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**Rising food prices and their
implications for employment,
decent work and poverty reduction**

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Economic and
Labour Market
Analysis
Department

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,² in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See the successive Reports of the Director-General to the International Labour Conference: Decent work (1999); Reducing the decent work deficit: A global challenge (2001); Working out of poverty (2003).

³ See <http://www.ilo.org/gea>. And in particular: Implementing the Global Employment Agenda: Employment strategies in support of decent work, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

Among other things, the spike in food prices that occurred in mid-2008 can be looked upon as a decline in real income, impacting the poor in particular, who devote a larger share of their income to food. As such, the rise in food prices can be considered as a significant impediment to attaining the Millennium Development Goal of poverty reduction. Converging, as the food-price surge did, with an equivalent spike in non-food commodity prices (energy), the “food” and “fuel crises” were then compounded by the “financial” crisis, prompting a number of observers to refer to all as the “three F’s”, or, indeed, the “perfect storm”.

In point of fact, the dynamics of one crisis can unmake – indeed, reverse – those of another. The deflationary effects and implications of the financial crisis became evident in both the food- and non-food commodity markets already in the summer of 2008, and some causal links are not really in doubt here. So, is the food crisis over? The paper argues that this is by no means a foregone conclusion, whether on the demand or supply side of food commodity markets.

This paper tells us what happened, first of all, in empirical detail. It then tells us of corrections in food markets in the waning months of 2008 to the present. It does so from the perspective of two very insightful ILO economists, both interested in connecting macroeconomic dynamics with what they mean for employment and poverty reduction. And, from this, the connection among the “3 F’s” from the authors’ analysis: “the adverse effects of the food crisis on the poor are likely to be exacerbated by the recession because it has already led to increases in unemployment and underemployment in many countries... once the workers in low-income countries lose their jobs or become underemployed, the issue of food security will become critical for them.”

Policy choices emerge here, those that, in particular, are in service of the poor and of the pursuit of productive employment. The authors show convincingly that they are eminently at home in this policy realm.

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Rising food prices and their implications for employment, decent work and poverty reduction ⁵

Introduction

The trend towards rising food prices, as observed since 2007, accelerated significantly in the first half of 2008. The resulting global food crisis posed a serious challenge to the efforts to attain the Millennium Development Goals, especially Goal 1 on the eradication of extreme poverty and hunger and the global goal of achieving decent work for all.⁶ This is principally because the poor typically spend a larger share of their incomes on food and are, therefore, the most vulnerable to increases in the prices of food. While some people are adversely affected by higher food prices, however, others benefit from them, depending on whether they are net producers or consumers of food staples and the extent to which wages are adjusted to reflect higher food price inflation.⁷

But as the global financial crisis unfolded itself during 2007-08 and developed into a full-blown recession in many developed countries, alongside declines in output growth, commodity prices started falling, and the closing months of 2008 witnessed some decline in the prices of food grains. This is raising the question whether the food crisis is over and one should still worry about high food prices and their effects mentioned above.

The main purpose of the present paper is to examine the nature of the threat posed by high prices of food grains to the journey towards the goal of decent work for all, and to outline measures for confronting the threat. In doing so, the paper first looks at the trend in the prices of major food grains (including the decline in prices towards the end of 2008) and the factors that are responsible for the sharp increases in prices during 2007-08. It then briefly looks at the impact of high food prices on the poor (especially the wage workers). Next, the paper examines the linkage between the food and the financial and economic crises. The last section of the paper is devoted to identifying ways and means of minimizing the adverse consequences of high food prices on the poor so that efforts to achieve decent work for all can be put back on rails.

⁵ This is a slightly revised version of a paper presented at a Technical Workshop on The Global Food Crisis and its Impact on Decent Work organized by the International Labour Organization in Geneva on 5-6 March 2009. Comments on earlier versions of the paper received from Duncan Campbell, Ann Herbert, José Manuel Salazar-Xirinachs, M. Muqtada and Zafar Shaheed are gratefully acknowledged. Albert Choi, Gaia Ines Fsaso, Irmine Iroko, and Yves Perardel provided valuable assistance in compiling and processing the data presented in this paper. However, the usual disclaimer applies. The opinions expressed in the paper are those of the authors and do not necessarily reflect the official views or policies of the ILO, except when explicitly stated.

⁶ This brings into sharp focus many of the issues and challenges raised in ILO: Promotion of rural employment for poverty reduction, Report IV, International Labour Conference, 97th Session, Geneva, 2008.

⁷ For more details on this and other aspects of the global food crisis and its implications for poverty reduction, see R. Islam, Global food crisis, poverty and decent work, ILO Employment Sector, Apr. 2008 (mimeo).

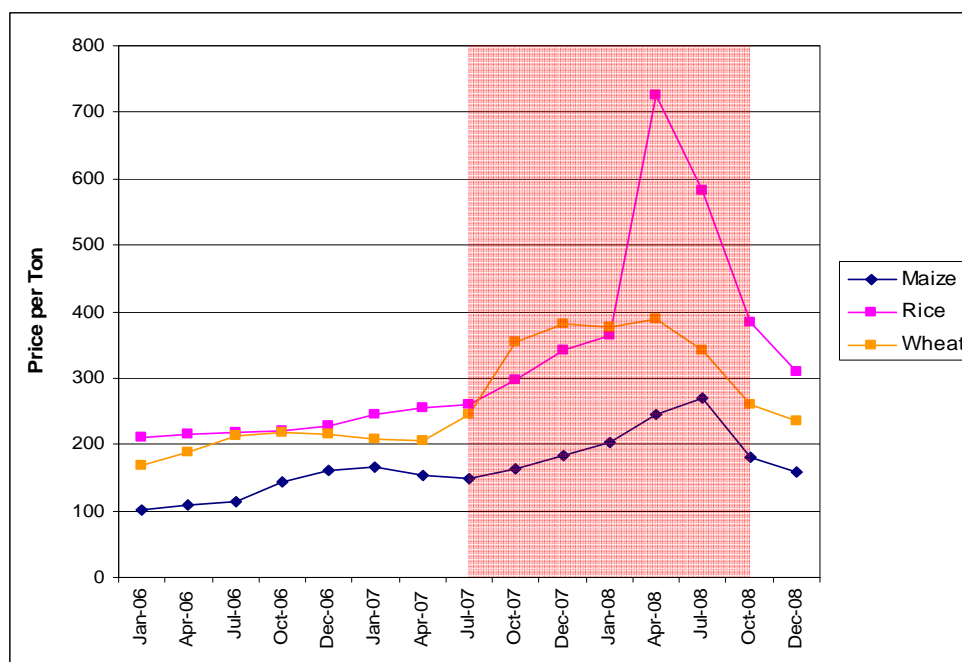
1. Recent trends in the prices of major food grains, major causes and prospects

1.1. Recent trends

Between March 2007 and March 2008, the price of wheat increased by 130 per cent, and that of rice by 74 per cent.⁸ At some point in April 2008, the price of rice had shot up to nearly US\$900 per tonne compared to a little over \$300 per tonne in October 2007 – a threefold increase in less than a year. During the same period, the price of corn increased by 87 per cent. These price increases came after a long period of relatively low and stable food grain prices. In fact, real food prices registered a decline (of 75 per cent) during the period 1974–2005.⁹ Overall, during the 36-month period leading up to February 2008, global food prices rose by 83 per cent. (See figure 1 for the trend in the prices of rice, wheat and maize for the period of January 2006 to December 2008.) In some countries, rising food prices have provoked panic and social unrest.

These trends have had macroeconomic impacts, affecting budget deficits, trade balances and inflation. For example, it is estimated that food price increases accounted for almost 45 per cent of global headline inflation in 2007 (compared to about 27 per cent in 2006) with the impact being much greater for developing countries.

Figure 1. Prices of Selected Food Grains (January 2006 to December 2008)



Prices shown are averages of the weekly prices for the given month.

Source: Food and Agricultural Organisation of the United Nations (FAO): International Commodity Prices; <http://www.fao.org/es/esc/prices/PricesServlet.jsp?lang=en&ccode=>

*Prices are of the following commodities: US No.2, Hard Red Winter ord. Prot, US Fob Gulf; White Broken Rice, Thai A1 Super, f.o.b Bangkok; US No.2

⁸ The cost of food: Facts and figures, BBC, 8 Apr. 2008, <http://news.bbc.co.uk/1/hi/world/7284196.stm> (accessed 19 May 2008).

⁹ International Relations and Security Network/ISN Security Watch: The price of food: Global crisis ingredients, www.isn.ethz.ch/news/sw/details.cfm (accessed 19 May 2008).

Another macroeconomic impact of the sharp rise in food prices was a substantial rise in the import bills due to increases in the cost of importing food. While food import bills at the global rose by 23 per cent in 2008 (compared to 2007), this masks the differences between various regions. For the LDCs and the low income food deficit countries, the increase was between 31 and 33 per cent while for the developed countries the rise was 18 per cent¹⁰. The increase in the cost of food imports has obvious implications for the trade balance and the ability of the poorer countries to procure food grains and ensuring food security for their populations.

By October 2008, the prices of three major food grains declined substantially, and by December 2008, they fell further. The decline in the price of rice was sharper than those of wheat and maize (Figure 1). It needs to be noted, however, that despite the declines mentioned above, the prices of all three major food grains remained at levels substantially above the prices of January 2007.

When food prices had risen very sharply in 2008, they were expected to peak in 2008 and were forecast to ease only gradually thereafter, as illustrated in Annex figure 1. Such forecasts indicate a thinking that although food price cycles in the past averaged about three years _ with supply responding quickly to changes in demand conditions_ the current cycle would last longer due to the structural factors (some of which are discussed below). But the decline in prices witnessed in the last quarter of 2008 would appear to counter such fears. Given these very recent trends in the prices, one may question whether the food crisis is over. But before coming to such a conclusion, it would be appropriate to look at the causes that were behind the sharp increases in the prices of food grains in 2008 as well as the impact on the poor.

1.2. Major causes

Data on global production does not help much in understanding the causes of the sharp rise in prices of food grains witnessed in 2008. As indicated by Figure 2, while there was a fall in the production of wheat in 2006/07, there has not been a major decline in the production of rice and corn during that year. The production of rice maintained a steady (albeit slow) rise since 2003. The production of corn saw a dip in 2006, but has risen since then. Of course, these references to production figures should not be taken to imply that the supply constraint did not play a role. There were, indeed, problems on the supply side as indicated below. But the point that needs to be made is that the price rise witnessed during 2008 cannot be ascribed solely or even mainly to the decline in the availability of food grains. The causes of the sharp increases in prices in 2008 have to be examined within a much broader framework¹¹. In addition, it would be important to bear in mind that some of the factors discussed below are more structural and hence cannot fully explain the sudden and sharp increase in prices that were witnessed in the first half of 2008, while there are a few which acted as “triggers” for the latter.

A number of factors appear to have contributed to the sharp increases in global food prices.

- A major factor is the increase in the demand for food grains arising from **an increase in incomes, especially in emerging market economies**, with China being the most obvious case in point (figure 3).¹² Beyond a certain level, however, a rise in incomes does not cause a direct increase in the human consumption of food grains. In fact, per capita

¹⁰ FAO: Food Outlook, November 2008. FAO, Rome.

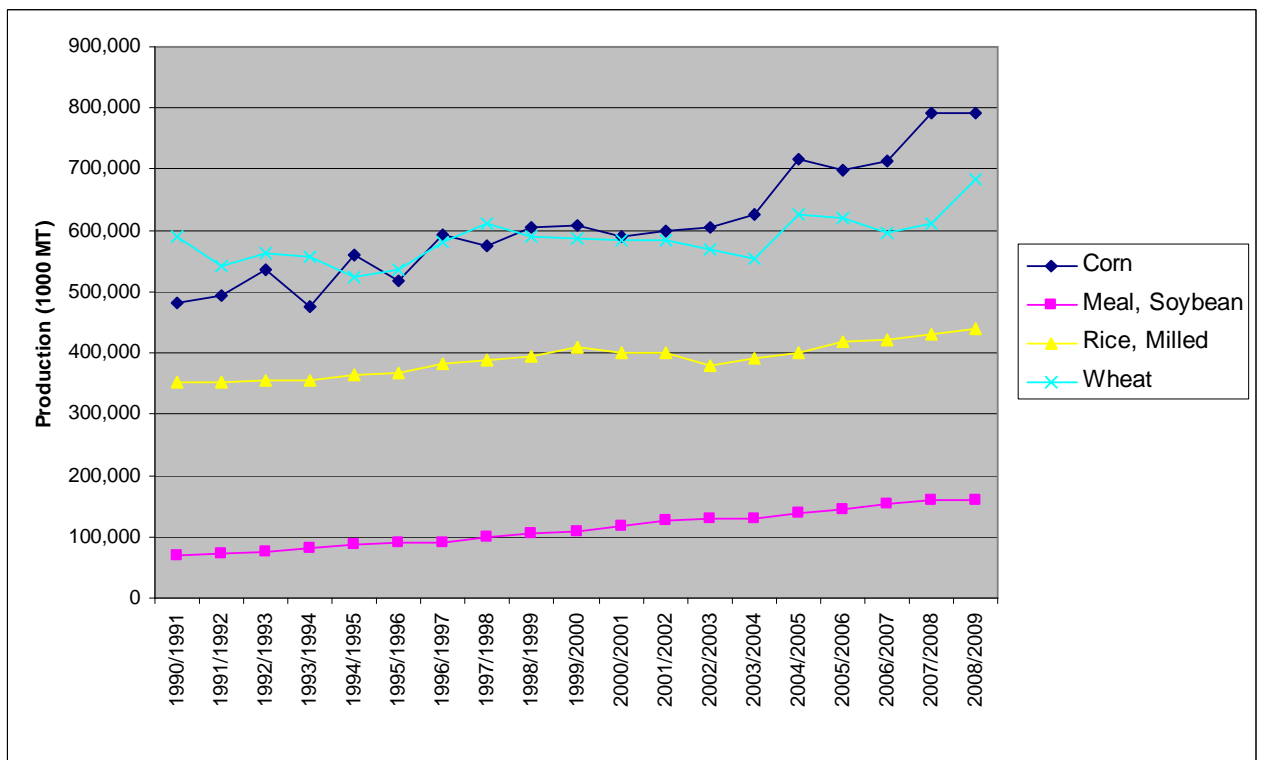
¹¹ This is very much in line with the thesis of Amartya Sen regarding the role of food availability decline in explaining famines. See, Amartya Sen: Poverty and Famines: An Essay on Entitlement and Deprivation. Clarendon Press, Oxford, 1981.

¹² J. von Braun, Director-General of the International Food Policy Research Institute (IFPRI), argues that high income growth accounts for perhaps half of the recent increases in food prices, with biofuels accounting for a further 30 per cent. Cited in J. Borger: “Feed the world? We are fighting a losing battle, UN admits”, in The Guardian (London), 26 Feb. 2008.

consumption of food grain declines as incomes increase. A rise in income actually leads to an increase in the demand for meat and dairy products,¹³ which, in turn, leads to an increase in the demand for grains as animal feed.¹⁴ According to one estimate, of the 2.1 billion tonnes of grain harvested globally in 2008, only half was to be consumed by humans. The rest was expected to be used for animal feed or for converting into biofuels.¹⁵

- One important factor that was responsible for the rise in prices was the increase in the cost of critical inputs like fertilizers and water. Both, in turn, were related to sharp increases in the prices of oil. For example, the price of urea fertilizer almost tripled since 2003; and as indicate by Figure 4, the price of rice is closely linked to that of urea. The cost of water also increased as prices of diesel and electricity went up as a result of increases in the

Figure 2: Production of Major Food Grains, 1990/91 to 2008/09



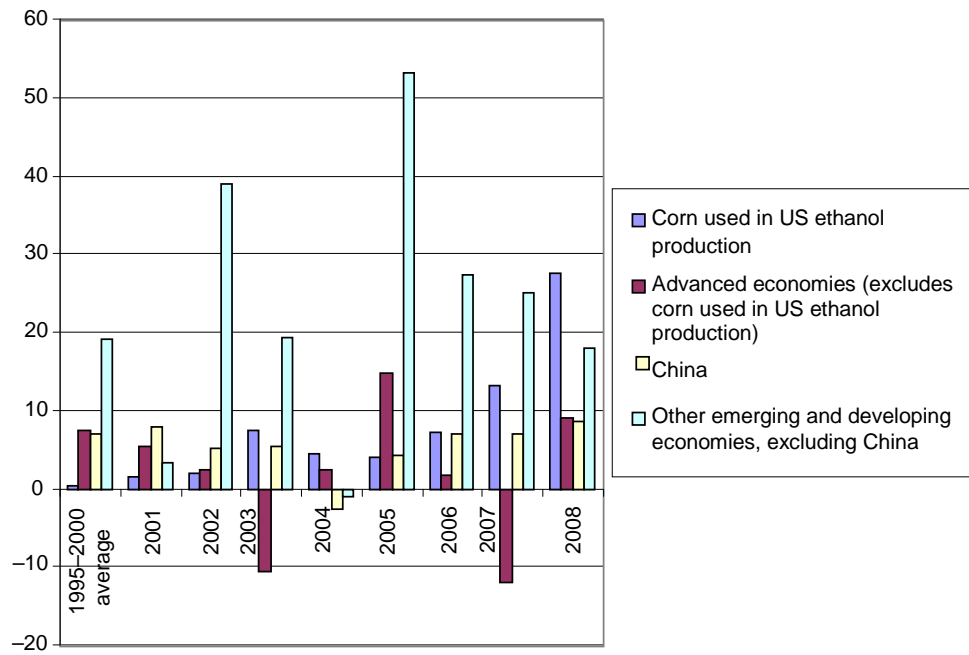
Source: USDA - Foreign Agricultural Service; Production, Supply and Distribution Online
<http://www.fas.usda.gov/psdonline/psdQuery.aspx>

¹³ In China, for example, per capita meat consumption has increased from 20 kg in 1980 to 50 kg now. See FAO: Growing demand on agriculture and rising prices of commodities, Paper prepared for a round table discussion organized during the 31st Session of the Governing Council of the International Fund for Agricultural Development (IFAD), Rome, 14 Feb. 2008.

¹⁴ It may be noted in this context that the production of 1 kg of beef requires an estimated 7 kg of grains, while for pork and chicken the corresponding conversion ratios are 4:1 and 2:1 respectively. See L. DeRose, E. Messer and S. Millman: Who's hungry and how do we know?: Food shortage, poverty and deprivation, United Nations University Press, 1998, p. 55.

¹⁵ Estimates by FAO quoted in The Guardian (London), 15 Apr. 2008.

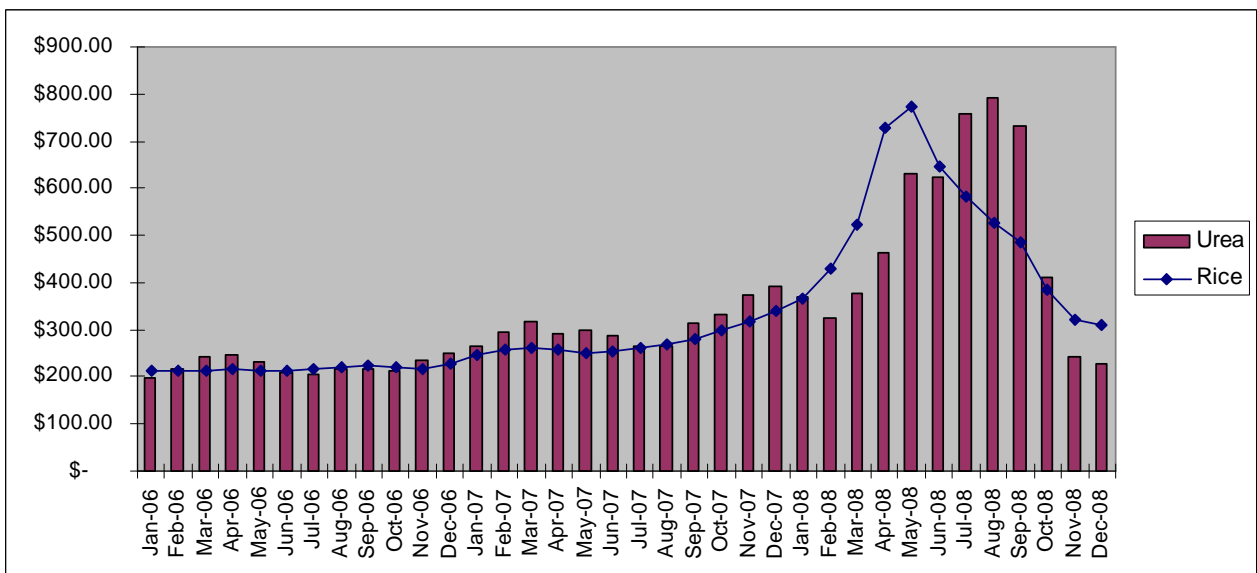
Figure 3: Demand for major food crops



(Demand = difference from previous year in millions of tons).

Source: IMF, op. cit., p. 60.

Figure 4. Price of Fertilizer and Price of Rice



Source: Urea price data gathered from YARA; Rice price data gathered from FAOSTAT

*Rice price is based on White Broken Rice, Thai A1 Super, f.o.b Bangkok

prices of oil. The latter also drove up transport costs (refrigeration, shipping and distribution costs weigh heavily in most food value chains). Altogether, cost factors appear to have played a major role in raising the prices of food grains¹⁶.

- Another major factor driving up food prices is **increased biofuel production**, which reflects concerns over rising oil prices, energy security and climate change.¹⁷ Rising oil prices have led to increased demand for biofuel raw materials such as wheat, soy, maize and palm oil and to increased competition for cropland. Increased prices for these commodities have affected demand for other foods through cost-push and substitution effects. In some cases, increased demand for biofuel raw materials is driven by subsidies provided by some governments to promote biofuel production.¹⁸
- A number of longer term factors have caused a steady **decline in investment in agriculture and rural areas**, which has constrained supply-side responses to increased demand for certain food crops. Both public and private investment in agriculture and rural areas has declined over the past two decades. Publicly funded agricultural research and extension has declined rapidly in many developing countries and has often particularly affected small farmers, whose access to finance for investing in their farms is usually severely constrained, but who play an important role in producing food grains. In some cases, investment has been diverted from food grains to cash crops (on the assumption that the latter would be more profitable and food grains can be imported at low prices). And given the volatility of cash crop prices, such re-allocation of investment has not helped low-income countries in their pursuit of food security. Natural factors, such as droughts, have affected agricultural production in some countries and have caused supply-side problems which have fuelled local price rises but, overall, these have been largely offset by good yields and increased exports in other countries and, would not, on their own, have had a significant impact on global food prices.
- **Historically low stocks of grains** have constrained supply-side responses. Stocks have fallen (Figure 5) as demand consistently outstrips supply, but in an era of globalization and free trade and finance flows, many governments no longer see it as so essential to maintain large stocks of food grains. The result is evidenced in the fact that there has been a long-

¹⁶ Regression exercise shows that the price of urea fertilizer alone accounted for 69% of the rise in prices that took place in the case of rice over the period 1995-2008. Using time series data on price of rice and that urea fertilizer for the period of 1995-2008, the following regression equation was obtained:

$$\begin{aligned} PR &= 167.57 + 0.64 PF \\ &(5.48) \\ \text{Adj R-squared} &= 0.6903 \end{aligned}$$

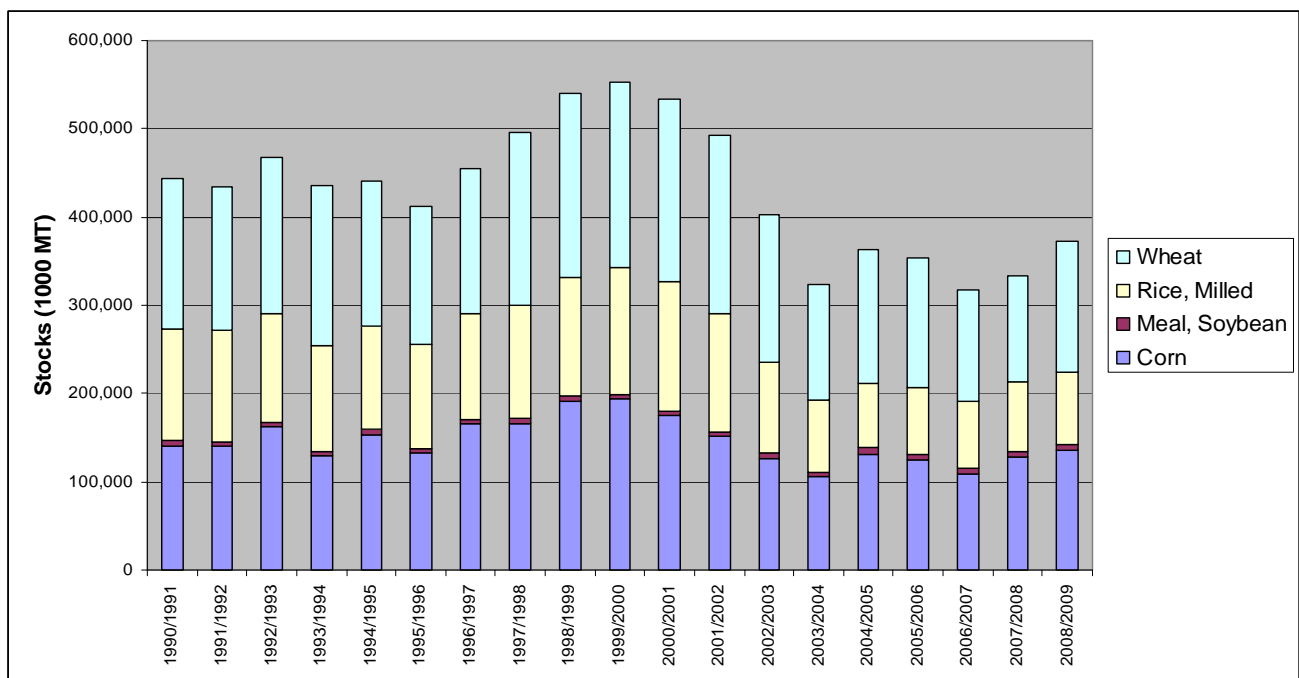
Where PR = price of rice US Dollars per tonne of Thailand white 5% broken, and PF = price of urea fertilizer per tonne in US Dollars. The figure within parentheses represents the t-value of the coefficient.

¹⁷ According to J. Currie in an interview with FT.com of 19 July 2007, since food can now be converted into fuel, there is effectively an arbitrage relationship between the two, implying an ongoing linkage between food and fuel prices. Cited in A. Evans: *Rising Food Prices: Drivers and Implications for Development*, Chatham House, Royal Institute of International Affairs, London, Apr. 2008.

¹⁸ According to the International Institute for Sustainable Development, the United States spends about \$7 billion a year supporting ethanol (see www.iisd.org/pdf/2007/media_grain_journal.pdf). Corn-based ethanol supplies are expected to be spurred by the mandate in the United States energy bill to quintuple the production of ethanol by 2022. If the mandate under the bill is met on schedule, about half of the entire corn crop of the United States will have to be set aside for ethanol by the middle of the next decade, even assuming that cellulosic ethanol becomes commercially available in about five years. The European Union has set a target for 10 per cent of its transport fuel to come from biofuels by 2020 and this will also have implications for the balance between crop production for fuel and food.

term decline in cereal stocks at the global level¹⁹. However, in response to the depletion of stocks, some countries have sought to establish or replenish stockpiles and strategic reserves – which in turn increases pressure on prices. Data from the Food and Agriculture Organization of the United Nations (FAO) indicate that cereal stocks in 2007 were 13 per cent less than in 2003²⁰ and the International Monetary Fund (IMF) reports inventories of major food crops (wheat, corn, rice and soybeans) at a two decade low.²¹ Figure 6 shows how prices and inventory cover (measured in days of global consumption) have diverged dramatically in the last four years, at a time when inventory cover of major food crops has been at a historically low level.

Figure 5. Global Inventory of Major Food Crops



Source: U.S. Department of Agriculture

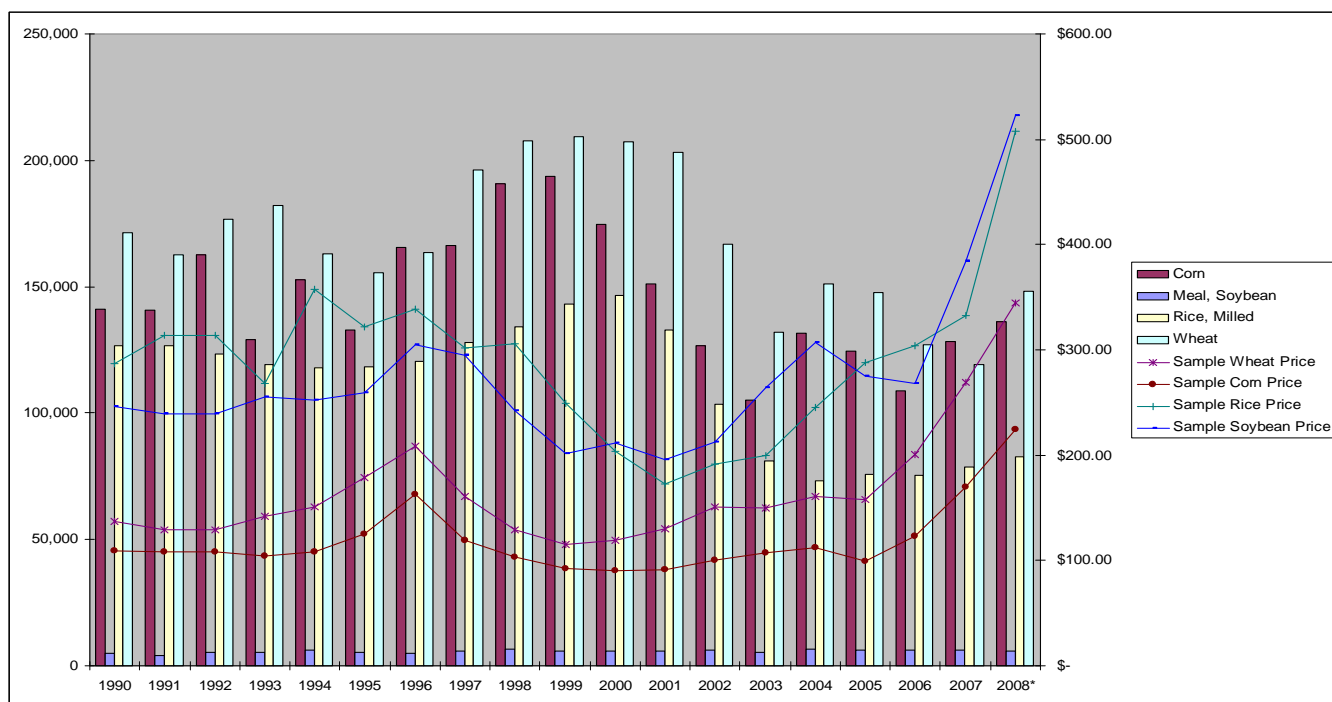
*Inventories are based on "Ending Stock" of each time period; stock numbers are based on the "World" stocks as calculated by the USDA.

¹⁹ Regression exercise using the same time series data for rice mentioned in footnote 12 shows a negative relationship between the stock of rice and its price, although the coefficient is not statistically significant.

²⁰ See FAO: Global information and early warning system on food and agriculture: Crop prospects and food situation No. 2, Apr. 2008.

²¹ IMF: World Economic Outlook – Housing and the Business Cycle, IMF, Washington, DC, April 2008.

Figure 6. Global Food Inventory and Prices



Source: U.S. Department of Agriculture Statistical Data used for Inventory numbers; Price data gathered from UNCTAD for years 1990-2007 and FAOSTAT for 2008

*Sample Commodity Prices are of the following commodities: US No.2, Hard Red Winter ord. Prot, US Fob Gulf; White Broken Rice, Thai A1 Super, f.o.b Bangkok; Soybean US No.2, Yellow, U.S. Gulf

- **Investor behaviour** has also played a role in driving up food prices, but opinion is divided over how significant a factor this is.²² Large amounts of money have been flowing into agricultural commodity markets in recent years, accelerating even more rapidly as investors fleeing meltdown in credit markets and seeking safety in commodity markets from the weak dollar and from falling equity and bond markets seek new outlets for diversifying their portfolios. Furthermore, food multinationals have also devoted increased financial resources to these same markets, adding to the upward pressure on prices. In addition, there was a danger (at least in the spring of 2008) that speculative capital could potentially fuel an “asset bubble” in food commodity markets.²³
- In some cases, **agricultural trade practices** exacerbated the problem of rising food prices (for example, when subsidized imports undercut and deter domestic production of food crops or when export bans or taxes were imposed on certain food items, as has been the trend in some countries in 2008, which ultimately creates a feedback loop that eventually drives prices up further). Agricultural tariffs and subsidies in developed

²² A. Evans, op. cit.

²³ See Fuelling hunger, Position paper on the food crisis prepared by the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations (IUF) (posted on the IUF web site on 28 Apr. 2008).

countries cost developing countries annually the equivalent of about five times the current levels of overseas development assistance for agriculture.²⁴

- **Water scarcity, limited land availability and climate change** are fundamental drivers of long-term increases in food prices. Global demand for water has tripled in the last 50 years. Some 500 million people currently live in countries chronically short of water and this number is likely to rise to 4 billion by 2050.²⁵ Water shortages will have a particularly onerous effect on countries dependent on limited groundwater resources, such as Egypt, China and Pakistan, and shortages will affect cropping patterns. Not only will it be necessary to increase yields to meet additional demand for food crops, in future an expansion in acreage will also be required; land, however, is in short supply. There is increasing competition for ever-limited land, for food, feed, fibre (timber, paper, etc.), fuel, forest, conservation, carbon sequestration and urbanization, in addition to high rates of soil loss to erosion and desertification. Furthermore, there are likely to be diminishing returns from increased land use, since the infrastructure-related costs of exploiting increasingly marginal or less accessible land are likely to be higher, given that much of the best land is already under cultivation. Climate change will exacerbate land and water shortages and will have a huge effect on agriculture. The Intergovernmental Panel on Climate Change (IPCC) estimates that “climate change increases the number of people at risk of hunger” and will lead to an increase of between 40 million and 170 million in the number of undernourished people.²⁶
- A final factor driving price increases is **the prevalence of weak and poorly connected markets in many developing countries**. For example, the absence of a strong linkage between the markets of rural and urban areas (due to poor infrastructure and disconnected domestic supply chains) implies that market signals may not reach farmers in remote rural areas and, as a consequence, these farmers are unable to benefit from the demand that may exist and which may consequently be met by imports. This, in turn, may serve to discourage farmers from making investments that might be profitable and might create a stronger national supply base.

2. Impact of the food crisis on the poor

Although everyone consumes food and is affected by a rise in food prices, it is the poor who are more severely hit, not only because their incomes are low, but also because they typically devote higher proportions of their incomes to food.²⁷ However, in the context of food prices, it is important to recognize that different groups of poor people will experience the impact of rising food prices differently. Thus, a particular policy measure may not be appropriate for minimizing the adverse effects of price increases on all poor people.

²⁴ See *Rising food prices: Policy options and the World Bank response*, Paper prepared for the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries (Development Committee), Washington, DC, April 2008.

²⁵ R. Clarke and J. King: *The atlas of water* (London, Earthscan, 2004).

²⁶ W. Easterling, et al.: “Food, fibre and forest products” in *Climate Change 2007: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change* (Cambridge, Cambridge University Press, 2007), pp. 275 and 300.

²⁷ In Bangladesh, for example, the lowest 40 per cent of households spend approximately 65 per cent of their total consumption expenditure on food, including about 50 per cent on cereals. The corresponding figures for the highest 10 per cent are approximately 40 and 30 per cent respectively. These data are from the Bangladesh Bureau of Statistics: *Report of the Survey of Household Income and Expenditure Survey 2005*, Dhaka, 2007.

The urban poor are invariably net consumers of food staples and are therefore particularly vulnerable to rising food prices. Likewise, in rural areas, a large number of small and marginal farmers typically live below the poverty line and engage in survival-oriented income-generation activities both on and off farm. Of particular concern are landless poor people in rural areas. Most poor people are rural and most rural poor people are net food buyers who are unlikely to be compensated fully by additional employment or by higher wages.

For many countries, especially those where progress in reducing poverty has been slow, the negative poverty impact of rising food prices risks undermining the poverty reduction gain of recent years²⁸. Some examples of how poor wage-based workers were affected by the food crisis are provided in Box 1²⁹.

Box 1: Food crisis and the poor: The case of Bangladesh, Cambodia and the Philippines

In the garment industry of **Bangladesh**, the minimum wage for workers at the lowest end of the range (usually women) was fixed in 2006 at 1,662.50 taka (tk) per month (the appropriate exchange rate is: US \$1 = tk69). With a few hours of overtime work – assuming that workers receive payment for such work – typical workers at the lowest level could take home approximately tk2,000 per month. If converted at the rice price of 2006 or early 2007 (i.e. tk20 per kg), that income would be equal to 100 kg of rice. At the increased price of tk35 per kg, (prevailing in April-May 2008) that income would give the workers a little over 57 kg of rice – a **decline in real terms (or in terms of rice) of 43 per cent**. Even assuming that workers could get access to government-subsidized rice at the price of tk25 per kg (available only at designated centres), their monthly income would have been 80 kg – thus representing a **decline of 20 per cent in real terms**. How do workers cope with such a situation? A family at that level of income typically spends about 50 per cent of its income on basic food (in other words, cereals such as rice and wheat). This implies that, at 2006 prices, it would buy 50 kg per month. In order to buy the same amount of food at the subsidized price, the family would have to spend tk1,400 per month. It would thus be left with only tk600, or 60 per cent of the earlier amount, for meeting other expenditures. This almost certainly means cutting down in other areas such as clothing, health care or children's education.

For a landless agricultural worker in Bangladesh, there is no stipulated minimum wage except for an outdated reference to an amount of 3.5 kg of rice per day. In early 2007, at the prevailing wage of tk100 per day, a worker could actually buy 5 kg of rice. At tk35 per kg (the price of April-May 2008), the same wage gave the worker only 2.86 kg – a decline of 43 per cent. In September 2008, the Government launched an employment programme in which work was to be available at a daily wage of tk100. But even with the employment programme, the decline in real wage could not be prevented. In December 2008, the price of rice came down to Tk 28-30 per kg. and in January, the price came down further to about Tk 25 per kg. While this decline in price has come as a relief, even at Tk 25 per kg., the real pre-crisis wage of 5 kg of rice per day cannot be restored unless the daily money wage exceeds Tk. 125.

In Cambodia, the prices of rice increased by 100 per cent between May 2007 and May 2008. But the money wage rates of agricultural workers increased between 38 per cent and 67 per cent for various operations (e.g., planting, transplanting and harvesting). Hence, it is clear that there has been a decline in the real wages of agricultural workers.

In the Philippines, one estimate shows the real value of "minimum wages" to have declined from P250 per day in November 2000 to P243.61 per day in March 2008.

Sources: (i) Bangladesh: Reports from the media; (ii) Cambodia: Chan Sopha: "Impact of High Food Prices in Cambodia: Survey Findings": Presented at the Food Security Forum on 16 September 2008. Cambodia Development research Institute; (iii) Philippines: "With low wages, rising prices of goods, workers continue to be on the losing end": <http://www.jaggerkieth.wordpress.com/2008/04/30>.

²⁸ There are a number of studies analysing the effects of the food crisis on poverty. An overview can be found in Veena Jha: "National Responses to the Global Food Crisis". Draft paper, ILO, Geneva, 2009.

²⁹ A recent ILO report (ILO : Global Wage Report 2008/09 : Minimum Wages and Collective Bargaining : Towards Policy Coherence. ILO, Geneva, 2008) points out that during 2008-09, a large share of the gains in nominal wages will be « eaten away » by price increases, and that some countries are likely to experience a fall in real wages. Using data for the period of 1995-2007 that report points out that negative real wage growth was observed in about a quarter of the total number of observations.

3. Is the food crisis over?

In view of the recent declines in the prices of major food grains (e.g., rice, wheat and maize) as mentioned in Section 1, the question whether food crisis is behind us may arise. Actually, there have been good harvests of wheat and rice in 2008 (up respectively by 11.7 per cent and 2.5 per cent over 2007)³⁰. So, there is a real possibility that the global concern about food security for the poor that was witnessed at the peak of the crisis in 2008 may be on the wane. This is particularly so in view of the current preoccupation with the global financial and economic crisis and the associated shift of attention towards revamping economic activities in general rather than in agriculture and food production. The answer to the question, however, is not so straightforward; and certainly one has to be careful before passing the final judgement. Several points need to be brought to the table in this regard.

First, although prices of food grains in the international market have gone down substantially during the last quarter of 2008, they remain well above the pre-crisis (i.e., mid-2007) levels. And if one compares the recent prices with those prevailing in early 2006, it would be clear that it is too early to declare that normalcy has returned to the market for food grains.

Second, while prices in the international market have fallen quickly, the pace of adjustment in the domestic markets has been much slower. In Sri Lanka, for example, the retail price of rice in the domestic market continued to increase in December 2008³¹. In Bangladesh, the retail prices of rice came down, and yet remained substantially higher than the pre-crisis prices (see Box 1). Thus, it appears that the retail prices in domestic markets are sticky downwards. While it is difficult to come up with up to date data on retail prices of food grains at the country level, a look at the data on general inflation and the projections for 2009 (Table 1) clearly indicates that in many developing countries, the rates of inflation (in terms of increases in CPI) in 2009 are likely to remain substantially higher than the rates prevailing in years prior to 2007.

Third, the stock levels of food grains that had gone down to an all time low in 2006 and 2007 have risen somewhat in 2008, but are nowhere near the levels of the late 1990s and the early years of the present decade (Figure 5). Given the volatility experienced by the global market when stocks were down, it would be wrong to declare “all clear” until the stocks have been rebuilt to a level that would be regarded as adequate from the point of view of keeping the market calm. A few more good harvests (like the one witnessed in the second half of 2008) are needed in order to attain such a level.

Fourth, more time would be needed for appropriate supply response to have materialised and for the structural causes of the food price increases to have been addressed. It may be relevant to mention here that at the global level, the growth of yield per acre of rice declined sharply in the recent years (was only 0.89 per cent per annum during 1990-2007 compared to 2.32 per cent per annum during 1980-90. The declines in the growth of yield in Asia and USA (the world’s major rice growing regions) are particularly noticeable (Table 2). A lasting solution to the food crisis would hinge critically on reversing those trends, which, in turn, requires renewed attention to investment in agriculture, and in particular, in food production. The expected supply response may face additional challenges arising from constraints due to the availability of land, climate change and the scarcity of water as already mentioned in Section 2.

³⁰ FAO: Crop Prospects and Food Production, December 2008. FAO, Rome.

³¹ Between November and December of 2008, the retail price of rice increased by 0.24% as reported in Price Bulletin December 2008 of the Department of Census & Statistics.

Fifth, as mentioned in Section 1, cost of production, especially the prices of fertilizers and oil are extremely important factors in determining the prices of food grains. While the prices of oil and fertilizers have come down sharply in the international markets, given the volatility of the international market in fuel oil, it may be more prudent to keep a close eye on developments in that regard as well as on what happens to the fertilizer prices³². Another cycle of oil price rise and the associated increases in the prices of fertilizers could easily lead to a repeat of the crisis witnessed in 2008. Policy makers need to remain vigilant on that.

Table 1: Change in Consumer Price Index (CPI) in Selected Developing Countries, 2003-09

(Annual percent change)							
Country	2003	2004	2005	2006	2007	2008*	2009*
Angola	98.34	43.56	22.96	13.31	12.25	12.08	9.28
Bangladesh	5.36	6.10	7.04	7.08	9.11	10.11	9.95
Benin	1.50	0.88	5.37	3.80	1.26	8.84	6.53
Bolivia	3.34	4.44	5.40	4.26	8.70	14.30	10.60
Cambodia	1.15	3.87	5.78	4.71	5.85	20.06	8.98
Congo, Democratic Republic of	12.82	4.00	21.39	13.21	16.71	17.47	15.08
Egypt	3.21	8.11	8.80	4.20	10.95	11.70	16.09
Ethiopia	15.06	8.62	6.84	12.26	15.84	25.32	40.77
Haiti	26.70	28.30	16.80	14.23	9.05	14.50	11.50
India	3.81	3.77	4.25	6.18	6.37	7.93	6.72
Indonesia	6.77	6.06	10.46	13.10	6.17	9.76	8.75
Mauritania	5.29	10.42	12.13	6.23	7.26	12.47	9.50
Nepal	4.74	3.96	4.54	7.96	6.44	7.99	8.54
Pakistan	3.10	4.57	9.28	7.92	7.77	12.00	23.00
Senegal	-0.04	0.51	1.71	2.11	5.87	5.40	2.84
Sri Lanka	8.97	9.01	10.98	10.02	15.84	23.67	19.96
Tanzania	4.43	4.14	4.36	7.25	7.03	9.16	6.51
Vietnam	3.20	7.72	8.25	7.50	8.30	24.00	15.00

Index, 2000=100
Source: International Monetary Fund, World Economic Outlook Database, October 2008
*2008 and 2009 are projections

Table 2: Growth Rates of Yield of Rice 1970-2007 (% per annum)

Periods	World	Africa	Asia	South America	USA
1970-80	1.67	-0.97	1.77	2-04	-0.33
1980-90	2.32	1.29	2.35	3.30	2.56
1990-2007	0.89	1.81	0.79	3.23	1.47

Source: Estimated by fitting semi-logarithmic regression to data available from US Department of Agriculture: Foreign Agricultural Service.

³² It needs to be remembered that there is usually a lag between the fall in oil prices and its effects on fertilizer prices. Likewise, there may be lagged effects of changes in fertilizer prices on planting decisions. The implications of these lags in the transmission of effects of one variable on another can be seen from what has happened to the planting decisions towards the end of 2008. As farmers were taking their planting decisions on the basis of high prices they already paid for fertilizers and the decline in grain prices that occurred towards the autumn of 2008, sown area for winter wheat declined in USA, EU and Russia. See FAO, op.cit.

Sixth, based on previous experiences (for example, in the 1970s), it would be expected that supply-side responses will take place, thus driving prices down. However, while demand is expected to continue to rise (the World Bank estimates that demand for food will rise by 50 per cent by 2030 as a result of rising affluence and growing world population), supply responses are likely to be relatively inelastic, taking several years to materialize. New sources of demand (for example, biofuels) and “scarcity trends” related to climate change, the cost of energy inputs and the shortage of land and water, imply that the response time is likely to be longer than in previous times of rising food prices.

Seventh, if supply fails to keep pace with rising demand, then equity issues are likely to become increasingly prevalent at both the national and global levels. The effect of a burgeoning global middle class switching to diets with more meat and dairy products and demanding biofuels for their transport needs – both of which are relatively inefficient in terms of grain use – has major equity implications because it is likely to reduce the affordability of staple foods for poorer people.

Given the facts regarding the current price and stock situation and the structural factors mentioned above, it would not appear prudent to declare that the situation regarding the prices of food grains has become normal. At least in the short to medium term, it would be appropriate to find ways of adjusting to the situation with a particular focus on minimizing the effects on the poor.

4. Linkage between the food crisis and the financial and economic crisis³³

It may be recalled that at least one of the proximate causes of the sharp rise in food prices in the spring of 2008 was the diversion of speculative money to commodity futures when the financial markets in developed countries were going through a crisis. As the financial crisis later transformed itself into economic crisis involving a sharp slowdown in the major engines of global economic growth, the inflationary expectations got reversed and the rates of inflation started declining in various countries. The recession also led to a sharp decline in the prices of oil which has been associated with a substantial decline in the prices of fertilizers – a major input for food grains. So, while developments in the initial days of the financial crisis contributed to the food crisis, as the financial crisis led to an economic crisis, conditions became suitable for a decline in food prices.

However, the decline in food prices made possible by the forces of economic recession should not give rise to complacency because several other factors may actually hurt the agriculture sector and food production in the long run and create conditions for a recurrence of the food crisis. Moreover, adverse effects of the economic crisis on labour markets may reduce the ability of poor workers to access food. These issues which warrant some elaboration are depicted in the form of a flowchart in Figure 7.

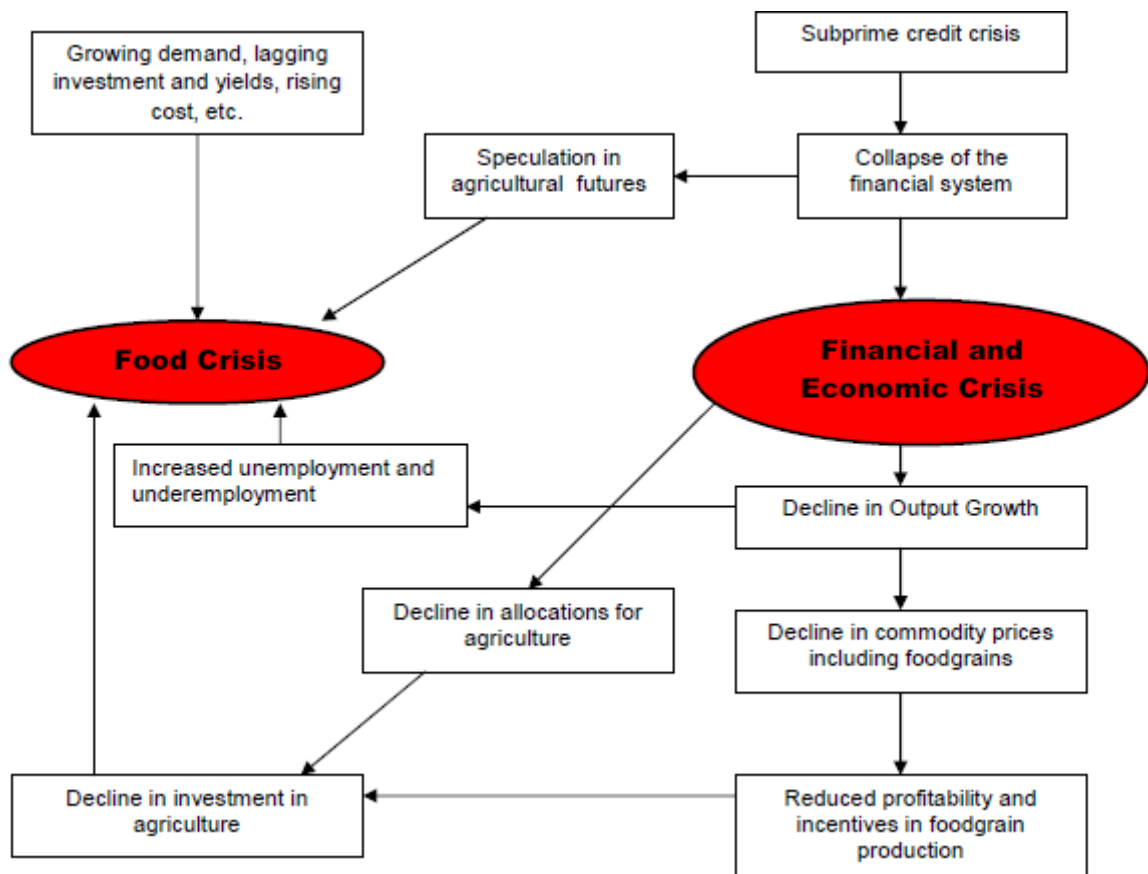
As mentioned earlier in the present paper, one of the major longer term factors contributing to the sharp increases in food grain prices was a decline in investment in agriculture and a fall in the growth of yields of major food crops. That, coupled with increases in demand created the conditions for an increase in the prices of grains. The sharp increase in prices witnessed during the second half of 2007 and in the first half of 2008 led to a partial reversal of the neglect of agriculture in that many countries re-focused their attention on agriculture and at least started to talk about the need for a greater investment in the sector. In some countries (e.g., in Bangladesh) there was dramatic turn from a substantial shortfall in

³³ A separate paper by the ILO deals with the financial and economic crisis in greater details.

production to a good recovery. However, the developments associated with the global economic recession may have an adverse effect on that positive trend.

First, reduction in the prices of products may create disincentives for producers and hence an adverse effects on outputs in the subsequent periods unless, of course, the cost of production can be reduced through reduction in the prices of inputs. The latter would depend on how quickly the decline in the prices of inputs, e.g., fertilizers and power, can be reflected in the prices paid by the producers. Second, the difficult economic situation may lead to a reversal of investments in agriculture. Indeed, there is very little by way of support to agriculture in the so-called “stimulus packages” being formulated and adopted by various countries (China being an exception - see Box 2). Given the increasing pressure on government budgets, it is not clear whether they will be able to maintain the incentive structure that is required to provide appropriate signals to the farm sector.

Figure 7: Linkage between the food crisis and the financial and economic crisis



Box 2: Focus on Agriculture in Stimulus Packages to Counter Economic Downturn

China: As part of the Chinese government's 4 trillion yuan (\$586 billion) stimulus package designed to re-ignite the economy, various measures have been announced to provide support to agriculture and to raise the incomes of those dependent on the sector. Those measures include: (i) increase in the minimum grain purchase price, (ii) additional subsidies to enable farmers to purchase quality seeds and farm machinery in 2009, (iii) reduction in the export tax on grain, and (iv) lowering of taxes on fertilizers. As major economic tasks of the government in 2009, it is mentioned that investments in agriculture, rural areas and farmers will be greatly increased. The current household land-contract responsibility system in rural areas would be retained as a long-term strategy, while land in rural areas can be transferred on a legal, voluntary and paid-use basis.

India: India's 11th Five-Year Plan (2007-12) is committed to improving the country's agriculture, especially in rain-fed areas. Even prior to the emergence of the issue of rising food prices, the Government of India had launched a National Food Security Mission with a view to raising the production of major crops like rice, wheat and pulses. In August 2007, the Government announced a National Agricultural Development Programme with the goal of achieving 4 per cent rate of growth in the sector during the 11th Plan period. In 2008, the Government raised the minimum support price of rice to Rs. 8500 per tonne (from Rs. 7450 one year earlier). In addition, a new pricing scheme for fertilizers was announced with a view to reducing the cost of production. Furthermore, the National Employment Guarantee Programme, which has been extended to all the districts, is expected to contribute to enhanced agricultural production through the building up of community assets.

Bangladesh: Following two rounds of natural calamities in 2007, in 2008, the Bangladesh Government provided incentives for the dry season crop by raising the procurement price, providing diesel subsidies to small farmers, and by improving the availability of fertilizers. As a result, rice output during the dry (*Boro*) season increased by 17 per cent over 2007 (which was 30 per cent higher than the five-year national average). In order to maintain the profitability of rice production in the face the recent decline in prices, the Government has reduced the prices of fertilizers substantially.

Sources: (i) Hu Yue: "Spending Our Way Out", *Beijing Review*, November 2008; (ii) Liu Yunyun: "New Year's Economic Resolution", *Beijing Review*, December 18, 2008; (iii) UN Country Team Delhi: "Note on India Food Price Scenario and Way Forward", (iv) FAO: *Asia Pacific Food Situation Update*, September 2008. FAO Regional Office, Bangkok.

A recent report by the International Food Policy Research Institute (IFPRI)³⁴ shows that if necessary investments in agriculture are not forthcoming (due to the ongoing economic recession), prices are likely to rise again at a faster rate. Alternative scenarios outlined in that paper indicate that by making "wise policy choices" to "maintain agricultural productivity and investments", it would be possible to prevent such increases in food grain prices. In fact, it may be possible to bring prices down substantially.

The adverse effects of the food crisis on the poor are likely to be exacerbated by the recession because it has already led to increases in unemployment and underemployment in many countries. While in the developed countries the impact on labour market has been immediate, the developing countries may not be spared because recession in the former is leading to declines in economic growth in the latter, which in turn is likely to affect their labour markets adversely. And once the workers in low-income countries lose their jobs or become underemployed, the issue of food security will become critical for them.

Data on the **impact of the recession on labour markets (especially in developing countries)** are difficult to come by. A global projection made by the ILO³⁵ indicates that global unemployment could increase by 18 to 30 million (and by 50 million if the situation

³⁴ Von Braun, Joachim: "Food and Financial Crises: Implications for Agriculture and the Poor", IFPRI, Washington, D.C., December, 2008.

³⁵ ILO : Global Employment Trends January 2009. ILO, Geneva, 2009.

continues to deteriorate) in 2009 over 2007. Apart from the rise in unemployment, developing countries may see a rise in underemployment (i.e., workers in jobs with low productivity and earnings), and consequently a rise in “working poverty”. According to recent ILO projections outlining different scenarios, the proportion of poor workers (i.e., those earning less than US\$2 per person per day) could increase by 1.5 to 4.8 percentage points in 2009 (compared to 2007). In the latter case, more than half the global labour force would be unemployed or counted as “working poor”³⁶. Projections for Asia indicate the possibility of a substantial increase in open unemployment from 4.8 per cent in 2008 to 5.9 per cent in 2009 in the worst case scenario and “vulnerable employment” (the latter defined as the sum of own-account workers and unpaid family workers) from 60.4 per cent in 2008 to 63 per cent in 2009³⁷.

As for open unemployment, while some hard data are available on developed countries like USA, U.K. France, Germany, Japan, etc. where the data collection and reporting systems are advanced, information that is available on developing countries is rather scattered. However imperfect, such fragmentary evidence indicates that the global economic crisis is starting to hurt the labour markets in developing countries as well. For example, officials in **China** started expressing concerns about the labour market already in November 2008³⁸. More recently, the Ministry of Human Resources of China announced that as of December 31, 2008, 8.86 million urban residents were registered as unemployed which is 556,000 more than at the end of the third quarter of the year³⁹. Recent reports mention that 20 million migrant workers have already returned to their home villages and towns⁴⁰. Even if some of them find alternative employment in their places of original residence, it appears that a large number may end up as either unemployed or at best underemployed in various marginal occupations in rural areas and small towns. In **India**, a sample survey carried out by the Ministry of Labour and Employment shows that about half a million workers have lost their jobs during October-December 2008. The decline in employment has affected the contract workers more than direct workers. The survey also shows that nominal earnings during the period have declined by 3.45 per cent per month⁴¹. A study on **Indonesia** mentions that no single day goes without news of lay-off of workers⁴². There are also reports of retrenchments (40,000 jobs) that took place in the last two months of 2008 and of the likely retrenchments in the construction and textile sectors⁴³. And these come on top of high and rising underemployment. In the **Philippines**, a country that has a large number of workers working abroad, there is an apprehension of a decline the flow of workers going abroad. And in the domestic labour market, the number employed in agriculture and manufacturing has already gone down, leading to a rise in open unemployment from 6.25

³⁶ Ibid.

³⁷ ILO ROAP (Regional Office for Asia and the Pacific): The fallout in Asia: Assessing labour market impacts and national policy responses to the global financial crisis. Report for the seminar on Responding to the Economic Crisis - Coherent Policies for Growth, Employment and Decent Work in Asia and Pacific, Manila, 18-20 February 2009.

³⁸ “China Vows to Focus on Jobs as Unemployment Rises”, International Herald Tribune, November 20, 2008.

³⁹ Reported in The Daily Star (Bangladesh), January 21, 2009.

⁴⁰ Reported in International Herald Tribune, February 2, 2009, and The Economist, 31 January- 6 February 2009. See, also, Chang Hee Lee: “National Policy Responses to the Financial and Economic Crisis: The Case of China”. Undated draft, ILO-ROAP, Bangkok.

⁴¹ Government of India, Ministry of Labour and Employment: Report on Effect of Economic Slowdown on Employment in India (October-December 2008). Chandigarh, January 2009.

⁴² Komara Djaja: “Impact of the Global Financial and Economic Crisis on Indonesia: A Rapid Assessment”. Undated draft, ILO-ROAP, Bangkok.

⁴³ ILO ROAP, op.cit.

per cent in 2007 to 6.81 per cent in 2008⁴⁴. Likewise, official data on **Thailand** shows that the share of employment in manufacturing fell from 15.1 per cent in the third quarter of 2007 to 13.8 per cent in the third quarter of 2008⁴⁵. A recent study on Thailand indicates that the second quarter of 2009 will see a rise in unemployment and underemployment⁴⁶.

It may be mentioned here that even if there is no outright retrenchment, in situations of economic crisis, labour markets adjust in various “innovative” ways (e.g., leave without pay, reduction in working hours and pay, etc.), which may have implications for real wages and earnings of workers, and hence for access to food.

It would appear from the data and discussion above that in the face of the combined effects of the food crisis and the economic crisis, the poor are facing a double whammy. On the one hand, even taking account of the very recent easing of the markets for food grains, sharply increased food prices have put severe pressures on their levels of living. On the other, many of them, especially those who are in wage employment in sectors that are closely integrated with the global economy, now face the danger of being unemployed or ending up with lower real earnings.

5. Policy responses to the food crisis and implications for decent work in rural areas

5.1. Policy responses

Countries have responded to the food crisis in different ways. The responses include: (i) introducing price controls; (ii) adjusting import duties and other taxes on food grains; (iii) placing restrictions on exports (for example, through levies, quotas and outright bans); (iv) selling food grains at subsidized prices; (v) rationing; (vi) cash transfers to the poor; and (vii) employment programmes⁴⁷.

Fundamentally, governments (as well as donors and international organizations) need to improve the integration of issues relating to the scarcity of water, land and energy into their governance and economic analysis activities. Within the specific context of food, an essential element of this would be to build a much more comprehensive picture of the overall resource footprint and of the sustainability of the production and consumption of different foods (and the use of cropland more generally).

While price controls (sometimes through the manipulation of import duties or taxes) and the sale of food grains at subsidized prices have been tried in a number of countries, the success of these policies has been limited, typically because they may send the wrong signals not only to farmers but also to importers and traders, thus potentially disrupting food supply chains.

⁴⁴ Josef T. Yap: “Impact of the Global Financial and Economic Crisis on the Philippines: A Rapid Assessment”. Undated draft, ILO-ROAP, Bangkok.

⁴⁵ Reported in ILO ROAP, op. cit.

⁴⁶ Somchai Jitsuchon and Ammar Siamwalla: “Economic Shocks and Vulnerable Thailand: A Case Study of Rising Food and Fuel Prices”. Thailand Development Research Institute, Bangkok, January 2009.

⁴⁷ There is a large body of literature on this. For a summary, see Veen Jha : « National Responses to the Global Food Crisis ». Draft paper, ILO, Geneva, 2009.

Employment programmes constitute a potentially effective means of transferring money to the poor in order to ensure their food security and of simultaneously making investment in agriculture, which is important as a long-term measure for raising food production within individual countries. Such programmes have become particularly important now in view of the fallout of the global economic recession and its adverse effects on output and employment growth in developing countries.

Given the magnitude of the twin crisis and their wider and longer term implications, actions are needed with a short- as well as a medium- to long-term perspective. Likewise, in addition to action by national and subnational governments, action is also needed at the international level, as many policy responses transcend national boundaries.

5.2. Action at the national and subnational levels

In the short term, the priority is to protect the already precarious livelihoods of the poor and the vulnerable and prevent any further widening of the decent work deficits that existed before the crisis. Policy responses will obviously have budgetary implications and governments will need to develop appropriate revenue-generating strategies. Policy responses should be based on an integrated approach. In particular, they should:

- **Establish or expand employment creation programmes** to maintain the purchasing power of the poor and the vulnerable. If carefully designed and if appropriate wage rates are applied, such programmes could help in preventing a widening of decent work deficits. Applying a wage rate that is adequate to protect the pre-crisis purchasing power of the poor should help create a floor below which the market may not go. It may also contribute to the longer term objective of supporting the supply response of farmers through the creation and improvement of necessary infrastructure, such as irrigation systems, rural roads and financial services. However, it should be noted that the efficient implementation of such programmes requires strong institutional frameworks, which are not easy to create at short notice in countries that have no experience of implementing such programmes.
- **Provide social safety nets** for the most vulnerable, which could involve distributing food to the public in the form of aid or at subsidized rates, cash transfers or other targeted programmes for making food or cash available to the poor. However, as with employment creation programmes, not all countries have the necessary capacity to design and implement such safety nets and social protection programmes and consideration must be given to the potential inflationary impact of some social protection measures, to the identification of the best combination of cash and in-kind transfers, to what type of targeting and conditionality works best and so forth.
- **Support increased investment in agriculture** and rural areas so that improvements in productivity (as a result of increasing the amount of land under cultivation and of using new and improved agricultural techniques and technologies) will lead to increased food supply to meet the huge rise in anticipated demand⁴⁸. Providing necessary incentives to farmers has become even more important now in view of the declines in prices of crops and the potentially wrong signal that the farmers may receive. But it should become easier now with declines in prices of key inputs like fertilizers and diesel. Efforts should be made to pass on the benefits of such price declines to farmers as quickly as possible. The stimulus packages being adopted by various countries to offset the negative effects of global recession should include expenditures (e.g., those needed to ensure support prices for farmers, and reducing the costs of inputs to them) that would support increased food

⁴⁸ It is important not just to increase investment, but also to ensure that the increased investment is allocated in the right direction. As mentioned earlier, shift away from food grains to cash crops and increased investment in the latter has not helped low-income countries in their pursuit of food security.

production. In this context, specific attention needs to be given to small and marginal farmers so that they are not excluded from the possible benefits arising from the supply response to the current crisis.⁴⁹ Such farmers typically use their labour more intensively and measures to raise productivity in such farms would simultaneously contribute to the objectives of augmenting the production of food grains and raising the productivity of labour. Producers' cooperatives and associations could play a useful role in efforts to reach out to and provide services and support to small farmers.

- **Provide farmers with access to necessary finance and credit.** Apart from incentives through the price-subsidy mechanism mentioned above, it would be important to ensure that farmers have easy access to finance and credit. While agriculture, especially in developing countries, faces a credit constraint even in normal economic environment, this may be even more severe in the current financial and economic environment. Particular attention needs to be given to this matter so that investment in agriculture does not face the credit crunch.
- **Address the dual challenge of reviving economic growth and stability and ensuring food balance/security.** Given the linkage between the food and the financial/economic crises, policies for economic recovery and stabilization at the country level would have to take into account the importance of agriculture and food security. The latter, in turn, has to be addressed at the aggregate/national level as well as for vulnerable groups. There may be countries that do not face a food crisis at the aggregate level and yet there are vulnerable groups within them who suffer from a crisis of the kind witnessed recently. The issues would, therefore, need to be addressed at appropriate levels of disaggregation.
- **Promote off-farm employment, typically in small enterprises and sometimes as part of territorial approaches.** Although agriculture plays a pivotal role in the growth and structural transformation of economies, it needs to be complemented with the promotion of off-farm employment and income-generation activities so that rural economies become more diversified and dynamic. In short, economic diversification is an important dimension to enhancing security, reducing dependence and vulnerabilities and stimulating growth. This calls for fostering an enabling environment for sustainable rural and urban enterprise development, which includes more and better access to rural finance for the poor and improved property rights.
- **Promote social dialogue as a means to achieve appropriate adjustments in money wages to reflect the increases in food prices.** While official minimum wages may take a long time to be adjusted and their implementation remains limited at best (especially in rural areas), this is the time for voluntary action on the part of employers to bring about necessary adjustments in wages, without jeopardizing the profitability of the activities and enterprises which are the very sources of employment.
- **Include transparent and effective communication strategies.** It is important to recognize that government policy choices are likely to be better accepted and understood by people if accompanied by information on the causes of high food prices and accompanying policy measures. Obviously, this is not just a rural issue – it is a national issue – and it requires better governance and a fundamental role for the social partners.

⁴⁹ Indeed, small farmers can provide the much needed boost to a country's food grain production as is demonstrated by the experience of Malawi. A \$60 million programme providing subsidies to small farmers (making cheap seeds and fertilizers available to them) helped the country overcome a disastrous harvest in 2005 to become a country with food surplus in 2006. See interview with J. Sachs in *The Financial Times* (London), 19–20 Apr. 2008.

5.3. Action at the international level

Action at the international level should, in the short to medium term:

- **Ensure an adequate flow of food grains** (either through the market by voucher programmes, for example, or through food aid), especially to countries in difficult situations. In the longer term, donors may need to consider shifting humanitarian aid to a proactive insurance model.
- **Provide budgetary support** to help governments implement employment programmes, provide cash transfers or other poverty-targeted support programmes.
- **Provide compensatory financing** to address balance of payments needs resulting from higher food and energy prices (given that such price rises are driven substantially by longer term structural factors, the conditionality and concessionality attached to such support will need to be examined carefully).

In the medium to long term, action at the international level should:

- **Increase donor support** for investment in agriculture and rural areas, especially with regard to small-scale and marginal farmers.
- **Establish an international policy**, underpinned by appropriate national policies and with food security as the central issue, on the use of scarce cropland for biofuel production.
- **Promote trade policy reform** to reduce high levels of trade tariffs and subsidies which distort markets and the comparative advantage of countries but maintaining appropriate regulatory frameworks to stabilize production, supply chains and prices.
- **Provide support to strengthen the frameworks for employment and social protection**, because job-rich economic growth combined with strong social protection can provide an effective mechanism for achieving lasting food security.

The Comprehensive Framework for Action developed by the High-Level Task Force on the Global Food Security Crisis⁵⁰ (which was set up by the UN Secretary General in 2008) addresses many of the above issues focusing on both the immediate needs of the vulnerable and the longer term issue of building up resilience. The “menu of actions” presented in the report for both short- and long-term action is quite comprehensive, covering issues ranging from emergency food assistance and safety nets to smallholder food production, biofuels, macroeconomic and trade-related issues as well as issues relating to social protection. The menu includes (among others) scaling up of employment creation schemes, rehabilitation of agricultural infrastructure, expanding and strengthening social protection systems, and measures for sustaining the growth of small farms – areas where the ILO could play an important role. It may be noted in this connection that the conclusions of the discussion on promoting rural employment for poverty reduction held at the International Labour Conference of 2008 emphasize, *inter alia*, adoption of an integrated approach to employment promotion for poverty reduction in rural areas, adequate investment in agriculture and rural development, and measures to extend social protection.

⁵⁰ The report can be found in <http://www.un.org/issues/food/taskforce/cfa.shtml>.

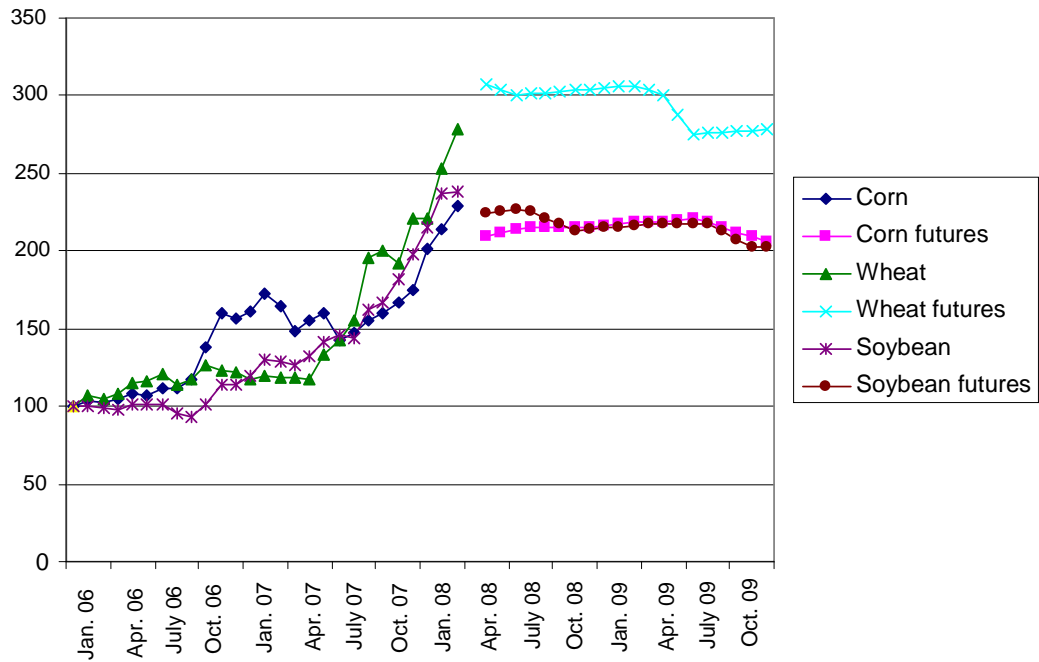
At the Tokyo summit of G8 countries in July 2008, the leaders of those countries agreed on a new Global Partnership for Agriculture and Food to coordinate the response to the food crisis. They also agreed on a US\$10 billion package to meet both short-term humanitarian needs (including increases in food aid) and to improve food security and agricultural output in the longer run. They also agreed to develop international standards on biofuels with a view to ensuring that policies for the sustainable production and use of biofuels are compatible with food security.

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Annex Figure: Selected food prices



Index, January 2006 = 100

Source: International Monetary Fund (IMF): *World Economic Outlook – Housing and the Business Cycle*, IMF, Washington, DC, Apr. 2008, p. 60.

Annex Table: Prices of Rice, Urea, and Stocks of Rice

Annual Averages	Rice, Thailand, white milled, 5% broken	Urea (Tonne)	Stock of rice, milled (1000 MT)
1995	321.50	186.92	118,359
1996	338.33	181.17	120,349
1997	302.17	117.00	127,691
1998	305.50	83.58	134,030
1999	249.08	88.84	143,111
2000	203.75	100.83	146,694
2001	172.67	95.67	132,994
2002	191.67	94.25	103,291
2003	199.50	139.00	81,145
2004	245.67	175.00	73,152
2005	287.67	219.75	75,676
2006	303.50	223.33	75,391
2007	332.33	308.20	78,687
2008*	507.65	496.26	82,659

Source: Prices in US dollars. Urea price data gathered from YARA; Rice price data gathered from FAOSTAT
*Rice price is based on White Broken Rice, Thai A1 Super, f.o.b Bangkok

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