

Vulnerable consumers and public services – can competition and switching reduce inequalities?

*Widespread regulatory reforms across European countries have tried to increase consumer welfare by introducing competition and choice into public service markets. Here, **Marcos Fernández-Gutiérrez, Sebastian Jilke and Oliver James** present evidence that suggests to reduce inequalities between users, regulation could focus more on the demand-side of the equation.*

In recent decades, regulatory changes have in many cases transformed public infrastructure services: those such as electricity, gas, telecommunications and transport. Market-oriented reforms of these services were supposed to promote the consumer interest. It [was argued](#) that if consumers can actively choose among competing offers, the dynamics of competitive markets would create incentives for providers to deliver better value for money. However, empirical evaluations have questioned whether market-oriented reforms have led to such beneficial results. [Research](#) has highlighted the particular difficulties experienced in these markets by disadvantaged groups of consumers (those so-called “*vulnerable consumers*”), suggesting that they are locked-in to poorly performing providers, paying higher prices and/or getting worse services.

Our [analysis](#) assesses the consequences of market competition for vulnerable consumers. We focus on whether (and how) potential differences in electricity and fixed telephony affordability between vulnerable consumers and their better-equipped counterparts are affected by the level of competition in these markets. We focused on fixed telephony and electricity as these are two essential services broadly used both before and after reforms, but, at the same time, which experience varying degrees of marketization across Europe.

We use two distinct indicators of competition: *competitive market structure* (the supply-side of competition) and *competitive market functioning* (consumers’ frequency of switching at the national level, or the demand-side of competition). Both indicators of competition are important because a competitive market structure is a necessary precondition for competitive market functioning in terms of switching, but it does not ensure it. Therefore, we need to separate the elements of competition from each other.

A valuable indicator of vulnerability in markets is offered by consumers’ educational attainment. We examined the relationship between the two indicators of competition and differences in services’ affordability evaluations between better and less-educated consumers, whilst looking at consumers’ subjective affordability of the services. We ran our analysis on a dataset containing the EU-25 countries (so not Romania or Bulgaria), and we took into account a host of socioeconomic and country-level characteristics.

Using these models, we first find that there is an *affordability gap* between the less-educated consumers and their better-educated counterparts within both service sectors. In other words, vulnerable consumers are more likely to perceive their services as not being affordable to them.

In a next step, we tested whether the competitive structure of national markets affects the size of this affordability gap. In other words, whether disparities between vulnerable consumers and the better-off counterparts increase when competition and choice increase as well. We found that a country’s competitive market structure (the supply-side of competition) is *not* related to the affordability – neither in the fixed telephony, nor in the electricity sector. However, where competition is translated into a higher frequency of switching across service providers (competitive market functioning), inequalities are smaller and can disappear.

This means that our findings suggest that vulnerable consumers with low educational attainment experience lower

levels of affordability of fixed telephony and electricity services than their better educated counterparts, but this gap is not affected by the market competitive structure. In other words, effective choice, but not market competition *per se*, can reduce inequalities in personal affordability. These results suggest that successful *demand-side regulation* in boosting consumer switching in public infrastructure services has the potential to reduce inequalities.

This means that the value of choice may not come from increasing the number of alternatives or the competitive market structure, but by enabling and stimulating active consumer behaviour. This evidence supports the shift in the orientation of regulatory policies towards the demand-side, and suggests that regulatory policies designed to empower consumers (e.g., by improving their access to information and reducing switching costs) may be further explored as tools for spreading the potential benefits of competition. Regulation can help, to an extent, reconcile markets with the objectives of equality of opportunities and social cohesion. More empirical analysis of public infrastructure and similar services from the consumer perspective is important for informing the design and implementation of regulatory policies. Future research should further assess the direction of causality in the relation between the percentage of switchers and perceived affordability, as well as the impact of temporal market competitive dynamics on other dimensions of service provision as accessibility alone.

This study was part of the [research project](#) “*Coordinating for Cohesion in the Public Sector of the Future*” (COCOPS), funded under the EU Seventh Framework Programme. An article with more about the theoretical framework, methodology, results and conclusions of the study has recently [been published](#) as ‘*Competition and switching in public service markets: Can they reduce inequalities?*’ in Regulation & Governance.

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