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RETURN OF THE
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Price regulation: Why?

- In theory, on the side of the Jedi! To limit the (dark lord‘s?) exercise of market power and improve consumer outcomes.
- Historically, market power arose from high market shares, post-privatisation
  - Expectation that price regulation would be withdrawn as competition emerged, except for residual natural monopolies.
- But rather than receding, more (effective) price regulation has been introduced:
  - On one side of two-sided markets (eg credit card merchant interchange fees, mobile termination rates)
  - For contingent charges (eg credit card default fees, payment surcharges, pension exit fees, mobile roaming charges)
  - In markets with a weak demand-side (eg payday, energy prepayment meters, landline-only telephony (proposed))

Price regulation: Why? - Revisited

- In these new instances, there are typically several competing suppliers. So why price regulate here? Some thoughts:
  - **Excessive profits/productive inefficiency:** Competition weak because consumers unable/disinclined to shop around for a better deal
  - **Inflated profits due to insufficient pass-through:** High profits on elements of offering are not (fully) passed back to consumers via wider competition
  - **Harm to competition?** Eg Drip pricing found to lead to non-optimal levels of search and prices overall too high. Exit charges may inhibit switching
  - **Allocative inefficiency?** Even if profits are fully passed back, prices that don’t reflect costs may result in inefficient consumer choices
  - **Fairness concerns?** Between suppliers and consumers (eg unfair exploitation of vulnerable consumers or consumer biases) or between consumers (eg engaged benefit at expense of unengaged)

Price regulation for the demand side - Risks

- Risks associated with price regulation to address supply-side concerns still seem likely to hold:
  - Risk of reduced supply to marginally profitable consumers
  - Risk of reduced market entry or increased market exit
  - Risk of distorted investment incentives (could be too high or too low!)
  - Risk of collusion up to 'focal point' of regulated price
- But there may be added risks with price regulation for demand-side concerns
  - Risk of reduced competition: Potential trade-off between equality and competition: consumers have less incentive to 'engage' if they have less to gain; firms have less ability to win customers through offering lower prices
  - Risk of winners and losers amongst consumers

Questions for discussion

1. When – if ever – should we give up relying on demand-side remedies?

    - NB Different CMA decisions on PPM energy and unarranged overdraft fees

    - Have we given enough thought to collective switching (incl. concierge services)?

2. How much should policy reflect considerations of fairness? Or vulnerability? Or affordability? Or the necessity of the product?

    - It would be useful to have ‘limiting principles’ as to when price regulation would/would not be worth considering.

    - NB Fairness concerns may grow with big data and potential for personalised pricing.

NB A disclaimer:
I am definitely speaking
In a personal capacity!