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Local and global food distribution

Malfunctioning markets

The global food system is a sick patient, suffering from unequal distribution and excessive liberalization. Indeed, there is a striking parallel between the 2007-08 food crisis and the financial crisis. How big a hand did financial speculation on food prices have in the food crisis?

Access to food, and by inference food distribution, is at least as crucial to alleviating poverty and reducing hunger as the ability to increase worldwide food production. The dramatic coexistence of the over-consumption of food in some parts of the world and malnutrition in others is a powerful reminder of this. Understanding the unequal access to food requires an understanding of how food distribution systems work today.

Food markets are critical for food distribution, especially in a world dominated by free-market principles and trade liberalization. Markets and their intrinsic volatility have compounded the problem of unequal access in recent decades. The economic, social and political consequences are far-reaching. Therefore, instead of liberalizing and deregulating even more, we should be looking for more sensible ways of regulating and stabilizing food supply systems at the global and local levels. We should not focus on expanding existing markets or making them work 'better'. Rather, we should devise alternatives that make food distribution systems less dysfunctional and unequal. This implies that not just the food market, but also the energy, health, labour and technology markets will need to be carefully regulated at both the national and international levels.

Distribution, distribution, distribution

Food distribution matters – perhaps even more than food production. Nobel economics laureate Amartya Sen argues in his 1981 work *Poverty and Famines* that some of the most devastating famines occurred in countries or regions where food availability or food production had not declined.

Sen's key focus was people's ability to access food either through their own means of production or through their incomes. He developed a framework for analyzing theories from these insights, which became known as the entitlement approach.

The issue of distribution and access was just as important as production in 19th-century classical political economy. Indeed, capitalism is about a particular mode of production *and* distribution of commodities and money. Food distribution was and remains essential to capitalist development and industrialization. It is on a par with technological innovation and the development of infrastructure.

Herman M. Schwartz convincingly shows in his book *States Versus Markets*, first published in 1994, that the trade of food and agricultural-related materials were important driving forces during the first phase of globalization before the two world wars. Furthermore, the frequent politicization of the food issue reflects how important food policy is.

Full shelves, empty stomachs

Why are food markets so central to the lives of especially poor people in contemporary developing countries, while shares of food in national expenditure fall across the developed world?

First, the liberalization of domestic agriculture and import policies has certainly contributed to the expansion of food markets in developing countries. Many low-income countries remain heavily dependent on agricultural trade, both as exporters and importers, even though the proportion of staples, such as rice, that are traded internationally is not that high. These countries are particularly vulnerable as exporters, but also as importers of basic staples.

The demand for high-value agricultural commodities in developed countries has also expanded rapidly. This demand is fuelled by a retail-driven 'agribusiness revolution' based on flexible global sourcing – that is, purchasing goods and services on the global market across geopolitical boundaries. As a result, supermarket shelves display an ever-increasing range of food products, which are available all year-round. This has led many developing countries to actually export fresh food that previously was either not produced or simply stayed within national borders.

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Reuters / Pawel Kopczynski

Second, in many developing countries, urbanization and 'de-agrarianization' – the rapid displacement from land-based livelihoods despite the absence of industrialization – has caused a large proportion of the rural population to rely on markets to meet their food needs. Farming is no longer a viable way of making a living for many poor people. A rural exodus is well underway as a result.

Access to food remains highly unequal in the poorest countries, and is the source of chronic nutrition problems. In 'emerging' economies, such as China and India, inequality has increased, as has the size of their middle classes. They eat more and buy a wider range of foods, but they coexist with substantial pockets of poverty and malnutrition, especially in India.

Therefore, greater market integration and the commodification of food – that is, food access becoming increasingly mediated by markets and profit-making imperatives – does not mean more equal access. A closer analysis of the market imperatives may shed light on how these imperatives create dysfunctional systems of food provision at both the national and global levels.

Distressed sellers, indebted producers

Markets are conventionally viewed as institutions for mediating the mutually beneficial exchange of goods and services. Open any undergraduate economics textbook and this is what you will read. However, markets can also be seen as arenas of social conflict or arenas where parties with different bargaining powers interact. In this view, food markets reflect the influence of powerful interests. This situation is closer to what very poor people face in their everyday lives.

The nature of social relations in markets is critical for understanding who wins and who loses in a market. What some mainstream economists see as 'market imperfections', generally pervasive in poor countries, political economists see as the result of unequal power and a range of exploitation mechanisms that often keep the poor stuck in poverty traps.

This inequality is evident in local food markets, where poor people are net food buyers in markets dominated by a few wealthy traders with connections in other markets and links with rural elites. The poor face a number of unfavourable market conditions:

- They are distress sellers, who sell their produce right after the harvest, when prices are at their lowest levels
- They are indebted producers, who may be forced to sell at lower prices or provide casual labour services to meet debts to local traders or creditors
- They are buyers in the 'hungry' season, when food supplies are scarce in markets and prices shoot up

Ben Crow, in his 2001 book *Markets, Class and Social Change,* puts it very simply when he writes that 'the poor sell their grain at low price periods, soon after harvest. The rich sell their grain at high price periods, just before each harvest'. >

This archetypical situation is still very common in developing countries, where safety nets and food-price stabilization mechanisms are rare.

Indeed many of these mechanisms vanished when structural adjustment reforms took hold in the 1980s. In Africa, for example, the much 'maligned' state-owned marketing boards played a role in stabilizing food prices and curbing the hoarding and speculative power of local traders, but they have virtually disappeared in most countries. Local private traders, wholesalers and powerful private importers took their place.

Free market famines

When deregulated markets are the leading food distribution mechanism, they cause significant food supply fluctuations from one season to another. These can cause equally dramatic fluctuations in the price of staples, which affect the most vulnerable people in that they can barely cope with the sudden price increases.

Of course, there is much to gain from such volatility. Local traders with the means to hoard and transport food manage to deflect these fluctuations. They cause prices to fluctuate for buyers in an effort to maximize their short-term profits. It is not surprising, then, that there are food security alarms in places not far removed from markets and abundant food supplies. The 2005 Niger food crisis demonstrates what can happen under these conditions.

In Niger, a very poor country frequently affected by chronic food insecurity, food is actually abundant in local markets, as was vividly reported during the 2005 crisis by newspapers such as *The Guardian*, who ran an article with the title 'Plenty of food – yet the poor are starving'.

Only slightly better-off smallholders manage to produce enough to feed their families, and they still buy in the market to complement their stocks. Pastoralist groups almost entirely depend on markets for their food supply. Very poor rural households rarely produce enough to feed themselves. Their meagre incomes, often earned as casual wages, are mostly spent on food.

In 2004, there was a poor harvest in Niger. The early warning systems functioned well, but the warnings were ignored. As a result, more people than usual went to local markets to buy food. Paradoxically, the markets were well stocked. But most of these people could not afford the food prices for staples, which were brought over from more prosperous regions, or traded (perhaps smuggled) across the border from Nigeria.

Frederic Mousseau and Anuradha Mittal see a direct correlation between the 'skyrocketing' price of millet, the main staple in Niger, and malnutrition. In their 2006 report, *Sahel: A Prisoner of Starvation*, they write that '[a]lthough 63% of the Nigerien population lives on less than a dollar a day, in July 2005 a Nigerien farmer paid more for a kilogram of millet at the local market than a European or an American consumer paid for a kilogram of rice in the supermarket.' The same traders in those markets had previously exported some of the food produced in Niger to neighbouring countries, for better returns. The authors refer to this as a 'free market famine'.

Introducing finance capital

The reasons why systems of food provision in the free market are currently dysfunctional are partly linked to the liberalization of the markets in the past few decades and the growing interdependence between national and global markets.

Liberalization of world agricultural trade has been high on the international policy agenda since the 1980s. To be sure, progress towards a fully liberalized agricultural trade system has been hampered by powerful vested interests in the United States, Europe and Japan. These countries have a lot to gain by maintaining their agricultural support systems, despite rhetoric in favour of 'markets'.

Developing countries have been subjected to increasing trade liberalization, which has reinforced price transmission mechanisms for food. Price transmission refers to the fact that since prices are globally linked, international price changes in one staple can cause prices to change for other agricultural commodities, on world markets then on to national and local markets. This process affects both exported commodities like coffee and cocoa, and imported food like rice and wheat.

The effect of agricultural price transmission nationally and locally depends on a host of factors, such as price regulation, marketing and transport costs, and the relative power of importers, exporters and local traders. This may explain, for example, why international prices are asymmetrically transmitted to producers of exported commodities (say coffee growers) and to consumers of imported food. Thus when international agricultural prices increase, primary producers often only receive a small share of this increase, but consumers face a higher proportional increase. In other words, the benefits of these multi-layered transactions tend to disproportionately go to intermediaries and processors as they hinge on power relations along the production-trade chain.

Perhaps the single most significant change in how world agricultural markets work is the growing emergence of finance capital in commodity markets. It took some time for this process to mature, but its frailty was openly exposed by

The woes of financialization

Financialization has a number of interrelated effects on economic activity:

- A growing dependence on financial assets by non-financial companies (say Wal-Mart), which has also impacted international food markets
- A concentration of global profits in finance
- The spreading of personal and household debt
- The proliferation of new, highly complex financial services and assets, especially related to the buying and selling of risk
- The primacy of shareholder value over long-term economic value
- The resulting expansion of speculative assets at the expense of investments in 'real' activity

Reuters / Romeo Ranoco

the 2007-08 world food-price crisis. The role finance capital played in this crisis is directly related to the process of 'financialization' in global capitalism, which is one of the fundamental aspects of global neoliberalism and the free-market economy.

Gamblers on the food market

How has financialization affected international food markets? There are several competing theories about what triggered the 2007-08 world food-price crisis. The crisis saw a dramatic fluctuation – a massive increase followed by drastic decline – in the prices of basic food commodities such as maize, rice, oilseeds and wheat. The theory that financial speculation is one of the causes of the food crisis is gaining credibility, especially among more progressive critics.

Jayati Ghosh, a leading economist, discounts the theory that the crisis is the result of demand-supply imbalances. In her 2010 article 'The unnatural coupling: Food and global finance' published in the *Journal of Agrarian Change*, she argues that the demand-supply theory is 'largely unjustified given that there has been hardly any change in the world demand for food in the past three years'. Indeed, the global food crisis and the global financial crisis are 'intimately connected,' she writes, 'particularly through the impact of financial speculation on the world trade prices of food'.

This financial speculation was driven by powerful institutional investors and investment banks dealing in hedge funds, like Goldman Sachs. They were a driving force in the run-up to the food crisis. Significant deregulation of the financial system and commodity exchanges in the United States in the early 2000s paved the way for the integration of the financial and agricultural commodity markets. Moreover, unregulated commodity trading rapidly led to a dramatic increase in financial transactions, which attracted a growing number of financial speculators. They, in turn, sought to profit from short-term changes in prices. Hedge funds became major players in the futures exchanges of oilseed and wheat, for example.

On the eve of the crisis, futures prices of these commodities were driving up spot prices – the price quoted for immediate payment of a commodity – creating a spiral of price increases as long as speculators continued to gamble on higher prices. Not surprisingly, this generated massive volatility. In this context, the prospects for poor buyers of food in countries like Niger, Ethiopia and Bangladesh may be even more grim now than before 2007, especially since staples are being targeted by traders who buy and sell 'risk' for profit.

If prospects on the food market are indeed still grim for developing countries, what can be done to rectify the situation? For starters, international commodity markets for agricultural produce need to be isolated from the harmful influence of financial markets. Regulation of commodity exchanges needs to tighten. Agreements need to be developed and signed by the international community designed to stabilize food prices.

It is equally important that developing countries regain their policy autonomy when it comes to food security. This can be achieved by exercising greater policy discretion regarding the protection of their food markets and more control of strategic grain reserves. Free-market advocates despise these kinds of interventions, citing the export bans by Asian countries in the wake of the food crisis. What they do not understand is that governments cannot simply wait and see where markets will lead us to next, while people riot in the streets. Food, after all, should not be gambled with. ■

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