

Global food prices hit record high

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Food prices have hit record highs due to a string of crop failures together with an upsurge in speculation, resulting in rising living costs.

The UN's Food and Agriculture Organization recently announced that the food price index has now broken a previous record set in 2008, when food prices nearly doubled over the course of 18 months, leading to popular upheavals in dozens of countries.

Rising food prices, which have shot up 25 percent in the past year, have precipitated riots and demonstrations in Tunisia, Morocco, Algeria, Jordan, Mozambique and Yemen in recent weeks.

Skyrocketing costs were a contributing factor in the popular upsurge in Tunisia that toppled the dictatorship of Zine El Abidine Ben Ali last week. In Algeria, at least three people have been killed in clashes with police after the government slashed food subsidies.

Over the past year, the commodity food price index for corn has risen 52 percent, for wheat 49 percent and for soybeans 28 percent. Non-staple cash crops have also risen dramatically, with coffee up by 53 percent and cotton 119 percent.

The sharp rise in food prices is partly attributable to a bad crop year, exacerbated by a series of natural disasters. Droughts in Argentina and Russia, both major food producers, have decreased output, while recent floods in Brazil and Australia have completely wiped out some crops.

But the rise in commodity prices is not confined to agricultural products, although the increase is most dramatic there. Brent Crude oil hit nearly \$100 per barrel last week, and has increased in price by 26.54 percent from a year ago, when it was trading at \$75 per barrel. Copper, meanwhile, is up 30 percent over the past year.

Increased energy prices are a factor in rising food

prices, as agriculture consumes large amounts of fossil fuels during harvesting and transport, and petrochemicals are the main component of industrial fertilizers. The increasing use of ethanol, a corn-based alcohol, in gasoline in the US and elsewhere has also cut into supplies of corn available on the food and animal-feed markets.

The rising cost of food and fuel have led to declining living standards for masses of working and poor people. In countries like Egypt and Ethiopia, household expenditures on food constitute as much as 50 percent of a family's budget. In Mozambique, households spend on average 75 percent of their incomes on food. For these people, the 25 percent increase in food prices over the last year means the difference between survival and starvation.

In the United States, rising food and fuel prices are forcing families to live without adequate heat in the wintertime, forego needed medications, and cut back on nourishment, with devastating consequences for the health of children and the elderly.

In some cases, governments have sought to cushion the blow by extending subsidies or announcing export controls.

China and Indonesia have announced measures to curb food prices, and the Indian government said last week that it would "impose controls on exports and ease restrictions on imports, including tariff reduction where necessary, to improve domestic supplies." Russia recently extended its export ban on grains until July 2011.

The US Commodity Futures Trading Commission proposed limits last week on the size of commodity bets taken by speculators, as part of the Dodd-Frank financial reform bill. The proposal, which amounts to little more than a public relations exercise, will be voted on after a two-month "comment period."

The world's major food suppliers are experiencing

record profits from the price hikes. Cargill, the largest global trader of food commodities, saw its profits triple in the fourth quarter of last year, up to \$1.49 billion from \$489 million in 2009.

While unfavorable crop conditions no doubt have played a role in driving up food prices, this cannot explain the fact that the price of crude oil and copper have increased at the same rate, and in some cases faster, than staple foods.

In December, it was revealed that a single anonymous investor controlled 90 percent of the copper supply in the UK, in an attempt to corner the market. Suspicions loomed at the time that the mystery trader was JPMorgan Chase, the US bank, or UK-based HSBC. The firms denied holding the position and the investor remains unknown.

Speculation, which has played a major role in rising food prices, is itself dependent on the supply of ready cash. Thus, a major reason for the surge in global prices is to be found in the Obama administration's monetary policy. The US has kept the federal funds interest rate, the rate which banks charge each other for loans, as close to zero as possible. At the same time, it has undertaken unprecedented moves, called "quantitative easing," to expand the money supply even further. These measures, which come on top of the vast government bailout that transferred trillions of dollars to US finance companies, have served to flood the market with cash, fueling speculation.

Liberal *New York Times* op-ed columnist Paul Krugman, writing on his blog, has sprung to the defense of the White House. Last month he insisted that the vast expansion of the money supply, a policy that he supports, has nothing to do with the run-up in speculation. He concludes, "America is, for the most part, just a bystander in this story. ...[R]ising commodity prices are basically the result of global recovery. They have no bearing, one way or another, on US monetary policy."

Instead, he argues that the run-up in food prices is driven by "fundamentals" of the global economic recovery. "What the commodity markets are telling us is that we're living in a finite world, in which the rapid growth of emerging economies is placing pressure on limited supplies of raw materials, pushing up their prices."

Krugman's argument is contradicted by the fact that

many potential vehicles for speculation, even those not tied to any recovery, have risen in the recent period. More specifically, US stock values have grown in the recent period, despite the absence of any recovery in production. The NASDAQ is up by over 20 percent over the past year, and the S&P 500 is up 13.84 percent. This is despite the fact that, over the past year, the US economy has created 500,000 fewer jobs than the amount required to keep up with population growth.



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