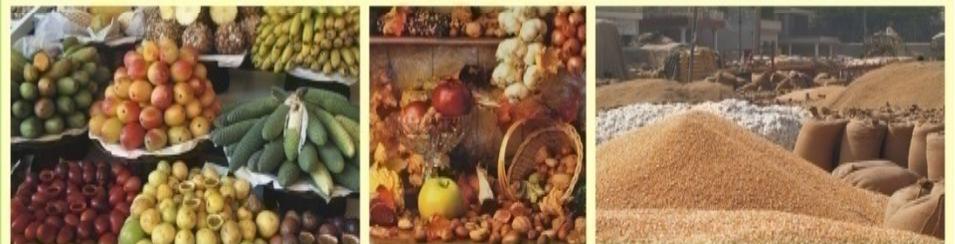
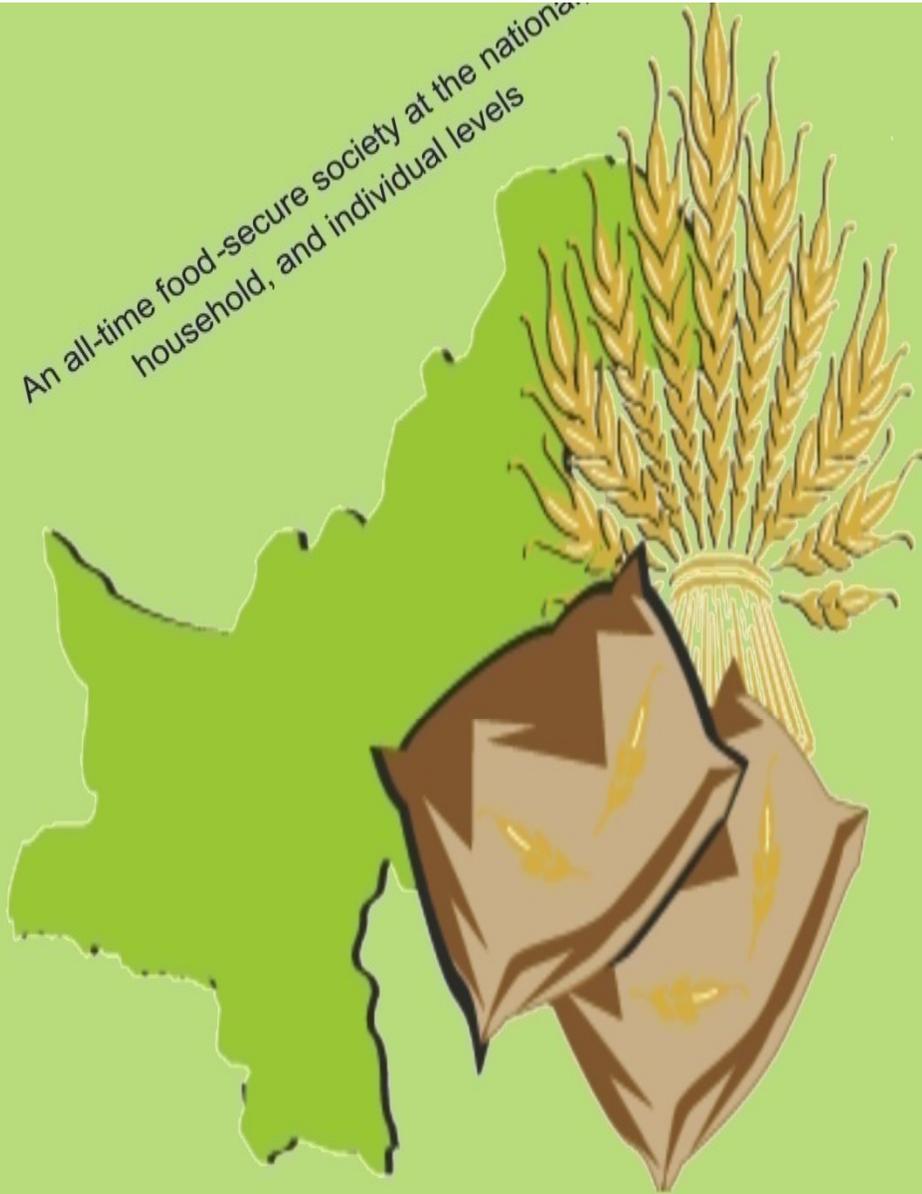


An all-time food-secure society at the national,  
household, and individual levels



**PAKISTAN INSTITUTE OF  
DEVELOPMENT ECONOMICS**

# Food Security Centre



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**At the very outset I would like to quote  
(English translation) from Holy Book Al-  
Quran**

**Where**

**The God (Allah SWT) revealed a  
contingency plan for food security about 3500  
years ago**

**(Verse 43)** The king (of Egypt) said: I saw in a dream seven fat cows, whom seven lean ones were eating, and seven green ears of corn, and other (seven) dry. O notables! Explain to me my vision if it be that you can interpret dreams.

**(Verse 47)** (Joseph) said: You shall sow for seven years as usual: and the harvests that you reap, you shall leave them in the ears, except a little, of which you shall eat.

**(Verse 48)** Then after that will come seven hard (dry) years, which will consume all that you have arranged for them, except a little of that you store/save.

**(Verses taken from Surah Yousaf, Chapter 12, Al-Quran)**

# What lessons we can draw from these verses?

1. The dreaming person was not an **ordinary person**, rather a **King** shouldering the responsibility of the welfare of his people.
2. Highlighting the **role of the State in ensuring food security** for the masses.
3. The King was hinted at **keeping courageous visionaries around him** to get proper advice. (Remember, other people could not interpret the king's dream).
4. The provision of **grains storage technology** -- where the grains can last longer (7 years).
5. Establishing proper **institutions** to back up informed decision making.

 Today's panel discussion is arranged by the Food Security Centre of PIDE to hold debate on the topic:

## **Should Government be in the Business of Fixing Agricultural Prices? If Yes Then How?**

 The major purpose of my presentation is to:

1. highlight the relationship between non-discrimination against agriculture and a number of indicators of economic performance;
2. review the history of government interventions in Pakistan's agriculture sector;
3. who are the beneficiaries of past and present policies; and
4. suggest some points for discussion as well.

➔ A very recent study published in February 2010 on “Agri. Distor. & Econ. Growth: A Cross-Country Analysis” concludes that:

1. The predominance and persistence of distortions in agriculture;

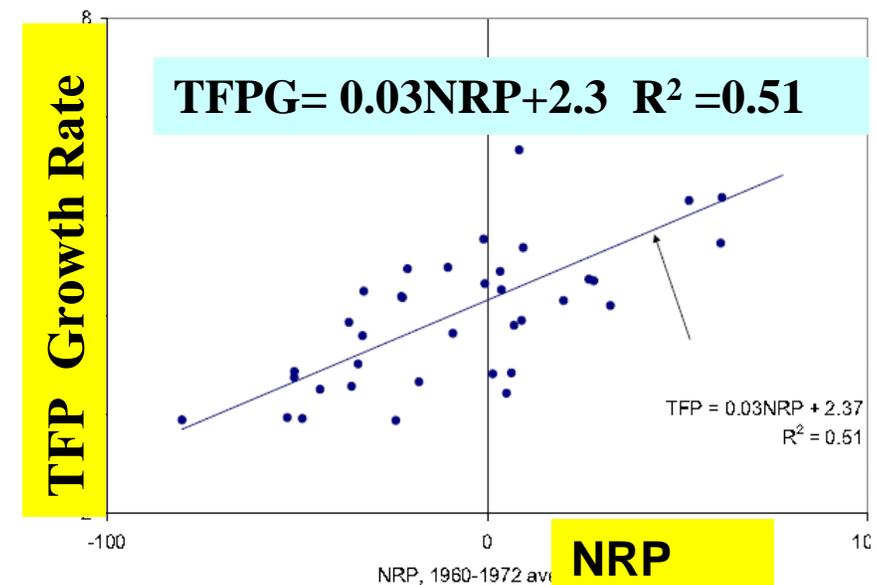
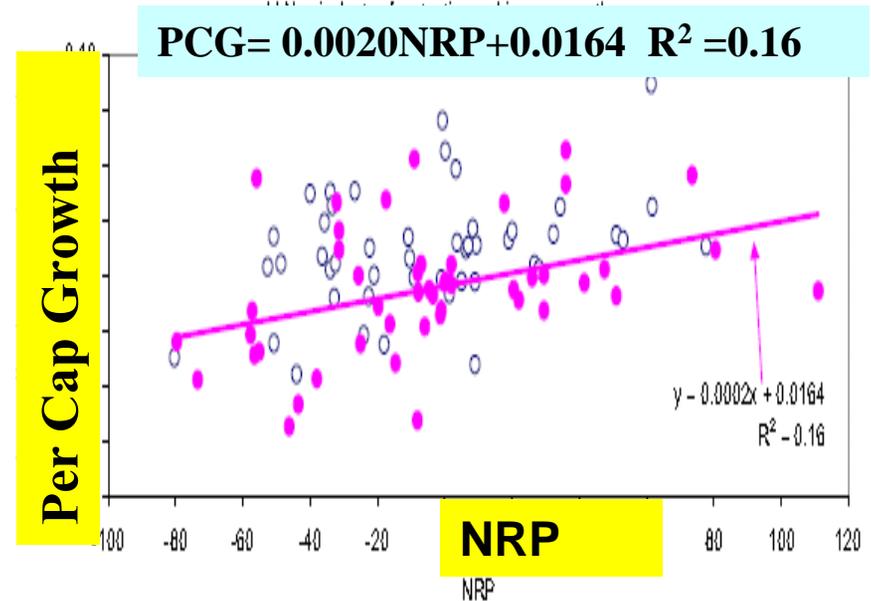
2. **Positive** association between non-discrimination against agriculture and the variables like:

- the GDP per capita,
- the economic growth, and
- the agricultural TFP growth;

3. **Positive** association between the rate of reallocation of labor out of agriculture and economic growth.

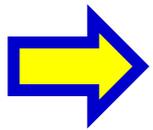


Highlights the importance of non-agriculture sector to absorb labor from the agriculture.



## ➤ Major interventions in agriculture of Pakistan are:

- Fixing agricultural prices especially that of wheat;
- Promotion of State Owned Enterprises -- USC, Food Departments, PASSCO and TCP;
- Procurement of 25-45% of total production of wheat and distribute it – that accounts for a major part of marketable surplus.
- The wheat grain stock with SOE on 18 April 2010 4.24 MT (maximum storage capacity 4.7MT)
- **To whom this stock is distributed?** – mainly as quota to flour mills below the market price involving significant amount of subsidies .
- **How is flour price determined?** **By the market forces.**



**Who is the beneficiary?**

# Main beneficiaries of the past policy?

<i>Welfare Gains</i> <i>Average (1996-2000)</i>	<i>Rs. Billions/year</i>
Consumer gain	38.3
Millers gain	11.1
Producer loss	37.9
Government cost	14.7

The diagram illustrates the flow of funds from the 'Producer loss' row to the 'Consumer gain' and 'Millers gain' rows. A red arrow points from the value 37.9 (Producer loss) to 38.3 (Consumer gain). A yellow arrow points from 37.9 to 11.1 (Millers gain). A yellow box containing '76%' is connected to the yellow arrow, indicating that 76% of the producer loss is transferred to millers.

- Most important is the opportunity cost of funds used for procurement and distribution of food grains, and the inefficiencies of these SOEs.

➔ Who benefits from **current higher wheat prices?** A farmer who have the surplus. **(19% of FHH do not grow wheat)**

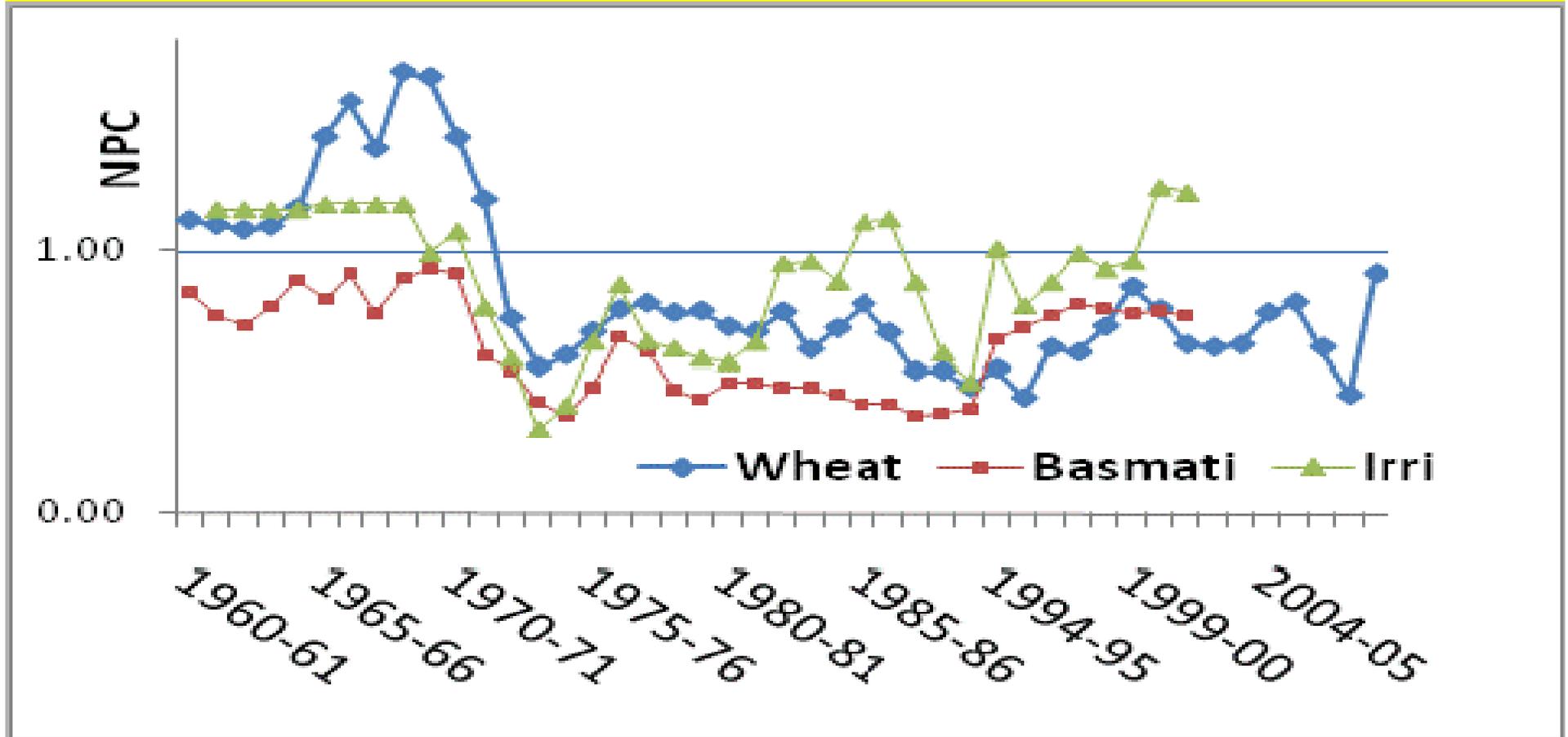
### Farming HHs reported sowing wheat (Agri. Census 2000)

Farm Size (Acres)	wheat/ FHH (Acres)	% of farms reported sowing wheat	% Surplus of wheat of Farming HH	Bags (100kg) Surplus	
> 1.0	0.4	9.5	-101	-4	Which agency would buy?
1.0 < 2.5	1.3	25.68	32	4	
2.5 < 5.0	2.6	22.48	66	17	
5.0 < 7.5	4.1	15.14	78	32	
7.5 < 12.5	6.2	13.46	86	54	
12.5 < 50	9.8-17	12.34	91-95	90-157	
> 50.0	28-85	<1.37	98	>267	

- 30% of farming households are net wheat buyers in addition to landless non-agricultural rural HH.
- The subsidized wheat is rarely meant for these rural households

➡ Historical trends of ratio of domestic prices to border prices for wheat and rice are graphed below:

➡  $NPC < 1 \Rightarrow$  taxing domestic production



Current prices: US\$283/ton in Pakistan  
: US\$197/ton fob-Gulf

➡ **Such interventionist policies has been followed in other Asian countries resulting in more or less stable prices:  
How has it been done?**

- **India first kept above then below and recently above world prices;**
- **Pakistan kept significantly lower than world prices;**
- **The Philippines maintained above world prices**
- **Indonesia around the world price trend – a success story with very minimal stock holding**

## **Lessons learned from the recent world Food Crisis**

- 1. “The international donors, and especially the World Bank, need to stop thinking that such “interventions” are harmful to the efficient functioning of markets” (Timmer, 2009, p.7).**
- 2. Universal response to food crisis – thinking policy shift towards greater intervention by governments:**
- 3. Preventing food crisis is a global responsibility – miserably failed in recent crisis, and**
- 4. Coping with food crisis is country response ⇒ “... government interventions to stabilize .. prices in domestic markets can be *good economic policies if they are done right.*” (Timmer, 2009, p10).**
- 5. Strategize domestic food stock management – including storage investment and also using international trade option as well; and**
- 6. Strong targeted Safety nets**

## ➤ **Should Government be in the Business of Fixing Agricultural Prices?**

### ➤ **If Yes Then How?**

**Some suggested discussion points:**

- **Follow international price trends in the long-run;**
- **Intervention in the markets to keep prices within limits (price band).**
- **Expansion in storage capacity at the government and the private levels;**
- **Full autonomy to Procurement & Distribution departments – commercial orientation;**
- **Inclusion of ‘Food Security’ in University curricula – ANU is starting PhD program in FS.**

**Many Thanks**

	Total CPI % change <sup>1</sup>	Food price inflation <sup>1</sup>	Expenditure share of food	Food contribution to total change in CPI <sup>3</sup>
<b>Developing</b>			- % -	
Guatemala	8.04	11.6	38.9	4.5
Sri Lanka <sup>2</sup>	19.37	25.6	62	15.9
Botswana	7.7	18.3	21.8	4.0
India <sup>2</sup>	4.6	5.8	33.4	1.9
Indonesia	6.8	11.4	26.7	3.0
Pakistan <sup>2</sup>	10.6	18.2	41.5	7.6
South Africa	8.6	13.6	21	2.9
Jordan	5.4	9.1	39.7	3.6
Peru	4	6.4	29.6	1.9
Senegal	5.8	10.9	40.3	4.4
Egypt	9.5	13.5	41.5	5.6
Haiti	9.9	11.8	50.3	5.9
Kenya	15.4	24.6	50.5	12.4
Bangladesh	10.3	14.2	64.5	9.2
China	8.7	23.3	27.8	6.5

	Total CPI % change <sup>1</sup>	Food price inflation <sup>1</sup>	Expenditure share of food	Food contribution to total change in CPI <sup>3</sup>
<b>Developed</b>				
USA	4.0	5.1	9.8	0.5
France	2.8	5.0	16.3	0.8
Germany	2.8	7.4	10.4	0.8
UK	2.5	5.6	11.8	0.7
Japan	1.0	1.4	19.0	0.3
Greece	4.4	6.6	17.8	1.2
Spain	4.4	7.1	21.9	1.6
Switzerland	2.4	2.2	11.0	0.2
Poland	4.3	7.1	30.4	2.2
Sweden	3.1	5.9	13.4	0.8

**Source: Development Dimensions of High Food Prices by Philip Abbott, May, 2008**