

US food prices increase sharply

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Over the past nine months, global food prices have soared 40 percent, while food reserves are at 30-year lows. The rising cost of food is becoming a major source of global social instability and economic hardship.

In the US, rising prices have compounded problems created by the collapse of the housing market, rising energy costs and stagnating wages for the majority of the population. Retail prices on staple American foods rose by double-digit percentages in the last year, according to new data from the federal Bureau of Labor Statistics (BLS). The cost of milk rose 26 percent, and egg prices grew by 40 percent.

A report Sunday in the *Boston Globe* suggested that food inflation could pose a more serious threat to consumers in the US than soaring oil prices. This is because food accounts for 13 percent of spending for average households, compared to about 4 percent for gasoline. "Rising food prices can be particularly corrosive to consumer confidence because people are so frequently exposed to the cost increases," the paper commented.

"It's the biggest risk we face economically, and it might be the thing that does us in," Rich Yamarone, director of economic research at Argus Research Corporation, told the *Globe*. "There's nothing really worse than having a job, making money, and forking most of it over just so you can have the same amount of food. You're running in place, and it really weighs on you," he said. Rising food prices will have a broader economic impact, as consumers are forced to cut back their spending on other products.

Food costs rose by 5.8 percent last year, according to the BLS, and the US Department of Agriculture projects prices will increase by 4 percent this year. Another economic analyst told the *Globe* that the weakening dollar, coupled with record oil prices and rising demand for foodstuffs globally, would drive prices at higher rates over the next five years, by perhaps 7.5 percent annually.

Such predictions, of course, do not account for the possibility of major droughts, expansion of war into oil-producing countries, or other abrupt developments that would drastically exacerbate problems in the world food system.

However, federal data also suggest, even assuming no abrupt shifts, that US food inflation will continue and accelerate. The BLS reported that wholesale prices, which to a large degree drive retail costs, rose rapidly in the past month—wholesale egg

prices rose 60 percent from a year ago, pasta rose 30 percent, and fresh produce increased 20 percent.

The increases have a direct impact on the diets of working and poor families. Already strained by high housing, energy and transportation costs, many households cut out more expensive foods such as cheese and fresh vegetables, or simply cut back on the amount of food they buy.

A number of anecdotes from around the country reveal these difficulties. The *Globe* article describes the situation for working New Englanders: a family of three in New Hampshire whose grocery bills rose from \$125 per week to \$200 over the course of the winter; a working mother earning under \$40,000 per year in Massachusetts struggling to buy infant formula after it jumped up to \$38 a case; families forced to cut out "snacks and fresh produce" and stretching "meat purchases by making soups and stews."

Other families turn to federal assistance programs. For the 26 million who receive food stamps, the monthly allotment, typically around \$86 per person, is inadequate to meet family needs. The funding amounts, set once per year, are being far outrun by inflation, and family allocations frequently run out before the end of the month.

Food pantries around the country are straining to meet increasing demand while contending with food and fuel inflation themselves. A March 10 report from the Austin, Texas paper, the *Austin Statesman*, noted that local pantries had recently seen a significant increase in clients. "At El Buen Samaritano," a non-profit organization serving mainly working poor Hispanic families, "13,277 people visited the group's food pantry in 2007, a 6.4 percent increase from the year before." The food charity for Saint Ignatius Catholic Church reported a 5.6 percent increase in clients in the past two months alone.

Capital Area Food Bank of Texas, the major pantry supplier, told the *Statesman* that high gas prices were eating into the organization's budget. Last year, it spent \$88,171 on gasoline to distribute food—nearly \$10,500 more than in 2006. Food bank officials are also concerned that the recession will curtail donations from working families. "Obviously, if food costs more, it's going to reduce donations," a Capital Area Food Bank spokesperson told the paper. "It's a snowball effect."

The California *Fresno Bee* quoted a local dry foods wholesaler and bulk supplier Monday that was stockpiling

foods in anticipation that the “inflationary spike is going to last for two crop years.” Pacific Grain and Foods President Lee Perkins told the paper, “As warehouse inventories dwindle ... they are replaced by new crop harvests at record commodity prices that are being passed on to the consumer. My advice to a shopper today would be to gobble up all the breakfast cereal you can find at \$2 a box, because packaged portions are going to get smaller.”

There are a number of interrelated factors that are behind the spike in food prices. First, there is the relation of oil to grain prices. Record oil prices drive up transportation and processing costs for food production. Rises in the oil market also affect rises in other commodities markets, including grains and natural gas, from which the main component of agricultural fertilizer is extracted.

The recent sharp increase in oil prices—now close to \$110 a barrel—has been driven in large part by the movement of investors from the more volatile stocks into commodity futures and derivatives. This has created a huge jump in “artificial demand,” on top of the longer-term rise in demand from countries such as China and India.

As first the housing market and then the credit sector collapsed, much of the speculation shifted away from those areas and into the energy and commodities markets because they are seen as “safe bets” in terms of demand. People must eat—and burn gas getting to work—no matter how prices rise.

Second, this increasing demand for biofuels, particularly corn- and soy-based ethanol, has resulted in a major diversion of edible crops away from the human food system. It has also led to a diversion of acreage food production into biofuel crops production. Further, grains used for livestock and poultry feed has become more expensive, in turn pushing up the cost of beef, milk, cheese, eggs and other basic foods. Likewise, the cost of farmed seafood has increased by at least 10 percent in the US because of the cost of corn meal and mash.

Third, economic growth in China, India and other countries has generated increased demand for more than oil. These demographic shifts have spurred demand for more meat and dairy products, as well as more processed foods which require staple grains, especially corn for the production of corn syrup.

Fourth, primary growing regions in the US, Eastern Europe and Australia have all experienced multiple severe weather events associated with climate change over the past few years. In some areas, desertification of arable land and water shortages have devastated farmers and exposed populations to increasing food insecurity and dependence on international markets.

Fifth, the dollar’s decline against currencies of many importing countries—many of which have imposed export restrictions—has stimulated a US exporting frenzy, depleting stockpiles and driving up futures stocks on basic grains.

In effect, the perceived stability of the grain and oil markets has become a factor in their destabilization through speculation,

and the profits turned off this volatility are extracted from the bellies of the world’s working and poor masses. The effect of this price inflation in basic commodities is to transfer wealth out of the hands of the working class into the portfolios of investors shaken by market turmoil.

The United States is certainly not the only country affected. The inflation of basic necessities has sharpened class antagonisms, sparking protests and riots around the world, as well as careful political and economic calculations from some ruling bourgeoisies. A wave of strikes and riots in oil- and mineral-producing countries has put particular pressure on national governments to alleviate some of the food and fuel price burdens. Recently, over a dozen people were killed in Yemen during riots over the doubling of food costs, and 34 were arrested in inflation-related riots in Morocco.

Riots over living costs and fuel prices have resulted in at least 40 deaths in Cameroon according to government officials. Human rights organizations suggest the violence has resulted in far more deaths throughout 31 towns. At least 1,500 have been arrested since February 25, and the local Maison des Droits de l’Homme (House of Human Rights) told Agence France Presse March 7 that government security forces were firing on demonstrators and threatening human rights organizations.

Bread rationing in Egypt is provoking anger, as the government seeks to limit outlays on food subsidies. Food costs in China have soared by 23 percent due to bad weather and general inflation, fueling social tensions in that country. According to a report in Reuters, “Pork prices soared 63 percent from a year earlier, vegetables climbed 46 percent, and edible oil rose 41 percent, adding to the burden on the 300 million people estimated by the World Bank to be living in poverty.”

Rising commodity prices could well be a spark for major social upheavals in countries throughout the world.



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