Pro-competitive Policy-making

Presentation to CCM conference | 10.10.2019

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Why competition?

COMPETITION CAN IMPROVE THE LONG-TERM GROWTH PATH

ECONOMIC STUDIES CONFIRM COMPETITION > GROWTH LINK

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United Kingdom: “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

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

Aghion, Review of Economics and Statistics, 2009

THIS FINDING APPLIES TO ASIAN ECONOMIES TOO

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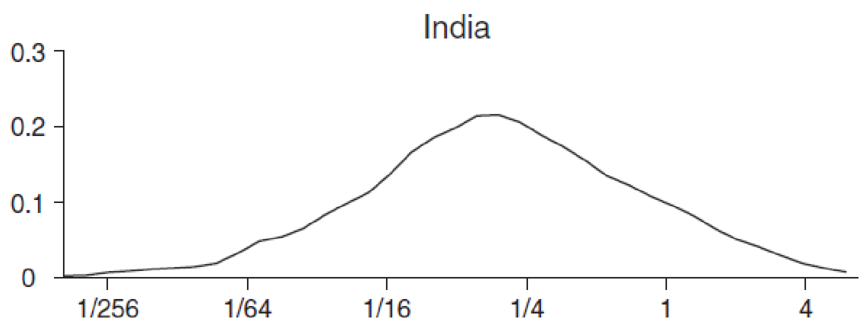
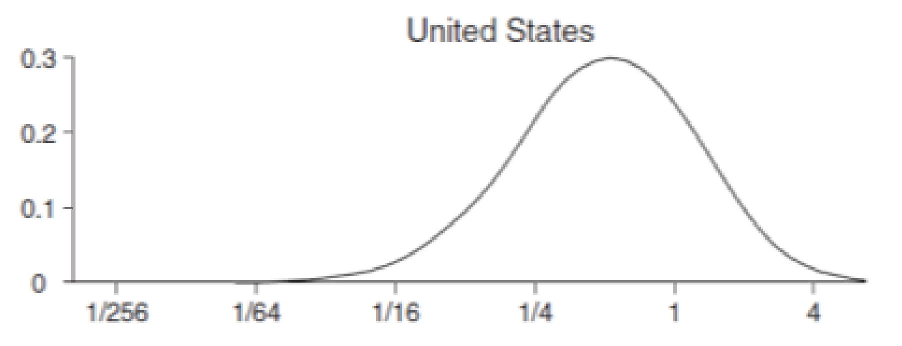
Japan: Over a 50-year period, cartels almost never found in successful exporting industries, even though they were prevalent in the rest of the economy.

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),

ANTI-COMPETITIVE REGULATION CAN HARM GROWTH

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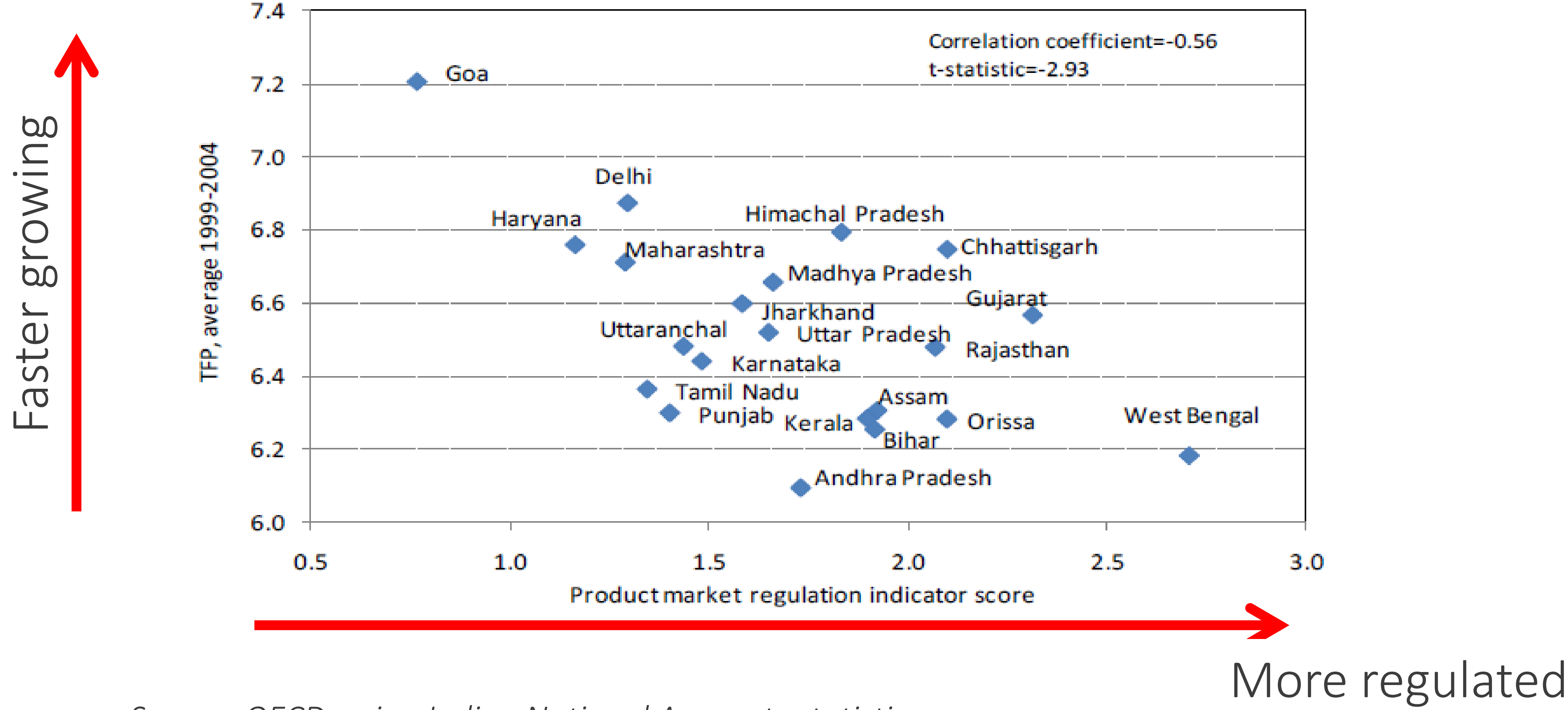
Increase in multi-factor productivity compared to regulatory stance



Source: OECD, using Indian National Accounts statistics

ANTI-COMPETITIVE POLICIES CAN DESTROY JOBS

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

Pro-competitive policy reform 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

BETTER POLITICS FROM REDUCED STATE CONTROL

Businesses seeking protection from competition can corrupt politics

Some examples of pro-competitive policy reform

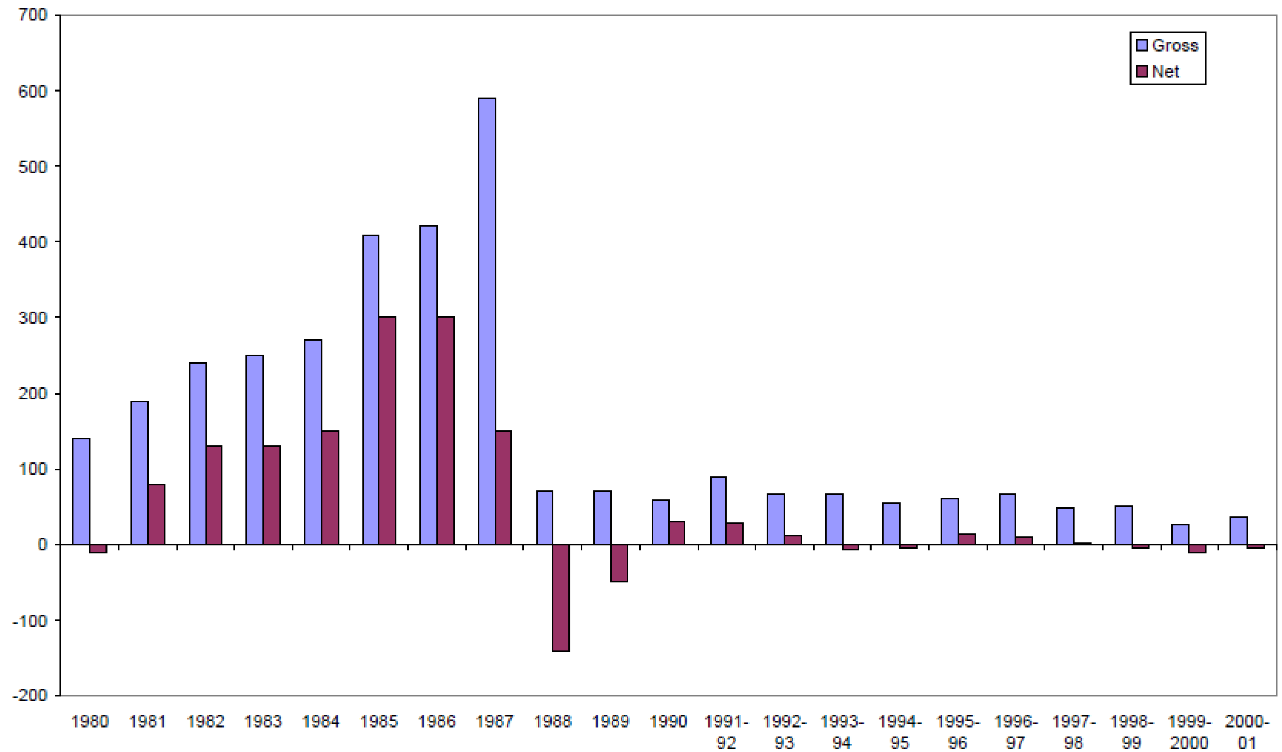
EXAMPLE: PHARMACIES

COMPETITION ASSESSMENT IN PHARMACIES

- Under the control of entry regulations, any pharmacy in the UK wishing to obtain an NHS contract to dispense NHS prescriptions had to show it was either ‘necessary’ or ‘desirable’ to grant the application to secure the adequate provision of pharmaceutical services in a particular neighbourhood.

- UK competition authority carried out a ‘market study’

Pharmacy new openings 1980 – 2000, England & Wales



Source: OFT

COMPETITION ASSESSMENT IN PHARMACIES

Costs of the regulation:

- Higher prices because consumers do not all have access to low-priced pharmacies (eg supermarkets)
  - *Area-by-area economic study assessed likely scale of purchases that could go to supermarkets but were constrained, multiplied by supermarket-pharmacy price difference: £5m per year*
- Higher prices as a result of weak competition
  - *Area-by-area assessment of convergence towards lowest prices: £25m per year*
- Lower quality of service – eg shorter opening hours, home delivery
  - *Studied relationship between number of pharmacies in an area and service quality*
- Plus £26m in annual administration costs

Benefits of the regulation?

Originally introduced to control costs to public health service from too many small inefficient pharmacies - but remuneration system had changed, so no longer relevant!

UK Government abolished the regulation, on competition authority advice

…BUT REGULATION (OFTEN) HAS A LEGITIMATE PURPOSE TOO

Dilemma: all sorts of policies prevent, restrict or distort competition!

Prevents

Restricts

Distorts

IDEALLY, USE COMPETITION IN DELIVERING PUBLIC SERVICES

- Industries with a Universal Service Obligation (such as postal services)
- Often have a legal monopoly over potentially competitive activities (eg bulk, urban mail), to fund deliveries to remote locations

- Auction a franchise for this service awarding the contract to the lowest bidder for subsidy?
- Similar to airline services to remote locations

DIRECT BENEFITS OF PRO-COMPETITIVE REFORM

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

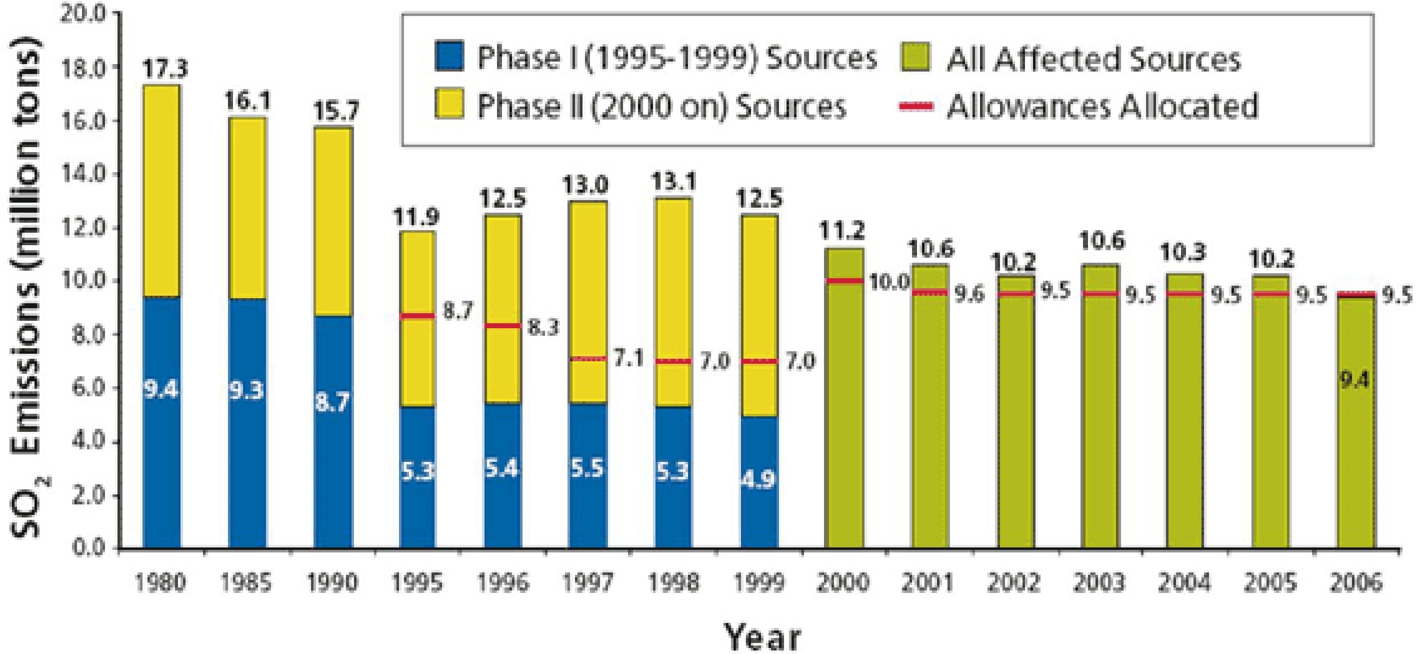
OECD review of 4 sectors in Greece

Total: €5.2bn + ???

If this is so great, why is it so hard to get it done?

WHY IS IT HARD TO REFORM?
1. CHANGE OF MINDSET

Often policymakers simply do not think of market-based mechanisms



Source: EPA, 2007

US SO2 emissions reductions from 1995 onward, between 40% and 66% cheaper than would have been the case without permit trading

WHY IS IT HARD TO REFORM?
2. PRODUCER INTERESTS

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Obviously, ‘money talks’

But smaller existing producers can also be an effective political lobby (eg shopkeepers)

…and employees of affected businesses might speak out too.

WHY IS IT SO HARD TO REFORM?
3. POLITICAL BENEFICIARIES

Overall, competition normally benefits consumers, BUT

- Sometimes Governments subsidise prices for ALL consumers – from taxation or other sources
- Some group of consumers might be cross-subsidised by other consumers – and competition exposes and eliminates this benefit

A policy providing a large benefit to a few people is often more politically influential than one providing a small benefit to many people

Thank you

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