Benefits of competition policy for the national economy

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2016
Benefits of competition policy for the national economy

• **Aggregate economic benefits:**
  – Short-term for consumers, and other buyers including the public sector
  – Longer term: innovation and growth

• **Distributional benefits**
  – Inequality
  – Poverty reduction
  – Employment
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  - Employment
- **Social benefits**
  - Fighting corruption
• On average 1990 – 2013, discovered international cartels affected US$750bn commerce per year, overcharge 40% (Connor, 2014)
• Just one international cartel on vitamins 1990-1999 resulted in overcharges to importing countries of US$2700m
• Dominican Republic was overcharged US$3m, on imports of US$8m.

*Source: Estimates from Clarke and Evenett 2002*
Consumer benefits

Cheaper public procurement

Winning bids for one pharmaceutical product, IMSS Mexico

Collusion between bidders

IMSS consolidates purchases, attracts new bidder

Other bidders adjust, start competing

This single change (following OECD recommendations) saved an estimated EUR 250m. Overall, IMSS estimated savings at EUR 700m/year
Consumer benefits
...from reduced regulatory barriers

<table>
<thead>
<tr>
<th>Issue</th>
<th>Annual Benefit</th>
<th>Number of provisions affected</th>
<th>Value, €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Fresh&quot; milk</td>
<td>€33m (consumer benefit/year)</td>
<td>2</td>
<td>33</td>
</tr>
<tr>
<td>Levy on flour</td>
<td>€8m-11m (value of levy/year)</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Sunday trading</td>
<td>€2.5bn (annual expenditure), plus 30,000 new jobs</td>
<td>3</td>
<td>2 500</td>
</tr>
<tr>
<td>Sales and discounts</td>
<td>€740m (annual turnover)</td>
<td>9</td>
<td>740</td>
</tr>
<tr>
<td>Over the Counter pharmaceuticals</td>
<td>€102m (consumer benefit/year)</td>
<td>23</td>
<td>102</td>
</tr>
<tr>
<td>Marinas</td>
<td>€2.3m (annual turnover)</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Cruise business</td>
<td>€65m (annual turnover)</td>
<td>4</td>
<td>65</td>
</tr>
<tr>
<td>Advertising</td>
<td>€1.8b (consumer benefit/year)</td>
<td>14</td>
<td>1 800</td>
</tr>
<tr>
<td>Everything else</td>
<td>???</td>
<td>263</td>
<td>???</td>
</tr>
</tbody>
</table>

OECD review of 4 sectors in Greece Total: €5.2bn + ???
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Productivity and growth

Mechanisms

- Competition Agencies
  - Enforce competition law

- Other policy-makers
  - Advocacy
  - Deregulate Liberalise Free trade

More competition in markets

- Entry and exit
- Managerial incentives
- Innovation

Higher productivity growth in affected industries

Economic growth
Productivity and growth
Economic studies: UK, South Africa

• “The most competitive firms experienced productivity growth rates 3.8 - 4.6 percentage points higher than the least competitive.”

Nickell, Quarterly Journal of Economics 1996

• More competition could increase productivity growth in South Africa by 2 – 2.5 percentage points per year

Productivity and growth
Economic studies: Asia

• **Japan**: Over a 50-year period, cartels almost never found in successful exporting industries, even though they were prevalent in the rest of the economy.  
  
  *Porter, Takeuchi, and Sakakibara (2000)*

• **India** can rapidly increase productivity by putting pressure on its long ‘tail’ of inefficient firms

Source: *Hsieh and Klenow (2009)*,
Productivity and growth
Regulatory barriers hold back growth

Increase in multi-factor productivity compared to regulatory stance

Productivity and growth
...in developing countries too

Increase in multi-factor productivity compared to regulatory stance

Source: OECD, using Indian National Accounts statistics
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Monopolies create inequality

• Cartels and monopoly:
  – Raise prices for everyone; and
  – Increase income for holders of financial wealth

OECD researchers are analysing country-by-country data to quantify this effect
Distributional outcomes

The poor suffer most from price-fixing
Distributional outcomes

Competitive markets create jobs

• Long term: clearly more competitive economies are more dynamic, creating more jobs

• Liberalisation can create jobs:
  – More competition from European Single Market reduces profits 3%, reduce unemployment 0.5%. *Griffith et al Economic Journal 2007:
  – Regulatory restrictions reduced retail employment in France by 10% *NBER Working Paper No. 8211

• But of course there can also be short-term job losses as inefficient businesses close
OECD “Factsheet” on effects of increasing competition
Thank you for your attention