

Vinyl 2010 Essay Competition Submission Template

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Summary:

(insert your summary here – maximum 100 words)

In this essay I survey the solutions provided by policy makers on the left and right of the political spectrum. I argue that the globalised economy is basically sound, but that some simple pragmatic intervention is needed in order to promote continued growth and to prevent price spikes and shortages.

Essay:

(insert your summary here – maximum 1000 words)

Faced with a food and energy crisis, how can society improve its well-being?

Debate among policy makers usually divides along fault lines separating left from right. In the specific case of food and fuel security, what might be dubbed the 'reactionary' view derides the idea that any crisis cannot be met by future technological development, and that anything other than market forces are the most efficient way of guaranteeing continued growth and development. Those on the left decry this as an excuse for doing nothing in the face of an imminent crisis, claiming that we must make significant interventions in the market to artificially force the market to deliver basic essentials. I argue for a 'middle way.'

In light of the current recession, some commentators have wondered whether we should have had so much confidence in the globalised capitalist system which has flourished over the past few decades. It has been argued, for example, that the 'knowledge standard' – a standard which was supposed to act as a check and balance for the movement of capital around the globe, has failed in this regard. Countries in which transparency and the rule of law were the norm would attract investors, it was argued, helping those countries to grow, and encouraging others to democratize. But instead, the counter-argument runs, the free movement of capital has allowed for speculators to generate asset bubbles, reaping profits before pulling out and leaving governments to pick up the pieces. Solutions to this problem by those on the left have not been readily forthcoming, but inherent in the framing of the problem is that some sort of restriction on movement of capital would be desirable.

A similar debate has recently sprung up within the realm of food and fuel security – but curiously those on the right have sometimes sided with those on the left, admittedly for different reasons. Witness Mike Huckabee, a onetime candidate for the Republican nomination, arguing that America should be 'food and fuel independent'. Although the problem of national security was uppermost in his mind, we can see that on both sides of the political divide, efficiency savings were not to be the be-all and end-all. For those on the left, the building in of some redundancy would, though expensive, be a way of ensuring that the poorest in society would always be cared for. This over-supply would be an 'interventionist' way of ensuring prices were kept low, and in fact in pre-globalised

world, this was often how agriculture was organised. In a recent New Yorker article, James Surowiecki describes how developing countries had

'so-called "agricultural marketing boards," which would buy commodities from farmers at fixed prices (prices high enough to keep farmers farming), and then store them in strategic reserves that could be used in the event of bad harvests or soaring import prices.'

Ought we to revert to the pre-globalised arrangement, in the face of the recent price spikes? Or should we adhere to the seemingly sensible arrangement which allocates capital on the basis of where the most efficient development will take place? I argue that we need a middle way. The centrist position mirrors the centrist thinking in relation to global capital in general – adhere to the basics of a free market economy, so that efficiency savings are realised, and so that productivity and innovation are encouraged, but take a pragmatic view to its implementation. Not every *seeming* efficiency is worth having, because often the law of unintended consequences can come back to haunt you. This is just becoming evident in relation to foreign labour. Even if an oil giant can squeeze a few percentage points off its bottom line by importing foreign workers, this efficiency will be far outstripped when the local workforce begin to strike and force the shut-down of the refinery.

Two further aspects of the world economy ought to be revised in light of this centrist position. Firstly, as Surowiecki points out, if unchecked market forces lead to the localisation of food production, this has the bad consequence of leaving vast food supplies vulnerable to both man made and natural disaster. This would itself be an inefficiency over the long run, since price spikes for vital supplies can lead to all sorts of unforeseen costs. Hence we should have some mechanism for organising our food supply such that it is better distributed.

Secondly, the question of 'speculating' needs to be addressed. Those who argued that the price rise of oil to over \$140 per barrel was down to supply and demand have been proved wrong. With prices having come down to a third of that in a short time, we can be sure that speculators had a large part in the meteoric rise in the first place. Some very pragmatic solutions are available to combat speculation, without us having to return to an era in which price controls are in place. No less a capitalist than Warren Buffett has described various financial instruments as "financial weapons of mass destruction", and there are now moves afoot to restrict the purchasing of instruments like credit default swaps only to those who hold the underlying assets. We could similarly restrict the principal instrument involved in food and fuel speculation only to those industries which have a direct interest, such as airlines and heavy industry. These are only broad brush ideas, but it is clear that only a few simple restrictions would severely curb the wild swings in prices which speculators bring to a market.

I have argued that the basics of the world organisation of food and fuel production are basically sound. Market forces do bring long term prices down, and stimulate innovation – something which will become vital in a world with a fast growing population. Market forces should not go unchecked, however, and some simple pragmatic ideas can help to smooth out price spikes and shortages.

