**Inflated Food Prices –has the bubble burst?**

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Inflation has been on the rise in Malaysia in tandem with higher global oil and food prices. However, after peaking, there are signs of it ebbing now. Key to this possible regression is falling global oil prices.

The impacts of high food prices are as follows –increased poverty, possible worsening of malnutrition, depletion of the productive assets of the poor and reduction in the utilization of education and health services.

The immediate policy responses of the federal government aimed at reducing the negative impact of high and volatile food prices on the lives of the poor in a timely manner, which could translate into sustainable policies that mitigate the adverse impacts of high and volatile food prices on poverty. In the long run, it would mean supporting broad-based growth in productivity and market participation in agriculture to ensure an adequate supply response, as part of a sustained improvement in food supply.

One such move is targeted food subsidies; and targeting is key, simply because across-the-board food price subsidies are generally the least desired option. They can be regressive, they distort relative prices and market functioning, and they usually cost more than other options. Politically speaking, once established, they can be very difficult to eliminate.

There is no guarantee that the inflation rate will fall in equal proportion with falling oil prices. Besides there is always a lag time for these price adjustments to take effect. In short, the adjustment is neither proportionate and nor instantaneous.

During boom times, in the absence of subsidies, one can expect there to be abnormally high inflation. However, this is not the case, as subsidies act to buffer sudden price spikes and dampen erratic price fluctuations.

In Malaysia, stabilisation of food prices is achieved via 3 means –namely subsidies, control of prices and control of supply. Subsidies are meant to help the poor, and to stabilise prices from price shocks. In addition, subsidising the production of certain goods helps promote domestic industries. But, no matter how one argues it, the gargantuan upswing in global food and commodity prices can place a heavy toll on the nation’s finances. Many believe that subsidies do more harm than good because they act against the functioning of an efficient market. Subsidies raise the important issue of inequity and regression: it is the tax-paying citizens who have to ultimately foot the bill.

This is the dilemma faced by any government wishing to help its poorest citizens to have affordable goods and services. This noble objective can only be achieved at the cost of weaker economic growth. The deployment of subsidies is also accompanied by one unintentional consequence –in which richer citizens who could afford to pay the market price of goods are now able to gain more from these subsidies. Subsidies also masks the true cost of scarcity, as industries tend to overproduce to meet the artificial demand that they create. This encourages wastage that, along with growing government budget deficits, will impair national competitiveness.

In Malaysia, The Price Control Act, 1946 and Control of Supplies Act, 1961 are instruments to monitor the price of controlled items. These items are periodically reviewed, and most of these items are actually foodstuffs.

In addition to subsidies and statutes, enforcement measures by MDTCA include export controls at border (e.g. for wheat), making it compulsory for traders to display price tags of all items, monitoring 225 items of daily necessities, declaring another 25 items as controlled items during festive seasons, holding discussions with manufacturers, importers, wholesalers, hypermarkets and retailers (on prices and supplies) and setting up special task forces (i.e. joint operations with other enforcement agencies).

The National Price Council ("*Majlis Harga Negara*"), established in January 2008, amongst others, conducts price monitors, hosts a call centre and boasts of a national stockpile.

Globally oil prices have plunged more than 60 per cent in the past four months and is now below USD 50 per barrel after reaching a record high of USD 147 per barrel in July. Likewise global prices of foods and commodities are also tumbling. Global recession is threatening to unleash deflationary forces. Now that the price pendulum is beginning to swing in the other direction, there is a real danger of disinflation or deflation looming. This brings us to the question as to whether policy-makers have over-reacted to inflation. Should they behave like fire fighters or should they be more proactive and less reactive instead? It is noteworthy that even George Soros, the infamous speculator, believes that left to their own devices, markets tend to overcorrect themselves. In the final analysis, when facing with the spectre of inflation/deflation, what are the proactive measures to be observed by policy makers or should the question instead be, in the first place, are there any real strategies?

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*The writer is a Senior Research Officer with the Malaysian Institute of Economic Research (MIER)*