Don’t shoot the messenger

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IT has become customary in Bangladesh to blame the functioning of markets, traders in particular and the business community in general, for any upward movement in prices. The popular characterisation is that the market is manipulated by the business community, either as syndicates or as hoarders, to create artificial crises and jack up prices.

The blame game reached its peak during the food price surge of 2007/08 under the caretaker government and reappeared every time prices of edible oil, sugar, etc. went up under the current government. As rice prices are again flirting with record highs, the blame game has become louder.

It may be politically expedient to put the blame for the price hike on to the business community, but the point I would like to make is that such an approach may lead to adoption of wrong policies, further undermining price stability and consumer interests. In most cases market prices are reflections of existing or emerging imbalances in supply and demand locally or globally, and the market is simply the messenger of that news. When the news is good and prices come down, the messenger does not get any commendation, the credit generally goes to the government. However, when the news is bad and prices go up, the media and politicians blame the traders without analysing the underlying factors.

The most glaring example of this mass trial through media was seen during the price shock of 2007/08. Public anger against the surging prices and the government response led to the adoption of counterproductive measures like raiding of warehouses, threatening of importers and holders of grain inventories with jail terms, adoption of ad hoc measures like deployment of Bangladesh Rifles for distribution of essential food etc.

These measures were adopted primarily because the government had to show that it was working hard in the interest of the affected masses. Nobody questioned the appropriateness of the approach. In the event, we all know that those actions did not bring prices down and may have even further destabilised the already unsettled market.

In recent weeks we have been experiencing a surge in rice prices, domestic price of rice almost reaching the levels recorded in 2007-08. Despite earlier pronouncements by the government that farmers reaped a bumper *aman* harvest and there was a large stockpile of food grains in public godowns, domestic rice prices have already crossed what is considered an acceptable threshold. Open market sale (OMS) of rice at below market prices has been reintroduced to protect the poor and also to stabilise prices. The market seems to be shrugging off these interventions, and trying to project its implied message.

Are we ready to listen to this message that the rice market is trying to convey, and take it seriously? Maybe the market is reflecting the possibility that the *aman* crop was not as good as pronounced by the government. Many experts who reviewed *aman* production in different regions of Bangladesh observed that output was probably one million tons lower than last year. In addition, the market may also be factoring in the possibility that *boro* yield may suffer from the stunted *boro* saplings due to colder winter in many parts of Bangladesh.

Maybe the market is questioning the wisdom and sustainability of the current policy of de-linking domestic rice prices from internal price developments. If domestic demand for foodgrains is growing faster than the projected growth of domestic supply, which is a realistic possibility, the policy of keeping domestic rice prices well below the international price levels may indeed be questioned. This policy is sustainable as long as domestic production keeps pace with growing domestic demand.

With growing population, income elasticity induced high demand growth, and arable land shrinking by one percent every year, how long will domestic supply catch up with domestic demand through increased productivity? Rice is not the only option available to farmers; they can allocate their land for jute, tobacco, mustard, lentils, vegetables, and orchards. How long the government will be able to meet the growing gap between the demand and domestic supply, given that the private sector import will be precluded by lower domestic prices, is a burning question.

Finally, the price developments may be signaling that, in addition to some specific issues relating to the rice market, there may be general inflationary pressures in the economy fueled by an expansionary monetary policy. Inflationary pressures are visible in both the goods and the asset markets: the surges in inflation (from 2.4% in June to 8.4% in December) and in stock prices (more than 90%) are clear manifestations of these phenomena. Certainly, we cannot blame the CPI and asset market inflation to the same syndicates and take our eyes away from inconsistencies in the objective of price stability and monetary targets.

Policy makers should look for the real reasons and not find a convenient scapegoat. Deploying intelligence officials to monitor rice stocks and shortening the tenure of loans to two months for rice millers and traders are examples of wrong populist actions. Bank credit extended to rice millers helps stabilise rice prices through the year; by allowing purchase of large quantities of rice at the time of harvest, it prevents a collapse of rice prices in the period immediately after the harvest; and by allowing the millers to release the stock steadily over the intra harvest period it ensures balanced supply of foodgrain throughout the year.

The market is trying to convey some serious messages and it would be a mistake to ignore it for too long and pursue wrong/inconsistent policies. There is no general food shortage, given the relatively low level of wheat price globally and the bumper potato output at home. Consumers have the choice in their carbohydrate basket (comprising rice, wheat and potato), and the government should help them through education campaign and the strong relative price signal sent by the market. We must not shoot the messenger (market), but take the message coming out of market developments seriously, and adopt the right policy even if the measures are not politically appealing in the short run.

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