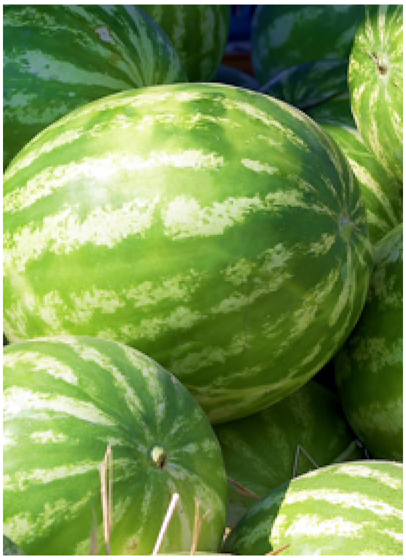
UN Seeking to Tax and Control Food Markets



The whole "study" reeks of arrogance and can hardly be considered objective. The authors, for example, consistently blast investors' "herd behavior," absurdly suggesting that wise global regulators would be able to make markets function more efficiently — if only international institutions had more power. The paper even refers to "tighter regulation of financial investors" and "broader international policy measures, including price stabilization schemes" as *needs*.

Produced by the UN Conference on Trade and Development (UNCTAD) with support from the Chamber of Workers Vienna, the study — entitled "Price Formation in Financialized Commodity Markets" — focuses specifically on oil, barley, cocoa, maize, sugar, and wheat. After some analysis, the paper begins by attacking the way commodities markets operate. It essentially claims that naïve and greedy "speculators" pursuing quick profits have produced a massive "bubble" in commodities — particularly food and oil — that must now be popped by government to save the poor.

Of course, most economists attribute rising commodity prices to wild money printing and inflation by central banks; uncertainty resulting from reckless fiscal and monetary policy; banking-cartel manipulation of markets; and a genuine increase in demand or decrease in supply. But the anti-capitalist UNCTAD disagrees, holding dysfunctional markets and a lack of regulation responsible instead.

"To restore the proper functioning of commodity markets, swift political action is required on a global scale," the report insists. And it has a whole host of ideas for what sort of global "action" it would like to see.

Among the proposals: "direct intervention into the physical or the financial market." The internationally supervised meddling would involve a "dual global institutional arrangement" enabling a so-called "global intelligence unit" to determine appropriate price levels.

If the bureaucrats deemed that prices did not accurately reflect fundamentals, regulators would intervene. "In financialized commodity markets, as in currency markets, intervention may even make it easier for market participants to recognize the fundamentals," the report alleges matter-of-factly, claiming that "it is possible for a central bank or another agency to engage in the financial markets as a market maker or as the one institution that is able to shock the market when it overshoots."

In addition to the direct government-mandated market distortions, the "study" also suggests — hiding behind the passive "has been proposed" — a progressive "multi-tier transaction tax," presumably paid to some international authority. The funds raised through the scheme could then be used to provide "aid" money for dictatorships around the world. "More official development assistance to agriculture in developing countries" is "certainly necessary," the report claims.

"Moreover, introducing a transactions tax system which [sic] could generally slow down financial market activities," the paper explains, apparently assuming that slowing down financial-market trading would be a good thing. The proposed tax could be progressively increased as prices rise, discouraging investors from buying — and thereby preventing price signals from playing their proper role in markets.

International regulatory "authorities" should also require more information about over-the-counter trades, the report claims. And banning some forms of proprietary trading while introducing "internationally coordinated" regulations and "position limits" in the markets would be a good idea, too, according to the authors.

"Tighter regulation of financial investors would facilitate intervention when irregularities are detected," the paper points out. "Similar regulations should be adopted in all commodity exchanges and countries in order to avoid regulatory migration." The report also claims that American regulation of major commodity exchanges is better than in Europe, "but it also needs to be tightened in both of them."

Most of the unidentified traders interviewed for the report apparently thought more regulation would be good, too. However, very little information is provided on the interviewees and how they were selected.

But while the UN report essentially treats "speculators" as pariahs to be scorned and regulated, the reality is that investors willing to assume risk — or speculate — provide a valuable function in a free market. As any number of economists can explain, so-called speculation actually increases market efficiency, provides liquidity, and helps producers and consumers determine appropriate prices and effectively gauge supply and demand.

Co-author of the study and UNCTAD director Heiner Flassbeck — a supporter of failed Keynesian economic theories — praised moves by the G-20 group of large nations' governments to tighten international regulation as a "good start." Of course, UNCTAD has also repeatedly issued reports attacking free markets, calling for a global fiat currency, and peddling discredited theories about man-made global warming, too.

The global body's most recent report is getting a lot of attention in the media despite UNCTAD's history of extremist propositions. But free-market economists with far better track records for accurate analyses and predictions have other suggestions. Sound money, genuine free trade, and limited government would be a far better solution.