



IRELAC POLICY BRIEF 2022/01

Prof. Christian Ghymers
Prof. Michel de Kemmeter
Club of Brussels
08/04/2022

**Putin's war will provoke starvation for millions of poor
with long-lasting disastrous consequences for the world...**

**Or a historical opportunity for systemic emergence of new
models?**

"England has been offered a choice between war and shame. She has chosen shame, and will get war" [W. Churchill, August 1938].

"We are in the presence of a disaster of the first magnitude... we have sustained a defeat without a war, the consequences of which will travel far with us along our road... terrible words have for the time being been pronounced against the Western democracies... This is only... the first foretaste of a bitter cup which will be proffered to us year by year unless by a supreme recovery of moral health and martial vigour, we arise again and take our stand for freedom as in the olden time" [W. Churchill, October 1938].

Russia's unilateral aggression against Ukraine triggers a series of radical changes that neither public opinion nor financial markets seem to be actually sufficiently aware. We face the most important global shock for the world which could make 2022 the sharpest turning points in the whole post-war era. The current economic and geopolitical order are at stake much more than with the global financial crisis and clearly more than with the fall of the USSR which had just extended and accelerated the economic internationalization trend. Indeed, Putin's war against Ukraine reverses the basis not only of all the "legal" international right and democratic order, but overall of the globalization process which rules the world economy.

Although this aggression repeats cynically past events (like Hitler's invasion of Czechoslovakia and Soviet imperialist domination of neighboring countries), the resulting irreversible conflict between the democracies and

the autocratic regimes generates much stronger consequences than similar conflicts did in the past. They occur now in an extremely higher interdependent economic system, with global output chains at the basis of the current productivity and welfare performances. Could these performances be maintained? At which conditions and with which kind of policies? Key question on which we don't yet hear much debate.

We can see with the naked eye that today's leadership is cornered, checkmated, incapable of serious forward-looking policies. It is time now for new models, new inspirations, more care for common good. In this chaos, everyone is pulling the cloth to oneself, plundering what is left of a sinking model based on extraction with no care for secondary effects of that model. The behavior of our leaders should wake up the people who are ready for implementing true change.

Obviously it is not possible, at this very moment, to assess the total impacts of breaking so vulgarly the whole global architecture, but it clearly puts deeply into question the globalization and the multilateral order as they have worked up to now. It is highly probable that the consequences for the world would be a historical catastrophe, turning down the global economy to negative growth, provoking huge socio-economic costs, leading to political uncertainties and a frightening postponement in the already urgent energy transition.

But it could also be possible that the drastic rise in energy cost would provide a chance for systemic changes with behavioral adaptations and massive moves towards very expected energy savings and alternative energy methods.

In this short overview, we limit our purpose to draw the attention on the inevitable long-lasting costs and the high political risks that are already possible to foresee now at the principle of April 2022, even if the war would miraculously stop soon.

Putin's war generates four mutually multiplying destructive effects leading to impoverish durably the world and making it even much more unsustainable. Whatever the outcome of the war, the world is already now less able to tackle the key urgent issues in social-health-climatic areas:

- 1) Immediately visible increases in food and energy prices makes inflation to soar, growth to turn down, social upheavals and famine inevitable.
- 2) These effects will be mechanistically amplified by the disruptions in other output chains and trade resulting from both the war, its direct destructions and the resulting new segmentation that economic

sanctions and Russian retaliations mean, provoking accelerated job and output destruction.

- 3) The additional falling productivity which results from the significant losses of human capital provoked by killings, wounded persons, forced immigration and higher absorption of resources in unproductive defense, will absorb fiscal resources and inhibit the spontaneous capacity of reaction.
- 4) The previous vicious circle of negative forces will exacerbate the dramatic increase in global uncertainty, feeding this negative circular circle of causality which pushes down business confidence, investments, R&D and training efforts, foreign direct investments, asset prices, together with tighter monetary conditions, multiplication of financial crisis and over-indebtedness, making more difficult the international cooperation necessary for implementing coherent policies and efficient remedy to the global warming.

In total, we face the high risk of a very dark scenario developing an exceptional global loss-loss game through which it is clear that productivity will go down bringing with it real welfare and pushing up sharply poverty, and as a consequence, conflicts should spread all over the world.

However, it is still impossible to predict now the net impact this historical set-back will provoke, because it depends of two opposite forces: on one side, the huge economic and social costs amplify the political risks and the fragility of democracies, on the other, the strong shock provoked by these costs, the resulting risks and the new constraints could spur a positive reaction process, increasing the possibility of structural and institutional changes in both camps. Examples of the potential existence of this positive capacity might be the signs of an EU new cohesion and the new reason to accelerate the renewable energy sources. Other expected potential positive reactions would be a lucid dissociation of China from the Putin's destructive strategy which could turn also very negative for the Xi Jinping's strategy, or a "coup" in Russia.

Of course, any positive reactions are to be compared to all the negative impacts in preparation. According to the net result, democracy could either disappear or emerge stronger. This is what is at stake with the Putin's war against democracy. It is even legitimate to raise the question: to which degree would the "Devil Putin" consciously opt for this destructive process of the roots of the strength of his competitor's regimes, in order to hide his own failure to develop the Russian society? To which degree Putin's strategy based

upon “revanchist authoritarianism”¹ was slowly but carefully prepared by creating high dependency from Russian nuclear threat and the blackmail of energies, food and fertilizer dependency?

One key aspect of the global crisis created by the Putin’s war, is the global breakdown in the food supply chains and the resulting inevitable famines, especially in Africa. Russia and Ukraine together account for about 30 percent of the world’s exports of wheat, 15 percent for corn, 11% of the global market for food calories and 70% of sunflower oils. The war does affect world food supply not only through direct output destructions and sanctions but also through the energy shortage and the transport/infrastructure destructions impeding to carry the inputs, stocks and outputs. So, in Ukraine, the Spring sow and the Summer harvest will probably be lost, while Russia wants to use politically its food and fertilizers supplies by delivering them only to “friend countries”.

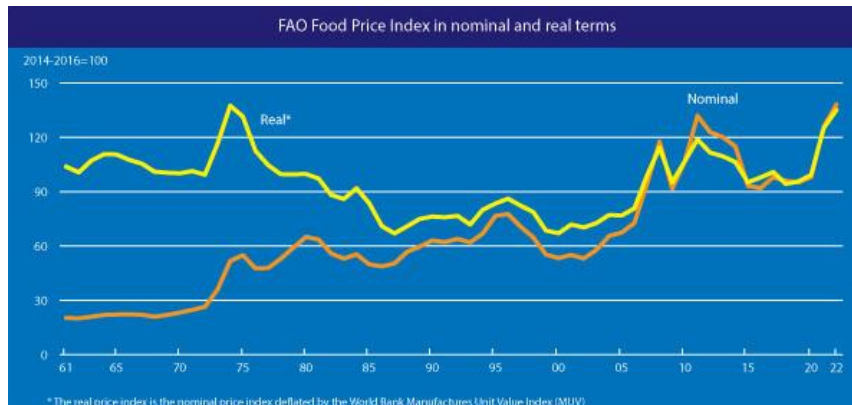
This high dependency of many countries from Russian supplies is the result of Putin’s explicit strategy for acquiring an additional lever in world affairs. Wheat and fertilizers have a key-role in political stability, and are used as a strategical arm. At the beginning of the 2000s Russia was almost not an exporter of cereals. Twenty years later the production is more than double and almost all the additional output is exported, reaching 21% of the global market for wheat. This is much more than the US exports (14%), and adding Ukraine and Kazakhstan, Putin might control 40% of the world supply for wheat. Furthermore, the Russian hegemonic power on the main food supplies should increase as a result of the EU policies for protecting environment: the EU 2030 Plan “Farm to Fork” in implementation by the Common Agricultural Policy, forecasts a significant reduction of agricultural output for fighting against climate changes and fertilizer pollution.

Many poor countries are highly dependent from Russia, not only for cereals but also for fertilizers they need as the rest of the world for their own production. Indeed, Russia is a dominant producer of fertilizers and has already announced that it will only supply them to its friends. Therefore, the world faces a global food crisis which will provoke many famines with starvation for hundreds millions of people, with inescapable political upheavals, adding to the global costs of this war. Putin’s unilateral decision was taken at the very moment when food supply was already tight for facing the demand recovery after the Covid crisis, adding so a major global disruption in supply chains, moved by hegemonic ambitions.

¹ Yegor Gaidar, *Collapse of an Empire*, Brookings Institution Press, November 2007. Gaidar was probably poisoned as many other dissidents from Putin’s strategies.

Food prices were already higher than previous crisis (2008-2011) that had triggered the Arab Spring (see chart 1) and that the war is pushing up sharply (chart 2). Fertilizers prices had already almost doubled in one year before the war (Chart 3) as they need much gas, for which we are dependent (Chart 4)

Chart 1 Food Price Index in nominal and real terms 1960-2021

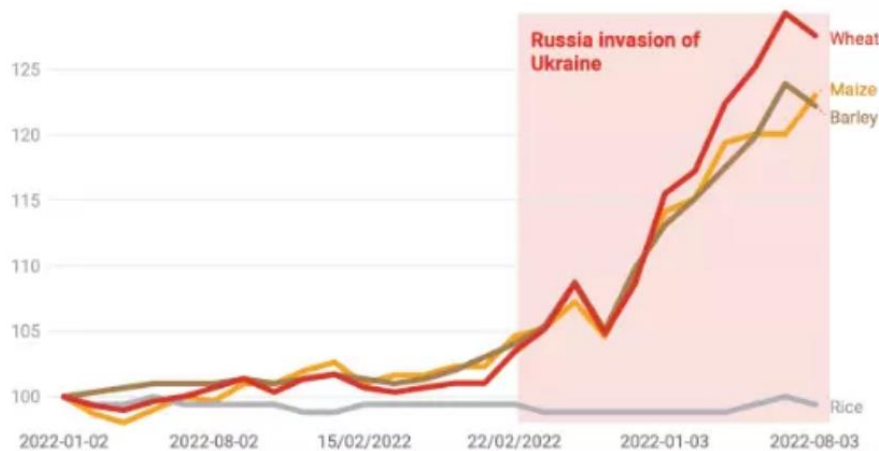


Sources: FAO

Chart 2: Food prices

Wheat, maize, barley and rice price indexes

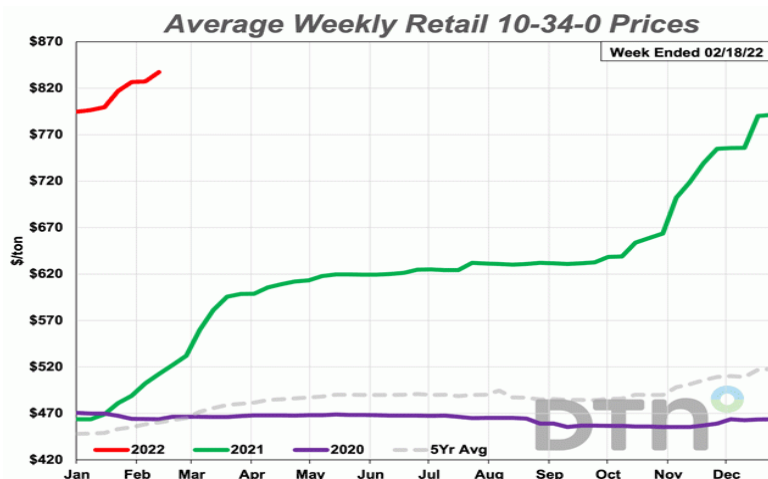
100 = price at February 1, 2022



Wheat, maize, barley and rice price indexes from 1 February to 8 March. Image: International Grains Council – Get The Data

Source: BBC from International Grains Council

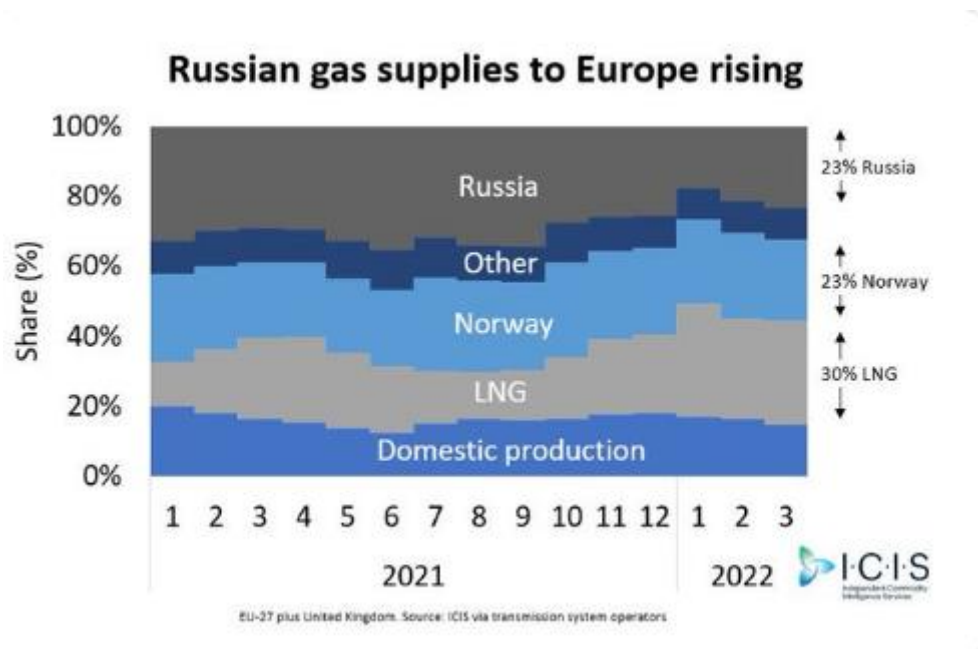
Chart 3: Price Index for fertilizers (before the war)



Source: Progressive Farmers DTN

<https://www.dtnpf.com/agriculture/web/ag/crops/article/2022/03/30/dap-fertilizer-price-index-sets-1>

Chart 4: Russian gas



What should be done?

Drawing lessons from the 2014 mistakes when Germany and others decided to tie their hands to Putin's regime with Russian gas dependency, instead of taking tough sanctions on time just after Donbass and Crimea illegal invasions, three urgent decisions must be taken, before dealing with the food crisis:

- 1) to cut immediately all energy imports from Russia that presently allow for the continuation of Putin's war; indeed, with more than one billion € per day feeding his budget, we are direct partners in crime. This fact

is an unethical dishonor for the values our authorities pretend to defend. It leads to a situation worse than when Churchill said after Munich Agreement that government for having chosen 'dishonor' will get also 'war'. In case of confirmation that our authorities are actually so unethical by refusing an embargo on Russian gas imports, they should at least not continue to be so stupid: they could be more rational by imposing a punitive tax on Russian gas. The reason is that this tax would be paid essentially by Russia because demand for Russian gas is highly elastic while short-term supply is very inelastic (meaning that large changes in the price to the producer do not induce changes in supply). Instead of being costly for the world, imposing such a tax would actually be profitable by extracting and transferring to us a big share of Putin's war chest²

- 2) to use the emergency situation for launching a massive EU cooperation plan in order to speed-up the energy transition to renewable sources. The EU is condemned anyway to substitute urgently both fossil energies and Putin's dependency, the war context provides an historical window of opportunity to act under the benefit of the exceptional citizen consensus created in reaction against Putin's aggression. This situation offers to "kill" three birds in a single shoot: to **stop Putin**, to provoke the **substitution of fossil energies** to green energies, and to **strengthen the EU integration**. This would not only save lives and democracy now in Europe, but would be a systemic progress for saving lives everywhere on Earth in humankind future. It would put the European project in a totally new light: on what is Europe expected, what are the underlying values and visions of our aging continent for the new generations and the rest of the world ?
- 3) To stop trying to cushion the increase in fossil energies by using tax reduction which benefits to all users. On the contrary EU taxes should be scheduled for ensuring a stable rising trend of prices of carbon emissions, in order to enact the irreversibility of the needed decarbonization and to act now upon longer-term expectations. So, the relative prices would automatically make more profitable to use and to invest in alternative energies. Of course, the **social impact** has to be tackled with **cash allowances** targeted to lower income households or some specific sectors, redistributing the proceeds of these taxes,

² See Ricardo Haussmann, The Case for a Punitive Tax on Russian Oil, Project Syndicate : <https://www.project-syndicate.org/bigpicture/turning-off-russias-tap>

including direct grants for installations of alternative energy production units of energy saving strategies.

But do we have ethical leaders? And if they don't, are they economically competent?

These two questions will be raised with higher acuity by electorates when facing, next winter, the big **starvation risks in poorer countries**. The high risks of huge migrations pressures and political disorders everywhere, are additional reason for stopping Putin right now. If not, this would demonstrate the lack of capacity to govern... exactly what Putin is expecting from our democracies.

As every coin has 2 sides, maybe this upcoming mega-chaos will push the emergence of following systemic potentials :

- > Local agro-ecological food production: regenerative, biological, seasonal, job-creating, healthy, creating new biotopes;
- > Localization of jobs, preferably in reliable Low-Tech when cheaper imports do not incorporate negative externalities (including risks of unsustainability or excessive strategic dependency)
- > More careful and serious investment of public money where their longer-term impact is higher (on job creation and collective goods as education, health, social integration), instead of blindly spending debt-based money into “clientélisme” strategies
- > Re-gain sovereignty and systemic anticipation, for citizens, SME's, collectives: an emergence (even homeopathic) of a new breed of leaders who create value on the field, in collaborative mode. Getting prepared for a new era based on balanced collaboration, regeneration, values,...

Whether we like it or not these evolutions are fundamental for creating a balanced and safe future. Of course, it goes together with some real pragmatism and wisdom.

« Gouverner, c'est prévoir. Ne rien prévoir, ce n'est pas gouverner, c'est courir à sa perte »
[Émile de Girardin (1846)]

