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THE CAUSE OF THE FOOD SHORTAGE

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Punditry is seriously exercised about the worldwide shortage of food, which is real enough, but not an act of nature or a result of market failure. Rather, it stems from the combined failures of government, and with results that are potentially catastrophic.

Paul Krugman suggests that this has come about mostly for these reasons: new food demand by China; the high price of oil; bad weather in important farming areas (particularly Australia); and the reduction of farmland available to grow foodstuff—in favor of growing biofuel crops, for the purposes of alternative, (reputedly) environmentally safe energy sources such as ethanol.

Krugman's proposed solution to these problems is for us to give more of our money to government, so that it can solve the problem the market is apparently incapable of solving.

And now, the real story.

Regardless of whether one thinks the above-listed factors play a role in world food shortages, there are in fact two issues of primary importance related to food shortages and food costs that Krugman does not mention and may not know.

First, the underlying cause of any shortage is the lack of a free market, since genuine shortages cannot appear in a free market. Instead, while prices of goods would likely rise at the onset of reduced supplies, the goods in question would always be available at some price—and the higher the price, the more the supply would increase to meet demand, which would then of course reduce the price.

If we had free world markets, food would be exported from some countries, such as the United States and Europe, where food is plentiful, to countries where it is needed. This is because it would be profitable to ship goods to needy areas like Africa, where shortages were making prices rise.

The fact that this is not currently happening can be a result only of government price controls (which prevent prices from rising in needy countries), trade restrictions, or some other government barrier that prevents people from getting what they



need. The World Bank has cited a list of 21 countries that have price controls on basic staples.

We all remember the stories of people in Ethiopia starving in the 1980s, when 3 million people went hungry. What was unreported was that there were 60 million people in Ethiopia at the same time who were unaffected by famine. The moving of food from one part of the country, where it was plentiful, to the other part, affected by drought, was prevented by fighting between the government and rebel groups near the area of the drought.

Economic incentives were prohibited by the government's forced withholding of food shipments (so that rebel soldiers would not have access to supplies), by price controls, by the declaring of grain wholesaling illegal in much of the country, and by the prohibition of the private selling of farm produce or machinery.

A similar situation occurred in Zimbabwe in the early 2000s. Indian economist Amartya Sen won a Nobel Prize for demonstrating that most famines are caused not by lack of food but by governments' ill-advised intrusions into the functioning of markets. "Since money is now being created faster than goods are being created, prices are rising."

The second issue Krugman fails to mention is that high food prices are a manifestation of current worldwide price inflation. World governments have been printing money at very high rates this decade. While the United States has been expanding the money supply by "only" about 10–15 percent per year, many countries have printed money at rates exceeding 50 percent per year. This money, which had been previously

contained mostly in world stock markets, has now also spread to commodity markets, from which the prices of food are derived. Since money is now being created faster than goods are being created, prices are rising.

As another example of this phenomenon of the increase of money exceeding the increase in supply of goods, we may cite the rise in oil prices. Although this has been attributed in the press and other public forums to speculation, greedy oil companies, and increased demands of oil from China, the real cause is the increasing disparity between available money and available oil.

Along this same line, the steep rise in prices—of housing, stocks and bonds, oil, gold, commodities, food prices, etc. that we have seen this decade—would be mathematically impossible without the increased supply of money circulating in the world economy. In fact, if the supply of goods were increasing, as it has been, and if at the same time the quantity of money remained stable, prices would necessarily fall.

Make no mistake: for various fundamental reasons related to production, supply, and demand, there is a lack of supply of some commodities available relative to the growing real demand for them. Still, this lack of supply is not the root cause either of the occurrence of shortages or of the extreme increase in world food prices (by over 80 percent in three years). Additionally, though many commodities such as wheat have been stagnant or in reduced production over the last several years, other commodities have seen continued increases in production; other food groups such as cereals, fruits, livestock, and fish and seafood

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products have seen mostly increased supply.

Data from The Food and Agriculture Organization of the United Nations show that both agriculture production and food production per capita has risen since 1990, and stayed steady since 2000. In comparison, commodities prices have been rising since 1999.

Returning now to Krugman's piece, we can see that the reasons he adduces for the food shortages and rising prices are illogical. For example, "new demand" for food from China would necessarily have resulted not only in the Chinese themselves producing more food to meet this demand, but in the rest of the world doing so as well. (In fact, China has increased agricultural production per capita by 22 percent since 2000.)

Can we really imagine that world food producers would not have spotted this demand and tried to make profits by satisfying it? In fact, they have spotted it and have therefore been producing more food. The Chinese population is increasing by just over one-half of one percent per year. How, then, could the Chinese suddenly have a desire and need for 30 percent or so more food per year in recent years? Further: how could they pay for it, even if they had the want of more food?

As a concept, "demand" is liable to misunderstanding because we use the term in several different ways. I might have a demand (desire) for a house in the south of France in order to have a place to park the yacht I also demand (desire). In this case "demand" is without consequence, because I do not have the means with which to pay for these items. Real demand can affect prices only if there is real purchasing power, in the form of money, to support the demand.

Chinese consumers cannot demand, and thus pay for, increased consumption of food without more money, which can only arrive in their pockets after being printed by their central bank. They can have an increased real demand by way of

producing more goods with which to pay for more food, but this would serve to reduce prices, not raise them.

To be clear, it is not the companies that people work for that are producing the money, as companies don't produce the money they pay out as wages; they produce only goods. For companies to have more money (i.e., sell their goods at a higher price than last year) and then pay out more money in wages to workers, more money has to be created by their government in the form of credit expansion.

With regard to China, then: if there were as much of a new demand for food in China as Krugman claims—given a constant amount of money in the economy, there would necessarily be a corresponding reduction in the demand and prices of other goods. Therefore, the Chinese may well be consuming more food, but this increased consumption would not be responsible for (absolute) higher prices or shortages.

What, then, about the bad weather? Bad weather could well play a role in the short run. But in the longer run, if Australia has bad weather, even for five years straight, other countries could and would step up their production and increase supply. As an example, more land in the United States would be turned to farming. Food shortages in one country would cause world prices to rise by some degree temporarily; but the result in a situation of free trade would be increased production in and increased supply from other countries, a result that would then push the price back down.

It's possible that the lack of free markets has prevented this from happening, but it's certain that free supply and demand would preclude the possibility of global emergency.

If there were bad weather in most regions of the world at the very same time, the supply of food would in fact decline and prices would rise. But in a free market shortages would still not appear. And in a world of an unchanging supply of money, this effect would be

temporary, as prices would fall when supply later increased. Again, as the price of food rose, the price of other goods would have to fall. Sustained price rises among all goods can result only from new money entering the (world) economy.

As for Krugman's last argument, that farmland usable for food is now being used for the growing of biofuel feedstock instead, this is a question mark. In a free market, if there were a shortage of food and if the necessarily associated high prices of food gave that market signal, land used for any other item—biofuel feedstock, car lots, movie theatres, houses, or whatever—would be converted to use for farming.

If we had sustained food shortages in the United States, for example, this is what would happen. Indeed, agriculture used to represent 50 percent of GDP at the beginning of last century, but is now less than one percent. Land use has changed to meet changing demands. But if we needed food, we could and would build agriculture back up toward that 50-percent level. On a worldwide scale, as food prices rose, land would be turned to the more profitable growing of food

instead of the less profitable growing of biofuel feedstock.

Only if government subsidies were high enough to obscure these market signals, or if government required energy companies to purchase feedstock (which this author is told is the case in the United States), could the agriculture production structure be deformed so that this market response would not take place. Similarly, if agricultural lands became difficult to develop due to government regulations to, e.g., protect current farmers, increased production could become difficult.

In sum, the real cause of continually rising food prices is the printing of money by world governments. And the real cause of actual food shortages is the prevention of profitable global trade in food by the ill-advised policies of the governments of the very people who are starving. To the extent that any other reasons proposed contribute to a reduced supply more than temporarily, it is likely because governments prevent the market from working. To ignore these primary drivers of current world food shortages is either willfully to dismiss economic logic, or to be unaware of it. ■

THE CHILDREN

Llewellyn H. Rockwell, Jr.

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Christopher Ratte, professor in the department of classics at the University of Michigan, was recently turned into a jailbird and had his son taken away from him, all in the name of protecting the child from the father. He had taken his 7-year old son to a baseball game in Detroit and ordered him lemonade. What was served up was a “Mike’s Hard Lemonade,” which his son prepared to drink. Suddenly security arrived.

“You know this is an alcoholic beverage?” the security guard asked.

“You have got to be kidding,” responded the professor. And before the professor could examine the bottle, the guard snatched it away, and the boy was taken to the hospital where no traces of alcohol were found in him. The boy was then promptly put in foster care. It was two days before the mother, a professor of architecture, was allowed to take him home, and a full week before the father

was allowed to come back into the home again.

The case provides a remarkable look at the workings of bureaucracy. The *Detroit Free Press* interviewed all the people involved. It turns out that no one was happy about what happened, but the gears of the bureaucracy ground away, ruining people's lives for no good reason.

The cop on duty thought it was a mistake, but his supervisor was insisting that he act. When Child Protective Services came to take the child into their cruel foster care, the police objected. But CPS was just doing its duty. It had no choice but to take the child since the

police had requested a court order—also triggered by events—to remove the child. Observers who know the system say that the only surprising aspect to this case is that the child was returned so quickly. Had the couple been poor, uneducated, and unconnected, the case might still be tied up in the courts.

The lesson many people draw from this is that social workers are being given too much authority, that governments need to be reformed so that they do not take extreme measures too hastily, that cops need to use good sense

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News from the Institute

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The Mises Circle meetings that we have been holding around the country, under donor sponsorship, have been smashing successes. The most recent one in Seattle was completely full weeks in advance. It is a great chance to meet old friends and make new ones. And it doesn't require a large time investment: most are one-day seminars. If you are interested in sponsoring one in your town, please let us know. ■

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Summer 2008

The living is not easy but the experience is unforgettable from an educational point of view. Students are here from all over the world, those fortunate enough to be accepted into our fellows program as well as the Mises University and the Rothbard Graduate Seminar. These are critical moments in students' lives when they can seriously focus on building an intellectual foundation for the future. The Mises Institute is providing the kind of training that sticks through graduate school and onward to reappear in classes the young professors teach. The investment is heavy and early but it pays big returns later for freedom. ■

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before busting up families, etc. The problem is that all of these reforms ultimately depend on the state to use its discretionary power judiciously.

The real issue concerns the locus of the control. Does it belong to the family or the state? When there is a dispute, to whom does the presumption of innocence belong? It is not enough to say, here is a bad family environment, so of course the state should control the outcome. When it comes to the power of the state over the family, there is no such thing as a judicious use. The state has every reason to invent excuses to destroy families, and the families themselves have no choice but to crawl and beg.

State campaigns for the welfare of children have long been a major justification for the expansion of Leviathan. This is the primary basis for the war on drugs, which has robbed us of so many civil liberties. It is the basis for the nationalization of education that is taking place, administration by administration, in the name of preventing any child from being left behind. If the Internet is ever regulated in the United States the way it is in China and parts of Europe, it will be in the name of protecting the children. Indeed, it is possible to erect a totalitarian state in the name of helping the children.

So it was in Texas, when the state swept in to remove 416 children from their mothers. The police were responding to a call claiming abuse, but there was no other basis for this incredible action than the desire to crush a religion completely. The state decided the dissident church shouldn't exist, and so it claimed all power in the interest of the children. The state could count on sympathy from mainstream American culture, which disapproves of polygamy and underage marriages. And that is precisely why the group separated themselves completely from the rest of the culture.

Should people be free to set up cults, to live undisturbed to practice their religion, to deviate from mainstream ethical codes? Certainly if we believe in freedom, people should be able to do this. In fact, the group was already under a great deal of pressure to reform from the outside and inside, with former members of the group reporting despotic control by the leader and many men who had been excommunicated putting pressure on those inside to leave. We don't know whether the entire matter—if indeed abuse was taking place—might have been handled in this way, because the state intervened to impose the cruelest possible solution, namely, taking children from their mothers' arms and putting them in the hands of government social workers.

Thus can we see the power of propaganda—and its uses. State authority over the family is a basis for the loss of liberty in our time, and that the state always poses a greater threat to society than whatever problem it purports to solve. To concede that there are social problems that cannot be corrected without the state is to give up the entire argument over the future of liberty itself. ■



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