A Number of economic shocks, both domestic and international, have unsettled the domestic price structure in Bangladesh in 2007. In particular, prices of basic food items have increased at a pace not seen in decades and to levels that make it very difficult for the fixed-income and marginal household to meet their basic needs. Politicians, economists, and the government have differences of views about how to react to this pressing issue, which is not surprising.

In the course of the ongoing debate, both politicians and economists outside the government have made numerous statements, in many instances blaming the non-elected nature of the government for its failures in bringing prices of essential products to earlier levels. Some have even stated that, in earlier post-flood episodes, prices were never allowed to increase because of the government's rapid actions, and attributed to the price surge to the non-representative nature of the government.

Many have also asked for government intervention in the market to break the "cartel" manipulating the prices and direct interventions in the market to bring down prices. In response, the government has stepped in with BDR fair price shops and on occasions employed the joint forces to bring more "market discipline."

I have been taking note of these developments closely through television and print media, albeit from a distance. As an economist, familiar with global developments and trends, I thought we must distinguish myths from reality, if we want to achieve the best possible policy response and outcome for the well-being of the Bangladeshi people.

Is Bangladesh the only country experiencing such a price surge in essential commodities? Inflation in food prices is a global phenomenon, and not something we can attribute to the current government. A ton of rice, which used be sold for $230-250 last year, is currently selling for $400-500 or more. The increase in wheat prices is even more phenomenal, price per bushel which used be $2.50-3.50 for many decades, has surged to more than $10 per bushel. Similar hikes have been recorded in the prices of edible oil, milk and meat products.

Recent price surges across the globe have caused food riots from Mexico to Uzbekistan to Senegal. Prices in Bangladesh certainly would not be left alone in this globalised world. We are extremely fortunate that despite two severe floods and the destruction induced by Cyclone Sidr, we did not experience any shortage of food in local markets although prices could not be insulated from international market developments.

Are commodity markets in Bangladesh inefficient and need government intervention? Price movements in Bangladesh very closely follow the developments in the international markets. A news ticker in Washington informed me that wheat prices in Chicago commodity exchange have reached all-time high by crossing the benchmark of $10 per bushel, and the next day I read reports of wholesale markets in Bangladesh registering a marked increase in wheat/flour prices. The day Indian government increased the minimum export price of rice to more than $500 per ton and former Adviser Tapan Chowdhury stated that the government has nothing to do, rice prices jumped instantly both due to economic and non-economic reasons. As the government stepped in and assured the market that there is enough supply at store and in the pipeline, prices came down somewhat, albeit to levels consistent with international market prices.

Has market interventions by BDR and joint forces helped?



MUNEM WASIF/ DRIKNEWS

BDR shops may have been selling rice and edible oil at a few taka less than the prevailing market prices per kg, but that can be explained by the fact that government is paying for their staff salaries, rents, transports, and working capital. Do we expect the private sector to go out of business by following the steps of BDR? BDR can never change the trend in market prices, but can always sell items at a few taka less per kilogram at the expense of the government. It only serves the purpose of providing food at reduced prices at the expense of indirect/direct government subsidy, and that objective of providing