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Food for thought on finance vehicles

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From Mr Brett Ladendorf.

Sir, In light of the current political climate for banks, it's understandable that Volksbanken of Austria will pull away from financial products tied to agricultural goods and food prices (report, August 15). For the sake of minimising reputational risk, the bank's chiefs are making a prudent business decision. However, the campaigners against such financial vehicles do not understand financial economics. The banks should not be dissuaded by such flawed reasoning and misguided pressure for the long run.

If the campaigners are so concerned with speculative forces using exchange-traded funds, structured products and the futures markets to push up food costs, shouldn't they be crying foul if such speculative forces can push up energy prices through these same vehicles? Trends of higher priced commodities are a signal that demand is too high or that supply is to low, occurrences that typically ration demand. Is that not a good thing for a planet that can only provide limited resources? Is that not a great thing for a planet suffering from increased carbon output?

There's a saying that the cure for higher prices is higher prices. Let the freer markets determine a solution for elevated demand or limited supply; at least that's one policy a certain well-regarded, 20th-century Austrian economist would have promoted to his banking institution.

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