Bubble Poverty

27 Apr, 2011 07:22:35

Asians driven to extreme poverty by commodity bubble

Apr 27, 2011 (LBO) - Rising food prices from a global commodity bubble could push 64 million people in developing Asia into extreme poverty, the Asian Development Bank said adding to rising concerns about the effects loose US monetary policy.

ADB says food prices in many regional economies in Asia have risen by an average of 10 percent in early 2011.

An ADB study has found that a 10 percent rise in domestic food prices in developing Asia, home to 3.3 billion people, could push an additional 64 million people into extreme poverty based on a 1.25 a day poverty line.

"For poor families in developing Asia, who already spend more than 60% of their income on food, higher food prices further reduce their ability to pay for medical care and their children's education," said ADB Chief Economist Changyong Rhee.

"Left unchecked, the food crisis will badly undermine recent gains in poverty reduction made in Asia."

Many Asian nations do not have independently floating exchange rates but have exchange rate regimes pegged to the US dollar with a de facto external anchor for inflation.

Without a floating exchange rate it is difficult to independently target inflation via a domestic anchor like a price index.

Many such central banks also create their own inflation, adding to inflation generated by the anchor reserve currency.

ADB said production shortfalls, bad weather along with a weak US dollar were driving prices up. Some food producing countries have also imposed export bans.

US money printing has weakened the dollar and pushed up commodity prices including food, energy, base and precious metals not seen since the last commodity bubbles in 2008 and 1980.

Gold went over 1,500 US dollars an ounce this month, and silver topped a record set in 1980 amid the second 'oil shock' and commodity bubble which was tamed after then US Fed chief Paul Volcker pushed interest rate close to 18 percent.

In 1971 when the US went off the gold standard during the first 'oil shock' and commodity bubble even the United States banned exports of key foods such as oils during the time of President Nixon who was deficit spending with loose monetary policy.

Such policies included in what was labeled the 'Nixon shock' were rolled back in a few months.

US monetary economist Steve Hanke from John Hopkins University in Baltimore says the cheap dollar is advertised as an export stimulant and the fuel for an economic boom.

"About the only thing that has boomed during the last two years are prices, particularly commodity prices," Hanke, Cato Institute Fellow, wrote in his regulator Globe Asia, an Indonesia based magazine.

"Oil and most other food and industrial commodities are invoiced in dollars. Accordingly, when the dollar goes "down" the price of primary commodities tend to automatically go "up," and vice versa.

From 1792 to 1916 when the Fed was created, the dollars was linked to gold at 20 dollars an ounce and there was no sustained inflation, except when large gold discoveries were made. In 1933 the dollars was devalued to 35 dollars an ounce.

The dollar finally went off the gold standard in 1971-73 after gold went above 80 dollars and the Fed did not have enough gold to back the paper it had issued. Now there is no restraint on the amount of paper that can be issued.

Hanke says during the 12-months to January 2011 the dollar has lost value against the

Euro, issued by a central bank that has slightly higher interest rates.

"For each one percent decline in the dollar against the euro, there was on average a 0.5 percent increase in the price of oil," Hanke said.

"The biggest single contributor to oil price increases in recent months is not located in Libya, but at the headquarters of the Federal Reserve in Washington, D.C."

There has been growing concern in dollar pegged countries especially about the latest 'quantity easing' program of the Fed which involves printing 300 billion dollars in new Federal Reserve notes.

Central Bank governors from countries ranging from China to Sri Lanka have raised concerns about Fed policy. Fed is also unpopular at home.

Utah, a US state passed a bill to legalize gold and silver coins as legal tender at their commodity value. At least 12 other states are due to follow suit.

Fed chief Ben Bernanke is due to face a historic press conference this week amid growing unpopularity of the Fed. Fed chiefs do not usually face the press, unlike other central bank governors, such as the head of the European Central Bank.

SHARE

Post your comments

Print Email

Home About Vanguard To Advertise Contact Us

Economy Finance Opinion Services ICT Energy Industry Logistic Markets Legal Agriculture Environment Special Reports Politics/Defence Sports South Asia World Elections Budgets Miscellaneous