



SOCIAL AND ECONOMIC POLICY WORKING BRIEFS

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Rising Food Prices and Children's Welfare

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After three consecutive decades of decline, world prices of food commodities have risen over the past few years at an alarming pace. Rising food prices are a cause of major concern because high food prices bring significant and immediate setbacks for poverty reduction, nutrition, social stability, inflation and a rules-based trading system. Food prices are unique since food is unlike any other good. Food is essential for survival; it is the most basic of basic needs. Access to basic nutrition permits humans to live, work, reproduce and fend off disease. It should come as no surprise that the poor themselves list hunger and food insecurity as their core concerns. Food is special from the production point of view as well. It is the key ingredient in generating human energy, and human energy is essential to any, and all, economic activity. Food is also special because there are both net buyers and net sellers of food commodities among the poor.

In country after country, the poor distinguish themselves from the non-poor because there is hunger in their households. The poor forego meals on a regular basis and eat nutritionally inadequate diets. For the poor lack of access to food means distress at being unable to feed their children, anxiety from not knowing where the next meal will come from, and insecurity from not being able to work at full potential because of weakness and disease. Rising food prices,

however, not only cause poverty to go up. They may also reduce poverty for millions of poor farmers if the higher market prices actually reach them too. However, this should not be a source of comfort. While it is important to point out that some of the poor gain from higher food prices, netting the impact is not the right approach: one of the worst types of redistribution is one in which some of the poor benefit at the expense of others who are also poor. Food insecurity is very painful to the poor who are hurt by higher food prices.

Until recently, analysts and policymakers used to be concerned that world food commodity prices were kept artificially low by agricultural support policies in advanced countries, thereby hurting millions of poor farmers in the developing world. Now, the concern is the opposite. With food prices sharply up, multilateral organizations and governments fear that the livelihoods of millions of poor consumers throughout the world have been put at risk. The risk is particularly high for poor children because malnutrition can cause illness and death. And it can cause irreversible damage to cognitive abilities. Unfortunately, governments' responses to deal with the consequences of rising food prices are inadequate. They are inadequate because: they reach only a fraction of the children that are affected; even for those who are reached, the compensatory

mechanisms fall short of what is needed; and, existing social protection measures are not designed to deal with rising (and volatile) food prices.

RISING FOOD PRICES AND THE POOR

How can higher food prices be potentially good and harmful to the poor at the same time? The answer is simple: the poor include both net buyers and net sellers of food in significant proportions. Small poor farmers benefit from higher food prices. However, the poor in urban areas and those in rural areas with little or no access to land are hurt, and hurt badly, when food prices increase. This contradictory impact of food prices on the poor has been called the “food price dilemma.” This dilemma has been the source of a futile debate regarding when the poor are better off: when food prices go up or when they go down? Rather than trying to measure and base the policy response on the net impact of higher (lower) food prices on poverty, policymakers should simply accept the unavoidable fact that if food prices rise (fall) poor net buyers (net sellers) will need help and rejoice in the fact that poor net sellers (net buyers) will be better off. In *either case*, existent social protection programs will have to be expanded in coverage and size to compensate the group of the poor who get hurt. In addition, when food commodities prices increase, there is an opportunity to help poor net sellers translate this windfall into a more long-term improvement in living standards.

As a general proposition, the impact on poverty generated by an increase in the price of food will depend on: i. the relative importance of different food commodities in the production set and consumption basket of different households and the difference between the two; ii. the magnitude of the relative price change; and, iii. the degree to which households are compensated for the price shocks by changes in their income (i.e., by the indirect effect on wages and employment originated by the price change). Evidence suggests that: the poor spend between 60 and 80 percent of their income on food on average; the increase in domestic food price has been

significant, and the positive effects on wages take time.

Overall, existing empirical evidence shows that an increase in food prices will make many of the already poor worse off and make some of the near poor (households with incomes just above the poverty line) poor. This, however, does not always translate into an increase in aggregate poverty (in, for example, the headcount ratio) because higher food prices also make part of the poor better off. But, there is a consensus that—at least in the short-run-- high food prices are bad for the poor because most of the poorest of the poor are net food buyers, even in rural areas and even where agriculture is the dominant activity. That is, in the majority of countries, the net effect will be a higher poverty rate. However, as argued above, the net effect may not be the relevant indicator when deciding on the policy response. Even in countries where the net effect is a reduction in poverty, poor net buyers should have access to a broadened social protection system.

Even if in the short-run higher food prices hurt more poor households than benefit them, could it be that in the medium-term higher incomes to net sellers induce higher incomes for net buyers through multiplier effects between agricultural and non-farm incomes in rural areas? There is a large body of evidence that correlates higher agricultural incomes with higher nonfarm activity and incomes; in general, studies show that the virtuous circle might take considerable time to manifest itself. In the short-run, the negative impact on the majority of poor households' welfare is inevitable. In the case of the poor, the short-run effect is particularly important because the damage to health, nutrition and cognitive development might be irreversible.

Recent studies on the poverty impacts of increases in food prices use different methods, poverty lines and assumptions about price increases, pass-through to domestic prices, substitution effects, and wage (and other indirect income) effects. Also, some include net sellers while others don't. However, in spite of all

these differences, on average, the evidence finds that in the majority of countries, higher food commodities prices increase poverty for practically all the food commodities. The orders of magnitude of the estimated short-term impact of higher food prices on poverty are significant. Ivanic and Martin (2008) show that about 105 million people in the least developed countries have been added to the world's poor since 2005 because of rising food prices. This is equivalent to about 10 percent of the people living with less than a dollar a day and, according to the authors, and "close to seven lost years of progress in poverty reduction" (p.17). Even middle-income Latin America has not remained impervious: Robles et al. (2008) estimate that the increase in world food prices between January 2006 and March 2008 resulted in an increase of 4.3 percentage points in the headcount ratio or 21 million additional poor individuals. CEPAL (2008)—the UN Economic Commission for Latin America and the Caribbean—estimates that the ranks of the extremely poor and the moderately poor increased by 10 million each. The Asian Development Bank (2008) suggests that a 20% increase in food prices would raise the number of poor individuals by 5.65 and 14.67 million in Philippines and Pakistan, respectively.

RISING FOOD PRICES AND SOCIAL PROTECTION

Are developing countries ready to compensate the poor and vulnerable groups for their loss in purchasing power? In particular, do social protection programs exist and can they be easily expanded to incorporate the "new" poor? Do governments have the fiscal space to accommodate the additional resources needed to fund the social protection programs? Unfortunately, 19 (out of 49) low-income and 49 (out of 95) middle-income countries do not have safety net programs. Although cash transfers programs (conditional and unconditional) are increasingly more common (16 (out of 49) low-income and 37 (out of 95) middle-income countries that have cash transfers programs), they are still not pervasive. School feeding programs are a bit more common in low-income countries that cash transfers programs

but still only 24 of low-income countries have such programs. While they will not compensate the poor for the loss of purchasing power associated with higher food prices, school feeding programs can insulate (at least in part) the children of poor households from suffering a cut in their food intake as a result of higher food prices.

In addition to the fact that there are many low- and middle-income countries which do not have social protection programs to help the poor who get hurt by higher food prices, those which do may have very limited coverage. In the case of Latin America and the Caribbean, for example, the coverage of cash transfer programs exceeds 25 percent of the population living in poverty only in 8 out of 26 countries: Brazil, Colombia, Chile, Ecuador, Honduras, Jamaica, Mexico and Panama. The poorest countries in the region either do not have programs or have them in a very limited scale. Furthermore, most of these programs do not have a mechanism to incorporate the "new" poor or increase the size of the benefit in the face of adverse shocks as part of their design. Some governments (Brazil and Mexico, for example) have increased the amount of the transfer to compensate for the loss in its purchasing power. However, the programs have not incorporated as beneficiaries those who became poor as a result of the food price increase. So far it is not clear how many of the countries that have cash transfers programs increased the amount of the transfer and incorporated the "new" poor into the program (or implemented a complementary program).

In sum, the existing social protection programs and policies in developing countries leave much to be desired, especially to cope with rising food prices. In too many countries it is either inexistent or small; and, even in the countries in which cash transfers programs are large and effective in addressing chronic poverty, they are not designed to respond to shocks. This means that the majority of the poor who have been hurt or those who have become poor as a result of higher food prices are not being protected from the impact of higher food prices on their living standards.

In the cases in which these programs have been expanded, this was done as an *ad hoc* measure implemented many months (or even years) after food price increases appeared in the scene. Low-income countries for whom higher commodity prices represent a negative terms of trade shock may not have the fiscal space to finance an expansion let alone launch new social protection programs. These countries are candidates for receiving multilateral support in the form of grants or concessional loans whose destination should be to fund social protection programs to cope with rising food prices.

Are there other measures that can be implemented to help poor consumers cope with rising food prices? De Janvry and Sadoulet (2008) suggest that measures geared to increase access to land and improve the productivity of subsistence and below-subsistence farmers can be a more appropriate intervention particularly in the case of poor countries. In low-income countries between 80 and 90 percent of the poor live in rural areas and between two thirds and three fourths of them have access to a plot of land. However, even if they home produce some of the food they consume, most of them are net buyers of food and are hurt by higher food prices. If this group could have more access to land and/or increase the productivity of the land they already have, one could achieve two goals simultaneously. First, one could reduce the impact of higher food prices on the rural poor by lowering the amount that must be purchased by them in the market and converting those with sufficient assets into self-sufficient farmers or even marginal net sellers. Second, one could begin to address the supply-side constraints on food commodity production mentioned in Section 1 at the lower end of the spectrum. De Janvry and Sadoulet recommend that policy measures should increase the access to: improved seeds and fertilizers for crops, and to small animals; credit to purchase inputs; more land; and, technical assistance.

CONCLUSION

World food commodities prices have risen substantially in the past few years. The impact of rising food prices on poverty has been the subject of some debate. When food prices rise (fall) poor net consumers (poor net sellers) of food get hurt and poor net sellers (poor net consumers) are better off. Available evidence suggests that in the majority of countries, an increase in food prices is likely to result in an increase in overall poverty. The appropriate policy response is to have a package of social protection programs to help those who get hurt.

Social protection programs and policies in many developing countries are lacking or inadequate. If they are to be used in future episodes of rising food prices, they need to be put in place now (Lustig, 2009). It is essential that the new or existing programs are designed in such a way so that they can increase (decrease) the size of the transfer and the number of beneficiaries when the shock occurs (unwinds). That is, they should include an “insurance” component; this is not a feature that most current programs have. In addition, governments should have mechanisms in place to ensure that when cash or in-kind transfers need to be expanded, they will have the required fiscal space.

Multilateral organizations can help countries design, implement and finance an adequate social protection system to mitigate the impact of higher food prices on poor net consumers. In particular, because the setbacks caused by rising food prices can be devastating for poor children, UNICEF could focus on three things:

1. Systematic monitoring of the impact of higher food prices on children’s health, nutrition and cognitive abilities. This monitoring should not only be an ex-post assessment. It should anticipate situations and alert policymakers so actions can be taken promptly.
2. Help countries adapt their safety net system and fiscal budgeting to mitigate the negative impact of higher food prices on children’s welfare.

3. Collaborate with other multilateral agencies to coordinate activities 1 and 2. In particular, UNICEF could promote a children-centered focus in the Committee on World Food Security's agenda and activities.

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