

Price Gouging in Time of Covid-19 Pandemic: When National Competition Agencies are Weak Institutions that Exacerbate the Effects of Exploitative Economic Behaviour

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Abstract : The social effects of the pandemic are significant and diverse, most of those effects have widened the gap of economic inequality. Without a doubt, each country faces difficulties associated with the strengths and weaknesses of its own institutions that can address these causes and consequences. Around the world, pricing practices that have no connection to production costs have been used extensively in numerous markets beyond those relating to the supply of essential goods and services, and although it is not unlawful to adjust pricing considering the increased demand of certain products, shortages and disruption of supply chains, illegitimate pricing practices may arise and these tend to transfer wealth from consumers to producers that affect the purchasing power of the former, making people worse off. High prices with no objective justification indicate a poor state of the competitive process in any market and the impact of those underlying competition issues leading to inefficiency is increased when national competition agencies are weak and ineffective in enforcing competition in law and policy. It has been observed that in those countries where competition authorities are perceived as weak or ineffective, price increases of a wide range of products and services were more significant during the pandemic than those price increases observed in countries where the perception of the effectiveness of the competition agency is high. When a perception is created of a highly effective competition authority, one which enforces competition law and its non-enforcement activities result in the fulfillment of its substantive functions of protecting competition as the means to create efficient markets, the price rise observed in markets under its jurisdiction is low. A case study focused on the effectiveness of the national competition agency in Mexico (COFECE) points to institutional weakness as one of the causes leading to excessive pricing. There are many factors that contribute to its low effectiveness and which, in turn, have led to a very significant price hike, potentiated by the pandemic. This paper contributes to the discussion of these factors and proposes different steps that overall help COFECE or any other competition agency to increase the perception of effectiveness for the benefit of the consumers.

Keywords : agency effectiveness, competition, institutional weakness, price gouging

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