https://internationalviewpoint.org/spip.php?article2120

Economic crisis

Getting to the root causes of the food crisis

- IV Online magazine - 2011 - IV435 - April 2011 -

Publication date: Monday 25 April 2011

The explosion of the economic crisis, the financial crisis and the food crisis in 2007-2008 showed just how interdependent the economies of the world are. These issues remain crucial today so we republish this article by Eric Toussaint written in November 2008.

The explosion of the economic crisis, the financial crisis and the food crisis in 2007-2008 shows just how interdependent the economies of the world are.

In Third World countries, for most people, the main concern these last two years has not been the financial crisis of the banks of the United States and Europe, but rather the dramatic rise of food prices. This year's record cereal harvest and the recent fall in food prices on the commodities stock markets should not create a false sense of security. "For example, if the current price volatility and liquidity conditions prevail in 2008/09, plantings and output could be affected to such an extent that a new price surge might take place in 2009/10, unleashing even more severe food crises than those experienced recently ," a recent FAO report saidÂ [Financial crisis will hurt agricultural markets", FAO, 6 November 2008, Rome http://www.fao.org/news/story/en/it...]. Lower production and higher food prices in 2009 could add to developing countries' problems in obtaining sufficient credit and foreign exchange to buy agricultural commodities. " Export finance is becoming more difficult to obtain, with banks tightening up the conditions for issuance of letters of credit ," the FAO said.

Faulty explanations for the food crisis are currently rife. Increased Chinese and Indian consumption is a reason so often repeated it has become a truism. We urgently need to identify the real causes and those really responsible.

In its annual report published in June 2008, the very respectable Bank for International SettlementsÂ [The BIS is the bank of the big central banks, see its website: www.bis.org For a description of the BIS, go to: www.bis.org/about/profile.pdf] tells the familiar tale of increased consumption in China and other emerging economies. This false trail is intended to conceal, first, the responsibility of Northern governments and transnational agro-food businesses in increasing the production of biofuels, and secondly, the responsibility of the big financial groups that speculate on the commodity markets. The BIS authors are trying to make their explanations sound scientific.

What, according to the BIS, is the principle cause of rising food prices? "In the case of food commodities, rapid GDP growth in EMEs (Emerging Market Economies) in recent years has played a large role in boosting demand. This effect has been reinforced by structural changes, as rising per capita incomes, notably in China, have increased the demand for cereals, particularly for grain-fed livestock. According to Food and Agriculture Organization estimates, the consumption of cereals per person in developing countries rose by 20% between 1962 and 2003, while that of meat increased threefold. The demand effect on grain prices is amplified because, according to some estimates, two to five times more grain is required to produce the same amount of calories through livestock than through direct grain consumption. Around one third of global grain production was used to feed livestock in 2002."Â [BIS, 78th Annual Report, Basel, June 2008, p. 39.
In this so-called scientific explanation, the reasoning goes as follows: consumption by inhabitants of developing countries has risen sharply, these people eat more and more meat, so prices have risen accordingly.
But there's a problem here: why would the peak in prices occur only in 2007-2008, when consumption in developing countries has been substantially increasing for 40 years?

In reality, food prices dropped throughout the 1980s and 1990s. They dropped further between 1998 and 2002, increased slightly in 2002-2004, then dropped again in 2005-2006Â [See the data provided by Martin Wolf in the

Financial Times of 30 April 2008 and by Jacques Berthelot, op. cit.]. After the 2006 harvest, food prices on the world market were at the 1998 level, which was well below that of the 1970s.

In 2008, in constant dollars, food prices remain lower than the maximum level reached at the end of the 1970sÂ [The IMF confirms this: "The current boom has also been more broad based and longer lasting than is usual, and it contrasts noticeably with the 1980s and 1990s, when most commodity prices were on a downward trend. That said, despite the apparent reversal of the downward trend, inflation-adjusted prices of many commodities are still well below the levels seen in the 1960s and 1970s." See www.imf.org/external/pubs/ft...]. In conclusion, what needs to be explained is the price explosion in 2007 and 2008. And the explanation given by the BIS has nothing to do with the real causes. As Jacques Berthelot observes: "the increased consumption of food products, linked to the rapid rise in the standard of living in emerging countries like China and India (…) has been an ongoing trend for several years and cannot account for the continued rise in agricultural prices over the last two years"Â [Jacques Berthelot, op. cit., p. 2.]. He goes on to state that the price of rice remained stable until October 2007. On the other hand, it increased almost threefold between October 2007 and May 2008.

Here, then, in three points, is the most accurate explanationÂ [This explanation is taken from the article by Damien Millet and Eric Toussant published in August 2008 entitled "Why a world food crisis? (yet again)", www.cadtm.org/spip.php?artic...]:

First, faced with historically low prices for cereals up to 2005, US and EU governments granted agribusiness corporations subsidies to develop the biofuel industry. These corporations wanted to increase their profits in two ways: sell their cereals at higher prices and make biofuel production profitable. They won on both counts.

How did they do this? They started from the following assumption: what will no longer be possible with oil in a few decades (because of shrinking available reserves) can be done with soybean, beet, cereals or sugar cane. They therefore asked the public authorities to grant subsidies so that the very costly production of biofuel would become profitable. Washington, the European Commission in Brussels, and other European capitals agreed, claiming they were securing energy independence for their countries or regionsÂ [Note again the "double standards" policy: to ensure energy security, the governments of the North are quick to subsidise private industry, while via the World Bank, the IMF and the WTO, they deny governments of the South the right to subsidise their local producers, whether in the agricultural or industrial sector.]. The pro-biofuel lobbies convinced governments to use the fallacious argument that biofuels have a positive impact on the environment, as opposed to hydrocarbon fuels.

This support policy syphoned off significant amounts of essential food products towards the biofuel industry. Similarly, land that was formerly used to produce food was converted for biofuel production. This also limits the supply of food products available and contributes to rising prices. In short, to meet the interests of a few private corporations intent on developing biofuel production, it was decided to hijack a sorely needed portion of the world's food production. It should be noted that the above-quoted BIS Annual Report gives State-subsidised biofuels only a minor place in its explanation of the hike in food pricesÂ [BIS, 78th Annual Report, Basel, June 2008, p. 41.].

Second, speculation on farm products was very high in 2007-2008, reinforcing a trend that started in the early 2000s after the Internet bubble had burst. After the subprime crisis shook the US in summer 2007, institutional investorsÂ [The main institutional investors are pension funds, insurance companies and banks: they can mobilise some US$ 70,000 billion, which they invest where return is highest. Not forgetting hedge funds, which can mobilise US$ 1,500 billion.] gradually moved out of the debt market that had been built on the US housing industry and identified agricultural commodities and biofuels as likely to bring high returns. They bought future crops on the Chicago, Kansas City and Minneapolis stockmarkets - the major world markets for speculation on cereals. Similarly, they bought future oil and gas production on other markets, speculating on a rise in prices.

Third, developing countries found themselves in a weakened position to cope with the food crisis because policies enforced by the WB and the IMF since the debt crisis have deprived them of the necessary protection. Such policies include: reduction of land used for crop cultivation and enforced specialisation in one or two export products, the removal of price stabilising systems and the end of cereal self-sufficiency and of cereal reserve stocks, a weakening of local economies by making them dependent on changes in the world market, drastic cuts in social spending, suppression of subsidies for staple commodities, the opening up of markets, and unfair competition between small farmers and transnational corporations.

Â

Some faulty explanations in review

Jacques Berthelot documented a series of quotes which all bolster the myth of growing consumption in emerging countries, in particular China and India, as the main cause of the food crisisÂ [All these quotations are taken from the study by Jacques Berthelot.].

For the business daily Les Echos, 15 April 2008 issue: "The new phenomenon stems mainly from fast-changing consumer habits in emerging countries. The two giants, China and India, have increased their demand for meat and cereals as incomes have increased" [www.lesechos.fr/info/agro/47..].

Le Nouvel Observateur of 17-23 April 2008 identifies the first of seven causes as "changing eating habits in the emerging countries, particularly China and India", and adds: "India and China have gone from the status of exporting countries to importing countries".

Jacques Diouf, Director General of the FAO, declared at the Africa-India Forum of 8 April 2008, after meeting India's Minister of Agriculture, Sharad Pawar, that "world cereal stocks were enough to meet demand for just eight to 12 weeks", and that "This is due to higher demand from countries like India [and] China, where GDP grows at 8% to 10% and the increase in income is going to food"Â [www.nationalpost.com/news/wo..]. For Randy Olson, Director of the Iowa Biodiesel Board: "among the reasons for the higher price of soybean oil is the increased demand of the ever-growing middle classes in China, India and elsewhere"Â [www.desmoinesregister.com/ap...].

Similarly, to the question "Why are food prices going so high?" Nicolas Bricas, CIRAD researcher, answered: "Consumer habits are changing fast in China and India, where purchasing power is on the rise. The result is an explosion in demand. People want to buy more and eat better. They are eating more meat. For their livestock, farmers need to grow more fodder crops. All this contributes to higher prices overall. On an international scale, agricultural tariffs have also soared because they have been deregulated"Â [See www.lexpansion.com/economie/...]. In Le Monde of 22 April 2008, to the question "Is the arrival of two new ogres on the international markets (China and India) the main cause for this price explosion?", Philippe Chalmin simply replied "Yes"Â [See www.lemonde.fr/archives/arti..].

Philippe LemaÃ®tre continued in similar vein in the same issue of Le Monde: "Lacking infrastructures, a country like India loses about 30% of its harvests and once again becomes a net grain importer"Â [See www.lemonde.fr/opinions/arti.].

President Lula of Brazil declared to the FAO on 18 April 2008: "For God's sake, don't tell me that food is expensive because of biofuels. It is expensive because the world is not prepared to see millions of Chinese, Indians, Africans, Brazilians and Latin-Americans eat three times a day"Â [See www.lemonde.fr/ameriques/art].

China and India are not responsible for soaring food prices

China and India export more food than they import. Jacques Berthelot shows – with figures to prove it – that China is still a net exporter of grain (wheat, corn, rice) and meat! The same goes for India. The Indians have been net food product exporters since 1995. So these two countries cannot be at the root of the price surge on the world marketÂ [See www.lemonde.fr/ameriques/art].

India suffers the consequences of import liberalisation

India's experience of free trade has been a very negative one as regards wheat importsÂ [[See Berthelot, p. 27.]. Under pressure from its partners in the World Trade Organisation (WTO), the Indian government of Manmohan Singh - himself a good pupil of neo-liberalism - removed customs duty on wheat imports, effective as of February 2006. In that year, for the first time since 2001, India imported more wheat (6.7 million tonnes) than it exported (0.6 million tonnes). This was a deliberate policy on the part of the Indian government who wished to satisfy two needs: find favour with its WTO partners and buy wheat on the world market at a lower price than that practised by local producers.

The Indian State bought 5.5 million tonnes of wheat directly from countries abroad when its national production would have been enough to satisfy domestic demand (Indian wheat production reached 74 million tonnes whereas domestic demand required 60 million tonnes). So wheat prices, instead of going down on the domestic market, went up because of speculative stockpiling by traders. This deplorable action by the Singh government led its opponents to bring an appeal before the Supreme Court. Made cautious by popular anger and public pressure, the Prime Minister backed down in 2007.

We should note that while India became a net importer of wheat during the 2006 episode, it remained a net exporter of cereals thanks to its rice and corn exports.

With the lack of evidence against Chinese responsibility, the press has begun to change tact.

On 19 August 2008, the French financial daily Les Echos published an article titled "Hausse des prix alimentaires: La Chine declare non coupable" (Rise in food prices: China found not guilty). Drawing on OECD statistics and a study from a North American researcher, published by the North American department of agriculture, the French daily stated that the Chinese are self-sufficient, especially when it comes to cereals. Meanwhile, the British neoliberal weekly The Economist, in its edition of 16 August 2008 managed the feat of saying one thing and contradicting itself in the same paragraph: "There is something to the claim that China's huge demand for food and energy is pushing up global commodity prices." A few lines down, the editorial of the The Economist continues: "And China's food production has grown faster than consumption over the past few years. As a small, but growing net exporter of wheat, corn and rice, China has, if anything, helped to ease world grain price." Metal gymnastics no less!

The policies of the US and the EU are the main causes of the global food crisis

While China and India export more foodstuff than they import, the US and the European Union do the contraryÂ [We return to J. Berthelot who dedicates 8 pages of his study to show the lopsided character of the food trade between the US and EU and the rest of the world.]. During 2006-2007, the US were net importers of foodstuff. The same applies for the EU, which is in third place in the list of net importers of cereals (after Japan and Mexico). It is thus the demand that comes form the US and EU that is likely to drive up the prices.

But, specifically, how are the US and the EU responsible for the rise of food prices?

Firstly, it must be factored in that the US plays a determining role in fixing global grain prices (cereals, oil producing grains, and protein rich grains) since the other countries adapt their prices according to the listings on the Stock market of Chicago, Kansas City or MinneapolisÂ [See Berthelot, p.3.]. Furthermore, the rise of grain prices directly push up the price of meat since livestock animals feed on grainsÂ [The price of beef increased by 47% between January 2006 and April 2008, that of chicken by 42%, and that of mutton by 31%. It is to be noted that the price of pork, of which the Chinese are particularly fond, has stagnated. See Berthelot, p.6.].

Two factors that are directly dependent on the US and Europe came into play in the brutal rise of food prices in 2006-2008.

Firstly, there is the continued aggressive production of biofuels in the US and EU. Secondly, there is the speculation of the food prices (and hydrocarbonsÂ [Rising hydrocarbons prices directly affect the prices of food since the costs of production increase (transport, use of tools, chemical fertilizers).]) on the stock markets.

Massive rise in biofuel production in the US

In 2007, the United States accounted for 43% of global production biofuelsÂ [Followed by Brazil with 32% of biofuels (we consider the case of Brazil further down), the EU with 15%, China with 3%, India and Thailand at 1% each. The rest of the world represent 5%.]. Between 2005 and 2006, the production of ethanol from corn was multiplied by a factor of five in the US. Between 2005 and 2009, this production has thus been increased by a factor of nine! The percentage of corn dedicated to the production of ethanol has passed from 14.4% to 23.7% between 2005-2005 and 2007-2008.

A share of soybean production is also diverted to the production of biofuels (in August 2007, 23.2% of the internal consumption of soybean oil was dedicated to the production of biodiesel) but its cost is much higher than ethanol from corn. A large portion of land previously used to grow wheat and soybean has now been converted to corn, and this has pushed up the prices of wheat and soybeans. The price of corn for animal and human consumption has also shot up ever since a large part of corn production has been diverted towards ethanol. Likewise the price of rice produced in the US has soared due to a decrease in production since it has become more profitable to grow corn, soybean, wheat and other forage grains (see frame).

The increased production of biofuels has nothing to do with the free market; it is purely the result of the direct intervention of the state under the pressure of agribusiness.

Despite the rise in oil prices, the production of biofuels is not profitable without subsidies from the US federal budget. In 2005, the US Congress adopted a law on energy which boosted biofuel production. This policy of support was reinforced by the law of 19 September 2007 on energy independence, which actually threatens the oil industry with severe penalties if they do not include 57 billion litres of biofuels in their production of fuel by 2015 (15 billion of US gallonsÂ [1 US gallon= 3.78 litres.]) and 136 billion litres in 2022. To reach this target, the part of the production of corn destined to biofuels will reach 32.8% by 2011-2012.

Thanks to this rigid law the revenues of the agricultural sector in the US, which is dominated by big agribusiness firms, jumped by 48% in 2007.
On the responsibility of the US in the global food crisis, we defer to Jacques Berthelot who states: "The United States are undeniably the major cause in the rise of agricultural prices and the current food riots due to the wild policies concerning the production of biofuels and because, as we've seen, it is the price of US grains that is responsible for the rise in world prices and on which other exporting countries base their prices."Â [See Berthelot, p. 32.] We will later see that the role of speculation, which is particularly rife in the US, must also be factored in.

How the increase of biofuel in the US has led to a worldwide increase in the price of riceÂ [The content of this section has been taken from J. Berthelot, p. 9.].

Speculation on rice has played a large role, but the ethanol boom is also responsible for the explosion in the price of rice, despite the fact it is common practice to deny any link between the two. According to the USDA, although the US accounts for only 2% of the global production, it is still the fourth-largest rice-exporting country… In 2007/08, the price of US produced brown rice was at its highest level since 1980/81. On the other hand: "Much higher fuel and fertilizer prices since 2005, and extremely high prices for competing crops since 2006/07, have made rice uncompetitive with soybeans, feed grains, and wheat" |Â [See http://www.ers.usda.gov/briefing/Ri.] .

In fact, US rice production fell by 12% between 2006 and 2007 after a 16% decline in cultivated land, and US rice exports fell by 20% as a result, even though the US represented only 12% of worldwide exports in 2006 and 9.6% in 2007. However, Daryll Ray et al. demonstrated that the US is the "price-setter" for the world price of rice: "Eighty-four percent of the variation in the Thai rice price could be explained by the Texas price and the US rice stocks-to-use ratio, and a ten-percent increase in the US price will result in a 4.7 percent increase in the Thai price. This correlation is compelling evidence that even where the US is not a dominant exporter, its commodity exchanges influences world prices"Â [[See http://agpolicy.org/blueprint/APAC%...].

The European Union's responsibility

As Jacques Berthelot writes: "The EU-27Â [The EU was composed of 27 counties in 2008.] preaches a desire to feed the rest of the world while raising the spectre of a threat from China and India! This is saddening and even laughable when, in reality, the facts demonstrate that the EU, even more than the US, receives a massive amount of food aid from developing countries"Â [See Berthelot, p. 38.].

Under the pressure of agribusinesses, the EU has adopted a similar policy to that of Washington. By 2010, 5.75% of all fuel must be in the form of biofuel (10% by 2020). The EU produces biodiesel principally from rapeseed oil (the EU produces 77% of global biodiesel) and ethanol from wheat, barley, corn, beet and distilled excess wine. The European production of biofuel is not profitable, and can only be sustained with subsidies. In order to reach the goals cited above without having to resort to importing, by 2012 twenty percent of arable land currently being cultivated would need to be devoted to this project.

The EU wants people to believe that this policy aims to reduce greenhouse gas emissions. Yet, according to many scientists, the environmental cost of biofuels exceeds all the possible benefits they could ever provide. For its part, the OECD, in a report published on September 12, affirms that, "The current push to expand the use of biofuels is creating unsustainable tensions that will disrupt markets without generating significant environmental benefits… National governments should cease to create new mandates for biofuels and investigate ways to phase them out…"Â [http://www.cfr.org/publication/1429..]. The United Nations Special Rapporteur on the right to food, Olivier De Schutter, wrote: "Instead of helping to fight against climate change, the use of certain types of biofuel could in fact accelerate this process"Â [Olivier De Schutter, carte blanche in the newspaper the Le Soir, September 6 and 7, 2008 titled: Â« Il faut suspendre les programmes d'investissement dans les agrocarburants Â», http://www.lesoir.be/forum/cartes_b...].

Does the biofuel produced by China, India and Brazil, play an important role in soaring food prices?

China: Until 2006, China was the third global producer of corn-based ethanol (far behind the US and the EU) but in June 2007 Chinese authorities prohibited all new production of corn for ethanol in order to address the 42% increase in the price of pork on the domestic market. Chinese production of ethanol effectively fell by 50% in 2007. Jacques Berthelot specifies: "While, despite the production of corn-based ethanol, China still exported a large quantity of corn in 2007, its ethanol cannot be blamed for global price inflation of cereals. And as it only produced 50 000 t of biodiesel in 2006 instead of the 2 Mt expected by 2010, its production of biodiesel is not responsible for the explosion in the price of oleaginous plants"Â [J. Berthelot, p. 23].

India: Just like its North American and European counterparts, the Indian government also obliged its oil industry to incorporate 5% of biofuel by 2010, and 20% by 2025. India had become, by 2006, the fourth global producer of bio-ethanol but, in 2007, India's production literally collapsed (falling from 1.9 billion litres to 200 million litres, almost a 90% reduction). Jacques Berthelot concludes: "As this bio-ethanol is produced form sugarcane molasses, and India exports sugar, the price of which has dropped since 2006 and didn't pass its 2007 level until 2008, we cannot blame India for the explosion in the price of cereals"Â [J. Berthelot, p. 29 that can be found at http://www.grain.org/agrofuels/?ind...]. In addition, India decided to develop biofuel production from the seeds of an inedible plant, the jatropha.

However, according to J. Berthelot this program failed to succeed because the government fixed the price of bio-fuel below the costs of production. It must be noted that, "Indian agricultural co-ops and NGOs for the defence of the environment are resolutely opposed to the development of biofuels, be it derived from jatropha or the eventual second generation of cellulosic products"Â [J. Berthelot, p. 29 that can be found at http://www.grain.org/agrofuels/?ind...].

Brazil.: The third global producer of biofuel, Brazil comes in just behind the US and the EU, greatly surpassing China and India. In fact, it produces 10 times more biofuel than China and 30 times more than India. The vast majority of Brazil's production up to this point has come from sugarcane (a very small but increasingly important percentage is derived from soybean). The environmental and social impact of the development of single-crop-farming of sugar cane is clearly detrimental, and the Brazilian authorities' policy is thus highly criticized by numerous social movements. Nevertheless, the production of sugarcane-based biofuel cannot be cited as a factor in the increase of global food prices because the price of sugar has continued to fall since 2006.

In conclusion, Chinese, Indian and Brazilian production of biofuel Â [Even
 if Brazil is not responsible for soaring food prices, its agribusiness exportation industry generates huge profits. Brazil's revenue from agricultural exportations greatly increased in 2007 and in 2008.] , although highly questionable from an environmental or social standpoint Â [Designating arable farmland for biofuel production is unacceptable because this restricts farmers from land that could otherwise be used to grow food crops. Moreover, sugar cane production is in the hands of and large landowners and capitalistic agribusiness companies that overwork agricultural workers and keep landless farmers from obtaining their own land. Negative environmental aspects abound as well. Two examples: carbon dioxide emissions created from the harvest of sugarcane (because it is probably burned on the spot) and massive deforestation – specifically of the Amazon rainforest – in order to extend sugarcane fields.], is

not responsible for the explosion of food prices.

Â

The fundamental role of speculation in food price inflation

Speculation on the main US exchanges, where the world prices of commodities (farm products and raw materials) are negotiated, has played a fundamental role. The principal actors in this speculation are not independent, but institutional investors: investment banksÂ [Goldman Sachs, Morgan Stanley and, until their dissolution or takeover, Bear Stearns, Lehman Brothers, Merrill Lynch.], pension funds, mutual funds, insurance companies and commercial banks. Hedge funds and sovereign wealth fundsÂ [Sovereign wealth funds are public institutions which, apart from a few exceptions, belong either to emerging countries like China or to oil-exporting countries.

The first sovereign wealth funds were created during the second half of the 20th century by those governments that wanted to put aside a portion of their earnings from oil and manufactured products.] have also played a role, even though their weight is much less than that of institutional investorsÂ [Globally, at the beginning of 2008, institutional investors represented 70 000 USD, sovereign wealth funds 3 000 billion USD and hedge funds 1 000 USD.].

Michael W. Masters, who directed a hedge fund for 12 years on Wall Street, attests to this fact in his account presented May 20, 2008, before a committee of Congress in WashingtonÂ [Testimony of Michael W. Masters, Managing Member/Portfolio Manager Masters Capital Management, LLC, before the Committee on Homeland Security and Governmental Affairs United States Senate http://hsgac.senate.gov/public/_fil...]. In front of this committee, assembled to investigate the possible role of speculation in the increase in the price of commodities, he declared: "You have to ask the question â€˜Are institutional investors contributing to food and energy price inflation?' And my answer is â€˜YES.'"

In this definitive account, he explains that food and energy price inflation is not due to insufficient supply but to a sudden increase in demand by new actors in the commodities market where "futures" are traded. In the futures market, investors purchase the upcoming production: the wheat harvest that will happen a year or two years from now, the oil production three or six years down the line. Theoretically, the principal investors in these markets are for example airline companies that buy the oil they need or agro-firms that purchase specific cereals. Michael W. Masters demonstrated however that in the US, assets allocated by institutional investors to commodity index trading rose from $13 billion at the end of 2003 to $260 billion as of March 2008Â ["Assets allocated to commodity index trading strategies have risen from $13 billion at the end of 2003 to $260 billion as of March 2008".]

The prices of 25 commodities listed on these markets climbed 183% during the same period. He explained that it has to do with a narrow marketÂ [In 2004, the total value of future contracts outstanding for all 25 index commodities amounted to only $180 billion. Compare with worldwide equity markets which totalled $44 000 billion, I.e. over 240 times bigger". Michael W. Masters indicates that during that year, institutional investors invested $25 billion in the futures market, accounting for 14% of that market. He shows that in the first trimester of 2008, institutional investors greatly increased their investments in this markets: $55 billion in 52 business days. Now there's a way to incite price inflation!].

Institutional investors such as pension funds, only need to allocate 2% of their assets to overwhelm the system. The price of commodities on the futures market has immediate repercussions on the current price of these goods. He demonstrated that institutional investors had purchased enormous quantities of corn and wheat between 2007 and

2008, resulting in massive price inflationÂ [It's important to note that the governing body of the Futures market, the Commodity Futures Trading Commission (CFTC) doesn't consider institutional investors to be speculators, but instead views them as commercial market participants.

This allows them to reinforce the fact that speculation plays no significant role in soaring food prices. A critique of the CFTC can be found in Michael W. Masters' op. cit. and especially in Michael Greenberger's testimony, law professor at the University of Maryland, before the U.S. Senate Committee, June 3, 2008. Michael Greenberger who was the director of one department of the CFTC from 1997 to 1999, criticises the laxity of the current directors of the CFTC turning a blind eye to institutional investors' energy price manipulation. He cites a series of claims made by CFTC figureheads which would not be out of place in an anthology of hypocrisy and idiocy.

Michael Greenberger believes that, on the US stock market, between 80 and 90% of all transactions in the energy sector are speculative (p. 22). Testimony of Michael Greenberger, Law School Professor at the University of Maryland, before the US Senate Committee regarding "Energy Market Manipulation and Federal Enforcement Regimes", June 3, 2008.] September 22, 2008, in the heart of the United State's financial crisis, when President Bush announced a bailout plan of $700 billion, the price of soybean jumped 61.5% because of speculation!

Jacques Berthelot, who devotes six pages of his study to the role of speculation, also shows the crucial role that it plays in the rising pricesÂ [J. Berthelot, p. 51 to 56.]. In addition, he uses the example of the Belgian bank, KBC, which ran an advertising campaign in order to sell a new commercial product: investing their savings in 6 agricultural raw materials. In order to convince clients to buy into its investment fund, "KBC-Life MI Security Food Prices 3", the KBC advertisement affirmed: "Take advantage of the rising prices of food commodities!" This advertisement presented the "shortage of water and farmable land" in the form of an "opportunity" as there is now a "shortage of food products that has lead to rising prices of food commodities"Â [http://www.lalibre.be/index.php?vie..].

Trade agreements imposed by industrialized countries and the institutions they dominate (WB, IMF and WTO) weaken developing countries' capacity to face rising food costs

In 2007-2008, more than half the world's population saw their living conditions sharply deteriorate as they were confronted with a massive increase in food prices. This sparked substantial protests in at least 15 countries in the first half of 2008. The number of people affected by hunger has increased to tens of millions, and hundreds of millions have seen their access to food greatly restricted (and, consequently, other vital goods and servicesÂ [Actually, in order to purchase food, the price of which has risen sharply, poor families have had to reduce spending on healthcare and education, as well as on various household needs.]). All of this is the result of the decisions made by a small group of companies in the agribusiness sector (biofuel producers) and the financial sector (institutional investors that manipulate the flow of farm products) that benefited from the governmental support of Washington and the European Commission.

However, the amount of exports in world food production remains weak.
A very small amount of rice, wheat and corn produced in the world is exported, as the vast majority is consumed on the spot. For example, Oxfam claims that in the case of rice, "only 4 to 5% of rice production is sold on the world market"Â [See www.madeindignity.be/Public/...], while nearly 20% of wheat production is exportedÂ [See www.fimarc.org/Fiche1BLE.pdf]. Nevertheless the prices on the local market are determined by the export prices.

Moreover, as we have already seen, these prices are essentially established on the floors of three of US exchanges (Chicago, Minneapolis et Kansas City). As a result, the prices of rice, wheat or corn in Timbuktu, in Mexico, in Nairobi and in Islamabad are directly affected by the change in the price of these crops on the US exchanges. In 2008, in fear of being overthrown by massive social uprisings, authorities of developing countries all over the planet urgently had to take measures in order to guarantee their citizens access to basic foods.

If we have arrived at this point, it is because for many decades, governments have progressively stopped supporting local producers of these crops – the majority of whom are small producers – and followed the neo-liberal recipe for success dictated by institutions such as the World Bank, or the IMF's structural adjustment programs and poverty reduction action plans. Claiming to fight against poverty, these institutions convinced governments to push policies that reproduced, and even reinforced, poverty. Furthermore, over the last couple of years, numerous governments have signed bilateral treaties (free trade treaties most notably) that further aggravate the situation. Trade-negotiations in the WTO's Doha Development Round also resulted in disastrous consequences.

What happened?

Act 1. Developing countries renounced the customs protections that protected local farmers from the competition of foreign agricultural producers, mainly the large North American and European agricultural exporting firms. These large companies invaded the local markets with farm products sold at prices which were actually lower than it cost local farmers and breeders to produce the same foodstuff, thus causing them to go bankrupt (many have since emigrated towards the large cities in their own countries or in more industrialized countries). According to the WTO, the fact that Northern governments provide subsidies to their large agricultural companies on the domestic market is not an infraction of anti-dumping rules. As J. Berthelot writes: "While the man in the street understands dumping as exporting at a price lower than the cost of production, for the OMC, it is not dumping as long as the export price is the same as the domestic price, even though this price is lower than the cost of production"

In short the countries in the EU, the US and other exporting counties can invade other markets with farm products thanks to enormous domestic subsidies. An emblematic case is that of US corn exports to Mexico. Because of the Free Trade Agreement (NAFTA) signed between the US, Canada and Mexico, the latter abandoned the customs protections between itself and its northern neighbours. Corn exports from the US to Mexico increased nine-fold between 1993 (the last year before the NAFTA came into effect) and 2006. Hundreds of millions of Mexican families had to stop producing corn because domestic corn cost more than the corn arriving from the US (produced with industrial technology and enormous subsidies). This not only created an economic drama, but also engendered a loss of identity, as corn is a symbol of the Mexican culture, most notably for the Mayan people. The majority of corn farmers abandoned their fields and searched for work in the industrial cities of Mexico and the US.

Act 2. Mexico came to rely on US corn to feed its population, and was thus unprepared to face the stark increase in the price of corn, caused partly by market speculation in Chicago, Kansas City, and Minneapolis and partly by its northern neighbours' production of corn-based ethanol. Mexican producers of corn no longer existed to meet the domestic demand and Mexican consumers have had to face an explosion in the price of their staple food - the tortilla - the corn-based crepe which is the equivalent to the bread or bowl of rice consumed in other parts of the world. In 2007, enormous working-class protests shook Mexico.

These various events show that it has become necessary vindicate clear alternative propositions The last section of this study draws on the provisional conclusions of the task force on "food sovereignty" set up by the farmer's organization, Via Campesina. These propositions are still being worked on and have not (yet) been adopted by the leaders of Via Campesina and therefore could possibly be partially or considerably modified by them before being adopted. Here the author discusses the conclusions as they stand at present..

Â

Alternative propositions

Food security for all starts with stable food prices that cover the cost of production and ensure producers a living wage. The model of low prices, promoted by western governments to increase the mass consumption of manufactured products and services (tourism, entertainment, telecommunications, etc.), is neither socially nor environmentally sustainable. This model mainly benefits large companies and also - by diverting the population’s attention away from democratic ideas towards mass consumption - the political and economic elite of those countries who thus preempt power.Â [This section entitled alternative propositions is derived from Â« Proposition de document de position de la Via Campesina sur les prix agricoles et la spéculation Â», July 2008]

Faced with the current food and environmental crises, radical changes must be made, and fast. The propositions listed below are feasible ideas for agricultural and business policies based on food sovereignty. They would stabilize food prices at levels capable of assuring sustainable food production in the large majority of countries.

On a local level:
Â
Support local farm production, notably by supporting farming practices and by facilitating small producers’ access to credit, for men and women

Â Support and develop short/direct marketing channels between producers and consumers in order to ensure that prices are profitable to farmers and affordable for consumers

Â Encourage consumption of local products

Â Support more autonomous forms of production that are less subject to price fluctuations than those forms of production that use chemical fertilizers (breeding with grass instead of corn/soybean for example).

On a national level:

International law allows States to implement unilateral sovereign laws to protect their agriculture and guarantee sovereign use of their natural resources. The International Covenant on Economic, Social and Cultural Rights recognizes the right to food as a basic human right. It is thus the States’ responsibility to make sure that this fundamental right prevails over business law. States can call on the legal notions of fundamental change in circumstances (food price inflation, climate change) or unavoidable necessity (maintaining social order, enabling the population to fulfil basic needs) to withdraw from treaties which threaten the food sovereignty and security of their population.

The following propositions are based on this legal framework. It is the responsibility of the individual states to implement such measures.

Â Re-establish policies that support the family farm production

Â Not to sign and, if need be terminate, multilateral (WTO) or bilateral (ALE et APE) free-trade agreements that conflict with food sovereignty

Â Establish or re-establish agricultural import restrictions

Â Build up public food reserves in every country

Â Re-establish mechanisms that will guarantee stable agricultural prices

Â Develop production control policies in order to stabilize agricultural prices

Â Control the profit margins of intermediaries

Â Set up global land reforms (for farmland, but also water and seeds) to ensure that farmers that produce food products for the local population have access to resources, rather than the large companies that produce for exporting purposes

Â Ban speculation on food

On an international level:

Â Ban speculation on food; it is a crime to speculate on a person’s life, and it is for this reason that governments and international institutions need to stop speculative investments on farm products

Â Add a law on food sovereignty to international law so that every country’s right to develop their own agricultural policies in order to protect their agriculture, without harming other countries, is formally recognized (primarily to the Covenant on Economic, Social and Cultural Rights)

Â Declare a moratorium on the industrial production of biofuel

Â Establish or re-establish international organizations to regulate the market and the production of the main export products (coalitions of countries that produce coffee, coco bean, bananas, tea etc.) so that stable prices are assured on an international level

Â Terminate Structural Adjustment Programs (SAP) that force States to give up their food sovereignty

Â Terminate the exploitation caused by the mechanism of the external debt
Â
Reform the EU’s Agricultural Policy and the United State’s Farm Bill, both of which have disastrous effects on the agricultural markets. |53|

Â

Conclusion

This research provides an alternative point of view to the current mainstream explanations Claiming that China and India are responsible for the food crisis is a red herring.

In fact, the actions of large capitalist interests, notably in the US, and, to a lesser degree, in Western Europe, are the real cause of the food crisis. More specifically, institutional investors that speculate on food and hydrocarbons and large agribusiness companies that forcefully advance biofuel production, are responsible for food price inflation and by doing so have increased their own profits.

The world food crisis reveals the driving force behind the capitalist solution: the quest to maximize individual short-term profits. For capitalists, food is nothing more than a product to be bought and sold at a price that generates the highest possible profit. Food, human beings' essential element of survival, has thus been reduced to a simple profit-generating tool. This lethal logic must be stopped. Capital's stronghold on the major forms of marketing and production must be curbed.

The world food crisis - the consequences of which will only become worse with the present economic crisis and current climate change - calls for a whole new set of radical public policies. Moving forward in this direction concerns the whole of mankind.

21 November 2008

Translated by Judith Harris, Brian Hunt and Diren Valayden in collaboration with Elizabeth Anne.

The author has drawn largely on the remarkable 57-page study by Jacques Berthelot entitled: "DémÃªler le vrai du faux dans la flambée des prix agricoles mondiaux" (Separating the true from the false in the world commodities price explosion), published 15 July 2008. Readers are invited to read the full text at: www.cadtm.org/spip.php?artic.... The author also wishes to thank Daniel Munevar for his documentary research on the role of speculation. The author also consulted the following sources: Jean Ziegler, United Nations special rapporteur on the Right to Food and Olivier De Schutter - his successor since May 2008, the Bank for International Settlements, The World Bank, OECD, FAO, The Economist, The Financial Times and other publications that are clearly credited in this article. Finally, the author is indebted to the discussions in which he took part as a lecturer during the seminar organised in the Canaries from 21 to 24 July 2008 by the Food Sovereignty Commission of the Via Campesina movement. Naturally, the contents of the present study are the sole responsibility of the author and in no way commit the persons and organisations cited.

