The political economy of food price policy: South Africa case study

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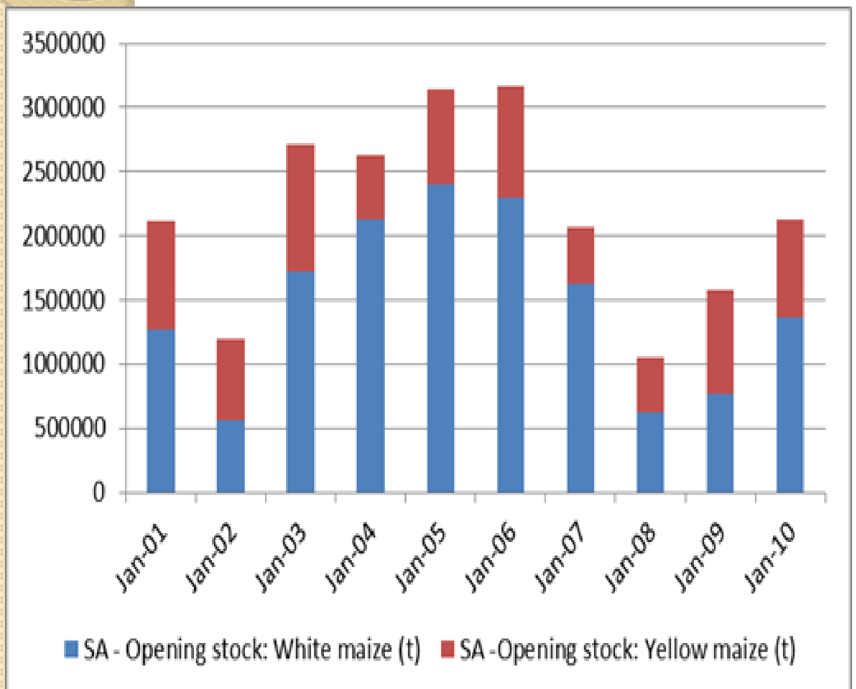
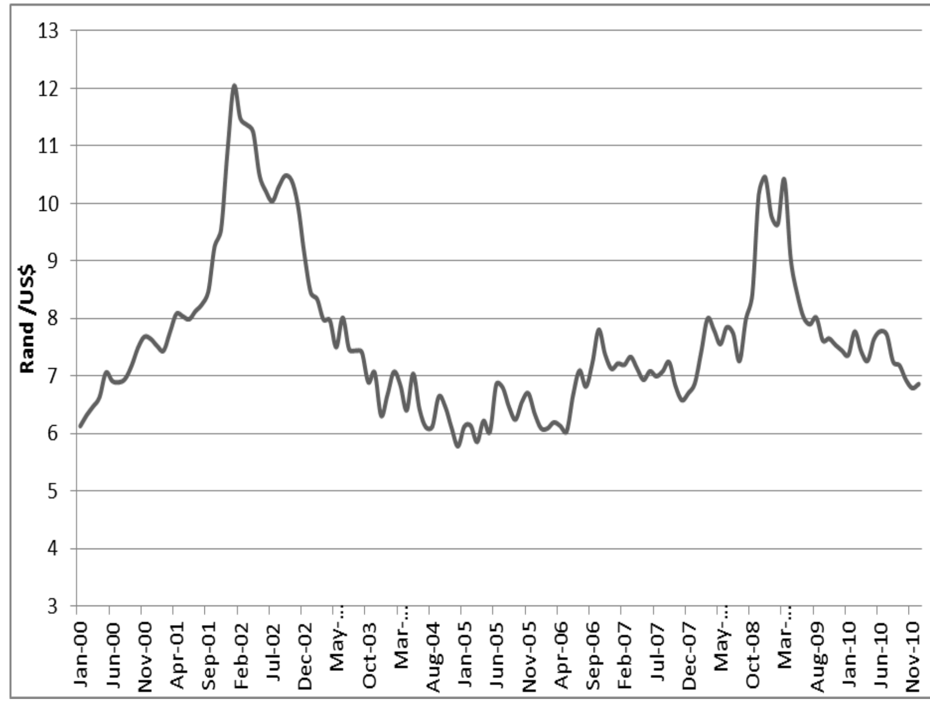
Introduction

- Some basic pointers on SA
  - Dualistic economy
  - Extreme wealth and extreme poverty – 63% of rural people below $1/day
  - 60% urbanised
  - Net food exporter
  - Modern food manufacturing and food retail sector
  - private sector does all trade
- Food price crises: 2002/03 and 2008/09
- Personally involved

Maize a key commodity

Drivers: Stocks or exchange rate?





Policy responses

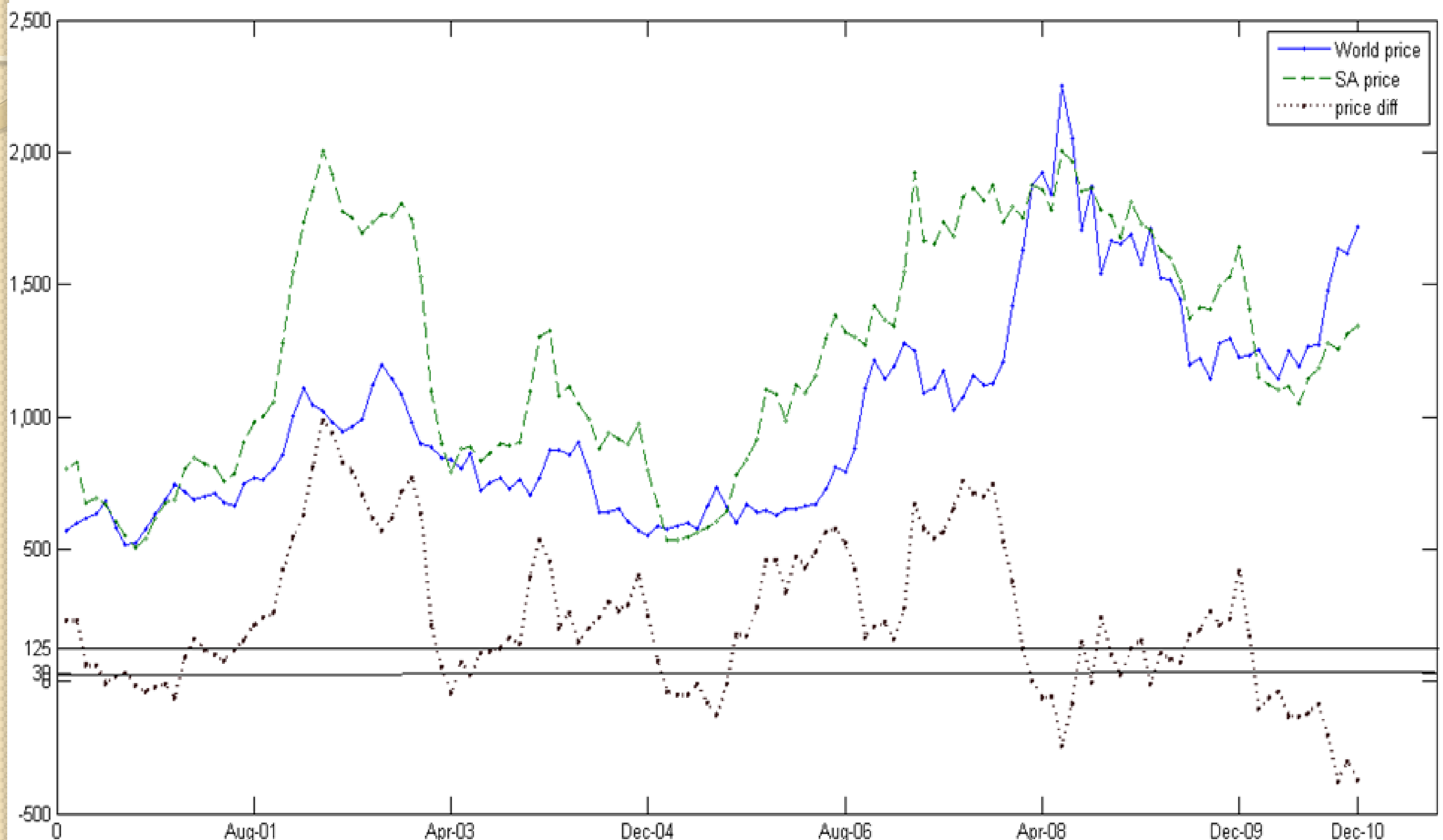
- No changes in policy direction. No policy shifts. Concerns were raised but in essence the non-interventionist position was maintained
- South Africa had well-funded social welfare programme in place
  - Elements were up-scaled and payment levels increased
  - Food parcels, food gardens and other forms of relief were provided in addition
- Investigations were launched and competition commission was strengthened.

PRICE TRANSMISSION ANALYSIS

Methodology

- World and SA maize prices seem to be correlated
- However, standard cointegration tests show no evidence of cointegration
- Regime switching between export and import parity
- Threshold cointegration model applied adopting Bayesian approach
- Three regimes

Price series and differences



Results

- Long run multiplier between world prices and SA maize prices:
  - Regime 1 (export parity): 0.978 and adjustment rate 0.361
  - Regime 2 (autarky): - no long run relationship
  - Regime 3 (import parity): 0.9720 and adjustment rate 0.4602
- Threshold levels differ between periods before and after 2005 oil price shock.

POLITICAL ECONOMY QUESTIONS

(a) Policy preference functions

- No shifts in policy. Policy preference was for no controls in the market and no management of the exchange rate.
- Grain reserve was considered but rejected because of costs and fact that stock levels improved
- Preference was rather for immediate relief for vulnerable via existing Social Development Programmes. Grant levels were increased following calls from NGOs, Trade Unions…

(b) Interest groups

- SACP and COSATU (insiders) – part of tripartite alliance with ANC *(asked for support to the needy and for investigations into collusive practices in the food chain)*
- Consumer groups
- Private sector (food companies, retailers) strong
- Media
- Assistance from food companies and large discount stores (outsiders)
- But, in essence very few comments from farmers, food companies and retailers (who took all the blame)
- Farmers: "We told you – do not mess with agric"

(c) Institutions and ideologies

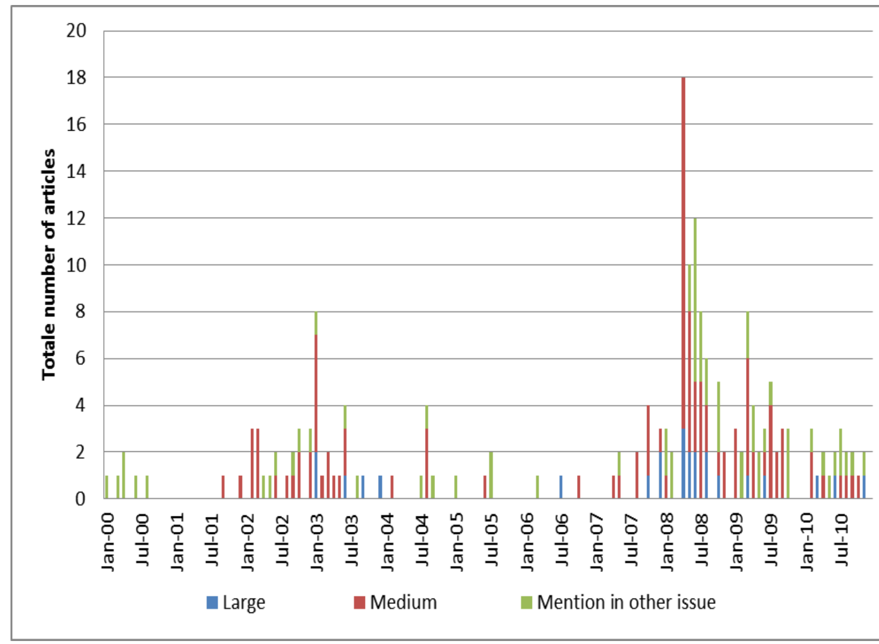
- Democracy, majority rule but economic inequality
- Economy controlled by large business and white people
- NEC in ANC ; Cabinet and Economic cluster (and NEDLAC) important policy nexus but Treasury plays critical role.
- Economic paradigm : neoliberal market capitalism
  - Possibly as a result of pre-1994 deal between business and ANC elite
  - But, "developmental state" paradigm also important
- Strong case of 'policy paralysis' or is it more a case of 'status quo bias'?

(c) Institutions and ideologies (cont.)

- No food riots: perhaps explained by strong safety net programme
- Small pockets of local unrests as a result of service delivery problems in local municipalities
- No new institutions emerged in response to food price crisis – one (Food Control Authority) was announced but never implemented (Food price monitoring mechanism after 2003 in place)

(c) Media and elites

- Media reports – raised the issue – especially in local news papers and radio stations
- National papers had more reports in 2008/09
- Elites entrenched the status quo bias but urged competition commission investigations



(d) Miscellaneous

- Monetary policy – interest rates – used to curb inflation within 3-6% band. (Assuming demand growth is driver of inflation)
- Self-sufficiency was central part of agric policy during 1970 – 1994. Limited support for this post 1994 – but more support for this when SA became net importer after 2007.

Summary

- Policy response: second class type interventions to mitigate impacts of food inflation
- Pre-existing programmes
- Election years 2004 and 2009. Food parcels distributed to key constituencies
- Limited policy response could clearly be explained by 3 main factors:
  - A well-funded and effective welfare payment and social safety net programme was in place
  - The principles of liberal capitalism were well-entrenched
  - A strong case of 'policy paralysis' or 'status quo bias'