Levelling food price volatility, while supporting the poor

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Monitoring water depth. Credit: Felix Reinders

Food crises leave the poor in desperation. To ameliorate the effects of weather and climate disasters, including food price volatility, it is better if governments forget about managing prices and instead care for the poor, experts say.

The worst food crisis in 30 years looms for 50 million people across southern Africa from Mozambique to Angola. Two years without rain has destroyed harvests. Food prices have skyrocketed.

The situation is even worse for Haiti, according to the Food and Agriculture Organization (FAO) of the United Nations. After experiencing three years of dramatic droughts, it now suffers from the impact of hurricane Matthew. The storm devastated agricultural land and fisheries leaving 2.1 million people in need of urgent humanitarian assistance.

Analysts urge more research and mitigation efforts to predict coming weather and climate events and to invest in adapted agricultural methods to keep damages low, such as advanced irrigation and soil preservation methods or resilient crops.

Aside from natural and climate induced crises, the rise and fall of food market prices over a specific period of time, food volatility, is seen as a barrier to stable and lasting food commodity production. In times of high volatility, it is difficult for farmers to make production decisions because they cannot anticipate price trends, and rapid price hikes reduce access to food for vulnerable populations.

When the Ulysses project (Understanding and coping with food markets voLatilitY towards more Stable World and EU food SystEmS) began in 2013, economists and agronomists were concerned with food price volatilities from 2008 to 2011, which led to hunger riots in Africa due to high food prices for consumers; farmer suicides occurred in India due to low prices for crops.

Following extreme swings, experts tried to analyse the causes of such strong volatility of food prices. Financial tools were suspected to have had an impact, because the price fluctuations coincided with an increased movement of hedgers and speculators into financial derivatives on agricultural commodities.

However, as speculators make money out of understanding and providing insurance against volatility, they do not create the volatility themselves. Volatility causes speculation, not the other way round.

Volatility is the normal reaction of the market to information and expectations. But between 2008 and 2011 expectations were not based on reliable information. False notions may have led to irrational decisions in the market and extreme swings. Thus a key recommendation of the Ulysses researchers has been to improve the information system.

"Today market information about production, consumption and stocks are much more transparent. The FAO and the World Bank are now publishing periodical reports on the market situations," says Alberto Garrido, director of the Research Centre for the Management of Agricultural and Environmental Risks (CEIGRAM) of Universidad Politécnica in Madrid, Spain, which was one of the project partners.

Also regional cooperation can level volatility and even help in overcoming local disasters. "Regional cooperation provides its members with some kind of guarantee if rapid intervention is needed during a shock. In the southeast and east Asian region there are some rules about keeping stocks and sharing some of these stocks within the members in times of a crisis," adds Garrido.

Researchers also think that accustomed market mechanisms break, when, for example, governments interfere with restrictions in an otherwise free market that is usually only subject to supply and demand.

"Countries should not focus on managing the prices or try to cope volatility with regulations. Instead they should engage in protecting the poorest," says Garrido.

When governments try to protect their home markets from the volatility swings of the international markets, either to secure higher prices for their farmers or to keep prices low for their population, it usually turns out to be an expensive adventure. Because when keeping prices up, exports have to be subsidised, and when keeping prices low, imports have to be backed. By contrast is it much cheaper and less procedural to directly support those in need, be it the farmers or the consumers.

Garrido's opinion is shared by Bernhard Brümmer, professor of agricultural market theory at the University of Göttingen in Germany. "Price volatility should be ignored in the first instance. In general, successes in food security should be achieved," he says.

Nutrition crises also have widely overlooked hidden effects, as reported by Naomi Hossain, a research fellow at the Institute of Development Studies (IDS), based at the University of Sussex, Brighton, U.K. She published the essence of her real-time investigation "Life in a Time of Food Price Volatility," a cooperation between IDS and Oxfam, on the Guardian website.

During and after a food crisis, "people move into precarious kinds of labour, where they will do pretty much whatever it takes to earn more cash," she wrote. As people work harder and longer, migrating across borders to find work, they often turn to "heavily-marketed convenience fast food, particularly unhealthy processed items with high fat/sugar/salt content – a more 'westernised' diet."

Thus, short-term crises can have effects that last for a very long time, deteriorate health and diminish chances for a better life, affecting the development of a whole country.

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