PART SIX

THE FOOD AND FINANCIAL CRISES OF 2008–11

THE FOOD AND FINANCIAL CRISES OF 2008–11 355

THE GLOBAL FINANCIAL CRISIS 356

LIVING ON A SPIKE: THE FOOD PRICE CRISES OF 2008 AND 2011 362

THE FOOD AND FINANCIAL CRISES OF 2008–11

Any author will tell you that writing books is a perilous business. *From Poverty to Power* was finished in early 2008, and talked of 'storm clouds gathering in global capital markets'. Those clouds burst with spectacular effect later that year, when the collapse of Lehman Brothers precipitated the worst global recession in half a century. Other historic, and in many cases devastating, events, such as the global food price spikes of 2008 and 2011, got less attention from Western policy-makers and the media, probably because their deepest impact was in the poorest countries. This chapter updates the 2008 edition by exploring the causes, human impact and long-term consequences of these twin crises. A third, more positive shock, the uprisings of the Arab Spring, is discussed elsewhere in the book.

Once again, at the time of writing (January 2012), economic collapse is stalking both the European and US economies, this time in a looming public (rather than private) crisis of debt and insolvency. By the time you read this, that threat will either have materialised or receded. The world (and its development) is at a crossroads.

THE GLOBAL FINANCIAL CRISIS

Since 2008 a financial tsunami, comprising three interlocking waves, has swept the world. First came a collapse in the financial sector, as some of the world's best-known financial institutions succumbed to an accumulation of bad debts, exacerbated by a failure of regulatory oversight. Hard on its heels came a collapse in world trade and investment, affecting even those economies not integrated into global financial markets. The third wave, still ongoing at the time of writing, devastated trust that public institutions could pay their debts, given the fiscal deficits caused by massive bailouts of financial institutions such as AIG and Royal Bank of Scotland.[1]

To address the run of bank crashes in late 2008, according to the UN,[2] the developed economies made available a mighty 49 per cent of total GDP to support their financial sectors (although not all of it was drawn down). In addition, they spent 3.7 per cent of their GDP on so-called 'fiscal stimuli' to keep economies working. Developing countries, which largely escaped contagion to their financial sectors, deployed a fiscal stimulus of some 5 per cent of GDP to make up for the slump in trade and investment. That slump was extraordinary. By the end of 2008, world trade was down by 20 per cent, while globally foreign investment fell by 39 per cent in 2009.

These initial political initiatives were impressive and very positive even if they did not resolve underlying problems. Countries were quick to bail out banks and spend money in fiscal stimuli to keep economies turning. UK Prime Minister Gordon Brown and incoming US President Barack Obama led an international effort that peaked with the agreement at the G20's London Summit in April 2009 to provide a $1.1 trillion boost for the world economy. Some $240 billion of it was destined for developing countries. $750 billion was to flow through the IMF, revitalising an institution that had seemed to be losing relevance prior to the crisis.[3]

In other areas, world leaders failed to listen to President Obama's then chief of staff, Rahm Emmanuel, and his dictum 'You never want a serious crisis to go to waste'. Failure to seriously reform the financial sector saw bail-outs rapidly followed by a return to 'bonuses as usual', and newly resurgent financial institutions snapping at the heels of European governments over their 'reckless spending' (including, one assumes, bank bailouts). Initial attempts at reining in offshore tax havens that allow businesses to evade regulation slowed to a snail's pace in the face of a concerted business lobby.

One legacy of that inaction is greatly enhanced 'moral hazard'. Banks that know they are 'too big to fail' will continue to pursue high-risk 'casino

capitalism' because they know that governments (and thus taxpayers) will bail them out when their bets prove mistaken.

The initial momentum of the G20, which in September 2009 was designated 'the premier forum for our international economic cooperation', rapidly dissipated amid squabbles over exchange rates and trade imbalances – by 2012, the world was starting to look more like it was in the hands of a 'G zero', with no one at the helm as Europe and the US approached the next set of economic rapids.

Those rapids were signalled by the turmoil on Europe's debt markets, requiring bailouts for Greece, Ireland and Portugal, among others, by a combination of the stronger European economies and the resurgent IMF. In return, governments were obliged to submit themselves and their citizens to the kind of drastic 'structural adjustment' meted out to developing countries during the 1980s and 90s. In the US, political paralysis helped trigger a downgrade to the country's triple-A debt rating by rating agency Standard & Poor's, and much of the Eurozone swiftly followed suit.

While Europe and the US remained mired in austerity, debt and political paralysis, what were increasingly termed 'emerging economies', led by China and India, rapidly returned to high-speed growth, a phenomenon dubbed 'the Great Divergence' by Harvard economist Dani Rodrik.[4] One conceptual legacy of the crisis is the final death knell of 1970s divisions of the world into a rich 'North' and a poor 'South'.

The true extent of the shifting tides of global power was revealed when China publicly admonished the US for its sloppy economic management, an event unimaginable even a few years earlier.[5] The official Xinhua news agency said China had 'every right now to demand the United States address its structural debt problems and ensure the safety of China's dollar assets. International supervision over the issue of US dollars should be introduced and a new, stable and secured global reserve currency may also be an option to avert a catastrophe caused by any single country.'

THE HUMAN IMPACT OF THE FINANCIAL CRISIS

The story of how the global financial crisis affected national economies, their leaders and major companies was widely discussed in media and political circles. Whether as subjects of study, or participants, poor people have been largely absent in the debates. To help fill that gap, as the severity of the crisis became apparent, Oxfam initiated research in 12 countries to explore its human impact.[6]

How people living in poverty personally experienced the crisis often failed to conform with standard 'top-down' analyses. The global crisis was superimposed on a number of other processes such as the global food price spike of 2007–8 (discussed below) the daily struggle for survival and the impacts

of climate change, and people understandably failed to distinguish between different sources of threats. Research by the Institute of Development Studies[7] in several African countries and Bangladesh confirmed that poor communities registered the food price spike as far more serious than the global financial meltdown, and this latter was perceived by some as positive in that it eased the upward pressure on food prices.

Moreover, impacts that may appear to be 'lost in the noise' at a local level can still be cumulatively significant at a larger scale. Although Oxfam staff reported little noticeable community impact in many African countries, painstaking research by Development Finance International[8] revealed a net fiscal impact that was very large indeed, with serious implications for future debt service and essential service provision. The crisis decimated government revenues in the 56 poorest countries, costing them $53bn (£33bn) in 2009 – a drop of nearly 10 per cent from pre-crisis levels. These fell a further $12bn in 2010, creating a total 'fiscal hole' of $65bn over the two-year period.

Generalisations are perilous, but overall the crisis hit East Asian communities primarily through trade and labour markets, with mass layoffs in supply chains producing garments and electronics for the world's consumers and knock-on impacts in the informal sector. In sub-Saharan Africa and the Pacific Islands, the impact was mostly via falling commodity exports and reductions in trade revenues. Latin America experienced both. Eastern Europe suffered the highest degree of financial contagion and the largest falls in GDP, while Central Asia was hard hit by its dependence on the Russian economy, which suffered both from falling oil prices and a banking crisis. South Asia was largely insulated from the crisis, with Sri Lanka the worst-affected country in the region.

Women paid a high price in addition to their unpaid work to support their struggling households.[9] Many migrated or took on additional roles to prop up family income, often in the informal economy without social security or legal protection. In the home, many women ate less, or less nutritious food, to leave more for their husbands and children.

Official responses to the crisis across the world ignored the fundamentally different experiences of men and women, and were thus not only unjust but inefficient. For example, in the Philippines, a day after a newspaper article reported the loss of 42,000 jobs in the female-dominated garments, semiconductor, and electronics industries, the government announced the creation of 41,000 new jobs through government infrastructure projects. This stimulus was badly needed, but the benefits were most likely to accrue to men, even while women were bearing the disproportionate impact of job losses.[10]

If one overriding theme emerges from Oxfam's research into the impact of the crisis, it is 'resilience' and the multiple ways countries, communities, households and individuals found to weather the storm. Resilience explains the 'dogs that didn't bark' – things that were expected to happen, based on previous crises, but that happened differently or not at all. In a surprising

number of cases, migrants did *not* return to their villages; people kept their jobs, albeit with lower wages, fewer hours and worse conditions; families managed to keep their children in school; governments did not slash public services (at least in the short term) and political regimes avoided major upheavals (apart from Iceland).

Resilience to a shock such as the financial crisis is to a large extent determined long before the crisis actually strikes. Pre-crisis factors that strengthened resilience on this occasion included the following.

Social networks. At a household level, resilience is largely built on the agency of poor people themselves, their friends and families, and local institutions such as religious bodies or community groups. Everywhere, people turned to one another to share food, money and information to recover from lost jobs or reduced remittances. Families with land for subsistence farming or access to fishing were able to survive much better than those without. Migrants with strong social networks could rely on support locally, or even (in Viet Nam) on reverse-remittances from their home villages. However, IDS research cautions against romanticising the extent of social cohesion. When researchers returned to communities in five countries a year into the crisis, they reported that a 'recurring theme [was] that neighbours and the community in general were less disposed to help each other under conditions where everyone was facing economic hardship'.[11]

Economic structures. At the national level, as well as at the household level, dependence on one or two commodities or markets increased the risk when these went into freefall. The degree and nature of integration with the global economy, particularly of the financial sector, also proved a source of vulnerability. Countries such as Brazil that retain state control over a portion of the banking system were better able to use those banks to channel credit to cash-starved small producers and small and medium enterprises. Countries with effective systems of domestic taxation in place reduced their vulnerability to sudden losses of trade taxes or foreign capital inflows. Regional trade links offered a bulwark against slumps in global markets. For example, in South-East Asia many countries benefited from continuing strong demand from China.

Role of the state. Resilience was greater when governments entered the crisis with fiscal space, in the form of high reserves, budget surpluses and low debt burdens. Effective state bureaucracies capable of responding rapidly to the crisis with fiscal stimulus measures also showed their worth. Well-designed and enforced labour laws are needed to deter unscrupulous employers from taking advantage of the crisis to attack workers' rights. State support for small-scale agriculture and fisheries bolstered household survival strategies in countries such as Viet Nam and Sri Lanka.

Social policies. Countries with free health and education and effective social protection systems proved more resilient. Providing such shock

absorbers against falls in household incomes reduced the vulnerability of people living in poverty to health shocks and avoided school dropouts. More generally, automaticity is beneficial in a crisis: automatic stabilizers already in place, such as unemployment insurance or demand-driven public works schemes (like India's National Rural Employment Guarantee Scheme) can respond immediately to a crisis rather than wait for hard-pressed governments to act.

The crisis also exposed serious flaws. Even those countries that are adopting improved social protection systems seldom extend them to those working in the informal or unpaid caring economies (let alone those working as migrants), both of which were significantly affected by the crisis.

And resilience, whether national or individual, has its limits; it does not take much for 'coping' to tip over into desperation. People are best able to cope with a 'narrow V', in which shock is rapidly followed by recovery, which mercifully describes the crisis to date in many poor countries. Even then, assets once depleted take years to recoup, preventing poor people from participating in the rebound. Working extra hours in second or third jobs leaves a legacy of exhaustion. Loans taken on to finance consumption accumulate into crushing debt burdens. And meals forgone can affect children for their entire lifetimes.

The crisis has marked the political coming of age of social protection as a development issue (see Part 4). Social protection comprises a range of 'shock absorbers', including social assistance or safety nets for the most vulnerable (e.g. cash transfers) and social insurance based on individual contributions (e.g. unemployment insurance).

What emerges from study of the crisis is that, in the 'fog of war' that prevails during a crisis, it is hard to introduce new systems from scratch, and ensure that they reach the intended beneficiaries. Those without established pre-crisis social infrastructure of course should attempt to do something, but short-term responses may be preferable to trying to introduce permanent systems in a crisis. By contrast, from Burkina Faso to Brazil, governments with social protection systems already in place were able rapidly to scale them up to cushion many people living in poverty from the worst ravages of the crisis. The key lesson here is that resilience should be strengthened not during a shock, but on either side of it – building adaptive capacity during 'peacetime', and replenishing it when the shock is past.

THE LEGACY OF CRISIS

It is still too early to discern the full historical significance of the financial crisis, but the initial signs are that it will be profound. The rapid shift of the global economic centre of gravity to China and other emerging markets seems both indisputable and irreversible, barring an unexpected collapse in what are

currently the growth motors of the world economy. 'Emerging economies', led by China and India, have powered ahead, overtaking (in purchasing power parity terms) the economic output of the rich countries for the first time in centuries, and accounting for three-quarters of global real GDP growth over the past decade.[12] However, there are grounds for concern that financial instability could also undermine the economies of the rising powers: rocketing housing bubbles and massive over-investment in China or Brazil are today signals of new sources of instability and potential new problems for the world economy.

The crisis, and the fiscal constraints that have followed, are opening the way for an intriguing rethink on global taxation, with the IMF proposing two international taxes on banks,[13] and the European Union showing serious interest in the possibilities of a 'financial transaction tax' – the so-called Robin Hood tax first proposed by James Tobin in the 1970s.[14]

At first, the crisis was hailed (for example by Gordon Brown at the London Summit[15]) as yet another final death knell for the Washington Consensus policies of the 1990s. The disastrous deregulation of the 1980s and 90s would end and an excessively large and destructive financial sector would be reined in, ushering in a new era akin to the one that followed the Great Depression of the 1930s. However, as financial markets recovered, and governments became trapped in austerity and warding off sovereign debt crises, the momentum for reform waned. Interestingly, though, the IMF continued to surprise, partially rethinking its traditional opposition to capital controls[16] and stressing the negative impacts of inequality.[17]

But overall, the hoped-for 'de-financialisation' of the world economy appears to have stalled. The crisis looks like just the latest episode in which a financial bubble bursts, governments are forced to socialise bad debts (i.e. pass them on to the taxpayer), so that the financial sector can return to health, and revert to its old ways. The Teflon nature of the financial sector, which has been the pattern in many developed countries since the mid-1970s, is no accident, according to economists Peter Boone and Simon Johnson: 'The banks have the money, they have the best lawyers and they have the funds to finance the political system.'[18] That paralysis makes it highly likely that, even beyond the crisis in the Eurozone, the future holds more frequent and deeper financial upheaval, until governments, either individually or collectively, act to ensure that the financial system returns to a socially useful function.

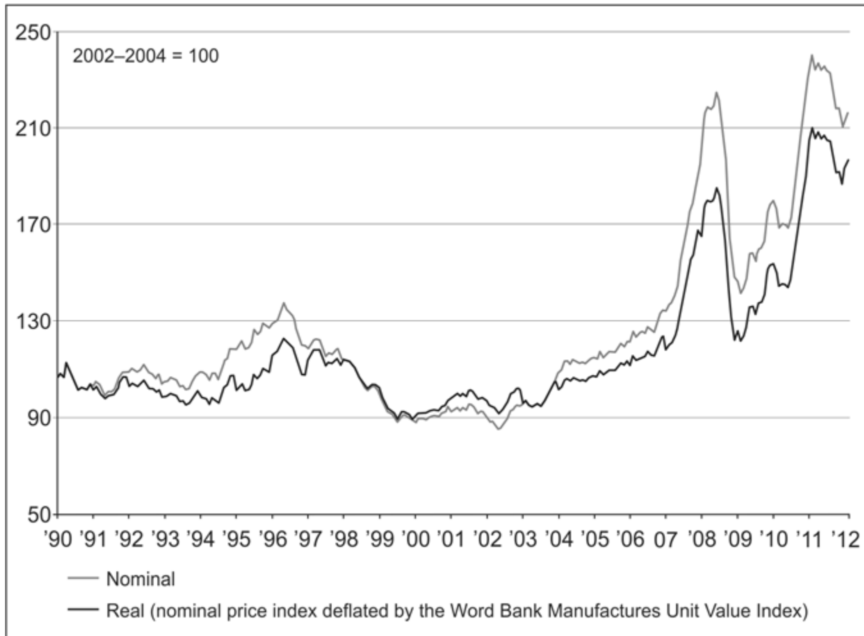
More hope comes from the impact of the crisis on the economics profession. Doubts about its role in failing to forewarn leaders against (or even helping create), the financial meltdown prompted a profound rethink among economists, which was also influenced by the growing awareness that seeing economic activity as infinitely expandable does not square with the finite boundaries imposed by the earth's ecosystems. The intellectual paradigm shifts triggered by crises often take several decades, but can have a profound impact on the way humanity manages its affairs.

LIVING ON A SPIKE: THE FOOD PRICE CRISES OF 2008 AND 2011

> I often get afraid of asking the price – I ask from a distance, hear it, and then slowly go away.
>
> (Agricultural labourer in Dhamuirhat, Naogaon district, Bangladesh)

The clouds of the global financial crisis had few silver linings, but one was that recession in the rich world eased the acute pain of the food price spike of 2007–8. After a long period of relative stability, average global food prices doubled between January 2007 and their peak in mid-2008, before falling back again as global recession hit. The relief was short-lived, however, as

FIGURE 6.1 FOOD PRICE INDICES, 1990–2012



Source: UN Food and Agriculture Organisation.

prices started to soar again in 2010, overtaking the earlier peak by February 2011. The first spike in particular prompted a wave of food riots in some 30 countries, with IMF researchers warning darkly that the record suggests that in low-income countries (but not in rich ones), food price hikes are linked to 'significant increase in the incidence of anti-government demonstrations, riots, and civil conflict'.[19] The disparity in reactions is hardly surprising – in poor countries, people spend up to 80 per cent of their household income on food, whereas in rich countries, the food bill is usually just a fraction of that.

Away from the headlines, the lives of non-rioting poor people in developing countries were also shaken by the price hike, according to researchers at the Institute of Development Studies, who regularly visited eight communities in four countries in 2009–11. By 2010, when the global economy appeared to be recovering and food prices had fallen back, the researchers reported[20] that signs of strain persisted everywhere. Many of the findings were the well-known consequences of crisis: people were cutting back on the quality and quantities of the food they ate, struggling to pay education and health costs, borrowing and selling assets. But in addition, the study uncovered other issues, including reported rises in the abandonment of children and the elderly; microcredit default; crime; and risky sexual behaviour. The ties that bind communities together showed signs of unravelling: people were getting together to save or celebrate less than they used to.

In Nairobi, women explained that the pattern of their days had changed dramatically. In 2007, most women focused on domestic work and child care. In 2008, a growing number began to look for supplementary sources of household income. By 2009, most women would leave home early, seeking work washing clothes or cleaning homes, or selling charcoal, vegetables and foodstuffs by the roadside.

Subsequent visits in 2011, at the peak of the second price spike, but with economic recovery under way in the countries concerned, revealed some longer-term impacts:

> An overall pattern emerges of 'weak losers and strong winners'. The losers – those already struggling in low-paid, informal sector occupations such as petty trading, street vending, casual construction work, sex work, laundry, portering, and transport – are doing worse. Many have seen stagnant or only slightly raised rates of pay, which have been swallowed up by higher food prices, combined with more erratic access to work or customers. These people are clearly worse off than last year … Poor people are having an even more difficult time getting by; the anxieties of the daily grind have become even more arduous and attritional.[21]

By contrast, some of those who were already better off, or more plugged into the formal economy, had benefited from the economic rebound and were better able to cope with higher prices. As with many other economic

shocks, the food price crisis had the overall effect of ratcheting up inequality. Discussions among slum dwellers in Nairobi about who to blame for the price spike and what should be done in response revealed deep anger, even though the second spike has so far produced fewer food riots than the first.

Zooming out from these local impacts, the UN calculated that the 2008 spike and economic crisis pushed the global numbers of hungry people above one billion for the first time – one in seven of the world's population.[22]

High food prices may hurt consumers, but small producers, many of them among the poorest communities in developing countries, would stand to benefit if they could access such prices on domestic markets. Unfortunately dilapidated roads, poorly functioning markets, lack of credit and the concomitantly high prices of fertilisers and pesticides often prevent small farmers from cashing in on the price bonanza.

Moreover, few other than gamblers in financial markets stand to gain from the other defining feature of recent years – price volatility.[23] The peaks and troughs of prices deter investment, leave farmers not knowing when or what to plant, and consumers unable to be sure of feeding their families.

EXPLANATIONS FOR THE PRICE SPIKES

Such a sudden and historic setback to progress in ending global hunger prompted heated argument about the causes of the price spikes. Were they temporary blips, or a long-term shift? Although their relative weight is fiercely disputed, most analyses converge on the same cast list of actors in the food price drama.

Short-term factors. These include weather events in major cereal producers such as the Russian drought of 2010 and the Australian drought of 2007. Another is biofuels, which works on food prices in two ways. First, it competes with food for crops and available land and water – 40 per cent of the US corn crop goes into fuel tanks rather than people's stomachs, reducing supply and pushing up prices. Second, biofuels (along with fossil fuel-based fertilisers) tie food to oil prices. If oil prices rise, farmers move into biofuels and so food prices rise in tandem.

The most fiercely contested factor is speculation on financial markets. While no-one disputes that capital has flooded into commodity markets in recent years,[24] much of it in the arcane world of derivatives, there is less agreement on its impact on prices in the real world.

Medium-term factors. There is a business cycle at work in agriculture as in other markets. A period of low investment leads to a fall in supply and rising prices; these prompt a new peak of investment both in production and research to increase yields, which leads to a surge in productivity and a fall in prices; investment slows again and the cycle repeats.

Other factors are more avoidable, however. Historically, when global stocks of cereals fall below 15 to 20 per cent of world consumption, large price

increases and a breakdown of functioning markets follows. The three main price spikes seen on world cereals markets in the past 50 years – 1973/74, 1995/96 and 2007/08 – have coincided with low stock-to-use ratios. In 2007, this ratio reached 16.5 per cent of global grain production – the lowest level since 1973 (which also led to a global food crisis, in 1974).[25]

Changes in global consumption patterns, in particular the rise of meat consumption in countries as they grow richer, particularly China, where per capita consumption of meat grew from 36 kg in 1996 to 51 kg in 2005,[26] also increases pressure on food production, as red meat in particular is much less efficient than other diets in converting hectares into calories.

Long-term factors. The food crisis of the early 1970s was resolved in part because of the rapid improvement in crop yields linked to the Green Revolution. That is now running out of steam, as the rate of improvement in crop yields has slowed to a crawl in recent years. This is in part down to the collapse in investment in agriculture (including R&D), both by governments and aid donors. The share of agriculture in official aid fell from 20 per cent in 1983 to just 4 per cent in 2006.[27]

Finally, there is climate change. While attribution of particular weather events to climate change is notoriously difficult, there is a strong scientific consensus that, overall, the climate is already changing fast, with increasingly erratic seasonal variations, and that such changes are likely to become more extreme in future. Weather events will hit production, while higher average temperatures will reduce yield growth.[28]

Consequences and feedback loops. High prices have themselves engendered responses, both positive and negative. On the positive side, the spike has galvanised government and aid donor interest in food security and agriculture. It has also fuelled scepticism about earlier claims that governments could rely solely on trade to feed their citizens, and need not give any special attention to domestic food production compared to other activities.

Some reactions have been more malign, however. Countries with money but little food production have resorted to a series of land grabs to obtain long-term access to food supplies, often at the expense of local populations (see Part 3). Food exporters have reacted to high prices by slapping on export bans in the hope of bringing down their domestic prices and securing supply, thereby pushing up world prices still further, to the detriment of food import-dependent countries.

WHAT NEEDS TO HAPPEN

In 2011, deep alarm over food prices, hunger and the growing impact of climate change on poor communities across the developing world prompted Oxfam to launch GROW, a four-year global campaign.

The point of departure for GROW is that the survival and flourishing of humanity in this century will be determined by its success in rising to two historic challenges: ending hunger and learning to live within the planet's ecological boundaries.

The warning signs of a gathering emergency are clear. The world has entered an age of crisis: of food price spikes and oil price hikes; of scrambles for land and growing water stress; of climate change that Oxfam can already see affecting its programmes around the world. The threat that now faces us contrasts with steady, indeed historically unprecedented, development over the last 60 years. This constitutes a profound challenge to our existing models and understanding of development.

GROW has a simple message. Together we can avoid this grim future, but it will require decisive national and international action.

THE FOOD AND FINANCIAL CRISES COMPARED

This chapter has updated the 2008 edition of *From Poverty to Power* by discussing the causes and consequences of two very different 'shocks' – the global financial meltdown, and food price spikes. Superficially these are worlds apart, one involving the mysterious alchemy of the financial markets, and the other the deadly simplicity of hunger. As I write, the TV screens are filled with the almost medieval images of famine in Somalia.

Different, but with certain common elements. Both crises have driven home the importance of stability in the lives of poor people. The experience of living in poverty is not just about average income, but revolves around the anxiety of not knowing what tomorrow may bring, and the lack of safety nets (private or public) for dealing with shocks that do occur. Increasingly, whether at the global or family level, we all need shock absorbers to damp down volatility.

Responses to both financial and food price shocks require a combination of global co-ordination and local action. Global co-ordination is essential if countries are not to indulge in beggar-thy-neighbour tactics that become self-defeating; and local interaction between active citizens and effective states lies at the heart of successful development, as this book argues.

Indeed, successful development is what is at stake. The 60 years since the decolonisation of much of the world has seen unprecedented progress, a veritable 'age of development' in terms of education, literacy, life expectancy, poverty reduction, improved health or the spread of human rights. Those gains are now threatened by the pitiless buffeting of both the financial markets and the price of food. Regaining control of its own creations and placing the products of human ingenuity at the service of that most basic and essential of tasks, feeding everyone on the planet while ensuring it remains fit for human habitation, will be the ultimate test of our species in the decades to come.