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Betting on the wrong horse

Voluntary price caps mask a long-term failure to fix today's affordability crisis; the real issue is access, not checkout prices

Governments around the world are struggling to devise a sensible approach to managing inflation and disruptions to production and the supply of basic goods. The UK Treasury, for example, has just issued a proposal to encourage supermarkets to cap prices on essentials (such as bread and milk) in exchange for loosened packaging and environmental regulations.

At first glance, the policy appears pragmatic and compassionate. But look beneath the surface and you will find an unwillingness to confront the structural drivers of rising costs. Instead of intervening in the markets, the Treasury is negotiating with them, revealing its failure to appreciate the scale of the affordability crisis it faces. The problem lies not just in expensive bread and milk, but in a systemic, long-term failure to address stagnant wages, high housing costs and expensive essential services.

When policies backfire

Worse, while publicly 'picking a fight' over the cost of basic goods may appear responsive, it runs the risk of backfiring. What will the government do if retailers simply resist, delay or comply selectively? The policy will produce no results, and the state's credibility will be further weakened.

Recent European experience highlights the danger. In 2023, the French government negotiated a 'basket of anti-inflation products', whereby supermarkets were free to select a limited set of goods to be sold at reduced prices for a defined period. While politically visible, the scheme relied on voluntary participation, covered only a small share of products, varied across retailers, and had a limited and short-lived impact on overall food-price dynamics. Such schemes may lower prices on selected items, but they allow retailers to adjust margins elsewhere.

Similarly, in 2022, Greece introduced a 'household-basket' initiative that encouraged supermarkets to keep selected staples affordable and regularly report on prices to signal their responsiveness. Again, the programme generated short-term visibility and some price moderation on specific items, but it did not substantially alter underlying profit margins or broader inflation dynamics.

The focus on retail is especially misplaced in the United Kingdom, where exceptionally high housing and utility costs are absorbing a growing share of household income.

More interventionist approaches have also run into problems. When Hungary imposed direct price caps on selected food items in 2022–23 – shifting from voluntary coordination to mandatory controls – retailers responded by raising prices on non-capped goods, leading to supply distortions and periodic shortages. Spain, by contrast, temporarily reduced its value-added tax on staple foods, which eased consumer prices at the margin; but since the scheme depended on savings being passed through multiple links in the supply chain, the overall results were neither uniform nor transformative.

Despite their differences, these cases reflect a common model that proved inadequate. Whether voluntary, coercive or indirect, governments relied on retailer-led interventions targeting a narrow range of goods at the point of sale. These schemes may increase visibility, but they leave market structures unchanged; price caps risk encouraging evasion and supply disruptions; and indirect measures such as tax cuts depend on firm behaviour to transmit savings. In none of these cases did the policy alter underlying cost structures, profit dynamics or distributional patterns.

The focus on retail is especially misplaced in the United Kingdom, where exceptionally high housing and utility costs are absorbing a growing share of household income and sharply reducing what remains for essential consumption. By targeting supermarket prices alone, the government is misdiagnosing the problem and missing an opportunity to tackle the real causes of the affordability crisis.

Such interventions reflect a persistent bias in how governments respond to inflation. Policymakers' instinct is to act on prices at the end of the supply chain, rather than on the conditions that shape them. Yet food-price inflation is often driven by energy costs, agricultural inputs, labour conditions, global commodity markets and corporate pricing strategies.

A question of access

The affordability crisis is not simply about retail prices. It stems from the relationship between prices, incomes and the broader organisation of social provisioning. What matters is not whether the price of bread is marginally lower at the checkout counter, but whether households have the means to obtain essential goods reliably. The question is not how to cap prices, but how to secure access.

Mexico's *canasta básica* ('basic basket') programme is instructive here. Rather than narrowly targeting supermarket prices, it defines a basket of essential goods and seeks to ensure their affordability through a combination of instruments: income support, minimum-wage policies, coordination with producers and retailers, and selective price stabilisation. Though it still partly relies on agreements with firms, it does so within a broader social-policy framework.

Similarly, Brazil has focused less on capping retail prices for a basic food basket and more on shaping access through income and fiscal-transfer policies, public procurement and supply coordination, and direct food provision.

In each case, affordability is ensured not only through prices but through the institutional organisation of access to essential goods. Crucially, these strategies recognise that affordability is shaped as much by purchasing power as by prices themselves. The takeaway – for developed and developing countries alike – is that the state should intervene via income, provisioning and production channels, rather than at the point of sale.

In the UK's case, this would require moving beyond voluntary price caps toward a coordinated strategy that addresses the structural squeeze on household budgets. That means strengthening income support for low- and middle-income households, reducing the burden of housing and utility costs and engaging upstream suppliers across the food system to stabilise key inputs. Rather than negotiating marginal price reductions with retailers, the state would define essential needs and deploy policy tools across the relevant sectors to ensure that they are met.

Such a change would alleviate immediate pressures while building a more resilient and equitable system for the provision of basic goods. Without it, policies like voluntary price caps offer only the illusion of control and risk reproducing the very dynamics that generate vulnerability, corporate concentration, weak regulation and disappointing outcomes.

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