

## 6. Food Security and the Economic Crisis

*Lucien Bourgeois, economist*

### **Summary**

It was thought that another crisis like the 1929 Crash was impossible because we had immeasurably more effective means to counter the risks. And yet, the crisis did indeed happen. Its magnitude and the loss of confidence that it generated were a surprise. Only governments' actions were able to restore confidence: in this way, we rediscovered the collective essence of money!

The risks have not been removed—as we can see with the Greek crisis, which illustrates Europe's economic policy coordination flaws. The current skyrocketing of cereal prices—which illustrates the dangers of unregulated trade globalization—will certainly have a strong impact on future agriculture policies.

### **The Market Has Not Been a Good Indicator for Non-Renewable Goods**

The 2002 reversal in oil prices only became obvious in 2004. Other industrial commodities followed the trend.

The principal explanation given—increased demand from emerging countries—is not satisfactory. Indeed, this growing demand was not new. In reality, since the 1980s, oil companies have not, due to the drop in petrol prices after the spike in 1980, had an incentive to increase their supply rapidly. Thus, for nearly twenty years, oil was three to four times less expensive than in 1980. This also did not encourage fossil energy savings or the development of substitute energies. After the 2007-2008 shock, limits were again discussed. But, because of the drop in prices, one can readily fear that there has not been any lasting changes in oil and mining companies' investment plans. There will therefore be other crises if we continue to rely on the market alone, as it is not able to give clear signals to enable the long-term adaptation of supply to demand.

The rise in oil prices also showed the dependency of industrialized countries' agricultural production, and the dangers of using agricultural products to generate energy. Indeed, rising oil prices pull up the prices of food products. We saw this in 2006 in the United States with the program to produce corn ethanol.

### **Only the United States Have Been Able to Restore Confidence**

A manifestation of the imbalances in the global economy (excessive household debt destined to increase consumption in a context of stagnating salaries), the 2008 financial crisis was the decisive element in the contextual change. After the collapse following the American government's refusal to support the Lehman Brothers bank, only government

refinancing of banks was able to restore a degree of confidence in the system and avoid disaster.

The consequence was a very rapid increase in government debt, sometimes leading to no revival of growth and to drastic drops in standards of living.

But, beyond patching the holes, the causes of the problems were not really addressed: no suppression of fiscal paradises, no measures to limit or tax the circulation of capital, nor even any separation of business banks from deposit banks.

### **The Economic Crisis Is Not Over**

After 2009, and under the impetus of emerging countries such as China and India, global growth became positive again. But the previous imbalances have not been corrected, notably America's trade deficit with China. This deficit has not resulted in a depreciation of the dollar and an appreciation of the yuan because of China's massive purchasing of American treasury bonds. The only true variable in currency adjustment has long been the value of the euro, which was revalued by 80% between the start of the 2000s and 2008, threatening European exports (with the exception of Germany). The divergent situations among European countries generates doubts as to the durability of the euro and the recovery of lasting growth in the EU.

### **A WTO Agreement Would Threaten World Food Security**

The WTO negotiations failed in 2008, under the pressure from an "objective" alliance of India and the United States, the two countries that most saw their food security as an inescapable element of national independence. In this context, it is not very plausible to pretend to deregulate agricultural trade as one would any other product.

In reality, the negotiations were tested by the crisis. The discussions on agricultural trade—the outcome of which could have been very dangerous for world food security—were a pretext in part. Indeed, all the countries feared, in reality, Chinese industry and no one trusted the dollar, the main currency used in international trade.

### **The Crisis Turned a Spotlight on the Scope of Wealthy Countries' Agricultural Aid**

The crisis upset the context for agricultural policy in wealthy countries. After the Berlin Wall fell, the EU gave up on adopting a food security policy. It returned to its colonial habits in a world that had once again become a "natural space" and undertook an "honorable withdrawal" from agriculture. As part of a strategic alliance with the United States, it made the rest of the world accept its direct aid by placing it in a "Blue Box" and then a "Green Box" (single payment entitlement or SPE, under agro-environmental conditions, "decoupled" from agricultural production itself). The crisis reveals the inoperative nature of this strategy, which furthermore cannot be generalized to the other countries of the world.

### **Decoupled Aid Does Not Improve Agricultural Income Security in Wealthy Countries**

In this way, SPEs turn out to be unjustifiable when prices are high and insufficient when prices are low. Calculated in function of the historic rights of each farmer and little capped, they seem unfair because linked to heritage. Like any land rent, they will progressively be integrated in the price of agricultural land. In regard to other countries, decoupled aid appears to be agricultural potential aid, and therefore export aid. In the context of growing public debt, it is becoming increasingly difficult to justify such forms of aid!

### **The Crisis Calls into Question the “Inevitable” Drop in the Number of Farms**

For fifty years, agricultural policies have been built on the principle that the number of farmers will inevitably drop. The aim is to foster capitalization and an increase in farm size to make farms more competitive with other large exporting countries. However, at a time when unemployment is rising, it is appropriate to question this dogma. Indeed, unlike industry, there are few economies of scale available in farming, particularly if one does not take aid into account. If one also includes the problem of the inter-generational transmission of capital, increasing farm size loses much of its interest. Should public funds be used to finance the restructuring of agriculture and support the job seekers thus created?

### **Price Volatility Lowers the Effectiveness of Agrifood Commodity Chains**

The sharp spike in prices in 2006-2008 revealed the inflationary effect for consumers of agricultural price instability. Indeed, when prices rise sharply, commodity chain organization is disturbed and some operators' margins are compressed because they are unable to pass on the higher prices to consumers. But this then causes them to react to “catch up” and insure themselves against price volatility risks.

### **The Poorest Segments' Food Is Threatened**

One specificity of agrifood products compared to other products is the urgency of the purchase act: even if prices rise suddenly, consumers cannot delay their purchases for several months. However, the poorest consumers may be excluded. This is why agricultural policies aim to lower prices for consumers, mainly for the calories that fill stomachs least expensively (bread, milk, meat).

The EU had long constituted buffer stocks. They notably made it possible to inexpensively supply institutions that provided free food to the poorest. When Europe's stock policies were called into question, prices rose sharply for these institutions.

### **The Energy Crisis and Agricultural Product Crisis Were Not the Cause but Rather the Consequence of the Economic Crisis**

It will be impossible to find solutions to the crisis until the crisis has been analyzed.

Certain “Malthusian” theories have attributed the 2006-2008 crisis to the insufficiency of oil resources, agricultural production or other physical factors. In reality, the energy crisis and agricultural product crisis were not the cause but rather the consequence of the economic crisis. And this economic crisis is the consequence of a lack of global governance to accompany the rapid development of international trade.

The emergence of China as a powerhouse was predictable: annual growth in China has oscillated between 8% and 10% for thirty years! No market mechanism corrected the trade imbalances (American deficit and Chinese surplus) because a degree of parity was maintained between the yuan and the dollar. The 2008 financial crisis revealed the dangers of globalization without regulatory mechanisms. Markets cannot be expanded without also expanding the power of the authorities in charge of enforcing the rules of the game.

### **A Crisis Triggered by Wealthy Countries that Is Costly for Poor Countries**

The sharp price hike in 2006-2008 was caused less by a change in food supply and demand than by insufficient stock levels when a new demand for agrofuels emerged.

Thus, faced with the need to cut their budgets and in a context where they felt that Brazil could “feed the world,” the EU and the United States did not feel it was necessary to finance stocks. They therefore fell to a level insufficient to prevent speculation. Simultaneously, the United States decided to show the rest of the world that it had the means to create a substitute for oil using corn. In the space of a few months, ethanol production was launched and rapidly absorbed 100 million tons.

In this way, the food crisis was largely the result of decisions by wealthy countries that had nothing to do with food.

But these decisions had many unfortunate consequences on food for the poorest people, notably in the poorest countries that had become accustomed to feeding their urban populations with inexpensive imports rather than developing domestic agricultural production. This is one of the particularities of agricultural markets: a small drop in supply generates a proportionally larger increase in prices. And the number of people who can no longer feed themselves increases rapidly. Riots spread, and led the governments of poor countries to subsidize food purchases. In this way, wealthy countries’ savings force poor countries to spend more. Simultaneously, food consumption aid for the poorest has skyrocketed in the United States. Should we not conduct an overall assessment, covering all countries and all budgets, before making decisions?

### **History Has Taught Us to Resolve Certain Problems**

The recent accentuation of price volatility has revealed its dangers for social cohesion as well as for modernized farms and agricultural product processors.

Yet, since the 1929 Crash, we have learned that there are ways to counter these harmful price changes and that doing so does not involve suppressing governments' means of action. It is necessary to have, first, a precise vision of the goal to attain before defining the means to attain this goal.

The world is therefore not done with its food security. It has been a concern for centuries, and we have known for as long that it is a tricky and complicated subject. Liberal solutions can be useful in some cases by giving economic actors greater accountability. But this supposes that one does not imagine that "letting things happen" is enough. For agricultural product markets to be efficient, there needs to be a political organization that does not allow just anything to be done. The recent crisis has shown us that the equilibriums are fragile and when they are upset, the poorest are always the ones who suffer first.