OPINION ECONOMY

# Post-COVID, There's a Danger of Cartels Forming in Many Sectors

Bigger businesses may start charging higher prices, creating entry barriers for smaller ones. A report suggests that India's top 20 firms earn 60% of corporate India's cash flow and generate 70% of profits, up from 14% 30 years ago.

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In the US, there is the concept of measuring the consumer feel-good factor through inflation expectation. If the consumer feels that inflation is likely to ease, they feel good about it and do not mind paying higher prices in the short run. In fact, the consumer settles for a higher price, and business settles for a higher nominal wage.

Forward-looking managers do not mind paying higher wages to workers, as they realise higher profits. This wage-price spiral continues for a while and eventually settles down to an inflation level within the comfort zone of the central bank. For instance, for the US, inflation eased to 4.1% from a high of 9.1% in June 2022, and the expectation is it will climb down to the Fed's target of 2%. The extent and speed of wage-price adjustment depend upon how flexible or sticky wages and prices are in the near term. For instance, during the pandemic, wages did not rise for more than a year. Also, prices may not change because of 'menu' costs.

Across the world, for the most part of 2022, inflation remained elevated. Post-COVID-19, pent-up demand and the Ukraine war have raised prices of daily necessities and luxury items. When inflation is expected, as may happen with exogenous shocks such as pandemics or a war, outside control of policymakers, it is quite natural for businesses to increase prices and consumers are willing to pay it. The profitability of all luxury consumer products such as Louis Vuitton, Ralph Lauren, Estee Lauder, and luxury car makers such as Porsche and Aston Martin have all gone up post-2021.

Travel, hotels, entertainment and leisure are also expensive. One can argue that this is mostly because of pent-up demand released after Covid. With global supply chains returning to normalcy, the consumer expects that the rate of price increase will fall once pent-up demand eases. Of course, in this short-run narrative, consumers are not factoring in the long-term impact of climate change, particularly on food and consumer staples.

If institutions like the competition regulator are weak, this becomes another factor that may make it difficult for policymakers to control inflation. Take for example India, which is now among the fastest-growing large economies. Growth leads to the formalisation of economic activities. It is a healthy sign as it leads to more tax realisation. The size of the national output and scale of operation grow with formalisation, and this may in turn attract foreign direct investment.

The success story of Chinese manufacturing has to do with economies of scale in production and a large domestic market. When the government realises more tax revenue from the formalisation of economic activities, it can plough back part of the revenue collected towards incentivizing and making domestic production more competitive. In India, the production-linked incentive scheme was introduced to increase manufacturing capability and competitiveness of domestic manufacturing industries.

These are the advantages of having a formal economy. But formalisation also allows the emergence of bigger businesses which may form cartels and start charging higher prices. They can create entry barriers for efficient smaller and marginal players by hoarding or limiting access to scarce resources through political funding. The survival of small and medium enterprises (SMEs) is important for job creation. Moreover, SMEs produce goods which are typically consumed by low and middle-income households with a higher marginal propensity to consume.

A report by asset managers Marcellus suggests that India's top 20 firms earn 60% of corporate India's cash flow. They generate 70% of profits, up from 14% 30 years ago.

They have a presence in day-to-day life, ranging from baby foods and biscuits, medicines, education, healthcare to hotels and travel.

Rising prices of goods and services may be because of the existence of a few dominant players in the market. For example, over the last three years, entry level telecom tariffs have increased 340%, from Rs 35 to Rs 155. Air fares shot up after Go First was grounded.

Costs of healthcare and education in India, most of which have to be borne privately, are also on the rise. As per the latest household social consumption data (NSS 75th Round), only 4% of the rural population and 19% of the urban population reported that they had health expenditure coverage. According to the Economic Survey 2022-23, almost half of all medical expense is still borne by patients.

A recent study finds that drug prices and the profitability of domestic pharmaceutical firms have grown post-Covid. The cumulative wealth of pharma billionaires doubled after 2018, and 15 of India's top 100 billionaires are from the sector. This study covered data from six pharma and diagnostics companies, and demonstrated a spike in overall profit and revenues between 2011 and 2021.

In education, too, there's a similar story. As per a survey conducted by ET Online research, educating a child from age three to 17 costs around Rs 30 lakh; a four-year BTech or a three-year BSc costs Rs 4-20 lakh; and a five-and-half-year MBBS degree can cost up to Rs 1 crore.

The good news is that India has passed the Competition Law Amendment Bill. It is time to see that the price of these basic goods and services remain under control.

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