

KERATAN AKHBAR

TARIKH : 31 JANUARI 2023
AKHBAR : THE STAR
MUKA SURAT : 14

Price controls not the answer

Price controls not the answer

RISING food prices continue to worry Malaysians, with the poor being particularly badly affected.

What I find disturbing, though, is the way in which the issue is being addressed. No one has yet offered any real solutions.

Food producers blame the rising cost of – mostly imported – inputs, while restaurants blame rising labour and rental costs.

The government, in the meantime, continues to focus on food businesses not adhering to agreed price ceilings. Is the overemphasis on price control a reason for the chaos, rather than a solution?

Economists seem to think so. In a recent TV interview, one prominent local economist suggested that our food prices are not really high compared with prices in many countries in the region. The real issue is affordability.

Our income has not kept pace with the cost of living. For example, the average salary of graduates has not increased by much over the decades. I believe a fresh graduate is now paid RM2,500 a month on average; 40 years ago, we were paid about one-third of that amount.

But 40 years ago, a basic car only cost around RM5,000, about equivalent to less than a year's income. And houses, the single-story, terraced kind, could be purchased for slightly more than that. I remember a bungalow in Ukay Heights, Selangor, on the market for RM30,000.

It is very different now. Cars and



Photo: LOW LAY PHON/The Star

houses are no longer within the reach of a fresh graduate. They just cannot afford them because their pay has not kept pace with rising prices. Unlike food, car and property prices are not controlled and are determined by the market forces of supply and demand.

Now, at one time, Proton and Perodua cars were subjected to some controlled pricing using taxation. And look at what happened then: though Proton cars were selling well locally, they could not penetrate the more lucrative export market. I believe there was no motivation to improve quality because of the price controls.

There are no more such controls now and the companies are doing

much better. There is now motivation to invest in good design and quality. Freeing the market helped create this positive change (of course, partnering with a global player is a big help too).

Why can't we apply the same model to the food business?

Economists think that the frequently-changing price ceiling on items such as chicken and eggs, hinders investment in the business.

Why would you invest when your output price is controlled, while the price of inputs keeps changing and rising according to market forces? It does not make business sense. In fact, it encourages the creation of monopolies and cartels that worsen the situation.

Most developed economies, as far as I know, do not practise such price controls. They leave prices to market forces. Whatever intervention they do is limited to improving accessibility through supply improvement.

In this case, as costs and margins are more stable and manageable, profitability will improve. Better profitability would enable paying higher wages to workers. And workers' improved income would in turn enhance consumer affordability, creating a virtuous cycle towards a high income economy.

It is clear that the practice of imposing a price ceiling contradicts the high income economy that we aspire to. We must remember that a high income also entails high costs. If we continue suppressing costs through price controls, it would be difficult to attract the investments needed to achieve a high income economy.

A better way to drive investment in the food business and achieve food security is to focus on creating efficient food accessibility through reliable supply while, at the same time, empowering consumer affordability through better incomes. That way we stand a better chance of becoming a high income country.

**PROF DATUK DR
AHMAD IBRAHIM**
Tan Sri Omar Abdul Rahman
Centre for Science, Technology
and Innovation Policy Studies
UCSI University