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Section VIII
Financialization in the food system
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The state of time in this financial moment: Financialization in the food system—Synthesis paper

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The three papers and workshop discussion draw attention to the various ways that finance and food come together through new financial actors and tools, and in new political contexts, or financialization in the food system. The term financialization began to emerge in the late 1990s and it is increasingly applied to a growing range of areas of daily life and the economy (Krippner, 2011; Martin, 2002). Food studies, and these three papers in particular, help to define the contours and impacts of financialization in the food and agriculture sector.

The direct impacts of finance are illustrated through the introduction of new products such as index insurance (discussed in Ryan Isakson's paper), new actors such as agrifood corporations (the focus of Myriam Vander Stichele's paper), and new targets of finance such as farmland acquisitions (as explored by Oane Visser). The indirect impacts, however, are often difficult to trace. For example, volatile food prices are linked to the increased speculative activity on commodity markets and in derivative markets, but there can be many "causal arrows" that fuel academic debates and divert attention away from issues of food security and securing the right to food (e.g. Sanders & Irwin, 2011). The interaction between food, agriculture, and finance can help to map out financialization, but a clear path that addresses the negative effects of financial actors has yet to be drawn.

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Finance is shaping food and agriculture

The first theme that arises in all the papers is that finance is reshaping agriculture. It is critical to explain the structural dynamics and tensions of the food system because food is different from other commodities. The three papers map out direct routes of financial influence on food and agriculture. The routes include the role of supermarkets and financial derivatives, as Vander Stichele notes, new kinds of insurance that link farmers to financial actors and development in new ways, which are the focus of Isakson's paper, and the ways in which finance is placing demands on farmland, and in particular, shaping the size of farmland through "investor-led farming," as explored by Visser.

For food and agricultural corporations, finance works along all aspects of the agricultural supply chain and is expanding by leveraging new tools and services, which in turn expands financial-based profits rather than productive profits. For financial investors, the agricultural sector is presented as a site of long-term growth and short-term price volatility. These price dynamics are attractive to both pension funds and more aggressive hedge funds that are the cause of upwards of 60 percent of the daily turnover of trades—or market churn—as Vander Stichele explains. While shareholders in equity stocks can drive markets, the emergence of commodity index funds provides an easily accessed source of "diverse" income (Clapp, 2014). Through these investment vehicles, investors get exposure to commodities and fund managers have access to new revenue streams in areas that had been previously inaccessible to both groups due to regulation. The churn, whether from aggressive hedge funds or index funds, undermines the integrity of prices, which should not move based on a fund's prospectus, but instead on the elements of supply and demand. The result is that the increased activity of financial actors, often with the support of indexes and shareholders, is distorting the primary function of agriculture and food markets. Vander Stichele calls for alternative market arrangements because financial profits have displaced the right to food.

Financial interests gain footholds in the agrifood sector through both stock exchanges and commodity exchanges. Stock exchanges are driven to meet the short-term expectations of shareholders and this puts pressure on companies to produce quarterly profits. In turn, the rise of retailing monopsonies, or single buyers such as Walmart and Tesco, is driving a squeeze for profits along the entire agrifood supply chain (Burch & Lawrence, 2009). The larger the company and the bigger the market share it has, the more stable and less risky it is perceived to be by lenders such as banks (Hilferding & Bottomore, 1981). For example, Deutsche Bank Holland recently dropped 18,000 small accounts, including farmers, in favour of larger companies (Reuters, 2013).

Agribusiness as financial actors

The second theme examined in the papers is the ways in which large agrifood corporations are increasingly operating in the financial sector and drawing on financial activities as a source of profit. The 2007–08 financial crisis was in part brought on by shadow banking activities (Helleiner, 2011). Agricultural commodity firms such as the ABCDs have a foot in both productive activities and financial activities and are in a position to wield significant price-setting and market power (Murphy, Burch, & Clapp, 2012). The workshop discussion drew attention to how ABCDs' market, political, and institutional power may pose a systemic risk to financial and commodity markets. At the same time, financial institutions are increasingly involved in commodity trade, further eroding the regulatory line that was drawn between food, commodities, and finance (Clapp, 2014; Omarova, 2013). From investment banks to the ABCDs, and from financial institutions to agrifood corporations, the line between the "real" economy and the financial sector—specifically finance, insurance, and real estate (FIRE)—is becoming harder and harder to determine and in turn to regulate. The issue of both banks and large corporations being "too big to fail" is a serious concern leading to questions of who bears the risk.

Risk and exposure: Who is vulnerable and who is protected?

While the large firms, both public and private (Cargill and Louis Dreyfus remain in family hands), may be posing a systemic risk, other actors in agriculture and food are also already increasingly bearing risks. The structural shift in the economy has protected finance as profits in the sector increase, and has "downloaded" risk to individuals. As Isakson shows, new tools such as weather-based index insurance heightens the vulnerability of farmers, who are already bearing risks that were previously socialized and borne by the state. In some cases, the state is underwriting private equity firms so it can buy farmland as an investment (Agrimoney, 2014). As Vander Stichele highlights, walls of money "undermine the integrity" of markets as they slosh in and out of these markets, driving up prices and increasing price volatility, which in turn leaves poor food-importing countries further exposed to risk.

There is an ideational facet that financial actors attach to agriculture, which crowds out the influence of farmers. For example, agricultural conferences are increasingly dominated by investors seeking information (Fairbairn, 2014). Similarly, Vander Stichele states that farmers were being left out of important E.U. regulatory discussions on finance. After the 2007–08 crisis, the major U.S. banks' losses were socialized, which illustrates how concentrated financial services are risky and considered by regulators to be "too big to fail."

Bridging finance and food

With all these financial impacts, both direct and indirect, what is the role for finance in agrifood? Credit is often required for farming, which raises the question: At what point does agricultural finance shift from a positive utility to a negative drain? What is a reasonable role for finance to play? Can investments help bridge the "mismatch" between finance and its demand for short-term profits, and the long-term credit needs of agriculture?

Agriculture is uncertain and finance seeks certainty. Crops may fail, or commodity prices may decline unpredictably, or both. Because of this uncertainty, agriculture has not always been attractive to finance. Farm loans may be required for seeds, fertilizer, or equipment for planting season, with the expectation that they will be repaid when the harvest is sold. But there is a high risk that the harvest might be poor or have a low monetary value—this makes it uncertain and risky. The state has long borne the risk of agriculture through various functions, but in recent decades the state is stepping back from this role (Clapp & Martin, 2014).

"Patient" capital was offered as a possible solution during the workshop, as an investment that was made for the long term. The FAO states that patient capital investors "are usually from the public sector (e.g. governments, development banks and sovereign wealth funds) or the non-profit sector, but some private companies such as 'impact investors' and 'social investors' also have longer time frames and their number is increasing" (Liu, 2013, p. 336). But patient capital is generally not profitable and is in fact often subsidized by donor money, reading more like a development program with consultants and pilot projects rather than investment per se. Patient and long-term investment must still offer returns to be attractive, otherwise it is unlikely that private investors would participate.

Limits of financialization

Are there limits to the seemingly ever-expanding influence of finance within the food and agriculture system? Isakson describes the low uptake of index insurance, which shows how financial tools are not adopted outright, even with extensive education efforts. In other words, financialization does not come "naturally." Visser describes what he calls "diseconomies" of scale and the tension inherent in the mismatch between finance and agriculture. Industrial farming is not economically rational past a certain farm size (5000–6000 hectares), because the labour, fuel, and repair costs exceed the value of the commodities. The only reason a farm would exceed this limit would be because of the "demands of finance." Private equity and institutional finance require large farms to attract investment (10,000–20,000 hectares) and "stapling" together a number of smaller farms has costs that cannot be covered. The recent super cycle of commodity prices has benefited large commodity farmers like corn producers in Illinois, but as commodity prices have declined it is estimated that they will lose US$109 per acre in 2014 and US$143 per acre in 2015 (Schnitkey, 2014). Much of this increased cost of farming is linked to increased rent due to rising farmland prices. In turn, rising farmland prices are linked to increased investor and speculator interest (Fairbairn, 2014). At the same time, agricultural development projects are aiming for “financial inclusion” and defining groups of poor people as “unbanked,” leaving the distinct impression that finance sees frontiers rather than limits.

Finance is reshaping agriculture. However, the inherent contradictions in finance should also be highlighted. The promise of increased profits through finance may not be as fruitful as expected. For example, commodity index funds are not only churning commodity markets, but they are also not producing promised returns. There is compelling evidence that investment vehicles such as commodity index funds are not producing returns except for the managers, which has been described as “a kind of market failure” (Bhardwaj, Gorton & Rouwenhorst, 2014, p. 3128). As Van Stichele notes, hedge funds are finding it increasingly hard to make money, and there are indications that they are losing money. In addition, the pressure to report profits has led to Tesco, the world’s second largest retailer after Walmart, to overstate its earnings (Felsted & Oakley, 2014). Visser provided the example of how private companies in Russia took over agricultural operations because they can take a longer view and are not beholden to the short-term pressures of shareholders. As he commented in the workshop discussion, shareholders who were impatient with reports of droughts and other agricultural risks and were more concerned about profits went as far as to say, “that bullshit about weather—I don’t want to hear about that.” The ongoing market volatility combined with lower returns in global commodity markets may lead to a retreat in agricultural investment and more uncertainty.

Conclusion

The longer-term impact of financialization in the food system plays out not only in the environment, but also does not bode well for the vulnerability of the financial system. This is because speculative capital and “walls of money” seek investment, and with investment comes increasing pressure on agrifood companies—both farmers and large corporations—to react and produce short-term profits. Isakson notes that financialization is an over-accumulation strategy to respond to the question of what can be done with accumulated money looking for a place to land. Workers have less money to buy goods, and so productive investment is not attractive. At present, money is churning through agriculture, but farmers are experiencing genuine agrarian debt. Isakson rightly asks us to dream outside of the structures that have been built up around the mentalities of finance. By identifying this moment, where finance and agriculture have come together in very particular ways, it means that the work of pulling apart some of the more harmful practices can begin, especially those in which the financialization in the food system is increasingly presenting its inherent contradictions.

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