The RES is a learned society and membership organization founded in 1890 to promote economics. We publish two major journals and organise events including an annual conference. We encourage excellence, diversity and inclusion in all activities.
The editor:
JONATHAN TEMPLE

A glance to the left

The first ever issue of the Economic Journal, in March 1891, included a sceptical essay on “The difficulties of socialism”. Now, in an era of new demands on the state, it seems a good time to ask about some of the difficulties of capitalism. In this issue, Alan Manning writes about labour economics and progressive politics; Howard Smith examines how competition policy might change; and Nicholas Wapshott looks back at the very different worldviews of Milton Friedman and Paul Samuelson. (A future issue will consider inequality.)

In his latest Letter from America, Daron Acemoglu considers worries raised by Big Tech, and the implications for economic theory. Elsewhere, you can find profiles of Sir Partha Dasgupta and Claudia Goldin, the latter profile contributed by Almudena Sevilla, chair of the Women’s Committee. The issue also has Derek Headey and Kalle Hirvonen on new challenges for the world food system; Catherine Young on the work of the Geospatial Commission; Ian Kumekawa on the life and pioneering ideas of A. C. Pigou; and the usual round-up of news and events.

Hidden among those features is an invitation to our readers. The January 2023 issue will be the 200th edition. Another 100 would take us to 2048, and hence we are asking readers to tell us about their hopes (or fears) for the economics of 2048. A selection of the best and most thought-provoking submissions will appear in the next issue. Over to you!

Inside this issue...

01 FROM THE PRESIDENT
The first Letter from the RES President, on new developments at the Society

02 LETTER FROM AMERICA
Daron Acemoglu on concerns around Big Tech and the challenge for economic theory

05 LABOUR ECONOMICS
Alan Manning examines the relations between labour economics and progressive politics

08 PROFILE
A profile of Sir Partha Dasgupta, and how a chance encounter changed the direction of his research

10 COMPETITION POLICY
Howard Smith explains how and why the conventional wisdom on competition policy is changing

12 SAMUELSON FRIEDMAN
Nicholas Wapshott on a long left-right duel

14 FOOD CRISIS
Derek Headey and Kalle Hirvonen discuss new challenges for the world food system

18 LOCATION DATA
Catherine Young of the Geospatial Commission on how to assess investments in location data

20 READING PIGOU
Ian Kumekawa on the life and pioneering work of Arthur Pigou

23 ECONOMICS 2048
An invitation to our readers, ahead of the 200th issue

24 WOMEN’S COMMITTEE
A profile of Claudia Goldin, prepared by Almudena Sevilla

26 NEWS AND EVENTS
Various items, including next year’s RES Conference

28 FROM THE ARCHIVE
We look back at a past piece
Food inflation and global poverty

New challenges for the world food system

**The authors**

DEREK HEADEY
INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

KALLE HIRVONEN
INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

If food prices increase, do poverty rates go up or down? In 2022 this is a question of paramount importance to developing economies and international aid agencies. Even prior to Russia’s invasion of Ukraine, the interconnected prices of food, fuel, and fertilizers were already rising on the tailwinds of Covid-19’s inflationary pressures in 2021. However, by March 2022, a month after the war between two of the world’s biggest food exporters began, the FAO’s vegetable oil price index was 150% higher than its 2014-16 baseline, while cereals were 70% higher and the composite food price index 60% higher (see the figure). In recent months, international prices have started to come down. However, the outlook for domestic food prices remains uncertain, since many emerging market currencies have weakened against the dollar, creating further scope for these economies to import food inflation. While such rapid rates of food inflation are disconcerting, they are hardly new to the twenty-first century. 2007-8 saw the first global food and fuel price spike.
since the 1970s. The then-head of the WFP cited a “perfect storm”, the media reported on food riots and potential famine, the FAO projected one billion hungry by 2009. For their part, economists produced a litany of simulation studies using Angus Deaton’s formula for assessing the short-run welfare impacts of a change in food prices, the “net benefit ratio”: higher food prices hurt net food consumers and help net food producers. But in 2008 these studies all seemed to find more hurt than help, and the World Bank concluded that over 100 million people could be thrown into poverty by rising prices.

Yet in the aftermath of 2008, a number of studies started to question these findings. Jo Swinnen wrote a sceptical essay on “The right price of food”, observing that “Only a few years ago the widely shared view was that low food prices were a curse to developing countries and the poor”. If the bulk of the world’s poor were rural, and agricultural performance so crucial for global poverty reduction, surely higher food prices would amount to a positive terms of trade gain for the average poor household?

In our view, the early net benefit simulations of 2008 and 2009 did not accurately predict the welfare impacts of higher prices for several reasons.

First, international prices don’t neatly translate into domestic price increases. Many countries are naturally or unnaturally somewhat insulated from international price movements, and there are ample policy levers available to smooth out transmission in an emergency, though some are certainly costly.

Second, measuring net benefit ratios accurately is extremely challenging. Food consumption is measured with a 1- or 2-week recall, food production often with a 6- or 12-month recall. Estimating what your family consumed in the past week is difficult but

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feasible; accurately recalling everything your diversified farm produced in the past year is close to impossible: how many bananas did you pick in the last 12 months? A 2011 World Bank study from Uganda found that high-frequency farmer diaries resulted in average food production estimates that were 65% larger than those of the standard recall method (disturbingly, seasonal crop production was 120% larger when the diary method was used). On that evidence, one might reasonably conclude that net benefit ratios are empirically impractical with standard survey instruments.

Third, Deaton’s net benefit ratio deliberately focused on the short run, abstracting from general equilibrium adjustments. However, as Hanan Jacoby demonstrated, higher food prices incentivize agricultural supply responses that necessitate hiring more unskilled labour. If the agricultural sector is a large consumer of that labour, rural wages can rise rapidly, compensating rural non-farm households (including the landless poor) for food price increases. In Bangladesh we found that increases in food prices led to increases in rural wages in the space of six months; long enough to hurt, but short enough to help.

Fourth, despite so much talk of rapid urbanization in emerging economies, 80% of the world’s extreme poor were still rural in 2013, and often working in agriculture. The urban poor (or near-poor) are certainly closer to the news cameras and undoubtedly hard hit by rising food prices, but they are well outnumbered by the rural poor. If the rural masses typically benefit from higher food prices – after economic adjustments – then it’s likely that poverty falls in aggregate terms.

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Food, fuel and fertilizer prices (left axis) and economic growth rates in low and middle-income countries (LMICs) from 2000 to July 2022

*Commodity prices are IMF Commodity Price Indices up until July 2022. The LMIC economic growth rate is the average growth rate across 149 countries from the World Bank’s Global Economic Prospects.

Food prices moderately reduce poverty in more rural economies, but that predicted impact attenuates or even reverses in highly urban economies. These results are broadly consistent with an earlier cross-country study by Headey (2018) focused on medium-run (2-5 years) poverty responses, as well as World Bank country case studies for Bangladesh, Cambodia, Ethiopia, and Uganda.

Of course, the evidence above is (recent) history, not 2022, and the post-pandemic global economy is precarious. Prior to 2008 emerging economies experienced record growth rates (see the figure); in contrast, 2020 saw almost every economy in the world contract in the wake of the pandemic, and recovery has been fitful. The pandemic hit the world’s urban poor especially hard – and they are being hit hard again by food inflation. The most food-insecure countries in the world are conflict-affected (Afghanistan, Ethiopia, Somalia, Yemen) or disaster-affected (Madagascar, Pakistan) and therefore highly dependent on food aid and cereal imports that are now much more costly to acquire. However, even many “normal” emerging economies are now encumbered by broader macroeconomic challenges (high debt, acute foreign exchange shortages, weakening currencies) that severely limit their ability to respond proactively to the challenges of food, fuel, and fertilizer inflation. The weak global economy also means that stagflation is a far greater threat than food inflation alone. So
2022 is different to 2008; history doesn’t always repeat itself. There is no single remedy for this more complex food-cum-macroeconomic crisis of 2022. Fragile states need additional humanitarian aid to compensate for higher food import prices and physical scarcities. Macroeconomically vulnerable economies need sizable, timely assistance from the IMF, debt restructuring, and additional social protection measures, including for the “new poor”. And lest we forget the “old poor”, farmers in the developing world require immediate assistance to stimulate a stronger agricultural supply response, particularly help with accessing farm inputs, but also sensible longer-term investments to address the persistent problems of poverty, hunger, and malnutrition.

Ironically, the largely urban food crisis of 2007-8 turned out to be a much-needed catalyst for renewed investments in agriculture and the rural economies of Africa and Asia – investments which had stagnated in the decades prior. With climate change now producing more extreme weather events on an alarmingly regular basis, and the global food and fuel economies becoming ever more volatile, larger and smarter investments in agriculture are needed to increase productivity, and to enhance food system resilience. Climate-smart investments in agricultural R&D, extension, and irrigation are critical on-farm investments, but investments in a broad range of rural infrastructure (transport, electricity, ICTs, and physical food markets) are essential off-farm investments to improve the efficiency and resilience of agricultural value chains.

If it was not so in 2008, it is now abundantly clear that the twenty-first century global food system is facing unprecedented challenges: a tighter nexus between food and energy markets, rising food demand from multiple sources, the crippling economic effects of regional or global pandemics, and the shocking impacts of more frequent and more severe extreme weather events. Economics has a vital role to play in improving our understanding of this evolving food system; in identifying how food inflation and other food system shocks affect poverty, food security, and nutrition; and in designing and evaluating policies to better manage food systems for the benefit of food producers and food consumers alike.

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