

The cost of lack of competition

Economist

Nov 15, 2018

Competition

- That competition keeps prices down is well known.
- But it is hard to measure by just how much.
- A research by three economists.
- They looked at pharmacies and specifically at customers who may be particularly easy to rip off: new parents.

Prices of hygiene products

- Using data for 2007 to 2010 covering about a fifth of pharmacies in Italy, the researchers measured the way in which prices of hygiene products for babies changed as the number of babies varied.
- A peculiar law from the 1960s, according to which municipalities with at most 7,500 people are allowed just one pharmacy (supposedly to keep the quality of services high).
- They compared prices in places with populations just below this threshold, and just above.

Products

- The products studied included some 3,000 varieties of shampoos, bath foams, baby wipes, creams and so on.
- Many are also used by adults on themselves.
- When raising prices for these products, even a pharmacist with a monopoly must consider the risk that adult users will switch to products that are not aimed at children.

Number of babies

- But a rise in the number of babies, and hence in the fraction of buyers who are parents, could tip the scales towards price increases.
- By contrast, the pharmacist should already be charging as much as parents are willing to pay for products without adult users, such as nappies.

More new parents

- The scholars found that pharmacists raised prices when there were more new parents—but only in municipalities with a single pharmacy, and not for nappies.
- In monopoly areas a doubling of the number of babies from one month to the next (not unusual in a small population) coincided with a 5% increase in the price of the basket of baby-hygiene products.

The study is timely

- Italy's government has started to loosen some of the many restrictions that stifle competition in the pharmacy sector.
- The consumers who pay the price are often those who find it hardest to travel to shop around—for example, people with crying babies on their hands.