Medical Xpress

COVID-19 'price gouging' could be prevented

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Excessive pricing or 'price gouging' of essential hygiene and medical products during the current global pandemic could be prevented, claims a new paper from the University of Portsmouth.

The research paper, by law lecturer Dr. Penny Giosa, informs academic and policy debate about excessive pricing due to Covid-19.

'Price gouging' is when businesses heavily inflate prices of products that are in high-demand. Some sellers have taken advantage of the global health crisis by increasing their prices in order to profit. This obviously has a hugely negative impact on the consumer.

Dr. Giosa said: "Inflating the prices of essential items is unfair and exploitative during a global crisis. Some sellers have raised prices on items that are needed for safety, which is shocking."

Dr. Giosa's work explores the provision of EU competition law, which the National Competition Authorities (NCAs) and the European Commission could enforce against excessive pricing.

The paper also investigates whether EU Member States should rely on price regulations in order to cap the wholesale and retail prices of some high-demand products due to the coronavirus pandemic.

Dr. Giosa argues that imposing fines on companies that charge over the odds isn't an appropriate solution because there is no guarantee that prices won't rise again in future. Moreover, it would be very expensive for the NCAs to monitor the effectiveness of the fines resetting the prices to a 'non-excessive' level.

She argues that it would be more effective for NCAs and the European Commission to seek commitment from companies guilty of price-hiking, to discontinue their anti-competitive conduct and agree to set lower prices in future.

The article also makes a case for the application of price controls.

The free formation of prices does not always guarantee socially desirable outcomes, Dr. Giosa said, "for instance in the exceptional case of emergency needs, companies may set excessive prices for necessary

goods essential to consumers' continued health.

"In the case of Covid-19, facemasks are an explicit example. While in the long-run high prices should boost their supply, in the short-run there may be problems, like health workers in heavily affected countries being outbid by fearful private individuals in other countries who have a low risk of infection but high incomes."

This may result in a transfer of wealth from consumers to suppliers as well as in a reduction in total welfare to society, especially when excessive pricing regards goods necessary for public health and welfare, such as medical supplies and fuel.

With no cap on pricing, inflated prices are unlikely to disappear or reduce within a reasonable timeframe because new companies' ability to enter the market or expand production is affected.

Dr. Giosa continued, "The severe economic turmoil that Covid-19 has caused means that the necessary finance for expansion of firms becomes harder to secure. Excessive prices are not self-correcting, because in the majority of cases excessive prices do not attract new entry of viable competitors, whether entry barriers into the market are high or low and whether potential entrants are informed about the incumbent firms' relative efficiency."

More information: Penelope Giosa, Exploitative Pricing in the Time of Coronavirus—The Response of EU Competition Law and the Prospect of Price Regulation, *Journal of European Competition Law & Practice* (2020). DOI: 10.1093/jeclap/lpaa029

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