

# **Food Reserves: Institutional Mechanisms**

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# ***Important Functions of Reserves***

**“ Mitigate short-term supply disruptions and sudden demand spurts**

- . Community/local level**
- . National/regional/continental levels**
- . Global level**

**“ Stabilize world prices**

- . For consumers on high end**
- . For farmers on low end**

# ***Reserves Counterarguments***

- “ **Commercials argued they would provide reserves**
  - . Government %~~water~~interference+not needed
- “ **Not to worry**
  - . Free trade will guarantee availability from one country or another
- “ **Too expensive**
  - . Procurement and storage costs are too costly
- “ **Requires a large physical stock**

# ***Argument Analysis***

## **“ Assertions not always true**

- . Commercials have no incentive to hold stocks
- . Supply disruptions can affect more than one supplier in a given year
- . One has to compare costs of storage against a no-reserve alternative
- . Presence of reserve stocks calms market behavior

## **“ Overriding Issue: Countries view **food** as a national security issue**

# ***Reserves Are Not a New Idea***

## **“ Egypt**

- . 1750 BC
- . Biblical story of Joseph and Pharaoh
- . 7 fat years followed by 7 lean years

## **“ China**

- . Beginning in 54 BC
- . Had its ups and downs over period of 2,000 years
- . %Constant Normal Granary+
- . China currently holds large stocks for domestic needs

# ***US Experience***

## **“ United States**

- . **1929-1996 AD**
- . **Federal Farm Board – stock holding in attempt to stabilize price**
- . **Commodity Credit Corporation**
  - “ **Stabilize price**
  - “ **Ever Normal Granary**
  - “ **Manage supply**
- . **Factors that brought reserves into disrepute**
  - “ **Inconsistent management or mismanagement by those who did not believe in rationale for reserves and price stabilization**
  - “ **Dumping of excess on world market**

# ***Institutional Mechanisms***

## **“ Community/local reserves**

- . Traditional family-level risk mitigation**
- . Individual storage in shared facility**
  - “ Could include micro-lending**
  - “ Build up of stocks to withstand normal weather variation – each farmer leaves a portion of production in facility each year if possible**
  - “ Local governance via cooperative structure**
  - “ Coordinated with other communities**

## ***Institutional Mechanisms***

### **“ National/regional/continental reserves**

- . Multiple sources for food emergencies**
- . National and regional federations of cooperatives working together**
  - “ Means of coordination of local food reserves for interchange and support**
- . Governance based on cooperative principles**



# ***Institutional Mechanisms***

- “ **Stabilize world supply and prices**
  - . **Responsibility of major producers and exporters to adjust production needs**
    - “ **Residual suppliers**
  - . **Institutional framework**
    - “ **Politically independent**
    - “ **Create International Reserve Board made up of National/Regional chairs with a chair to serve as public face**
    - “ **Legitimated by UNCTAD or FAO**

## ***Additional Comments***

- “ **We must have a reserve stock system as a component of a food security program**
- “ **We need a system to make food available to the one billion currently experiencing chronic hunger**
- “ **Oversupply is the long term problem that will plague farm prices**
  - . **In addition to reserves we must institute a mechanism for supply control among major producers and exporters**

## ***Additional Comments***

- “ We always want to have an overcapacity in food production**
  - . The challenge is to manage that capacity in order to meet the need of the world’s citizens**
- “ Supply management tools including reserves have been called “the failed policies of the past,” but in reality are essential components for ensuring food security and stability for the world’s population**

# ***Thank You***

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# Historical Overview

