Commodity price surge sets stage for global food crisis in new year

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The price of traded food staples such as wheat, corn and rice soared 26 percent from June to November, nearing the peaks reached during the global food crisis of 2008, according to the Food Price Index kept by the United Nations' Food and Agriculture Organization.

The price surge has continued in December, with foodstuffs and basic commodities hitting new highs and expected to climb further in 2011.

In 2008, riots broke out in at least a dozen countries as food prices hit record highs. The new surge in prices promises to unleash even greater hunger and deprivation, and more widespread social unrest, as hundreds of millions of people around the world contend with the impact of the ongoing recession and government austerity measures.

According to the UN Food and Agriculture Organization, 925 million people worldwide suffered from hunger in 2010, an increase of about 150 million since 1995-97. One third of children in the so-called developing world are malnourished.

The new explosion in commodity prices is being fueled by the cheap credit policies of governments and central banks in Europe, Japan and, above all, the United States, where core short-term interest rates remain near zero. These policies, most critically the renewed turn by the US Federal Reserve to so-called "quantitative easing," are designed to boost national stock markets and business profits by providing the banks and corporations with virtually free credit.

The Federal Reserve in November announced that it would purchase $600 billion in US Treasury securities by, in effect, printing dollars. This cheap-dollar policy has the effect of debasing the world's primary trading and reserve currency, thereby fueling inflationary tendencies around the world and increasing the flow of hot money to emerging economies with faster growth and higher interest rates.

The impact is vastly destabilizing and exacerbates global economic imbalances. It also provides banks, hedge funds and corporations with wide vistas for speculation on commodity prices.

In the US alone, corporations and banks are sitting on some $3 trillion in cash which they refuse to invest in production and hiring. A good portion of the global surfeit of cash is being used to ramp up the prices of commodities—from oil, copper, cotton, gold and silver to food staples such as wheat, corn, rice and soybeans.

Natural disasters are also playing a role. Drought in the Black Sea region cut Russia's wheat harvest by a third this year. Unusually hot and dry weather in Argentina and other Latin American crop exporting nations is threatening to further reduce the volume of corn, wheat and soybeans on world markets.

Such natural factors, however, are exacerbated by the impact of national divisions on the global economy. Russia responded to the failure of its crop by imposing an export ban on wheat. Similarly, India has imposed an export ban on onions. The effect of such measures is to increase the upward pressure on prices worldwide.

A major factor in the rise in corn prices is the diversion of a third of US corn production to the more profitable production of ethanol in 2010.

On the global commodity markets, wheat and corn have increased almost 50 percent over last year. Wheat prices soared to their highest level in over two years this week. US soybean futures have been rising rapidly since August, and corn ends the year at a 29-month high.

As the *Wall Street Journal* reported on December 24, "Traders are also anticipating that index funds will pour more money into agricultural commodities at the start of the year, pushing prices higher, analysts said."

Alberto Weisser, chief executive of US-based Bunge, one of the biggest traders of commodities such as soybeans, told the *Financial Times* (December 29) that tight grain conditions would continue into the next year. “For the next 12 months,” he said, “I think you will see volatility of prices.”

Overall, world commodity prices have risen by 25 percent over the past six months. The European debt crisis and the Federal Reserve's cheap-dollar policy have, according to the *Journal* (December 27), “driven investors to hard assets.”

Oil is now at $90 a barrel, nearing a 26-month high. The sharp increase in oil prices drives up transport costs for food and other commodities.

In the US, prices of gasoline at the pump are now averaging over $3 a gallon nationwide, according to the American Automobile Association. This is an increase of 20 cents from just last month and over 40 cents from a year ago.

Speaking Wednesday on the CBS network's “Early Show,” former Shell Oil President John Hofmeister warned that gas could climb to $5 a gallon by 2012.

US copper prices reached a record for the second straight day on Tuesday. Copper is up 13 percent in December alone and 57 percent since June 7.

Gold pushed above $1,400 an ounce this week, near its record high. It is up 26 percent this year.

Highlighting the role of speculation in the commodity surge, the *Wall Street Journal* on Monday published a front-page article on the staggering rise in the price of silver. In the past four months, the precious metal has risen 51 percent to a series of 30-year highs, before inflation. It closed last week at $29.31 a troy ounce, as compared to $16.822 at the beginning of 2010—a rise of 74 percent.

Of the general surge in commodity prices, the *Journal* wrote: “Prices are rising despite over-supply and a lackluster recovery in industrial demand. Many analysts expected those factors would keep a lid on prices in 2010. What they didn't expect was an overwhelming flow of money into the market from investors eager to ride a commodity rally.”

The newspaper quoted Stephen Briggs, senior metals strategist at BNP Paribas, as saying, “This is a story almost entirely about investment.”

The inflationary impact of Washington's cheap-dollar policy is being felt most directly in the so-called “emerging economies,” led by China. Speculative cash from the West is wreaking havoc on prices of Chinese goods and, above all, housing costs. Housing prices in the US peaked at 6.4 times average earnings this decade. In Beijing, housing prices are 22 times average earnings.

In an attempt to stem inflation—Chinese consumer prices rose 5.1 percent in November—the People's Bank of China on Saturday announced its second interest rate hike in 10 weeks. This poses the threat of a slowdown in China's economic growth, which, under conditions of anemic growth in the US, Europe and Japan, has been the major factor in averting a relapse to negative economic growth worldwide.

The rise in food prices, which brings immense profits for agribusiness and speculators and untold suffering for millions of ordinary people, underscores the irrational and socially destructive nature of the capitalist market and production for profit.