

Comment

José Cuesta: This paper deals with two different aspects that are relevant in effectively understanding the food price crisis, that is, the price-through of international to domestic prices and country-specific welfare implications of food price increases. The empirical analysis is conducted for one Andean and three Central American countries, which have not been the subject of much analysis in the voluminous literature on the recent food price crisis. Interestingly, the welfare effect simulation exercise combines analytical features unseen in recent welfare studies: the inclusion of substitution effects, the simulation of actual price increases observed in the country, and hypothetical across-the-board price increases. The exercise also benefits from the inclusion of both the household net production and consumption positions, which have been shown by some studies to be critical in understanding the effects of the food crisis and, more generally, the effects of price increases in poverty. As a result, the paper contributes significantly to understanding the impact of high food prices in Latin America.

The paper remains lacking in the integration of its two main objectives, however: specifically, the integration of its price pass-through and distributive stories, on the one hand, and the exploitation of its main methodological contribution (that is, the rigorous inclusion of substitution effects), on the other. The authors indicate in their modeling strategy that households will face full price transmission as consumers, while they assume that producing households will suffer full, partial, or no price transmission when conducting their estimations. Given the effort to identify and isolate price transmission by product and country in one of the sections of the paper, a simulation exercise that had singled out the specific impacts due to price transmission from effects accruing from other domestic forces—that is, policy interventions—would have certainly contributed to the understanding of the international food price transmission to each of these countries in ways the previous literature has not attempted so far.

Second, the distributive section, while very rich and comprehensive in results and decompositions, arguably lacks the most appealing of all, one in which the authors clearly separated effects from direct and substitution sources. In previous distributive studies of the food price crisis, simulations have simply gone as far as separating direct effects from the consumption side and direct effects from the production side across households. Given the reportedly substantive intracountry dynamics of losers and winners in this paper, which clearly point toward a deepening of poverty among the poor and worsening among the nonpoor, the still relatively modest estimated increases in poverty may be the result of important offsetting substitution effects. The combination of the conducted mapping of poverty losers and winners and the proposed additional decomposition of total changes into direct and substitution effects would have provided the reader with a much better understanding of the high prices impacts across (some) Latin American countries.

In a similar vein, the section on modeling options provides a succinct yet suggestive mapping of the different alternatives undertaken in the previous literature to design an analysis of the food price crisis. In that respect, the reader ends up with a very useful tool for visually understanding the areas covered and the gaps to be filled in order to fully grasp the food price crisis impacts. Yet, had the paper further explained the analytical trade-offs of choosing one or another modeling option, the methodological discussion might have taken the reader to methodological territory not seen before in the context of the food crisis. Here, previous authors working on the food crisis have shown a remarkable shyness to discuss the consequences of their methodological limitations. At least, some order of magnitude of the results of the studies in each cell to see how much researchers are missing of the story when choosing one or another type of methodology would have been an important contribution.

The study unquestionably provides a great deal of detail in the reporting of results for each country, describing impacts, mapping of winners and losers, or effects of relaxing certain assumptions. The variety of such results is remarkable, but the main message crafted from such numerous results needs to be teased out from the paper. A more complete understanding of price increases in the region would require a more careful elaboration of such results into clear messages. Some key questions for which I would have expected a straightforward answer refer to what to make out of the very similar mapping of poverty impacts across these four different countries; how the price transmission effects differ for each country; how domestic policies and the mentioned global causes of the food price crisis share responsibility

for the estimated impacts; and the extent to which we can group household types (in rather broad terms) with respect to their substitution abilities, especially when considering the design of targeted or differentiated policies for those affected by the crisis. The paper's short and country-unspecific discussion of policy implications would suggest that solutions for consumers and farmers in Latin America are too similar to be worth differentiating. Is that the same conclusion from the analysis of welfare impacts? One may not see the forest for the trees following the overdetailed account by Robles and Torero.

Overall, this piece of research does what it announces in its title, that is, it contributes to understanding the food price effects in the region, by providing pieces of the puzzle that others have not. It is also remarkable in what is left to the reader to spell out in critical answers that the paper should be able to provide.

References

- Banks, James, Richard Blundell, and Arthur Lewbel. 1997. "Quadratic Engel Curves and Consumer Demand." *Review of Economics and Statistics* 79(4): 527–39.
- Brahmbhatt, Milan, and Luc Christiaensen. 2008. "Rising Food Prices in East Asia: Challenges and Policy Options." Washington: World Bank.
- Calvo, Guillermo. 2008, 20 June. "Exploding Commodity Prices, Lax Monetary Policy, and Sovereign Wealth Funds." VoxEU. Available online at www.voxeu.org/index.php?q=node/1244.
- Chávez Martín, Juan Carlos del Campo, and Hector Juan Villarreal Paez. 2008. "Impacto del incremento en los precios de los alimentos en la pobreza en México." Research Paper 1. Mexico City: Centro de Estudios de las Finanzas Públicas, H. Cámara de Diputados.
- Coady, David, Paul Dorosh, and Bart Minten. 2008. "Evaluating Alternative Policy Responses to Higher World Food Prices." Discussion Paper 780. Washington: International Food Policy Research Institute.
- Collins, Keith. 2008. "The Role of Biofuels and Other Factors in Increasing Farm and Food Prices: A Review of Recent Development with a Focus on Feed Grain Markets and Market Prospects." Paper prepared for Kraft Foods Global, Inc.
- Deaton, Angus. 1989. "Rice Prices and Income Distribution in Thailand: A Non-Parametric Analysis." *Economic Journal* 99(395): 1–37.
- De Márquez, Daysi. 2008. "Impacto del incremento de los precios en la seguridad alimentaria y la nutrición." Paper presented at the Foro Centroamericano: Precios, mercados y seguridad alimentaria. World Food Program, San Salvador, 26 May.
- Diao, Xinshen, Rachid Doukkali, and Bingxin Yu. 2008. "Policy Options and Their Potential Effects on Moroccan Small Farmers and the Poor Facing Increased World Food Prices: A General Equilibrium Model Analysis." Discussion Paper 813. Washington: International Food Policy Research Institute.
- IMF (International Monetary Fund). 2008. "Food and Fuel Prices: Recent Developments, Macroeconomic Impact, and Policy Responses." Washington.
- Ivanic, Maros, and Will Martin. 2008. "Implications of Higher Global Food Prices for Poverty in Low-Income Countries." Policy Research Working Paper 4594. Washington: World Bank.
- Lipsky, John. 2008. "Commodity Prices and Global Inflation." Remarks at the Council on Foreign Relations, New York City, 8 May 2008.
- Minot, Nicholas, and Francesco Goletti. 2000. "Rice Market Liberalization and Poverty in Viet Nam." Research Report 114. Washington: International Food Policy Research Institute.
- OECD (Organization for Economic Cooperation and Development). 2008. "Rising Food Prices: Causes and Consequences." Policy Report. Paris.
- Poi, Brian. 2002. "From the Help Desk: Demand System Estimation." *Stata Journal* 2(4): 403–10.
- . 2008. "Demand System Estimation: Update" *Stata Journal* 8(4): 554–56.

- Rigobón, Roberto. 2008. "Commodity Pass-Through." Paper prepared for the Conference on the Global Rise in Food Prices and the U.S. Slowdown: Issues and Challenges in Monetary Policy. Lima, 16–17 June.
- Robles, Miguel, Máximo Torero, and Joachim von Braun. 2009. "When Speculation Matters." Issue Brief 57. Washington: International Food Policy Research Institute.
- Rojas-Suarez, Liliana. 2008. "The Right Response in Latin America to Oil and Food Price Pressures: Fight Inflation Now!" Washington: Center for Global Development.
- Rosegrant, Mark W., and others. 2008. "The Impact of Biofuel Production on World Cereal Prices." Washington: International Food Policy Research Institute.
- Sommer, Martin, and Christopher Gilbert. 2006. "The Boom in Nonfuel Commodity Prices: Can It Last?" In *World Economic Outlook, September 2006*, chap. 5. Washington: International Monetary Fund.
- Trostle, Ronald. 2008. "Global Agricultural Supply and Demand: Factors Contributing to the Recent Increase in Food Commodity Prices." Economic Research Service Report WRS-0801. Washington: U.S. Department of Agriculture.
- UNCTAD (United Nations Conference on Trade and Development). 2008. "Tackling the Global Food Crisis." Policy Brief 2. Geneva.
- Valero-Gil, Jorge, and Magali Valero. 2008. "The Effects of Rising Food Prices on Poverty in Mexico." *Agricultural Economics* 39(S1): 458–96.
- Van der Mensbrugge, Dominique. 2006. "Linkage Technical Reference Document." Washington: World Bank.
- Von Braun, Joachim. 2008a. "Biofuels, International Food Prices, and the Poor." Washington: International Food Policy Research Institute.
- . 2008b. "Food Summit: Some Progress but More Needs to be Done." Press release. Washington: International Food Policy Research Institute.
- . 2008c. "Rising Food Prices: What Should Be Done?" Policy Brief 1. Washington: International Food Policy Research Institute.
- Von Braun, Joachim, and others. 2008. "High Food Prices: The What, Who, and How of Proposed Policy Actions." Policy Brief 1A. Washington: International Food Policy Research Institute.
- World Agricultural Outlook Board. 2008. "World Agricultural Supply and Demand Estimates." Report WASDE-460. Washington: U.S. Department of Agriculture.
- Yen, Steven, Kan Kamhon, and Shew-Jiuan Su. 2002. "Household Demand for Fats and Oils: Two-Step Estimation of a Censored Demand System." *Applied Economics* 34(14): 1799–806.
- Zeza, Alberto, and others. 2008. "The Impact of Rising Food Prices on the Poor." ESA Working Paper 08-07. Rome: Food and Agriculture Organization.