

# PRICE CONTROL IN THE VIRGIN ISLANDS: THE PARADOX OF ITS LIMITED EXISTENCE

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## Abstract

This research paper proposed that the Virgin Islands (BVI) consider a more comprehensive price control regime that would remedy the problems existing when high cost of living is prevalent within a society. In 2007, there were two main forms of price control present in the BVI: (1) the minimum wage and (2) the public transportation system rates. To address the void, price control can be considered: first, by eliminating unnecessary price increases on goods and services, which are considered to be part of the basic food basket; second, consumers would be protected from the expensive prices allowing fair trading practices within the market; third, because prices are controlled, consumers would now be able to afford a wider selection of goods and services; fourth, assuming consumers are spending less money on the basic food basket items, they would have more financial resources to participate in the financial services sector or to invest in the local tourism sector; and fifth, consumers having access to a wider selection of goods and services should assure them the rights to live and experience a reasonable quality of life. Overall, the paper demonstrated how price control mechanisms could benefit both consumers and local businesses in the Virgin Islands. Furthermore, the study recommended that price control regulations could be considered for implementation on basic consumer goods. The research used the qualitative research method to validate its claims.

**Key words:** Basket of Goods, Consumer Protection, Cost of Living, Price Control, Qualitative Research Method, Quality of Life, Standard of living, Virgin Islands.

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## Introduction

Price Control is essentially an economic effect of government applying statutory controls over prices. Maunder et al (2000) explained it as the setting of specific, fixed, minimum prices or general controls over prices and price increases. Lipsey (1993) also referred to it as an influence on price (whether up or down) by laws, rather than by market forces.

The objective of this study was to show how comprehensive price control mechanisms could benefit both consumers and local businesses in the BVI. The BVI economy is an extremely open, export services oriented economy spread out over 60 small islands with a population of approximately 28,000 people (Development Planning Unit (DPU), 2007). During the past 50 years, the BVI economy evolved from a territory that was primarily agricultural based to one that was driven by the tourism and financial services sectors. As a result, the territory's consumption is mainly satisfied by the importation of goods; thus making consumer prices highly susceptible to changes occurring in the international market.

In 2006, the Minister of Finance<sup>1</sup> (in the 2007 Budget Address) proposed that a special Cost of Living Committee under the Ministry of Finance, be established to do the following: (a) observe the prices in the BVI; (b) seek tools to keep costs under control; and (c) make sure that the citizens of the BVI were not harmed by rising prices. According to the BVI Beacons Newspaper, in an article dated 8 November, 2007, a report from this committee was submitted to the 2007-elected Premier<sup>2</sup>. Furthermore in 2009, the Premier disclosed that further reductions would be made to import customs duties, to address the high cost of living problem (BVI Beacons Newspaper, 2009).

Price controls are used to address the public's concerns over unfair prices charged on the open market (Baumol and Blinder, 1998). Price control enjoys a historical legacy that includes a rather long list of its application on foods and other products. According to Silberberg (1995), "the most common examples of price controls are rent controls and usury limits on interest rates". Specifically, one very famous example was the price controls on petroleum products in the early 1970's.

Research has shown that price ceilings were placed on prices to protect buyers, while price floors were placed on other prices (such a farm products) to

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<sup>1</sup> In 2006, the Minister of Finance was the Honourable Ronnie Skelton.

<sup>2</sup> In 2007, the Honourable Ralph T. O'Neal became the Premier of the BVI and the Minister of Finance.

protect sellers (Baumol and Blinder, 1998). Further examples of price ceilings working are the rents in New York, Berkeley, Santa Monica, California and parts of the United Kingdom. On the other hand, an example of a price floor being applied is in the case of farm products, to keep the products at a reasonable price to protect the seller.

During the 1990's, the Clinton administration used price controls extensively to curb the costs on pharmaceutical, physician and hospital fees and other medical services (Silenberg, 1995). Moreover, price controls were frequently used in the Caribbean to protect low income earners from paying exorbitant prices on goods, which are generally considered to be basic in nature.

One example of price controls working is in the case of Barbados, where the Department of Commerce and Consumer Affairs facilitates the development of commerce, enforcing trading standards and protecting consumers to ensure that goods and services are safe and legal. One major aspect of their mandate as a Ministry is to compute prices for items subject to price control regulations.

The research method adopted for this paper was the qualitative research method. More specifically, it utilises constructivist, advocacy or participatory knowledge claims that possess phenomenology, grounded theory, ethnography, case studies and narratives (Creswell, 2008). The controversy surrounding the methodology is that the researcher positions him or herself to collect participant meanings for the study, but may at the same time bring personal values into the study.

To my knowledge, the BVI has not fully embarked on a comprehensive price control regime, which would influence the market price determination. At the time of this study, there were two main forms of price control present in the BVI: first, the minimum wage and second, the public transportation system rates. The BVI, not having a comprehensive price control mechanism suggests that the market conditions are extremely competitive, which would then allow for the affordable purchasing of consumer items. This however, may not be the case, as this research indicated in 2007 that there was a disparity in prices offered across the territory.

In addition, statistics from the DPU (2007) highlighted that between 1996 and 2005, the average increase in inflation was three percent annually. Another useful measurement was the consumer price index which showed increases in food, beverages, tobacco, clothing, footwear, housing, services and the miscellaneous subgroup.

At the end of this paper, it should be recognised that such a system would create consumer protection and would also lead to the BVI residents

experiencing a more affordable cost of living. In particular, the study highlighted the disparity between price offerings across the territory during 2007.

The paper was organised as follows. Section two presented world trends in 2007. Section three explained the concept of cost of living. Section four uncovered the price control methodology. Section five outlined the qualitative research methodology. Section six involved the findings and data analysis of research in the BVI. Section seven provided the recommendations about price control usage. Section eight presented the conclusion.

### **World Trends in 2007**

In 2007, CNN News published a statement by Victor Shum which read as follows: "The world economy in the last few years has shown to be quite resilient to strong oil pricing, but this is certainly a new territory for crude oil and if sustained there is bound to be some impact on the economy,". Victor Shum, an energy analyst at Purvin & Gertz in Singapore" also disclosed in the CNN article entitled, "Oil touches record high again" that profit-taking in the near term would limit the oil price's ability to sustain above the \$80-a-barrel level.

Similarly, BBC News (2007) reported that the latest rises were causing worries in importing countries about the economic cost of higher energy prices. In the article entitled "Why oil prices are so high", BBC News reported that "higher fuel prices can cause unwelcomed rises in inflation, restrict economic growth and are unpopular with voters".

Interestingly, in the 2007 Budget Address of the BVI, the Minister of Finance (2006) mentioned that the global energy markets was impacted by first the war and conflicts in the Middle East and parts of Africa. The Minister of 2006 also revealed that the continued rapid growth in India, China and the rest of the Southeast Asia was not to be underestimated; especially since demand on building materials increased and the threat of UN Sanctions against Iran for their continued pursuit of nuclear weapons was still very relevant.

Similarly, BBC News (2007) reported that "major oil exporters were divided between those such as Saudi Arabia and Kuwait that favoured lifting output in an attempt to ease prices, and others such as Venezuela that argued against conciliatory moves towards big consumers, principally the US." The reality then was that most of the known oil reserves were in one part of the world (West Asia or the Middle East). The other major petroleum exporting countries were Russia, Nigeria, Indonesia and Venezuela. Historically, these countries were all known to be politically unstable, which also led to the oil traders demanding a premium.

No matter how the situation is considered, oil prices have certainly reached a point that was not even dreamt of in the past. In the short run, oil prices are expected to remain high. In the 2007 Budget Address of the BVI, the Minister of Finance (2006) believed strongly that the high fuel costs directly impacted the BVI people, as they found themselves paying more money for gas at the pump, more for electricity, more for airfare, and more for building material.

Accordingly, it must be said that oil has been a major source of energy for the world for decades. In response, governments worldwide are considering alternative energy policies that would curtail the demand for oil. An example includes Brazil experimenting with ethanol mixed with petrol.

Another resource that should be considered is solar energy. Barbados has moved tremendously swiftly in this area, as they vigorously market solar hot water systems. These systems work on clean, renewable energy.

Specifically, a Barbadian Company, Solar Dynamics Ltd (2007), declared that if a person was presently heating water by electricity, that person could save up to 33 percent of that cost, if they changed to a solar water heating system. They guaranteed customers to have hot water in mornings, evenings and nights with the Solar Dynamics Hot Water System, as long as the system was made to the right size. In addition, the Barbados Government has encouraged the construction of solar houses in Barbados, for which over 50 percent of the housing unit would be powered by solar energy.

Finally, governments within the Caribbean, in response to high explosive consumer prices, have found themselves either doing one of two things. They either have: (1) subsidised the local industries for which they deem important, such as agriculture and manufacturing, to ensure that prices are kept at a minimum; or (2) implemented price control measures on goods and services, which are deemed to be basic in nature, which would then allow all income earning groups to afford them.

### **What is Cost of Living?**

Cost of living is the monetary cost of maintaining a particular standard of living, usually measured by calculating the average cost of a number of specific goods and services required by a particular group (Boone and Kurtz, 2005). In particular, when measuring price levels we refer to the consumer price index, market basket and the producer's price index.

Boone and Kurtz (2005) described the Consumer Price Index (CPI) as the measure for the monthly average change in prices of goods and

services. However, it is not a perfect measure of inflation, as it might actually overstate inflation, by not fully accounting for the changes in the goods and services that people buy.

In addition, consumers should be aware that the CPI market basket would vary from country to country. In order to determine what products or services should be included and in what amounts, an extensive survey should be conducted once a decade.

In the BVI, the DPU is mandated with the responsibility of conducting Household and Expenditure Surveys. The DPU is responsible for publishing the Consumer Price Index (CPI), the Construction Cost Index (CCI) and the Tourism Price Index (TPI). The CPI is published monthly and annually, the CCI is published quarterly and the TPI is published quarterly by DPU.

The CPI represents the rate of change in the cost of living to consumers and the cost of living, which is determined through Household Income and Expenditure surveys. According to DPU, 2007, "our CPI is typical and contains the same categories of goods and services found in any industrial western country".

The CPI of any country always needs to be monitored, as it is the main measurement tool to determine the levels of inflation existing within a given economy. Boone and Kurtz (2005) defined inflation as rising prices caused by a combination of excess consumer demand and increases in the costs of raw materials, human resources, and other factors of production. Inflation can also devalue money, as persistent price increases reduce the amount of goods and services people can purchase with a given amount of money. Again, DPU is the government agency chartered to monitor inflation as one of their mandates in the BVI.

DPU (2007) described the Construction Cost Index as representing the movement in the cost of construction in the BVI and it includes materials, labour and services associated with building homes, office and institutional structures. With respect to the TPI, the areas typically covered are accommodation, transport, food, entertainment souvenirs and shopping.

The last form of index is the Producer Price Index (PPI), which tracks the differences in goods and services prices from the seller's perspective and uses three measurements, which are finished goods, intermediate goods, and crude goods (Boone & Kurtz, 2005). In 2007, this index was not being used, since construction was not a main form of industry in the BVI.

DPU (2007) reported that the annual rate of inflation for 1995 stood at 5.12 percent, up by 0.97 percentage points from the 4.15 percent rate recorded

for the previous year. DPU (2007) also disclosed that continuing to fall in value was the purchasing power of the US dollar, which for 1995 stood at \$0.68 as compared to the \$0.71 recorded for the previous year.

The DPU also published that in June 2006 the Consumer Price Index (CPI) stood at 140.00, whereas for the previous month (May 2006) the index stood at 139.46, a quarter earlier (March 2006), the index stood at 138.61, a half-year earlier (December 2005) the index stood at 136.91, and one year before, (June 2005) the index stood at 136.30. In fact, DPU (2007) disclosed that on an annual comparison, the Food, Beverage & Tobacco subgroup increased by 5.13 percentage points, Clothing & Footwear subgroup increased by 2.33 percentage points, Transportation subgroup increased by 1.66 percentage points, Services subgroup increased by 11.15 percentage points and Miscellaneous subgroup increased by 4.83 percentage points. The declining subgroups were Furniture & Household Supplies, which decreased by 0.95 percentage points and Housing subgroup by 2.02 percentage points.

This data above supported the view that there were increases in the BVI's cost of living from 1995. According to the Minister of Finance (2006), in the 2007 Budget Address, "It is no secret that over the past several years, the cost of living in the BVI has gone up substantially." He continued by stating that there were a number of reasons for this, but only some of which could be controlled by the government.

He then expounded on the last point by saying that as some of the possibilities for the rising prices was because of the rising cost in fuel, inflation in the United States, as well as the influx of new money into the economy from growing tourism and financial industries. At that time, the Minister of Finance (2006) shared his view that business owners had a responsibility to the community to provide quality products and services, and to do so at fair prices, which would allow them to make a profit, but would not lead to excessive profit.

### **The Price Control Methodology**

Price control is essentially an economic effect of government applying statutory controls over prices. To better understand what happens when government intervenes into a market system, a review of how this system works must be considered first.

In simple terms, demand is the willingness and the ability of buyers to purchase goods and services, while supply is the willingness and the ability of sellers to provide goods and services (Boone & Kurtz, 2005). Demand is expressed by a

demand curve, which is a graph showing the amount of a good or service buyers would purchase at different prices (Boone & Kurtz, 2005). As the theorist Maital (1994) wrote, "Prices are to the market economy what red cells are to the human body - they both direct vital life-giving resources to the right place at the right time, with little interference or direction". Since buyers are likely to demand increasing quantities of a good at progressively lower prices, demand curves usually slope downward, as they move to the right.

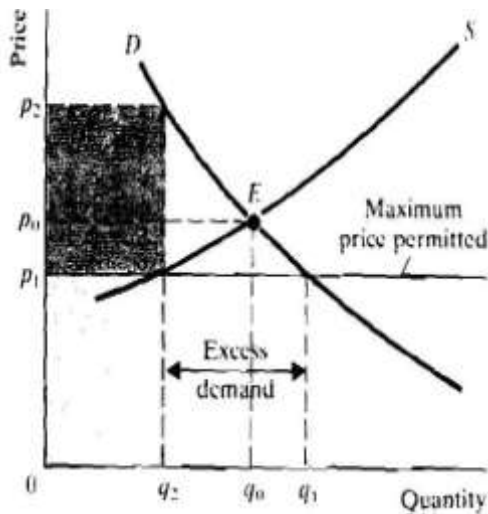
On the other hand, the supply curve is a schedule of the amounts of a good or service that businesses would offer for sale at different prices (Boone & Kurtz, 2005). Since sellers would likely make progressively more goods and services available as prices rise, supply curves usually slope upward, as they move to the right.

Overall, the interaction of the supply and demand curves determines the equilibrium price, the price at which the quantity supplied by sellers is precisely equal to the quality demanded. This equilibrium is also called the market price and represents the price that both the seller and the buyer had agreed upon.

For years, governments around the world passed laws, regulating the prices at which certain commodities could be sold (Lipsey, 1992). Lipsey (1992) conveyed that although frequently referred to as fixed or frozen prices, most price ceilings actually specified the highest permissible price that producers may legally charge. He further mentioned that if the ceiling was set above the equilibrium price, it would have no effect, since the equilibrium would remain attainable. On the other hand, if the ceiling was set below the equilibrium price, it would determine the lawful price that would be binding to all.

The operations of the market after a price ceiling is applied are shown in the figure 1 below. In particular, figure 1 shows that equilibrium price is set at  $p_0$ . If a price ceiling is set at  $p_1$ , the quantity demanded will rise to  $q_1$  and the quantity supplied would fall to  $q_2$  (Lipsey, 1992). Additionally, in figure 1 it can be observed that quantity actually exchanged would be  $q_2$  and although excess demand is  $q_1$  and  $q_2$ , price may not legally rise to restore equilibrium (Lipsey, 1992).

**Figure 1: Price Ceiling and Black Market Pricing**



Source: Adapted from Lipsey, R.G. (1992). *An Introduction to Positive Economics*. Oxford University Press, Walton Street, Oxford OX2 6DP, pg 103

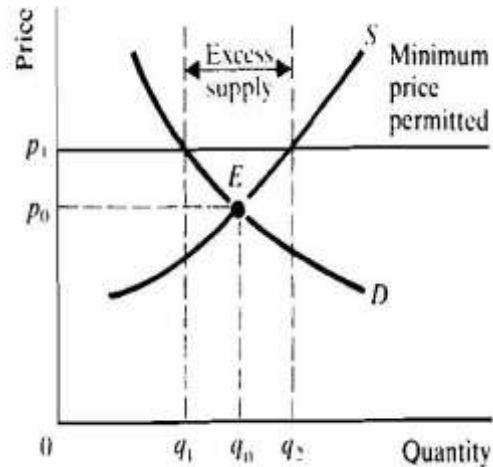
In the UK system, price ceilings are used heavily to control rentals for private homes. In the BVI, rent has been one of the major concerns with respect to price hikes. However, consumers ought to be aware that such controls tend to give rise to enforcement problems, especially as it relates to black markets<sup>1</sup>. Figure 1 highlights this, as black marketers would buy  $q_2$  at the controlled price of  $p_1$ , paying the amount shown by the light shaded area  $p_1q_2$  (Lipsey, 1992).

It should be noted also that black marketers would sell at the price  $p_2$  earning profits shown by the dark-shaded area between  $p_1$  and  $p_2$  (Lipsey, 1992). Other consequences of price ceilings are: (a) persistent shortages developing; (b) the prices charged on illegal markets are almost certainly higher than those that would prevail in free markets; (c) a substantial portion of the price falls into the hands of the illicit supplier instead of going to those who produce the good or who perform the service; and (d) investment in the industry generally dries up (Baumol and Blinder, 1998).

Alternatively, governments sometimes passed laws stating that certain goods and services cannot be sold below some stated minimum price (Lipsey, 1992). Lipsey (1992) denoted that in many western countries, there were minimum wage laws specifying “floors” for the wages to be paid to different kinds of labour. He also pointed out that the setting of minimum prices would have no effect if minimum prices were set at or below the equilibrium, or would cause a surplus of the commodity if

minimum price was set above the equilibrium; thus reducing the quantity actually bought and sold below its equilibrium (see figure 2 below).

**Figure 2: Minimum Price**



Source: Adapted from Lipsey, R.G. (1992). *An Introduction to Positive Economics*. Oxford University Press, Walton Street, Oxford OX2 6DP, pg. 107

Figure 2 has illustrated price floors, showing that the free-market equilibrium is at E, with price  $p_0$  and quantity  $q_0$ . Lipsey (1992) spelt out that if the minimum permitted price is  $p_1$ , quantity supplied would exceed quantity demanded by  $q_2 - q_1$ . On the other hand, if the government does nothing, the excess supply would be in private hands and would either be wasted or would accumulate as stocks increased. Lipsey (1992) also suggested that if the government bought the excess supply, producers would be able to sell their output of  $q_2$ , but the government must store or dispose of the quantity  $q_2 - q_1$  for each period.

Consequences arising out of price floors are: (1) a surplus develops as sellers cannot find enough buyers; (2) where goods, rather than services, are involved, the surplus creates a problem of disposal; (3) sellers may offer discounts in disguise – and often unwanted forms; and (4) regulations that keep prices artificially high encourage overinvestment in the industry (Baumol and Blinder, 1998). After considering these disadvantages of price control, we must also recognise that during the Second World War, many countries imposed price controls on a wide range of goods and services (Mauder et al, 2000), and this was because the rate or movement of prices was a key concern for government economic policies. In fact, Mauder et al (2000) revealed that the UK Government have been well known to using

policies to control the pace of inflation and at other times the policies used have been informal, and relied on voluntary cooperation rather than legal sanctions to achieve results.

Virtually every price ceiling or floor creates a class of people who benefit from these regulations. These people use their political influence to protect their gains by preserving that *status quo*, which is one reason why it is hard to eliminate price ceilings or floors (Baumol and Blinder, 1998). It is therefore strongly believed that when there are severe external factors affecting the price of goods and services, price controls should be imposed to level the playing field between the higher to lower income earners.

Moreover, price control mechanisms are only useful in the short run, as it will not help lower-income person in the long run. This last point is especially relevant with rent controls in the UK, as growing shortages of rental accommodation would force more people to buy freeholds or long leases.

According to Baumol and Blinder (1998), "Although the law of supply and demand is one of the simplest Principles in Economics, it is also one of the most powerful ones." The society, however, must appreciate that the law of supply and demand cannot be applied to all situations.

There is also the view that general price controls would raise the possibility of relative prices being distorted and so the single function of the price mechanism would not work effectively. Nonetheless, governments must modify the operation of the equilibrium process for social and welfare reasons, since these factors are just as important as demand and supply. In so doing, government policies would shift the real cost of production from one group to another, as this cost cannot be avoided, and someone must bear it.

### **Qualitative Research Methodology**

Creswell (2008) indicated that qualitative research method primarily focuses on a single phenomenon, while simultaneously, studying the context or setting of participants and validating the accuracy of its findings. To repeat, qualitative research approaches utilise constructivist or advocacy or participatory knowledge claims that possess phenomenology, grounded theory, ethnography, case studies and narratives (Creswell, 2008).

The usual steps of qualitative research were undertaken in this study. First, the objects of the study, cost of living and price control were identified and described. To recall, cost of living is a monetary cost of maintaining a particular standard of living, usually measured by calculating the average cost of a number of specific goods and services required by a particular group. In addition, price control is

essentially an economic effect of government applying statutory controls over prices. The objective of this study was to show how comprehensive price control mechanisms could benefit both consumers and local businesses in the BVI.

Second, the sampling size and procedures for observations were determined. In this research, two observations were made of the pricing: (a) reviews of published statistics from the DPU were completed to determine if there was a historical trend of increasing prices within the territory; and (b) observations were made of retailing prices from different locations on Tortola to ascertain whether there was evidence of price disparities.

With respect to the latter, the prices of 18 items were surveyed. These items were all basic in nature (otherwise referred to as necessities). The surveys were conducted on 21, 24, and 25 September, 2007 at two supermarkets in Tortola. The names of the supermarket were not revealed to protect the rights of the retailers. It should also be noted that these two supermarkets were not from the same locations.

The supermarkets surveyed were referred to as Supermarket A and Supermarket B. Supermarket A was located in Road Town and Supermarket B was located in East End. These two areas were selected because Road Town and East End were the mostly populated areas on Tortola, and thus better represented the possible distribution pattern in consumer spending. The supermarkets were selected not on the basis of popularity, but rather due to their close proximity to surrounding large residential communities. All prices referred to for this study were expressed in United States (US) dollars.

Given the nature of the topic, it was felt that the better methodology to apply would be the qualitative research method. After obtaining the results from the observations, an evaluation of the comparisons were made and a conclusion was drawn.

### **Research Findings: Prices in the BVI**

The findings of this study revealed many salient points. First, it was found that the increase in the monthly price index for June 2006 was as a result of changes in the following subgroups: Food, Beverage & Tobacco subgroup increased by 0.62 percentage points due to the increase in the price of Chicken (whole), Beef (ground), Whisky and Lunch; Housing increased by 0.46 percentage points due mainly to increases in the cost of Cement and Cooking Gas; Clothing & Footwear subgroup increased by 0.17 percentage points due to the increase in the cost of Watches and Men's Pants; the Services subgroup increased by 10.66 percentage points due to the increase in the cost of Doctor's visit

and Vitamins; and the Miscellaneous subgroup increased by 0.03 percentage points due to the increase in the cost of Personal Deodorant. However, Furniture & Household Supplies declined by 5.06 percentage points due to the decline mainly in the cost of Refrigerator and Detergents (Soap Powder); and the Transportation subgroup decreased by 2.72 percentage points due to the decrease in the price of Car Service (engine tune up). In short, these results have shown varying performances in the monthly price index for June 2006.

In particular, it can be observed that the Food, Beverage & Tobacco subgroup, Housing and Clothing & Footwear subgroup and the Services subgroups increased. These three subgroups are normally referred to as necessity sub groupings; meaning that all persons must have access to them if they are to reach the average standard of living.

DPU (2007) also published the point-to-point monthly, quarterly, half-yearly and annual rates of inflation for June 2006 which stood at 0.38, 1.00, 2.26 and 2.71 percentage points respectively. The annual rates of inflation from 1996 to 2005 are shown in table 1 below:

**Table 1: Annual rate of Inflation (1996 – 2005)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Inflation Rate</b>	4.9	5.9	4.4	2.3	2.8	3.1	0.4	3.6	1.0	2.0

**Source: The Government of the British Virgin Islands, the Development Planning Unit, found in August 2007 at website <http://dpu.gov.vg>.**

The data shown in the above table implies that on average, inflation was recorded at a rate of three percent annually between 1996 and 2005. These statistics further signified that within a ten year period, inflation expressed as an aggregate, would have increased overall by 30 percent, which is quite high for a small territory. It also meant that in general, prices were increasing more significantly with respect to Food, Beverage, Housing, Clothing, Footwear and Health. It is recommended that this issue be remedied as soon as possible; otherwise salaries and wages of BVI workers would have to be adjusted annually by three percent, in order to address the average increases.

To further investigate this study and to facilitate the consideration of more recent data, a preliminary study was conducted, investigating the prices of 18 grocery items, which were considered to be basic in nature. Table 2 below shows the comparison of prices for the items on the selected survey days.

**Table 2: Price Comparison for Goods of Basic Shopping Basket**

<b>Products</b>	<b>Supermarket</b>	<b>Supermarket</b>	<b>Difference in Price (A-B)</b>
	<b>A</b>	<b>B</b>	
Milk <sup>3</sup>	\$1.69	\$1.85	(\$0.16)
Diapers <sup>4</sup>	\$8.99	\$11.75	(\$2.76)
Rice <sup>5</sup>	\$2.49	\$2.19	\$0.30
Macaroni <sup>6</sup>	\$0.99	\$1.69	(\$0.70)
Toilet paper <sup>7</sup>	\$1.99	\$2.99	(\$1.00)
Paper Towel <sup>8</sup>	\$0.99	\$1.55	(\$0.56)
General Cleaner <sup>9</sup>	\$1.75	\$3.85	(\$2.10)
Toothpaste <sup>10</sup>	\$3.99	\$3.55	\$0.44
Bathing Soap <sup>11</sup>	\$0.69	\$0.85	(\$0.16)
Dishwashing Liquid <sup>12</sup>	\$1.75	\$1.69	\$0.06
Corned Beef <sup>13</sup>	\$1.95	\$2.00	(\$0.05)
Sardines <sup>14</sup>	\$0.99	\$0.99	\$0.00
Drinking Water <sup>15</sup>	\$1.39	\$1.89	(\$0.50)
Baby Milk <sup>16</sup>	\$5.95	\$7.25	(\$1.30)
Soda <sup>17</sup>	\$1.65	\$2.98	(\$1.33)
Sugar <sup>18</sup>	\$2.49	\$2.45	\$0.04
Crackers <sup>19</sup>	\$3.99	\$3.95	\$0.04
Wet Wipes <sup>20</sup>	\$3.99	\$3.55	\$0.44
<b>Price Differences</b>			<b>(\$9.30)</b>

**Source: Supermarket Survey conducted in September 2007 by the author**

<sup>3</sup> Carnation Milk; Net Wt 14.5 oz.

<sup>4</sup> Huggies Diapers; Newborns/Stage 1, 24 count.

<sup>5</sup> Rico Rice; 2 pound bag.

<sup>6</sup> Catelli Macaroni, Net Wt 14 oz.

<sup>7</sup> Cottonelle Toilet Paper; 4 rolls, 1 Ply, 4.2 x 4 in sheet.

<sup>8</sup> Basic Bounty Paper Towel, 3.8 oz.

<sup>9</sup> Fabuloso; 28 fl oz.

<sup>10</sup> Aquafresh Toothpaste; 6 oz. per box.

<sup>11</sup> Jergens Bathing Soap; 3.5 oz. per bar.

<sup>12</sup> Joy Dishwashing Liquid; 12.6 oz.

<sup>13</sup> Libby's Corned Beef; Net Wt 340g.

<sup>14</sup> Brunswick; Net Wt 3.75 oz.

<sup>15</sup> BVI Springs; 1 gallon.

<sup>16</sup> Similac Milk Based Formula; 13.1 oz.

<sup>17</sup> Busta; 2 litre.

<sup>18</sup> No Brand Brown Sugar; 2 pounds.

<sup>19</sup> Vanilla Imperial; Net Wt 20 oz.

<sup>20</sup> Huggies Wet Wipes; 72 count tubs.

When reviewing the prices in Table 2, it was evident that based on the average price differences, Supermarket A has a \$9.30 price difference under Supermarket B. Of course, when looking at the grocery items, it can be determined that Supermarket A presented lower prices than Supermarket B in most cases, but there were particular grocery items for which the differences were most significant. Price differences, which were distinguished the most were: diapers showing a difference of \$2.76; toilet paper showing a difference of \$1.00; general cleaner showing a difference of \$2.10; baby milk showing a difference of \$1.30; and soda showing a difference of \$1.33.

Additionally, it was detected that, of the 18 items, five products showed a difference of \$1.00 or more. In statistical terms, this meant that of the items surveyed, 28 percent showed phenomenal price differences. Another discovery was that of the 18 products surveyed, five of the items showed that prices for Supermarket B were slightly lower than Supermarket A; another difference of 28 percent.

Overall, the data uncovered that persons shopping in Road Town were more likely to pay lower prices; as 61 percent of items surveyed showed that Supermarket A prices were lower than Supermarket B and carried lower prices. These results supported current practices of BVI consumers shopping in more than one location, especially those residing in the East End area. While this was not difficult, all consumers may not have personal transportation and therefore would have to pay either a taxi or a shuttle to get from one location to the next.

These latter points have proven the words of Silenberg (1995) to be relevant:

“it is against the self-interest of sellers to maintain a price at which buyers eagerly purchase the good and wish there were more to purchase at that price.”

Other observed behaviour, apart from the survey, showed that BVI residents frequently travelled to St. Thomas (USVI<sup>21</sup>) to shop in bulk (especially after salary payment periods). That observation could imply two things: (a) consumers were not comfortable with the variety of products available in the BVI; and (b) the prices were not as reasonable as their competitors in the USVI.

While this is a practice that many BVI residents have come to appreciate, on a bi-weekly, monthly or bi-monthly basis, it is one that cannot be shared by all, since some residents would not fulfill

the necessary immigration requirements for entry into the USVI. Consequently, it would mean that while one set of consumers have alternatives; others would not.

The final observation was that the BVI and USVI are closely located geographically. The question of “Why there is such a significant difference between the prices offered by BVI businesses in comparison to the USVI?” therefore becomes a very relevant one.

This research question would create another good research paper in the future, examining the difference in the product and price offerings of both territories. It was however, reported by the BVI Beacon Newspaper on 8 November, 2007, that many of the local businesses blamed shipping costs for the differences between prices in the BVI (labelled as an international destination) and the USVI (labelled as a US shipping destination).

### **Recommendations: How Price Control Can Help?**

One theorist has indicated that in our daily participation within an unregulated market, sellers rarely care who their consumers are or what race or gender they are; neither do consumers care about such characteristics of the sellers (Silenberg, 1995). In essence, who you are and who you know only becomes relevant when price controls are in existence (Silenberg, 1995).

In response, price controls can ensure that businesses price their merchandise or services fairly. Through legislation businesses are guided by what is acceptable and what is not acceptable, as it relates to prices. Generally, the government fixates the prices and of course, this should only be done for goods which are considered to be “basic” in nature.

Put another way, not all items should be subject to price control. In such a situation, the government must publish the items that are under price restriction. This information would be of public knowledge to everyone, otherwise it would be ineffective.

Of course, for such a system to work there would have to be an extensive public education programme embarked upon targeting both the consumer and the merchandiser. This would in turn bring to both groups, a common ground of any uncertainties and queries that may exist. One logical way to commence this process would be to look at those items that were duty free and perhaps establish that such items should not go above a certain price range. Another consideration would be to look at items, which each household should have in the event of a natural disaster, and place price ceilings on those items.

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<sup>21</sup> USVI stands for United States Virgin Islands.

Whenever a country or a territory wants to review its progressiveness, it must consider the consumer price indices, the cost of living, the inflation rates, the GDP per capita and the standard of living. Specifically, consumers tend not to be too interested in GDP per capita as criteria, since they are more interested in assessments that are more personal in their application (consumer price indices, the cost of living, the inflation rates and standard of living).

International research agencies would also use all of these assessments to determine the economic rankings of a country or territory. In particular, they would show keen interest in how consumers can afford and access the goods and services, both equitably and efficiently.

“No one really cares about the consumers on a day-to-day basis” (Silenberg, 1995). Silenberg (1995) made that point abundantly clear, as he indicated that sellers really do not care about buyers if the market is unregulated.

In summary, the average BVI resident would benefit from price control mechanisms, as it would: first, eliminate unnecessary price increases on goods and services, which are considered to be part of the basic food basket; second, consumers would be protected from expensive prices allowing fair play within the market; third, because prices are controlled, consumers would now be able to afford a wider selection of goods and services; fourth, assuming consumers were spending less money on the basic food basket items, they would have more financial resources to participate in the financial services sector or to invest in the local tourism sector; and fifth, consumers having access to a wider selection of goods and services assures them the right to live and experience a reasonable quality of life.

Overall, an elected government is the supreme management team of the country and must encourage merchandisers to display good moral behaviour when pricing their products and services, so that the greatest good is achieved for the greatest number (Baumol and Blinder, 1998). Additionally, governments must protect consumers, and if they do not do this, then they would have failed in fulfilling their mandate as a government.

## Conclusion

Despite the BVI’s strong economic performance in the financial services and the tourism sectors, it was found that consumers have seen an increase in prices within the territory. In fact, in 2007 there were two main forms of price control present in the BVI: first, the minimum wage; and second, the public transportation system rates.

To determine the conclusion, the qualitative research method was used in this study. The objects

of the study were cost of living and price control. The objective of this study was to show how comprehensive price control mechanisms could benefit both consumers and local businesses in the BVI.

Second, the sampling size and procedures for observations were determined via two observations, namely: (1) reviewing published statistics from the DPU and (2) recording retailing prices from different locations on Tortola. With respect to the former, the Food, Beverage & Tobacco subgroup increased along with Housing and Clothing & Footwear subgroup, and the Services subgroup, as published by DPU (2007). These three particular subgroups were known as necessity sub groupings, meaning that all persons must have access to them if they are expected to reach the average standard of living. It was also found that Health services were generally costly services, but could be subsidised to reduce costs.

Third, the inflation rate of three percent annually between 1996 and 2005 for such a small territory was considered to be too high. It was recommended that this on-going problem be remedied as soon as possible; otherwise salaries and wages of BVI workers would have to be adjusted annually by three percent, in order to address the average increases. If the latter does not occur, naturally consumers would become unsatisfied and unhappy; and when people become unhappy, they also become very unproductive and unmotivated.

Fourth, priorities have to be put where attention is needed. In short, consumers must be protected. This position was supported by the supermarket survey results.

To do this price control measures should be considered for implementation in order to alleviate BVI residents from living pay-check to pay-check. The price control measures would also bring standardisation of products and more equitable price offerings for necessities, across retail locations in the territory.

To check the robustness of these results, it is recommended that further research on this topic is undertaken. Such research would include a fully comprehensive consumer survey.

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