

Comments on Senate Resolution No. 611, entitled: RESOLUTION DIRECTING THE APPROPRIATE SENATE COMMITTEE TO CONDUCT AN INQUIRY, IN AID OF LEGISLATION, ON THE ALARMING INCREASES IN THE PRICES OF BASIC COMMODITIES SUCH AS PORK, FISH AND VEGETABLES, WITH THE END IN VIEW OF IMPLEMENTING URGENT MEASURES THAT WILL CONTROL AND MANAGE THE COST OF THESE BASIC COMMODITIES THAT POSE A THREAT TO THE RIGHT TO FOOD OF FILIPINOS AND AFFECT THE FRAGILE CONDITION OF MANY FILIPINO HOUSEHOLDS (introduced by Sen. De Lima); and Senate Resolution No. 618, entitled: RESOLUTION DIRECTING THE APPROPRIATE SENATE COMMITTEE TO CONDUCT AN INQUIRY, IN AID OF LEGISLATION, ON THE RISING FOOD PRICES, WITH THE END IN VIEW OF DETERMINING THE NECESSARY INTERVENTIONS TO STABILIZE THE PRICES AND ENSURE THAT EVERY FILIPINO CONSUMER HAS ACCESS TO ADEQUATE AND AFFORDABLE FOOD (introduced by Sen. Pangilinan)

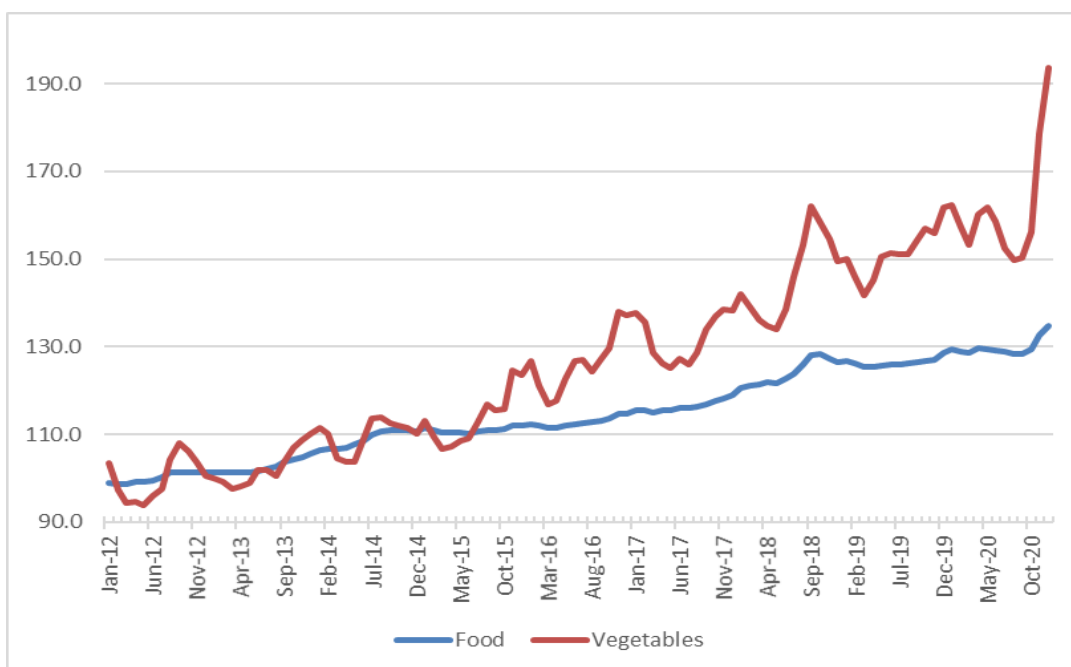
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These Comments relate to Senate Resolutions 611 and 618 aim to conduct inquiry in aid of legislation on the rising food prices, to “manage the cost of these basic commodities that pose a threat to the right to food”, and “determine “necessary interventions to stabilizes the prices and ensure that every Filipino consumer has access to adequate and affordable food”, respectively.

What has happened to prices?

According to PSA, annual average inflation for 2020 was 2.6% (similar to the 2.5% annual average inflation the previous year). The full-year inflation for food and non-alcoholic beverages was just 2.7 percent. What is making the news lately are trends in late-2020: the headline inflation for December was 3.5%, led by a 4.8% rise in price level for food and non-alcoholic beverages.² This can be seen in Figure 1.

Figure 1: Monthly CPI (2012=100), food and vegetable groups: January 2012 - December 2020



Source: PSA Openstat.

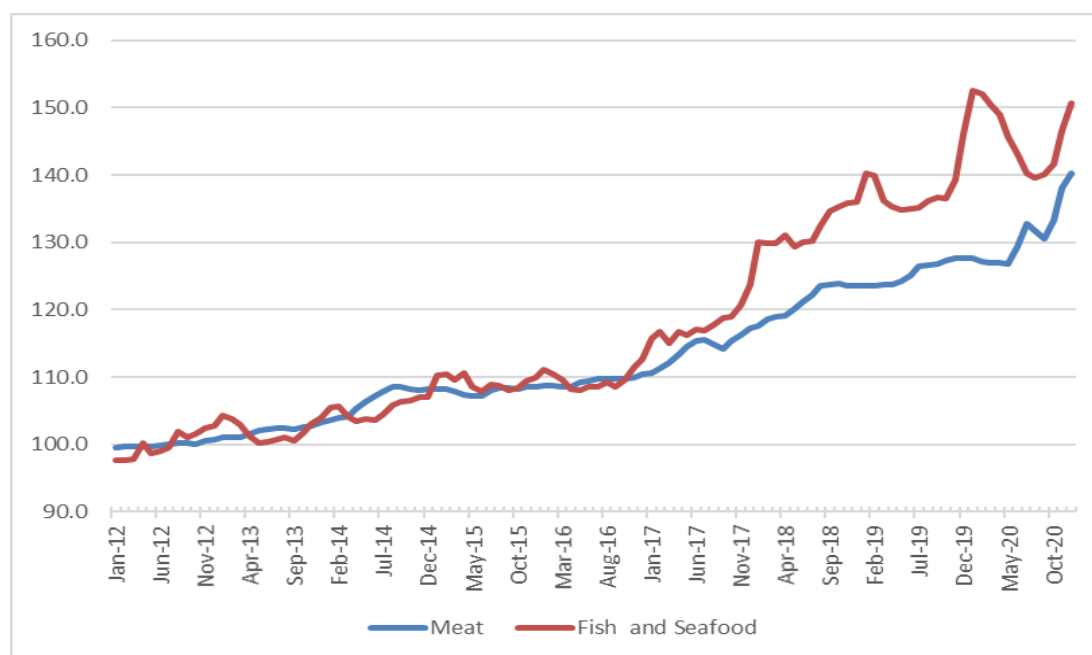
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² <https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-december-2020>

Over the last quarter, food prices increased by 5% (equivalent to 20% annualized rate), while vegetable prices increased 28.8% (equivalent to 115% annualized rate). Based on DA data, the biggest increases in December 2020 were observed for Cabbage (67%), Carrots (17%), White potato (50%), and Baguio Pechay (25%).

Also prominent in the news is meat (mainly pork), together with fish and seafood (Figure 2). Meat and Fish & seafood CPI grew 7.5% and 7.6% respectively over the last quarter of 2020. Based on DA data, over December 2020, Pork belly rose by 9%, hitting Php 400 per kg; chicken rose by 21%, hitting Php 170 per kg. Meanwhile Galunggong and Alumahan rose by 8.3% and 41.7%, respectively reaching Php 240 and Php 320 per kg.³

Figure 2: Monthly CPI (2012=100), meat and fish & seafood groups: January 2012 - December 2020



Source: PSA Openstat.

What explains the price increases?

A popular explanation for the price increases are “price-gouging” being done by unscrupulous traders and “hoarders”.⁴ The Price Act reflects this thinking, imposing penalties for “price manipulation”, namely hoarding, profiteering, formation of cartel are penalized as criminal actions (by fine and/or imprisonment). Implementing agencies can seize stocks suspected to be used in hoarding; forfeited in favor of government if hoarding confirmed. Note however that prosecution of cartels now falls under jurisdiction of Philippine Competition Commission (PCC) under Philippine Competition Act of 2015. Moreover, instances of price manipulation enabled by abuse of dominant position or anti-competitive agreements also fall under the purview of the PCC.

However, note that price data reflects both price increases **and** price reductions. For instance, in the monthly CPI, a quarter of price changes for food CPI is negative; the proportion rises 43.5% for vegetable CPI. That is, price falls more than twice out of every five months. Likewise, 19% of meat CPI changes are negative, rising to 34% for Fish & seafood CPI. Given the reality of frequent price decreases, the price manipulation hypothesis becomes difficult to sustain. Arbitrarily one will have to attribute price increases to inexplicable success in manipulation, and decreases to inexplicable failure in manipulation.

³ <https://www.da.gov.ph/price-monitoring/>.

⁴ <https://manilastandard.net/news/national/345355/workers-call-for-price-freeze.html>

An alternative explanation is to explain price movements to changes in underlying conditions of supply and demand. A big advantage of this explanation is that it is equally applicable to price increases as well as decreases. For instance, one may well attribute the recent spikes in vegetable price to typhoons affecting Northern Luzon. Once situation normalizes, and farmers want to take advantage of high price, they replant the expensive vegetables, harvest and bring these to market – supply increases, and price falls. Likewise, one may attribute the increases in pork price to the persistent effects of African Swine Fever (ASF). The high pork price is needed for hog raisers to continue to incur higher risk and higher cost (i.e. higher quality feed, more sanitary conditions) under ASF conditions. If the supply-demand explanation is correct, **then the price increases are NOT the problem**, rather, they are a **symptom of a deeper underlying cause**, such as reduction of supply, increase in demand, or both.

What measures should be taken to address the price increase?

Aside from the aforementioned penalties, Price Act also provides for a temporary price freeze as a means to deal with sudden price increases. If price manipulation is the real reason for the price surge, then economic theory suggests that an enforced price freeze (set below the market price), otherwise known as *price ceiling*, causes an **increase in supply**. The reason is that the colluding sellers are boosting price by restricting supply; the price control, by nullifying this motive, leads to more quantity sold. This will be good to consumers – more to buy, on more affordable terms.

Suppose on the contrary that supply and demand explains the movements in the price. Then a price ceiling has the opposite effect of a **reduction in supply**. This implies a *shortage* because the lower price stimulates demand, which cannot all be satisfied given the decline in supply. This has a mixed effect on consumers – some benefit from a lower price, but others cannot buy the product at all. Eventually, shortage may lead a “black market” and all its associated problems of corruption and criminality.

Past experience with price ceilings both domestically and abroad has generally been unfavorable. The old regime of exchange rate control (price ceiling on pesos that can be exchanged for a US dollar) led to a black market, associated later with the infamous “Binondo Central Bank”. Rent control has been linked to reduced access to low-cost housing.⁵ History is replete with similar cases, such as price ceilings in gasoline in USA in the 70s leading to long queues in gasoline stations; frequent shortages of consumer goods in the former centrally planned economies of Soviet Union and pre-reform PRC; price ceilings in Bolivia for chicken that led to rampant smuggling; and so on and so forth.⁶

Rather than rely only on price freezes, we recommend the following:

- 1) Further liberalize private sector importation by reducing tariffs on meat, fish, and vegetables;
- 2) Strengthening of competition monitoring and enforcement in the food market by PCC;
- 3) If price ceilings are to be imposed, they must be a last resort measure, triggered by an emergency (e.g. a natural calamity), calibrated to an affected location, and strictly time-bound – precisely the attributes of price freeze provided under the Price Act.

⁵ Ballesteros, M., T. Ramos, and J. Magtibay. 2016. Rent Control in the Philippines: An Update. Discussion Paper Series No. 2016-40. PIDS, Quezon City.

⁶ For Bolivia: Krivonos, E., and D. Dawe. 2014. Policy responses to high food prices in Latin America and the Caribbean Country case studies. FAO, Rome.