STATEMENT BY

FUNDACIÓN GLOBAL DEMOCRACIA Y DESARROLLO &
GLOBAL FOUNDATION FOR DEMOCRACY AND DEVELOPMENT

AT THE

FIFTH HIGH-LEVEL DIALOGUE ON FINANCING FOR DEVELOPMENT

“THE LINK BETWEEN FINANCING FOR DEVELOPMENT AND ACHIEVING THE
INTERNATIONALLY AGREED DEVELOPMENT GOALS, INCLUDING THE MILLENNIUM
DEVELOPMENT GOALS”

NEW YORK, 8 DECEMBER 2011

Fundación Global Democracia y Desarrollo (FUNGLODE) and Global Foundation for Democracy and Development (GFDD) are private, non-partisan, not-for-profit institutions, created by His Excellency Dr. Leonel Fernández, President of the Dominican Republic. FUNGLODE and GFDD are dedicated to formulating innovative and strategic proposals on global issues of national interest with the purpose of contributing to the creation of effective public policies related to the governance and social and economic development of the Dominican Republic.
On behalf of Fundación Global Democracia y Desarrollo (FUNGLODE) and Global Foundation for Democracy and Development (GFDD), I would like to thank the NGO Committee on Financing for Development for inviting our institutions to share our perspectives on the impacts of financial speculation on futures markets and global development.

Speculation poses serious risks to economic stability and democratic governance. The rising price of basic commodities like food and oil as a result of financial speculation has become one of the largest obstacles impeding full achievement of the MDGs, as it signifies reduced financing for priority public investments.

We argue that financial speculation has radically changed the science of economics. The price of commodities is no longer determined solely by supply-and-demand, but also by the creation of ‘artificial demand’ based on the perceptions of financial speculators.

It is the perception that conditions such as national growth, civil unrest or natural disasters will result in higher consumption or in disruptions in supply that drives up world market prices.

We do not deny the relevance of such factors on the increase of commodity prices. Rather we argue that financial speculation takes unfair advantage of economic, social, political and environmental conditions so as to increase the profit margins of institutional investment firms.

Ten years ago, 70 percent of commodity futures markets were comprised of physical hedgers and 30 percent were comprised of institutional investors. Today, those percentages are reversed.

Today, markets are dictated by institutional investment firms, not producers and consumers.

Markets no longer have a social value. Markets have become ‘casinos’ where speculators purchase commodities with money they do not have, for commodities they have no intention of receiving. Private gain for institutional investment firms has become the sole objective.

We argue that this form of ‘casino capitalism’ has created a very dangerous situation that is negatively impacting the livelihoods and well-being of people worldwide.

From 2006 to mid-2008, food prices reached their highest level in 30 years, before plummeting and rising once again at the end of 2010 and the beginning of 2011. According to World Bank estimates, during 2010 and first half of 2011, increased prices of food products launched
approximately 70 million people into extreme poverty. This reality makes the plausibility of halving the proportion of people suffering from hunger by 2015 even more arduous.

If effective measures are not put in place to address excessive speculation, the rise and volatility of the prices of basic commodities will become a recurrent phenomenon for years to come.

**Towards a new global consensus on financial speculation of commodities**

We must not permit the philosophies of full market liberation and deregulation to drive the global economy.

We promote a new consensus on global stability of commodity prices that is defined by the following criteria: firstly, limits on the transactions of investors; secondly, the establishment of margins higher than the premiums required for underwriting commodity futures contracts; thirdly, limits to the volume of transactions of institutional investors; and fourthly, banning financial speculation of food in futures markets.

We firmly believe that an international consensus to reduce price volatility and financial speculation of commodities would contribute to the fulfillment of the MDGs and the right to food and development.

Moreover, we advocate that this new global consensus be conceptualized within the framework of the United Nations System.

For more detailed information on the work of our institutions on financial speculation of commodity prices, we invite you to refer to Dr. Leonel Fernández’s report *Financial Speculation, Food and Oil in Futures Markets: Towards a New International Consensus on Price Stability.*

Thank you.