



## The World Food Crisis

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While the advanced capitalist countries are currently hit by an acute crisis of recession and unemployment, the developing world is facing, apart from the fall-out of this crisis, an acute food crisis. Hunger afflicts the developing world today with a virulence not seen in decades. World food prices, not just in nominal but in real terms (relative to manufactured goods' prices), are at a record high. These prices which had shot up in 2008, came down in 2009, but to a level that was nonetheless higher than in any year before 2008; they have resumed their upward march thereafter. Food riots have broken out in several third world countries; and in the Arab world, rocked by popular uprisings, the last straw has been the escalating food prices.

When the food price upsurge (led by food grains) occurred in 2008, George Bush, then President of the United States, attributed it to the improving living standards in India and China. As people become better off, their diet gets diversified away from the direct consumption of food grains towards animal products like chicken and meat. But since these products themselves use grains intensively as feed, the direct and indirect consumption of food grains per capita (including also as processed food) increases with per capita income. Bush's argument was that the rapid growth in per capita incomes in India and China had therefore created excess demand pressures in the world food grains market, causing the price rise.

Nothing could be further from the truth. Per capita food grain absorption, taking direct and indirect absorption together, has declined in India since the beginning of "liberalization," first gently and of late precipitously, so much so that the level in 2008 itself was lower than in any year after 1953. In China too, there was

a sharp decline in per capita total absorption of food grains between 1996 and 2003. It improved thereafter but even by 2005 had not reached the 1996 level; it could not have jumped suddenly in 2008. Since the population growth in both these countries has come down substantially, even their absolute absorption in 2008 could not have been much higher than, say, in the mid-nineties. It is not the increase in food grain demand therefore that can possibly explain the 2008-11 food inflation.

Many have rightly emphasized speculation as an important underlying cause. But while speculation can no doubt conjure up an inflationary upsurge out of thin air, it typically operates on an underlying demand-supply imbalance, accentuating its consequences. We therefore have to look at the underlying output and demand trends; and here we come across two startling facts.

First, per capita cereal output, and also food grain output, has declined significantly in absolute terms for the world as a whole since the eighties. The average annual per capita cereal output for the quinquennium 1980-85 was 335 kilograms; for 2000-05 it was 310 kilograms. Since this decline in output has also meant decline in consumption, hunger in the world has been on the increase long before the price upsurge of 2008. Or putting it differently, the world food crisis is a matter not of the last two years but of the last two decades or more.

The second fact is even more startling. Since per capita income in the world economy has been going up, and since therefore the demand for food grains in real terms should have been going up, the decline in per capita food grain output should have meant a rise in food grain price after the eighties, relative, say, to the price of manufactured goods. But we find that cereal price relative to manufactured goods declined by 46 percent between 1980 and 2000. Indeed, between 1980 and 2008, the year of price upsurge, food grain prices in general fell relative to those of manufactured goods, even though per capita food grain output declined in absolute terms.

How could this happen? The answer is simple: a massive squeeze on the purchasing power (an “income deflation”) imposed on the working population all over the world, and especially in the third world, by the universal pursuit of “neo-liberal” policies. Consider an economy with 100 workers each earning a wage income of Re.1, where the marketed food grain output is 100 kg. If, for simplicity, all wages and only wages are spent on food grain, then its price will be Re.1 per kg. But if the output drops to 50 kg., then the excess demand at the old income-price configuration can be removed in either of two ways: either through a rise in price

to Rs.2 per kg., or through a reduction in wage income to 50 paise per worker. In other words an income deflation can play the same role in getting rid of excess demand as a price inflation. Neo-liberal policies impose an income deflation not just on workers but on peasants, petty producers, and agricultural workers in several ways: through cuts in government expenditure on health, education, and welfare (which forces them to access more expensive private facilities); through cuts in input subsidies by the government (which squeezes peasant incomes); through cuts in government expenditure on rural development (which dries up rural purchasing power); through the unemployment generated by imports out-competing domestic production and by the changing demand-pattern of the increasingly affluent elite (e.g. corporate retail outlets displacing petty traders); and through increasing corporate and MNC control over the distribution of peasants' and petty producers' output (which reduces their share in the final price).

Income deflation, however, even as it squeezes demand via restricting purchasing power, also has the effect of restricting output and supply in so far as it is directed against peasants and petty producers, by reducing the profitability of their activities. This fact, together with the general withdrawal of state support and protection from peasant and petty production sectors (the virtual winding up of agricultural extension activities by the government in India is a case in point), which also characterizes neo-liberalism, means that the output of this sector atrophies. Income deflation therefore traps the food grain sector of the economy at a low level of demand and supply.

A consequence of this is that while food grain prices can remain low or even fall relative to those of manufactured goods, even in the midst of declining per capita food grain output, a sudden shock to the system in the form of an injection of demand can cause an inflationary spurt; and if speculation builds on it, the spurt can be quite lethal. Such a shock has been provided to the world food economy by the sudden diversion of large of substantial amounts of grains for the production of bio-fuels. In the U.S. alone, which is a large food grain producer, more than a fourth of grain output is currently diverted to the production of bio-fuels.

This is what underlay the 2008 food price upsurge: with oil prices touching dizzy heights because of speculation, large-scale diversion of food grains for bio-fuels occurred, which pushed up food grain prices. What is more, because of this bio-fuel link, food grain prices now have got hitched to oil prices in the minds of speculators. When oil prices rise, so do food grain prices, in anticipation of higher diversion of grains to bio-fuels, even before any actual increase in diversion occurs. Not surprisingly, the very person who encouraged the diversion of food grains for bio-fuel,

George Bush, also started the false explanation for food inflation, namely that the Indians and the Chinese were eating more, to divert attention from his own culpability.

It is often argued that to overcome the world food shortage, agriculture everywhere should be opened up for corporate capital. Even if we assume for argument's sake that such a move will augment food output, it will only compound world hunger by imposing a massive squeeze on the purchasing power of the peasants and agricultural laborers who will get uprooted to make way for corporate agriculture. There is no escape therefore from the fact that overcoming the world food crisis requires a re-vamping of peasant agriculture, through land reforms, through state support, through protection from encroachment by corporate and MNC capital, and through state-funded transfers and welfare expenditures for improving the quality of rural life. The point is: Will neo-liberalism allow it?