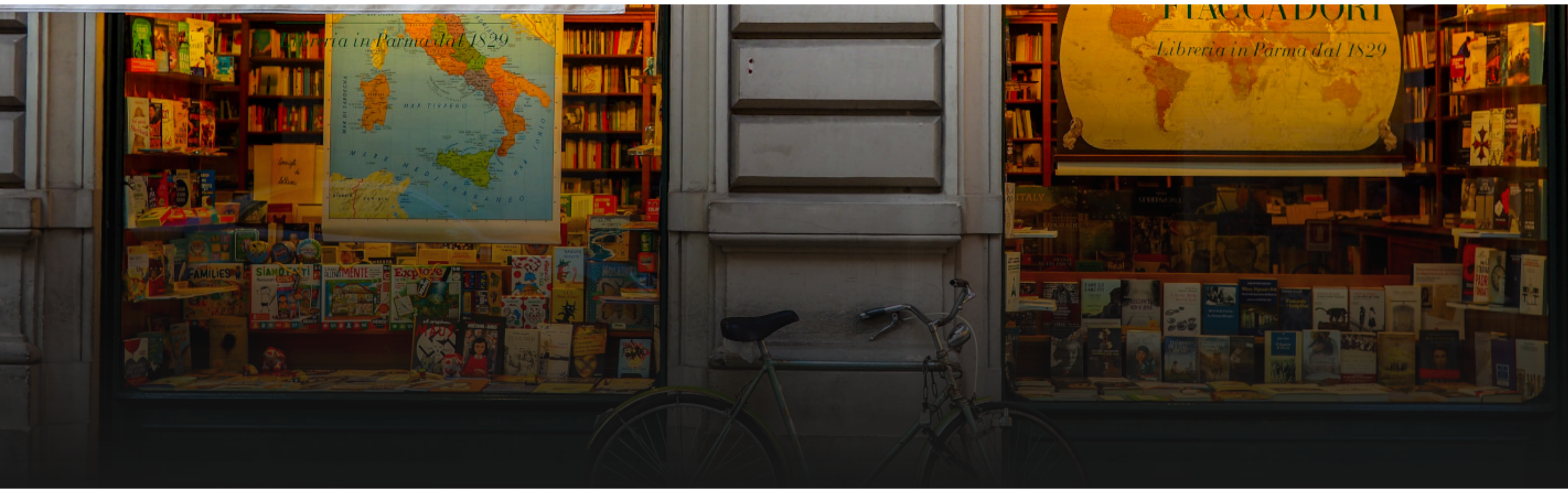

Christos Genakos Lorien Sabatino Tommaso Valletti May 26th, 2025

Cultural exception? Why regulating the book market contradicts conventional wisdom about competition

Fixing retail book prices is a common policy in Europe, but how does preventing competition affect booksellers and buyers? **Christos Genakos, Lorien Sabatino** *and* **Tommaso Valletti** *find that when the ability to offer customers lower prices is restricted, sellers shift towards competing on customer service and book variety – improving buyers' experience.*

Books are unique cultural goods, often considered to provide societal benefits beyond their commercial value. Governments worldwide intervene in book markets through various means, including tax reliefs, subsidies and price regulations.

One of the most common, and controversial, interventions is the fixed book price (FBP) regulation. This is a policy that restricts retailers from setting their own book prices, instead allowing publishers to fix the price of books. The regulation aims to ensure the sustainability of independent bookstores, promote cultural diversity and support small publishers.

The core argument in favour of fixing retail book prices is that it ensures booksellers earn a guaranteed margin on bestsellers, allowing them to produce and promote a more diverse range of books rather than focusing solely on commercially successful titles. In theory, this supports smaller publishers and independent bookstores, countering competition from large retailers and e-commerce giants like Amazon. But, by preventing price competition, fixed book price regulations may also lead to higher prices, reducing book sales and potentially limiting access to literature.

The fixed book price regulation is a particularly common policy in Europe, formally exempted from EU competition rules under the principle that books are "objects of culture". Moreover, this regulation is also present in Argentina, Japan, Mexico and South Korea, while it's currently being debated in Australia. But, despite its popularity, empirical evidence on its effects is lacking.

The Levi Law in Italy

In a recent CEP discussion paper, we investigate the impact of the 2011 Italian fixed book price regulation (the Levi Law) on book prices and variety. The Levi Law, which was introduced in September 2011, capped the maximum discount retailers could offer on books at 15 per cent. Our dataset includes monthly data from 2009 to 2014, covering all the book titles published and sold, their recommended cover prices set by publishers, the discounts offered by retailers and their sales across different retail channels (independent bookstores vs chain bookstores and e-commerce).

The key challenge in assessing the impact of the law is the lack of a control group, since the policy applied nationwide. To overcome this, we use Switzerland – where Italian is an official language and no fixed book price regulation was in place – as a comparative case. Using a difference-in-differences approach, we compare book prices and variety in Italy and Switzerland before and after the policy change.

The analysis indicates the law increased book prices overall, but with significant differences across retailers. Independent bookstores raised their prices significantly (+7.8 per cent), while large chain bookstores and e-commerce saw little to no price change (-0.6 per cent).

Publishers did not change the recommended cover price, meaning all price effects resulted from changes in retailer discounts. Before the Levi Law, independent bookstores offered fewer discounts than chain bookstores. After the law came into force, their discounting decreased even further, making books more expensive. Meanwhile, chain bookstores continued to offer some discounts within the legal limit.

The Levi Law had no effect on the number of new books published, contradicting the argument that it would boost book production. But it had a significant effect on the variety of books sold. The number of book titles actually bought increased, particularly in independent bookstores. Many books that previously had zero or very low sales started being sold and sales became less concentrated on bestsellers, with more books reaching readers. Thus, while the regulation did not lead to more books being published, it influenced purchasing patterns, broadening the selection of books consumers purchased.

Do consumers benefit?

To assess how a fixed book price regulation affects consumers, we consider two opposing effects. First, there is a potential (negative) “substitution effect”, where higher prices reduce demand, harming consumers. Second, there is a (positive) “effort effect”, where with price competition reduced, independent bookstores invest relative more in customer service, book recommendations, and events, increasing demand.

Our estimated model finds that in the case of the Levi Law in Italy, the substitution effect reduced consumer welfare by €39 million in the two years after the policy was implemented. However, the effort effect increased consumer welfare by €116 million, as bookstores competed on non-price dimensions. Hence, the overall net effect was that consumers gained €77 million from the policy. This suggests that although the Levi Law raised prices, it induced competition in service quality – such as personalised book recommendations and in-store events – making the book-buying experience more valuable for readers.

We also looked at employment effects, finding that the Levi Law led to higher employment in very small bookstores (with between two and five employees), indicating increased demand for service-oriented roles. And, using Google Reviews data from over 2,250 bookstores, we found that independent bookstores received higher ratings, with positive sentiment toward staff assistance, book discovery and events. Finally, using Machine Learning techniques on the posted reviews and sentiment analysis we confirmed that independent bookstores outperformed chain stores in non-price dimensions, supporting the "effort effect" hypothesis.

Cultural goods and consumer products

The introduction of a fixed book price regulation in Italy raised book prices, particularly in independent bookstores. But it also increased the variety of books bought and shifted competition toward non-price factors, benefiting consumers. Our work highlights a key trade-off between price competition and service quality, offering broader insights into how regulation affects cultural markets.

By documenting a real-world case with rigorous empirical evidence, we contribute to the ongoing debate about whether cultural goods should be regulated differently from other consumer products. The findings suggest that while fixed book price policies may reduce price competition, they can still enhance overall consumer welfare if they prompt competition in other areas.

While a fixed book price regulation removes price competition, it shifts focus toward competition in customer service, book variety and experience. In markets with many small retailers, like books, restricting price competition may not always harm consumers, as service-based competition emerges.

In contrast, in concentrated markets, price-fixing may simply mean customers paying more without offsetting benefits. Our findings suggest that price regulation might work differently for cultural products where consumer experience and variety matter. This could be relevant not only for books but also for movie theatres, music and digital platforms.

This blog post is based on the Centre for Economic Performance discussion paper Cultural Exception? The Impact of Price Regulation on Prices and Variety in the Market for Books. The

paper is dedicated to the loving memory of Mario Pagliero.

Note: This article gives the views of the authors, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: Giovidigesu / Shutterstock.com

---

About the author

Christos Genakos

Christos Genakos is a Professor of Economics at Cambridge Judge Business School, University of Cambridge, a CEPR fellow and an Associate in the Centre for Economic Performance's growth programme.

Lorien Sabatino

Lorien Sabatino is an Assistant Professor at the Polytechnic University of Turin.

Tommaso Valletti

Tommaso Valletti is a Professor of Economics at Imperial College London, an Adjunct Professor at the Norwegian School of Economics and a CEPR fellow.

Posted In: Latest Research | LSE Comment | Politics