Globalization Commentaries

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Hitting Them Where They Drive: Will rising gas prices prompt action on commodity speculation?

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There's nothing like a food riot to focus the attention of a developing country government. And perhaps there's nothing like a gas-price spike to get the attention of US policymakers, particularly in an election year.

As oil prices jumped to $108/barrel and US gas prices inched toward the politically toxic $4.00/gallon, welcome attention is being focused on speculation in oil futures markets. *Forbes* reported last week that as much as one-quarter of the price of crude could be attributed to a surge in speculative capital, which now accounts for four of every five dollars on oil futures markets. Citing data from Goldman Sachs, they estimated this was costing US drivers $.56/gallon, a hefty 18% hike in the price at the pump.

This is not news to those who have been following the issue. Robert Pollin and James Heintz showed almost identical results looking as last summer's high gas prices. But with all due respect, Pollin and Heintz are not Goldman Sachs … or *Forbes* or Exxon Mobil or Delta Airlines or the Petroleum Marketers Association of America or the St. Louis Federal Reserve, which all are on record agreeing that excessive oil speculation is driving up gasoline prices.

Maybe this will get policymakers' attention, in a way that food price speculation has not. Despite a raft of evidence showing that financial speculation in agricultural commodities markets helped drive food prices through two price booms (and one bust), the powers that be chose to let their power be when it came to action. As Sophia Murphy and I detailed in our recent report, "Resolving the Food Crisis," bodies from the G-20 to the U.N. blinked when the time came to take firm action on financial speculation, ignoring even their own commissioned research.

Now, taming the ire of US drivers could ease the plight of the world's nearly one billion hungry. It is a bizarre idea.

The profound connections among food, fuel, and financial markets represent a key structural shift in global food systems. Since the rise of industrial agriculture, with its heavy dependence on fossil fuel inputs, global food markets have been deeply affected by oil markets. But more so now, since a rise in oil prices now directly affects corn prices, as the demand for corn-based ethanol, a direct substitute, is driven higher. Food, feed, and biofuels now compete for both the final uses of agricultural production and for land.

The massive entry of speculative finance capital into agricultural commodity markets completes this structural shift. After the deregulation of commodities markets in the early 2000s, commodities became an asset class for institutional investors and speculators, one that directly linked energy and food commodities in one big unhappy index fund. Market fundamentals? Which market? Energy, bio or otherwise? Finance, for sheer portfolio diversification? Or food?

No matter, they all ride the same speculative roller-coaster, at huge cost to consumers and producers alike, as a New York Times report made clear. If a commercial heating oil service has to absorb five-to-ten times as much in hedging costs due to excessive volatility, consumers end up paying the price.

Hopefully, the recent surge in oil prices will add new momentum to US efforts to re-regulate this "financialization" of commodities markets. Members of the US Congress are now circulating a letter to the chairman and commissioners of the Commodity Futures Trading Commission (CFTC) urging them to stand by their commitment to impose position limits on commodities futures markets. "We have a responsibility to ensure that the price of oil is no longer allowed to be driven up by the same Wall Street speculators who caused the devastating recession that working families are now experiencing," concludes the letter.

Position limits are not the only regulatory initiative under threat in the United States. According to a recent update from the Institute for Agriculture and Trade Policy, threats loom on many fronts. Wall Street is challenging the legality of the CFTC's proposed position limits in court, saying a full cost-benefit analysis was not conducted. CFTC rules should, this summer, bring most "over the counter" (OTC) trades onto regulated exchanges, adding much-needed transparency to these massive opaque markets, but financial firms are lobbying for exemptions that could render the regulations less effective. Finally, Republican lawmakers have tried to undermine the CFTC directly by cutting its funding, a paralyzing move given the agency's growing mandate. Congress may consider bills to insulate the CFTC from such political pressures by imposing user fees in some form, such as are in place for the Securities and Exchange Commission and many other such regulatory bodies.

Oil prices may now drive food prices, but US drivers may be the ones to feed reform efforts the political fodder they need to rein in our runaway commodities markets.