This week we’re very fortunate to have two of our Columbia University experts, Professors Jagdish Bhagwati and Jeffrey Sachs, weighing in on what is becoming a major crisis: the high prices, tight supply and poor distribution of staple foods. Poor people around the world are being hit hard, and their empty stomachs are forcing them into the streets to protest, or worse. How can we make a dent in the prices and shortages? I’ll let the professors take it from here.

Jagdish Bhagwati

Professor Jagdish Bhagwati, author of In Defense of Globalization:

The current food crisis raises questions concerning the appropriate responses in the short-term, to take care of the immediate problems, and then in the long-term.

To understand both issues, it is useful to go back to the food crisis, no less alarming, that broke out after the failure of Indian, Chinese, Russian and other harvests simultaneously and dramatically in 1972. This crisis was clearly a result of supply factors though some commentators did think that accelerated growth in demand for meat in the developed countries may have played a minor role. The droughts reduced world grain production by 36 million tons in 1972, whereas the previous decade had seen an annual rise averaging at 34 million tons, resulting in a shortfall of nearly 70 million tons! Speculative hoarding of supplies added to the scarcities that resulted.

The result was the usual scramble for supplies by nations which used export restrictions to hold back supplies. Remember that the GATT, and now its successor the WTO, places no restrictions on export taxes; and export quotas are also permitted but only subject to submission of acceptable reasons (as a Food Crisis would provide, given the economic vulnerability of the poor and the political vulnerability of their governments).

The current crisis is less a result of droughts (except for Australia) and more a result of diversion of crops such as corn to biofuels production. The growth in demand from the developing countries such as China and India, with their dramatic growth rates, has also increased demand sharply. As before, hoarding has followed as has the proliferation of export restrictions.

The contrast with the 1972 crisis is obvious. That crisis was essentially a result of simultaneity of severe droughts worldwide. The present crisis reflects long-run factors which will likely not disappear. It needs to be addressed differently.

For the short term, it is practically impossible to tell governments not to hold back supplies. On the other hand, for the importing countries, the International Monetary Fund can provide short-term assistance for balance-of-payments support. Imports can be financed at higher prices, and the permanent loss of
income from paying more for imports can be offset by enhanced aid flows from multilateral and bilateral agencies for the poor countries. This is precisely what we seem to be moving to.

For the long term, the measures to moderate the prices of foodgrains will require attention to at least three policies where we will have to rethink matters: (1) a moderation of the planned reliance on biofuels and turning to nuclear energy instead; (2) the acceptance of genetically modified foods which promise to continue the green revolution in the modern age; and (3) the shift in governmental investment priorities to agriculture.

Professor Jeffrey Sachs, author of Common Wealth: Economics for a Crowded Planet:

The fundamental reason for soaring food prices is that growing global demand is outstripping global supply. The tight supply conditions have four elements: (1) chronically low farm productivity in many regions, notably sub-Saharan Africa; (2) the increasing diversion of U.S. and European food output into bio-fuels; (3) the increasing frequency and vulnerability to climate shocks; and (4) the increasing squeeze on water availability and new arable land for expanded crop production. Each of these should be addressed.

African farmers currently average around one ton of grain per hectare as opposed to roughly three tons of grain per hectare in other parts of the world. The overwhelming reason is that African farmers lack financing to buy critical inputs such as fertilizers and high-yield seeds. The donor countries would do Africa and the world a load of good by focusing less on shipping expensive food aid from Europe and the United States and focusing much more on helping African farmers to gain access to the inputs they need for higher productivity.

A new Global Fund for African Agriculture could turn the situation around in just a few years. A good model is Malawi’s voucher program for smallholder farmers, which gives impoverished farmers in Malawi the access to a modest amount of fertilizer and improved seeds per household, at an affordable price. The result has been that Malawi, uniquely among Africa’s impoverished countries, has recently doubled its grain output in the past three harvests compared to the harvests before 2005.

At the same time, the rich countries should stop diverting their food crops, such as maize in the United States and wheat in Europe, and their food-growing land (such as the shift in Europe from wheat and maize to rapeseed) for bio-fuel production. Using food for bio-fuels is actually bad for the environment (through the high energy inputs used to grow the crops and to convert them to bio-fuels) and is disastrous for global food balances. These bio-fuel programs should be cut back sharply, while redoubling the research efforts to produce bio-fuels from land and biomass which do not compete directly with the food supply (e.g. the production of ethanol from cellulose such as switchgrass or wood chips).

A third step, to address the increasing climate shocks, water scarcity and land scarcity should be much stepped-up research and investment to “climate proof” the food system and further raise yields. Part of the climate proofing will lie with today’s technologies, for example high-efficiency irrigation (such as rainwater harvesting in dry land areas and drip irrigation where feasible). There may also be considerable scope for developing new drought-resistant seed varieties, possibly through agro-biotechnology that uses gene systems for water regulation from drought-resistant plants (such as cactus) and implants them in food crops. In this context, it is absurd that the United States government has recently proposed to slash the research budgets for the world’s international tropical food research institutes (known as the Consultative Group for International Agriculture Research, or CGIAR).
It is important to note also that the global supply squeeze has been exacerbated by three other phenomena which can also be addressed. First, grain inventories relative to total demand have declined to their lowest level in decades. These low inventory stocks have allowed prices to soar. By gradually rebuilding grain inventories in the coming years, especially after successful harvests, we will help to insulate world markets from further sharp spikes in food prices. Second, part of the rising grain demand is for feed grains to support rising rates of meat consumption. Since some meat consumption is already excessive in terms of human health, and because each kilogram of beef requires eight kilograms of feed grain, healthier diets with lower red-meat intake can also ease the pressures on the global food system. Third, in the recent panic over food prices, many traditional food-exporting countries have quickly slapped on export controls, thereby exacerbating the shortages and soaring prices in the food-importing countries. They, and the world, should strive to combine a boost in food yields with a return to more open markets for international grain trade.