

You Can't Carpool in a Combine; Hyperinflation Hits Food Supply

by Marcia Merry Baker

Apart from the vast hurricane damage to agriculture in the Gulf Coast states, the shock effects from speculation, financial bubbles, and out-of-control energy prices are slamming the U.S. farm-belt at large. Taken together with the economic breakdown effects internationally from the same causes, the demand by commodity cartels for continued domination, and the lack of Federal action, a food supply crisis is in the making.

What's involved are the immediate effects of hyperinflated fuel and energy costs of all kinds, on the inherent cycles in agriculture—sowing, reaping, drying, shipping, processing, animal-raising, etc.—hitting on top of decades of marginalized infrastructure and family farm circumstances. Therefore, non-linear effects are everywhere. For example, farmers in the corn-belt are making triage decisions about which crop fields to leave unharvested, because it's too expensive to combine. What happens next crop season? Many are saying, "I quit."

It's just these kinds of shock-effects which are not in the models of today's generation of so-called economists, nor the thinking of the average man on the street. The current blather heard daily on TV business talk shows is ridiculous for what it says, but worse for the fact that it's tolerated. You hear, for example, "Well, true, the fuel component of agriculture expenditures will rise this year, but . . . supply and demand . . . farming will adjust next year."

A Kansas farm leader got at the truth of the crisis when he warned, even before Hurricane Rita, "You can't carpool in a combine." The U.S. farm sector, and therefore its food chain, is on the line.

The situation in Kansas is indicative of the crisis across-the-board. It's a world center of wheat output, and a leading U.S. cattle state as well. Details are given below on the "Kansas Syndrome" in the energy price-inflation crisis, and key

characteristics of American agriculture vulnerability generally. First, the political focus is on what can and must be done.

LaRouche: Act on Oil and Food Prices

Lyndon LaRouche raised the matter of food supply, in connection with the necessity of dealing with the out-of-control oil prices, at his Sept. 16 Washington, D.C. webcast, "The Great Change of 2005." It was held in the midst of Congressional first-reactions to the Hurricane Katrina devastation and Executive Branch negligence. In response to a Senate Democratic office asking, "What exactly is going on? Who or what is actually controlling the price of oil, and how specifically should the Senate respond to it?" LaRouche started off by saying, "Supply and demand is something for sick children to believe in."

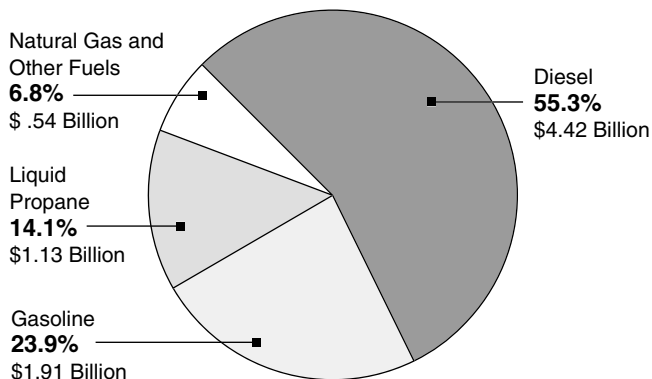
He stressed the responsibility of government to act in the national interest, and what it must do now. "Internationally, the oil price—we could control it. I guarantee you, we have the access to governments abroad, who as a concert of governments, would agree in a flash, to join the United States in regulation of oil in terms of supply, as if on a war-time basis, to make sure that everybody gets it at a fair price. And the speculators will just have to take a bath. We may find some water for them.

"Now, another thing we've got, which is a similar situation, which is not as obvious yet, but we're on the verge of it—it's happening right now—is food! Its supply and its price. Food! Now some people around the Congress have said this, and asked about this.

"The United States government has to guarantee, use its power, to ensure that the food supplies of the American people are maintained at a fair price. Adequate supply and fair price. That is in jeopardy now. It's already in jeopardy on price. Look at the changes in food prices. Look at the incomes of

FIGURE 1

Types and Share of Fuels Used in U.S. Agriculture—\$8 Billion Total Expenditure, 2004



Source: U.S. Department of Agriculture, National Agriculture Statistics Service.

people. Our problem is not poverty. Our problem is that people are being ruined, starved to death, crushed. This is where the problem lies.

“Don’t get taken in by the so-called financial advisors, by these spin sessions that they go through. It’s all garbage! There is no such thing as supply and demand. We know this doesn’t work. . . . We don’t have a supply-and-demand problem. We have a stealing problem, and we have to protect the vital interests of the United States and other nations from that. And if I were President, I guarantee you, in about three days, I could get this thing through.”

Responding to another Senate office’s question about restoring price regulation on both energy and food, LaRouche elaborated, “*We organize the flow*, of what we need in so-called energy supplies, and we regulate the price, put a cap on it, and we work with other nations to keep that price, a lid on it!

“Now, we also have a problem of food supplies. Most people don’t realize it, but our food chain is quite vulnerable now. Therefore, we have to mobilize, and ensure that everybody gets a chance to eat. Those two things—at this time. There are a minimal number of things we should try to do, in terms of management, from the Federal government, but these are two things that *must* be done! Because, if these things are not done, the whole system can blow, the whole effort can fail, as a result of not doing it. That’s the basic thing.”

During September, the Lyndon LaRouche Political Action Committee submitted testimony for the record on the urgency of re-regulating energy supplies and prices, to hearings of two Senate committees (Sept. 6, Energy and Natural Resources Committee, on “Global

Oil Demand/Gasoline Prices”; and Sept. 21, Commerce, Science and Transportation, on “Energy Pricing”) and the House Energy Committee. (See www.larouchepac.com.)

In line with this thinking, the Russian government on Sept. 19 announced a cap on gasoline prices for the coming months, on the principle of the national interest. On Sept. 9, the Duma had unanimously passed a resolution calling for a price freeze for gasoline and fuel prices for agriculture. (See article, p. 71).

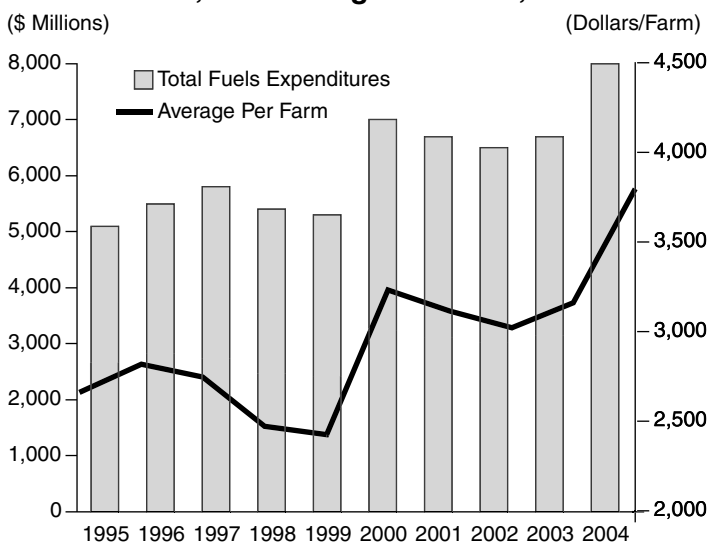
Fuel Critical in Agriculture

Figure 1 shows the relative shares of types of energy used in U.S. agriculture as a whole during 2004, and what was spent on those fuels. Over half is diesel fuel for tractors, field machinery, generators, etc. Gasoline is the next-largest type, almost one-quarter. Liquid propane is a significant 14% of fuel used. And among the 8.6% percent of farm expenditures going to other fuels, the largest component is natural gas—used for drying crops, among other purposes. Not included here is electricity, also an important farm expenditure, especially for dairy, and many livestock confinement operations, and in many locations generated by utilities using natural gas generators.

Prices for all of types of fuels used in agriculture are now soaring. Moreover, this fuel inflation comes on top of last year’s record \$8 billion spent on fuels in agriculture, a big jump over the year before. **Figure 2** shows the total expenditures on fuels in U.S. agriculture by year, and the average per farm, for the past nine years.

FIGURE 2

Expenditures on Fuels in U.S. Agriculture—National Total, and Average Per Farm, 1995-2004

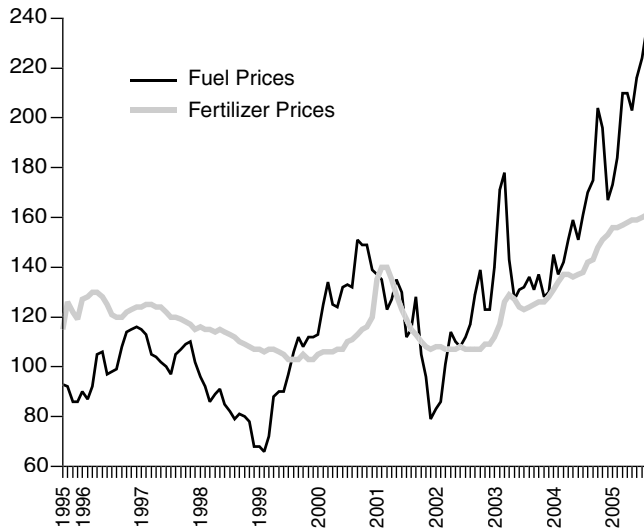


Source: U.S. Department of Agriculture, National Agriculture Statistics Service.

FIGURE 3a

Prices Paid by Farmers for Fuel and Fertilizer Expenses, Monthly, January 1995 to August 2005

(Indexed to 1990-92 Prices)

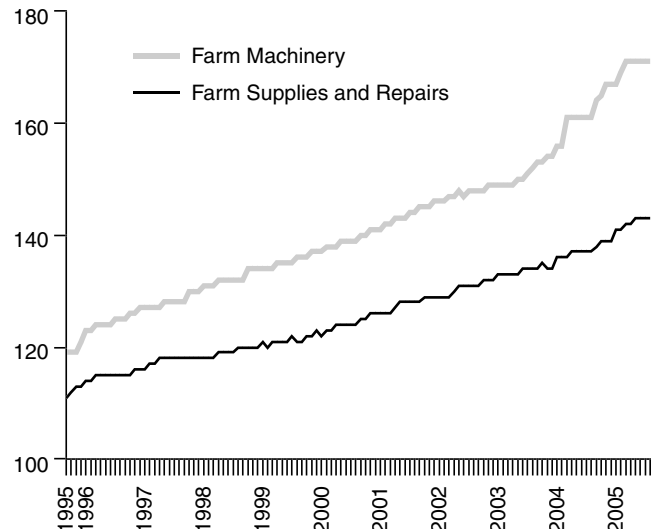


Source: U.S. Department of Agriculture, National Agriculture Statistics Service.

FIGURE 3b

Prices Paid by Farmers for Farm Supplies, Repairs, and Machinery, Monthly, January 1995 to August 2005

(Indexed to 1990-92 Prices)



Source: U.S. Department of Agriculture, National Agriculture Statistics Service.

Years 2000 and 2001—the heyday of the Enron rip-off era—stand out. But now, a new post-Enron, even bigger wave of stealing is under way. Under the current hyperinflationary take-off, farm fuel expenditures are on the way to topping \$10 billions or more—except that non-linear effects occur first, namely farm failures, inability to pay, farm closures, and thus food supply breakdown.

(The reason that per-farm fuel expenditures rise more sharply than the national total, is that farm numbers are also decreasing, except for “lifestyle” or hobby farms. This loss of family farms is also a threat to the food supply.)

Prices are rising for other key farm inputs, along with fuel prices. **Figures 3a and b** show indices for the rise in fuels and fertilizer, and for supplies and repairs, and machinery, by month over the past 10 years through August 2005. These four items together (including construction with supplies and repairs, and seeds and chemicals along with fertilizer) added up to nearly one-third of the national expenditure on farming inputs in 2004. Other inputs, not shown here, include livestock, feed, farm services of various kinds, labor, taxes, interest, and rent.

In Figure 3a, what stands out is the rise and volatility of prices of fuels—given the onset of energy deregulation as of the late 1990s—along with the simultaneous upsweep in speculation of all kinds, not just commodity-related. Fertilizer prices likewise display wide swings in prices. Anhydrous

ammonia, a leading fertilizer, uses natural gas as a feedstock.

In Figure 3b, prices of machinery and supplies and repairs likewise rise over the past 10 years, but without the gyrations of the fuels and fertilizer prices.

Putting these trends of rising farm input costs in context, **Figure 4** shows how *the prices paid out by farmers for their inputs to production have exceeded the prices they are receiving for what they produce, for the past 15 years!* The graph covers 30 years, indexing prices to the levels of 1990-92. Until that time, the prices farmers received for their output were more than what they paid to produce it. But since about 1991, this has never been the case again.

How are farmers managing to remain on the land? Two main factors—up until now: First, the principal farm operator, his or her spouse, children, and relatives work off-farm jobs, providing non-farm income to subsidize money-losing farming. Income from farming averaged just 16% of total farm household income in 2004.

Figure 5 shows the geographical patterns, by county, as of 2002, of what percent of principal farm operators work off the farm at least 100 days a year. Nationally, some 46% of farmers were doing this in 2002. The darkest tone shows counties with 55% or more working off the farm at least 100 days. Even the lightest tinted counties are over 40%.

The second, lesser factor in supporting farmers to stay in operation, is that there has been a flow of Federal government

payments to farmers. But in reality, these payments amount to pass-through subsidies to the few cartel companies domina-

ting agriculture and underpaying farmers for their crops and livestock in the first place.

For example, in flour milling, only four companies control over 60% of the market (ADM, ConAgra, Cargill, Cereal Food Processors). In beef, only four companies control over 80% of U.S. slaughtering (Tyson/IBP, Cargill/Excel, Swift/ConAgra, Farmland National). So when the farmer-producer is underpaid by these cartels for bushels of wheat, or heads of cattle, any Federal monies going to that farmer are, in effect, a subsidy to allow Cargill et al. to continue to underpay the farmer, and still keep a source of commodity supply to sell into the food chain at anything-goes rates of profit.

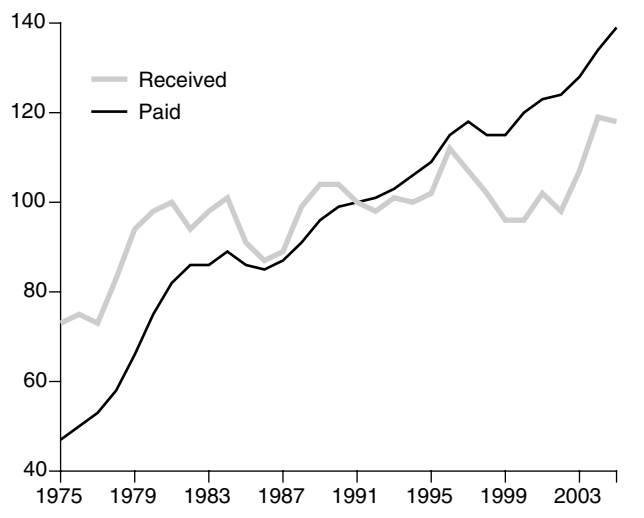
This system parallels the Federally protected profiteer role of the oil cartels. Likewise, just as there are huge gains made of “paper oil” trades, the speculative trading on the Chicago Mercantile Exchange and other venues allows for pure, non-production-related rake-off from betting, up or down, on farm commodities.

Almost none of this was taking place over 50 years ago, when *parity pricing* was still the principle governing Federal agriculture policy. The idea was—in order to guarantee meeting the public interest in a secure food supply at stable prices, plus land management—family farms were to be guaranteed a parity, or percent of parity price. That is, the prices they received were on a par with what their costs of production were, plus a reasonable profit. This was entirely phased out under the swindle of free trade, and global sourcing for food. Now the United States is food-import dependent in most items of diet, except for basic grains, beef, chicken, pork, oils, and grains-related sweeteners.

FIGURE 4

Prices Paid by Farmers for Production Expenses Compared with Prices Farmers Received for Output, 1975 to 2005—Expenses Exceed Receipts for Over a Decade

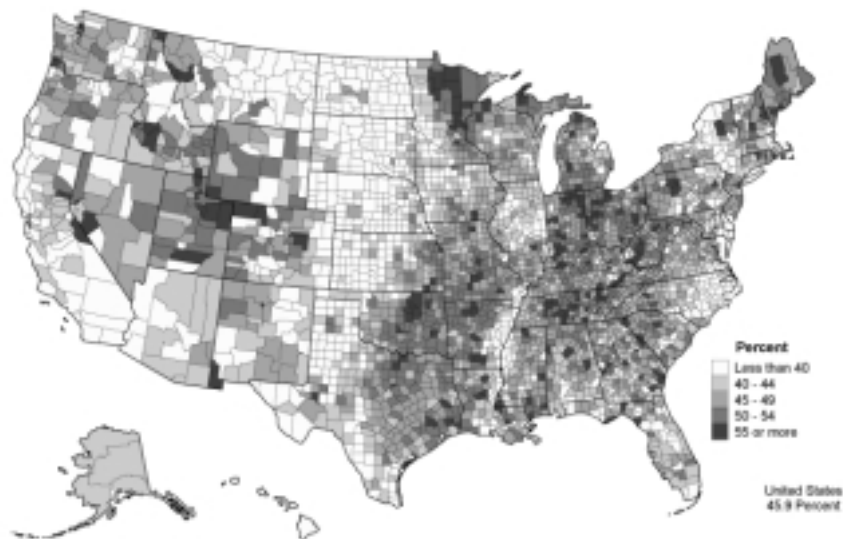
(Indexed to 1990-92)



Source: U.S. Department of Agriculture, National Agriculture Statistics Service.

FIGURE 5

Percent of Farmers Working Off Their Farms 100 Days or More a Year, by County, 2002



Source: U.S. Department of Agriculture, National Agriculture Statistics Service.

The Kansas ‘Quadruple Whammy’

This brief picture shows how vulnerable the U.S. farm situation, and food supply chain have already become in recent years.

Hence, Jere White, Executive Director of the Kansas Corn Growers Association, was quoted Sept. 11 by AP, “If consumers buying fuel are feeling the pinch, you can imagine what farmers are feeling when they purchase the amount of fuel they need for harvest and those types of things. It’s a huge cost increase, but there really is no way they can offset it—they can’t carpool a combine.”

Kansas is indicative of the shock effects spreading throughout the U.S. farm-belt. In this state, the number-one wheat producer, fertilization is customarily done at the same time as Winter wheat is seeded (for harvesting in June

2006). This process started around mid-September. At the same time, corn, sorghum and other livestock feed crops are ready for harvest. So there is a double whammy at the moment in the wheat-belt, from soaring prices for both fertilizer (made from natural gas) and diesel for planting machinery.

There is even a triple whammy, because corn is also ready for harvesting, so fuel is needed for combines. And a quadruple whammy, because fuel is needed to dry the crop. Kansas, as the number-three U.S. cattle state, needs its corn crop for cattle feed (it even has to “import” corn for feed from out of state). The best cropping practice is to harvest whenever the weather and crop are both good, and then ideally, dry the corn in storage by natural gas or propane—both now through the roof in price. To avoid the drying costs, farmers may leave the corn in the field to dry, and take a hit on damage and losses.

For all of these functions, costs are soaring. Fertilizer has more than doubled in price in a short time period. The price for anhydrous ammonia fertilizer has risen to \$450-475 a ton, up from \$200 a ton in 2003. Grain transport costs are now at record highs. Bids for guaranteed placement of rail cars for transport in Kansas, for October delivery, are running at a record \$544 on the BNSF Railway, and \$508 on the Union Pacific, which compares to the previous all-time high of \$350 in October 1997.

Barge shipping is the same. David Marshall, spokesman for AgriPride FS, Inc. in Nashville, Illinois—a farmer-owned co-op—reported in mid-September, “Barge shipping costs have exploded. Right now, barge freight has traded at a record high from the Ohio [River] to New Orleans.”