

Inflation Policies Must Deal With Impact Of Rising Food Prices On The Poor



*Alastair Smith - Photo:
University of Warwick*

Consumer prices in 2021 rose 7 percent over the past year, making this the largest rise in consumer prices over a 12-month period since 1982. Why are prices rising, especially global food prices? Is the current inflationary episode related to the pandemic? Is aggressive monetary policy the main inflation culprit? And how does inflation affect the world, and the poor in particular? Can it be controlled?

Alastair Smith, an international expert on issues of global sustainable development, seeks to offer answers to these questions in this exclusive interview for *Truthout*. Smith is a senior teaching fellow at the University of Warwick in England and a research associate of the Global Drugs Policy Observatory at Swansea University, Wales.

C.J. Polychroniou: Inflation has increased to surprising levels in 2021, with the U.S. experiencing one of the biggest increases, and looks like it will continue to climb in 2022. Why is inflation happening now, and to what extent is it affected by the pandemic?

Alastair Smith: Inflation seems to have been driven through trade openness and a growing trade deficit in recent decades; with a specific increase from 2020,

despite [a limited contraction of imports](#) during the COVID pandemic. Primary drivers of this deficit include an increase in industrial supplies and materials, mainly petroleum, products and metals. An underlying cause of growing expense has been the increased cost of international shipping and domestic transport: the Baltic Dry Index (a measure of shipping costs) has increased significantly, while higher gasoline prices and truck driver shortages in some regions are pushing up the cost of road transport services. Therefore, the legacy of the pandemic — currently elongated by sluggish vaccination in countries without a critical mass of immunity — has and is [predicted to continue driving inflation into 2022](#).

Global food prices have risen significantly over the last year or so. What is driving the increase in overall food prices in particular?

It's important to select our dataset for analysis critically and I don't believe we currently have the right balance.

The dominant narrative from the UN Food and Agricultural Organization (FAO) and Governments, and therefore the media and wider public understanding, is that nominal prices have increased significantly recently. Headlines highlight that "Global food prices rose 'sharply' during 2021," on the basis that the FAO's "Food Price Index, which tracks monthly changes in international prices, averaged 125.7 points — [a 28.1 percent increase over 2020](#)."

However, the FAO also maintain a separate price index, where "nominal" prices are converted into "real" prices. This index shows the relative cost of food over time, and in the context of wider inflationary pressures. In contrast to the nominal price index, the real price index shows that international food prices declined between the 1960s and the turn of the millennium, but then started to rise again from the year 2000. They have been increasing, more or less, ever since. This means that in *real terms*, food has not just gotten more expensive over the last year or so, but that [food is less accessible in 2022](#) than it has been for most of modern history.

Focusing on the drivers of international real price increase, we need to look at inflationary pressures of the food sector but also the wider costs of life. We know that despite all our socio-technical development, food production is still victim to unpredicted and unpredictable weather. This is exacerbated by the recent La Niña episode driving dryer weather in most food exporting countries. There has

also been a steady pressure on land use created by demand for biofuels — an indirect consequence of the climate emergency. Another pre-COVID shock was the African Swine Fever outbreak, which created price rises in various protein markets. A further significant, more recent pressure has been rising costs of international shipping — something that has increased the costs of all imports.

How do rising prices impact the world and the poor in particular?

We know that poorer individuals and households generally spend [a greater proportion of their income on food](#) than more financially wealthy households. This illustrates the evident truth that food is a staple consumable understandably prioritized even by those with less economic capacity. However, in the context of generalized inflation, in the costs of food and other essentials, more of the poor in countries such as the U.S. are increasingly required to choose between even the basic level of nutrient and other essentials, such as heating (context depending). For this reason, we have seen greater reliance on emergency food provision in countries, such as the U.S. and the U.K.

In other geographies, we might accept that malnutrition has been growing since 2014 as this is largely [driven by conflict, climate extremes, economic downturns and reductions](#) in purchasing power for the poorest. The current famine in Madagascar has drawn speculation that it will be the first globally recognized example of a [climate-driven emergency](#). Other analysis has critiqued this. However, given the low level of economic capacity in the country, rising prices, particularly in rice markets, only reduces the option to mitigate local pressures through imports.

Is there any evidence to suggest that government spending has an effect on inflation?

The impact of government spending on inflation would be highly contextually dependent. We'd need to consider both the magnitude and specifics of such spending, the degree of openness for any specific economy, as well as other economic variables. Government expense will contribute to inflation when other forces create such potential. In other situations, where spending is depressed due to wider factors, well calibrated increases in government expenditure can be used to create a more desirable situation. The COVID pandemic has been a very clear example of this, where even highly politically conservative governments have

used public funds to support the economy through restriction essential to saving valued human life years disrupted. As ever with these things, the devil is in the details.

What specific policies can be used to contain inflation? Is there any room for strategic price controls in today's economy?

Again, containing inflation is complex, and the appropriate measures will be highly contextually dependent. Interest rates are a widely used strategic price control intimately related to suppressing inflation and it's widely anticipated these will soon begin to rise.

More broadly, it has been interesting in the U.K. We have a Tory government ideologically committed to minimizing income support for the poorest. Ironic that such elitist government has been responsible for bankrolling [the largest public borrow-and-spend initiative in decades](#). Sadly, an immediate action after the pandemic has been to [cut income support and add further conditions for continued eligibility](#) — that create further structural barriers to self-sufficiency for many of the poorest.

A more logical response for those apparently concerned with “leveling up” would have been to recognize the possibility to set a strategic price control for society to pay its constituent citizens — through the possibilities of Universal Basic Income (UBI). This would facilitate a more flexible labor market and allow individuals to invest in personal development for new and emerging opportunities. Flexibility would genuinely underpin and support economic restructuring and offer a long-term dampening mechanism on inflation driven by external costs. Such investments wouldn't need to be funded through further debt: what we need in post pandemic 2022 is 100 percent smooth, progressive taxation, not administratively burdensome staged tax bands. (Under a true progressive taxation, the percentage rate increases as income increases, possibly as high as 60 or even 80 percent tax for incomes over, say, 1 million dollars.) In this scenario, contemporary data processing power could set a continually adjusting strategic control on the price of citizenship for each member of our society. Only this sort of qualitative visioning for the future can deliver transformation of national and global economies to the more stable, steady state economics essential to the sustainability of human development on this planet.

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