Sustainable Developments

Surging Food Prices and Global Stability

Misguided policies favor biofuels and animal feed over grain for hungry people

BY JEFFREY D. SACHS

The recent surge in world food prices is already creating havoc in poor countries, and worse is to come. Food riots are spreading across Africa, although many have gone unreported in the international press. Moreover, the surge in wheat, maize and rice prices seen on commodities markets has not yet fully percolated into the shops and stalls of the poor countries or into the budgets of relief organizations.

The facts are stark. In early 2006 a metric ton of wheat cost around $375 on the commodity exchanges. In March 2008 it stood at more than $900. Concurrently, maize went from around $250 to $560. Rice prices have also soared.

Several factors are at play in the skyrocketing prices, reflecting both rising global demand and falling supplies. World incomes have been growing at around 5 percent annually in recent years, and 4 percent in per capita terms, leading to an increased global demand for food and for meat as a share of the diet. The rising demand for meat exacerbates the pressures on grain and oilseed prices because several kilograms of animal feed are required to produce each kilogram of meat. The grain supply has also been disrupted by climate shocks, such as Australia's massive droughts.

An even bigger blow has been the U.S. decision to subsidize the conversion of maize into ethanol to blend with gasoline. This wrongheaded policy, pushed by an aggressive farm lobby, gives a 51-cent tax credit for each gallon of ethanol blended into gasoline. The Energy Policy Act of 2005 mandates a minimum of 7.5 billion gallons of domestic renewable-fuel production, which will overwhelmingly be corn-based ethanol, by 2012. Consequently, up to a third of the U.S.'s Midwestern maize crop this year will be converted to ethanol, causing a cascade of price increases across the food chain. (Worse still, use of ethanol instead of gasoline does little to reduce net carbon emissions once the energy-intensive full cycle of ethanol production is taken into account.)

The food price increases are pummeling poor food-importing regions, with Africa by far the hardest hit. Several countries, such as Egypt, India and Vietnam, have cut off their rice exports in response to high prices at home, exacerbating the effects on rice-importing countries. Even small changes in food prices can push the poor into hunger and destitution: as famously expounded by Nobel laureate Amartya Sen, some of the greatest famines in history were caused not by massive declines in grain production but rather by losses in the purchasing power of the poor.

At least four measures should be taken in response to the food price crisis. First, the world should heed the call of United Nations secretary-general Ban Ki-moon to fund a massive increase in Africa's food production. The needed technologies are available—high-yield seeds, fertilizer, small-scale irrigation—but the financing is not. The new African green revolution would initially subsidize peasant farmers' access to better technologies, thus at least doubling grain harvests. The funding would also help farm communities establish long-term microfinance institutions to ensure continued access to improved agricultural inputs after the temporary subsidies end in a few years.

Second, the U.S. should end its misguided corn-to-ethanol subsidies. Farmers hardly need them given world demand for food and feed grain. Third, the world should support longer-term research into higher agricultural production. Shockingly, the Bush administration is proposing to sharply cut the U.S. funding for tropical agriculture studies in the Consultative Group on International Agriculture Research, just when that work is most urgently needed.

Finally, the world should follow through on the promised Adaptation Fund announced last December at the U.N. Climate Change Conference in Bali, to help the poor face the growing risks to food production from increasingly adverse climate conditions. Even as nations stanch the immediate crisis, climate-induced shocks will force wrenching dislocations with increasing frequency. ■

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