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Living consciously in harmony with each other and the environment

The Combative World of Agricultural Economics

By Benjamin Gisin & Michael Krajovic

Is it time to create a world based upon peaceful economics?

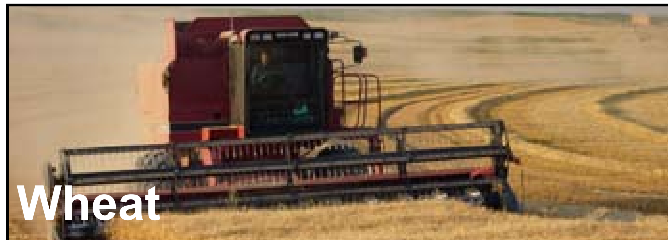
We generally don't identify economic and financial processes as causes of conflict. However, the quickest way to foment conflict is to create an environment where people must compete for a limited resource to sustain life. Too often, that limited resource is money — precipitating fierce competition that erupts into uncivilized conduct.

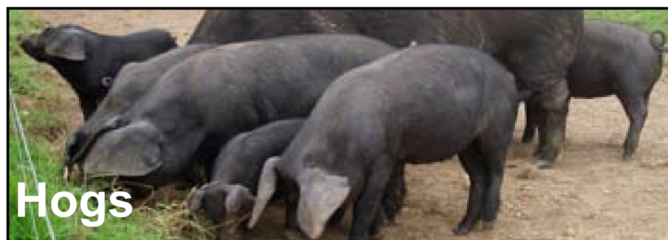
Financial institutions, with the regulatory oversight of the Federal Reserve Bank, determine the volume of money available. Volume limitations, coupled with competition for this limited resource, disfigure the economy and the human experience.

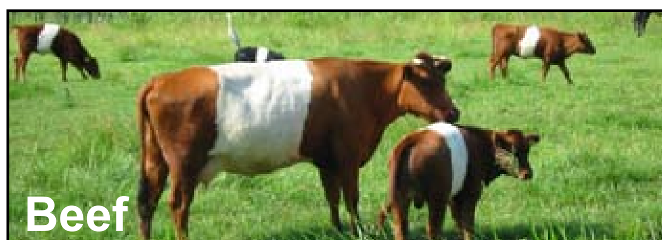
As explained in earlier newsletters, the financial industry inovkes the creation of what we use as money by getting people, businesses and governments in debt beforehand. As debt rises, money leaves the physical economy of the masses to service debt. Correspondingly, society is forced to borrow more.

The first priority in response to the financial crisis was to save financial institutions and protect investors who held loans that were defaulting. When former President George Bush went on national television to urge support for Treasury Secretary Paulson's $700 billion bailout plan, he stated repeatedly that we must help the credit industry. He could have just as easily said, "We need to increase our levels of debt." Increasing debt is the only approach the financial industry has to stimulate the economy.

When a nation's economy is dependent upon using debt to create money, the economy eventually becomes saturated. It is inevitable that people, businesses and governments will ultimately exceed their borrowing capacity. The financial crisis is one of the financial industry being unable to find enough qualified borrowers to create the credit needed to sustain the economy. As a result, the world's purchasing power has eroded, creating more frantic competition for the limited credit (money) in circulation. This impacts world food stocks and access to food.







Average prices farmers received for producing milk, wheat, pork and beef in January, 2009, were significantly below the cost of production. This comes at a time when the number of people worldwide at starvation diets is growing. The financial industry's impact on reducing the world's purchasing power may be sending the wrong signal to farmers to produce less when the demand is actually for more.

Competition is a man-made condition where people scramble for an artificially created and limited pool of money. Using the financial industry's money products, backed by debt and its attendant competition, is not leading to the advancement of civilization, but accelerating its decline.

Roughly 50 percent of the world lives on less than $2.50 a day, illustrating how barriers to entry to money are externalizing billions. Barriers to money emerge constantly as businesses, ▶

governments and consumers cannot qualify for enough credit to sustain their national economy — precipitating economic fights over an insufficient pool of money. Amidst this landscape, every kind of corruption and crime to gain access to money, is devised and executed.

This is an interesting situation. Most of the world's enlightened spiritual leaders explain we are here to learn how our actions affect others and our civilization as a whole. Rarely is the connection made that our financial processes (the creation, distribution and dissolution of money), materially repress our spiritual and economic well being. We are in a classic catch 22. Accumulating abundance, which we all want, is tied to financial processes we must use to survive which routinely cause a lack of abundance for ourselves and the larger human family.

The agricultural economic landscape (financing food production and consumption) is a perfect place to study how the world's current money or credit system circumvents farmers that produce our food supply and the people that farmers depend upon to buy their food. Farmers and consumers have been and continue to perish in the combat for a limited amount of money in circulation.

Visiting the Current State of Agriculture

The past 12 to 18 months has seen the greatest volatility in history for the world's farmers. Dairymen, in a state of euphoria from high milk prices just a few months ago, watched as the price of milk collapsed, pushing them into exasperation and insolvency. Many wheat farmers went from riches back to rags as wheat prices literally collapsed. Beef ranchers and hog farmers, facing high feed costs and low prices for meat, are facing the darkest of economic times. And if economics were not enough, unprecedented droughts in Argentina, Brazil and China are compromising millions of acres of grain crops while over 1 million head of cattle have already perished.

The Build-up

Tightness in the supply of farmland, low global grain stocks, supply shortages and financial speculation sent prices on wheat, rice, corn, soybeans, hay and milk soaring in late 2007 and in the early months of 2008.

Most of the world's major wheat and rice exporting nations, in efforts to protect their own food security, stopped or limited exports. This sent shock waves to food-insecure nations unable to procure sufficient food to avert domestic disruption and violence. Food-insecure nations were forced to become their own worst enemies as they bid up the price of wheat and rice beyond what their poor citizens could afford.

As prices on basic foodstuffs broke historical records in 2008, so did costs of basic agricultural inputs such as fertilizer and fuel. As brokers, processors, shippers and retailers added their costs, food prices rose so high that over 100 million more people worldwide were displaced from the dinner table and added to the ranks of the starving. Without sufficient money to meet the price, or sufficient economic combat power to secure, barter, beg or borrow the money, the economic processes left behind a path of starvation and destruction.

Recognizing the opportunity to make big profits on the global misfortune of food shortages, investors and futures speculators bid up the price of basic foodstuffs and oil beyond what the current supply and demand situation dictated. In testimony before Congress in May, 2008, Michael Masters, a hedge-fund manager provided the following insights:

> "We are experiencing "demand shock" from a new category of commodity speculator, index funds. Corporate and Government Pension Funds, Sovereign Wealth Funds, University Endowments and other institutional investors are pouring billions of dollars into commodity futures markets."
>
> "Collectively, these investors account on average for a larger share of outstanding commodity contracts than any other market participant. Index fund assets increased from $13 billion in 2003 to $260 billion as of March 2008. During that time, prices of the 25 commodities composing these indices increased by an average of 183 percent."
>
> Mr. Masters summed up his study of index investors by saying: "You have asked the question, are institutional investors contributing to food and energy inflation? My unequivocal answer is YES."

Soaring commodity prices sent a signal to farmers to plant and raise more crops, dairy products and meats than anytime in world history. Whether or not they borrowed money, most farmers were "betting the farm" on this crop, glass of milk or beef cut. Any significant drop in prices would be disastrous after paying prices for fuel, fertilizer and feed – more than double of what they had been in past years. In early 2008, with robust global demand for food stuffs, a crash in price was almost unthinkable. As such, agricultural producers spent their reserves and borrowed heavily to produce the most costly food in world history.

The Crash

As the 2008 grain crops matured, news of a bumper wheat crop reversed the speculative trend, sending wheat prices into a free fall. These actions ignored the lessons that should have been learned from the global food crises less than a few months previously — the world needs a sane level of strategic food reserves. As the price of wheat softened, importers stopped buying — waiting for the price to bottom out. Falling commodity prices were deepened by the financial crisis which brutally undermined the world's purchasing power by reducing the flows of credit (money).

The "free market" has a brash insensitivity to food reserves needed to stabilize prices and availability from season to season. Food reserves, necessary to guarantee food security during years of drought and lower yields, are viewed as excess supply. This view justified unpredictable, rapid and dramatic price reductions which financially punishes farmers. Earlier in the year, a slight supply decrease sent prices soaring, pushing millions away from the dinner table.

Most farmers have never been able to create a secure financial foundation in this brutal pricing system, making borrowing year to year to buy seed, fertilizer and fuel as the only option. Despite billions in federal subsidies, this has meant bankruptcy and collapse for untold numbers of American farmers. The inflexibility of money and markets to serve both farmers and consumers is a ▶

dire warning. We must realize the credit the world uses as money, and its unfolding competition, is destroying farms, while increasing the number of starving people and creating a global climate of instability and conflict.

Over the years, the world's financial and economic rules of engagement have eliminated millions of farms and millions of acres of farmland while externalizing a total of 963 million people into starvation diets as we enter 2009.

Never measured or acknowledged by the economic system is the brutality and personal tragedies endured by farm families that accompanies the "forced" closure of a farm by financial and economic forces. Health fails, families break up, relatives turn against relatives and financial shocks scar the psychology, character and feelings of people. The system assumes everyone's hearts are made of stone to serve as an unthinking economic combat machine. This is a tragic lack of consciousness the world is in the process of rebelling against.

With each succeeding year, the world becomes dangerously closer to exceeding its ability to supply enough food for humanity. A dysfunctional financial system and predatory market practices raises the risk that markets are giving false signals to farmers to produce less food than is needed.

Subsidies, unemployment benefits and welfare payments issued by governments are often misunderstood. These payments are invoked to offset imbalances from unbridled speculation and financial institutions unable to get their money products out and circulating to facilitate jobs and eating.

Actions by the Chinese government over the past year are revealing. Early in 2008, the Chinese government acted swiftly to get money flowing through the economy by buying approximately 30 million metric tons of grain from Chinese farmers (more than all the wheat Americans eat in one year). This spending kept farmers solvent, stimulated the economy as cash flows from the farm moved out in waves through the economy and prevented a collapse in the grain prices thus protecting farmers. In addition, it provided the Chinese government a supply of grain to protect millions of urban poor from shortages and speculators.

Carrying over most of the grain stocks the Chinese government purchased in 2008, they are now able to mitigate the reduction in yields from an unprecedented drought that has hit Chinese grain growing regions.

Meanwhile, in the United States, the government has no grain stocks, did nothing to protect farmers from price collapses and is in no position to effect food security operations. It does not even have a food security policy. Thousands of Americans are sensing this as can be seen by the growing national movement towards more local and sustainable agriculture.

The American agricultural sector continues to find itself in turmoil as the price farmers receive for producing many of our basic foodstuffs are below the cost of production, sending signals to start trimming production. This signal is materially artificial in a world where 963 million people are considered to be at starvation diets resulting in premature death, disease and stunted human development – some of the same excesses that come from war.

As this newsletter goes to print, many of America's farmers are facing their darkest economic hour (see Chart 1). If prices for certain key food commodities continue to languish be- ▶

Chart 1 - Many Farmers Get Less Than Cost of Production

☐ What it costs the farmer to produce

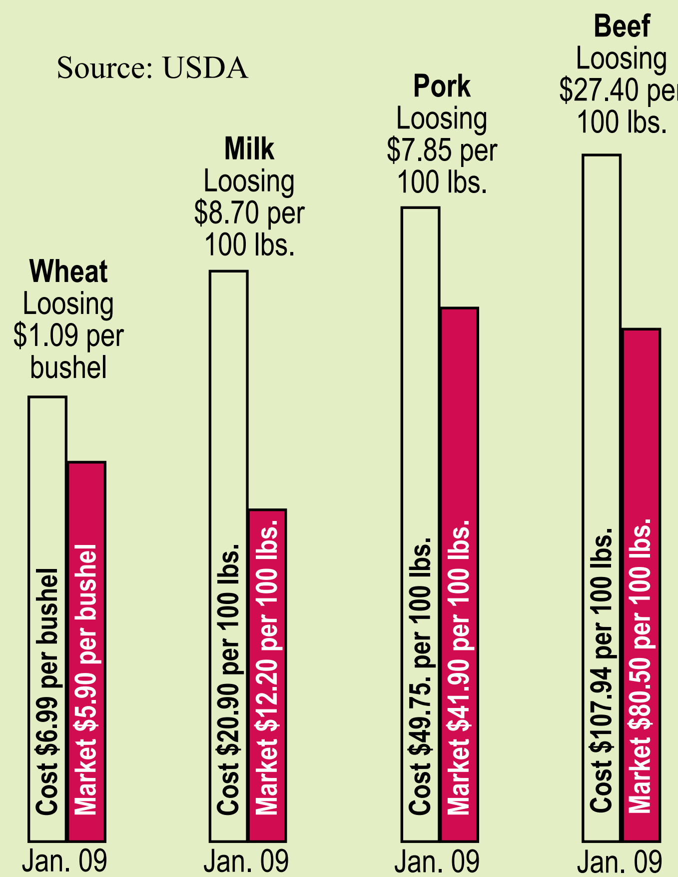
■ What the farmers got paid in January, 2009

If prices continue below the cost of production for an extended period of time in 2009, the losses to rural America are potentially staggering as are their effects throughout the entire economy.

The losses farmers experienced in wheat, milk, pork and beef, in January were almost $2.5 billion. On an annual basis, and considering a turnover in dollars through the entire economy at an estimated 7 times, the economic loss would be over $200 billion.

When a farmer looses money, it is more than just supply and demand economics. It disrupts the flow of money through the economy disrupting the entire rural American landscape and then goes out in waves through the entire national economy.

Financial stress quickly cascades into health stress. The National Centers for Disease Control seem to miss the fact that stress is the underlying cause of degenerative health. In addition to following epidemics, the Centers should follow the disruption of cash flows through the economy and begin quantifiying the effect on the national health.



low production costs, the economic ramifications could be much more than bankrupting more farmers. Commodity prices above break even costs send cash flow waves out into the larger, global economy. Unfortunately, the reverse is also true. A collapse in farm revenues collapses rural communities and starves the larger economy of the cash flow waves that historically come from the farm sector.

The Lesson

America has lost trillions of dollars in economic activity by eliminating some 4.7 million farmers since 1935 and eliminating over 300 million acres of farmland since 1954. These agricultural events are mimicked in the rest of the economy as millions of jobs have been lost and factories shut down.

Myths of free enterprise and fair competition provide no relief from the real economic forces that eliminate jobs to fit within a limited pool of circulating money artificially created by the financial industry. This economic calamity is heightened as broader economic cash flows are disfigured into concentrations of capital — globe trotting to exploit disparities in wages, regulation and currencies.

As jobs continue to be eliminated around the nation and the world, we are asked to believe that we can't afford ourselves. In reality, it's not a situation where we can't afford ourselves. It's a situation where we can't afford the processes of indebtedness and barriers to entry that are used to invoke what we use as money.

While our current system of money is universally accepted, it is far and away incapable of being universally available, leaving a legacy of poverty and displacement around the planet. Trying to solve domestic and global poverty, using the financial industry's current money products, is like trying to fly to the moon in a row boat.

Pioneering the Unknown

When the human family gets its fill of lost jobs, jobs without a living wage, jobs that people don't believe in, and jobs that compromise the environment, a new process of peaceful exchange has the opportunity to be born.

The time is right for civilization to engineer a more efficient economic system. One based on a collaborative and universally beneficial process of exchange rather than the current competitive and combative one.

Peaceful Economics newsletter will continue reporting on this movement to a peaceful and sustainable economic system by challenging archaic economic theories, exploring new alternatives and calls to action. ■

Note: The name of the newsletter has been changed from Conscious Economics to Peaceful Economics. The focus will remain the same. Starting in April, the newsletter will go to a bi-monthly (6 issues per year) format. All current subscribers, will still receive the full 12 issues they subscribed to over the extended new schedule.

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Gisin comes from a 20-year banking career culminating as senior agricultural approval officer for one of the nation's top 10 agricultural banks. Since 1997, he has and continues to consultant agricultural and business enterprises in negotiating some of the largest debt settlements between borrowers and their creditors. Understanding the monetary system from the ground up, his understanding of how the monetary system works is highly sought after by monetary reformers. He is author of "Farmers and Ranchers Guide to Credit" and hundreds of published articles on banking and finance. Since 2005 he is the publisher of *Touch the Soil* magazine and lectures nationally on both monetary and food security.

Mike Krajovic has over 20 years of professional experience in community and economic development. He has served on the boards of numerous agencies, and leads a group of non-profit agencies in Pennsylvania. He has expertise in community planning and implementation using comprehensive local and regional approaches. As a social innovator, he has been involved in all aspects of improving the quality of life in a community such as education, agriculture, economics, land use, environment, infrastructure, work force development, government, tourism and finance. He holds a Bachelor of Science in Engineering and Masters degrees in Business Administration and Social Artistry.

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