Food prices continue to rise worldwide

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Recent developments in grain markets point to prolonged international supply shortages and price spikes, exposing billions of people to hunger and malnutrition.

US commodity exchanges have seen extreme volatility in the past week, with speculation on spring wheat crops driving per-bushel prices to record levels, while high oil prices and severe weather have contributed to rising corn and soybean prices.

Last week, the three US Midwest grain exchanges—the Minneapolis Grain Exchange (MGE), the Kansas City Board of Trade and the Chicago Board of Trade—all raised their daily trading limits to triple the previous ceilings, encouraging rampant speculation and substantially heightening trade activity.

On February 15, trading on the anticipated March wheat crop hit $19.88 a bushel on the MGE, the highest price ever, and 79 percent higher than a year ago. The surge came on the announcement that Japan had purchased 190,000 tons of US wheat shortly after the Egyptian government bought 235,000 tons, and in anticipation of weather-related food disruptions in China.

The US Department of Agriculture (USDA) has warned that the nation's wheat inventories are dropping dangerously low. In part, this is due to the fevered rate of exports driven by the weakening dollar and relative strengthening of currencies of many importing countries.

By June, the USDA projects that actual stores of wheat will fall by 40 percent, to the lowest level in three decades. Goldman Sachs' February commodities report put world wheat stocks at the lowest level since 1948.

The world food shortage cannot be understood as a temporary phenomenon or a simple supply and demand dilemma. Rather, a number of complex and interrelated forces are behind the development, all of which underscore the inability of capitalist markets and institutions to rationally plan and provide for human needs.

Following the collapse of the housing market and subsequent crisis in the financial sector, much speculation shifted from those areas into commodities, which are considered to be more stable and, in US trading houses in particular, less vulnerable to the unfolding recession. Agricultural commodities are seen as a "safe bet" for investors; people need to eat, no matter how inflated the price of food.

It is precisely this attitude that makes agricultural markets extremely vulnerable to crises, and increases the hunger threat posed to the world's population. The prices of crops are negotiated not when they are harvested, but well in advance, in anticipation of future yields, production needs, and so on. Agricultural producers sell so-called "futures contracts" on crops several months before harvest, thereby guaranteeing certain prices. Grain distributors and processors buy these futures contracts, guaranteeing they will not pay more upon harvest.

However, futures contracts cannot guarantee that crops will survive, or that they will meet demand when harvested. Shortages or blights, which can be ruinous to farmers and consumers, are often celebrated by speculators, who buy up futures contracts and turn profits on unmet demand.

Speculation generates volatility, in turn triggering yet more speculation. Since the eruption of the credit crisis, the grain market has assumed an increasingly volatile character, forcing up retail inflation and worsening the effects of economic downturn for the working class population.

Agricultural production is vulnerable to shocks because it is intimately connected to climate trends, declining water tables, and weather-related disasters.

Agriculture is also affected by fluctuations in the energy market. The distribution of grain is directly impacted by transportation costs, tying grain prices to oil prices. This drives prices up especially in countries dependent upon sea-shipped imports.

Further, farming and processing operations are more expensive when oil rises, not only because of fuel costs, but also because the cost of fertilizer, the nitrogen of which is made from natural gas, is bound up with energy market trends. USDA figures show that fertilizer prices have risen enormously in recent years. In the past year, diammonium phosphate, commonly used as a corn fertilizer, rose from under $300 last year to $792 per ton February 15.

Moreover, as fuel prices rise, demand for biofuel also rises. As a result, more corn, soybeans, and other feedstock crops are diverted into biofuel production. This exacerbates shortfalls in the human food system and increases the cost of feeding livestock and poultry, pushing up meat, egg, and dairy consumer prices.

The US government has pressed for the replacement of 15 percent of gasoline consumption with ethanol and other biofuels in the next few years. According to the USDA, this mandate will consume at least a third of the nation's corn crop. And with an incentive to grow biofuel-destined crops, agricultural operations have less cropland for growing staple food grains. The drive to produce ethanol has contributed to a doubling in the price of corn in two years, and a significant drop in global corn reserves.

In a report released February 18, the European bank UniCredit projected an average $15 per-bushel for wheat in 2009, based on the trends in land allocation for ethanol crops and in increasing demand for meats in Asia. "Rising global population, the production of biofuels and more protein-rich nutrition in emerging markets are triggering a steady increase in demand," the report said, noting that acreage devoted to wheat has been stagnating for three decades.

None of these problems can find resolution in capitalist market policies or management on a merely national basis.

Several governments, nervous over increasing prospects of social unrest, have reported rising inflation rates on food costs. This week, China announced a record 7.1 percent annual inflation rate for January, saying that severe winter storms had exacerbated the country's already strained food system, pushing food prices 18 percent higher than one year ago.

Chinese households, many millions profoundly poor, spend about half of their income on food. Faced with riots over cooking oil shortages and high staple food costs last year, the government implemented restrictions on exports and lowered import tariffs in an effort to lesson the crisis.

On February 21, the Indian government made a public announcement of a crackdown on grain hoarding among wheat traders, who regularly withhold stocks until lean months to sell at exorbitant prices. The national government estimates that India's 2008 wheat crop will be slightly lower than that of 2007, while import prices rise. The country also faces inflation of 4 to 6 percent and widespread under-nutrition.

Corruption is rampant among grain distributors in areas suffering scarcity. South Africa has seen a 200 percent increase in wheat prices in the past year, partly attributable to pervasive price-fixing among the bread and dairy sectors. On February 19, the country's agriculture ministry called for a campaign against industry collusion, which it said was threatening the country with food insecurity.

Behind these government crackdowns is concern over destabilization and the risk of popular revolt.

The political consequences of rising food prices are not limited to net import countries. In the US, food inflation has averaged 4.9 percent over the past year, with a 0.7 percent increase in January alone. Along with record grain prices have come large jumps in retail meat, eggs, and dairy prices. Milk in January was 26 percent higher than a year ago, according to the latest Labor Department report.