



DEPARTMENT OF
AGRICULTURAL, ENVIRONMENTAL,
AND DEVELOPMENT ECONOMICS

2013 Agricultural Policy and Outlook Conference Preview Meeting

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Nationwide & Ohio Farm Bureau 4-H Center*

High Food Prices and Riots: Trade Policy vs. Safety Nets

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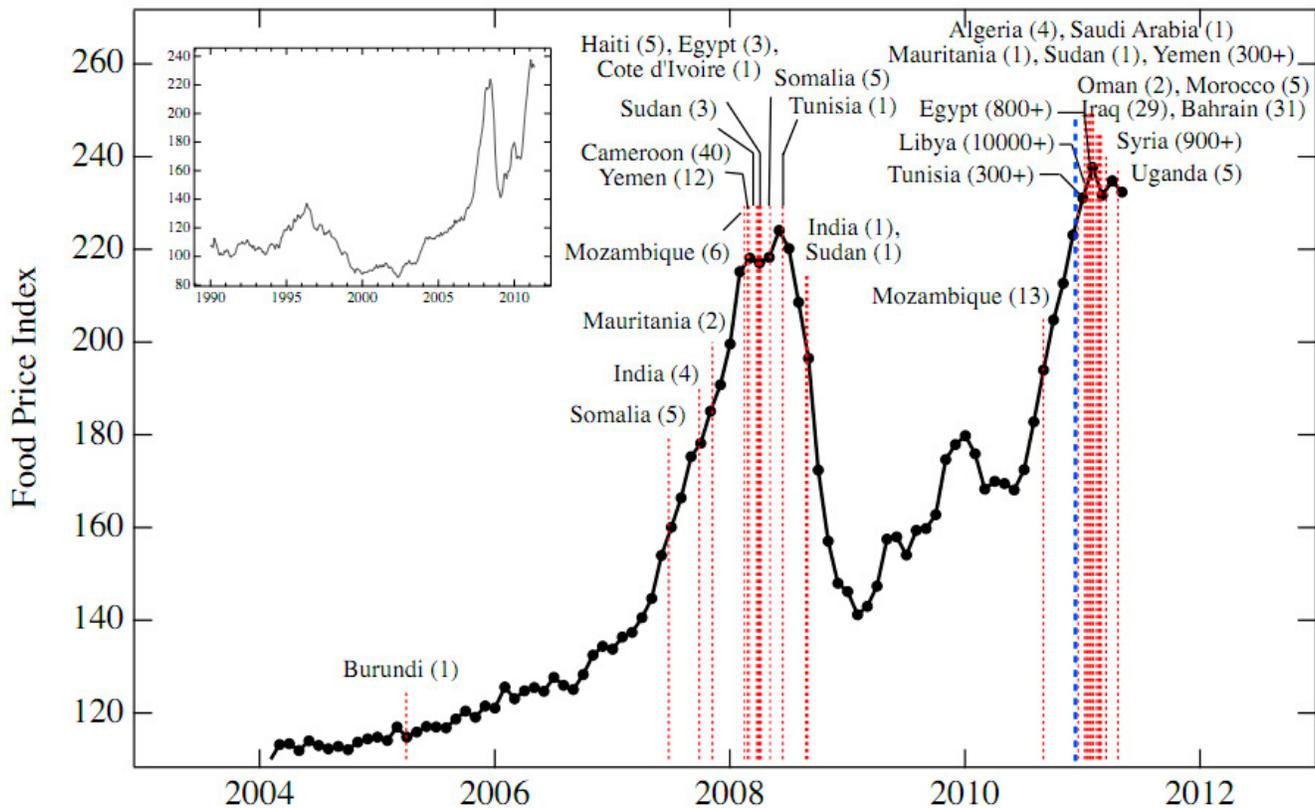
- During the most recent world price spikes, many developing countries responded by using trade policies and released public stocks in order to keep down domestic food prices
- Use of such stabilization policies goes against the recommendation that direct market intervention should be avoided, and instead governments should use targeted safety nets
- Problem with standard policy advice is it only works if all countries cooperate and do not intervene in markets – this ignores political reality
- Poor consumers are concerned with high food prices not price volatility, the evidence suggesting political unrest is correlated with former not latter (see figure); as a consequence, politicians in developing countries, in order to avert irreversible welfare losses among the poor, and also to protect their own positions, are commonly observed using food price stabilization policies
- Unfortunately, if enough countries adopt trade policies, the net result is to increase world food price instability; the evidence indicates that export restrictions did indeed have a positive and significant impact on international food prices, e.g., 40%, 19% and 10% of the 2006-08 spike in rice, wheat and corn prices respectively was due to trade policy changes
- Safety nets, in the form of cash transfers, food stamps, food for work and other programs, are supposed to help the poor and vulnerable cope with food price shocks, i.e., release of public stocks may not be sufficient to protect their purchasing power
- Many developing countries have such programs in place, but they are typically a complement to price stabilization policies, i.e., it is difficult to scale up and target safety nets to deal with price shocks, and their fiscal cost is high compared to export policies
- The apparent effectiveness of trade policies makes it difficult to deal with a collective action problem, hence the focus by policy analysts on strengthening WTO rules on export policies

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- This raises an important question: can developing countries be expected to commit to liberal trade policies when biofuels policies in developed countries have also had a significant impact on global food prices?

High Food Prices and Political Unrest



Source: Lagi, Bertrand and Bar-Yam (2011)

Notes: Food Price Index based on FAO data; red lines refer to beginning dates of food riots, the death toll being reported in parentheses