PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Comments on “Price Stability in an Age of Emergencies: Revisiting The Case For Buffer Stocks” by Isabella Weber

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Main points

- We may be in a new age of sharp commodity price swings.
- These transmit macro instability whether moves are up or down.
- Standard monetary policies are ill-equipped to respond.
- We should revisit Keynes's ideas, UNCTAD Integrated Program for Commodities (1976), IMF loans of 1970s under compensatory financing and buffer stock facilities (de Vries, 1996)

Three issues of the trade system

- In food crises, export bans have led to beggar-thy-neighbor coordination failures.

- Import liberalization as beggar-thy-neighbor policy?

- WTO “food fights”– roles of GATT/WTO (Margulis, *WTR* 2017; Wolf and Glauber, PIIE policy brief 2023)

Underlying analytical framework

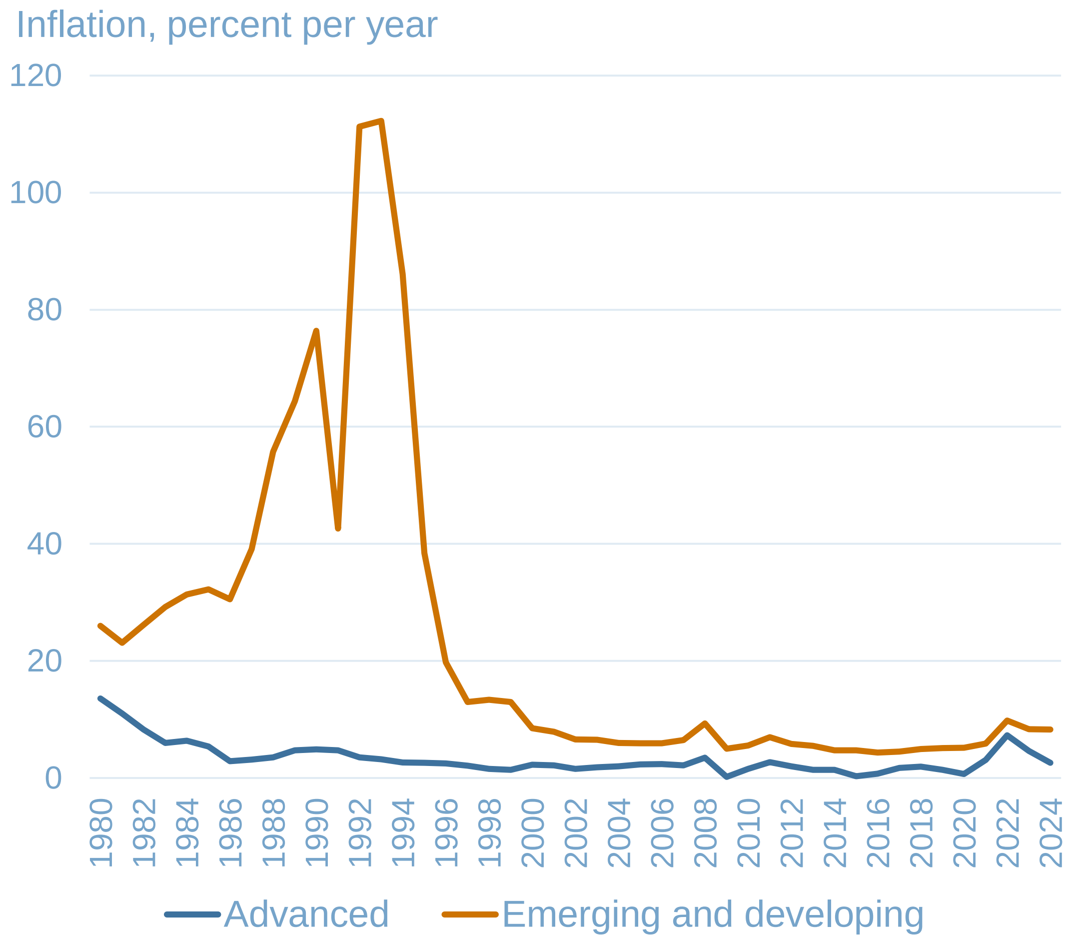
- Kaldor (1976):

    "[A]ny large change in commodity prices - irrespective of whether it is in favour or against the primary producers - tends to have a dampening effect on industrial activity; it retards industrial growth in both cases, instead of retarding it in the one case and stimulating it in the other."

- Model: "Cost-induced inflation of industrial prices" results from higher commodity prices as real wage resistance and protection of profit margins kicks in – trigger restrictive macro policies.
- Commodity producer terms of trade do not rise for long.
- A fall in commodity prices depresses output in industrial importers.
- Kaldor's buffer stock plan was also a plan for a nominal anchor.

Modern monetary policy

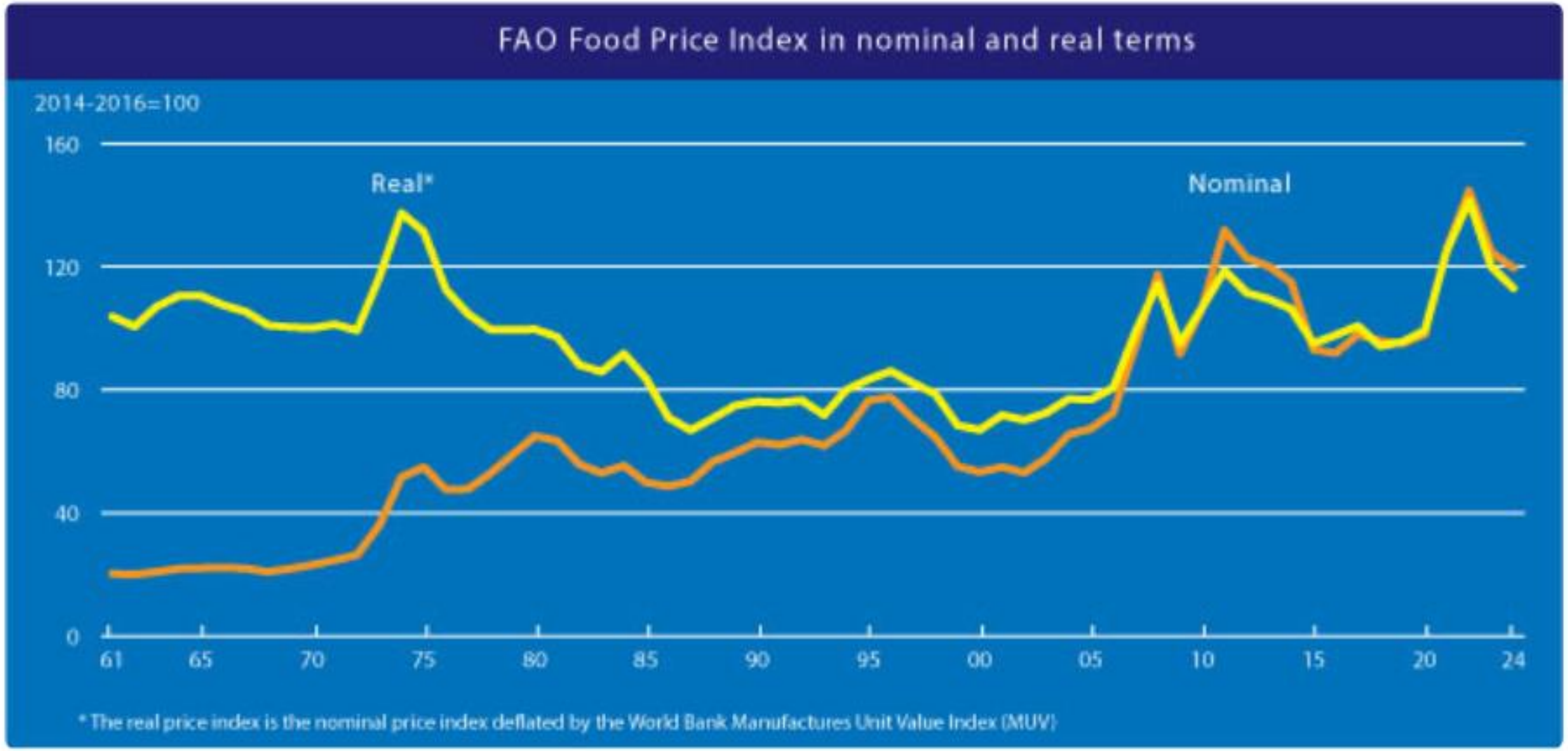
- It has actually done very well overall.
- General inflation has been contained worldwide.
- With benefits especially to the poor (Romer and Romer, Jackson Hole 1998).
- The recent inflation spike was quelled without a global recession.
- But “past performance is no guarantee ...”



On buffer stocks, details matter

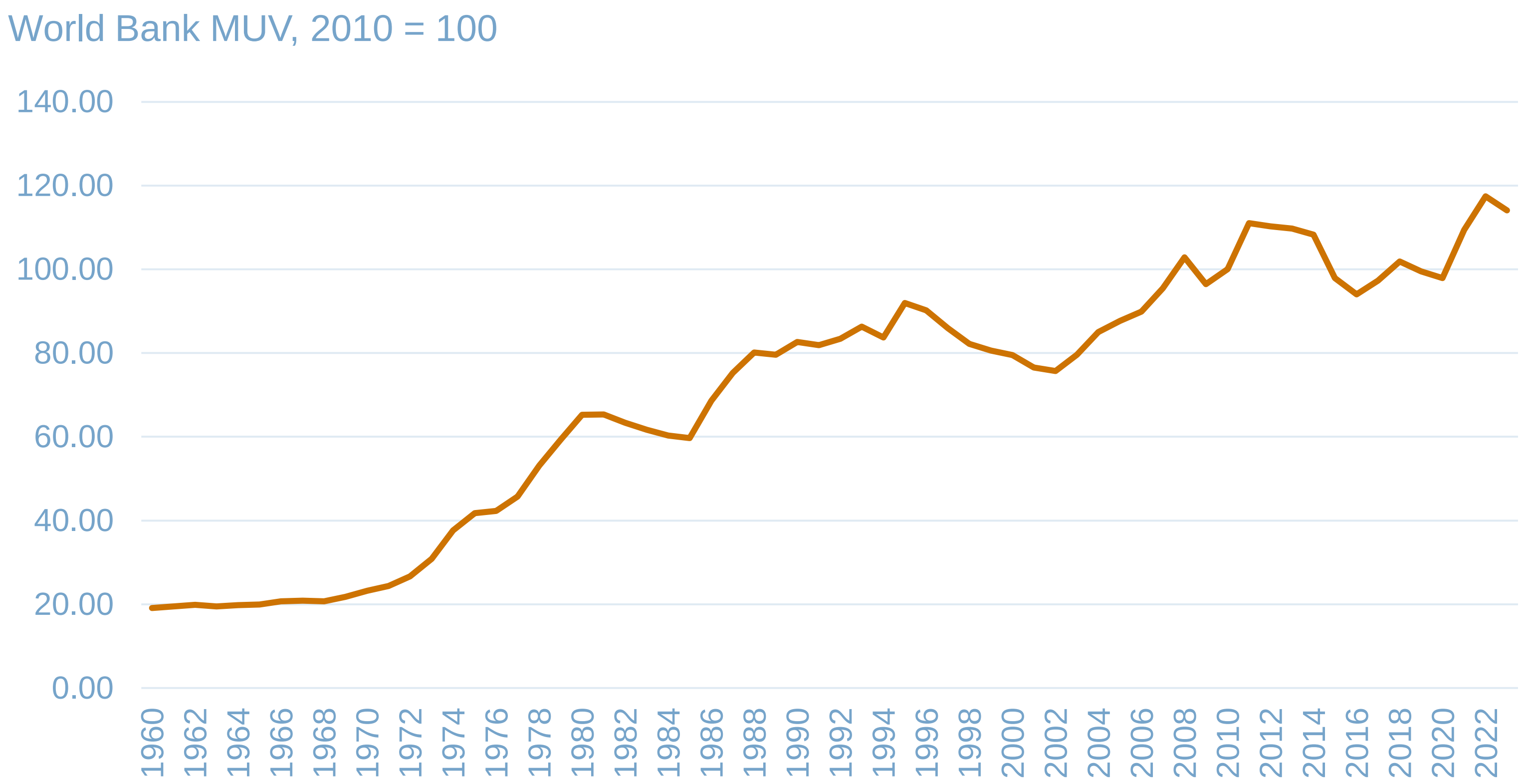
- Size of buffers? Cost? Who pays? Governance? Lessons of earlier schemes.
- Role of speculators – is it always destabilizing? Normal times vs. crises.
- How do we set target prices – how do they adjust over time?
- Determine relative gains to importers and exporters, and sustainability prospects.
- EU supports prices from below; but limiting increases could open door to the Salant-Townsend run problem (*JPE* 1983; *JET* 1978).

Food prices over time



Real index = nominal index/World Bank Manufactures Unit Value Index (MUV)

What deflator to assess “real” prices?



MUV is highly correlated with nominal food prices – arguably in contradiction to Kaldor’s model?

Alternative policy framework

- Conventional monetary/fiscal policies are necessary if not always sufficient, even when relative prices change.
- In crises, there could be a role for unconventional methods, such as (temporary) price controls or subsidies if fiscal space allows – see Krebs and Weber (2024) on breaking self-fulfilling equilibria.
- But the market mechanism and price signals will generally be helpful and should be viewed as an asset.
- See, e.g., Moll et al., (*BPEA* 2023); but also see their "political economy" section on the German business community's lobbying.
- Three problems with price controls (aside from the standard allocation critiques):
  - Inconsistent macro policies lead to bad outcomes – e.g., US under Nixon in 1971-72; UK 1970s incomes policies.
  - Opportunistic price controls as political instruments – e.g., US under Nixon in 1971-72.
  - If they become a permanent part of the policy regime, how are expectations and market function affected?
- Role for international coordination: G20 GEOGLAM (2011), Ukrainian wheat exports through Bosphorus and "solidarity lanes," pressure against export restrictions on foodstuffs and fertilizer, concessional loans.

Lender of last resort model

- International food security is a global public good.
- Emergency reserves (e.g., US Food Security Wheat Reserve) can be targeted to where needed – even if there is no global shock.
- Classical lender of last resort question: lend to the market or to individual distressed institutions?
- Experience and theory suggest the latter – but with attention to whether the borrower’s problem is liquidity or solvency

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Thank you.

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