food prices are not always bad or bad for everyone. Modest increases in food and agricultural prices above past trends can help generate investment and foster productivity.**

But that is not the situation with which the world is confronted in 2008. Food prices have increased drastically: the Food and Agriculture Organisation of the United Nations (FAO) food-price index rose by 50 percent between May 2007 and May 2008, and price rises have been much higher for certain foods and areas. Some countries, communities and households may experience an upside from the recent surge in food prices—indeed, large-scale farmers who produce grains and oilseeds are all smiles these days—but many more will lose.

Ideally, of course, high food prices would be self-correcting—more production by farmers and a bit of belt-tightening by consumers would lead prices to an equilibrium that both farmers and consumers could live with. Also, some do hope that the price crisis would now trigger positive change in the prevailing protectionist and distortive agricultural policies. In reality, however, **market failures and new misguided policies** are likely to keep food prices high and volatile for years to come: countries that produce grain surpluses have increasingly restricted—and even banned—exports; many countries have shut down promising market innovations, such as futures markets in commodity exchanges, yet excessive speculation has set in anyway; public and private investment in agriculture is being mobilised only slowly. Farmers are facing increasing costs of production. The burden of adjusting to higher food prices is falling heaviest on the bottom billion, who could not afford a healthy diet even before the price crisis.

The most disturbing consequence of high food prices is an **increase in hunger and malnutrition**. Not only are poor people in developing countries mostly net food buyers, but they spend 50-70 percent of their budgets on food. As they see the price of staple foods like rice double over a couple of months, their options for “coping” consist of reducing or skipping meals and shifting to even less-nutritious diets. When children and pregnant women reduce or skip meals, even temporarily, the consequences for their health and nutrition can be lifelong and irreversible. Research shows that malnutrition among preschool children directly affects their ability to learn once they reach school, and their ability to earn income as adults. Rising food prices also put severe pressure on food aid. As food prices rise, food aid falls in terms of both rations and the number of people reached.

Rising food prices pose **threats to the livelihoods** of the poor by eroding their already limited purchasing power. As poor households spend more on food, they spend less on other goods and services essential to their health and welfare, such as clean water, sanitation, education and health care. The actual impact of rising food prices on poor people’s livelihoods depends on their access to social protection, but in many developing countries social protection is non-existent or extremely limited. As a result, many households in distress are forced to take actions that will make them even more vulnerable in the future, like selling their productive assets and withdrawing children, especially girls, from school.

At first glance, one might assume that the world’s about 400 million small farmers are among the winners from rising food prices. In fact, however, **most small farmers in developing countries are actually net buyers of food**, so they feel the pinch from rising food prices. Even many farmers who are net food sellers during and after harvest time must buy food for the rest of the year. Theoretically, high food prices increase profits from farmers’ products, but most small farmers in developing countries will miss out on this opportunity because they cannot achieve sufficient economies of scale or they lack access to efficient markets. Even for farmers who can boost production, higher profits are far from guaranteed. With rising energy prices, farmers are paying much more for fertilisers, high-yielding seeds, livestock feed and transport.

**Biofuel production** from grains and oilseeds is a major contributor to high food prices and likely to remain so. Increased demand for biofuels—stemming from overly ambitious mandates and large subsidies in industrialised countries—accounts for at least 30 percent of the total increase in the real world price of cereals up to 2007 and probably even more in 2008.

What started as a hike in food and energy prices has turned into general inflation and severe **strains on the economy as a whole**. Most affected are net food-importing countries, the majority of which have low incomes. Even food-exporting countries have “imported” food price inflation. Now central banks try to address the inflation trends with general interest rate and monetary policies which, however, do not help address the root causes of food-price inflation, which was a key driver of general inflation in many countries in the first place.

The surge in food prices is also a trigger for **social and political unrest**. As prices increase, the poor usually suffer silently for a while, while the middle class typically has the ability to organise, protest, and lobby. Since 2007, social unrest related to high food prices has occurred in more than 50 countries, with some experiencing multiple occurrences and a high degree of violence.

Under current conditions, **the effects of high food prices on humanity are largely negative**. Now fundamental changes in trade policies, in biofuel policies, increased investment in agriculture, more agricultural science and technology, sound social protection and nutrition action, and improved governance of the food system at national and global levels are needed to allow people and countries to cope with and grow out of the food-price crisis. So far these needed actions have not been forthcoming at sufficient scale.

## The Moderator's opening statement

Jul 29th 2008 | JOHN PARKER

**Many public debates consist of people talking past each other. Both of our protagonists in the food debate, however, start in the same place: that whether the rise in food prices is good or bad depends in part on other things.**

As Joachim von Braun says for the opposition, “Rising food prices are not always bad, or bad for everyone.” It depends, as Homi Kharas says for the proposition: “The impact of high food prices depends on each household’s income and consumption patterns. Beyond this, the impact also depends on what happens to labour, land and credit markets.” In other words, the rise in food prices is not necessarily good or bad in itself.

But having agreed on that point, our protagonists stake out their differences. For Mr von Braun, it is the speed, rather than the fact of the price increase that matters. Prices have risen so quickly—the food index of the Food and Agriculture Organisation (FAO) rose by 50% in the year to May 2008, he says—that people have not been able to adjust. Or rather, “adjustment” has taken the form of the poor eating less and going hungry. Higher food prices have hurt the poor, encouraged social unrest and created a great deal of wider economic uncertainty, as countries import inflation.

For Mr Kharas, it is the fact of the increase that matters more. This is because he focuses on feeding people tomorrow, rather than today. He argues that the big challenge for the world over the next decades will be to feed the extra 90m people who are added to the global population each year; that this cannot be done using current farm productivity, based on the food prices that have prevailed for the past ten years or so and that therefore the world needs higher food prices to drive up investment and boost agricultural productivity.

The two men also disagree about how much, or how quickly, higher prices will feed through to improved productivity. Mr Kharas argues the benefits are already visible: the FAO's forecast for this year's world cereals harvest, he says, shows a significant rise. He points out that share prices in farm-machinery companies such as John Deere are soaring, a sure sign of rising agricultural investment.

Mr von Braun replies that cack-handed government policies and various sorts of market failure are harming the smooth self-correction of food markets and he argues that these distortions may be getting worse because of higher prices. Large food-exporting countries have been imposing export bans to keep food at home, for example.

Both men end by defining their conclusions as matters of balance and judgment, not principle. "Under current conditions," says Mr von Braun, "the effects of high food prices are largely negative," implying that if conditions were to change, the impact might be different too. And he enumerates some of the changes he thinks would be desirable.

"The spectre of hunger is ugly," says Mr Kharas. "Nor should we leap to the conclusion that food prices at today's levels are here to stay." The implication is that there are many losers and even the gains he sees might not be sustained.

Such fair-mindedness is important in any debate, but the more so when both sides could define the terms of debate to their own advantage. The very phrase "food crisis" may predispose participants against a proposition that there is an upside to rising prices. On the other hand, it's an ill wind that blows absolutely nobody any good; there is always some sort of upside. The question for the audience is how big, and whether it is big enough to be meaningful.

# The Proposition's rebuttal statement

Aug 1st 2008 | HOMI KHARAS

High food prices are the result of supply being unable to keep up with demand, given today's costly technology.

They are an easy scapegoat but are not responsible for hunger and malnutrition in the developing world.

Government interventions and distortions in food markets have been with us for decades. So have the problems of hunger and malnutrition in the developing world. During a 30-year period of declining food prices from 1973 to 2002, these problems got worse, not better, in many countries.

The prolonged period of low food prices did very little to reduce poverty and hunger, especially in Africa where it is most intransigent. According to the United Nations, more than 20% of children under five were severely or moderately underweight (the UN's indicator of hunger) in 2000-04 in most of sub-Saharan Africa and in several countries in Asia. There has been very little progress in Africa over the last decade.

Low international food prices were partly to blame. By the mid-1990s, rice production in Africa was being outstripped by population growth. Africa had to use scarce foreign exchange to import rice and household food consumption did not grow. African conditions were not suitable for high-yielding Asian hybrids and African high-yielding varieties were not developed and distributed. African food production per head has declined by 12% since 1980.

Falling production is the inevitable response when private producers are faced with falling prices. But governments also responded by cutting their investments in agriculture. As real food prices fell from 1975 onwards, the growth rate of public investment in agriculture fell in every region in the world. The fall in developed countries was most dramatic: from 1991 to 2000 real growth was negative. In Africa in the 1990s, it averaged just 1% per year. USAID support for agricultural science in Africa has been cut by 75% over the last two decades.

In an assessment of declining African food production, Joachim von Braun's own organisation, the International Food Policy Research Institute, singles out "poor infrastructure, high transport costs, limited investment in agriculture, and pricing and marketing policies that penalized farmers". That is code for saying that prices were too low. Low food prices meant that rates of return on proposed projects in roads, irrigation and marketing infrastructure were too low to justify investment. Africa's poor farmers simply could not compete when international food was so cheap.

At today's higher food prices, which correspond to the same real level as in the 1960s and 1970s, many new opportunities present themselves. The Gates and Rockefeller Foundations created an Alliance for a Green Revolution in Africa in 2006, with significant funding to improve seeds and soil. They are trying to replicate the successful Green Revolution which helped large parts of Asia defeat hunger in the 1970s. Writing about that success, Norman Borlaug, Nobel Laureate and the father of the Green Revolution, credits the Indian government's decision to drop price controls on food to restore market incentives to a point where farmers would rapidly introduce the new varieties. It was high food prices in the 1960s and 1970s that helped initiate and sustain the Green Revolution and there is every reason to suppose that high food prices today can serve as a prologue for a similar revolution in Africa in the years to come.

While some of the recent increase in food prices can be traced to policies like the promotion of biofuels, most of the increase is due to higher input costs and the need for more supply. My opponent notes that with rising energy prices, farmers are paying much more for fertilisers, high-yielding seeds, livestock feed and transport. He is absolutely correct, but does not take his argument to its logical conclusion. In any business, when input prices go up substantially, output prices must also rise or bankruptcy results. If we accept this argument, as I believe we must, then it is inevitable that higher food prices must accompany higher energy prices. Surely no one suggests that we should return to a world with oil prices at \$20 per barrel, with the destructive effects that these have had on our environment, yet that is the only logic for those vainly wishing for a return to the low food prices of 2001.

Mr von Braun claims that because most small farmers in the developing world are net buyers of food they will lose from higher prices. That is a static argument. It does not incorporate the supply response that would surely follow. It is also a general statement that tries to aggregate together farmers facing very different market situations. I have already cited some academic studies that model the supply response in specific country circumstances and find that in several large countries the positive supply response on incomes dominates the negative impact on consumption of higher food bills. Here is another example of academic research supporting this viewpoint. The Carnegie Endowment for International Peace released a study this year on the impact of a 50% rise in world rice prices on India. It concludes that India's rural population of 700m would benefit from this increase. The relative income of the poorest rural households would rise by 4.5%, while the most marginalised groups, like scheduled tribes, would have a 6.4% increase in real income.

Mr von Braun deplores the change in the status quo that higher food prices represent. The real point is that the status quo of low food prices was itself the problem. The World Bank president, Robert Zoellick, called the hunger and malnutrition goal the "forgotten MDG", a silent tsunami that threatened humanity. Now the alarm has been rung and misguided agricultural policies are being rectified. As Paul Romer, one of the leading economists of our generation has said on another occasion, "A crisis is a terrible thing to waste". There is every hope that changes in trade policy, investment in agriculture and more agricultural science and technology—all of which are called for by Mr von Braun—

will result from high food prices. The World Bank has already announced \$350m more in agricultural support for Africa next year. As we would expect, none of this happened when food prices were low.

## **The Opposition's rebuttal statement**

Aug 1st 2008 | JOACHIM VON BRAUN

**Homi Kharas and I are in general agreement on the power of incentives over production. Where we differ is in our assessment of the effects of high and fast-changing food prices on humanity.**

My opponent argues that the world needs more food and that higher prices will give food producers the push they need to raise their output. These statements are correct as far as they go, but they fail to recognise the dual effects of price changes: high prices provide an incentive not only to increase production, but also to cut consumption. Here is where high food prices become a food crisis: they give poor, malnourished people an ironclad incentive to eat less and starve more. The new middle class can deal with the high prices, the bottom billion of poor cannot. They spend about 50-70% of their income on basic foods.

Mr Kharas argues that higher food prices will restore balance in the market. Even at high prices, however, the market is by definition in balance. Market balance in itself, therefore, has little economic value. When the market is in balance at excessively high prices, however, it throws the consumption and diets of the poor out of balance. Furthermore, the short-term instability that now characterises food prices leads to the misallocation of resources by making investors nervous about long-term investment. Raising agricultural production sustainably requires an environment that gives farmers incentives for sound long-run investment strategies.

Does the strong market performance of the agricultural equipment manufacturer John Deere reflect worldwide jumps in investments by farmers, as Mr Kharas writes? Not quite—reality looks very different in Ethiopia than it does in Iowa. Granted, when rich farmers do well, they buy tractors and combines; liquidity is mainly driving those investments. But few poor farmers in sub-Saharan Africa and Asia are lining up at the John Deere dealership. Millions of poor African and Asian farmers are net buyers of food, and to survive in the face of high food prices, they are selling assets—their livestock, even their tin roofs—rather than acquiring machinery.

We both acknowledge that biofuel crops are diverting arable land from food production and that grain reserves are alarmingly low. In my view, however, this situation points to the urgent need to change biofuel policies to make more grains and oilseeds currently used for fuel available for food and feed. The market will not deal with this, because the biofuel policies are subsidy policies that distort markets. Biofuel production based on these crops should be suspended until prices for these commodities come down to reasonable levels according to long-run supply and demand.

Productivity is already on the rise, Mr Kharas writes. This can be hoped for, but so far no evidence is available to support this statement. Production is up, but productivity is not. At the moment, farmers are boosting production by cultivating more land. However, sustainable production increases require higher productivity—that is, achieving growing incremental outputs with the incremental inputs, land and water resources. And higher productivity in turn requires technological change that reaches farmers' fields. But millions of small farmers do not have access to technologies and services that would help them raise productivity and thereby take advantage of higher food prices. The public investment to facilitate this access by more rural roads and extension services has yet to be scaled up.

I agree with Mr Kharas that domestic food prices often diverge from international food prices because of various government tax and subsidy policies. I would add, however, that many countries have introduced massive new market-distorting policies, such as export bans, that prevent high prices from unleashing the desired production incentives. The high prices did trigger mostly bad policies, not good incentives. More modest price increases would have been a lot better for incentives.

Mr. Kharas closes with a dream: “For the majority of the world’s poor, the dream of a ‘chicken in every pot’ is becoming more attainable because world food supply is rising again.” Unfortunately, this dream is beginning to look like a fantasy: poultry prices are up by 30% since January 2007 and production has increased by just 3%, according to the Food and Agriculture Organisation of the United Nations. The poor cannot afford even a chicken wing any more, and their pots are even emptier than before. We need a dual strategy to grow out of the food crisis: production expansion and protection of the poor. The incentives help with the former, but alone they are not helping humanity.

# The Moderator's rebuttal statement

Aug 1st 2008 | JOHN PARKER

**“It is clear, from the wording of the proposition, that any rational person cannot vote con,” writes silencedogood, from our audience of commentators.**

One minute later, uh2l writes: “To say that there is an upside for humanity for rising food prices seems ridiculous on the surface when one considers that for any potential upsides to develop would take years. People are starving and hungry today!” So it seems it is perfectly possible for a rational person to vote con, though admittedly, at the early stages of the debate, supporters of the proposition have a clear edge over opponents, by 59% to 41%.

To judge from the commentary, the main reasons for that support appear to be: belief that higher prices will provide incentives to future production and a feeling that, to quote eatmorebarley, “food has been too cheap for many years”. In his rebuttal, Homi Kharas develops those two claims. He says, in response to Joachim von Braun’s argument that higher prices will lead to more poverty, that the long period of declining food prices from 1973 to 2002 saw hunger and malnutrition get worse—that is, low prices do not necessarily ameliorate poverty. And he expands his earlier claim that higher prices will provide production incentives in two ways: he gives examples of support to farmers from international donors, such as the World Bank and the Gates Foundation, because of higher prices; and he argues the converse, that in the 1990s, when prices were low, investment in agriculture fell sharply.

In his rebuttal, Mr von Braun questions whether in practice, the incentives will work in quite the way Mr Kharas claims. He points out that, in theory, higher prices give farmers an incentive to invest in their farms by (for example) buying new machinery. But he points out that while this may be happening in America, in many poor countries farmers are selling assets (such as livestock), not buying new ones. The reason, says Mr von Braun, is that higher prices provide a bad incentive to cut demand—that is, eat less— as well as good ones to boost production. So Mr von Braun is sceptical of claims that productivity in farming is on the rise: production is up, he says, because farmers are cultivating more land, but productivity (yields per acre) is not. And productivity must rise for greater output to be sustainable.

This embodies one of the core differences between Mr Kharas and Mr von Braun. For Mr Kharas, the important thing is that dearer food unleashes incentives to produce, which in turn have dynamic economic effects. Mr von Braun replies that higher food prices trigger

a lot of other things, too, including cuts in consumption and crazy government policies, such as export bans.

Both men are to be congratulated on rooting their arguments and counter-arguments so strongly in the evidence. ThierryG may well be right to say: “We do not know much, consequently identifying upsides is still very difficult.” But we are learning a great deal more about the facts and arguments about dearer food as the debate unfolds.

## **The Proposition's closing statement**

Aug 6th 2008 | HOMI KHARAS

### **Images of food riots and hungry people stir deep emotions. But we must debate trade-offs: will the rise in food prices generate more food for the world and less poverty for poor people in the future?**

Are today's food prices fair to producers and consumers?

Yes, because higher food prices will bring about new investments in agriculture and higher global production. This is already happening in Asia and other parts of the world, and will accelerate over time.

Yes, because without higher food prices, land use would shift towards corn-for-ethanol and other biofuel crops and we would have less food available.

Yes, because a system with food prices in free fall for 30 years did not produce any measurable decline in hunger and poverty. But the last time food prices were as high as they are today we witnessed the Green Revolution and a rapid reduction of rural poverty in one of the largest population centres of the world, South Asia.

Yes, because the great urban/rural divide that was cleaving societies across the developing world has now narrowed.

Some have argued that the proposition is unfairly worded. As there is an upside to most things, surely food prices are no exception. I do not want this debate to be about such sophistry. Instead let us be clear about the real changes in people's lives that can come about in the long run from higher food prices. Most of the evidence I have seen suggests that when looked at in detail, most poor people will gain from higher food prices.

Many commentators have argued that subsistence farmers do not benefit from high food prices. I presented evidence from studies on India, China and Indonesia, where the mass of humanity resides, suggesting that farmers (including the poorest of the poor) would benefit in net terms, when both income and expenditure effects are taken into account. No one has advanced any evidence to the contrary, although many choose to believe their own instincts rather than the evidence I presented. My opponent claims that millions of poor African and Asian farmers are suffering, but he has not actually challenged any of the studies I cite, nor has he presented any facts to back up his claims.

To all the sceptics who view farmers in developing countries as isolated from markets and impervious to the incentives of high global prices, I would simply refer to the comments by Dr Seck, a true expert on Africa: “The current food crisis caused by rising food prices is a unique historical opportunity for Africa to break from decades of policy bias against agriculture.” Please look at his credentials before dismissing his conclusions.

In the last analysis, almost everyone agrees that we need faster rural development to alleviate poverty and hunger. Higher farmgate prices are a key element for this to happen. One blogger commenting on this debate offered a nice example of this process at work. When Vietnam liberalised and raised rice prices in the 1990s, rural families were able to afford to send their children to school rather than having them work as farm labourers. These educated children are today fuelling Vietnam’s rapid growth. The country has seen arguably the fastest decline in poverty in history. And it started with a rise in food prices.

Several commentators have noted that high food prices are the result of misguided policies—towards ethanol, the dollar, speculators, meat eaters. Because those commentators are vehemently against the cited policies, they think all the consequences, including higher food prices, must be bad. I am not arguing that those other policies are good. I would also like to see many of them reversed. But what I am arguing is that the effects of those policies would be far worse if the market for food was not permitted to adjust through higher prices. The alternative would be food shortages and large-scale rationing. This debate is not about comparing a world of high food prices with some other idealised world which is ordered differently. The debate is about whether the rise in food prices in this messy, distorted world we live in can have some benefit for humanity. Surely yes.

To all those who bemoan the hunger and hardship that higher food prices are causing for the poor, I would simply say that a system which failed to produce any marked change in hunger and poverty over a 30-year period of price declines was not working for the poor. Give a different system a chance. If a strategy has not worked for 30 years, surely there is an upside to changing strategies.

Let there be no mistake. Our global food production system was under severe threat in the early years of this century. We needed a change. Could anything have generated a successful change to encourage more production in the absence of higher food prices? I think not.

What we are really debating is whether there is an upside to humanity from fair food prices. For years, poor farmers in developing countries have been getting short shrift, fighting competition from increasingly subsidized, mechanized farmers in rich countries. The result was a historical rise in inequality and growing urban/rural income differentials in the developing world. Now the tables are turned and there is a fairer outcome in income distribution.

Thank you to all those who have taken the time to follow this debate and enrich it through their comments. Thanks to my opponent for his enormous contributions to solving the world's food problems, not just debating them. Thanks also to the guest commentator who has provided a voice with the weight of so much experience. And thanks to our moderator for focusing us on balance, judgment and the weight of empirical evidence, rather than on principle and emotion.

## **The Opposition's closing statement**

Aug 6th 2008 | JOACHIM VON BRAUN

**Contributors to this debate have offered many thoughtful “pro” and “con” arguments. In the closing stage of this debate, I want to return to its main focus.**

This debate is not about whether markets work (they do), whether incentives stimulate needed investments (they do), or whether subsidies by OECD countries hurt developing-country agriculture (they do). Nor is the debate about economic laws and settled fundamentals or about whether moderate increases in food prices are good or bad (I actually think they would have been good). Instead, this debate is about the actual impacts of the drastic food price rise over the past two years and if there is an upside for humanity as a whole. For me, an “upside” can be identified only if these rising food prices have a positive net effect on humanity. The net effect is negative.

The crisis is not short-term. Some have argued that this crisis will be short-lived. As positive price and policy incentives stimulate food production, they say, prices will fall and the crisis will come to an end. I have two responses: First, IFPRI has modelled scenarios for supply responses to high food prices, and even the optimistic scenarios show prices increasing until 2015 (excluding speculative effects which may change matters in the short run). Second, new research shows that young children often never completely recover from temporary episodes of undernutrition. A 2008 Lancet article shows that boys benefiting from a randomised nutrition intervention at a young age earned wages 50% higher 30 years later than boys who did not benefit from the

intervention. If lack of food and poor diets resulting from high food prices prevent infants and young children from getting the nutrients they need, the health and economic consequences for the individuals and society are not temporary, but lifelong. This means that even if prices begin falling today, the effects of this crisis will be with us for years to come.

The ethical considerations expressed by many commentators are valid concerns in evaluating the impacts of rising food prices. The right to food is a fundamental human right. A Pareto improvement in which some individuals are better off and nobody is worse off is out of the question in the case of rapidly rising food prices. The adverse effects of high food prices are concentrated mainly among the poor. Policy that fosters or simply accepts the high food price change does not conform with Pareto and violates the principle of “do no harm”.

Hunger and obesity can coexist. During the decades when prices were gradually falling, substantial progress was made in reducing hunger globally, and especially in Asia. The Global Hunger Index decreased by more than one-third from the early 1980s to the early 2000s. The main positive effect of the Green Revolution for humanity has been to bring prices down and make food affordable for many. The advent of extremely high food prices has compromised these gains. Will high food prices at least have the benefit of reducing obesity, as some people argue? Probably not. Obesity, a global phenomenon that is becoming increasingly widespread, is a complex issue. It is not uncommon for an obese mother and an undernourished child to live in the same household in low- and middle-income countries. When food prices increase faster than wages, consumers find healthy diets less affordable and replace them with cheap processed foods rich in fats and sugars. High food prices, then, are not likely to lower obesity.

Markets and trade have been harmed, because drastic food price increases have provoked chain reactions from governments. High food prices have undermined the very market institutions that should be transmitting price signals effectively for a sound supply response. The world has suffered a huge loss in confidence in trade in recent months. At a global scale, this loss of confidence is clearest in the collapse of WTO trade negotiations last week, partly owing to China and India’s concerns about their small farmers’ income and the reliability of their food supplies. So the WTO trade agenda has been pushed back by several years. At the national level, high food prices have provoked export bans and the closing of futures markets. This situation creates abundant new opportunities for corruption and rent-seeking. All of these developments add up to huge new transaction costs for humanity.

Overcoming the food crisis needs action. We cannot wait for price signals alone to overcome the food crisis. Sustainable production increases require higher productivity. Large investments in the public and private sectors are needed. Millions of small farmers do not have access to technologies and services that would help them raise productivity and thereby take advantage of higher food prices, yet in many countries public investments in rural roads, research and extension have yet to be scaled up. Market-distorting biofuel policies must stop. Social protection must be expanded and improved.

In conclusion, the drastic increases in food prices have undermined the nutrition, health and overall well-being of millions of people and will continue to do so. Of course, some people—even some poor people—have gained. But the losers greatly outnumber them and include many people who were near or below the poverty line before the crisis struck. When a large share of humanity loses, humanity is worse off—and even more so when the losers are mostly among the poor, who can less afford the losses. That is why there is no net positive “upside” to the drastic food price increases. Policy must be “contra” to accepting this situation.

## **The Moderator's closing statement**

Aug 6th 2008 | JOHN PARKER

**We have reached the last lap of what has been a wonderful debate. It has generated more commentary than any other since the debate on whether the Olympics should have been granted to China.**

It has included well-informed nuggets on India, Mexico, biofuels and genetically modified organisms. Two of our commentators even said they had voted pro and con at the same time (a way of thinking, said one, that he had learned in Japan). That may reflect the fine balance of debate but is not perhaps quite in the spirit of the occasion.

One strand of commentary criticised the wording of our proposition, arguing that since almost everything in the world has some sort of upside, the proposition must be biased in favour of itself. But neither of our debaters seeks to take advantage of this. Both define what they mean by an upside in similar ways: “a positive net effect on humanity” for Joachim von Braun; “the real changes in people’s lives that can come about in the long run”, in Homi Kharas’s words.

In their closing statements, both men develop their positions further, partly in response to our readers’ comments and questions. Mr Kharas introduces the idea that higher prices are not only beneficial on balance, but fair to producers and consumers: fair because they will spur new production and restrain the growth of corn for ethanol; fair because they will reduce rural poverty and narrow the gap between city and countryside. Mr von Braun restates, with new evidence, a couple of his basic themes: that hunger is not just an acute episode but has long-run effects and that high prices have provoked perverse government reactions that have destabilised markets (there is a point of agreement here: Mr Kharas

also condemns the panic measures, though adds their impact would have been even worse if food prices had not been allowed to rise). Mr von Braun also addresses questions raised by the audience on the likely longevity of the crisis and on obesity (including the remarkable fact that obesity and malnutrition often coexist in the same family).

Both at the start and at the end, Mr Kharas noted that high food prices stir deep emotions. I would like to thank him and Mr von Braun for giving proper weight to the terrible costs of the crisis and for taking us beyond the emotions to the realms of evidence and judgment. Adrian Fajardo wrote: “With two speakers of the calibre of Kharas and von Braun, looking one at heads and the other at tails of the same coin, I decided to look forward to their closing statements before casting my vote.” I felt the same way, and now look forward to your votes.

## Featured Guest's Comments

Jul 29th 2008 | DR PAPA ABDOULAYE SECK

**Rather than being a threat, the current food crisis caused by rising food prices is a unique historical opportunity for Africa to break from decades of policy bias against agriculture, which accounts for 35% of GDP in the continent and 75% of employment.**

The present rice crisis for instance is already forcing African countries to pay attention to local rice production, which has been neglected for so long. In the past few months, rice prices in the global market have jumped to record levels not reached since the 1970s food crisis.

Many factors explain the current high price of rice. First of all, since 2002, the global level of rice production has fallen short of consumption, requiring continuous recourses to globally held rice stocks to compensate for production shortfall. This has resulted in the decline of world rice stocks from 147.3 million tones in 2001 to 74.1 million tones in 2008. According to USDA, the ratio of rice stocks to overall consumption is 17.5% (its lowest level since 1976/77). These stocks, half of which are owned by China, represent two months of world consumption needs.

A compounding factor has been the export ban imposed by major rice exporters. Other factors are the rising prices of oil and freight, depreciation of the dollar and additional pressure on agricultural resources because of biofuel production. The limited scope for

increasing rice-growing areas in major Asian producing countries and the absence of major yield-enhancing technological breakthroughs in Asia, together with the low level of global stocks, indicate that prices could remain high in the near future.

While people around the world have been feeling the impact of the soaring food prices, no one has been hurt more than Africans. With nearly 40% of the total rice consumption of Africa coming from the international market, African national rice economies are more exposed to unpredictable external supply and price shocks than those of other continents. A third of the volume of rice traded globally is sourced for Africa. It is also by far the most vulnerable continent because of its high prevalence of poverty and food insecurity.

The eruption of recent riots, due mainly to rising rice prices in Burkina Faso, Cameroon, Cote d'Ivoire, Egypt, Senegal and Mali, testifies to this vulnerability. Policymakers are adopting ill-advised price controls that risk pricing smallholders out of the market and into further deprivation.

The option for Africa is to combine emergency responses for the short term with measures favourable to sustainable expansion of Africa's rice supply in the longer term. Short-term measures include the reduction of customs duties and taxes on imported rice and the establishment of mechanisms to avoid speculation in the rice markets. However, governments should take care not to undermine incentives for domestic rice production for the benefit of social peace in the major urban centres. The rising trends in rice price levels improve farmers' incentive for producing more rice.

In the medium- and long-term, tax on all critical inputs, basic agricultural machinery and equipments and post-harvest technologies need to be reduced. Governments also have key roles to play in facilitating access to financial services and credit for resource-poor farmers, seed producers and rice processors; increasing investment in water-control technologies; expanding the rice areas under irrigation; accelerating investment in regional research capacity; and hastening the pace of investment in rural infrastructure.

We are convinced that the future of rice farming lies in Africa. Unlike Asia, this continent has great untapped potential, which can be seen in its large tracts of land and under-utilised water resources. For example, sub-Saharan Africa has 130 million hectares of lowlands but just 3.9 million hectares are under cultivation. Our studies also show that local rice production under irrigated conditions can be as competitive as in Asia and much cheaper than in America.

# Featured Guest's Comments

Aug 4th 2008 | PAUL ROBERTS

To hear mainstream commentators, the food crisis is but a temporary lapse in market equilibrium. Drought and flooding will abate. Policy blunders, such as turning grain into fuel, will be corrected. More to the point, high food prices are already stimulating farmers to boost production—just as high prices have eventually corrected every food crisis since before Malthus.

But to look more closely at today's crisis and one realises that this mess isn't like anything we've faced before, and its correction will be neither as easy nor as automatic.

Consider the unusually steep rise in food demand. Not only is the developing world growing more populated, but many of these newcomers can now afford meat, each pound of which requires an average of eight pounds of feed grain to produce. By mid-century, forecasters say we'll need 50 percent more feed crops than we currently grow, even though no one knows precisely where the extra supply will come from.

Readily arable farmland is increasingly scarce. At the same time, the miracle that confounded Malthus two centuries ago—our ability to coax more food from existing acres via better productivity—is running into new obstacles.

Water is running low. In fast-growing parts of Asia and North Africa, farming has already depleted underground water supplies so severely that many countries essentially import their water, in the form of grain. Oil prices are soaring—a major worry for a food system whose success hinges on ever-greater mechanisation and ever cheaper global transport. (Comparative advantage is meaningless if shipping becomes too expensive.) As troubling is the rising price of natural gas, the key input for nitrogen fertilisers, whose costs have tripled. Given that 40 percent of our food supply, in terms of calories, is generated with nitrogen fertilisers, the idea that we must boost output by half while using fertilisers substantially more expensive than they are today doesn't inspire optimism.

Then there is question of climate. It's already clear that global warming is hurting crop output in sub-Saharan Africa and other basket-case regions. But the real worry is the impact on food powerhouses, such as Europe and the United States, whose surpluses will become even more critical as the basket cases founder. Much of America's agriculture power stems from its unusually stable climate. Yet under most forecasts, America will suffer more frequent "extreme" weather events, like the severe storms that disrupted the Midwestern crop-planting season and put paid to expectations of a bumper crop this fall. In the future, farmers must correct not only for imbalances in the market, but for those of nature as well.

This isn't to suggest that markets are obsolete or food science exhausted. Indeed, higher food prices are already generating a myriad of new crop technologies requiring less

energy and water. But given the scale and complexity of today's food challenge—and especially the potential uncooperativeness of nature—we need more than a new set of food technologies, but a new understanding of what food markets can, and cannot, correct on their own.

Paul Roberts is a journalist specialising in the business and politics of natural resources

## Featured Guest's Comments

Jul 31st 2008 | NEIL PARISH

Rising food prices have definitely put farming back in the headlines, which is undoubtedly a good thing. For far too long it had been taken for granted; we had plenty of food and so there was little global investment in agriculture. It also allowed us to take the moral high ground on issues such as biotechnology, pesticide use and the effects of agriculture on the environment. We concocted ever more imaginative ways to stop our farmers from increasing their yields and ultimately we neglected the real reason for farming in the first place: to grow food.

The current situation will focus our minds on how to feed a growing population on less land and using fewer pesticides. Actions we take now in areas like biotechnology will stand us in good stead to face future challenges to the global food supply and may also help developing countries produce more of their own food in the long run. I also hope that it will make governments realise that market-distorting subsidies and protectionist trade policies only drive prices even further and exclude farmers in developing countries from fair competition. Already the European Union has got rid of its set-aside rule and is likely to introduce further reform to the Common Agricultural Policy later this year. However globally developing countries need to have better market access.

While higher prices are very difficult for urban dwellers in developing countries, they are good for farmers in those countries and may encourage them to invest more in agriculture. Developing countries tend to have larger rural populations and with increased revenue flowing into these areas, this can be the spur for more widespread economic development.

However higher prices are not always good news for farmers; fuel and fertiliser costs have nearly doubled in the last year, eating up much of any new revenue created. Livestock farmers are also facing huge rises in the cost of animal feed and many are struggling as a result.

The impact of biofuels has been over-emphasised. The increase in meat consumption in Asia, along with poor global harvests, high oil prices, a weak dollar and speculation are the most significant factors causing the rise in food prices. High protein feedstock can also be extracted as a by-product of the refining process. However, at a time when we have food shortages we shouldn't be taking 20% of the arable land in America out of food production.

The initial goal of biofuels was to reduce our dependence on fossil fuels, and to reduce our impact on the environment. Those needs still exist and biofuels can still address them. However we should focus on second-generation biofuels, which break down the cellulose within a crop. This can provide us with cheap and clean fuel without taking land from food production.

Rising food prices are a huge challenge for many but they do force us to think differently about farming. By putting the focus firmly back on production and distribution I believe they can help us address the many problems that caused the rising prices in the first case.

Neil Parish is Chairman for European Parliament's Agriculture and Rural Development Committee

## Featured Guest's Comments

Aug 5th 2008 | VALERIE GUARNIERI

There is no doubt that higher food prices provide an opportunity to help developing countries break the cycle of poverty, but this can only happen if farmers can take advantage of the greater demand for food. This is a big if.

Millions of farmers in Africa and Asia are actually net food consumers: they do not produce enough food for their families and so must buy on the market. Higher food prices mean that they are forced to spend more to feed their families and have less to spend on the seeds, fertilisers and other inputs needed to produce crops. Just as demand for their crops goes up, the opportunity for them to profit fades away.

By most estimates the world needs to produce twice as much food by 2050 if it is to feed the global population adequately. We are optimistic that this goal can be achieved. It requires long-term, structural solutions, including more investment in agriculture and agricultural productivity. Agencies like the Food and Agriculture Organisation (FAO) and the International Fund for Agricultural Development (IFAD), together with the World Bank, will lead the way.

Meanwhile, the world needs a flexible, speedy global food assistance system to help governments meet the urgent needs of those most at risk from hunger and malnutrition. This is where the World Food Programme (WFP) and its network of partners come in. We have already rolled out new funds to boost operations in over 62 places, including

Haiti, Afghanistan and the Horn of Africa. Right now, we are ramping up food assistance during the lean season in West Africa, where several countries are vulnerable because they rely on imported food.

WFP will surely be stretched as we help the world ride the rough waves before market forces help stabilise the situation. We are developing new tools, such as cash and voucher programmes, to ensure we have the right response to the new reality. But responding to today's greater challenges also requires greater generosity. WFP is a voluntarily funded agency, and increased operations require more funding. During 2008, we aim to feed around 90m people at a cost of around \$6 billion. So far we have raised half of what we need.

Whether GMOs (genetically modified organisms) should be part of the long-term solution to the crisis is for others to judge. At WFP, our responsibility is to help ensure that hungry people have access to the safe and healthy food they need. Where that involves bringing in food assistance from abroad, governments are free to choose whether or not to accept genetically modified food. As for biofuels, we recognise that they have potential benefits but also costs. They are one of the forces driving food prices up and our concern is that the proper policies and safety nets are put in place to protect poor people from the crunch.

These are some of the many critical issues that need to be faced to resolve the food crisis. There are no easy answers, but solutions must be found in order to ensure global food security. This is perhaps the key security issue of our time.

Valerie Guarnieri is the Director of Programme Design and Support for the United Nations World Food Programme (WFP).