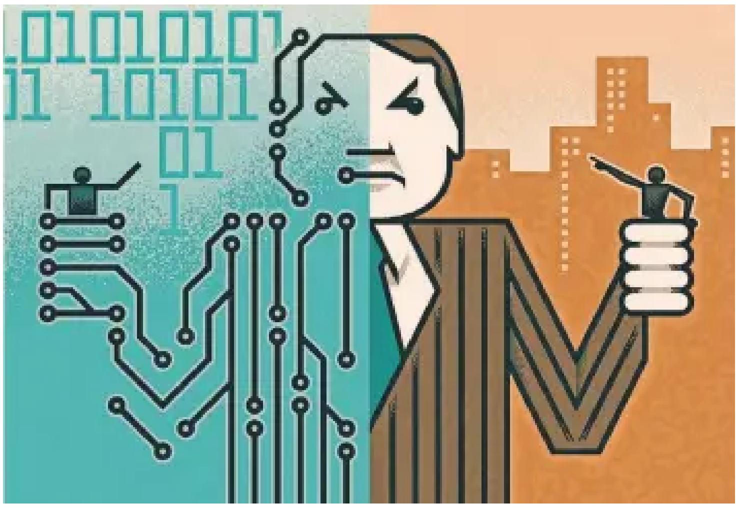
The problems that come with surge pricing

Financial Times Asia
11 Mar 2024
Rana Foroohar rana.foroohar@ft.com

Surge pricing is something that anyone who takes a ride share on a regular basis has become used to. Try calling an Uber or Lyft on a rainy day during the dinner hour or around the school pick-up or drop-off time and you'll be paying more than your usual rate — sometimes a lot more.



Yet when consumers are confronted with common online business models like "dynamic pricing" in the bricksand-mortar world, they may revolt. Consider the recent consumer backlash after Wendy's, the fast-food chain, announced on an earnings call that they were considering surge pricing for burgers during peak demand — and had invested $20mn in AI systems to do so.

The first tweets following the announcement were amusing, as customers joked about arbitraging their lunch. But within a couple of weeks the social media comments became ugly and politicians such as Senator Elizabeth Warren started attacking the company for "price gouging". Wendy's quickly backtracked on the idea.

The same phenomenon has occurred at movie theatres that tried to raise the price of seats during high demand (though airlines and hotels do it online all the time and most entertainment venues have regular bargains on known slow days). What's more, surge pricing isn't the only algorithmic manoeuvre that's come under fire when translated offline into non-digital businesses.

The Federal Trade Commission and Department of Justice, following numerous complaints from tenants' associations, recently took a joint action to fight algorithmic collusion in the residential housing market. Landlords are increasingly using rent-maximising software to keep prices higher than they might be in normal market conditions for tens of millions of apartments around the country.

As an FTC briefing on the action noted, “the housing industry isn’t alone in using potentially illegal collusive algorithms”. The DoJ has previously secured a guilty plea related to the use of pricing algorithms to fix prices in online resale of goods; it has an ongoing case against the use of algorithmic collusion by meat processors. Meanwhile, there are several private cases being brought against hotels and casinos for online price fixing.

Platform technology firms developed or perfected techniques like dynamic pricing, real-time auctions, data tracking, preferential advertising and all the other tricks of surveillance capitalism. But behaviour we take for granted online somehow becomes more problematic when deployed in the real world. People are outraged about the price of burgers or their rent surging but don’t think twice when it happens to the cost of their commute — particularly when they are booking it on an app.

I suspect some of this is down to our expectation that we will all be treated equally — or at least pay set prices in a fair market — when we walk into a physical business. Historically, that assumption has been fairly well policed by regulators. When you walk into a retail store in the real world, you can’t be charged a different price or shown different offerings or advertising because of your income or the colour of your skin.

In the online world, however, such discrimination is rife, not only by large platforms but any number of companies. As data has become the oil of the digital economy, we’ve all become surveillance capitalists.

Regulators are beginning to take on the messy world of algorithmic pricing. The FTC, for example, has alleged in a recent case against Amazon that the online retailer earned $1bn from the use of a secret pricing algorithm that kept markets in various products artificially high. Amazon calls this a gross mischaracterization and says it stopped using the tool years ago. Whoever is in the right, such efforts take years to litigate. And in some ways, I think we have entered a period of fatigue around tech regulation that reflects years of incremental gains that have not really succeeded in bringing more transparency into digital markets as a whole.

Maybe Europe’s Digital Markets Act, which went into effect last week, will begin to change that. Certainly it has already led to some behavioural changes on the part of the platform giants, as they are forced to give users more control over their data and open up their platforms more to competitors.

But I suspect that even more change — and more demands for tougher, clearer cut regulation — will come as online business models make their way into old-fashioned businesses where people are simply accustomed to much clearer rules. As consumers become more aware of how the tricks of surveillance capitalism are being used in businesses that they first used in the physical world, it may draw attention to the need for clear, straightforward rules — apply- ing the existing laws of the physical world to online customer protection.

I'd love to see the FTC, for example, use its rulemaking power to stipulate a "thou shalt not discriminate" statue that makes it illegal to charge people dif- ferent prices for different goods, no mat- ter how and where they are buying them. What's illegal in the physical world should also be illegal in the online world. This would put the onus on com- panies to prove that they are not causing harm, rather than forcing regulators to create a distinct and more complex sys- tem for a particular industry.

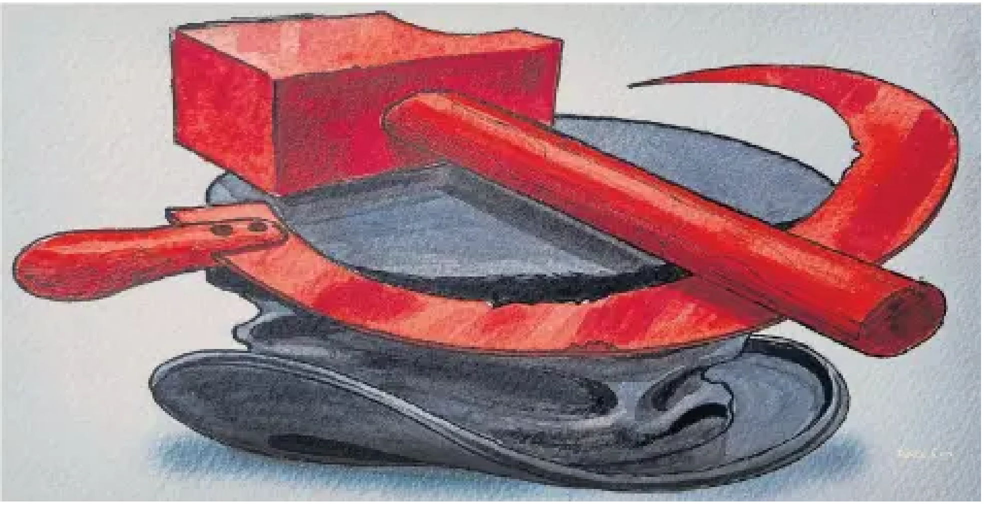
Online or offline, all businesses should be playing by the same rules.

The future of ‘communist capitalism’

The question of whether Xi-ism is killing Deng-ism is growing in China

Financial Times Asia
13 Mar 2024
Martin Wolf martin.wolf@ft.com

What is the economic future of China? This question raises many specific issues, notably China’s persistent macroeconomic imbalances, the threat of population decline and worsening relations with important parts of the outside world, above all, an increasingly hostile US. But underneath all of these lies a deeper one: is “communist capitalism”, that seemingly self-contradicting invention of Deng Xiaoping, inexorably fading away under Xi Jinping? Will China’s regime ossify and, in the end, collapse, as the Soviet Union did?



I addressed some of these issues in a series of columns published last year. Last week, shortly after returning from my first week-long visit to Beijing and Shanghai since 2019, I re-examined China’s structural macroeconomic challenges and raised concerns about the possible re-emergence of destabilising global imbalances. This week, I intend to address that far bigger one: is Xi-ism killing Deng-ism? A number of informed people I met were extremely gloomy, especially about prospects for the private sector. But will such problems ultimately be solved, or not?

Much light on this issue is shed by China’s World View, a recently published book by David Daokui Li, a distinguished Harvard-trained professor of economics, who teaches at Tsinghua University. People interested in China, be they hawks or doves, should read Li’s valuable book carefully.

Perhaps its most startling observation is that “from 980 until 1840, the beginning of China’s modern history”, income per head declined. Ancient China was in a Malthusian trap. This picture is even worse than the one shown in the work of the late Angus Maddison. Even after 1840, this grim reality did not get much brighter. Only after Deng Xiaoping’s “reform and opening up” did it change. (See charts.)

By freeing the private economy, relying on market forces and opening up to the world economy, Deng created the conditions for an extraordinary transformation. Yet, by repressing demands for democracy in Tiananmen Square in 1989, he also reinforced communist party control. He invented a new political economy: today's China is the result.

Is it also sustainable? Li's book answers a clear "yes" to this question. In essence, he argues that China's political system should be viewed not as Soviet, but as a modernised form of the traditional Chinese imperial state. This state is paternal. It is responsible for the people, but not accountable to them, except in one fundamental way: if it loses mass support, it will be overthrown. Its job is to provide stability and prosperity. But, in doing so, it does not try to run everything from the centre: it decentralises to local levels. The communist party should, he argues, be seen fundamentally as the national party of China.

From this perspective, the Xi regime does not represent an abandonment of the goals of the Deng era, but rather an attempt to remedy some of the problems created by its reliance on "go-go" capitalism, namely, pervasive corruption, soaring inequality and environmental damage. Problems also include criticism by the new plutocrats, notably Jack Ma of Alibaba, of protected areas of policy and politics. China's authorities are as concerned about the platform monopolies and instability of finance, as western ones. Above all, argues Li, economic development remains a fundamental goal. It is just that there are oth ers now, too, notably strengthening party control, social welfare, cultural development and protecting the environment.

The Deng era did indeed bequeath many challenges. Some of the blame for this lay with the relative passivity of the Hu Jintao and Wen Jiabao era. But much of it lies with the inherent tendency towards corruption of a market economy dependent on administrative discretion. Yet Xi's tendency to centralise decision-making has not obviously improved matters. It risks creating paralysis or overreaction: failure to shift fast enough from reliance on real estate is an example of the former; failure to relax Covid lockdowns in time is an example of the latter. Management of a politically-driven economy with multiple goals is just more difficult than of one with the single goal of growth. Xi's assertive policies have also worsened relations with western policymakers.

It is quite possible, then, to see what is going on as largely an attempt to tackle the difficult legacies of the Deng era in what is also a far more complex world environment. It is also possible to argue that Xi's reassertion of party control is perfectly rational. The alternative of moving towards an independent legal system, with entrenched property rights, and a more democratic political system was far too risky. In a country of China's size, it could have created chaos. Xi's conservative alternative must look far safer even if it might kill the economic goose that has been laying those golden eggs. But it looks vastly safer.

When considering the prospects for China, one should not focus mainly on the list of obvious problems — falling property prices, excessive debt, excess savings, an ageing population and western hostility. All these can be dealt with by a country with China's human resources and growth potential.

The bigger issue is whether, in the centralising, cautious and conservative era of Xi, Deng's move from stagnation to explosive growth is doomed to reverse back into stagnation. If people come to believe that the dynamism of the recent past has been lost for good, then there is a risk of a downward spiral of disappointed hopes. But the force of 1.4bn people wanting a better life is extremely powerful. Will anything be allowed to halt it? The answer, I suspect, is still "no".