

# Opportunity in High Prices

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Commodity markets have been booming for the past several years, and we have all heard about how rising raw-materials prices have helped drive the Canadian dollar to parity with the U.S. dollar. More recently, the attention has been more focused on the ascent of food prices, and the implications for farmers' incomes as well as the overall cost of living. Since 2002, the average price of the various foods that Canada produces and exports has increased by 46 percent.

This substantial rise in food prices has been bucking the long-term global trend. With global food consumption driven mostly by population growth, it is no surprise that the demand for food has been rising only gradually over time. In contrast, the combination of ongoing technological advances in agriculture and generous government support for farmers has led to substantial increases in global supply. With supply growth outstripping demand growth, the predictable long-term result has been falling agricultural prices.

Two things have been working against this trend recently, sharply driving up food prices. First, while global population growth hasn't changed much, the rising incomes of hundreds of millions of people in China and other developing countries has been rapidly increasing global food demand. Second, policies from the developed countries aimed at encouraging the production of bio-fuels have driven up prices for many kinds of food. Corn is especially important in this story, since it is often used to produce ethanol, a key bio-fuel. In addition, as farmers are led to plant more acreage in corn, the associated reduction in the supply of wheat and other grains naturally leads their prices to rise, which then drives up the prices of the livestock which feed on these grains.

These two forces are likely to persist. There is certainly no reason to expect income growth in the developing world to stop or even slow down, not for many years at least. There is some chance that rich-country governments will realize that their policies to promote bio-fuel production are silly, partly because bio-fuels cannot lead to a significant reduction in greenhouse-gas emissions and partly because the production of bio-fuels is itself extremely energy intensive. But if they ever do come to their senses, it won't be for a while. So we are faced with food prices remaining high and perhaps even increasing for the next several years.

High food prices for the near future present the Canadian government with a wonderful political opportunity. First, for a Conservative government claiming to care about the value of free markets and the problems of government intervention, this is the perfect time to reduce or eliminate the various programs which shovel cash to Canadian farmers. You don't have to dislike farmers to argue against these programs; it is sufficient to recognize that they are neither more important nor less important than many other hard-working Canadians who receive no government assistance. In 2007, farmers received \$4.1 billion in direct cash payments from Canadian governments. That's serious money.

The relevant political calculation would probably show that eliminating farm support might cost the government a few seats in the West, yet would not win them any seats in Ontario or Quebec, where they really need them. So on narrow political grounds, the elimination of farm support may not be a winner. The political case for action needs both a bigger prize and a bigger vision.

Luckily, the bigger prize is out there, just waiting for Canada and other rich countries to make a move. The ongoing WTO negotiations—the Doha Round of trade talks—is stalled because of the rich countries' unwillingness to reduce their high levels of financial support to their farmers. Across the OECD countries, an average of 31 percent of farmers' income comes either directly from government coffers or indirectly from policies forcing consumers to pay artificially high prices. Taxpayers and consumers in these rich countries should be complaining, but the number of farmers is so low that even this huge level of support can easily be afforded by a rich population.

If the only problem caused by rich-country farm support was that each of us pays slightly higher taxes, then it wouldn't matter much. But the bigger problem is the effect on people in developing countries. By encouraging farmers to supply more wheat, barley, sugar, or whatever, the rich-country policies drive down world food prices and make farming in poor countries unprofitable. If we really care about helping the countries in the developing world, we would prove it by eliminating our farm-support policies and thereby driving the Doha trade talks to a successful completion.

The Canadian government could kill two birds with one stone. By eliminating existing farm-support programs, it could free up \$4 billion annually, and use these funds for other spending priorities, further debt reduction, or more tax relief. Even more important, it could take a crucial leadership role in the Doha Round, convincing other rich countries that there is no better time to reduce farm subsidies and to truly welcome the developing countries into global agricultural markets. Will the Conservatives waste this opportunity?

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