LETTERS

FOOD SECURITY

HOW TO TACKLE RISING FOOD PRICES

The increase in food prices is a boon and bane to developing economies. FILE PIC

IN March, the cost of food increased by 1.1 per cent compared with the same month the previous year.

This is a common phenomenon in developing economies where the proportion of income spent on food is high compared with developed economies.

Engel's law states that as income rises, the proportion of income spent on food falls, even if absolute expenditure on food rises. Thus, low-income food-deficit consumers who are faced with rapid food-price inflation have little room to adjust their expenditure patterns away from non-necessary items.

An increase in food prices markedly reduces the real income of such groups.

The increase in food prices is a boon and bane to developing economies.

Rising food prices affect everyone, but the degree of hardship on a specific population depends on five factors: income levels, the products that comprise a population's consumption basket, whether they are net foodsellers or buyers, the share of food in total expenditure and the degree of price transmission from world markets to local markets.

These factors raise two questions: what causes food prices to increase and what can we do to reduce the negative impact of price hikes.

The cause of rising food prices is due to supply and demand, supported by factors such as trade policies, energy prices and supply chain inefficiency.

Important supply factors include high energy costs, crop failures and a drop in farm productivity. Energy costs act as supply-push factors by increasing production costs.

In terms of demand, the trends in food consumption have seen an increase in the consumption of higher-value protein foods such as meat, fish and milk.

The demand for staple food among the lower quintile of the population, however, has increased as the income elasticity of this group is high. Consumers also demand new food products, new packaging, convenience, new delivery systems, and safer and more nutritious foods.

To cushion the effects of food crises on food security, policy implications that incorporate sustainable production and consumption and a safety net need to be formulated in the developing economies.

In the short run, the government should expand social protection programmes like food or income transfers and nutrition programmes focused on early childhood for the hardcore poor in urban and rural areas.

Some of the poorest people are not well connected to markets and will not feel much the effects from rising food prices. But higher food prices could mean hardship for millions, especially poor urban consumers, who are net food buyers.

Another mechanism to contain food prices and stabilise supply in the short run is to stockpile essential food items.

When market prices increase, the authority could release essential food items to the market and vice versa.

The mechanism could work only if we have an effective warehousing system, distribution system, enforcement on unfair trade practices and a subsidy scheme.

Hitherto low levels of research and development commercialisation and a lack of entrepreneurship are constraints in achieving productivity growth.

Thus in the long term, the government should increase investments in agricultural research and extension, rural infrastructure, entrepreneurship development, and market access for small farmers.

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