

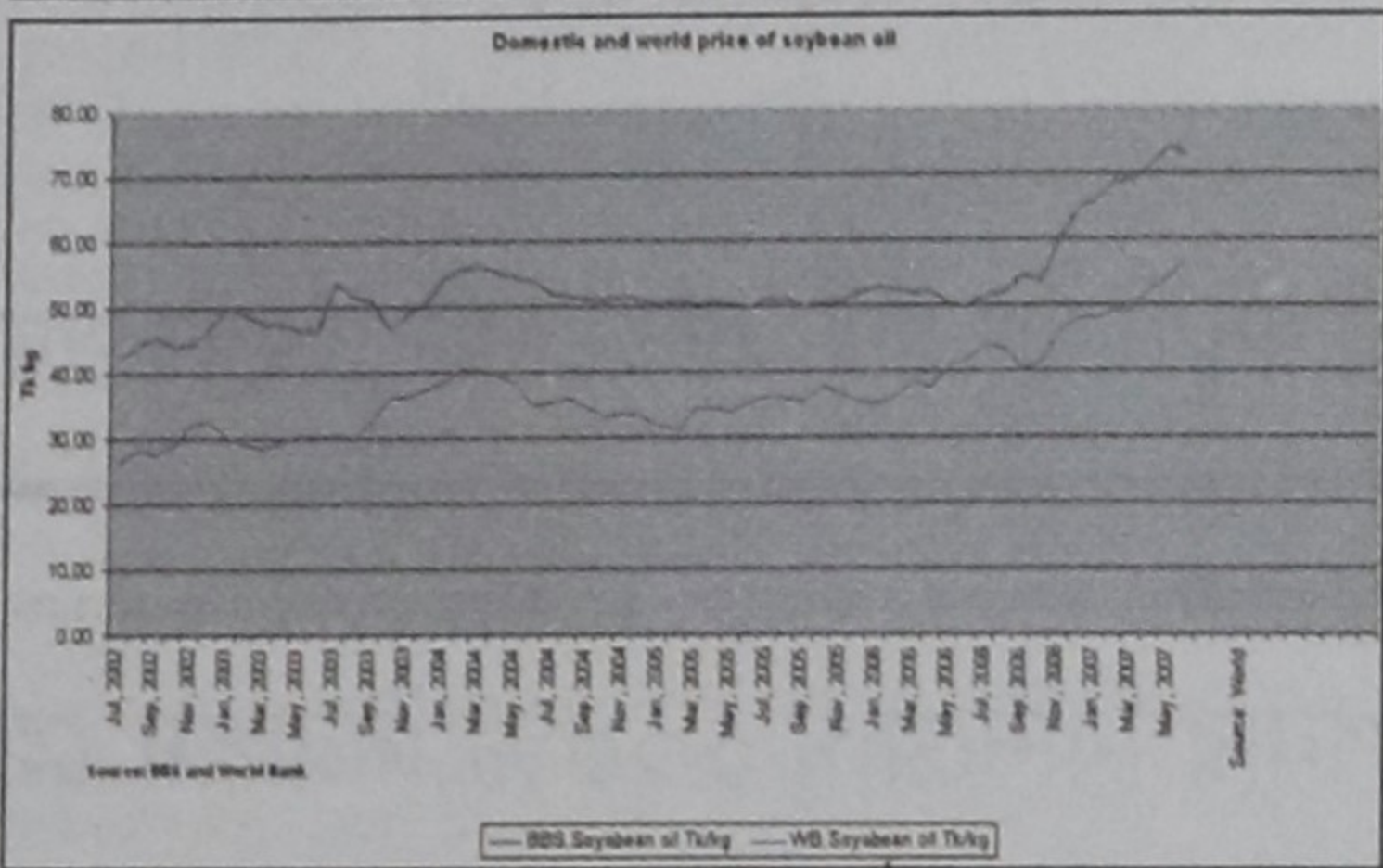
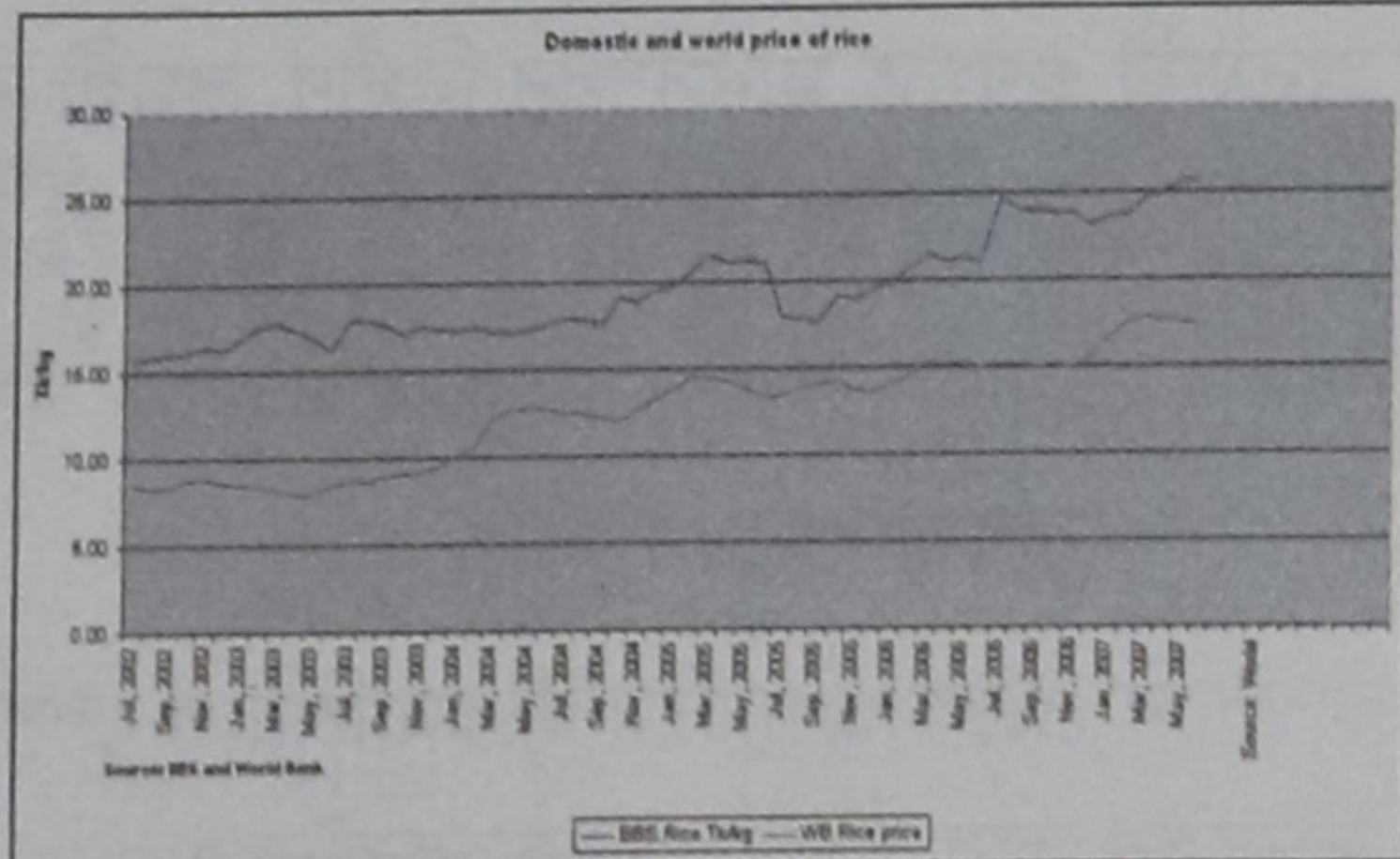


# ...price behaviour

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coaster ride since 2002 and Bangladesh inevitably got caught up in it. The inflation rate has been steadily increasing since 2001-02.

The trends of global market price and domestic market price of rice, sugar and soybean oil are shown in the charts below. They all share one thing in common - both prices move together. In other words domestic price movements are very strongly influenced by international price movements. Observed deviations can be explained by tariff changes, expectations, errors and adjustment lags. It does not seem that the performance of these markets has changed much during the last several years, nor do the markets show any obvious signs of any significant inefficiency or distortion.

These findings cast some doubts about the validity of syndication, hoarding and middlemen hypotheses advanced at different times to explain intermittent price hikes. If any of these were responsible in a major way for the price hikes, there should have been a sustained divergence between domestic and international price trends when the alleged unfair business practices had occurred. But there are no such divergences between these prices evident from the charts. If these elements did have any role in price formation, that was already contained in the initial



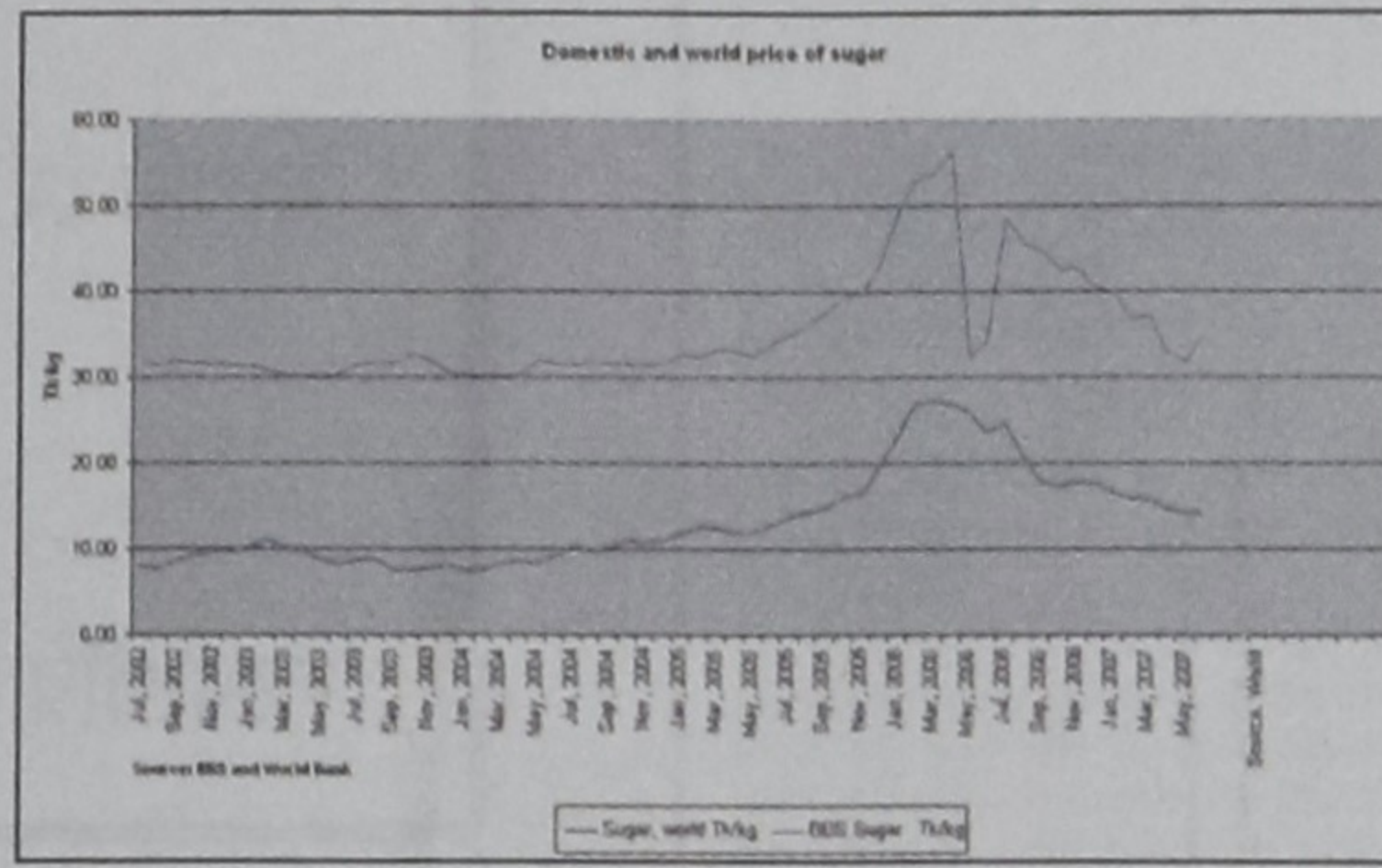
spread between international and domestic prices. Consequently they cannot explain the subsequent increases in domestic prices.

Only if the syndicates or the businesspeople had increased their margins, it could have been advanced as a possible explanation of the price hikes. However,

the spreads between the international and domestic prices have remained fairly stable since 2004 for rice, while for sugar and soybean oil the spreads seem to have declined. Thus the notion of heightened profiteering through the alleged unfair means does not appear to be a significant force behind the recent price hikes of

essential goods.

If the price hikes originated in domestic distortions such as mentioned above, it would be possible to bring the prices down by taking remedial measures against the unfair business practices. However, if the principal impetus originates overseas the



task of controlling prices becomes difficult, and in some cases virtually impossible.

One of the easier methods of offsetting an international price hike is to reduce any trade taxes or restrictions on the commodity. At the moment, there are no taxes or restrictions on the import of rice and wheat, and hence, this method of reducing their prices is not feasible. Some products like edible oil and milk powder are still subject to substantial tariffs; hence the impact of international price hikes

could be partly offset by reducing tariffs on these products. This was done some time ago for sugar.

While such a measure could ease the inflation situation to some extent, it also depletes the meagre revenue basket of the government and thereby reduces

per kilogram would require about 1500 crore taka per month. Since subsidising food grains en masse is not possible, the government could subsidise food grains sold to target groups such as the poor people. But this would require introducing a rationing system. Such a system did exist in past. (It exists now only for service personnel.) If the government wishes to introduce rationing, it should first examine why it was abandoned. The administrative and financial costs of running such a system are usually very high.

Another option would be to directly increase the purchasing power or the exchange entitlement of the poor. The government has already moved in this direction. Vulnerable group feeding, food for work, test relief and such other programs all raise the exchange entitlement of the poor and help them to tide over difficult times.

The all-important difference between 1974 and the current year is that the former ended in a tragedy in which tens of thousands of poor people perished, but the latter escaped with increased misery of the ordinary people. Two reasons among others for the relatively 'better' outcome during the current year are: (a) the per capita purchasing power of the nation has risen markedly and (b) the markets are a great deal more open and less encumbered by government interventions. The former gave

people the means to withstand difficulties while the latter made the essential goods available promptly to any pockets of scarcity.

These factors that helped the economy to withstand the adverse shocks should not be impaired because of some mistaken notion of controlling the market or the urge to solve long-standing problems immediately. Nothing should be done that reduces the growth rate of the economy or disrupts the market mechanism. No policy has ever worked as well as high economic growth in reducing poverty and empowering the ordinary people anywhere in the world. This is the only certain route to a permanent solution to the problem of poverty although the journey is not always smooth or time-bound.

Government interventions in the market can be justified only if there is market failure in some sense. Such interventions can only reduce welfare if the markets are well functioning. Hence, before the government contemplates any market intervention, such as procurement and distribution through government agencies, it should first satisfy itself that a market failure has occurred or that the government agencies can deliver more efficiently than the private traders. The charts below do not suggest any significant market failure of

distortions in the case of any of these commodities. In this event the government interventions could have worsened an already difficult situation and delayed the recovery.

The problems that the nation is facing now did not emerge suddenly and cannot be solved immediately. Economic policies of the yester years were not conducive to moving the economy in a direction that could ensure that these problems resolve quickly. The crux of the problem is that a large part of the population live under the poverty line; they do not have sufficient purchasing power either to live a decent life or to adjust quickly to sharp price fluctuations.

A lasting solution then is to raise the purchasing power of the ordinary people, which will give them the ability to withstand any unforeseen difficulties. This can be achieved only by accelerating economic growth. Hence, every effort should be made to raise economic growth which alone can give a reasonable guarantee of a sustainable solution to the primordial problem of poverty. Most importantly, no policies or measures should be taken that disrupt the market or constrict the supply chain.

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## বিশেষজ্ঞই পারে দিতে সম্পূর্ণ সমাধান



জীবনের বিভিন্ন পর্যায়ে বিশেষ কোন সিদ্ধান্ত নেবার ক্ষেত্রে কেবল বিশেষজ্ঞই দেয় আপনাকে সঠিক সিদ্ধান্ত গ্রহণের বাড়তি আস্থা ও নির্ভরতা।

তেমনি গৃহঋণ সম্পর্কিত যাবতীয় সেবা পেতে আপনার প্রয়োজন একজন বিশেষজ্ঞের। আর দেশের সকল ব্যাংক এবং আর্থিক প্রতিষ্ঠানগুলোর মধ্যে কেবল ডিবিএইচ-ই হলো একমাত্র হোম লোন প্রদানকারী স্পেশালিষ্ট প্রতিষ্ঠান, যাদের অভিজ্ঞতালব্ধ বিশেষজ্ঞ সেবা আপনাকে দেবে গৃহঋণ সম্পর্কিত সম্পূর্ণ সমাধান।

তাই আপন ঠিকানা গড়ার স্বপ্ন যখন শুরু তখন থেকেই যোগাযোগ করুন আমাদের সাথে। হোম লোন স্পেশালিষ্ট ডিবিএইচ আপনার পাশে আছে সবসময় ...



নির্ভরতার হাতে নিশ্চিত্তে

ডেল্টা ব্যাংক হাউজিং ফাইন্যান্স কর্পোরেশন লিঃ

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