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Italy's Covid Price-Control Fiasco

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Italy is trying to control the price of face masks, and it isn't going well. On April 26, Domenico Arcuri, special commissioner for the coronavirus emergency, announced that surgical face masks must be sold at a fixed price of 50 European cents (around 54 U.S. cents) plus tax.

On May 8, a leaked draft of a new economic stimulus package mentioned a maximum price of €1.50, though this new mandate has not yet taken effect. The Italian newspaper *Il Foglio* reports that the government is buying face masks wholesale at a price between 38 and 70 European cents each—essentially admitting it can't abide by its own price controls.

Face masks have been controversial since the beginning of the Covid-19 outbreak, in Italy and elsewhere. At first, the World Health Organization and Western governments counseled against the widespread use of face masks as a personal protection device. The WHO changed its mind in April. Now in Milan, where I live, face masks are required in public.

A good mask used to cost as little as 10 European cents, but prices surged after Covid-19. The Civil Protection Department, Italy's national body that deals with emergencies, promptly discouraged entrepreneurs from importing masks, right as more masks were needed.

Companies were allowed to import only masks that were already allocated to health-care institutions. No one was allowed to import masks and sell them to the highest bidder. Those who were buying up masks to hoard risked government confiscation. These moves clamped down on price gouging but created a shortage. Through a later adjustment, importers were able to keep 20% of their masks to sell on the market. Yet the signal was clear: importing face masks is better not left to "animal spirits."

But as soon as the lockdown ended, it became difficult to supply masks to the public. As a European manufacturing powerhouse, Italy is second only to Germany. And Italy has a glorious history in the textile industry dating to the 14th century. Many factories and producers during the lockdown started making masks, which was better than being idle and served a social purpose. These companies' efforts to refocus their productive power were halted with the stroke of a pen.

On the other hand, pharmacists can't get masks cheap enough to sell at a retail price of 50 European cents. Global demand increased, and acting fast required shipment by air instead of by

sea, which also increased costs. The price fixers have promised a subsidy to pharmacists to mitigate losses. But the price was fixed by executive order, whereas the subsidy was merely promised. Quite a few pharmacists elected to stop selling masks.

It didn't have to be this way. When Covid-19 exploded in Milan, hand sanitizer disappeared from shelves within days. Prices soared. On Feb. 26, a 250-milliliter bottle of hand sanitizer was going for €2,500 on eBay. Companies saw an opportunity. Pharmacists and distilleries started making sanitizer, and bottles reappeared on shelves at elevated prices. Now an 80-milliliter bottle sells on the internet for around €4, a few cents more than before the pandemic. Letting markets set prices produced some dramatic effects in the short run. It also guaranteed a quick return to normal.

What about masks? The Italian government is preparing to make them itself, as if to ensure the economic damage will be properly spread across Italian taxpayers. Far from learning the lesson, the government has suggested it will repeat its price-fixing mistakes by setting the price of N95 masks. The results won't be any better.

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