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Troubled futures? The global food crisis and the politics of agricultural derivatives regulation

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ABSTRACT

The global food crisis of 2007–08 triggered an important US-led initiative to tighten regulations over agricultural derivatives markets. The lead role of the US reflected its structural power in global finance and the influence of societal interests within the US concerned about the rapid growth of financial investment in agricultural derivatives markets over the past decade. Encouraged by market developments and deregulation in the United States, these investments represented a “financialization” of agriculture that was blamed for contributing for global food price volatility. In their push for tighter regulation, US domestic groups were able to boost their influence by allying with other domestic actors concerned about volatile energy prices and by linking their cause to the broader politics of financial reform in the wake of the 2008 financial crisis. This

episode has important lessons for the literatures analyzing the IPE of both food and finance.

KEYWORDS:

Derivatives | futures markets | global food crisis | global finance | financial regulation | commodity prices

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Notes

1. The only scholarly work we have been able to find providing a detailed analysis of the politics of commodity derivatives market regulation is by an economist and is now quite dated; see Pashigian (1985, 1988).

2. For some exceptions to general neglect of the role of futures markets within literature on the IPE of agriculture and food, see Talbot (1996), Neilson and Pritchard (2009), Ponte (2002), and McMichael (1999).

3. For a useful overview, see Bryan and Rafferty (2006) as well as many of the other sources cited in this article.

4. For the following arguments (not all of which are in each one of these sources), see, for example, Irwin and Sanders (2010), Sanders et al. (2008), Blanche and Soares (2008), World Bank (2008), Young (2008), and Pirrong (2010).

5. For NGO interest, see, for example, European Network on Debt and Development (2009), Kerckhoffs et al. (2010), and the UK-based World Development Movement's campaign <http://www.wdm.org.uk/food-speculation>.

6. <http://www.europarl.europa.eu/sides/getDoc.do?language=EN&type=IM-PRESS&reference=20100112IPR67166> (accessed 1 July 2010).

7. Pashigian (1988) also argues that farmers' calls for derivatives regulation historically were 'economically rational' because opposition emerged in regions where futures prices were used by grain elevators to facilitate buying cartels.

8. For these broader politics of US derivatives reform, see Helleiner and Pagliari (2010). Prudential concerns were also relevant to OTC commodity swaps because potential counterparty risks existed not only among the large dealer banks and speculators in commodity derivatives markets but also among commodity trading houses, many of which were thinly capitalized (Tett, 2008).

9. These principles were similar to those that the CMOC was promoting throughout the previous year (e.g. CMOC, 2009a, 2009b).

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