The Dollar and Egypt: A Link to Rising Food Prices

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Rising food prices “can topple regimes,” claims Nouriel Roubini, a New York University economist. And they have. Tunisia’s President Ben Ali fled the country. Then 18-day protests ended Mubarak’s 30-year rule in Egypt. Upheavals are continuing. Leaders in Yemen, Algeria, and Syria are among the most vulnerable; they are dictators without enough foodstuffs.

Global food prices jumped 25 percent last year. The global index had been trending upward since 2002, skyrocketing in 2007. By early 2008, it had tripled. A global food crisis was well under way, fueling protests and riots around the world, including those in Egypt and other Middle Eastern countries. Today’s wave of revolutions in the region might have come three years earlier in 2008 if world economic growth had not paused during the global recession of 2008-09. Last year, prices picked up where they had been before the recession and kept rising, setting the stage for a renewed global food crisis.

Last September, Nomura, a global investment company, released its index of how vulnerable a country is to a food crisis. Morocco, Algeria, Lebanon, Egypt, and Sudan were among the top 8. Libya was 16th and Tunisia 18th. Yemen likely would have been among the top if there had been data. They all are very poor and rely on imports for food staples. If we combine a measure of how sick and tired people are of their governments with this index, we could complete the-who’s-next-to-fall list.

There are many causes of food price spikes. Global demand has been growing, and supplies have been disrupted by severe weather patterns. This is also part of a more general trend: the decade-long rise of commodity prices. The past decade has seen price increases not only in food, but in oil and gold, too. Indeed, rising oil prices have been one cause of rising food prices by raising the costs of food production and transportation. The price of gold has also been rising since 2002, from $300 an ounce to $1,400 an ounce today. This reflects inflation. People want to buy and hold gold when they see the purchasing power of their dollars eroded quickly.

Rising commodity prices reflect strong demand. But they also reflect the weak dollar over the past decade. The greenback has lost 35 percent of its value since 2002. When the dollar depreciates, commodity prices go up. “The linkage was unmistakable,” said an oil analyst. First, many commodities are priced in dollars. As the dollar weakens, prices have to go up to make up for revenue losses. Second, the weaker dollar means stronger foreign currencies. This has allowed many countries to pay more for dollar-priced commodities, increasing demand for them. Third, as they do with gold, people buy and hold oil and other commodities to hedge against inflation.

Early this month, Federal Reserve Chairman Ben Bernanke said that it was unfair to blame the Fed’s monetary policies for global inflation. The decade of the weak dollar began when the Fed cut interest rates to address the 2001 recession. Its current quantitative easing since 2008 has also pushed down the value of the dollar. Over the decade, US external debt has swollen from $6.5 trillion to $14.5 trillion and foreign holdings of dollar debt have increased by $6.5 trillion. Over the decade, the US has financed its deficits by printing dollars. The
dollar has sharply depreciated, and commodity prices have gone through the roof. The linkage was unmistakable. Yet, Bernanke was right. It is unfair to give him credit for the Arab Revolution that topples regime after regime in the region.

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