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Supply and demand forces versus price controls - Klaus Schade

Remember, about ten years ago? Uranium prices peaked at USD135.00 per pound after climbing continuously over more than three years from about USD20.00 per pound. However, the financial and economic crisis hit the commodity sector and uranium prices dropped to about USD40.00 per pound. They recovered again before the accident at the Fukushima Daiichi reactors in March 2011. Since then, prices dropped to below USD20.00 per pound because of the slowdown of global economic growth and of countries moving to renewable energy sources. Consequently, demand and prices dropped. The high prices in 2007 raised hopes for a 'uranium rush' in Namibia and expectations that six new uranium mines might open by 2014. So far, only two new mines were developed, of which one is put on care and maintenance, because of depressed demand and prices. The development of other uranium mines has been put on hold.

Similarly, oil prices fluctuated for quite some time during 2012 and 2013 between USD110 and USD120 per barrel amidst strong demand and supply constraints. The high prices encouraged investment into oil exploration, not only in Namibia, but elsewhere in the world. In particular, companies invested in new oil rigs in the USA and output increased by some 76 percent there between 2009 and 2015. The slowdown of economic growth especially in China resulted in overcapacities and prices plunged to below USD30 per barrel in February 2016. As a net oil-importing country, we appreciated the low oil and consequently fuel prices before realising that it hit our economy amongst others through declining Angolan demand and declining interest in oil exploration in our country. The agreement of OPEC members and some countries outside OPEC, such as Russia, to cap production lead to a recovery of oil prices to USD55.00. However, this proved again as an incentive for a production increase in particular in the USA. Increased supply combined with high inventories caused a decline in oil prices to below USD50.00 recently.

These two examples illustrate how supply and demand forces determine prices and provide incentives or disincentives for investment. These mechanisms apply to other goods and services traded on the market as well, including housing. High prices signal a gap between supply and demand and provide incentives for investment into new houses and flats. While it seems tempting to cap house prices in order to increase the affordability, it will not increase availability of and accessibility to accommodation since it will not add a single house or flat to the market. In order to increase the supply, which will eventually close the gap to demand and stabilise or reduce prices, local authorities have to accelerate the provision of serviced or un-serviced land. There is a need to review and streamline the procedures involved before the actual construction of houses can commence as well as the cost and time involved since all these factors contribute to the final costs of houses. We also need to be more innovative in the provision of housing: More families can be accommodated in multi-storey flats on the area that one family in a three-bedroom house occupies, while costs for the provision of basic infrastructure such as roads, water and electricity, are lower per person for flats than for houses. Furthermore, using new or alternative construction materials can reduce construction time and costs and therefore accelerate the supply at lower prices. Since decent shelter is a human right, we need to focus our attention and energy on the speedy supply of land and houses. Introducing

price controls for such heterogenous products as houses is not expected to address the root causes of high prices, namely slow and insufficient supply of un-serviced and serviced land as well as houses.

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