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Volume 41, 2014 - Issue 5: Global Agrarian Transformations Volume 1: New Directions in Political Economy

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Food and finance: the financial transformation of agro-food supply chains

S. Ryan Isakson

Pages 749-775 | Published online: 20 Jan 2014

Cite this article https://doi.org/10.1080/03066150.2013.874340 Check for updates

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Abstract

This article draws upon existing literature to document and describe the rise of finance in food provisioning. It queries the role of financialization in the contemporary food crisis and analyzes its impacts upon the distribution of power and wealth within and along the generalized agro-food supply chain. A systematic treatment of key nodes in the supply chain reveals four key insights: (1) the line between finance and food provisioning has become increasingly blurred in recent decades, with financial actors taking a growing interest in food and agriculture and agro-food enterprises becoming increasingly involved in financial activities; (2) financialization has reinforced the position of food retailers as the dominant actors within the agro-food system, though they are largely subject to the dictates of finance capital and face renewed competition from financialized commodity traders; (3) financialization has intensified the exploitation of food workers, increasing their workload while pushing down their real

wages and heightening the precarity of their positions, and (4) small-scale farmers have been especially hard hit by financialization, as their livelihoods have become even more uncertain due to increasing volatility in agricultural markets, they have become weaker vis-à-vis other actors in the agro-food supply chain, and they face growing competition for their farmland. The paper concludes by identifying themes for future research and asking readers to reimagine the role of finance in food provisioning.

Keywords:

financialization food agriculture finance capital agrarian transformation

I would like to thank Jun Borras and Jacqueline Morse for their encouragement and insights in conceptualizing this project. I am also grateful for the helpful comments and suggestions from two anonymous reviewers.

Notes

[1] In the United States, the ratio of financial to non-financial profits rose from 20 percent in 1983 to 50 percent in 2001, a 150 percent increase (Krippner 2011, 41).

[2] In the US, for instance, financial assets as a share of non-financial firms' tangible assets remained fairly steady at around 35 percent from 1952 to 1983, but have sharply increased since then and, as of 2003, were around 100 percent (Orhangazi 2008).

[3] Domestic and regional supermarkets first spurred the consolidation of supermarkets in Latin America. Relatively large domestic retailers merged with and acquired their smaller counterparts. When even larger transnational grocers entered regional markets they acquired these large domestic chains, a process that Reardon and Berdegué (2002) refer to as ‘big eats small then bigger eats big’. Apparently a similar process is unfolding in China, where domestic chains are growing in tandem with transnational retailers.

[4] An oligopoly is a market form in which there are a small number of sellers, which means, among other things, that sellers are able to exercise market power over buyers (in this instance, food retailers are able to exercise power over food consumers). An oligopsony, in contrast, refers to a market where there are a limited number of buyers. Once again, the small number of buyers gives them economic power over sellers (in this case food retailers have power over food processors and traders). In other words, food retailers hold economic power over both their upstream and downstream counterparts in the agro-food supply chain.

[5] As described in Fairbairn (2014) and below, REITs are one mechanism through which farmland is financialized.

[6] Listed in order of their total revenues, the top 10 retailers are Wal-Mart, Carrefour, Metro, Tesco, Kroger, Costco, Target, Home Depot, Sears and Ahold. All but Home Depot and Sears generate a significant portion of their revenues from food sales.

[7] The degree to which food retailers have financialized their assets varies considerably. Among the major food retailers analyzed in Baud and Durand (2012), Carrefour, Ahold, Metro and Target were the most financialized, with financial assets accounting for 30–40 percent of their total asset holdings. Kroger and Wal-Mart were the least financialized with, respectively, 13 percent and 10 percent of their assets in finance. Baud and Durand observe that the most financialized retailers have benefitted the least from the internationalization of the sector and hypothesize that they have tried to appease shareholders by substituting financial revenues for their relatively weak sales abroad.

[8] See Hsu (2013) for a description of Wal-Mart's new produce strategy and Amy Cohen (2013) for a fascinating discussion of why small farmers prefer informal dealings with intermediaries over more direct interactions with large supermarkets.

[9] See Breger Bush (2012) for a helpful and particularly clear description of different types of derivatives contracts.

[10] Ellen Russell (2008a) provides a fascinating account of how, despite their purported intention, New Deal banking policies failed to harness finance as the servant, rather than the master, of the real economy. In addition to her general history, see Clapp and Helleiner (2012), Spratt (2013) and Ghosh et al. (2012) for informative histories about Keynesian thinking and the regulation of agricultural derivatives in the US.

[11] As discussed in Spratt (2013) and Ghosh et al. (2012), this logic is akin to Milton Friedman's 'Efficient Markets Hypothesis'.

[12] Worldwide, the number of futures and options contracts traded on regulated exchanges increased threefold between 2002 and 2008 while the value of non-exchange listed contracts increased more than 14-fold, to US $13 trillion (Mayer 2009).

[13] A study conducted by Lehman Brothers revealed that the volume of speculation on CIFs increased 1900 percent between 2003 and 2008 (De Schutter 2010).

[14] As discussed in Clapp and Helleiner (2012), the US led this initiative with the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, and the EU is following suit, albeit with rules that are likely to be less stringent. Yet even with the passage of the Dodd-Frank bill in the US, there is still significant uncertainty about how the rules will apply to grain traders who, despite their recent speculative activity, are also legitimate end users with an interest in the physical product.

[15] The Syngenta Foundation, the nominally philanthropic arm of the giant agro-chemical and seed enterprise, is promoting weather derivatives in Kenya (Breger Bush 2012, 43). The extent to which the suppliers of agricultural inputs are profiting from the sale of such financial instruments is ripe for investigation.

[16] Deininger et al. (2011) also observe that only a few sovereign wealth funds are directly involved in land transactions, noting that most funds prefer to channel their funds through private institutional investors.

[17] Despite growing interest, Fairbairn (2014) notes that even the most enthusiastic investors commit no more than one percent of their overall portfolio to farmland.

[18] In an alternative Marxian explanation, Akram-Lodhi (2012) attributes the global land grab to the need to push down food prices, thereby maintaining the real wage of workers even as their rate of exploitation – and thereby capital accumulation – increases.

[19] It is also worth clarifying that financial control over land is not novel. Credit providers for agricultural inputs and land purchases have long been able to exercise control over agricultural production, often determining which crops will be grown, the conditions under which they will be grown and terms and conditions of their exchange.

[20] Given the inequitable distribution of food and the growing allocation of crops to the agro-fuels red herring, one should also question the very need to increase agricultural productivity.

[21] It is also worth noting that investors are rarely interested in acquiring the most marginal, unproductive lands. Instead, they have a preference for the best quality land in terms of soil fertility, proximity to markets, water availability and irrigation potential, and the availability of other infrastructure (Cotula 2012).

Additional information

Ryan Isakson is an assistant professor at the University of Toronto, where he holds a joint appointment between the Centre for Critical Development Studies and the Department of Geography. His research and teaching interests are in the political economy of food and agrarian transformation, particularly in Latin America. He has conducted research on peasant livelihoods and the cultivation of agricultural biodiversity, land reform, agro-food certification and compensation for environmental services. Email: ryan.isakson@utoronto.ca.

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