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Fed, Farm And Trade Policies Inflating Our Grocery Bills

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Monthly U.S. headlines trumpeting the death of inflation hide a painful truth for American families: rapidly rising food prices.

News reports rarely mention this pain because economists' preferred inflation metric, so-called "core CPI," omits both food and energy due to concerns about their volatility.

Although this omission might make sense from a purely economic perspective, it does a disservice to voters because several federal government policies that enrich a few special interests have conspired to keep American grocery bills high and rising.

There can be little doubt that food prices have spiked in recent years, especially in relation to other goods and services.

According to the St. Louis Fed, food inflation was 22% between January 2006 and June 2013, while core CPI clocked in at only 15% over the same period. This divergence grew following the recession, with food prices (9%) far outpacing core CPI (5.9%) since late 2009.

Certain family staples fared even worse: over the past five years, for example, the average price of meat, poultry, fish and eggs is 16.2% higher.

Food inflation's impact on American families is real and significant. One industry consulting firm recently estimated that between 2006 and 2012 the typical family of four paid $2,055 more per year in food bills than it would have if these costs hadn't suddenly started trending up.

This added expense disproportionately hurts poor American families, particularly in this time of high unemployment and stagnating wages, as they're forced to use an ever-increasing share of their never-increasing budgets on essential foodstuffs.

Although market forces like increasing global demand and recent droughts have undoubtedly helped to push food prices higher, there is also little doubt that U.S. laws and regulations add insult to injury.

For starters, archaic trade restrictions that shield certain food producers from international competition inflate U.S. prices for many foods. According to the U.S. International Trade Commission, these artificial barriers to free trade make dairy, sugar, tuna and other foods much more expensive here than they are overseas.

Thus, for example, protectionism forces a working mom to pay substantially more for a stick of butter than her foreign counterpart, and the proceeds from this "butter tax" go directly into the pockets of U.S. dairy farmers.

As bad as these laws are, however, they can't explain the recent spike in domestic food prices because the trade restrictions are decades-old. That blame instead falls on a wicked combination of other federal policies.

Perhaps the biggest offender is the government's continued support for ethanol, particularly through the Renewable Fuel Standard (RFS), which requires refiners to add increasing amounts of biofuels to gasoline.

After the RFS became law in 2006, ethanol production capacity — and demand for corn feedstock — exploded, thus creating a domino effect of price increases from corn to other staple crops to meat, poultry and dairy, and finally to Americans' grocery bills.

Indeed, the Congressional Budget Office concluded in 2009 that U.S. ethanol policy was responsible for up to 15% of the total increase in domestic food prices, and benefited a small cabal of farmers and biofuel producers at the expense of American families and the economy more broadly.

Subsequent studies have confirmed the CBO's findings, and, with the RFS mandating ever-larger shares of ethanol in our gas tanks, things have only gotten worse.

Meanwhile, biofuels lobbyists and new EPA Administrator Gina McCarthy have worked to thwart congressional and regulatory efforts to relax the RFS and thereby ease the strain on consumers' wallets.

Rock-bottom interest rates and easy money also contribute to rising food prices by increasing energy costs and facilitating intense speculation by both farmers and Wall Street investment firms in the U.S. farmland market.

Further encouraging these investments are ethanol-driven crop prices and the fact that farmland benefits from many federal subsidies, especially the types of crop insurance that both the House and Senate just expanded in the latest Farm Bill.

As a result, a "farmland bubble" has emerged. The Kansas City and Chicago Federal Reserves reported that in 2012 irrigated farmland in their districts climbed 30% and 16%, respectively. Meanwhile, prices for cropland in Iowa and Nebraska have almost doubled since 2009.

Thus, farmland investors use cheap credit to buy land whose surging value is juiced by ethanol mandates and protected by taxpayer-subsidized insurance. This, in turn, leads to even higher food prices, thereby encouraging even more speculation.

Caught up in this vicious cycle are struggling American families who don't have the luxury of being part of the ethanol con or having the spare cash and connections needed to invest in subsidized farmland. For them, the "food boom" is all downside, driven in part by cronyism and bad policy.

So maybe overall inflation is in check, but that doesn't mean that federal monetary and other policies aren't causing serious problems for a large portion of the American citizenry, particularly those on the lower end of the economic spectrum. Such problems are definitely out there; you just have to look beyond the headlines.

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