

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Replacing the “buffer” created by world’s starving and hungry with a grain buffer

The issue of high and volatile agricultural commodity prices and its causes and impacts has been the subject of numerous publications and meetings over the last three years including Dakar Agricole 2011, a meeting that we spoke of in last week’s column. Before continuing with our discussion of that meeting, we would like to establish a foundation for that discussion by reviewing a paper written for the Canadian Foodgrains Bank, <http://www.foodgrainsbank.ca/uploads/Food%20Security%20Price%20Volatility%20and%20Policy%20Responses-%20final%20-%2025%20March%202011.pdf>. The paper, “Protecting the Food Insecure in Volatile International Markets,” was authored by Ian McCreary, an economist and former director of the Canadian Wheat Board. By way of disclosure, Daryll received and commented on an earlier draft of the paper.

The Canadian Foodgrains Bank is a coalition of all of the major Canadian churches. The paper was commissioned because the churches were “alarmed at the realization that sudden food price spikes had the potential to cast millions of people into chronic food insecurity.” They believed that “such price induced food crises quickly overwhelm any of the gains made by the recent decades of effort to reduce hunger in developing countries.”

Specifically, the Canadian Foodgrains Bank “saw the need to research the issue of reserves, in particular, the history of cereal stock levels since the Second World War. Early in this sixty year period there were deliberate food reserve policies in place, initially as part of the International Wheat Agreement, and later as part of the domestic policies of the US and the European Community. In addition, many developing countries also maintained food reserves. All of these policies were changed in the 1980s and it had been widely accepted that such policies are no longer appropriate. Without prejudging the case, [the Foodgrains Bank has] sought to re-examine the issue in the light of the 2007-8 price spike and the subsequent developments leading up to a second price spike in early 2011.”

The paper makes it clear that the world has buffer stocks one way or the other. In the period before 1996—China is another story—governments in developed countries held reserve stocks of storable grains which became available to the market at times when the price exceeded some pre-determined level. This release of grain met the demand needs of the consumers and calmed jittery markets, heading off a spike like

those seen in 2007-8 and early 2011.

With the elimination of these policies and an increase in international agricultural trade, McCreary writes, “as production and consumption increases, poor and vulnerable people become the buffer for an ever larger pool of cereal production and consumption.”

The buffer stock that once was a storable grain has now become a buffer stock of people who are moved out of the demand market whenever the price is beyond their reach. The buffer stock now has a human face. And that face is hundreds of millions of people who are marginally food-secure and can become food insecure any time the price rises out of their reach. Demand is reduced and the major reduction comes not from cattle feeding and ethanol production, but from reducing the effective demand of people who are living on the margin of food insecurity. These numbers do not include the 800 plus million food insecure who are consistently excluded from purchasing grain because they lack the funds to do so or the resources necessary to produce their own food.

As McCreary says, “The dynamic is [morally] unacceptable.”

After going through a systematic analysis of the reasons why crop markets are vulnerable to volatility, especially as trade increases, McCreary argues for different stock policies for different grains:

- “Maize/Corn - a biofuel set aside program is suggested. Either through variable mandates or by bidding production off the market, assurances must be provided to the global economy that biofuel production will be adjusted when food supplies become critically tight.
- “Wheat - a coordinated fixed quantity multilateral reserve representing 1-2% of global use is recommended.
- “Rice - small regional reserves are recommended. Rice is thinly traded and there would not be confidence that a reserve centrally held by exporters would be available to all in the event of tight supplies.”

He concludes the Executive Summary: “Reserve policy, improved information and transparency, and fair trade rules are only a subset of the planks required to improve global food security. A new Food Assis-

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tance Convention will still be required to guarantee a minimum amount of food for emergencies and other settings where food assistance is appropriate.

"Donors should continue to accept the price risk of commitments under a new Food Assistance Convention and support stockholding to cover their risks.

"Public sector investment in productivity for smallholder agriculture is also required to increase the resilience of agriculture globally.

"However, none of these food security programs can be expected to be successful if cereal prices continue the erratic volatility of the past four years."

In the end, he also identifies the need to address the core issue of price volatility.

We agree. Where we differ from McCreary is in the size of the reserves and the use of price bands and release prices. While in the short-run cutting off ethanol production may be the logical first step, we think over the longer term it makes sense to have a corn reserve sufficient to stabilize corn markets without shutting off the production of biofuels. If corn production in the years ahead turns out to respond to the current high price signals with increases as large as it appears they could be, that would be an ideal time to set aside a reserve stock of corn. The same holds true for the other grains and the filling of a reserve in

a year of high production would have a stabilizing impact on prices that farmers receive.

The best insurance against excessive volatility is to reinstitute a buffer-stock program sufficient to assure all grain users of a stable flow of the products they need. Farmers can be protected by instituting a price band that is wide enough to give the market plenty of room to respond to normal changes in supply and demand while enabling farmers around the world the opportunity to earn a livelihood from their work.

To us, previous shortcomings of buffer reserves were due more to political sabotage than lack of effectiveness of a properly implemented buffer-stock instrument. While it would be difficult to eliminate all political influence, an independent federal-reserve-like board would be in a better position to head-off the gradual dilution of purpose that plagued US attempts in the past, especially the Farmer Owned Grain Reserve.

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