THE WALL STREET JOURNAL.

LETTERS

Item-Pricing Redux: Paul Rubin Bolsters His Argument against It

By

PAUL H. RUBIN

April 3, 2007, 12:01 a.m. ET

In commenting on my op-ed ("A Penny Not Saved," Opinion, March 10, 2007)* Edgar Dworsky ("Item Pricing and Overcharging in Groceries," March 29) indicates that he was the author of Massachusetts' item-pricing law (IPL). It is understandable that Mr. Dworsky would want to defend his handiwork. From his letter, it is also possible to understand how these fundamentally anticonsumer laws can be written by well-meaning but misguided critics of the open marketplace.

He indicates that "a savvy shopper knows that prices vary. . . ." But we did not merely look at a few prices, as might a savvy shopper. We examined 3,240 prices in 24 stores in three states. We also performed several regression analyses adjusting for factors such as population density, number of households and median family income in the stores'

ZIP Code. We looked at suburban stores in New York, New Jersey and Connecticut; Mr. Dworsky ignores our examination of Connecticut, but this is fundamental to our argument.

Mr. Dworsky's numbers are simply wrong. In our full paper we cite several studies that indicate the annual cost of IPLs is about $150,000 per store, not the $14,650 he cites. He also indicates that the average cost of overpricing per overpriced item in the FTC study is $3.20. But this figure is for overpricing in all stores, including, for example, department stores, not just grocery stores. For grocery stores, the average cost of overpricing when it occurs is 66 cents. Moreover, the 66-cent overcharge occurs only for those items where there is an actual overcharge, which is why we say that the average cost over all items sold was less than one cent. The cost of marking each item under an IPL applies to all items in the store, not merely to those where an overcharge occurs.

He misuses the numbers he has. He indicates that the cost per item of the IPL is only three-tenths of a cent. (This is based on his faulty use of $14,650; even by his numbers, the cost is three cents, since the cost of IPLs is $150,000 per store per year, not $14,650.) But this includes only some of the costs. For example, stores might charge higher prices since it is more difficult to change them after items are first marked. He indicates that the same number of items were on sale in one week in New York and New Jersey Stop & Shops. But this is not useful data; in our study we find that prices of non-IPL items are three times as likely to be changed as prices of IPL items.

Connecticut has an IPL, but stores can avoid it by installing electronic shelf pricing. In our analysis, Connecticut stores with electronic pricing had prices higher than non-IPL stores but lower than IPL stores. So the Connecticut evidence exactly made our point.

Finally, Mr. Dworsky seems to misunderstand markets. He indicates that if there were any savings from repealing IPLs, these savings would be likely to "go directly to the supermarket's bottom line," a highly unlikely result in an extremely competitive market. Moreover, even though he believes that supermarkets are eager to make money, he also believes that they leave lots of money on the table. According to his survey of Massachusetts consumers, "three of four shoppers said they would be willing to pay two or three cents extra per item to have the price marked on it." According to his (faulty) calculations, IPLs cost three-tenths of one cent per item. This means that by his analysis Massachusetts grocers, who could have marked individual items even without the IPL, were passing up a chance to charge three cents for something that only cost three-tenths of a cent. How does he explain this failure on the part of shrewd business persons to make additional money?

Paul H. Rubin
Samuel Candler Dobbs Professor of Economics and Law
Emory University
Atlanta

*The study discussed in Paul Rubin's op-ed essay was coauthored with Mark Bergen, Daniel Levy, Sourav Ray and Benjamin Zeliger and will be published in the ***Journal of Law and Economics***.

Link to the article:

http://online.wsj.com/news/articles/SB117556759904057847