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The Political Economy of Food Price Policy: A Snythesis

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Abstract:

This paper identifies nine political economy factors that influenced governments' policy choices during the most recent global food price crisis. While the most common policy stances may be explained by a simple, welfare-maximizing model, the variety of responses and the policy failures require more complex models. Policies are favored that maintain government legitimacy and produce private benefits for the best-connected stakeholders. Policy interventions were frequently ad hoc and delayed because of lack of market information, conflicts among government agencies in all governments, and extended deliberations among competing stakeholder groups.

Widespread mutual mistrust between governments and the private sector was a major challenge. Governments' unpredictable policy behavior and lack of transparency contributed to the hoarding, speculation and inefficient business transactions they condemned in the private sector, which further contributed to low transparency and instability. Breaking this vicious circle appears to be very important to improve food policy.

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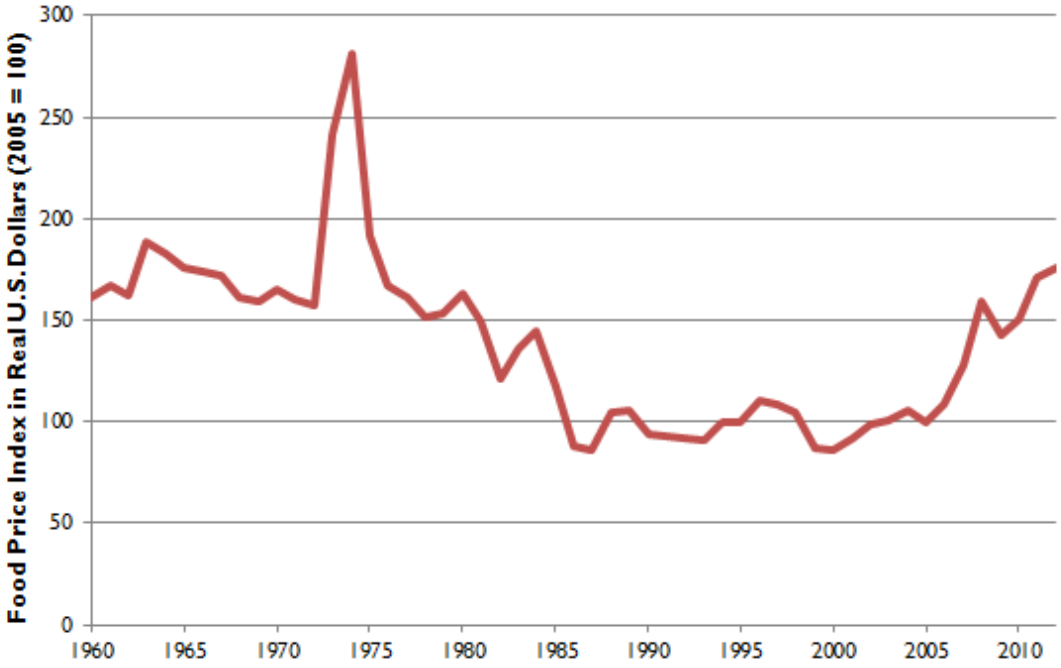
Introduction

The first half of the 20th century saw relatively stable real food prices, seldom fluctuating more than 20 percent from their long run historical average. During the sudden food price spike in 1973 food prices changed from one year to the next by nearly 70 percent, with another 11 percent the next year. Significant investments in agricultural productivity – particularly Green Revolution technologies and transportation and irrigation infrastructure – from the 1960s onward introduced a new, downward trend to food prices that continued for the next 25 years, interrupted briefly in 1979, 1988, and 1996 as particular commodity prices spiked significantly and briefly.

Figure 1: Real Food Price Index: 1960-2012



Source: Wenzlau (2013) from World Bank data

In 2001 real food prices reached their lowest level at less than one third their 1900 price level. Food price escalation began in 2001-03 with prices increasing by 10 percent. Food prices increased 14 percent in 2004 alone. Another 10 percent increase came in 2006 after a brief respite in 2005, 15 percent in 2007, and 18 percent in 2008. As a percent, such sustained, significant food prices increases had not been seen in the entire 1900s. Each year's increase was of the same percentage magnitude as the spikes in '79, '88, and '96. Timmer (2008) argues that countries'

destocking during the 1990s had unsustainably lowered prices during the 90s and that this was represented merely a return of prices to their long run average. The lower prices caused by everyone else's destocking decisions in turn made continued destocking a rational response.

This process appears to have come to an end in the early 2000s. Real food prices gradually rose to their former long-run average, in part caused by growing demand for meat from China and other countries experiencing economic growth, increased reliance on biofuels using land that otherwise would have grown food, and a decline in the strength of the dollar (Abbott, Hurt, and Tyner, 2008). The sharp and sudden spikes in food prices are more accurately described as the result of trade-related policies passed by government in response to these gradual food price increases. Consider for example the price of rice depicted in Figure 2, which had risen more than 50 per cent from mid-2004 to mid-2007, only to increase more than three-fold within weeks as India and Vietnam banned exports and the Philippines offered to purchase large amounts of rice at prices well-above then-current market rates.

Figure 2. Rice Prices 2004-2008

The rapid rise in food prices represented not only a crisis in food prices for many governments, but also a food policy crisis. Case study authors use terms such as ad hoc, contradictory, confused, unprepared, and even being in a panic. Government actions and inactions sparked fierce debate and riots across the globe.

In order to understand how and why governments responded to this food price crisis, a team of researchers representing fourteen developing countries met under the leadership of UNU-WIDER and Per Pinstrup-Andersen to study the political economy of government responses to the global food price crisis. This paper is a synthesis of political economic insights which can be gleaned from the fourteen country studies and six synthesis papers (Pinstrup-Andersen, 2015)[2]. Its main duty is to bring the diverse policy processes into a common framework in order to identify why different policy responses were chosen.

The paper is organized in two main sections: an introduction to what was done during the crisis based on Bryan (Chapter 3) and what policies have since been enacted in response to ongoing higher average prices and increased volatility followed by a discussion of the political economy conclusions that can be drawn from the case studies about the motivations behind these policies and their processes based on Watson (Chapter 5).

What was done: The policies governments chose

Bryan (Chapter 3) divides the countries under examination by the task force into three groups based on the number and variety of policies passed in the wake of the food price crisis from 2006-2008: the Interveners, including China (Huang, Yang, and Rozelle, Chapter 17), Egypt (Ghoneim, Chapter 12), Ethiopia (Admassie, Chapter 6), India (Ganguly and Gulati, Chapter 16), Kenya (Nzuma, Chapter 9), Malawi (Chirwa and Chinsinga, Chapter 7), Senegal (Resnick, Cahpter 14), and Zambia (Chapoto, Chapter 8); the Observers, represented by Brazil (Mueller and Mueller, Chapter 18) and South Africa (Kirsten, Chapter 19); and the Dabblers in the middle, among whom are Bangladesh (Raihan, Chapter 11), Mozambique (Nhate, Massingarela, and Salvucci, Chapter 10), Nigeria (Olomola, Chapter 13), and Vietnam (Hai and Talbot, Chapter 15). The World Bank has in the meantime established a Food Price Crisis Observatory that has catalogued all food policy actions taken by 85 countries since January 2008. In what

[2] The references throughout the paper to (Chapter xx) are references to this book. Longer versions of each article are also available through UNU-WIDER's working paper series: http://www.wider.unu.edu/research/current-programme/en_GB/Political-Economy-of-Food/

follows I will augment Bryan's analysis with the information available through the World Bank (2015).

According to the World Bank observatory data, roughly equal numbers of countries enacted only one policy (25 observers), two to three policies (33 dabblers), and four or more policies (27 interveners) in 2008. While there is a close correlation between the observatory data and the work of the original project, the observatory credits Bangladesh and Brazil with making a significantly larger number of food-related policy decisions in 2008 than they were credited for by the task force. On the other hand, most of Bangladesh's activity related to multiple, unsuccessful attempts to purchase additional grains to increase its stocks to 400% of their original level. Their failure can be attributed to setting a procurement price below the market price.

Overall, governments focused more attention on consumer and trade issues than on increasing production, enacting in total fifty per cent more policies focusing on consumers and on trade than on output. One fourth of the Observers lowered taxes on food products and almost that many lowered import tariffs. One fifth invested in increased production by providing subsidized inputs or, in the case of Tajikistan, expanding credit to farmers. Dabblers focused most heavily on trade policies: 24 out of 33 either lowered import tariffs or impeded exports. Either set of policies will have the same effect both domestically and internationally. More than one fourth of the countries provided subsidized inputs to farmers, lowered consumption taxes, and changed their stocks policies. In some cases governments were releasing their own stocks, but often governments choose to rebuild their stocks for future use. This latter policy would tend to increase domestic prices, counteracting the effectiveness of the lower taxes and trade policies.

The Interveners, naturally, are more spread out. Lowering imports barriers and erecting export barriers (50 together) are still the most frequently-passed policies, followed by input subsidies for producers (22). However, Interveners put much more emphasis on providing consumer food subsidies (22) and expanded safety nets (15) than other governments. They were as likely to change the level of their stocks (11) as they were to change farm procurement prices or provide expanded credit channels to farmers. Interveners were also the group least likely to lower food taxes, doing so only five times compared to six times among the Observers and nine times by Dabblers.

Not only were production policies were the least likely to be called upon, almost no governments invested in long-term national self-sufficiency. The input and capital subsidies were intended to be short-term, as were production subsidies and increases in procurement prices. The lack of investment in long-term production overall makes sense if governments believed this would only be a temporary price spike. There are a few exceptions. Mozambique nearly doubled agricultural expenditures and their Food Production Action Plan invested in multiple agricultural sectors and at all parts of the production-processing chain. Malawi is the only country in the World Bank data set to invest in increased farmer storage capacity in 2008, although Egypt had already done so in 2006. Ethiopia established a new Agricultural Transformation Agency, accompanied by increased spending on research and development, extension, and rural infrastructure. While Nigeria put forward a plan to invest in its long-term productive capacity, the plan has not been subsequently enacted.

Examining only which policies were chosen rather than their motivations among the country studies leads to two initial conclusions:

Claim 1: the responses to past crises are the best guides to predicting future actions.

Claim 2: Governments prefer policy changes with lower costs, such as changing the level of a currently existing policy rather than introducing a new policy.

The most accurate means of predicting how countries would deal with the food price shock is how other food crises were addressed. Egypt's devaluation-caused food price spike in 2001–3 prompted a doubling of the bread subsidy, which occurred again during the last food price crisis. Malawi's fertilizer subsidy programme was developed in response to the two droughts and the food crises in the 2001–5. One reason that Nigeria's policy reactions were described as ad hoc and panicked was a lack of past experience with food crises; yet it is highly probably that the same system would be followed in a future crisis inasmuch as no long-term plan has been put into place to prepare for that eventuality. Bangladesh had not suffered from food price crises in the recent past per se, but had several natural disasters during the early 2000s. The food price crisis was treated as if it were a natural disaster. Given that there were also floods and a cyclone in 2007 on top of spiralling food prices and the export ban from India, this seems a very reasonable interpretation for the caretaker government to make. It may also be one

reason why Bangladesh was among Bryan's (Chapter 3) Dabblers: it was another natural disaster and did not require a major policy shift to address.

Governments that typically intervene little did not change their history of non-involvement. The governments that typically have a single powerful decision maker let the person decide the food policy responses in ways that were largely predictable. Governments that have historically erected export barriers when prices changed did so here as well. Consistently, governments turned to policies they had enacted and removed in the past. Policies favoured the segments of society that had been most favoured historically, be it urban vs. rural consumers or politically important staple crops vs. fruits and vegetables. Nor do governments appear to have changed their long-run policy goals. Even where some significant policy departures can be detected, Bryan (Chapter 3) reports that they represent a continuation of the pre-existing domestic trajectory, rather than a new policy direction. These path-dependent policy choices may represent interest-group interactions (see below), ideology, or a kind of myopia wherein the psychological costs of introducing new policies are higher than the costs of expanding current policies. In Brazil (Chapter18: 399), 'the fact that these cash transfer programmes were already set up and running when the food price crisis hit in 2007 made it very easy for the government to use these channels to provide some compensating income to the poor'.

To say that overall countries followed historical precedent is not to deny the existence of any surprises. Brazil's recently deployed institutional checks on executive power were more effective than would have been expected before the crisis. Ethiopia sold or leased some 3.5 million hectares to foreign entities. Egypt took advantage of the crisis to streamline many aspects of the ration card and bread subsidy system, reduce leakage to the black market, and speed the adoption of electronic ration cards to prevent fraud—though there was a desire to effect these changes already. Egypt also established an advisory board on food security to improve coordination of the various food and agricultural policies that straddle ministry divisions. The most common new policy was to introduce fertilizer subsidies which had been having a very good run in Malawi, both politically and in terms of agricultural production.

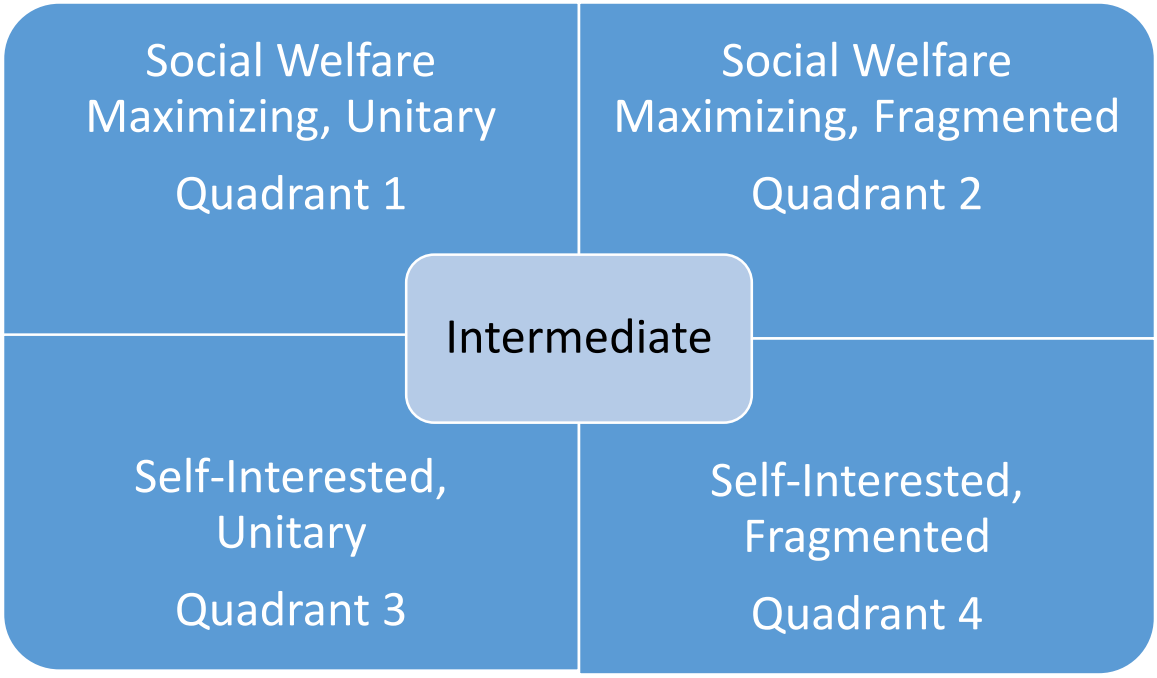
The food price crisis simultaneously exhibited slightly different policy processes than are followed in non-crisis periods and may have created some new processes that will affect future food policy policy making (Babu, Chapter 4). During crisis time there is little opportunity for

consultation with many advisors, particularly in academia who operate on a much longer time frame. Insiders and advisors close to decision makers will tend to have more immediate influence. On the other hand, there is some evidence that non-government organizations interested in food policy may have formed new connections and coalitions in some cases. Nigerian NGOs banded together to bring the price spike forward to the government's attention, which may strengthen their ability to influence future food policy decision making. Increased networking between organizations and stakeholder groups could be significant in the future. Additional research will be required in order to demonstrate to what extent this coalitions and networks have stabilized in the post-crisis period and how effective they have been without an immediate and urgent sense of need from government decision makers.

Why it was done: The political economy reasons

To understand why those political processes led to the outcomes they did, consider government decision making in isolation from the outside influences of citizens and lobbyists. Decision makers, whom I will also term agents, are heterogeneous and may thought of along two axis. The first is a continuum between completely benign social welfare maximizers on the one hand and the completely self-interested on the other. Self-interested agents may maximize campaign contributions or corruptive rents as in Grossman-Helpman (1994), their probability of remaining in power as in Nordhaus (1975), or their place in history (Galeotti and Breton 1986). The second axis describes whether governments behave as if they had a single, rational decision maker (the 'unitary' model) or if government decision making is fractured among different, potentially competing, agents. Figure 3 simplifies these axis to give the reader a more intuitive picture to work from. It should be emphasized that this is not an attempt to categorize particular governments or agents as self-seeking, but rather to examine the policy-making processes for particular policies. Each government enacted multiple policies that would be best categorized using different quadrants for each policy. External agents, notably absent from the figure, will be added to the analysis later in the paper.

Figure 3. Decision making along fragmentation and self-interest axes



Claim 3: much of the common policy response can be explained by a social welfare function maximizing, unitary government.

The benchmark from which most models of governmental decision-making begin is the social welfare maximizing, unitary government, making this quadrant a logical place to start. We can then ask how governments' behaviour deviates from that of a first-best or second-best optimization, to identify what is missing from this description of government behaviour. In order to maximize social welfare, governments may have identified other, intermediate goals. I conducted a survey of the country study authors to rank order eight possible on the basis of which were most important to their government during the food price crisis (Table 1). The second column shows the average rank given by the study authors. Lower numbers represent a higher priority. The third and fourth columns show the number of authors placing that goal in the top three or in last place, respectively.

Table 1: Policy priorities of the country-study governments (n=13)

Goal	Average Response (Rank from 1 to 8)	Top 3 Priorities (n)	Not Important (Rank 8) (n)
Address poor nutrition/ food insecurity	2.5	9	0
Reduce poverty	3.8	8	3
Increase national food self-sufficiency	4.0	8	3
Contain social/political unrest	4.7	5	4
Secure the government's power . . . or political or economic rents	5.1	5	4
Stabilize macroeconomy	5.8	4	7
Ensure a minimum farmer income	6.5	0	7
Maintain international relationships	8.0	0	13

It can be seen that the first priority for most governments was reducing hunger and food insecurity. This is widely perceived as critical to social welfare as most poor people and even most smallholders are net food buyers. In the Bangladeshi and Keynan cases lower food prices do tend to help the poorest farmers. Sometimes the opposite holds: in Cambodia, China, Madagascar, and Vietnam, for instance, the average farmer is a net food seller who would be benefitted by higher prices (World Bank 2007). In the Zambian case, both dynamics are present: maize is produced by small-scale farmers who are net food buyers while wheat is produced by large-scale commercial farmers who benefit from higher prices. Additionally, even when farmers are net buyers, low food prices may not be in their best interests in the long run because they discourage further agricultural investment, reducing yield growth (Harriss, 1979). Researchers argued prior to 2008 that small increases in food prices would help the same farmers in the long run (eg. Ravallian 2000). Similarly, Barrett (1999) shows that both higher and lower food prices

create political coalitions to support the continuance of either one. The Brazilian case shows that, if food prices are fully passed through to increase wages, Brazillian poor will be better off. If the pass-through rate is 50 per cent instead, the poorest 10 per cent of the population is still no worse off and richer deciles still receive higher welfare.

Even though food security and nutrition ranked number one, few policies were passed that dealt with nutrition itself; governments targeted the availability basic staples. Reducing poverty and increasing national food self-sufficiency were also among the three most important goals in the majority of the governments. A significant number of cases further indicate the importance of stability: achieving stable macroeconomic conditions, reducing social and political unrest, and keeping the current government in power. Only developed country governments thought ensuring minimum farmer incomes and maintaining international relationships should be priorities. More than half of the governments ignored farmer welfare completely and all ignored their policies' impacts on other countries. In light of the policy spill-overs seen in this episode, this willful ignorance is alarming and should be addressed by the involved international organizations (Pinstrup-Andersen and Watson 2011).

There are good empirical reasons to doubt that the first quadrant can explain the variation between countries or the significant policy failures observed during this period. One is policy failure (Chapter 3). Government procurement efforts often failed, either because of a lack of domestic supply or because they contributed to further domestic price fluctuations. India's lack of adequate storage led to significant grain waste even though they were able to secure sufficient stocks. Subsidies in many cases ended up funding farmers and consumers in neighboring countries, whether discussing food, fertilizer, or fuel subsidies. Poor subsidy targeting and corruption also meant that public outlays did not have the desired impacts. Only some of the administrative difficulties can be chalked up to government capacity when most of the policies already had an infrastructure in place to enforce them.

Economists typically assume governments identify and address specific market failures so that policies enhance economic efficiency. No attempt was made to address classic market failures, such as providing public goods, which would improve market integration and reduce spatial price variability. Rather, governments intervened when desirable outcomes were not being achieved by market forces in the short run, typically without regard for the long-run

considerations. In the food price crisis, the primary "market failures" governments discussed were speculative behaviour, hoarding, anti-competitive practices, or abuse of market power. However, very few of the governments took action to address the issues. The three exceptions where a government took decisive action because of these market failures are: Bangladesh, where the government sealed warehouses to prevent hoarding; Malawi, whose government indicated its trade restrictions and price bands were put in place to address hoarding; and South Africa, whose Competition Commission (which predated the crisis) increased prosecutions and fines for food companies engaging in anti-competitive behaviour. Governments' relationship with the private sector will be discussed below.

Policy inefficiency and policy failure make it more difficult to accept the first quadrant as the only correct model. If governments wanted to ensure food security, why did they target their food price policies to those facing hunger and food insecurity? Policies tended to target urban and middle-class citizens who were less poor. Kenya subsidized bags of processed maize meal which were too large for poor households to afford. India and Zambia took no new actions to improve social safety nets or otherwise support the incomes of the poor. Despite the claim that the majority of the countries wanted to increase food self-sufficiency, most agricultural interventions were short-term only. Mozambique's investments in agricultural production and processing bottlenecks have not successfully increased food production since the crisis. Ganguly and Gulati (Chapter 16) contend that India's investments in achieving a second green revolution are insufficient to have more than symbolic impacts. These failures were compounded by uncertainty: policies were announced and then retracted three to six months later, primarily because they were ineffective, corrupt, or both. Many policies were introduced too late to stop the rapidly rising prices.

Claim 4: one primary cause of policy failure was fragmented government decision-making.

Nearly all of the country studies demonstrate that the simplifying assumption of unitary government decision-making fail to accurately describe many policy decisions, with China being the notable exception. Roubini and Sachs (1989) introduced the concept of fragmented government decision making considered here in quadrants two and four. The literature since

them has demonstrated that fragmentation matters most during periods of crisis, such as the one currently being considered. The country studies reveal a pattern of poor coordination and tensions between different ministries—each with its own goals and maximands, special interest groups, targets, resources and constraints, biases, and influence—which slow policy formation, introduce inefficiencies, and result in sub-optimal outcomes.

Governments become fragmented when it is unclear which agent is responsible for decision-making and what role each agent is supposed to play. Egyptian ministries are unified when dealing with the bread subsidy, but are otherwise uncoordinated and do not share data. As a result, each ministry used its own tools to realize its own ends, leading to both duplicated efforts and conflicting policies. In Bangladesh, by contrast, the ministry of commerce was nominally responsible for food market policies. Unable to act without the consent and support of other ministries, however, the commerce was blamed for significant policy failures that were more accurately caused by lack of coordination and support. In Mozambique, contention between government agencies over how much money to allocate to agricultural priorities led to similar outcomes. South Africa's finance ministry instructed the agriculture ministry to improve food security and provided 400 million Rand to do so. Agriculture's response was that their mandate covered increasing production and funding research, not food policy. The funding therefore went towards social development through another ministry. This response is particularly exceptional for a bureaucracy offered an increased budget to assume greater importance. In Zambia, conflicts between the ministry of agriculture and other ministries similarly reduced the country's ability to import enough grain to deal with the crisis.

Even where there is clarity within the central government, fragmentation may occur as policies move from the center to state and local governments. Nigeria's federal government announced that it would release grain stocks to representatives of state governments for distribution in the hopes this would reduce domestic prices. State governments had a different idea about what to do with the grain. The representatives they sent tended to be the traditional rulers, senators, or religious leaders who were already powerful. They kept the grain for themselves and doled it out as patronage to the favoured few. While this may have eased demand pressures on price, they failed to increase the supply of marketable grain. The plan was so riddled with corruption that it was shut down before most of the grain had been dispersed. In

India, the federal government structure complicated and slowed the decision-making process as the federal and state governments debated which was responsible for responding to the crisis.

Fragmentation can stop all policy making as in South Africa:

> The fact that the ANC in itself is not monolith and is intensely divided along many divisions it is no wonder that most spheres of government policy making—especially in agriculture, food, land and rural development matters are experiencing 'policy paralysis' or the inability to make important decisions. . . . This 'policy paralysis' can be ascribed to the fact that government (and the party) has succumbed to deep ideological divisions within the ruling alliance, which prevent any agreement on the way forward (Kirsten, Chapter 19: 424).

Malawi seems at first an ideal counter-example, where one would expect very unitary decision making. As a former agriculture ministry, the president understood agricultural policy well and was deeply involved in creating and overseeing the primary agricultural policies. The political system encouraged all government bodies to act in concert with the president's wishes or risk being underfunded. The concept of street-level bureaucracy gets in the way of this simple narrative (Lipsky, 2010). The price band the president tried to impose failed because of the persistent institutional rivalry between the parastatal marketing board and the parastatal grain reserve board.

Claim 5: uncertainty and incorrect forecasts magnified policy failure and the effects of fragmentation.

Policy makers during the crisis often did not know what food prices were at the moment, how high prices might go, or when they might come down again (Croushore 2011). Ethiopian leaders did not know for certain whether the cause of their price increases was domestic monetary policy or international pass through, which delayed its monetary policy response. This effect becomes more pronounced when different ministries have varying targets and varying target constituencies: Zambia's Disaster Management Consultative Forum monitors production shocks while the Ministry of Agriculture and Livestock monitors national food balance sheets. If there is no change in domestic production, the disaster committee will not react to changes in the

international market. Additionally, DMCF focuses on rural, smallholder, and poverty issues while MAL responds more to the commercial farmers' needs.

The country study on Vietnam is particularly worth reviewing in this context. A March 2008 report by the Ministry of Agriculture and Rural Development (MARD) expected below average harvests. Because of this, the government restricted exports in order to keep domestic prices lower. In the end, however, the rice crop was larger than ever. The agriculture minister apologized before the National Assembly for the errors. IT would not be too much of a stretch to conclude that this one mistake in the report cause by uncertainty crated part of the global crisis itself since Vietnam's export restrictions increased global grain prices. While MARD's focus is on protect consumers, the Ministry of Industry and Trade specializes in protecting farmers. MIT, concerned that export restrictions would harm farmers, introduced a price floor above the market clearing price. Put together, these conflicting policies led to wasted rice that was not sold domestically or abroad, increasing prices despite the rice surplus, and lower food access in the midst of high food availability. The government increased publicly held stocks rapidly.

It is clear from these examples and others in the country studies that many policy decisions are in fact made by fragmented processes, featuring agents with different goals, targets, policy levers, and constraints. Because of complex interactions, final outcomes may resemble the goals of none of these parts and government actions may little resemble the typical assumption that governments behave as a unitary, rational decision maker.

Claim 6: policy makers' private interests also drove policy choices.

In the self-interested model of quadrants three and four, policy makers are influenced to varying degrees by both altruism and other, ulterior motives. These private interests may include ensuring their continuance in power, personal financial rewards, increased power and influence, or achieving a place in history (eg. Senegal). Several of the country study authors surveyed confirm that self-interested motives were the principal motivating factor for the government and that this is standard operating procedure. In countries with elections, those elections are universally ranked by the country study authors as one of the most important factors in determining when and how to respond while specific were often motivated by improving the

changes the government would be re-elected. It is widely believed by Indian policy elites that rapidly increasing onion prices have cost politicians elections. Many countries, including Mozambique and Senegal in the country studies, begin implementing promised programmes only just before elections. Kirsten (Chapter 19: 422) indicates the few innovations South Africa enacted were 'half-hearted initiatives [designed] to limit political damage' from rising prices. In some cases, stakeholder contributions were deliberately ignored to support policies with a higher political payoff (eg. Chapter 8). Malawi's political system similarly relies on patronage, with choice political assignments, public resources, or other government favours provided in order to gain political support or in reward for services rendered. During the 2009 campaigns, the single most important issue was what each political party would do with the extremely popular fertilizer subsidy which directly transferred resources to politically important farmers.

The country studies tend to support the core supporter model (Cox and McCubbins 1986) which suggests that governments should reward strong loyalty by distributing scarce resources to their strongest supporters. Parts of Malawi and Zambia that had supported the winning party in the previous election tended to receive more subsidized fertilizer vouchers than areas that had not. Mason and Ricker-Gilbert (2012) indicate that the average household receives 11 kg more fertilizer if it lives in a constituency that voted for the government party, an amount that increases by 0.5 kg for every additional 1 per cent of the vote. It has already been mentioned how Nigeria's stocks programme tended to serve political and private interests rather than the public good. While Olomola (Chapter 13) contends that the federal government's primary goal was reducing hunger, and was itself free of corruption in this episode, it should be noted that stocks were released to states not by population size, poverty, or other measures of need, but by political interest in particular regions' welfare who had provided greater support to the President.

Policies were also selected to generate private wealth. The President of Malawi owned the firm that was grant a monopoly to distribute and oversee the fertilizer subsidy. The fertilizer subsidy's expansion can therefore be justified both as a measure that increases the social welfare of the rural poor and as a means of accumulating private wealth (quadrant two). Other Malawian politicians similarly stood to gain from high international prices since they were the primary exporters to Zimbabwe. They therefore had a private incentives to instruct the National Food

Reserve Agency to not release grain stocks in order to keep prices high. This directly caused the implementation failure of the marketing board's price band (quadrant four).

External Agents

We have thus far considered government decision making in isolation from outside influences. To include them, consider the Stigler–Peltzman rent-seeking model as generalized by Hillman (1982). It assumes that governments are self-interested, valuing the rents or the political support they receive from industry and consumers, as well as income from tariffs. It is assumed that citizens reward the government with political primarily for improving group welfare, so one might expect both social welfare maximizers and self-interested governments to enact similar policies. The differences will be in the details, such as the evidence already discussed from the core supporter model or Malawi's fertilizer subsidy. Depending on how much weight governments place on the welfare of different constituencies and their own tariff revenue, they chooses tariffs and other policies to influence market prices.

Governments face and make use of two primary groups of external agents: firms, who tend to work with the government as lobbyists or insiders, and citizens whose voices are often ignored unless they protest. Insider/outsider models (e.g., Maloney, Jordan, and McLaughlin 1994) divide interest groups into two groups depending variously on their levels of access and influence over policy makers, or of strategies chosen in order to gain that influence. Insiders are able to and choose to consult directly with the government while outsiders attempt to influence government decisions through the media or social protest. Consider first the work of insider business lobby groups.

Claim 7: insider business lobbyist groups played a pivotal role in policy formation, primarily in lower-level committees.

Claim 8: lack of transparency fuels mistrust between the government and the private sector, leading to policy and implementation failures.

Lobbies' influence on politics can be readily seen in the country studies. For example, when Zambia's three largest agricultural lobbies were in agreement in January 2008 over the direction policy should take, the stocks monitoring committee followed their recommendations. Because each lobby represents different groups – commercial farmers, millers, and traders – they eventually disagreed on further policy actions. Because of the lobbyists' fragmentation, the stocks committee did nothing else until riots forced higher action from above.

On the other hand, this private influence is constrained by public mistrust. Governments openly call firms saboteurs, accuse them of speculative hoarding designed to destabilize the country, and threaten them with fines and jail for performing temporal and spatial arbitrage. Ethiopia's and Malawi's governments restricted domestic grain markets specifically to respond to distrusted private traders. In Malawi's case, this was the only new policy crafted specifically for the price increase. In Ethiopia's case, the government relied primarily on verbal warnings and accusations, claiming businesses created unrest and instability. Admassie (Chapter 6) refers to harassment and intimidation with a dual purpose of preventing protests, but details are not known. Bangladesh's caretaker government fought against corruption by disrupting supply chains and decimating the informal markets the poor relied on for food access. As a natural result, food supply dropped and food prices rose in many parts of the country, harming the people the government had hoped to help by fighting corruption. Mozambique ignored business' inputs despite creating a forum for them to air their concerns. India debated forcing traders to sell off their private grain stocks under threat of imprisonment.

This distrust of the private sector also contributes to a lack of policy transparency. The lack of transparency in turn creates uncertainty for market participants. At what prices will the government purchase grains or release public stocks? How long will export bans or lower import tariffs last? How large will subsidies be and how long will they last? Farmers must make planting decisions without knowing government pricing plans and traders must import without knowing when governments will intervene. Each could potentially lose their entire investment. This leads to underinvestment and greater hoarding than would exist with transparent policy making. The feedbacks generated from this dual-sided mistrust therefore create policy failures and inefficient food markets.

For example, when Kenyan farmers asked their government to reveal the price it would set for maize in the 2010–11 season, the government refused, declaring that markets were unpredictable and so the government would be too (Mugambi 2010). This in turn reduced Kenyan farmers' incentives to invest in improved seeds, physical infrastructure, and fertilizer, reducing the total harvest. Egypt's export ban was announced for only six months, but then extended for six more. This generated more price instability and uncertainty than a more transparent system would. India and Malawi regularly evince significant policy swings on the one hand and piecemeal policy making on the other (Babu and Sanyal 2007). Nigeria announced many policies that were never enacted or that were quickly removed, increasing hoarding and market uncertainty. The kind of policy gyrations witnessed in many of the study countries impede both market and policy effectiveness. If a policy can change so rapidly, how can firms or consumers make informed decisions on investments?

Resolving the dual-sided mistrust and the policy and market failures it engenders will require much greater transparency (Pinstrup-Andersen and Watson 2011). Jayne, Zulu, and Nijhoff (2006: 338) declare that:

> The phenomenon of subsidized government intervention in the market, or the threat of it, leading to private sector inaction, is one of the greatest problems plaguing the food marketing systems in the region. Effective coordination between the private and public sector would require greater consultation and transparency with regard to changes in parastatal purchase and sale prices, import and export decisions, tariff rate changes and stock release triggers.

Because governments face uncertainty about current conditions, let alone future, they should ideally announce clear guidelines about the conditions under which certain policies would be enacted – price thresholds for instituting or removing bans and subsidies, for example. This would promote both market and policy efficiency by enabling farmers and traders to make informed decisions. There is room for action in this regard from the WTO as well: it is better that governments pre-commit and announce at what international prices export restrictions will be triggered than that governments pretend there are no restrictions and then enact them by surprise through ad hoc processes.

Claim 9: protests and the threat of protests over food prices most often elevate food policy decision-making to a higher government level. Political protests have quite different impacts.

Bellemare (2012) shows that sudden food price increases are significantly correlated with the risk of protests. Citizens' willingness to protest the removal or reduction of a benefit acts as a significant constraint to the scope of policy choice. Ghoneim (Chapter 12:150) reports that 'removing one element of [Egypt's bread subsidy] can create a very dangerous domino effect' because it represents 'a powerful symbol for the social contract between the population and any governing regime'. Malawi's fertilizer subsidy and Brazil's Bolsa Família are showing a similar propensity.

The ability of riots to get attention from the highest levels of government is clearly seen through many of the country studies. Senegal's President Wade only met with various constituency groups after they rioted and prominently introduced new policies immediately afterwards in order to ensure domestic tranquility. It has already been mentioned that the Zambian government had only acted when business lobbies were in agreement before the riots. After the riots, high-level officials took an active policy role and with their involvement food policies 'became political' (Chapter 8). The Nigerian government did not act on rising food prices in part because it saw no protests and assumed that if there were no protests, there must not be a problem. The Chinese government identified urban poor and university students as the most sensitive group because of their increased propensity to protest. Though there was an attempt to target subsidies to the poorest, 'the students were included, of course, not fully because of poverty consideration, but the political power and their influences through demonstration' (Chapter 17, working paper). Ensuring political stability was one of Ethiopia's primary goals, to the extent that food price policies were seen as ensuring domestic tranquility rather than the opposite. Opposition leaders were jailed and freedom of assembly was curtailed in order to reduce the risk of demonstrations.

It should be noted that the 2007–8 Egyptian food riots were significantly smaller and more geographically constrained than the later 2010–11 political protests. The first riots dealt specifically with concerns about food and fuel prices: any anti-government sentiment was largely a symptom of concerns about prices. When the government reaffirmed and increased the bread subsidy in 2008—a programmatic response to previous protests—the protestors largely

dispersed. In that sense, these were similar to the 1977 riots which prevented a decrease in the size of the subsidy. On the other hand, the latter riots focused on poor government performance, low wage increases, and unemployment. When the government responded as normal by increasing the subsidy, the riots and protests remained.

5.4 Conclusions

This synthesis has made nine claims about what we learn about the political economy of food policies from the 2006–8 food price crisis:

1. The responses to past crises are the best guides to predicting future actions.

2. Governments preferred policy changes with lower costs, such as changing the level of a currently existing policy rather than introducing a new policy.

3. Much of the common policy response can be explained by a social welfare function maximizing government.

4. One primary cause of policy failure was fragmented government decision-making.

5. Uncertainty and incorrect forecasts magnified policy failure and the effects of fragmentation.

6. Policy makers' private interests drove policy choice in select examples.

7. Insider business lobbyist groups played a pivotal role in policy formation, primarily in lower-level committees.

8. Lack of transparency fuels mistrust between the government and the private sector, leading to implementation failure.

9. Protests and the threat of protests over food prices most often elevate food policy decision-making to a higher government level. Political protests have quite different impacts.

The broad commonalities between very different countries can be understood by appealing to a relatively naive model of a social welfare maximizing, unitary decision maker.

Most governments interested in the short-run welfare of their people tend to favour policies that lower prices and strengthen safety nets when international prices spike upwards. Concerns about macroeconomic stability may moderate these policies but most governments demonstrated a willingness to forgo significant revenue in order to deal with the near-term crisis.

The social welfare maximizing, unitary government model is insufficient, however, to explain much of the variance or the ways in which governments deviate from these simple predictions. Different ministries with different goals and instruments available not only act slowly, but enact directly contradictory policies (e.g., Vietnam). Even where governments have had a very clear, unified set of food and agriculture policies, severe swings in international crisis may create or bring to the fore schisms that had not been politically relevant before (e.g., Egypt). Uncertainty leads to significant policy delays and reversals (e.g., Vietnam, Nigeria). These factors combine to cause much of the policy implementation failure documented here. Institutions, both formal and informal, constrain political choice and resources (e.g., Brazil, India). Bryan (Chapter 3) further concludes that additional preparation may not be sufficient to prevent the kind of ad hoc policy-making processes witnessed here. Politicians must be perceived to be 'doing something' when a crisis occurs, and that often means making changes to policy.

Most of the country studies work from the premise that governments care more about the welfare of particular groups. Social safety net expansions were more likely to benefit urban consumers than rural (e.g., Bangladesh); governments did less to reduce price increases where farms were large, well-organized, and politically connected (e.g., the USA, South Africa); and subsidies favoured groups more likely to protest and disrupt government legitimacy (e.g., Ethiopia, China). For some policies, governments deviated even further, enacting policies in ways that are privately beneficial to the detriment of publically stated goals and targets (e.g., Malawi, Zambia, and Senegal).

Mutual distrust between government and firms has been paralysing for both investment and policy (e.g., Kenya). Lack of government transparency and sudden policy shifts have led firms and traders to hoard and speculate, and farmers to reduce investment. Those responses support governments' beliefs that businesses will hoard and speculate, which consequently encourages further sudden policy shifts and lack of transparency. This coordination failure is an

essential component of policy failures in these countries and must be remedied to prepare for future crises.

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