



Issues Brief: Causes and Consequences of the Food Price Crisis¹

Farm commodity prices and food prices rose steadily throughout 2007 before jumping to record highs in the winter and spring of 2008. Farm commodity prices, like oil prices, have begun to fall in recent weeks, but prices of several commodities remain at double or more than double their levels of two years ago.

This Issues Brief describes a research program on the current food price crisis underway at the Departments of Agricultural and Resource Economics at UC Berkeley and UC Davis. We will present a summary of main results of this research at a symposium, convened by the Giannini Foundation and the UC Agricultural Issues Center, scheduled for October 10, 2008. Details of the symposium and summary briefs on individual topics are available at <http://are.berkeley.edu/foodcrisis/> and www.aic.ucdavis.edu. The symposium will provide non-technical summaries to help a broad audience of participants understand the main issues, policy options and consequences related to the food price crisis. In-depth research results will be available in working papers posted on line.

The likely causes of the increase in food prices include: the jump in oil prices, the increase in biofuels demand supported by government policies, government attempts to manipulate imports and exports, increased demand caused by rising income in developing countries, slower growth in agricultural productivity, and the weak U.S. dollar. Statistical analysis of historical data, simulations showing how policies affect market equilibrium, and models of food demand behavior when stocks are low, all help us understand the current situation and outlook for the future. We will also examine the relation between the slowing pace of agricultural R&D and the recent imbalance between productivity and demand growth.

Higher prices benefit farmers and land owners and harm consumers. California and U.S. farm incomes and land prices reached new records in 2007, and will be even higher in 2008. In poor countries, the sudden and extreme jump in prices has caused severe hardship and hunger for the most vulnerable populations, who devote much of their income to food. Since many small farmers are net food buyers, many farm households have suffered from high prices. The long-lasting adverse consequences include physical and mental stunting from malnutrition and reduced schooling for children. The symposium will consider these consequences among others.

¹ Contributors to the symposium and this briefing include Professors Julian Alston, Colin Carter, Alain de Janvry, Larry Karp, Ethan Ligon, Alex McCalla, Phillip Pardey, Gordon Rausser, Elizabeth Sadoulet, Aaron Smith, Daniel Sumner, Brian Wright and David Zilberman.