

# The Global Meltdown: How the Food and Financial Crises are Interconnected

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In 2007-2008, the biggest international economic and financial crisis since 1929 broke out. Were it not for the massive and concerted intervention of public authorities in coming to the rescue of thieving bankers, the present crisis would already have reached more ample proportions. Here too, the interdependency is striking. Between 31<sup>st</sup> December 2007 and the 18<sup>th</sup> October 2008, all the world's stock exchanges fell dramatically, by 30 to 40%, sometimes more, for the stock exchanges of the industrialized countries, 45% for Turkey, Argentina, Brazil and India, 60% for Russia and China [1].

The colossal build-up of private debts, which is entirely created from fictitious capital, has finally exploded in the industrialized countries starting with the United States, the most heavily indebted economy of the planet. Indeed, in 2008, the sum of public and private debt in the United States amounted to 50 000 billion dollars i.e. 350% of GDP. This economic and financial crisis, which has already spread to the entire planet, will affect the developing countries more and more, even those which still believe themselves safe. Capitalist globalization has not delinked or disconnected economies. On the contrary, countries like China, Brazil, India or Russia have not been able to protect themselves from this crisis, and this is only the beginning.

## The food crisis

In 2007-2008, the standard of living of more than half of the world population dropped dramatically when the price of food soared. There were massive demonstrations in at least fifteen countries in the first half of 2008. Tens of millions of people more than before faced hunger, and hundreds of millions had to reduce their food consumption (and consequently, their access to other essential goods and services [2]).

All of this was the result of decisions made by a handful of companies in the agro-industry and the financial sector (the institutional investors who contribute to doping the prices of agricultural products) with the backup of the US administration and the European Commission [3].

In fact, the percentage of exports in the world production of food remains small. Only a small part of the rice, wheat or corn produced in the world is exported, while by far the greater amount is consumed in the country of production. However, the price on the export market determines the price on the local market. The export market price is fixed in the United States, mainly in three stock exchanges (Chicago, Minneapolis and Kansas City). Consequently, the price of rice, wheat or corn in Timbuctu, Mexico, Nairobi, and Islamabad is directly affected by the evolution of the prices of these cereals on the United States stock markets.

In 2008, under pressure and to avoid being overthrown by the rioting at the four corners of the earth, the authorities in the developing countries had to take measures to guarantee their citizens access to staple foods.

This state of affairs resulted from several decades of governments gradually withdrawing their support from local cereal producers - who are mainly small producers - and following the neo-liberal requirements imposed by institutions such as the World Bank and the IMF as part of the Structural Adjustment Programmes and programmes to reduce poverty. In the name of the "fight against poverty" the institutions have convinced governments to carry out policies which have reproduced or even reinforced poverty. Furthermore, during the last few years, many governments have signed bilateral treaties (especially free trade treaties) which made the situation worse. The WTO Doha round of trade negotiations also had dire consequences. What happened?

## **Act 1.**

The developing countries gave up the trade barriers which protected the local producers from competition from foreign agricultural producers, mainly North American and European large agro-exportation companies. These then swamped local markets with agricultural products sold for less than it cost local farmers to produce them. This bankrupted local producers, many of whom migrated to the big cities of their own countries or the industrialized countries.

According to the WTO, subsidies paid out by the governments of the North to their big agricultural firms on the domestic market are not in breach of anti-dumping regulations. As Jacques Berthelot wrote, "whereas, for the man in the street, dumping means exporting at a price lower than the average production cost of the exporting country, for the WTO, it cannot be called dumping as long as exports are at the domestic price. Even if that is less than the average production cost [4]." In short, the countries of the European Union, the United States or other exporting countries may swamp the markets of others with agricultural products benefiting from heavy domestic subsidies. The corn exported to Mexico by the United States is a typical case in hand.

Because of the free trade agreement (FTA) signed by the United States, Canada and Mexico, the latter has abandoned its trade barriers regarding its northern neighbors. Corn exports from the United States to Mexico increased nine fold between 1993 (the last year before enforcement of the FTA) and 2006. Hundreds of thousands of Mexican families have had to stop producing corn as theirs cost more than corn coming from the United States, produced with industrial technology and heavy subsidies. Not only was that an economic disaster, but it also undermined their cultural identity as corn is the symbol of life in Mexican culture, particularly for people of Maya origin.

Many corn growers abandoned their fields and went to look for work in the industrial towns of Mexico or the United States.

## **Act 2.**

Mexico, which has thus become dependent on US corn to feed its population, was confronted with a sharp price rise of the cereal caused partly by speculation on the stock exchanges of Chicago, Kansas City, and Minneapolis and partly by the production of ethanol from corn by the northern neighbor.

The Mexican corn producers were no longer there to satisfy domestic demand and Mexicans were confronted with a soar in the prices of their staple food tortilla, the cornmeal pancake which replaces the bread or the bowl of rice of other parts of the world. In 2007 enormous riots shook Mexico. In specific conditions, the same causes have produced almost exactly the same effects. The interdependency of food markets on a global scale was pushed to a level never reached before.

The global food crisis lays bare the workings of our capitalist society: the pursuit of maximum private profit in the short term. Capitalists see food as nothing more than a merchandise to be sold

for the highest possible profit. Food, an essential element of survival for human beings, is transformed into an instrument of pure profit. This sinister logic must be brought to its knees.

It is time to abolish the control of capital over large-scale production and marketing and give priority to policies of food sovereignty. The climate crisis. The effects of climate change have temporarily disappeared from the headlines, supplanted by the financial crisis. Nevertheless, the process is underway on a global scale and here too, interdependency is obvious. Indeed the populations of the “poor” countries will be much more affected than those of the “rich” countries, but no one will come out of it unscathed.

The convergence of these three crises shows populations the need to free themselves from capitalist society and its productivist model. The interdependency of capitalist crises highlights the need for an anti-capitalist and revolutionary programme on global scale. Only international and systemic solutions can make for a favorable outcome for the populations and the environment. Humanity cannot be fobbed off with half measures.

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## **P.S.**

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## **Footnotes**

[1] See *The Economist*, 18<sup>th</sup> October 2008.

[2] In the face of soaring food prices, poor households have cut down on health and education as well as accommodation.

[3] See Damien Millet and Eric Toussaint “Retour sur les causes de la crise alimentaire mondiale”, August 2008 and Eric Toussaint “Une fois encore sur les causes de la crise alimentaire”, October 2008.

[4] Jacques Berthelot “Démêler le vrai du faux dans la flambée des prix agricoles mondiaux”, 15 July 2008, p.47.