Campaign briefing

The Financial Services and Markets Bill: A speculator's charter

Global Justice Now

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'Bankers' speculating on food being restrained with hazard tape outside the European parliament as part of a protest organised by several NGOs.

Summary

The Financial Services and Markets Bill is a massive, deregulatory piece of legislation currently making its way through parliament. As part of the British government's disengagement from EU rules on finance, they are proposing to strip away post-financial crash regulation which, while inadequate, made the system more stable. In particular, the government want to scrap restrictions on food speculation which we won in 2014. These rules were never strong enough, but removing them takes us in completely the wrong direction.

At a time when speculators have driven up the cost of food and energy, fuelling hunger and impoverishment around the world in order to make a quick buck, these proposals are perverse. To deal with the global cost of living crisis, we must rein in the financial speculation which is driving it.

We are part of a coalition called Finance for our Future, which has been set up to fight some of the deregulatory proposals, and to call for better reform of the financial system. Over the next few months we will work to stop the government's plans. We will also use this opportunity to make the case that if we want a stable, equitable and sustainable food system, we must constrain the power of the City of London.

What is the Financial Services and Markets Bill?

The Bill is a massive, once-in-a-generation piece of legislation which aims to reform the rules around financial services. It has been introduced as part of Britain's disengagement from EU rules. We know that Britain never liked EU attempts to regulate finance. From constraining banker's bonuses to placing limits on financial speculation, British governments aggressively fought against financial reforms within the EU, and the government is now using Brexit as an opportunity to rescind the regulations it dislikes, allowing Britain to undercut EU rules. This was the explicit view of former chancellor of the exchequer Rishi Sunak who called for a 'Big Bang 2.0' of the City of London, mirroring Margaret Thatcher's deregulation in the 1980s which 'freed the City' to embark on a binge of unrestrained greed and laid the basis for our highly financialised economy.

At the centre of the Bill is the introduction of a new requirement for regulators to promote the 'international competitiveness' of financial services. This is a wholly inappropriate change, that turns regulators into cheerleaders for the City, unleashing a regulatory race to the bottom. It would encourage the adoption of less stringent rules to woo more traders to British financial markets. A similar focus around competitiveness in financial regulation in the past was deemed by parliament and the treasury to have contributed to the global financial crash.

One area where the government's proposals are particularly reckless is revoking the rules on commodity trading which we won back in 2014. In the 2010s, we campaigned to constrain financiers who were driving up food prices and increasing hunger around the world, simply to make a fast buck. In 2014, as part of what are known as the MIFID II reforms in the EU, we won new laws which put limits on this form of trading. The rules weren't sufficient and contained too many loopholes. But rather than bolster these rules, the British government is trying to revoke them altogether, and return us to a pre-MIFID era. We fear this will turbo-charge speculation in food and energy products, leading to further price spikes which hugely increase hunger, poverty and uncertainty for producers around the world. With people across the world experiencing a growing cost of living crisis, driven by higher food and energy prices, we've got to halt these dangerous proposals.

The problem of food speculation

In 2007-8, food prices rose very rapidly around the world, making food unaffordable for many people and leading to serious political instability. The price of wheat went up 136% while the price of rice doubled. In Haiti, highly dependent on food imports, the price of basic foods increased by 50%, forcing the poorest to survive on dirt 'biscuits'. The situation led to riots and the toppling of the prime minister. In North Africa, another region highly dependent on food imports, increased prices caused tremendous suffering, leading to protests and ultimately, many believe, the fall of governments in Tunisia and Egypt. Worldwide, the number of people going hungry rose rapidly, with many tens of millions driven into extreme poverty.

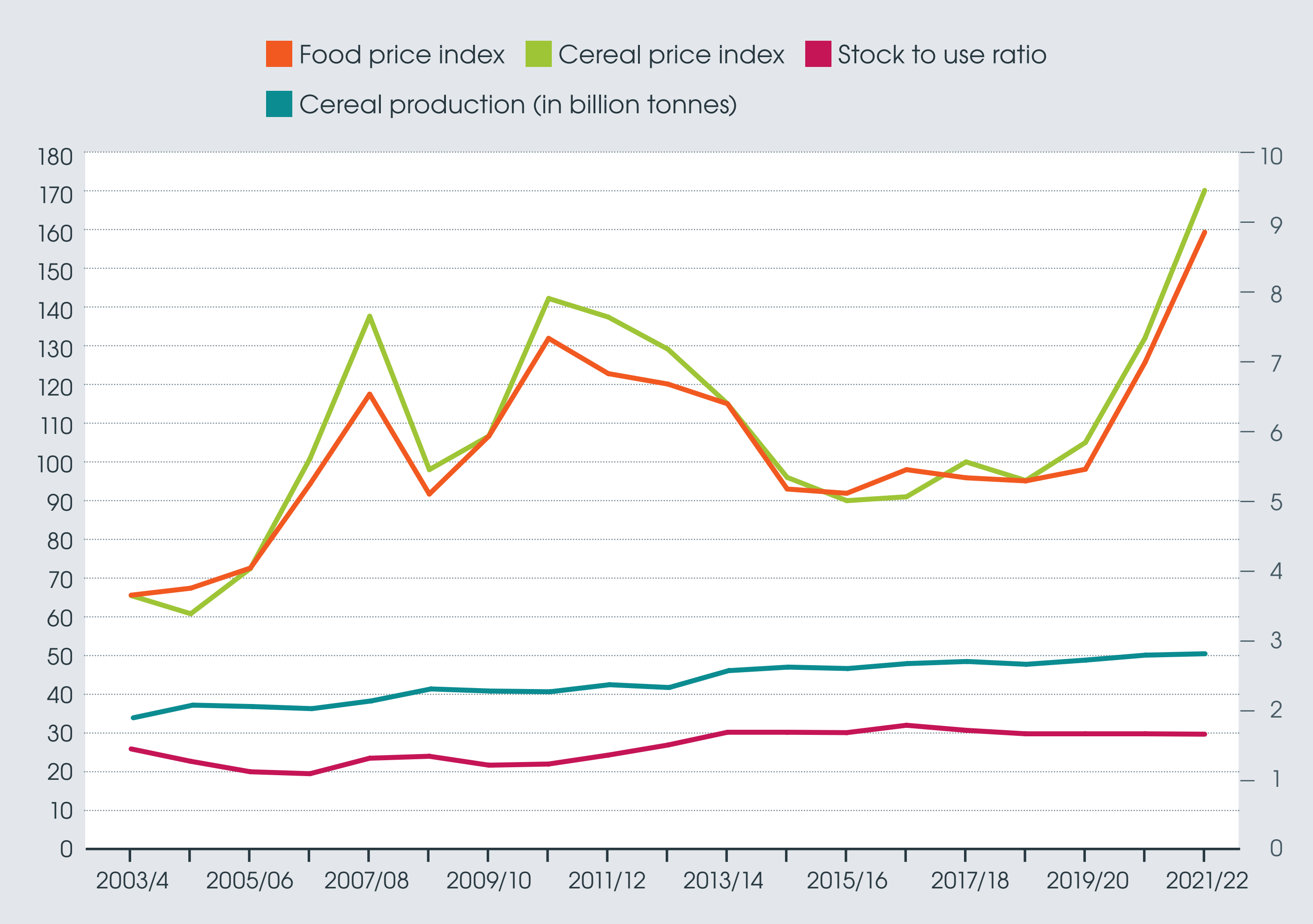
At the time, many commentators assumed crop failures or increases in demand from emerging countries was driving prices up. But it turned out that there wasn't a shortage of food at all. In fact, the world was producing more food than ever before, outpacing population increases.

The scale of the food prices after 2008 wasn't to do with demand and supply at all, but the deregulation of the commodity markets under the Clinton administration. As a result of this change, speculative trading on these markets became a lucrative activity. From 2003 to 2006, commodity index funds, invented by big investment banks like Goldman Sachs, massively grew in value from $13 billion to $260 billon. Then, as the housing market collapsed under the weight of sub-prime mortgages, the trade in commodities became ever more attractive.

These speculators weren't involved in producing food (or energy) at all. They were financiers who were effectively betting on future prices, and doing so in such large numbers that they were driving prices up. Back in 2010 we found that trading banks like Barclays were making hundreds of millions of pounds a year from betting on food.

There is an argument to be made for trading in agricultural derivatives. Farming is a precarious matter, and farmers often want to insure against the risk that global prices will fluctuate and leave them destitute when it comes time to sell. Therefore, they will hedge their bets by selling a 'right to buy' their product to investors, giving the farmer certainty and allowing the financiers to take the risk. This is supposed to have a stabilising effect on the market as a whole.

Graph 1: Volatility versus stability



Food and cereal prices have fluctuated dramatically on the international markets in the last twenty years, but actual production of staple cereal crops has been remarkably stable. There has also not been any sharp change in consumption as compared to the available stocks (stock-to-use ratio) that might explain the price changes. *Sources: FAO Food Price Index and FAO Cereal Supply and Demand Brief, via Agarwal, Thin and Gates, "Betting on hunger" The Wire 6 May 2022*

But the deregulation of these markets meant many more financial funds suddenly entered the market, using new and risky forms of trading. And as with all financial markets, when traders get spooked and start thinking they made the wrong bet, the price comes tumbling down again. Selling food becomes more akin to working in a casino. Many speculators actively benefit from the volatility, whereas, for the farmers, the market loses its whole purpose. In 2022, as food prices have again rocketed on the back of speculation, farmers have reportedly been less and less able to use the commodity markets as prices were so wildly at odds with what people could pay for food.

Back in 2014, we worked with many other campaigners, including Friends of the Earth and Oxfam, to campaign against food speculation. We won a victory in the EU when we argued that this speculation needed to be tamed. The MIFID II reforms said regulators had to apply 'position limits' on how many contracts traders could hold, and opened up the market to more transparency. Similar rules were also put on the table in the US.

The crisis this time

Sadly the rules we won were not strong enough, and the financial sector lobbied heavily to water them down. They succeeded in getting Donald Trump to undermine the constraints on speculators in the US, and now the British government is also proposing to do the financiers bidding, and strip away these rules here too.

Today, we are again facing rapidly increasing commodity prices, particularly food and energy, with energy of course necessary to produce and transport food. Back in March many basic food prices were higher than the levels reached in 2008. Even in wealthy countries like Britain, many families have found themselves unable to buy adequate food. But across the world, food and energy price inflation is fuelling massive impoverishment. In one survey of global south countries, ActionAid found families spending two, three or four times as much on food and fuel as they did last year, with average prices of bread and pasta up 50%. The charity said we are on track for a far more "deadly, devastating and prolonged" food crisis than the one we saw in 2008. Meanwhile, Oxfam predicted that over a quarter of a billion more people could crash into extreme poverty this year, in "the most profound collapse of humanity into extreme poverty and suffering in memory."

Many commentators have blamed Russia's invasion of Ukraine for this crisis, given Ukraine is a major source of wheat exports, and Russia is preventing that trade, as well as withholding some of its own exports. It's true that Russia's policies have indeed endangered food exports to some countries, and that the implications of Covid-19 are still being felt, not to mention the impacts of climate change. But none of this accounts for the massive rise in food prices, which started *before* the invasion of Ukraine. In fact, prices have become increasingly disconnected from actual food production.

Yet again, financial speculation is playing a key role. As food campaigning group GRAIN puts it, "We face a price crisis, not a food shortage." Many more people will go hungry this year, even though we have plenty of food to feed everyone, because a tiny minority can make a fast profit. UN Special Rapporteur Olivier De Schutter said of the banks and hedge funds "They are indeed betting on hunger, and exacerbating it."

As a matter of fact, food prices are now falling again, underlying the fact that price has become disconnected from real world supply and demand. And while it might seem that falling prices will simply sort the situation out, that misses the big picture – that the very volatility of these prices are the problem, creating instability and crisis in order that speculators can make a quick buck.

Just as there's no overall shortage of food, so there's no shortage of wealth. It's just being hoarded in a small number of hands. Oxfam International's director has pointed out the cost of living crisis is "made more sickening by the fact that trillions of dollars have been captured by a tiny group of powerful men who have no interest in interrupting this trajectory." Corporate titans in the food and energy sectors have made nearly half a trillion dollars in the last two years, with 62 new billionaires created off the profits of the food industry alone, while five of the largest energy companies, including BP, Shell and Total, are making $2,600 of profit every second.

As the economist and debt campaigner Ann Pettifor tells us "In a world of financialised globalisation, prices of food, vital to the very survival of human beings on all the world's continents – are not determined by the simplistic laws of supply and demand. Prices are determined by a wall of money wielded by relatively few, invisible speculators and aimed at largely unregulated global grain markets." But governments are unwilling to regulate to take action against these financial markets, preferring to push the cost of the crisis onto those least responsible, and least able to pay for it.

Not all of this trade takes place in London of course. But important trading does happen here, and in trying to tempt more such trading to our financial markets, we risk undercutting attempts at reform elsewhere. The very least we should expect is that governments don't take action to make the causes of this crisis even worse. But, by stripping back the weak regulation that did exist on financial markets, the British government is doing just that: rewarding those responsible for the crisis and laying the ground to make future crises even more serious.

What we want

On food speculation

We want the government to drop its revocation of the commodity trading rules. These rules are a bare minimum, needed to prevent actively making things worse. But we want to go further and make these rules effective. Better regulation must include much stronger position limits on traders and much better transparency, because these markets are notoriously opaque, making regulation that much harder. Many campaigners argue for additional measures including: banning certain actors and financial instruments from dealing in food and/ or tax on these financial transactions.

Of course, there's a bigger food story here which we've campaigned on in the past. One reason speculation came to play such a prominent role in setting food prices is because so much of our global food and energy needs are dependent on international markets, promoted heavily in an era when it was believed the free market could solve all of our problems. From the late 1970s, policies pushed by institutions such as the World Bank and later the World Trade Organisation would have a devastating impact on smallscale farming and government's ability to intervene in their own economy, including through stabilising prices, to protect the right to food. Long-term we need a more sustainable food system, with countries investing more in smallerholder farmers and food production, as well as using anti-monopoly rules used to tackle the corporate giants who dominate the food sector.

On other aspects of the Bill

While there are some consumer protections in the Bill, there are also other problematic areas of this enormous piece of legislation, for instance the 'Solvency II' reforms. The government argues that by relaxing the rules on the amount of capital insurance companies are forced to hold, they will free up funds for investment, particularly in the green economy. While that might be true in theory, in practice it will morel likely create more instability and vulnerability, including for pension fund holders, and end up allowing more money to flow into the pockets of rich shareholders, rather than contribute towards genuine investment.

We are part of a coalition which has been established to fight some of the deregulatory provisions in this Bill called Finance for our Future. They have also put forward a positive vision of what financial regulation could look like.

Given UK financial institutions are responsible for nearly double the carbon emissions of the UK and that 17% of the British population would struggle to cope in a cashless society they are focused heavily on the need to tackle climate change and to promote financial inclusion. Their demands include:

- abandoning the dangerous proposal to force regulators to cheerlead for the financial industry through an 'international competitiveness' objective
- giving regulators a statutory objective to align the financial system with the 1.5 degree climate goals in the Paris Agreement
- giving regulators a responsibility to promote financial inclusion to help the millions of people who are excluded from essential financial services
- introducing requirements that give the public and civil society as big a say in how the financial sector works as industry lobbyists

You can find out more at **financeforourfuture.org/**

Winning won't be easy, given the government has a strong majority and the Labour Party has even made some supportive statements about the Bill. However, we don't believe that financial deregulation is popular, and with the domestic cost of living crisis only getting worse as the year goes on, we believe it's possible to create real opposition to these policies. Indeed, some conservative MPs are already engaged with the coalition. We therefore think it will be possible to make changes to this Bill. Some MPs will be won over by arguments around the global food crisis. But there are strong grounds to appeal to MPs across the political spectrum on this including by stressing the role of speculation in driving up energy prices and inflation more generally.

Take action

To find out how you can help tackle corporate power and become part of a movement for real change visit globaljustice.org.uk

Global Justice Now

Global Justice Now campaigns for a world where resources are controlled by the many, not the few. With thousands of members around the UK, we work in solidarity with global social movements to fight inequality and injustice.

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