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Views

Basic food items such as vegetables and fish were reported to have increased between 40% and 50% for vegetables and between 5% and 10% for fish after the flood crisis[1].

The situation was worse a week earlier during the floods. Prices for necessities increased sharply in the affected areas. In Kelantan, for instance, "petrol was sold at RM15 per litre, chicken at RM38 each, instant noodles at RM10 per packet, and 1.5 litre mineral water at RM8 per bottle"[2].

What's up with these increases? Were they just basic economics at play? Were the suppliers engaging in price gouging? Should we consider equity in the allocation of (scarce) food items as well as the inequality effects of price gouging? Are there any solutions?

IT IS BASIC ECONOMICS: SUPPLY AND DEMAND

We can explain the price increases in both cases by using the basic economic concept of supply and demand. When there is a shortage in supply, price will increase to meet demands in the market. Indeed, the Federation of Malaysia Vegetables Wholesalers Association attributed the increases of vegetable prices to the shortage in supply brought about by harvesting problems and the mud floods in Cameron Highlands. Meanwhile, the National Fisherman's Association commented that there is less fish in the sea in January, which is a seasonal trend.

BUT IT WAS PRICE GOUGING DURING THE FLOOD CRISIS

The sharp increase in prices for the necessities during the flood is a case of price gouging. Price gouging happens when prices increase rapidly to an unusual level at more than what is considered reasonable or fair. Such a phenomenon is common after a natural disaster and indeed the recent flood in the East Coast is a natural disaster with many comparing its outcome to the aftermath experienced in the 2004 tsunami.

Unlike profiteering, price gouging is short-term and localized (to the affected area) and 'imposed' on necessity goods. Economists explain price gouging by observing that the supply in the short-term is limited and perfectly inelastic – for example, the shopkeepers in Kuala Krai cannot replenish their stock of instant noodles or mineral water during the flood as they were cut off from their wholesalers. And so, the number of instant noodles sold was fixed no matter the level of prices.

HIGHER PRICES AS A MECHANISM TO ALLOCATE SCARCE RESOURCES EFFICIENTLY

Economists argue that the high prices could allocate scarce resources more efficiently as opposed to having the prices controlled by the authority. Consider the situations post-flood. If the price of food is fixed, then consumers may buy more than they need and hoarding may occur, thus leaving fewer quantities for other consumers to buy. If prices are left to the market forces and are now at a higher level, consumers may now be forced to prioritise their needs, making the food items available to other consumers. Consumers are 'free' to decide on whether they want to enter into the transaction with the sellers.

IS PRICE GOUGING 'FAIR'? THE EQUITY ISSUE IN ALLOCATING SCARCE RESOURCES

Efficiency is not the only factor to consider when allocating scarce resources. We may also want to consider other factor such as equity or fairness. This is especially so in price gouging cases. Two consumers may have the same value on a food item but one may be constrained by his inability to pay. Moreover, even when he is forced to pay the exorbitant price, he will feel the economic pain more than the consumer with the higher income.

GOVERNMENT SOLUTION TO ADDRESS PRICE GOUGING

Price gouging happens in other countries too especially those prone to natural disasters. Governments attempt to provide an equitable solution by incorporating anti-price gouging provisions into their consumer protection or emergency management legislation and regulations.

The US is a leading example whereby at least 29 of its States have incorporated such provisions into their State-level legislation[3]. The enforcement of these provisions is triggered when the prices increase excessively. Different States have different definitions of excessive pricing – while some such as Alabama, California, and New Jersey provide specific definitions (Alabama: price exceeding 25% of the average price during the last 30 days immediately prior to the declared emergency and not attributable to reasonable costs), others such as Florida, Idaho, and Maine provide more subjective definition (Idaho: Prohibits “excessive or exorbitant” prices for consumer fuel, food, pharmaceuticals, or water during a state declared emergency). Usually goods in the list are limited to essential items. Penalties can be civil, criminal or both – in Kansas, the penalty is higher if committed against the elderly or disabled.

In Australia, price gouging is regulated at both the federal and State levels via Section 21 on unconscionable conduct in its consumer law. Indeed, consumers in Queensland, one of its States, suffer from price gouging not just when purchasing necessities during floods but also when buying insurance premiums[4].

WHAT CAN WE DO?

The reported price gouging activities during the recent flood crisis highlight the need for the government to enforce actively its laws to prevent such activities from occurring in the future.

As with the US and Australia, Malaysia already has provisions in its consumer law to regulate price gouging. Specifically, the Price Control and Anti-Profiteering Act 2011 (amended 2014) includes a provision that addresses the mechanism to determine "unreasonably high profit" and it has both civil and criminal penalties[5]. This law is under the purview of the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC). Similar to the Australian legislation, the Malaysian legislation does not provide specific definition and it could apply to many situations, not just for natural disasters. The government could come up with specific guidelines to highlight how this could be implemented (for example, for essential items only and for limited period of time) to provide greater clarification to both consumers and businesses and to prevent abuse of law.

Indeed, the recent flood crisis in the East Coast provides a good lesson that in certain situations equity and fairness solutions should be more important than market solutions, which frowns upon such price control mechanism.

ENDNOTES

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