

[Food panic](#) [1]

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Rising food prices are the latest excuse for bashing market speculators. Around the world, these devils are the scapegoats for otherwise ill-conceived market manipulations by governments everywhere. There's no doubt that the consequences of soaring food prices are significant ? from creeping inflation in the developed world to social unrest in the Arab world to real hunger in the impoverished world. However, speculators can only succeed when the fundamentals are in their favour. And that means either supply is artificially constricted or demand is wastefully encouraged.

This week, the big news is that many governments are now buying lots more food commodities than they need. With rioters running rampant in the Arab world, countries from Algeria to Saudi Arabia are doubling or tripling their wheat purchases, fuelling the demand side of the equation and putting even more upward pressure on prices.

Such extraordinary purchases reinforce what have been long-standing government policies in these countries ? massive subsidies on flour for decades, encouraging wasteful consumption while deterring production. As a frequent visitor to Kurdistan, I can attest to the wastefulness of this. Sit down to any meal at the humblest kebab joint and four loaves of bread are plunked on the table without question, even though only one gets barely eaten.

From the ridiculous to the sublime, American policy subsidizes grain production for ethanol in the name of carbon neutrality, crowding out grain production for food, limiting such supplies and so driving up their price. And then there's the EU's hypocritical Common Agricultural Policy that enforces high prices for a wide range of foodstuffs, encouraging over-production of over-priced food in Europe but denying the developing world access to global markets that would allow their farmers to meet their particular domestic needs.

These are just some examples of market distortion on a grand scale. Toss in contributing micro factors like corruption or civil war and some 50% of food production in many African countries is lost on the way from the farm to the food processors, yet another limit to the supply side. In the developed world, on the other hand, huge amounts of food are wasted between the supermarket and the home wheelie bin, yet further fuel for the demand-side bonfire.

It's an unholy mess that is too easily blamed on speculators. Rather than cast as villains, though,

speculators are more like the boy shouting that the Emperors of Food have no clothes.

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