

# The New Economics of Hunger

A brutal convergence of events has hit an unprepared global market, and grain prices are sky high. The world's poor suffer most.

By Anthony Faiola - Washington Post Staff Writer - Sunday, April 27, 2008; A01

The globe's worst food crisis in a generation emerged as a blip on the big boards and computer screens of America's great grain exchanges. At first, it seemed like little more than a bout of bad weather.

In Chicago, Minneapolis and Kansas City, traders watched from the pits early last summer as wheat prices spiked amid mediocre harvests in the United States and Europe and signs of prolonged drought in Australia. But within a few weeks, the traders discerned an ominous snowball effect -- one that would eventually bring down a prime minister in Haiti, make more children in Mauritania go to bed hungry, even cause American executives at [Sam's Club](#) to restrict sales of large bags of rice.

As prices rose, major grain producers including Argentina and Ukraine, battling inflation caused in part by soaring oil bills, were moving to bar exports on a range of crops to control costs at home. It meant less supply on world markets even as global demand entered a fundamentally new phase. Already, corn prices had been climbing for months on the back of booming government-subsidized ethanol programs. Soybeans were facing pressure from surging demand in [China](#). But as supplies in the pipelines of global trade shrank, prices for corn, soybeans, wheat, oats, rice and other grains began shooting through the roof.

At the same time, food was becoming the new gold. Investors fleeing [Wall Street](#)'s mortgage-related strife plowed hundreds of millions of dollars into grain futures, driving prices up even more. By Christmas, a global panic was building. With fewer places to turn, and tempted by the weaker dollar, nations staged a run on the American wheat harvest.

Foreign buyers, who typically seek to purchase one or two months' supply of wheat at a time, suddenly began to stockpile. They put in orders on U.S. grain exchanges two to three times larger than normal as food riots began to erupt worldwide. This led major domestic U.S. mills to jump into the fray with their own massive orders, fearing that there would soon be no wheat left at any price.

"[Japan](#), the Philippines, [[South](#)] [Korea](#), Taiwan -- they all came in with huge orders, and no matter how high prices go, they keep on buying," said Jeff Voge, chairman of the Kansas City Board of Trade and also an independent trader. Grains have surged so high, he said, that some traders are walking off the floor for weeks at a time, unable to handle the stress.

"We have never seen anything like this before," Voge said. "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."

## **Beyond Hunger**

The food price shock now roiling world markets is destabilizing governments, igniting street riots and threatening to send a new wave of hunger rippling through the world's poorest nations. It is outpacing even the Soviet grain emergency of 1972-75, when world food prices rose 78 percent. By comparison, from the beginning of 2005 to early 2008, prices leapt 80 percent, according to the [United Nations' Food and Agriculture Organization](#). Much of the increase is being absorbed by middle men -- distributors, processors, even governments -- but consumers worldwide are still feeling the pinch.

The convergence of events has thrown world food supply and demand out of whack and snowballed into civil turmoil. After hungry mobs and violent riots beset Port-au-Prince, Haitian Prime Minister Jacques-Édouard Alexis was forced to step down this month. At least 14 countries have been racked by food-related violence. In Malaysia, Prime Minister [Abdullah Ahmad Badawi](#) is struggling for political survival after a March rebuke from voters furious over food prices. In Bangladesh, more than 20,000 factory workers protesting food prices rampaged through the streets two weeks ago, injuring at least 50 people.

To quell unrest, countries including Indonesia are digging deep to boost food subsidies. The [U.N. World Food Program](#) has warned of an alarming surge in hunger in areas as far-flung as [North Korea](#) and West Africa. The crisis, it fears, will plunge more than 100 million of the world's poorest people deeper into poverty, forced to spend more and more of their income on skyrocketing food bills.

"This crisis could result in a cascade of others . . . and become a multidimensional problem affecting economic growth, social progress and even political security around the world," U.N. Secretary General [Ban Ki-moon](#) said.

## **The New Normal**

Prices for some crops -- such as wheat -- have already begun to descend off their highs. As farmers rush to plant more wheat now that profit prospects have climbed, analysts predict that prices may come down as much as 30 percent in the coming months. But that would still leave a year-over-year price hike of 45 percent. Few believe prices will go back to where they were in early 2006, suggesting that the world must cope with a new reality of more expensive food.

People worldwide are coping in different ways. For the 1 billion living on less than a dollar a day, it is a matter of survival. In a mud hut on the Sahara's edge, Manthita Sou, a 43-year-old widow in the Mauritanian desert village of Maghleg, is confronting wheat prices that are up 67 percent on local markets in the past year. Her solution: stop eating bread. Instead, she has downgraded to cheaper foods, such as sorghum, a dark grain widely consumed by the world's poorest people. But sorghum has jumped 20 percent in the past 12 months. Living on the 50 cents a day she earns weaving textiles to support a family of three, her answer has been to cut out breakfast, drink tea for lunch and ration a small serving of soupy sorghum meal for family dinners. "I don't know how long we can survive like this," she said.

Countries that have driven food demand in recent years are now grappling with the cost of their own success -- rising prices. Although [China](#) has tried to calm its people by announcing reserve grain holdings of 30 to 40 percent of annual production, a number that had been a state secret, anxiety is still running high. In the southern province of Guangdong, there are reports of grain hoarding; and in Hong Kong, consumers have stripped store shelves of bags of rice.

Liu Yinhua, a retired factory worker who lives in the port city of Ningbo on [China's](#) east coast, said her family of three still eats the same things, including pork ribs, fish and vegetables. But they are eating less of it.

"Almost everything is more expensive now, even normal green vegetables," said Liu, 53. "The level of our quality of life is definitely reduced."

In [India](#), the government recently scrapped all import duties on cooking oils and banned exports of non-basmati rice. As in many parts of the developing world, the impact in [India](#) is being felt the most among the urban poor who have fled rural life to live in teeming slums. At a dusty and nearly empty market in one New Delhi neighborhood this week, shopkeeper Manjeet Singh, 52, said people at the market have started hoarding because of fear that rice and oil will run out.

"If one doesn't have enough to fill one's own stomach, then what's the use of an economic boom in exports?" he said, looking sluggish in the scorching afternoon sun. He said his customers were asking for cheaper goods, like groundnut oil instead of soybean oil.

Even wealthy nations are being forced to adjust to a new normal. In [Japan](#), a country with a distinct cultural aversion to cheaper, genetically modified grains, manufacturers are risking public backlash by importing them for use in processed foods for the first time. Inflation in the 15-country zone that uses the euro -- which includes [France](#), [Germany](#), Spain and Italy -- hit 3.6 percent in March, the highest rate since the currency was adopted almost a decade ago and well above the [European Central Bank's](#) target of 2.0 percent. Food and oil prices were mostly to blame.

In the United States, experts say consumers are scaling down on quality and scaling up on quantity if it means a better unit price. In the meat aisles of major grocery stores, said Phil Lempert, a supermarket analyst, steaks are giving way to chopped beef and people used to buying fresh blueberries are moving to frozen. Some are even trying to grow their own vegetables.

"A bigger pinch than ever before," said Pat Carroll, a retiree in Congress Heights. "I don't ever remember paying \$3 for a loaf of bread."

### **III-Equipped Markets**

The root cause of price surges varies from crop to crop. But the crisis is being driven in part by an unprecedented linkage of the food chain.

A big reason for higher wheat prices, for instance, is the multiyear drought in Australia, something that scientists say may become persistent because of global warming. But wheat prices are also rising because U.S. farmers have been planting less of it, or moving wheat to less fertile ground. That is partly because they are planting more corn to capitalize on the biofuel frenzy.

This year, at least a fifth and perhaps a quarter of the U.S. corn crop will be fed to ethanol plants. As food and fuel fuse, it has presented a boon to American farmers after years of stable prices. But it has also helped spark the broader food-price shock.

"If you didn't have ethanol, you would not have the prices we have today," said Bruce Babcock, a professor of economics and the director of the Center for Agricultural and Rural Development at [Iowa State University](#). "It doesn't mean it's the sole driver. Prices would be higher than we saw earlier in this decade because world grain supplies are tighter now than earlier in the decade. But we've introduced a new demand into the market."

In fact, many economists now say food prices should have climbed much higher much earlier.

After the fall of the [Berlin Wall](#), the world seemed to shrink with rapidly opening markets, surging trade and improved communication and transportation technology. Given new market efficiencies and the wide availability of relatively cheap food, the once-common practice of hoarding grains to protect against the kind of shortfall the world is seeing now seemed more and more archaic. Global grain reserves plunged.

Yet there was one big problem. The global food trade never became the kind of well-honed machine that has made the price of manufactured goods such as personal computers and flat-screen TVs increasingly similar worldwide. With food, significant subsidies and other barriers meant to protect farmers --

particularly in Europe, the United States and [Japan](#) -- have distorted the real price of food globally, economists say, preventing the market from normal price adjustments as global demand has climbed.

If market forces had played a larger role in food trade, some now argue, the world would have had more time to adjust to more gradually rising prices.

"The international food trade didn't undergo the same kind of liberalization as other trade," said Richard Feltes, senior vice president of MF Global, a futures brokerage. "We can see now that the world has largely failed in its attempt to create an integrated food market."

In recent years, there has been a great push to liberalize food markets worldwide -- part of what is known as the "Doha round" of world trade talks -- but resistance has come from both the developed and developing worlds. Perhaps more than any other sector, nations have a visceral desire to protect their farmers, and thusly, their food supply. The current food crisis is causing advocates on both sides to dig in.

Consider, for instance, the French.

The [European Union](#) doles out about \$41 billion a year in agriculture subsidies, with [France](#) getting the biggest share, about \$8.2 billion. The 27-nation bloc also has set a target for biofuels to supply 10 percent of transportation fuel needs by 2020 to combat global warming.

The French, whose farmers over the years have become addicted to generous government handouts, argue that agriculture subsidies must be continued and even increased in order to encourage more food production, especially with looming shortages.

Last week, French Agriculture Minister Michel Barnier warned E.U. officials against "too much trust in the free market."

"We must not leave the vital issue of feeding people," he said, "to the mercy of market laws and international speculation."