The Global Food Crisis and What Has Capitalism to Do With It?\(^1\)

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In April 2008 Josette Sheeran, executive director of the UN World Food Program spoke publically of a silent tsunami “that threatens to plunge more than 100 million people on every continent into hunger....This is the new face of hunger—the millions of people who were not in the urgent hunger category six months ago but now are.” The price of staple grains, rice and maize which are the main sustenance of poor people, accounting for 63 percent of caloric intake in low income Asian countries, half of all calories in sub-Saharan Africa and only somewhat less in Latin America. In a large number of these poor countries, where people subsist on less than 2,200 calories a day, food imports account for a large part of their food and so higher prices and less food aid means starvation. While in the U.S. shoppers noticed the increases Americans in 2005 spent less than a seventh of their incomes on food (down from a quarter of average income in the 1960s, including food eaten out), this was not so terrible. In poor countries however food accounts for over half of the consumer price index and in places like Bangladesh and Nigeria, over two-thirds.

In the first part of 2008 the president of the World Bank, Robert Zoellick warned that there were at least 33 countries which were at risk of social unrest due to rising food prices since there was no margin for survival as prices rose for so many of the

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poor. His warnings grew more insistent within the next few months as we shall have occasion to note below. Stepping back from the immediacy of the disastrous impacts of higher food prices and even from the immediate causes of the crisis this essay discusses the structural issues of an industry built on profit maximization, like other sectors of a capitalist economy, considering the unique aspects of agribusiness in a global political economy, the role of the power exercised by huge transnationals and the states which support their interests. A look at the causes of this crisis and the purported solutions has much to tell us about what is wrong with the hegemonic development model of recent decades.

Let us start with some rather obvious and perhaps less obvious observations. First, as just noted and ever the starting point for such discussions, agribusiness globally is organized to maximize profit and there is no profit in providing food to hungry people unless someone else pays you to do that. The rich are generally not interested in giving their money to help others unless there are reasons they believe to some extent they must. We shall see there are such reasons in the current situation but that such aid is begrudgingly given and inadequate. But secondly, they do have an incentive to take land which has fed poor people and put it into producing export crops to sell to richer people in the global North and the middle class in so-called emerging markets. Indeed we are likely to witness a significant expansion in large agribusiness production outside of the traditional core controlled by these same firms. Thirdly, it is in the interest of agribusiness transnationals to minimize competition from other producers including farmers in poor countries who have little economic and political clout. They prevail on
their governments to set up rules and procedures which favor themselves at the expense of the majority of the world’s population which strives to make a living producing food. Fourth, there has been an industrialization of food production which has created a commodity consumption pattern which is not healthy. Manufactured food is poor in nutritional value and harmful to personal health of consumers in rich as well as poor countries. This is a theme I shall not explore further.

Globally food is a far more concentrated sector than one might think. A small number of huge transnationals dominate each stage of the industry including food retailers like Wal-Mart, Ahold (the Dutch firm which in the United States owns Giant Supermarkets, Stop & Shop and others), the French giant Carrefour which operates in Europe, Brazil, Argentina, South America, North Africa and Asia and the UK’s Tesco and Germany’s Metro Group which are similarly global. The largest five US food retailers had 24 percent of the market in 1997, 46 percent in 2004 and likely over half the market today. Within country retail concentration is far higher in Europe and the top grocery retailers globally are concentrating distribution on a planetary basis. Among the oligopolistic food manufacturers are Nestle, maker of Shredded Wheat, Taster’s Choice (in Argentina its coffee brand is Ecco, In Uruguay, El Chana, in Greece Loumidis and so on around the world), Deer Park Water and Pelagrino as well as many other water brands in numerous other places, Lean Cuisine, Haagen Dazs, Shredded Wheat, Jenny Craig, the long list goes on as it does for other transnational food giants like Unilever. Even companies we think of as one-trick ponies like PepsiCo turn out to own many other familiar brands as in Pepsico’s fast food stable of KFC, Taco Bell, and Pizza Hut.
Moving along the supply chain to the processors who buy and process farm output and livestock we find the giants Cargill, Archer Daniels Midland, Tyson and the seed and chemical companies which dominate pesticide and fertilizers sales – Monsanto, Dow, DuPont. Consider Cargill. It is the largest privately held company in the U.S. and the third largest food company in both Europe and the States as well as the largest in South America and Asia with net earnings in the billions of dollars, the world’s largest grain dealer and handles about 40 percent of US corn exports. More than 80 percent of the corn exported from the United States is handled by three firms and two-thirds of soy beans is handled by the same three firms. In 1990 the largest four beef packers (Tyson, Cargill, Swift and National Beef Packing) had among them 72 percent of daily slaughtering capacity. In 2005 83.5 percent. In July 2008 the Brazilian beef packer JBS Swift awaited US Department of Justice permission to buy National Beef Packing and Smithfield Foods beef operations. This would reduce the big four in this market to a bigger three with over 80 percent market share of steer/heifer slaughter. Bill Bullard of a Montana cattlemen’s group speaking before the Senate Subcommittee on Antitrust, Competition Policy and Consumer Rights told the legislators such an outcome would all but end competitive beef buying in America since coordination of the price paid to the cattlemen would be even easier for the oligopsonists and the price spread between what the cattlemen received and the consumer paid for beef in the supermarket would grow.¹ Pork packing concentration with three of the same firms in the top four had 34 percent of daily capacity in 1989 but 64 percent in 2005.² These giants have numerous strategic alliances among themselves which increases their market power further (the
spread between producer and retail prices grew from 50 cents a pound in 1980 to over two dollars in 2007 (http://www.foodcircles.missouri.edu/novartis.pdf).³

Large corporations such as ADM can leverage their position of power in a market to exert pressure on smaller firms to sell on favorable terms. It can offer its distribution system or its capacity to make patents or other resources available to enter partnerships with producers in more competitive market segments helping them grow in exchange for a significant share of revenues which might not be accessible to the giant otherwise. The strategic partnership between ADM and Novartis is the sort of strategic partnership we see between large firms in related market segments when cross over potential is possible, building from the individual strengths of the firms to enter new markets with major growth potential, in this case genetically modified crops. Genetically modified seed have aroused concern as to their possible long term health effects, impact on plant diversity, and the cost of the agricultural model on which they are premised. But genetic modification is also part of a strategy of claiming more of the growers' value added in exchange for a seed variety that has some advantages to the farmer.

Traditional seed not only produce crops but more seed of the same variety which can be used. The seed companies work hard to prevent farmers from reproducing seed to plant the following year. The answer they came up with; hybrid seed, cross inbred lines produce hybrid plants which do not reproduce the same hybrid. The second generation loses yield and is more variable so the farmer needs to purchase new seed each year. This strategy does not work for all crops and hybrid seed is not always
better. The uproar, which seed genetically modified to produce a crop but not germinate caused when it became known, conveys something of the companies’ intent. Bioengineered seed contain traceable DNA which allows determination of the origin of a crop and allows the standard contract in which the farmer signs away all property rights to the next generation seed to be enforced. Once farmers go down this road turning back is difficult.

Seed standardization can be a serious issue in developing countries where it can involve selling inputs suited to industrial agriculture which are often inappropriate to small scale producers. For example seed companies’ standardized, well advertised and aggressively distributed products are often not as effective as traditional seed varieties, which are often cheaper and more tolerant of local conditions, but are none the less pushed on farmers. Oxfam has held seed fairs in poor countries and offered consultation with women’s groups (women are a majority of the farmers in most countries in the world) and other farmers’ groups and civil society organizations. On a large scale such programs could make a big difference – although they might be considered “unfair competition” under existing trade regime rules. Meanwhile there was real unfair competition in a host of restrictions rich countries put on the products of poor ones.

This brings us to actual farming, the essential base on which the huge superstructure of transnational agro-industry is built and the treatment received by farmers in the core countries and the policies of their home governments internationally to constrain agriculture in the global South. The traditional core-periphery differentiation
is preserved by a number of policies. The most obvious is the use of tariffs applied to agriculture, food processing and fishing when the global South is able to compete effectively with core producers. Some of these protective tariffs go to over a hundred percent and cover products as varied as chocolate, meat and milk. Developing countries have long faced tariff escalation. For example, coffee which is not produced in the North is readily admitted but coffee in cans ready to be sold in supermarkets face high tariffs to protect Northern-based producers who command serious political clout with their governments (40 percent of coffee is traded by just four companies and 45 percent roasted by only three companies). Coffee prices, like most agricultural commodities are quite volatile and when new supplies come into the market, older producers face severe price declines, devastating to small producers. The amount of the supermarket price which goes to the countries is a small part of the final price. This is the case for most agricultural commodities. For example in the instance of bananas the producer countries receive 12 percent and plantation workers only 2 percent of the retail price.

Indeed these rural wage workers tend to get forgotten in the discussion of food as do the landless of the global South who sell their labor power as best they can in a labor surplus environment and desperately want their own land. In Brazil for example, despite generations of politicians promising land reform 1.6 percent of the land owners control close to half of the arable land (46.8 percent). Three percent own two-thirds. In this reality the Landless Peasants Movement (known by its Portuguese acronym as the MST) peacefully occupies unused land and establishes cooperative farms. It has won titles for over a third of a million families. Indeed there is a worldwide movement for a
different kind of agriculture from the corporate model\textsuperscript{6} suggesting a two front conflict between peasant agriculture and agribusiness, between the small scale producer and the giant transnational food manufacturers and between the governments of the South and the North.

To be shipped by the huge corporate middlemen, agricultural commodities need to be standardized and produced in volume. This favors large scale producers in both the global South and North. The push to specialize in a few export crops squeezes small growers who do not have the capital. The pattern of extreme specialization results in the importation of cheap, subsidized food staples which has catastrophic impacts on local food producers exacerbating rural poverty and inequality and increases the need for foreign aid. However such assistance is far from adequate. In money terms it is a small fraction of the agricultural support rich country governments give their agribusiness corporations to produce the food which is dumped on the markets of poor countries.

Rich countries however protect their agriculture from more efficient producers in the global South even as they offer charity to offset some of the damage their policies impose. For example, the U.S. does provide aid to sub-Saharan Africa but gives three times as much to its domestic cotton producers, about 10,000 of them, mostly large businesses. This lowers the global price of cotton undercutting the incomes of ten million more efficient West African cotton farmers. It is the U.S. producers who cannot compete without these enormous subsidies in global cotton markets. Such contradictory policies occur because of competing interests and the reality of a sharp division as to
where discussions of global problems are held. With regard to food, in one set of venues, the United Nations and international fora sponsored by agencies of the UN system, there is agreement that the right to food is inalienable since food is essential to life. There is agreement that all people at all times should have access to sufficient, nutritious food to maintain health and activity. These are venues of exhortation, of good will where expressions of high minded solidarity are expressed in resolutions and agendas for change. Parallel to such fora are the far more powerful global state governance institutions with their coercive capacities such as the International Monetary Fund and the World Trade Organization which set and enforce requirements on weaker countries to conform to the neoliberal agenda of a smaller public realm and privatization of state functions. The former venues respond to the pain of the powerless. The latter assert the commands of the powerful.

In terms of agriculture, in the first set of discussions food security and the livelihood of the majority of humanity which lives on the land are uppermost concerns. In the second market efficiency reigns and subsistence farming is declared inefficient, subsidies for seed, fertilizer, irrigation and marketing condemned and the free market offered as the provider of needed inputs and purchase of the output of the poorest farmers. Human development is the concern of the first set of discussions. In the second it is either ignored or presumed to follow, as the night does the day, from adoption of market solutions.

While agriculture was formally part of the General Agreement on Tariffs and Trade in 1947, in the 1950s the United States won protection for its agricultural
producers in a waiver from GATT obligations. The EU countries also benefitted. They were able to expand a system of unlimited production without limit on the subsidies which were provided. In the new century there was the first serious effort at reforming the gross injustices of an agricultural regime which favored the rich countries to the detriment of the global South. Agriculture, which employs 70 percent of the people in the poor counties (versus 4 percent in the rich ones) is unable to feed the people and as the price of food has dramatically risen imports become unaffordable as well. Having been forced to dismantle marketing boards and defund programs for rural development by the neoliberal commands of the global state governance institutions, ending programs which had guaranteed the purchase price to local commodity producers and extending credit for inputs which were sold by government agencies at reasonable cost to low income farmers, the expectation that the free market would place “inefficient government interference” were frustrated. It did not happen. As in other areas such as the provision of water to poor people there was simply no incentive for private enterprise to serve people who could not afford to pay market prices. The rich countries continue to provide over a billion dollars a day in domestic subsidies. The total farm aid to farmers in developing countries by these governments is 3 percent of the direct payments to their own farmers. The shift from small scale farming to produce for local markets to export oriented agriculture favored those with the capital to engage in such an alternative. Plantation agriculture however did not create enough jobs to meet the need of displaced local producers and a significant portion of agribusiness profits flow abroad. “Efficiency” in a labor surplus economy leaves more people worse off. In
Mexico after NAFTA for example more than a million farmers lost their livelihood as the country became a net importer of maize.

A global perspective would question other subsidies which allow food to be transported great distances. It would question the cost in non replenishable fossil fuel and calculate the costs of global warming being paid in lost agricultural production from flooding and drought. It would tally the cost to millions of Africans from climate change related to water shortages and effects on food security. In some parts of Africa by 2020 it is predicted that crop yields for rain fed agriculture could decrease by 50 percent as a result of climate change. The legacy of now rich country past contribution to climate change makes a mockery of calls for China and India to reduce their carbon footprint along with the rich countries. It is like after a lavish banquet being invited in for the coffee and dessert and then being told you must pay your share of the bill for the entire meal, as one diplomat put the matter. In 2004 the G8 countries with 13 percent of the world’s population were responsible for 40 percent of world carbon dioxide emissions. If rich countries were to contribute to the cost of dealing with the damage they have done in line with their responsibility for emissions and their capacity to assist the US and the EU would provide over 75 percent of the cost to developing countries for dealing with the financial costs of coping with global warming estimated by the UN at $67 billion a year.\(^7\)

Other policies of the rich countries such as subsidizing biofuels may account for as much as 75 percent of food price increases according to a suppressed (and leaked) World Bank study. The Bush administration’s public figure was that ethanol had increased food prices by 3 percent. Most evaluations were however closer to Lester
Brown’s, “We are witnessing the beginning of one of the great tragedies of history. The United States, in a misguided effort to reduce its oil insecurity by converting grain into fuel for cars, is generating global food insecurity on a scale never seen before.”

The US 2007 Energy Bill mandated a five-fold increase in biofuel production by 2022 (which would then require setting aside as much as half the corn crop to this purpose). Ethanol production seemed a better solution to US politicians than legislation to increase gas mileage and had the added advantage of currying favor with voters in corn growing districts and collecting large contributions from agribusiness interests by generous subsidies which were said to “level the playing field” for this new source of fuel.

AMD is the largest beneficiary of the federal ethanol subsidy and was instrumental in getting the legislation passed by contributing millions of dollars in “soft money” to Republicans and Democrats, favoring the former by a 2:1 margin. In the 1992 election cycle to cement ethanol subsidies (among other subsidies it received for other crops) ADM was the largest giver to the Republican Party. The Gingrich led historic retaking of the House of Representatives long in Democratic Party control had a great deal to do with ADM bankrolling Gingrich’s GOPAC, the nonprofit organization that paid for Republican air travel, mail and speech writing among other expenses to build support for Republican candidates. In return the company did quite well when the Republicans swept to power. The libertarian Cato Institute in a Policy Analysis declared ADM “the most prominent recipient of corporate welfare in recent U.S. history.”

When an outcry at the port barrel giveaway that was and is the ethanol subsidy threatened to revoke the program ADM is credited with pay rolling its survival. The rate of return for
this investment in government policy makers was quite high. Between 1980 and 1997 ADM received over $10 billion in subsidies because of the tax credit. As James Bovard of Cato wrote: “Federal policy is not designed to simply ‘level the playing field,’ or even tilt the playing field in ethanol’s favor. Instead, the program amounts to nothing less than buying the entire playing field and giving the title directly to ethanol producers. Ethanol, as far as it is used for gasoline, is a political concoction…”

Over the years whenever producers in the global South threaten U.S. interests Washington has interceded to protect its own. Whether it is the Louisiana catfish industry telling Congress to exclude Vietnamese catfish endangering the livelihood of 15,000 Vietnamese families who had invested their life savings in buying floating cages needed for production or American bee keepers restricting Argentina’s honey from entering the country (Argentina has become the world’s leading export of honey), or domestic fruit growers demanding Washington reimpose the tariff on imports of canned pears from South Africa (in violation of the African Growth and Opportunity Act). At the same time the US subsidy program grows more generous destroying the chances of many farmers in the global South to compete. In 2007-8 as the world food crisis had emerged as a major disaster for a hundred million poor people around the world and food prices at record highs the U.S. Congress passed what the New York Times called “a disgraceful” farm bill, the editorial writers declaring “‘The bill is an inglorious piece of work tailored to the needs of big agriculture.’ They noted that the bill included the usual favors like the tax breaks for race horse breeders pushed by the Senate minority leader Mitch McConnell of Kentucky and costing in total over $300 billion at a time when net
farm income was up by 50 percent.\textsuperscript{11}

Around the world the Europeans and Americans have forced open local markets to their heavily subsidized agriculture making life more desperate for local producers. The American Farm Bureau has been calling for trade sanctions against China unless it opens its markets to US agricultural exports. Opening China’s markets to heavily subsidized farm products would have potentially catastrophic impacts on the huge number of farmers growing corn and wheat. China has joined the IBSA countries, India, Brazil, and South Africa demanding an end to the subsidy-agricultural dumping pattern of rich country agricultural domination signaling a shift in power relations within the World Trade Organization and bringing the Doha Round to a standstill since the rich countries demand more concessions and offer no meaningful changes which would hurt their producers. For example, Brazil’s citrous exports would cut into Florida growers profits, Brazilian beef is kept out to protect Kansas and the Dakotas and so on. This is a key reason WTO negotiations have stalled.

There are a number of issues which get confused in the discussion of such subsidies. Most obviously these subsidies have gone overwhelmingly to the largest agribusiness interests and have not preserved the small family farm in the United States whose number continues to decline. The price of food in the United States would be lower with greater competition as would the cost of final products made with commodities like sugar where protection from lower cost foreign competition adds to the cost of cookies and candy (well, given the obesity epidemic this may not be all that bad). But demanding the general principle of free markets in agriculture is another story.
It is not a good idea. It would mean “accepting the elimination of billions of noncompetitive producers within the short historic time of a few decades,” as Samir Amin writes. “What will become of these billions of human beings among the poor, who feed themselves with great difficulty?” The destruction of peasant agriculture and the harm to already undernourished farm families could be addressed instead by subsidizing seed, fertilizer, extension work to spread best practices geared to local conditions, and addressing the bias favoring agribusiness export orientation so as to restore the possibility of food security. This is not to say rich country subsidies should not be eliminated. As Oxfam reported at the start of the 21st century the US and EU account for around half of all wheat exports at prices 46 and 34 percent respectively below costs of production. The EU, the largest exporter of skimmed milk powder was selling its milk at half the cost of its production, its white sugar at only a quarter of production costs. US corn producers and so on through a long list of major exports subsidized by taxpayers and destroying local markets needs to be addressed by the WTO which has avoided doing so since its inception and before that the rich countries were given a free ride by GATT.

What about the immediate crisis? In the short run emergency aid is needed. As the IMF’s managing director, Dominique Strauss-Kahn, warned in late June 2008, some countries were at “a tipping point” because of rising food and oil prices where they will no longer be able to feed their people and maintain the stability of their economies. Similarly Robert Zoellick, the World Bank president has made comparable appeals for greater food aid saying in early July 2008 “We are entering a dangerous zone” as a
result of the “double jeopardy of food and duel prices” “Threatening to drive over a hundred million people into extreme poverty.” And as the intelligence agencies warn the resulting unrest may have impacts the rich countries will not want to see. In June 2008 Oxfam estimated 290 million people required immediate assistance in food and cash to survive. In a June 2008 Briefing Paper Oxfam estimated that 14.5 billion dollars was needed immediately to help address the food crisis. ActionAid estimated at that time that as many as 1.7 billion people or 25 percent of the world’s population may then have lacked basic food security.

In terms of how aid should be used there is a sharp contrast between the usual dump food on local markets by giving it away and further undermining local agriculture and giving money so hungry people could buy food in local markets encouraging greater production along with aid for infrastructure to get crops to market and subsidizing fertilizer and seed. CARE has declined free food from the donor nations which they say will undermine the prospects of countries being able to feed themselves. CARE takes this position recognize that “local purchase is a complex undertaking. A greater understanding of local markets and potential risks and unintended consequences is necessary before engaging in local purchase on a significant scale” and has a well worked out position on how best to help. In the long run it will take more than charity (which would have to be on a scale unrealistic to imagine happening in any case). As has been argued it will require an end to the current agricultural regime which keeps the poor hungry.

Capitalism is a dynamic system and change in the food industry as elsewhere
takes place rapidly. While there is rightfully concern regarding the huge rich country subsidies and their impacts agribusiness like its peers in other sectors is moving offshore and globalizing its production venues. They look to Brazil’s savannah where 250 acres could be brought into export production with another 200 million acres in Venezuela, Guyana and Peru. Other potentially available land for major crops include a hundred million acres in the former Soviet Union and 300 million acres in sub-Saharan Africa – land which is under utilized often by subsistence farmers. How much acreage goes to the landless and how much to transnational agribusiness will be the outcome of struggle. Feeding the world will require more production in poorer countries and less food exported to them from rich ones. The real issues are building the capacity of all countries to feed themselves, to provide food security and slow the growth of dysfunctional mega cities in the global South by raising living standards in the countryside by producing a more even pattern of development and rejecting transnational capital’s demand for an extensive division of labor which produces dependency on volatile international markets and exposes economies and especially the poor to dramatic dislocations when prices of necessities rise dramatically as they are now doing. Transnational agribusiness and industrial food producers and distributors are a powerful coalition in favor of extending the existing system. But here too real change is possible and necessary. While given the existing system and the current crisis there is need to help prevent widespread starvation is real and the rich countries need to step up and address this disaster making good on past aid promises and facing the costs their use of fossil fuel has imposed in the consequences of global
warming on the global South, the damage of ethanol subsidies, and their agricultural policies generally. The current crisis is a man made disaster created by agribusiness' international food regime.
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