Global Famine? Blame the Fed

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The stakes couldn't be higher for Ben Bernanke. If the Fed chief decides to lower rates at the end of April, he could be condemning millions of people to a death by starvation. The situation is that serious. Food riots have broken out across the globe destabilizing large parts of the developing world. China is experiencing double-digit inflation. Indonesia, Vietnam and India have imposed controls over rice exports. Wheat, corn and soya are at record highs and threatening to go higher still. Commodities are up across the board. The World Food Program is warning of widespread famine if the West doesn't provide emergency humanitarian relief. Venezuelan President Hugo Chavez said it best:

"It is a massacre of the world's poor. The problem is not the production of food. It is the economic, social and political model of the world. The capitalist model is in crisis."

Right on, Hugo. There is no shortage of food; it's just the prices that are making food unaffordable. Bernanke's "weak dollar" policy has ignited a wave of speculation in commodities which is pushing prices into the stratosphere. The UN is calling the global food crisis it a "silent tsunami", but its more like a flood; the world is awash in increasingly worthless dollars that are making food and raw materials more expensive. Foreign central banks and investors presently hold $6 trillion in dollars and dollar-backed assets, so when the dollar starts to slide, the pain radiates through entire economies. This is especially true in countries where the currency is pegged to the dollar. That's why most of the Gulf States are experiencing runaway inflation. This doesn't mean that oil depletion, biofuel production, over-population, and giant agribusinesses don't add to the problem. They do. But the catalyst is the Fed's monetary policies; that's the domino that puts the others in motion. Here's Otto Spengler's summary in his recent article in Asia Times, "Rice, Death and the Dollar":

"The global food crisis is a monetary phenomenon, an unintended consequence of America's attempt to inflate its way out of a market failure. There are long-term reasons for food prices to rise, but the unprecedented spike in grain prices during the past year stems from the weakness of the American dollar. Washington's economic misery now threatens to become a geopolitical catastrophe….The link between the declining parity of the US unit and the rising price of commodities, including oil as well as rice and other wares, is indisputable.

Never before in history has hunger become a global threat in a period of plentiful harvests. Global rice production will hit a record of 423 million tons in the 2007-2008 crop year, enough to satisfy global demand. The trouble is that only 7% of the world's rice supply is exported, because local demand is met by local production. Any significant increase in rice stockpiles cuts deeply into available supply for export, leading to a spike in prices. Because such a small proportion of the global rice supply trades, the monetary shock from the weak dollar was sufficient to more than double its price." ("Rice, death and the dollar", By Otto Spengler, Asia Times)

The US is exporting its inflation by cheapening its currency. Now a field worker in Haiti who earns $2 a day, and spends all of that to feed his family, has to earn twice that amount or eat half as much. No wonder that six people were killed Port au Prince in the recent food riots. People go crazy when they can't feed their kids.

Food and energy prices are sucking the life out of the global economy. Foreign banks and pension funds are trying to protect their investments by diverting dollars into things that will retain their value. That's why oil is nudging $120 per barrel when it should be in the $70 to $80 range.

According to Tim Evans, energy analyst at Citigroup in New York, "There's no supply-demand deficit". None. In fact suppliers are expecting an oil surplus by the end of this year.

"The case for lower oil prices is straightforward: The prospect of a deep U.S. recession or even a marked period of slower economic growth in the world's top energy consumer making a dent in energy consumption. Year to date, oil demand in the U.S. is down 1.9% compared with the same period in 2007, and high prices and a weak economy should knock down U.S. oil consumption by 90,000 barrels a day this year, according to the federal Energy Information Administration." ("Bears Baffled by Oil Highs" gregory Meyer, Wall Street Journal)

There's no oil shortage; that's another ruse. Speculators are simply driving up the price of oil to hedge their bets on the falling dollar. What else can they do; put them in the frozen bond market, or the sinking stock market, or the collapsing housing market? The Fed has gummed up the entire financial system with its low-interest credit scam; now it's on to commodities where the real pain is just beginning to be felt.

This is what happens when there's too many dollars sloshing around the system; they all need a place to rest, and when they do, they create equity bubbles. Sound familiar? Indeed. This is Greenspan's legacy in a nutshell; the dark specter of Maestro will continue to haunt the world until all the hyper-inflated asset-classes (real estate, bonds, stocks, commodities) return to earth and all the red ink is mopped up. That'll take time, but Bernanke could make things a lot easier if he accepted some responsibility for the current turmoil and raised rates by 25 basis points. That would show speculators that the Fed was serious about defending the currency which would send the commodities bubble crashing to earth. Prices would go down overnight.

But Bernanke won't raise rates because he doesn't really give a hoot about the people in Cameroon who have to scavenge through garbage-dumps for a few morsels to keep their families alive. Nor does he care about the average American working-stiff who gets cardiac-arrest every time he pulls up to the gas pump. What matters to Bernanke is making sure that his fat-cat buddies in the banking establishment get a steady stream of low interest loot so they can paper-over their bad investments and ward off bankruptcy for another day or two. Its a joke; it was the investment banks that created this mess with their putrid mortgage-backed securities and other debt-exotica. Still, in Bernanke's mind, they are the only ones who really count.

And don't expect Bush to step in and save the day either. The "Decider" still believes in the unrestricted activity of the free market; especially when his crooked friends can make a buck on the deal.
From the Washington Times:

"Farmers and food executives appealed fruitlessly to federal officials yesterday for regulatory steps to limit speculative buying that is helping to drive food prices higher. Meanwhile, some Americans are stocking up on staples such as rice, flour and oil in anticipation of high prices and shortages spreading from overseas. Costco and other grocery stores in California reported a run on rice, which has forced them to set limits on how many sacks of rice each customer can buy. Filipinos in Canada are scooping up all the rice they can find and shipping it to relatives in the Philippines, which is suffering a severe shortage that is leaving many people hungry." (Patrice Hill, Washington Times)

The Bush administration knows there's hanky-panky going on, but they just look the other way. It's Enron all over again—where Ken Lay Inc. scalped the public with utter impunity while regulators sat on the sidelines applauding. Great. Now its the Commodity Futures Trading Commission (CFTC) turn; they're taking a hands-off approach so Wall Street sharpies make a fortune jacking up the price of everything from soda crackers to toilet bowls.

"A hearing Tuesday in Washington before the Commodity Futures Trading Commission starts a new round of scrutiny into the popularity of agricultural futures, a once a quieter arena that for years was dominated largely by big producers and consumers of crops and their banks trying to manage price risks. The commission's official stance and that of many of the exchanges, however, is likely to disappoint many consumer groups. The CFTC's economist plans to state at the hearing that the agency doesn't believe financial investors are driving up grain prices. Some grain buyers say speculators' big bets on relatively small grain exchanges, especially recently, are pushing up prices for ordinary consumers. ("Call Goes Out to Rein In Grain Speculators", Ann Davis)

"The agency doesn't believe financial investors are driving up grain prices"?!?
Prices have doubled, people are starving, and the Bush troop is still parroting the same worn party-mantra. Its maddening.

The US has been gaming the system for decades; sucking up two-thirds of the world's capital to expand its cache of Cadillac Escalades and flat-screen TVs; giving nothing back in return except mortgage-backed junk, cluster bombs, and crummy green paper. Nothing changes; it only gets worse. But this time its different. The world is now facing the very real prospect of famine on a massive scale because twelve doddering old banksters at the Federal Reserve would rather bailout their sketchy friends then save the lives of starving women and children. Bernanke now has an opportunity to send more people to their eternal reward than Bush with one swipe of the pen. If he cut rates; the dollar will fall, commodities will spike, and people will starve. It's as simple as that.

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