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Aside from dealing with the energy crisis, Panama’s newly elected President Juan Carlos Varela faces the challenge of curbing inflation, which has risen from 2% in 2009 to 4% in 2014 and has hit the 26% of the population that lives under the poverty line—according to official figures—the hardest.

When Varela’s predecessor, ex-President Ricardo Martinelli (2009-2014), a supermarket tycoon, came to power, he boasted that he was the ideal candidate to secure lower prices for basic foodstuffs; however, in the past four years the price of the basic food basket rose by more than 30%, according to Panama’s Ministerio de Economía y Finanzas (MEF). Dissatisfaction with soaring food prices was undoubtedly one reason that led to Varela’s victory in the polls (NotiCen, July 24, 2014).

"Our entire family has been forced to work: mom, dad, our children, and our nieces and nephews, all so that we can eat decently," 45-year-old housekeeper Linette Valdés told the Associated Press (AP) news agency. Valdés lives with her numerous family in a small and overcrowded house in Panama City's fishing district. "Some of our neighbors are even skipping their midday meal," she said.

Hours after Varela's victory was announced, he pledged to impose price controls on 22 basic foodstuffs including meat, rice, meat, and eggs, which is expected to help consumers save US$58 a month, but critics have remarked that it is ironic that a conservative, market-friendly candidate should resort to measures commonly associated with left-wing governments such as that of Venezuela.

During the election campaign, Martinelli launched an attack on Varela’s pledge to impose price controls, while Varela reminded Martinelli that he had made exactly the same pledge during the previous election campaign but had failed to keep his word.

"I’m surprised to see that Cambio Democrático [Martinelli’s party] is attacking me for this when the president openly stated during his campaign that emergency price controls were the only solution to rising food prices," said Varela. "Emergency price controls are the only way to put an immediate halt to the speculation with basic food products that is affecting the population."

Critics of price controls have argued that in most countries where such measures have been imposed a number of undesirable side effects have occurred, which have only made matters worse rather than solving the underlying causes of inflation and hyperinflation. The negative side effects of price controls include: food shortages, the destruction of private property and riots, which recently occurred in Venezuela, and the appearance of black markets, as occurred in the former Soviet Union during the Cold War era.

However, Panamanian academic Rolando Gordón, a specialist in development economics, told AP that price controls "are not a left-wing measure" and said that "what is being proposed does not
entail a structural change to Panama’s economy. Panama will continue with the same economic model. What the new government is trying to do is to find way of lowering food prices."

Meanwhile, food producers and distributors have expressed uncertainty and fear that price controls will leave them with heavy losses. "It appears that the new president will impose similar policies as Ricardo Martinelli, using pressure and force, as he never met with producer associations, and price controls will only distort prices," says Iván Ríos, president of the Asociación de Comerciantes y Distribuidores de Víveres y Similares de Panama (ACOVIPA).

Euclides Díaz, general secretary of the Asociación Nacional de Ganaderos (ANAGAN), complains that the list of 22 products that will suffer price controls includes six beef products. He also says that the new government has failed to provide specific information regarding how these price controls will be imposed.

What does the law say about price controls?

Article 284 of the Panamanian Constitution does allow the government to impose price controls. "The state will intervene in all types of companies within the regulations established under the law in order to guarantee the social justice that underpins this Constitution and in particular to achieve the following ends: 1) regulating tariffs, services, and prices of any type of product through the creation of specialized bureaus, especially basic consumer goods; 2) demanding efficient series and products of adequate quality; 3) coordinating the provision of services and the production of goods. The law will define which products are considered to be basic consumer goods," reads the Constitution.

Chapter II on "Price regulation," under Law 45, approved in 2007, enables the price regulation mentioned in the Constitution, detailing the maximum period of time that these measures can be applied. However, the law only mentions "price regulation" and says nothing about "price control" or "price freezes." Under "exceptional circumstances"—which the law does not specify—price regulations can be imposed for a further six months if the problems that led the measure to be imposed persist.

However, the law states that price controls can only be applied for products with import tariffs exceeding 40%, which poses a problem for the Varela administration given that the tariffs on a number of the products that it pretends to include are far lower.

If the import tariffs are increased purely so that these products can benefit from price controls, Varela would be violating the principles of market freedom that his government is supposed to stand for, critics have pointed out, which is worrying given that Panama’s performance in economic-freedom indexes such as the Heritage Foundation and the Fraser Institute indexes has deteriorated in recent years.

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