

# Betting on hunger

Banks are earning huge profits from betting on food prices in unregulated financial markets. This creates instability and pushes up global food prices, making poor families around the world go hungry and forcing millions into deeper poverty. It's time to stop bankers from gambling on hunger.



**World  
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# The reality of high food prices

**Banks, hedge funds and pension funds are betting on world food prices in financial markets**, causing drastic price swings in staple foods such as wheat, maize and soy. In 2007-8, there was a huge rise in food prices fuelled by financial speculation. For example the price of wheat shot up by 80 per cent and maize by 90 per cent. Global food prices then fell rapidly in the second half of 2008, only to spike again in 2011, reaching record highs.

Sudden price rises are catastrophic for the world's poor, who spend most of their income on food, leading to:

- Increased hunger as food becomes unaffordable.
- Malnutrition as less dairy, meat, fruit and vegetables are eaten in order to afford staples.
- Increased burden on women to earn more money by taking up risky employment as sex workers or domestic workers.
- Households using up savings, going into debt or selling assets to pay for food.
- Families unable to afford healthcare and education as more of their income is needed to buy basic food.

## Aren't high prices good for farmers?

For decades, international financial institutions like the International Monetary Fund (IMF) have imposed conditions for loans which dictate that developing countries should grow export crops such as coffee or peas, instead of producing essential foodstuffs for their own consumption. As a result, many developing countries are now net importers of staple foods like wheat, rice and maize.

High prices of staples do not benefit poor farmers as they often buy more food than they produce. Even when they do sell their crops, it is the big companies that can trade internationally that most benefit from global price rises, not small farmers.



“The impact of financial speculation on food prices is now widely recognised, and this needs to be subject to control without delay. Hunger is not a natural disaster – it’s a political problem.”  
*Olivier de Schutter, UN special rapporteur on the right to food*



# Betting on food prices

**There are many factors that affect food prices**, but massive price rises and volatility in recent years have been fuelled by banks and hedge funds speculating on future food prices in unregulated financial markets.

'Futures contracts' were first created in the US to help farmers deal with the uncertainty of growing crops (such as unforeseen weather conditions). A futures contract enables farmers to sell their crops at a future date at a guaranteed price, which provides a degree of certainty to enable planning and ensure a regular income. However, these contracts can also be bought and sold by bankers and traders who have little or no involvement in the actual food being traded, but instead bet on food prices as a way to make money.

Following the Wall Street crash in the 1930s, regulations were introduced by the US government to limit this kind of speculation. But these regulations were weakened in the 1990s and early 2000s through aggressive lobbying by bankers to permit rampant betting on the price of staple foods. Additionally, new and complicated contracts were created to allow more ways to make money from betting on food. Banks such as Goldman Sachs created special index funds so that financial companies and pension funds could speculate on the price of food.



## Aren't there other factors that affect food prices?

A number of factors are affecting global food price trends. These include shifting dietary habits; the increased use of land to grow crops for biofuels rather than for food; changes in crop yields caused by climate change; and a fall in the value of the dollar. However none of these are sufficient on their own to explain the massive fluctuations that occur on commodity markets, such as the unprecedented price spikes of 2008. Oil prices also have a knock on effect on food prices as oil is needed to make most fertilisers. Speculation by bankers has played a part in pushing up prices too.

“Various studies find that financial investors have accelerated and amplified price movements at least for some commodities and some periods of time...The strongest evidence is found in the high correlation between commodity prices and the prices on other markets that are clearly dominated by speculative activity.”  
*United Nations Conference on Trade and Development (UNCTAD)*



# Case study: Ethiopia

**Ethiopia relies heavily on importing wheat** and so the rise in staple food prices in recent years has had a massive impact. Ethiopia's total wheat bill shot up from \$84 million in 2006 to \$465 million in 2008. The impact of high food prices was compounded by local droughts.

Nuria Mohammed farms vegetables in southern Ethiopia's Oromiya region. A local drought made Nuria completely dependent on buying wheat and maize from the local market but the prices of wheat and maize had more than doubled and she simply could not afford to feed her family. To survive, Nuria had to sell her five cattle to raise the money needed to buy food. "I sold the cattle for 200 Br (Birr) to 300 Br. They had become skinny

because of lack of adequate pasture, but still they were our only family assets. Previously, they would each have been worth 1,000 Br (US\$105)."

Two of Nuria's children, Faiza Abdulmalieh and Fatima both under five were among 30,000 children that local health workers were treating for malnutrition. Nuria says: "When I was nursing Faiza I was sick so I could not breastfeed her properly."



“There is food on the shelves but people cannot afford it. People who were not previously vulnerable have become vulnerable in many different countries around the world.”  
*Josette Sheeran, executive director, UN World Food Programme, during a visit to Ethiopia 2008*



# What can you do?

**Betting on food prices in financial markets needs to be regulated** to stop massive price rises from exacerbating poverty and hunger.

US regulators are implementing new rules to curb food speculation, and European reforms are set to be decided in 2012. But there is heavy lobbying against these proposals from the banking industry.

It is vital that the UK government does not side with the City of London and block progress towards better regulation on both sides of the Atlantic.

**The World Development Movement is calling on the UK government to support proposals for:**

- All futures contracts to be cleared through regulated exchanges. Most contracts are currently done in private, which means it is impossible to know how much of what is being traded. Contracts need to be brought out into the open.
- Strict limits to be set on the amount that bankers can bet on food prices.

Take action to stop reckless bankers gambling on food and hunger. Check out our website for the latest actions and updates: [www.wdm.org.uk/food](http://www.wdm.org.uk/food), or search **#foodspeculation** on Twitter.

*"Speculation in basic foodstuffs is a scandal when there are a billion starving people in the world. We must ensure markets contribute to sustainable growth. I am fighting for a fairer world and I want Europe to take the lead on that."*  
Michel Barnier, European commissioner for the internal market

The World Development Movement (WDM) campaigns for a world without poverty and injustice. We work in solidarity with activists around the world to tackle the causes of poverty. We research and promote positive alternatives that put the rights of poor communities before the interests of big business.

**Join WDM and help tackle the root causes of poverty** [www.wdm.org.uk/join](http://www.wdm.org.uk/join)

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