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The Heavy Price of Putting on Price Tags

By Ora Coren | May 12, 2004 | 12:00 AM

The price marking law in the United States has led to an average price increase of 10 percent, according to a study conducted by Prof. Daniel Levy of Bar-Ilan University.

Research now being done by Levy in Israel indicates that prices have risen by an average of 5 percent since the law went into effect here. However, Levy said, the study of the Israeli market is still underway and all the necessary components have not yet been considered.

The Israeli research is comparing collective data - such as indexes of wholesale prices and consumer prices - not product prices. There is no available data for the period prior to the law's implementation in 1998, Levy said. The study's working assumption, in both the United States and Israel, he explained, is that product prices respond to changes in costs, and that the costs of marking prices, whether they are borne by the manufacturer or the store, are passed on to the consumer.

The Israeli study relates to the two years that preceded the implementation of the law, and has not yet calculated the effects of the stiffening competition between the supermarket chains and the pressure they exerted on suppliers to lower prices during the recession.

Levy said the Israeli consumer would probably be willing to pay 5 percent more for products and be assured that the prices were marked on every item, but they deserve to know that they bear the cost of the price marking. There may also be consumers, he said, who would rather not pay the additional cost, relying instead on the existing competition between the supermarkets to prevent price rises.

In addition to the price on the package, Levy feels the Israeli public would benefit from a stipulation in the law that the label on the shelf include the cost-per-unit measure, such as the cost per kilogram. This would enable consumers to compare the prices of competing products or the prices of the same product in different sized packages. The application of the law in this manner would not lead to increased costs, because the supermarkets would have only the one-time investment in marking the shelves. Such price-per-unit-measure marking would also make it harder for manufacturers to reduce the contents of a package without changing the price.

The research in the United States compared the prices of products in states that have a price marking law with the prices of the same products in states that do not have such a law. Prices were also checked at geographically proximate supermarkets that did or did not mark prices. Some 20 large supermarkets were checked in New York, New Jersey and Connecticut. The comparison of prices between states, supermarket chains, product categories and products revealed that prices at the chains subject to the price marking law were an average of 10 percent higher.

The main explanation offered by the researchers was that the marking of the prices and the frequent changing of the prices incurred significant expenses on the chains that mark prices. The researchers explained that the law's main goal is to protect consumers from being overcharged, in cases in which the price charged at the checkout is greater than the price marked on the product.

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