



The Causes of Rising Food Prices

Food prices are rising quickly around the world. Part of the problem is weather. The winter wheat crop in China has been poor. Australia has suffered floods, while Russia has undergone a drought. The earthquake and tsunami in Japan, no doubt, will hammer the very intensive agricultural production of the limited arable land on that archipelago.

Weather-related agricultural problems, however, balance out fairly quickly. Mythical “global warming” aside, weather has ups and downs, and farmers, who are smart folks, take that into account. The Soviet Union, whose vassal state the Ukraine was once one of the best farmlands on earth, never managed to feed its people well, because a communist-controlled economy destroys incentive. But of course the communists always laid the blame elsewhere. The standing joke about *Pravda* reports of winters that were too cold or summers too hot was that Soviet agriculture suffered from “50 years of inclement weather.”



Another factor influencing the rise of food prices has been increased per capita food consumption in nations with large populations, such as China and India. That factor, however, ought not to create any food problems: as real per capita income rises along with productivity, those nations can provide greater profits to farmers. China and India, despite their huge populations, still possess large amounts of farmland, and increasing the yield per acre in those countries can raise production significantly. Beyond that, the American farmer, if left alone, can increase the global food supply significantly — and this increased production will hold down prices, as anyone who drives a tractor in the Great Plains can quickly explain.

Certainly part of the problem of high food prices is also the dilution of the value of many currencies caused by the hyper-spending of governments. The very real rise in American food prices, which every consumer feels each time he shops, is partly a reflection of federal printing presses turning out more dollars than are backed by government revenues or the productivity of the nation. The very shaky condition of the euro is also evidence of pension and entitlement commitments, which reflect fewer people working and more people consuming.

Perverse government policies also have a hand in decreasing food supplies. In America, this dates back to President Franklin Roosevelt paying farmers *not* to produce food or even to destroy crops. The federal support for the use of corn to make ethanol, which removes a substantial amount of the grain



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that is used in almost every area of food processing, both reduces available supplies and artificially increases demand (and cost) for corn. Banning pesticides such as DDT not only resulted in the deaths of millions of children from malaria in the Third World, but also meant that less effective means of controlling pests have had to be used. [Farmers in California](#), where there are some of the most productive orchards and garden crop lands anywhere, have seen many of these crops shrivel and dry up because environmental regulators have shut off their irrigation.

The political consequences of high food prices around the world can be dramatic. Food shortages and the resultant higher prices for available food were significant components in the overthrow of the government in Tunisia. The U.N. Food and Agricultural Organization reports that world food prices are now at the highest level since it began collecting that data more than two decades ago. Dan O'Brien at Kansas State University states that the price of corn jumped from \$3.67 a bushel to \$7.23 a bushel in less than 12 months. The USDA, in an estimate released last Thursday, reports that American reserves of corn and soybeans are currently at historic lows, less than five percent of projected demand over the next year. The American nation's corn and soybeans are a substantial component of the food consumed in much of the world.

Is there a limit to food production? Has America reached that limit? Since the "Malthusian nightmare" theories of political economist Thomas Malthus in the 1600s and 1700s, experts have been warning that global food production would finally be overtaken by population growth. The experts, invariably, have been proven wrong. The mechanization of agriculture dramatically increased the amount of food, especially grain, that could be produced. The science of agriculture — supported by the best segments of American education, and land grant agricultural and mechanical colleges — is continually finding new and better ways of making food.

Perhaps most importantly, the free market provides a dramatic synergy to food production. Take the hard work and know-how of America's farmers (and let their children inherit the farm as well). Add to that the efficiency of private companies competing to provide those farmers with the best seed, irrigation methods, and harvesting tools. Include also the inventiveness, efficiency, and market pressures on food processing companies, railway and trucking lines, and food retailers. The natural consequence of these Americans all working hard, all competing with each other, and all — in a free nation — keeping the vast bulk of what they earn: Americans get a very good bargain for their food dollar — as long as the federal government stays out.

It seems as though the federal government and supra-governmental entities take the negative view of agriculture and warn, as they have so often in the past, that this most basic need of human life is facing hard times. Joseph Glauber, Chief Economist at the U.S. Department of Agriculture, opines: "For the last sixty years, the simple story was agricultural productivity — great productivity gains unabated. But in the last five years, prices have lifted, and you see this real strong demand." Ngozi Okonjo-Iweala, who is a Managing Director at the World Bank, says that the rising food prices "Opened a new chapter in food security. The game has changed. Even if it gets better for a while, uncertainty has been built into the picture, and I don't think that is going to change."

All this fuzzy thinking is going on as other planners warn us that the populations of Europe, Japan, Russia, and other nations are leveling off and then will decline (Malthus didn't see that one coming either).

These and other central planners seem to miss the obvious: official plans almost never turn out to be right. Trends which appear ominous, such as rising population and shrinking acreage, are countered,



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when an honest farmer can made a profit producing food, by a wide range of positive actions. As the Russian people demonstrated so well in the Soviet Union, on the tiny plots of ground set aside for farmers that constituted only about [two percent of the farmland](#), hard working peasants produced one-quarter of the food in the Soviet Union.

Why didn't the Kremlin shut down all its woefully unproductive state farms? Why are farmers in Iowa growing corn to use as fuel? Why is farmland in California's San Joaquin Valley drying up and blowing away, even though the water to irrigate its crops was available? Governments know how potent a weapon food can be. Stalin starved tens of millions of kulaks as a means of terrorizing the subjects of his empire. Mao's "Great Leap Forward" produced the nightmare of "Hungry Ghosts," the worst denizens of Hell envisioned by Chinese Buddhists.

Productive and independent farmers supplying nations with plenty of wholesome food is not what elite rulers want. That is the real "food problem" — power-hungry governments.



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