



Written by [Bob Adelman](#) on July 13, 2011

Food Prices Rocket

In the last 12 months, more than 3,000 families have come to her food bank for food assistance. Michael Davis is just one of them. When Dottie asked him for his identification, he pulled out his driver's license and Social Security card from a worn ZipLoc bag and handed them to her. When she asked when the last time was that he'd eaten anything, he said: "About two days. It's not a good feeling. You have to think about it like fasting, like they did in the Bible, and pray for another blessing. That's really the only way to get through it."



Ten minutes later Davis was approved for 75 pounds of food. He picked up his documents and headed for the shelves in the back.

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Wendy Madison is another of Dottie's clients. Wendy doesn't smile much anymore, since she lost her front teeth due to poor nutrition and no dental care. She told Dottie that she and her family were doing well up until her husband suffered a massive heart attack. They rapidly used up what little reserves they had, and now try to subsist on \$1,000 a month in disability payments and \$294 in food stamps. Losing her teeth, she said, "was the worst thing in the world. I don't even want to look at people. I cover up to smile. Emotionally it hurts just as bad as being hungry."

Dottie's boss is Elsie Lott, the Community Bank director. In an interview with CNN, she said, "If prices go up any more, you are going to see more people here and [at] other food banks. You can see it every day. People [who] used to give us food are now asking for it." And the number of people coming to her food bank continues to increase, especially as the tornadoes in Tuscaloosa have driven families to her part of the state. In speaking with *The New American*, Elsie said, "Mostly, these are poor people anyway, and have come here to stay with other family members who also need assistance. I think the number of people needing assistance with food is just going to continue to increase. We are blessed to have so many people like Dottie willing to help."

Even Bobbie Jean Pope can't afford to buy bacon anymore because it's too expensive. That's remarkable because her son, Larry Pope, is the chief executive officer of Smithfield Foods, Inc., the world's largest pork processor. According to the *Wall Street Journal*, Pope finds it difficult to explain to her what is happening in his business that is forcing him to raise prices on her bacon:

[Some] 60 to 70% of the cost of raising a hog is tied up in the grains. The major ingredient is corn, and the secondary ingredient is soybean meal. The cost of corn has gone from a base of \$2.40 a bushel to today at \$7.40 a bushel, nearly triple what it was just a few years ago....

In the case of Smithfield, we [had to] close six processing plants and one slaughter plant. We also closed 15% of all our live production business. [But] once those measures are done, we have no choice but to pass those prices down [to consumers like you, Mom].



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And it appears that those increases will keep coming. In its recent report on the Producer Price Index, the Bureau of Labor Statistics said, "The costs of corn, wheat, cotton and other commodities have also jumped due to strong global demand. That's raised worries among some economists that consumer prices could also jump and price inflation could surge." Bill Lapp, former chief economist at Conagra Foods and now president of Advanced Economic Solutions, said that much of the impact of higher producer prices has yet to be felt, as it often takes many months for pressures to show up at the consumer level: "The higher prices for these commodities amounts to some \$40 billion in costs not yet passed on to the consumer. But the higher price tags are coming 'sooner or later'.... It's a big liability in front of us."

When Smithfield CEO Larry Pope was asked about the cause of the sudden rise in the cost of corn, he responded: "[President George W. Bush] came forward with — what do you call it? — the edict that we were going to mandate 36 billion gallons of alternative fuels." That "edict," aided and abetted by government subsidies as well as tariffs on importers, not only encourages farmers to emphasize planting corn at the expense of other crops, but also means devoting 40 percent of the nation's total corn crop to producing ethanol — fuel out of food — and that combination is driving the cost of food higher and higher.

Path of the Prices

A pound of sliced bacon is approaching \$4.50 versus \$3.59 a year ago. Ground beef is \$2.72 a pound, up from \$2.27 in 2009 and \$1.74 in 2001. Said Pope: "You eat eggs, you drink milk, you get a loaf of bread, and you get a pound of meat. Those are the four staples of what Americans eat [and] all of those are based on grains."

Producers like Smithfield are doing the best they can under the circumstances. He says his competition is raising prices or shrinking package sizes — even pizzas are being sold with less pepperoni. But not all companies are surviving. Pope sadly noted, "The largest chicken processor in the United States, Pilgrim's Pride, filed for bankruptcy. They couldn't raise prices [fast enough] and their cost of production went up dramatically."

Pope says consumers and producers are both suffering from the food price hikes: "The losers here are the consumer, who's going to have to pay more for the product, and the livestock farmer who's going to have to buy high-priced grain that he can't afford because he's stretching his own lines of credit. The hog farmer ... is in jeopardy of simply going out of business because he doesn't have the cash liquidity even to pay for the corn ... to raise his hogs. It's a dynamic that we can't sustain."

Joseph Glauber, chief economist for the U.S. Department of Agriculture, spoke to an overflow crowd of farmers and commodities traders in Washington, D.C., in February, and confirmed what most in attendance suspected: "The corn market will continue to be tight [well into next year], wheat will tighten further, and soybeans [will] remain tight as well."

How rapidly prices are rising can be seen by looking more closely at estimates Lapp expects consumers to have to pay for common staples within the next year or two. He estimates that consumers will soon be paying \$2.16 for a loaf of bread, \$3.86 for a gallon of milk, \$4.71 for a pound of ground beef, \$4.37 a pound for chicken breasts, \$2.15 for a pound of broccoli, \$.68 a pound for bananas, \$1.51 a pound for margarine, and \$6.25 for a six-pack of beer. Readers will recognize that most of these prices are already in their local super market.

Consumer Growth Partners (CGP) reported that food prices have climbed 6.5 percent just since the first



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of the year. In the past, American consumers spent only 7.5 percent of their budget on food, but when added to the higher cost of gasoline, "The combined increase in the necessities of food and energy creates a harsh double whammy for already stressed consumers," said CGP president Craig Johnson. That puts the total spent on food and gas for the average consumer at 15 percent, compared to 12.7 percent just two years ago. That works out to be an increase of nearly 20 percent, which means that what a consumer spent for five bags of groceries two years ago only buys four bags now.

And these price rises are relatively benign when compared to those faced by consumers in other countries. Argentina's consumer prices are expected to increase by more than 30 percent this year, and could accelerate to 40 percent next year. In Venezuela, consumer prices are rising at 23 percent a year, and food prices are rising even faster, at 33.7 percent for the 12 months ending in March. Ricardo Villasmil, a professor at Caracas' IESA business school, said that "the poorest one-fourth of Venezuelans now spend 45 percent of their income on food." And because of vast flooding in Australia, food prices there are expected to jump by 30 percent.

The UN's Food and Agriculture Organization (FAO) reported in April that their Food Price Index was 36 percent above its level in April of 2010, its Cereal Price Index was 71 percent higher than a year ago, its Meat Price Index was nearly 15 percent higher, its Dairy Price Index was up 12 percent, and its Oils Price Index was up 49 percent from a year earlier.

Inside those indexes were even more startling numbers: Wheat prices have jumped 69 percent in a year, corn prices are 74 percent higher, and soybean prices have increased 36 percent from April 2010 to April 2011.

Causes of Calamity

On the surface, these increases can be attributed to the "perfect storm" of events around the world: droughts in Russia and Argentina; floods in Australia, Canada, Pakistan, and the Mississippi River basin; export bans by countries trying to keep limited foodstuffs from going abroad; and panic buying by importers who are desperately trying to restock their own reserves. The Economic Collapse Blog listed 20 signs that a food crisis will ensue, including the following:

- The world is losing topsoil faster than it is being replenished;
- An increasing number of countries are running out of water, including Saudi Arabia, which is expected to be unable to produce a wheat crop starting next year;
- Water tables are being depleted in China and India to the extent that 300 million people are being fed with grain that can only be grown with water pumped from underground aquifers;
- Diseases such as Ug99 (stem rust) are rapidly reducing huge parts of the world's food supply. Wikipedia reported, based on an article in New Scientist magazine, that an epidemic of stem rust "is currently spreading across Africa, Asia, and most recently into the Middle East and is causing major concern due to the large numbers of people dependent on wheat for sustenance." It has spread to Kenya, Ethiopia, the Sudan, and Yemen, and the virus is becoming more virulent as it spreads;
- Japan's recent earthquake and tsunami has rendered vast (and increasing) agricultural areas of that unhappy country unusable.

In addition, worker honeybees are disappearing at an alarming rate. Called "Colony Collapse Disorder," it is impacting greatly the giant farm conglomerates that use bees to pollinate their crops. The farms rent bee hives, which are trucked to one region; the bees are released from the hives to pollinate the



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crops, and then are packed up again and taken to the next region. According to Off The Grid News, "Since 2003, more and more often, farmers have been opening up their hives to find dead bees, or, more often, bees that just don't return to the hive."

Losses are staggering, ranging from 30 to 90 percent, and impacting the more than 90 different commercial crops that are pollinated by bees.

Behind the scenes there are two additional causes of increasing food prices: the weakening dollar (inflation) and ethanol subsidies.

As the Federal Reserve continues to expand the U.S. money supply to "rescue" the economy, the effects on the purchasing power of the dollar are becoming more and more obvious. The St. Louis Federal Reserve Bank's latest measure of the "money stock" (known as M1) shows an increase of 14 percent in the last 12 months. This explains why the dollar has lost 18 percent of its value over the same period. And even that doesn't fairly represent the real loss of purchasing power, since the dollar index popularly used to measure the dollar only compares the dollar to a basket of other fiat (unbacked by precious commodities) currencies that are losing their purchasing power as well.

At the same time, the Consumer Price Index (CPI), which purports to show the effects of inflation on the buying power of consumers, has appeared to be relatively benign, according to the latest report from the Bureau of Labor Statistics (BLS). For April the median CPI only increased by 0.2 percent. But buried in that report is the "food at home index," which has risen 3.9 percent over the past 12 months. The obvious implication is that since the money supply is expanding much faster than food prices, food prices must move much higher in order to catch up.

OPEC uses the dollar exclusively in its trade for oil, and when the dollar loses value, the price of oil goes up to reflect that loss of purchasing power. In agriculture, oil drives the machinery of production and distribution, from plowing fields to feedstock for fertilizers, from pesticides to harvesting and hauling. As long as the Fed continues to debase the currency, the price of oil will increase (absent any new huge oil discoveries that vastly increase supply), and along with it, those energy costs included in the production of food.

Ethanol's Inequities

Another huge factor driving food prices higher is ethanol subsidies.

The mandates built into the Clean Air Act of 1992 included a requirement to add MTBE (methyl tertiary butyl ether) to gasoline to reduce emissions. When it was discovered that MTBE contaminated groundwater, government needed a replacement. In 2005, ethanol became the primary substitute for MTBE. At the time, corn was around \$2 a bushel, and farmers took to the subsidies like bees to honeysuckle. The economic impact was simple and profound. By taking land that was producing corn (and in some cases other crops) for human and livestock consumption and devoting it to corn for ethanol production, the price of corn and other crops began to rise. With import tariffs restricting importation of ethanol, and subsidies encouraging national production, by 2008 corn prices had risen by 35 percent, most of which was attributed to this distortion imposed on the market by the government.

With subsidies of \$1.45 a gallon and tariffs of \$.54 a gallon, "U.S. ethanol policy contradicts every principle of sound economics," according to Nouriel Roubini.

Of course, many supporters of subsidizing ethanol argue that a transition from gasoline to ethanol is needed to cut back on carbon emissions. However, the argument is flawed, even if it is assumed



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that carbon emissions must be cut. According to Roubini, corn-based ethanol “saves little if any carbon and produces little if any gain in energy compared to petroleum.... Even the most optimistic studies give corn ethanol only a tiny advantage over petroleum, nowhere near large enough to justify the scale of current subsidies.” At present, government subsidies for ethanol production total \$7 billion a year, which makes it more profitable for farmers to grow corn for ethanol than for human or animal consumption. The reduced production of corn for such consumption raises the price. The math is simple: Because corn is used to feed chickens, cows, and pigs, these higher prices translate directly into higher prices for chicken, beef, pork, milk, cheese, and so on.

Jean Ziegler, special UN reporter on food, concluded that while the argument for biofuels, in her opinion, in terms of energy efficiency and climate change is legitimate, the effects of growing food for fuel on the world’s hungry population are “absolutely catastrophic,” and she considers the use of arable land for that purpose a “crime against humanity.” *Time* magazine admits that production of ethanol “sucks up grain and cropland that could be used for food. In America, 40% of the corn crop is currently diverted to make fuel for cars.” *Time*’s writer Bryan Walsh noted, “Diverting corn and other crops to biofuels will only act to raise prices.” That might be worth it, says Walsh, “if biofuels provided substantial environmental and economic benefits, but there’s significant research showing that corn ethanol’s carbon footprint isn’t much better than that of oil. Nor has ethanol done much to wean the U.S. off foreign oil.” Mark Clayton, writing in the *Christian Science Monitor*, said that if ethanol subsidies were allowed to continue, corn prices could rise another 72 percent in the next few years, which would continue to put pressure on the world’s hungriest countries.

GOP analyst Thomas Segal said that what is most disheartening about the current “food for fuel” mandate is “when we realize that ethanol has only increased our energy independence by 1.1% and reduced our greenhouse emissions by 1/19th of 1% — and for that reduction [we] have paid an extra \$3.6 billion for gasoline at the pump.”

Another writer admitting that ethanol subsidies are distorting the market and raising food prices is Michelle Chen. Writing for the online site Huffington Post, she exclaimed that such subsidies are “the modern face of famine. A plan to cure a fuel crisis through industrial farming has potentially driven a humanitarian crisis of far greater proportions.” And then she admits that “no policymakers wish to confront the [real] fundamental crisis: access, distribution, and the need for equity-minded agricultural methods that can truly sustain both producers and communities.” This is liberal-speak for finally recognizing that the solutions to the food crisis are not more government involvement, but less. “Access” and “distribution” are problems that only free markets can solve, and they will only be solved through “equity-minded” methods, such as ownership of private property and protection of those rights under the law.

With the continuing and increasing pressure on the price of commodities due to the weakening dollar, wasteful ethanol subsidies, and the “perfect storm” of other events negatively impacting the production of foodstuffs, it is all but certain that the sticker shock in the grocery store will continue, and perhaps get much worse, for the American family.

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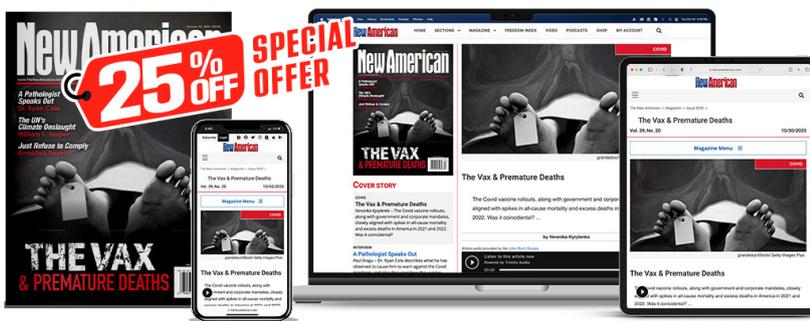


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