Rising Food Costs

Residents of Mauritania, one of Africa’s poorest nations (and one of the last spots on Earth where chattel slavery is still practiced), are being forced to slaughter assets like milk-producing goats to feed their families one meager meal a day. Citizens of Haiti, the poorest country in the Western Hemisphere, recently rioted to protest stratospheric food prices, killing five people and forcing the resignation of Haiti’s prime minister. Some Haitians, according to recent reports by ABC News and other sources, are having to resort to eating dirt — literally. Facing 40-percent jumps in food prices, many of Haiti’s poorest, unable to afford grain and other staples, are surviving by eating cakes made from yellow clay.

Nor is this brand-new crisis, dubbed a “silent tsunami” by one UN official, confined to impoverished backwaters. Even residents of the United States are being affected by a global food crisis that has been gathering steam since 2007 and now threatens to spread famine across Africa and Asia, greatly reducing Americans’ dietary options in the bargain.

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In recent months, commodities prices worldwide have followed petroleum upward, making former staples like wheat and rice unaffordable in many parts of the so-called Third World and driving up prices on U.S. supermarket shelves at a rate not seen since the stagflationary ’70s. Since March of 2007, the price of eggs in the United States has risen an average of 35 percent. Milk is up 23 percent. A loaf of white bread costs 16 percent more than it did a year ago, and a pound of ground chuck eight percent. Unthinkable only a few months ago, some large stores — Sam’s Club, for example — have even imposed buying limits of certain commodities like sacks of rice, preventing major customers such as restaurant owners from buying to hoard.

In response to the staggering price surges, Americans are adjusting their lifestyles to exclude multiple shopping trips when a single visit to a Wal-mart or Aldi’s will do, clipping coupons like their frugal parents and grandparents, and buying brands on sale instead of personal preferences. These are sacrifices, to be sure, but insignificant beside the worries of the world’s poor. For Americans, who pay an average of about 10 percent of their wages on food, the crisis may impose inconveniences; for impoverished Africans and Asians, who spend as much as 70 percent of their income on food, the crisis could spell catastrophe.

In an age of global plenty, such disruptions of the food supply as we have seen in recent years have all been man made. Famines in Ethiopia and Somalia in the ’80s and ’90s prompted effusions of aid and charitable sentiments. But they were largely artificial. In the case of Ethiopia, the appalling (and now thankfully defunct) regime of Mengistu Haile Mariam embarked on a program of deliberate starvation in drought-afflicted areas of the country that were resisting his brutal regime. Aid shipments of food were prevented from being delivered, and consignments of commodities rotted in warehouses in Addis Ababa, the capital. A few years later, during the horrific, multi-sided civil war in Somalia following the breakup of the regime of dictator Siad Barre, food supplies were again disrupted at the point of a gun, and pictures of emaciated children with flyblown faces again filled the pages of *Newsweek*.

Nor is this a uniquely modern phenomenon. The great Ukrainian famine of the 1930s was contrived by Stalin against the Ukrainian kulaks, middle-class farmers resisting his regime. The famine in Bengal in 1943 was caused in large measure by British authorities exporting vast amounts of rice from India to feed Allied soldiers, driving up prices far beyond what ordinary Indians could afford. And so forth.

Not surprisingly, then, the latest food crisis has fingers pointed at allegedly greedy multinationals, at wicked commodities speculators, at heartless governments in wealthy countries unwilling to pony up requested amounts of foreign aid to mitigate the crisis, and at sundry other supposed villains.

Fueling Food Costs

Perhaps most conspicuous have been the accusations against ethanol producers. The diversion of vast acreages of corn to the production of ethanol rather than food has come suddenly under intense international scrutiny, and well it might. Ethanol, contrary to the pie-in-the-sky promises of the green lobby, has failed to deliver on any of its expectations, being at least as costly and environmentally destructive as coal and oil. Economist Walter Williams has termed the contrived hoopla over corn-derived fuel the "ethanol hoax," pointing out in a recent column that it takes more than one gallon of fossil fuel to produce a single gallon of ethanol. "Ethanol is 20-30% less efficient than gasoline," Dr. Williams noted, "making it more expensive per highway mile. It takes 450 pounds of corn to produce the ethanol to fill one SUV tank. That's enough corn to feed one person for a year."

The conversion of food into fuel for automobiles in wealthy countries, driven by the misguided politics of ethanol production, is nothing less than a moral outrage. "When millions of people are going hungry, it's a crime against humanity that food should be diverted to biofuels," raged an official from the Indian government to the *Wall Street Journal*.

But the production of ethanol, the instability in commodities markets, and the disruptions in the food supply are but symptoms of a deeper problem, the real culprit for food shortages and skyrocketing prices in a world of convenience and plenty: the financial and regulatory policies of big government, especially in the United States.

Since FDR's New Deal in the 1930s, when the U.S. government first decided to take control of the agricultural sector, the economics of food production in the United States — and every place that receives American agricultural products — have been severely distorted by systematic government intervention. When the Roosevelt administration moved to subsidize farming and imposed price controls and limits on the production of agricultural commodities, the consequences — as is always the case with the ineptitude of centrally planned economics — would have been laughable if they were not so needlessly tragic.

To maintain commodity prices at what the Roosevelt administration deemed optimal levels, vast amounts of grain were deliberately destroyed and livestock slaughtered, an appalling waste of food at a time when much of the world lived barely at a subsistence level. Although the Supreme Court declared Roosevelt's Agricultural Adjustment Administration (AAA) unconstitutional in 1936, noting correctly that "a statutory plan to regulate and control agricultural production, [is] a matter beyond the powers delegated to the federal government," the die was cast. The AAA was soon replaced with a similar program that a later court declined to invalidate, and agricultural subsidies and production controls, as well as the economic disruptions they create, have been with us ever since.

This has completely transformed the American farm sector. Subsidies and other government favors have tended to benefit large, wealthy farming operations at the expense of smaller family farms. As a result, family farms are disappearing across the heartland, replaced by vast agribusinesses that produce primarily corn and soybeans — much of which, as critics charge, is now being diverted to biofuel production at the behest of zealous environmentalists.

Subsidized corn production, in turn, has revolutionized beef production — and not for the better. Wrote Corby Kummer in the *Atlantic Monthly* in May 2003, "Eating corn is terrible for cattle, which are ruminants meant to chew grass. Corn leaves their digestive tracts susceptible to *E. coli* and other pathogenic bacteria. Almost all cattle raised for beef are force-fed corn (which costs less to buy than it does to grow, thanks to federal farm subsidies), and the resulting stress makes it necessary to keep them on high doses of antibiotics."

Today's corn-fed, feedlot-fattened cattle yield fatty, far less-healthy meat that the American public has come to prefer over the healthier, tangier, leaner beef once produced from grass-fed cattle (and still the norm in the Argentine pampas; this author never had tastier beef than during the year he spent in Argentina). According to Kummer in the same *Atlantic Monthly* article, "Grass feeding results in far lower levels of saturated fat and high levels of both omega-3 fatty acids (more commonly found in fish, and thought to help prevent heart disease) and the newest darling of the nutritional world — CLA (conjugated linoleic acid), polyunsaturated fat that may help prevent cancer. These benefits, and also higher levels of antioxidants, appear in all food from all animals that eat grass, milk and cheese as well as meat."

In other words, most corn grown in the American Midwest is fed to animals that do not need it rather than humans who do, thanks to not-so-benign government intervention in corn prices.

But government subsidies and other controls on agricultural markets are not the only problem. While distortions in food and commodities prices have been the norm for several generations, the ongoing food crisis is something more acute. Beginning last summer, the prices of grain began to rise, and the trend soon spread to other food commodities. Tellingly, investors looking for an alternative to real estate in light of the subprime meltdown plowed vast sums into grain futures, driving prices still higher. "We have never seen anything like this before," said Jeff Voge, chairman of the Kansas City Board of Trade, commenting to the *Washington Post* in April on the dizzying ascent of grain prices. "Prices are going up more in one day than they have during entire years in the past. But no matter the price, there always seems to be a buyer…. This isn't just any commodity. It is food, and people need to eat."

It is significant that the global food crisis is in fact a *price* crisis. "Few believe prices will go back to where they were in early 2006," the Washington Post opined, adding that "the world must cope with a new reality of more expensive food." This, in addition to other "new realities" that have hit home in recent months — for example, historically high prices at the gas pump — is evidence that the chief culprit is inflation, a phenomenon created by government operating in cahoots with central banks like the Federal Reserve.

Unfortunately, statistics involving inflationary price increases are made deliberately obscure by the Federal Reserve and the financial press. "Food inflation" is arbitrarily distinguished from "core price inflation" — the latter conveniently defined as price increases in consumer goods *except* for food and fuel — because food and fuel prices tend to be more volatile. Such artificial distinctions allow the government to understate or discount the effects of inflation altogether. Yet, if more honest ways of evaluating the consumer price index (CPI) were being used by government accountants, the overall rate of rising prices would be about 7.3 percent higher — or around 11 percent overall — than official figures now report, according to John Williams of Shadow Government Statistics, an Oakland-based research firm that challenges official government statistics involving prices, unemployment, and other areas where federal statisticians' books are routinely cooked. "I don't think the government numbers are too credible," Williams told the *San Diego Union-Tribune* recently. "When they say food inflation is moving up by 0.2 percent, that just doesn't match what we're seeing in the market. But even if inflation is as low as they are reporting, it's high enough to be terribly destructive to the economy."

Understanding Inflation

In spite of the mantle of mystery with which inflation is dressed by the popular media, its basic mechanism is not difficult to understand: when banks print money, prices go up. This is so because the more money that is in circulation, the less each unit of it will be worth with respect to the goods and services for which it is exchanged. If it were possible to magically create a million genuine Mickey Mantle rookie cards, the sudden surge in supply of a formerly scarce and highly valued article would cause its value to decline. Inflation — which is properly defined as the expansion of the money supply — causes the same thing to happen to money. Rising prices, therefore, are the *effect* of inflation, not inflation itself.

Unfortunately, inflation seldom manifests itself evenly or uniformly. Rather, prices tend to rise first wherever the money is first pumped into the economy. Because central banks and the commercial banks that follow their lead usually create new money by issuing loans, prices will tend to rise first for things that are purchased on credit. And what we have seen for the last couple of decades has been tremendous inflation in the value of assets and high-ticket items (real estate, stock prices, college tuition, and automobile prices among them), while the prices of consumer goods, including food and fuel, have grown at a comparatively benign pace.

But no more. All of a sudden, to the dismay of the would-be managers of the world's finances, prices for consumer products have begun to rocket upward at a pace not seen since the 1970s, when annual double-digit inflationary price increases were the norm. Core wholesale prices, for example, rose 0.4 percent in April alone — double the forecasts of the punditry — and core wholesale prices for finished goods have risen three percent in the last twelve months, the fastest rate in 16 years, according to the *Financial Times'* Chris Bryant. How far or how fast prices may continue to rise in the near future is anyone's guess.

The effects of inflation resemble ripples from a stone cast into a pond, with rising prices spreading across the economy until all goods and services are affected. The hallmark of inflation, therefore, is a general rise in all prices over time, some sooner and others later, but all of them inevitably. By contrast, prices in a non-inflationary free market — the likes of which our country has not seen since before the inception of the Federal Reserve in 1913 — will fluctuate naturally, with some rising temporarily while others fall.

Inflation has many baneful effects. It distorts economic judgment by creating a temporary boom in which borrowing and spending is rewarded over thrift and savings. It rewards some (the wealthy and well-connected, who get "first dibs" on newly created money) at the expense of others (all the rest, who suffer the effects of higher-priced consumer articles without benefiting from asset appreciation). It erodes the value of savings and wages, the latter of which are typically the last to be raised to accommodate inflation's "new reality."

To be sure, food prices may be disrupted by various causes, including war and crop failure. But what we are seeing now is a general rise in food prices (along with the prices of other commodities, such as gold), most likely triggered by the flight of inflationary money from its previous redoubts (like real estate) into commodities markets. While commodities traders have contributed to the crisis by bidding up the prices spectacularly, they have done so with money produced by government printing presses, courtesy of the Federal Reserve and other central banks around the world.

Convergence of Events

The world's food supply is thus facing a convergence of events as we near the end of a great inflationary cycle. The expanding economies of China, India, and other newly prosperous countries are driving demand — and prices — for food and energy skyward, even as oil supplies are jeopardized by war in Iraq and political instability in Venezuela and Nigeria. Agricultural prices already distorted by government subsidies, and grain supplies diverted into biofuel production and other extravagances, are all being made worse by the global supply of funny money sloshing through international commodities markets. All of these factors have a hand in the food crisis, but it is the inflationary policies of governments, especially our own, that must bear the lion's share of the blame.

For most of human history, food commodities and precious metals have determined the value of money, not the reverse. At the dawn of civilization, money originated as precious metals measured in units derived from the weight of various critical food sources. Gold and silver have been reckoned in *grains* because single grains of wheat and other cereals were used as a standard for weighing gold and silver in ancient Babylonia. Middle Eastern monetary units like the shekel and the talent were all standardized in this way. In very early Rome, cattle were used for money, according to Plutarch. Our word "pecuniary" comes from Latin "pecus," meaning "a head of cattle." In ancient India, meanwhile, precious metals were measured against the weight of masha beans and pulses. In effect, the value of money in the ancient world depended both on the weight of food commodities and the supply of precious metals. This continued to be the case until the demise of sound money in the 20th century, although the value of grains had come to be standardized in many parts of the world. That in our topsy-turvy era, the value of both food and precious metals should be held hostage by money itself is one of history's supreme, if less-appreciated, ironies.

The solution, unlikely to be embarked upon until the American public is better educated about the roles of the Department of Agriculture and the Federal Reserve, is to abolish federal agricultural subsidies and other restraints on the free market in food production, and to shut down the Federal Reserve itself. This would entail returning to a monetary system based on precious metals which, because of the scarcity of gold and silver, is inflation-proof (gold and silver cannot be printed at will, and their supply therefore cannot be artificially enlarged by the government).

In the nearer term, abolishing subsidies for ethanol production would free up needed acreage for food production. But such a step, though salubrious, would not go very far towards changing the root of the problem. That will come only when enough Americans are informed enough about Federal Government chicanery to make a lasting difference.

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