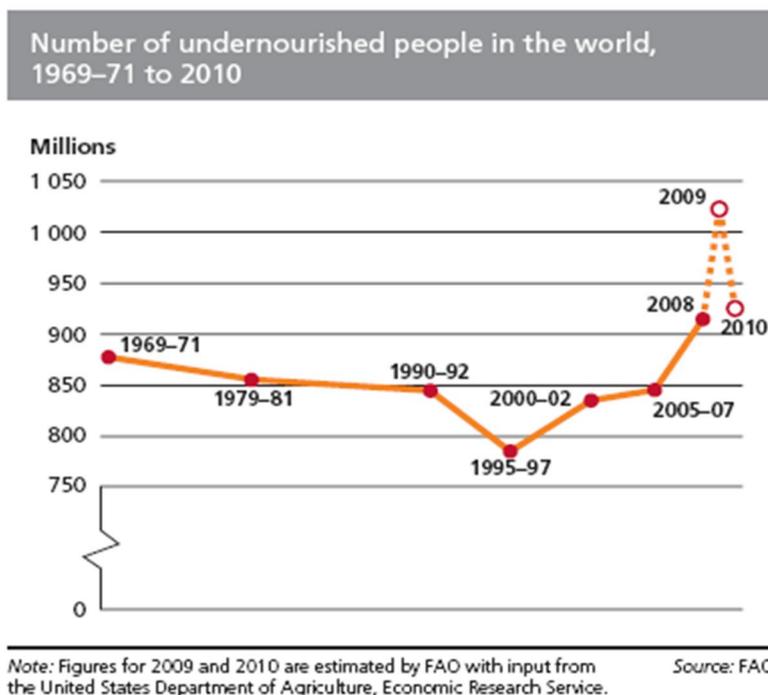




The Spectre of Malthus

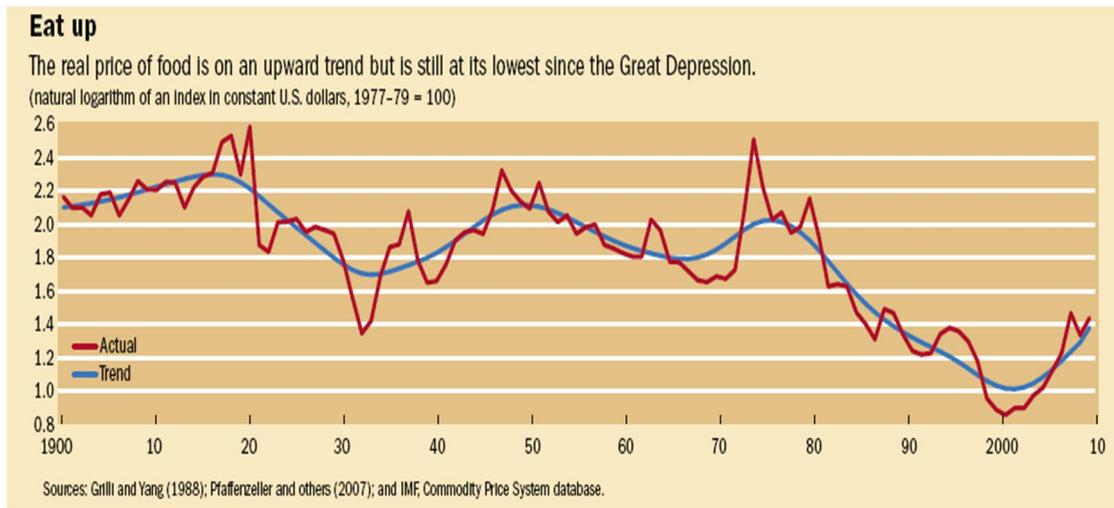
After enjoying more than two decades of falling prices, the world's economy is now having to navigate a period of more expensive food.

According to the Food and Agriculture Organization of the United Nations (FAO), last year some 925 million people worldwide were undernourished:¹



The good news is that this is down on the billion-plus estimate for 2009, and as such it represents the first fall in the FAO's estimate in 15 years. The bad news is that this means that at least close to a billion people are still at risk from high food prices.

During the 1980s and 1990s, the world became used to a period of low international food prices, as real (that is, inflation-adjusted) prices fell to their lowest levels in roughly a century.² Times have changed.³ While prices remained close to historic lows until about 2005, in the following three years they began to rise, at first quite modestly during 2006, but then gathering pace in 2007, and accelerating rapidly into the opening months of 2008. In the year to July 2008, the FAO's food price index rose by more than 50 per cent, while the price of rice more than tripled in the 12 months to April 2008. After more than two decades of cheap food, the world was plunged into a twenty-first century food crisis.



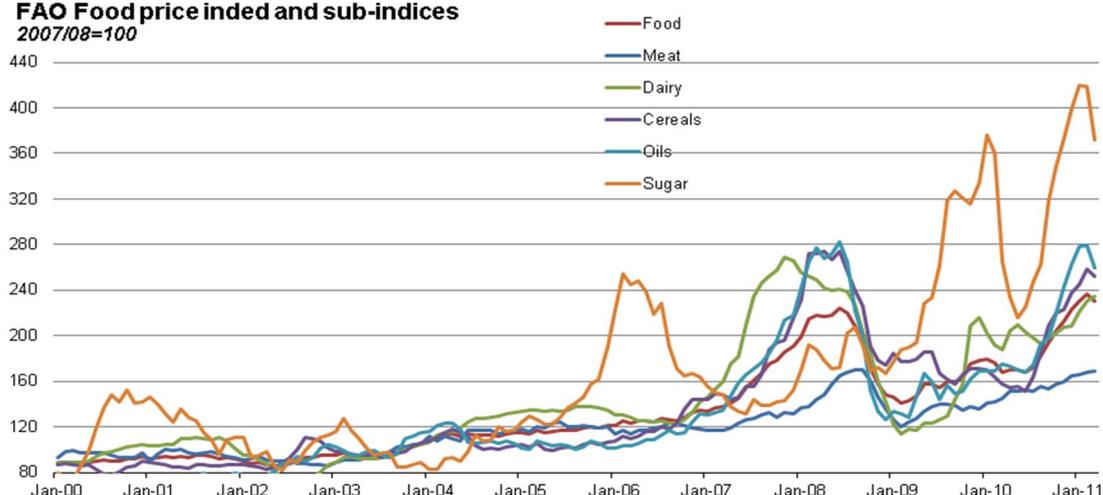
Source: Chart 2 in Helbling and Roache, *Rising prices on the menu: Higher food prices may be here to stay*. (2011)

The consequences were profound. Panic buying by key importers and the imposition of food export restrictions by at least 30 countries produced major dislocations in international grain markets, especially the market for rice. Economists estimated that higher prices may have pushed more than 100 million people into severe poverty.⁴ By June 2008, more than 30 countries had experienced some form of social unrest or political protest linked to high food prices, sufficient in at least one case to topple a government.

The onset of the global financial crisis provided some relief, as food prices, along with commodity prices more generally, fell back from their mid-2008 highs. But this was offset by the damage to food affordability created by lost income and jobs. Moreover, the relief proved to be only temporary. After stabilising in the first half of 2010, prices surged once more in the second half of last year, and continued rising into early 2011. By March this year, the FAO's food price index was up 37 per cent on its March 2010 value and was also above its June 2008 peak. The 2010-11 food price spike has been more broadly based than its 2008 predecessor, with big price increases for maize, wheat, soybeans and sugar, although other commodities, in particular rice, have seen a much more modest period of price increases this time around.



FAO Food price index and sub-indices
2007/08=100



Source: <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/>

World Bank economists estimate that the food price rises between June and December 2010 were large enough to have pushed maybe 44 million more people into extreme poverty.⁵ In addition, some observers have also given food prices an important supporting role in explaining the recent political and social turmoil in the Middle East and North Africa. More generally, it is estimated that increases in international food prices lead to a significant increase in the incidence of anti-government demonstrations, riots and civil conflict in low-income countries.⁶

The post-2005 rise in the price of food has conjured forth once more the spectre of the Reverend Thomas Robert Malthus.⁷ In 1798, Malthus published *An Essay on the Principle of Population* in which he made his now famous prediction that agricultural productivity would fail to keep pace with population growth. Since then, Malthus's name has become inextricably tied to the fear that a growing world population would eventually exceed the planet's capacity to feed it. This despite the fact that Malthus turned out to be writing at a time shortly before a series of major developments – the acceleration of the industrial revolution, a dramatic expansion of international trade, the emergence of new agricultural producers in North America, Argentina and Australia, and the onset of the demographic transition – would allow a procession of countries, led by his own, to break free from the 'Malthusian trap' he had just identified.

Fears about Malthusian-style constraints to growth have since been a recurring phenomenon, as has their eventual failure to play out as the pessimists have predicted.⁸ So, for example, they re-emerged in the late 1960s and early 1970s, when the world experienced a period of rising nominal and real food prices. Then, thanks in large part to the Green Revolution, rising world agricultural productivity allowed food output to run comfortably ahead of population growth, and food prices



began their decades-long fall in real terms.⁹ Neo-Malthusianism got another, short-lived, run in the mid-1990s when, following a period of virtual stagnation in global production of cereals during the first half of that decade, food stocks declined and (nominal) world market prices rose sharply.¹⁰ But the run-up in prices proved to be brief and was followed by swift return to what seemed to be an extended period of cheap food. An old and familiar adage – that the best cure for high prices is high prices – continued to hold. Indeed, economists often cite both Malthus's original predictions and the failure of the more pessimistic forecasts of the early 1970s as cautionary lessons regarding the failure to account properly for the impact of technological change and the power of prices to drive incentives.

Now, as the world faces the challenge of feeding an estimated 9.1 billion people by 2050 – something that the FAO thinks will require an increase in food production of some 70 per cent from current levels¹¹ – we have entered yet another period of Malthusian-style pessimism. Once again, the expectation is that higher food prices will work their magic on production, investment and innovation. In the meantime, however, the world economy, and in particular the world's poor and hungry, have to cope with the challenges created by more expensive food.

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¹ FAO, *Global hunger declining, but still unacceptably high*. Rome, Food and Agriculture Organization of the United Nations, September, 2010.

² Thomas Helbling and Shaun Roache, Rising prices on the menu: Higher food prices may be here to stay. *Finance and Development* 48 (1) 2011.

³ See also IEC#14.

⁴ The estimate is from Maros Ivanic and Will Martin, *Implications of higher global food prices for poverty in low income countries*. Policy Research Working Paper 4594. Washington DC, World Bank, April, 2008.

⁵ Maros Ivanic, Will Martin and Hassan Zaman, *Estimating the short-run poverty impacts of the 2010-11 surge in food prices*. Policy Research Working Paper 5633. Washington DC, World Bank, April, 2011.

⁶ Rabah Arezki and Markus Bruckner, *Food prices and political instability*. IMF Working Paper WP/11/62. Washington DC, International Monetary Fund, March, 2011.

⁷ Mark Thirlwell, Food and the spectre of Malthus. *Financial Times*, 26 February 2008.

⁸ See for example The Economist, Malthus, the false prophet. *The Economist*, 15 May 2008

⁹ Justin Lahart, Patrick Barta and Andrew Batson, New limits to growth revive Malthusian fears. *The Wall Street Journal*, 24 March 2008.

¹⁰ See for example Nikos Alexandratos, The world food outlook: A review essay. *Population and Development Review* 23 (4) 1997.

¹¹ FAO, *How to feed the world in 2050*. Rome, Food and Agriculture Organization of the United Nations, December, 2009.