

Kitchen market instability: Who to blame?

Monday, Sep 7, 2009

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As surely as the month of Ramadan comes once a year, prices of certain fresh produce and other kitchen items get hot. Newspapers, TV news and talk shows, and consumers in general scream about the sky high prices of these items and the blame-game starts. News media, common people and civil society representatives all almost unanimously blame the “market manipulators”, “profiteering by certain business people”, the good old “business syndicates” for this unscrupulous, antisocial and antireligious act. They also unanimously blame the government for its failure in market monitoring and enforcing market discipline. Certainly, the politicians, as the representative of the people, cannot shy away from this blame-game for very long. Everybody expresses sympathy for the suffering consumers — the natural victim of the price surge — and urges the business community to keep prices at reasonable levels as part of their civic responsibility.

Ramadan is associated with increased demand for certain items like aubergine, green chili, onion, edible oil, lentils, sugar and aromatic rice. Traders are generally aware of this surge in demand and try to build up stocks of these items ahead of time to meet the anticipated demand. The prevailing open trade regime in Bangladesh greatly helps them in responding to the market demand. However, market’s capacity for mitigating the price effect of the anticipated surge in demand depends to a large extent on the nature of products.

Inventory management is more possible with less perishable items like onion, lentils, sugar and edible oil. The only reason that prices of these products generally do not increase as

sharply as the perishable items is the scope for better inventory management by the business community. However, building up inventories for these products is costly and not risk free. Thousands of businesses build up stocks of these items from imported and domestic sources in anticipation of the higher demand in Ramadan. Nobody knows how much inventories others are building up over the whole country, and the risk of over and under supply is quite high, with corresponding negative and positive impact on traders' profit margins. Stock-building is also costly in terms of finance charges (at high interest rates) and rental costs for warehousing. All these costs and risks contribute to higher costs, which would need to be passed on to the consumers. The fact that most of the less perishable items, except sugar, did not increase much in this Ramadan is a testimony to the well-functioning nature of the market.

The increase in sugar price is a manifestation of global shortage, and it has nothing to do with Ramadan and Bangladesh. A projected 8.0 million tonnes shortfall in India and lower yield (from sugar cane) in South American countries are driving up sugar prices. What we have seen so far in Bangladesh is just the beginning of further price increases in the coming weeks, well beyond the Ramadan. Yesterday, sugar surged in the London commodity Exchange sugar to more than 650 pound sterling per tonne, which is equivalent to about TK 75 per kg even without accounting for shipping, insurance, duties and taxes, storage charges and trading margins. Seen from this angle, at around Tk 45 per kg, local price of sugar is a bargain that is unlikely to last for very long.

For perishable green vegetables (like aubergin and green chili), however, there is virtually no scope for inventory management. The demand for aubergine and green chili surges during Ramadan, thanks to our habit of eating too much "beguni" , "piaju" and other fried stuff during this month. The amount of supplies being very inelastic (dependent on the plants in the field already at production stage), it is only through the market clearing prices that the available supplies are distributed to the consumers. Certainly, the aubergine and green chili plants in the field are not going to produce more just because of Ramadan and the farmers would not like to grow higher volumes at the cost of oversupply and associated price collapse

in the period preceding and following the month of Ramadan. After all, plants do not supply only for one month. It does not require much knowledge of economics to understand that if farmers were producing enough aubergine and chili to keep their prices stable in Ramadan, prices of these products would have collapsed in the months before and after the Ramadan when consumer demand is at normal levels. There is no reason to expect the farmers to go for such a suicidal proposition.

Who is to be blamed for the surge in aubergine and green chili prices? The retailers and wholesalers are simply supplying the available quantity to a much larger number of customers each demanding much larger quantities. Certainly the traders cannot hoard these perishable items for more than one or two days without losing their value completely. Thus the traders cannot do anything but to supply the market whatever is available to them from the farmers. Now comes the interesting part: how to allocate a certain amount of supplies of these perishable products to consumers who want to buy several times more than the available amount in the market? Since in a free market there is no quantitative rationing, it is through price that the balance between supply and demand is ensured. Because the demand of these items is inelastic due to intense desire of consumers to eat beguni and paju during this month, the spike in price is correspondingly higher. The result is: aubergines and green chili selling at Tk 80-100 per kg while in normal times those could be purchased at Tk 25-30 per kg. This reminds me of buying a dozen of roses in Washington DC on the eve of Valentine's Day at \$29.99 to \$49.99, which in normal times I could have got at only \$9.99. Markets behave in the same manner universally, barring imperfections!

Can we characterize this price spike as market failure? Can we blame the traders and the government for the failure of market mechanism? Can we suggest any better approach to distribute the products to consumers? The answers to all these questions are certainly "NO". What we are observing for these kitchen items is what the market mechanism should do. Market operates through price mechanism and the imbalance between demand and supply is reflected in prices. If we introduce quantity rationing, as sometimes suggested by some people, we can clearly visualize who would be the beneficiary (certainly not the ordinary consumers) and what kind of chaos would that bring in the market. We better not think of that.

Who gets the benefits of high prices? Much of it goes to the farmers. When prices of

aubergine go up to Tk 80 or more per kg, even in remote vegetable markets of Bangladesh the produce is sold for at least Tk 60 or more. The same is with green chili. The trading margins also increase in absolute term (taka per kg), although in proportional terms they may still be about the same as before.

Consumers are the generally perceived to be the victim of the high prices. Nobody can deny that. However, we must not forget that consumers are also the ones to be blamed for this development. It is the surge in consumer demand that contributes to this unsettled market condition, and if we want to address this problem we need to educate the consumers that they need to bring some moderation in their consumption behavior and not blame the market intermediaries for something triggered by the consumers themselves.

News media and politicians also have a role in educating the general public (consumers) why the market is likely to behave like this and what moderating role they can play in this regard by consuming less of these perishable products. Media and politicians should also refrain from using the populist approach to put the business community to the “firing squad” and instead tell the public that consumers should serve more healthy and balanced food on their plates (less fried stuff including begunies and piaju) during Ramadan. Also, there is no need to create huge commotions about these marginal kitchen items: if the consumers with full knowledge want to rush for some unhealthy food items despite good advice from health specialists, there is no reason for the government and media to express sympathy for that. The role of the government and media should instead be to discourage such consumption behavior.

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