



# Food Price Instability and Global Food Crises

**Bill Winders**  
Georgia Tech



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Over the past few decades, global food prices have fluctuated significantly. This has been especially true for grains, such as corn, rice, and wheat. In 2008, prices for these grains increased sharply and hit 35-year highs, resulting in a global food crisis. Grain prices have since remained high and unstable, threatening political and economic stability especially in developing countries.

Political and economic stability are, of course, important for national development. Periods of political or economic crisis can interrupt and undermine development. Stretching back into the 1700s, spikes in grain prices have contributed to food riots that have undermined political stability. In 2008 and again in 2011, high grain prices contributed to political instability and economic turmoil in dozens of countries—some of which remain in crisis today. Given such consequences, how can we gain stability in world grain markets?

There are a multitude of causes that can interact in complex ways to contribute to instability in markets for grains, including poverty, increased biofuels production, and weather and climate changes. Even with these and other diverse causes, one important way that we can facilitate stability in grain markets is to establish national, regional, or even global grain reserves, often referred to as an “ever-normal granary.” Such ongoing stores of grain can help smooth over vagaries in the market.

Simply put, grain is pulled off the market when a surplus exists, and grain from reserves is put into the market during periods of shortages. Creating grain reserves generally involves a government purchasing grain to prevent a surplus and then releasing the reserves onto the market when production fails to meet demand. Grain reserves are not new, having been used at various times reaching back to biblical times. The idea of an ever-normal granary gained particular attention during the Great Depression of the 1930s, and it retained significant political support following WWII.

How important can reserves be in stabilizing markets and staving off food insecurity? From about 1945 to 1970, grain prices were relatively stable—much more so than today, in fact—and global food crises were largely absent. This stability was achieved in part through grain reserves, which existed as a national policy in many countries. Grain reserves were used in conjunction with price supports—essentially, guaranteed minimum prices—through which governments purchased and stored surplus grains (Winders 2012). Price supports also encouraged grain production at levels that allowed for large, continuous reserves.

At the level of the world economy, the International Wheat Agreement (IWA) involved the coordination of national reserves by the world's major exporters—particularly, the U.S. and Canada—to help stabilize prices from 1949 to 1969.

As these national policies and international agreements weakened by the early 1970s, world grain markets became less stable. A global food crisis struck in 1973-1974, resulting largely from the draining of global grain reserves, particularly those in the United States. In the decade leading up to this crisis, the US carried over between 11 and 38 million metric tons of wheat annually, or between 27 percent and 121 percent of annual production. This carry-over, along with the carry-over of grain in other countries with similar policies, contributed to an ongoing global reserve of grain that expanded during periods of overproduction and was distributed during years when production fell short of demand. That is, this global reserve of grains—anchored by the US surplus—smoothed out the more extreme variation found in market prices and annual production. Beginning in 1972, however, the US sold substantial portions of its reserves to the Soviet Union, leaving US reserves less able to provide a buffer against market turmoil in the mid-1970s. This marked the beginning of a shift away from maintaining substantial grain reserves.

Since that food crisis, the world economy has undergone a process of liberalization, whereby price support and grain reserves policies have been severely weakened, if not eliminated. When countries do have reserves today, they tend to be much smaller, less coordinated, and less stable than were reserves in the past. Consequently, world grain prices have been quite unstable during the past 40 years (Winders, et al. 2016).

The impact of grain reserves was also evident in the food crisis of 2008. In Pakistan, for example, a reduction of wheat reserves was one factor undermining that country's government's ability to counteract rising prices. The World Bank and IMF "had pressured Pakistan's government to sell its wheat on the global market since world wheat prices were at a record high" (Toor 2010:101). These organizations also encouraged Pakistan to reduce subsidies to wheat farmers, leading some to switch to other crops. Adequate grain reserves would have helped to provide a cushion and a stabilizing force during this economic crisis.

Grain reserves are not a new idea. They helped to stabilize the market during the middle of the twentieth century, as well as at a variety of other points in history. For the past 40 years, however, the absence of adequate reserves has coincided with much greater market instability. How might we return to greater stability through grain reserves?

The shift toward grain reserves in the past coincided with chaos in world agriculture, particularly during the Great Depression. But this shift also depended on calls for greater stability by farmers and by politicians who championed the idea of grain reserves. We have certainly seen significant turmoil in the world economy, but calls for a return to grain reserves have yet to gain enough political force to be heeded.

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#### CONTACT:

**Bill Winders**

School of History & Sociology  
Georgia Tech bill.winders@gatech.edu



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