

Recovering from Crisis : The Role of the Agri-Food Sector

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Presentation to the Agricultural Economics Society
of Ireland

29 October 2009

Short, medium and long-run challenges

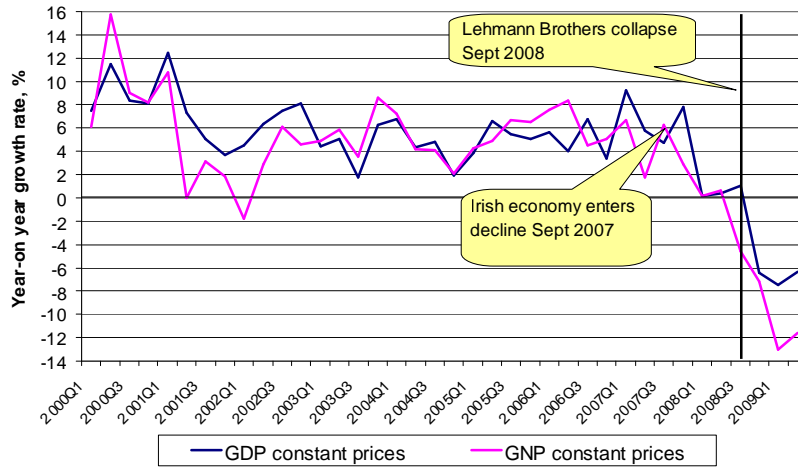
- Long-run (up to 2050)
 - Adaptation to climate change
 - Mitigation of greenhouse gas emissions
 - World food demand versus supply
 - Rising cost of energy?
- Medium-term (up to 2020)
 - The next EU medium term financial framework
 - The next phase of CAP reform and the future of direct payments
 - WTO talks: phasing out of export subsidies and reducing in import tariffs
- Short-run (up to 2013)
 - The credit crisis
 - The public finance crisis
 - **The unemployment and competitiveness crisis**
 - The farm income crisis

Plan of presentation

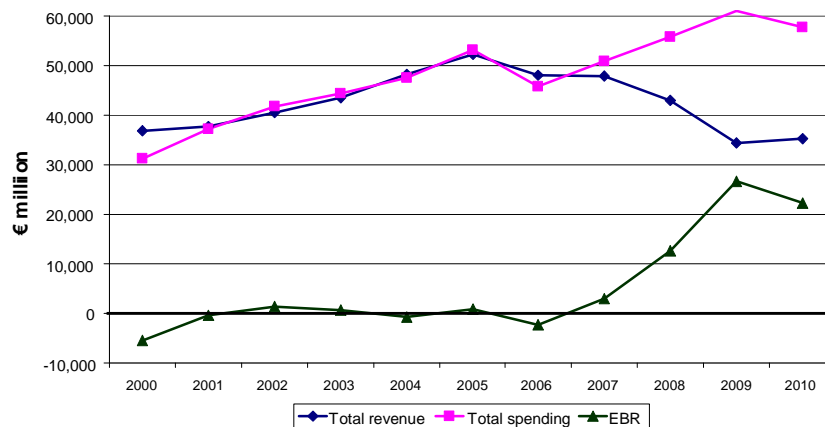
- The severity of the current recession
- Exploring the potential of the agri-food sector to contribute to the recovery
- Policies to release the potential of the agri-food sector

1. The severity of the recession

The collapse in output

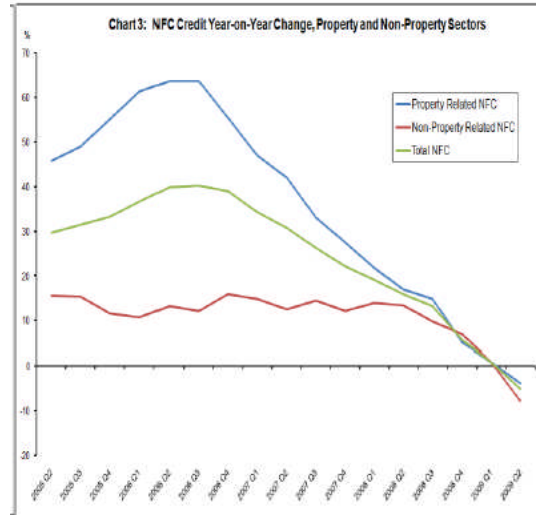


The collapse in government finances



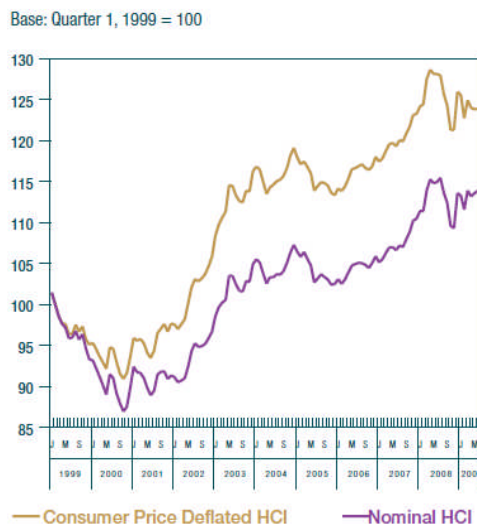
Source: ESRI;

The collapse in private sector credit



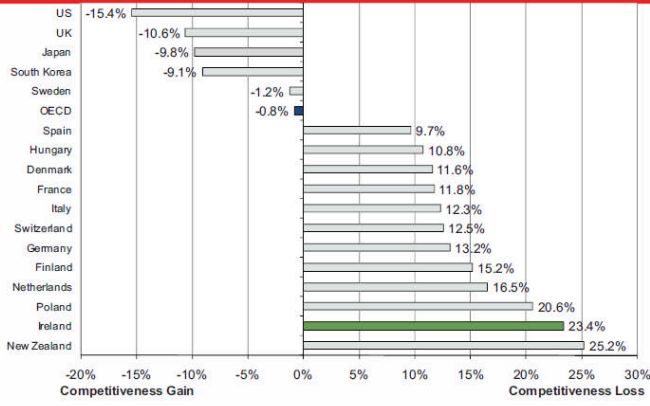
Source:
Central Bank

The collapse in competitiveness



Harmonised
Competitiveness
Indicator
Source:
Central Bank

Figure 3.24 Percentage Change in the Trade-Weighted Exchange Rate, 2000-2008

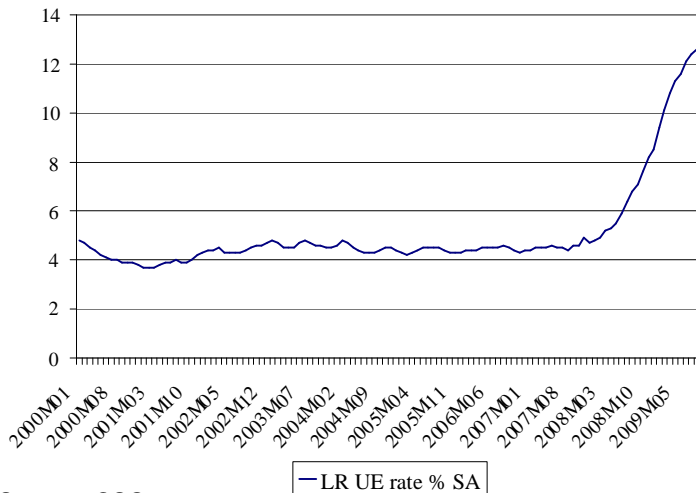


This chart shows the change in a country's exchange rate weighted by the importance of trade with other countries. By this measure, Ireland's trade-weighted exchange rate has appreciated by 23.4% since 2000, meaning that Irish goods/services are now more expensive in international markets. However, this should also result in imports being cheaper.

OECD-28 Ranking⁶⁸:
24 (↓7)

Source: Forfás calculations; OECD, *Economic Outlook*, No. 84, December 2008

The rise in unemployment




Source: CSO

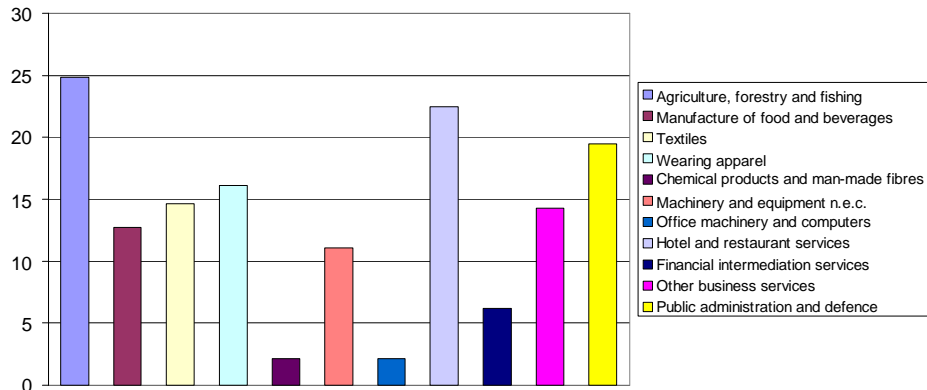


Nothing, but nothing, can remain
untouched...

2. The potential for increased agri- food output

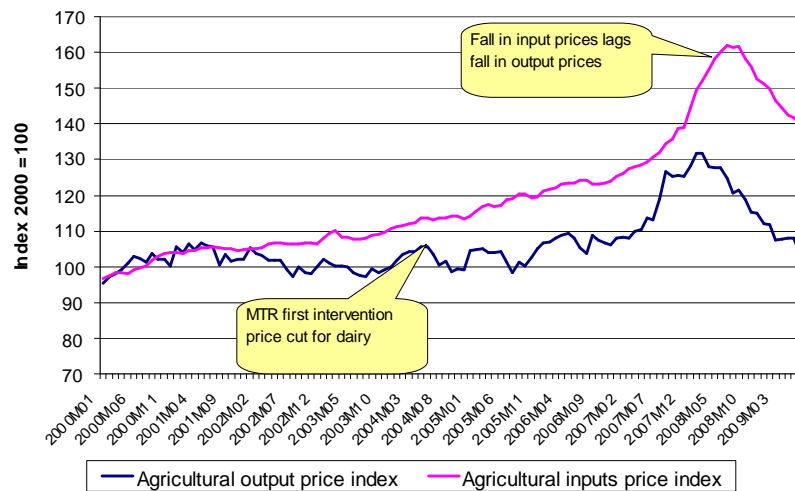
- The case for a focus on the agri-food sector in stimulating recovery is that it is an indigenous sector with low import dependence and high linkages to the rest of the domestic economy
- 

Employment created per €1 million increase in domestic output, by sector

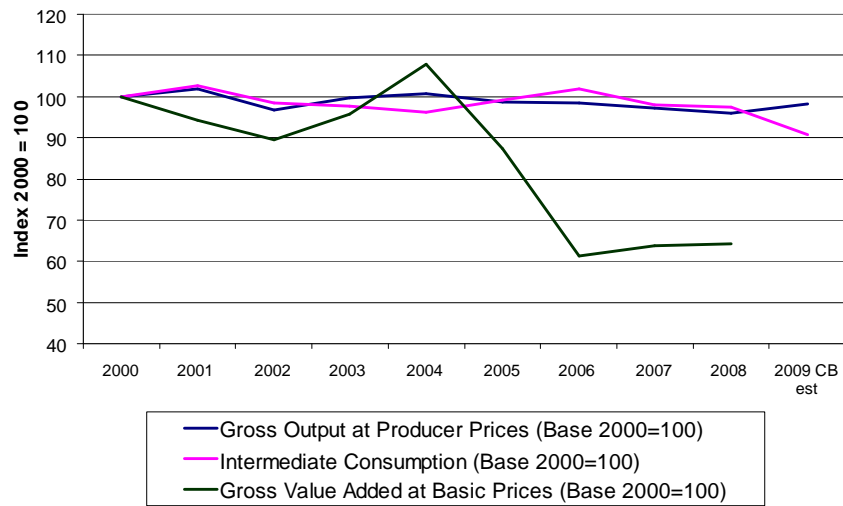


Source: Own calculations based on the CSO 2005 input-output table
Includes direct, indirect and induced household spending effects

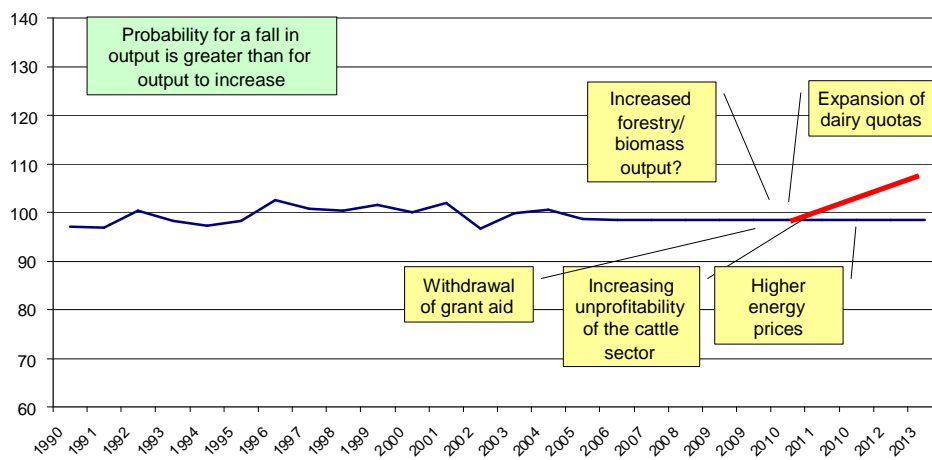
Agricultural prices



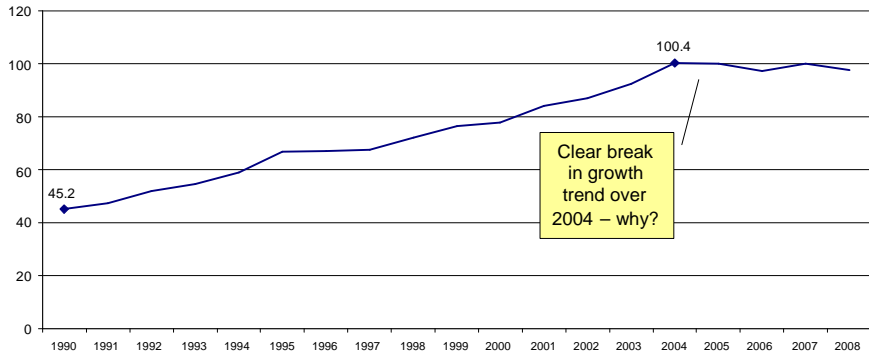
The volume of agricultural output and inputs



The potential for increased agricultural output

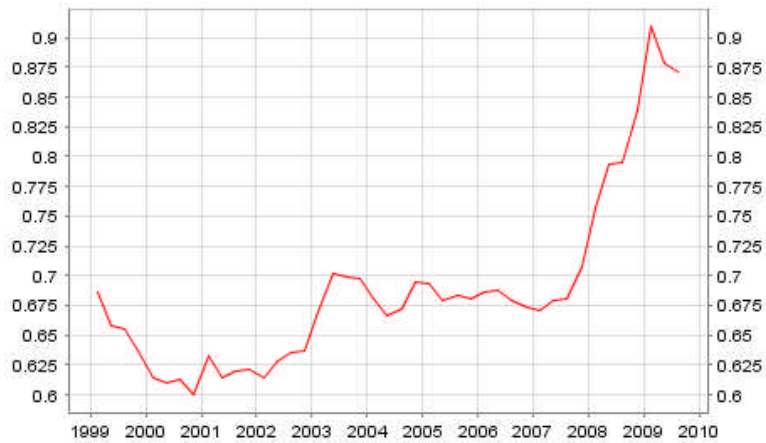


The potential for increased food industry output



Volume of food industry output, base 2005 = 100

The sterling/euro exchange rate



Source: ECB

The dollar/euro exchange rate



Source: ECB

3. Policies to release the potential of the agri-food sector

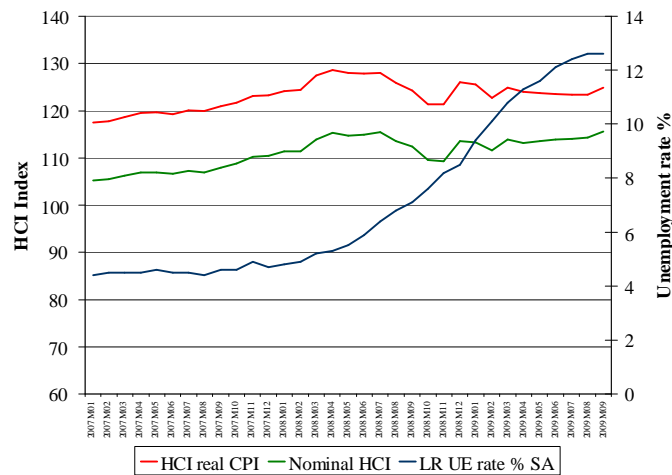
Farm level policies to stimulate output

- Forget about maintaining or increasing grant and incentive payments to stimulate output
- Increase spending on research to drive down costs and increase productivity...
- ... even at the expense of switching spending from income support schemes
- Will the income crisis lead to dramatic increase in land mobility (renting or sale) and structural adjustment?

Food industry policies to stimulate output (1)

- The key is restoring competitiveness in the face of adverse exchange rate movements
- Theory tells us that this requires nominal wage reductions within a monetary union
- Each €100 euro of the value of final output of goods and services embodies imports worth €38, operating surplus worth €33, and wages valued at €28 (based on CSO 2005 input-output table direct and indirect Leontief multipliers)
- Thus to get an improvement of 10% in the competitiveness, other things being equal, would require a 35% cut in nominal wages throughout the economy
- Can a nominal wage devaluation work ?

The effect of unemployment on competitiveness

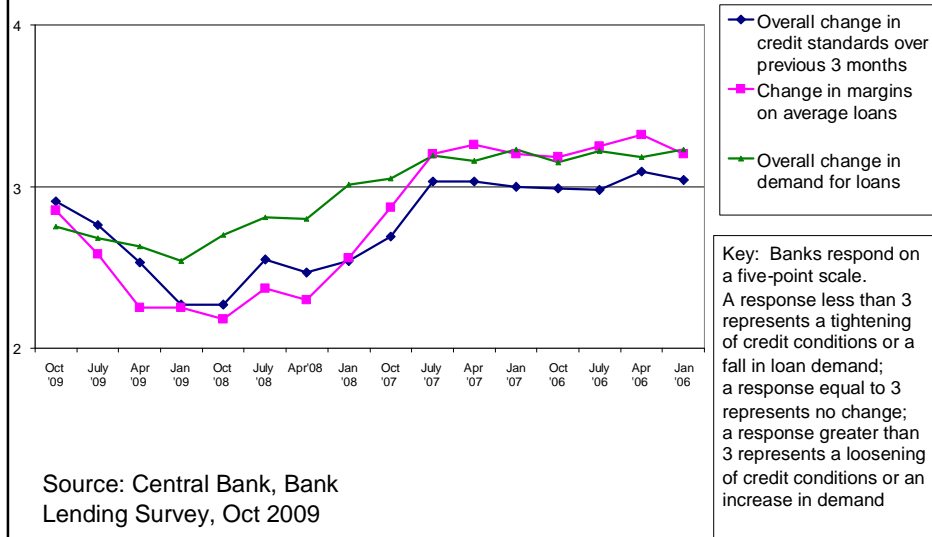


Sources: Central Bank for HCI; CSO for Live Register unemployment rate

Food industry policies to stimulate output (2)

- Growth also requires the availability of credit
- The drop in private sector non-MFI credit is due partly to drop in loan demand..
- ..but also tightening credit standards

Credit market trends



Food industry policies to stimulate output (2)

- Growth also requires the availability of credit
- The drop in private sector non-MFI credit is due partly to drop in loan demand..
- ..but also tightening credit standards
- Will NAMA get credit flowing more freely to SMEs?

Conclusions (1)

- The full depth of the current economic crisis remains unappreciated
- Although some claim to see 'green shoots', currently the recovery looks very anaemic, not least because of the concurrent need to pursue a deflationary fiscal policy until 2013
- The only sustainable way to address the public finance crisis is through economic growth, which has to be export-led

Conclusions (2)

- The agri-food sector (particularly the food industry) has the potential to contribute to export-led growth...
- ...but faces extraordinary exchange rate and competitiveness issues
- Sectoral policies are of little help at this point, the focus must be on getting the macroeconomic fundamentals right
- Can a nominal wage devaluation work?
- Will NAMA help to improve access to credit for food industry firms?