

COVID-19 and Competition

By

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Covid-19 is on everyone's lips right now. The pandemic currently gripping the world is making an impact in every area of economic life. The Fair Trading Commission (FTC) has not escaped the fall out. Currently, the staff has been working from home, whilst implementing its core function under the Fair Competition Act (FCA) of safeguarding competitive markets for the benefit of consumers. The FTC's commitment has not waned even in the face of this crisis.

The Role of Prices in Free Market Economies

In free market economy, price will always adjust to restore stability whenever there is an imbalance between the quantity of goods demanded and supplied. Unfettered price adjustments, be it increases or decreases, is the primary means through which free markets efficiently allocates the scarce productive resources of any economy.

In a time of crisis, there is typically a shortage where the quantity of certain goods demanded exceeds the quantity being supplied; either because the usual supply chains have been disrupted or due to an increased demand for the goods. In this scenario, a price increase is necessary to restore the balance between demand and supply. Price increases deter over-purchasing and hoarding on the part of consumers. Price increases also stimulate increased production levels as merchants whose existing resources can produce the items in short supply, could quickly pivot to supplying the item. For example, dressmakers in Jamaica have started to make face masks to address the shortage of the product.

While a price increase is normal and desirable during a shortage, some merchants may be tempted to engage in conduct which raises price above the competitive level. Think of e-commerce platform giant Amazon having to step in to stop resellers hoarding and hiking the price of face masks, hand sanitizers etc. Also, globally we have observed competition authorities clamping down on merchants making false and scientifically unsupported claims about health related products. What is the justification of businesses exploiting this arbitrage opportunity under the current circumstances?

Measured Policy Response

Given that some merchants may be tempted to charge excessive prices during crises, the important question is whether policymakers should establish price caps for the products affected.

The answer is no. Big price rises do not necessarily equate to excessive pricing. In times of shortage, getting adequate supplies to market by boosting supply will mean higher costs as merchants use less efficient means of supply. The challenge however is that dictating maximum retail prices will discourage retailers from boosting supplies at the very time when some consumers would benefit from the availability of these high valued products, even at higher prices.

Restrictive trade practices are illegal and consumer protection is a right envisaged by the FCA. The FTC advises merchants against using the cover of Covid-19 to harm consumers.

Note that the views expressed by the Staff do not necessarily represent that of the Commission.