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FOOD

Casino of Hunger

How Wall Street Speculators Contributed to the Global Food Crisis

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During 2008, rising food prices — accelerated by an unprecedented run-up of prices on the commodities futures markets — created a food crisis that increased global hunger, sparked civil unrest and hurt farmers in America and worldwide. The global food crisis is an overlooked symptom of the broader global economic crisis. The food crisis shares many characteristics of the financial meltdown — it was exacerbated by the deregulation of the commodity markets (including agriculture) that encouraged a tidal wave of Wall Street speculation — leading to further increases in already rising food and energy prices.

The commodity futures market provides a vital link between farmers and the buyers of agricultural products like meatpackers, flour mills and food manufacturers. On the most basic level, the commodity futures market is a way for farmers to avoid having to sell their crops at harvest times, when the supply is high and the price is low. Instead, farmers can market their crops before they are harvested through a futures contract to lock in a price they hope will be better, or at least more predictable, than what they would get at harvest time. On the flip side, the buyers of agricultural products can ensure they have a steady supply of crops like corn or wheat at a certain price. The commodity futures market allows both the seller (farmer) and buyer (food manufacturer) to reduce their risk from volatile prices and uncertain supplies — allowing both to hedge their bets.

Over the past two decades, the safeguards that prevented excessive speculation from distorting the futures markets were eroded or eliminated. The commodity markets that provided an arena for producers of raw commodities like corn, wheat, oil and metals to find buyers were largely transformed into markets that traded new financial products. The New Deal-era regulations that were supposed to prevent excess speculation on food commodities were weakened to allow more Wall Street investment houses to pour money onto the commodity exchanges and new, unregulated or self-regulated electronic markets cropped up outside the authority of government oversight. As the housing and stock markets stalled in 2007 and 2008, more money migrated into the commodities markets.

This flood of new speculative investments from Wall Street drove up demand on paper for agricultural and energy commodities, creating a bidding war that pitted food processors and agricultural companies against investment firms that had no intention of ever taking delivery of a load of corn, beans or wheat. And the result was that food prices (and gasoline prices that were caught in the same speculative trends) rose dramatically. Commodity Futures Trading Commission Chairman Gary Gensler told the U.S. Senate at his confirmation hearing in 2009 that "I believe that increased speculation in energy and agricultural products has hurt farmers and consumers."[1]

Food Crisis of 2008

During 2008, real food prices reached near-record highs. The commodity price escalation between 2002 and 2008 was the steepest, most pronounced commodity price surge in decades — prices were higher for more commodities and for a longer period of time.[2] The international price of corn, wheat and rice skyrocketed between January 2005 and the spring of 2008.[3] The export price of U.S. corn tripled from

$94 a metric tonne at the start of 2005 to $281 per tonne in May 2008. U.S. hard winter wheat prices more than tripled from $154 per metric tonne in January 2005 to $482 per tonne in February 2008. Thai broken rice prices also topped out in May at $397 per metric tonne, nearly tripling from a $143 per metric tonne in January 2005.

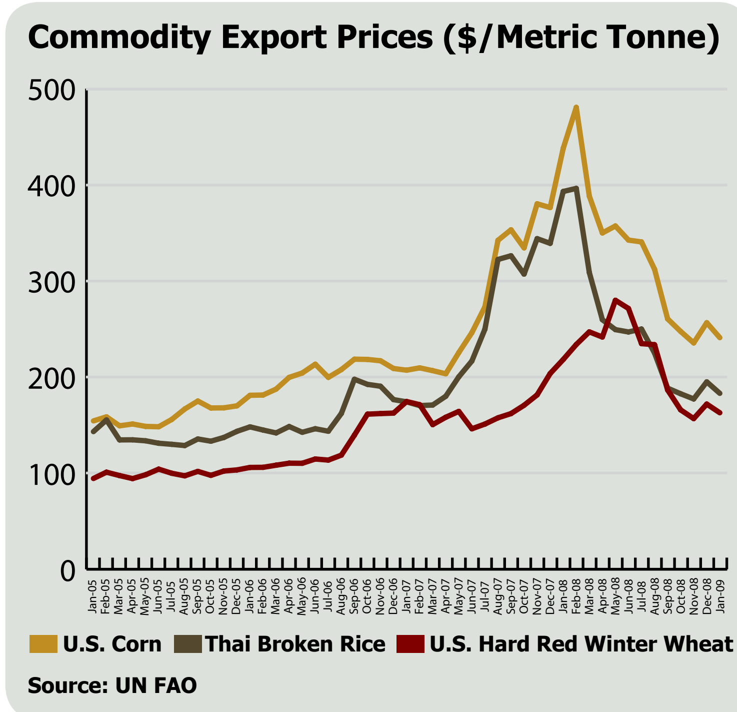
The 2008 food price increases closely followed record-breaking prices in the commodity futures markets. In February, wheat futures prices in the major Chicago commodity exchange reached a record $13 per bushel; in April, rice futures hit a record $24.46 per bushel; in June, Chicago corn futures rose to $7.625 per bushel; and in July, soybeans and oats hit a record $16.60 and $4.55 per bushel, respectively.[4] The 2008 price run-up was accompanied by price volatility on commodity markets that was higher than any time on record.[5] In early 2008, wheat and soybean volatility was triple the historical levels and corn price volatility was twice as high.[6]

These commodity market price increases did not stay confined to financial markets. Food processing companies, like breakfast cereal manufacturers, ended up competing against giant investment firms on inflated commodities auctions to buy corn and wheat contracts, which drove up grocery prices for consumers. Higher food prices in America hurt families struggling to make ends meet, especially during the economic crisis. U.S. grocery store food prices rose by 6.6 percent in 2008, the highest increase since 1980, and cereal and bakery prices rose by 11.7 percent.[7]

In the developing world, rising food prices can be calamitous because many families spend more than half their income on food; the poorest families spend nearly three quarters of their income on food.[8] According to the International Food Policy Research Institute, commodity speculation can fuel "unwanted price fluctuations that can harm the poor and result in long-term, irreversible nutritional damage, especially among children."[9] During 2008, the UN Food and Agriculture Organization estimated that the high price of food made an additional 130 million people worldwide malnourished.[10] Skyrocketing food prices fueled civil unrest and riots from Bolivia to Cameroon to Indonesia that threatened the stability of 33 countries.[11] In April 2008, the Haitian government collapsed after more than a week of rioting over high food prices.[12]

By late 2008, agricultural prices declined more suddenly than they had risen — but settled at higher levels than before the gambling began.[13] Even when global export prices began to moderate in late 2008, the prices for consumers in the developing world remained high or only moderated very slightly, while in many places retail prices continued to rise long after world export prices fell.[14]

The 2008 food price explosion created a humanitarian crisis in the developing world. The stark escalation in food prices arose from tight agricultural supplies and steadily rising demand for food and feed that became superheated with the addition of hundreds of billions of speculative dollars in commodity markets. Congress needs to act now to adopt common sense reforms needed to stop Wall Street from gambling on hunger.



Endnotes

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