

# The Oil-Food Price Shock

Saturday 12 March 2011, by [KLARE Michael T.](#) (Date first published: 10 March 2011).

When future historians attempt to trace the origins of the current turmoil in the Middle East, they will find that one of the earliest of the many explosions of rage occurred in Algeria and was triggered by the rising price of food. On January 5, young protesters in Algiers, Oran and other major cities blocked roads, attacked police stations and burned stores in demonstrations against soaring food prices. Other concerns—high unemployment, pervasive corruption, lack of housing—also aroused their ire, but food costs provided the original impulse. As the epicenter of youthful protest moved elsewhere, first to Tunisia and then to Egypt and other countries, the food price issue was subordinated to more explicitly political demands, but it never disappeared. Indeed, the rising cost of food has been a major theme of antigovernment demonstrations in Jordan, Sudan and Yemen. With the price of most staples still climbing—spurred in part by a parallel surge in oil costs—more such protests are bound to occur.

Rising food prices matter so much in these countries because the vast majority of the people have been excluded from the conspicuous wealth enjoyed by relatives and cronies of the despots who monopolized power all these years, and because food accounts for such a large share of the family budget. When food costs increase sharply—as they have in the past six months, by as much as 50 percent for some staples—families that were just barely able to survive are plunged into crisis and penury. “The government is humiliating us,” said one young protester in Algiers. “They are raising the price of sugar. We have to pay the rent, the electricity, water, sugar and oil. We are all poor.”

The great irony is that many of these countries are oil producers, and with the recent spike in oil prices they have enjoyed a significant boost in national income. But putting aside for a moment the fact that few inhabitants of these countries enjoy tangible benefits from oil revenues—which tend to disappear into the foreign bank accounts of the ruling family—rising petroleum prices actually make things worse for most ordinary citizens, since every increase in the price of oil is followed by a comparable rise in the price of basic foodstuffs.

What explains the close relationship between oil and food prices? In their efforts to increase harvests to feed an ever-growing world population, farmers have come to rely on oil for more and more essential tasks. This trend began with the mechanization of agriculture after World War II and the Green Revolution of the 1960s and '70s. It has continued with the introduction of genetically modified organisms and the proliferation of corporate-run, factorylike farms. Oil fuels farm machinery as well as the vehicles that carry crops to market (sometimes over thousands of miles). It is also employed as the chemical precursor, or “feedstock,” for many of the pesticides, herbicides and artificial fertilizers used in high-tech agriculture. Hence, any increase in the price of oil translates into a rise in the costs of producing food.

The correlation became particularly evident in 2007–08, when the prices of oil and food reached record levels and helped fuel the Great Recession. Between July 2007 and June 2008, crude oil rose from \$75 per barrel to \$140, an increase of 87 percent; during the same period, basic food prices also shot up, from about \$160 to \$225 on the “Food Price Index” (with \$100 representing the average cost of the same staples in 2002–04) calculated by the UN’s Food and Agriculture Organization (FAO). That the price of oil and food rose in tandem at this time is hardly surprising, the World Bank concluded in 2009, as “agricultural production is fairly energy intensive.” Rising oil

prices “raised the price of fuels to power machinery and irrigation systems; it also raised the price of fertilizer and other chemicals that are energy intensive to produce.”

To make matters worse, the rising price of oil—combined with government efforts to address global warming—has increased the incentives to grow plants for biofuels instead of food, inevitably driving up food prices. Whenever oil prices rise above \$50 per barrel, the World Bank has determined, a 1 percent increase in the price of oil results in a 0.9 percent increase in the price of maize, “because every dollar increase in the price of oil increases the profitability of ethanol and hence biofuel demand for maize.” It is no surprise, then, that two-thirds of the increase in world maize production since 2004 went to meet increased biofuel demand in the United States, leaving little to satisfy the world’s growing need for food and animal feed.

The sharp jump in food prices in 2008 led to riots in more than a dozen countries, including Egypt, Haiti and Pakistan [[See Walden Bello, “Manufacturing a Food Crisis,” on The Nation (<http://www.thenation.com/article/manufacturing-food-crisis>) and on ESSF: [How to manufacture a global food crisis: lessons from the World Bank, IMF and WTO](#) and Reed Lindsay, “Haiti on the ‘Death Plan,’ ” (<http://www.thenation.com/article/haiti-death-plan>) June 2, 2008]. In an effort to avert more such turbulence, the G-8 group of wealthy nations, at their 2009 meeting in L’Aquila, Italy, promised to donate \$20 billion over the following three years for agricultural advancement in the developing world. By the beginning of 2011, however, less than one-twentieth of that amount had been contributed, and there had been little progress in boosting global food output. Now, with oil prices again on the rise, the price of food is likely to surpass all previous records and spark additional upheavals around the world.

What we are seeing, in effect, is a vicious cycle in which rising oil prices drive up the cost of food, which triggers political disorder in the oil-producing countries, which in turn pushes oil to still higher prices, propelling food costs even higher, and so forth—with no end in sight.

This deadly cycle is being augmented, moreover, by the accelerating effects of climate change. While it is nearly impossible to attribute any particular weather event to global warming, the growing frequency and intensity of severe events—including the punishing drought last summer in Russia and Ukraine, the recent floods in Australia and the drought that recently gripped northern China—are consistent with climate change models. These events have all occurred in critical wheat-producing areas, stoking fears of inadequate grain supplies ahead and further spurring the upward climb in food prices.

The rage produced by rising food prices may have been superseded by political concerns in the more recent outbursts in North Africa and the Middle East, but it has hardly disappeared. Global prices are now higher than at any time since the FAO began compiling its Food Price Index two decades ago, and they are expected to keep climbing as oil costs rise. This suggests that the G-8 pledges made in 2009 to enhance agriculture in the developing world are more urgent than ever, as are other steps to increase the availability and affordability of basic foodstuffs. But everything, in the end, hinges on oil, so we must sharply curtail consumption of petroleum products in order to bring down the cost of food and fuel, slow the pace of global warming. We must also put a permanent end to the practice of propping up foreign oil dictators.

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March 10, 2011

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\* March 10, 2011. This article appeared in the March 28, 2011 edition of The Nation:  
<http://www.thenation.com/article/159165/oil-food-price-shock>