



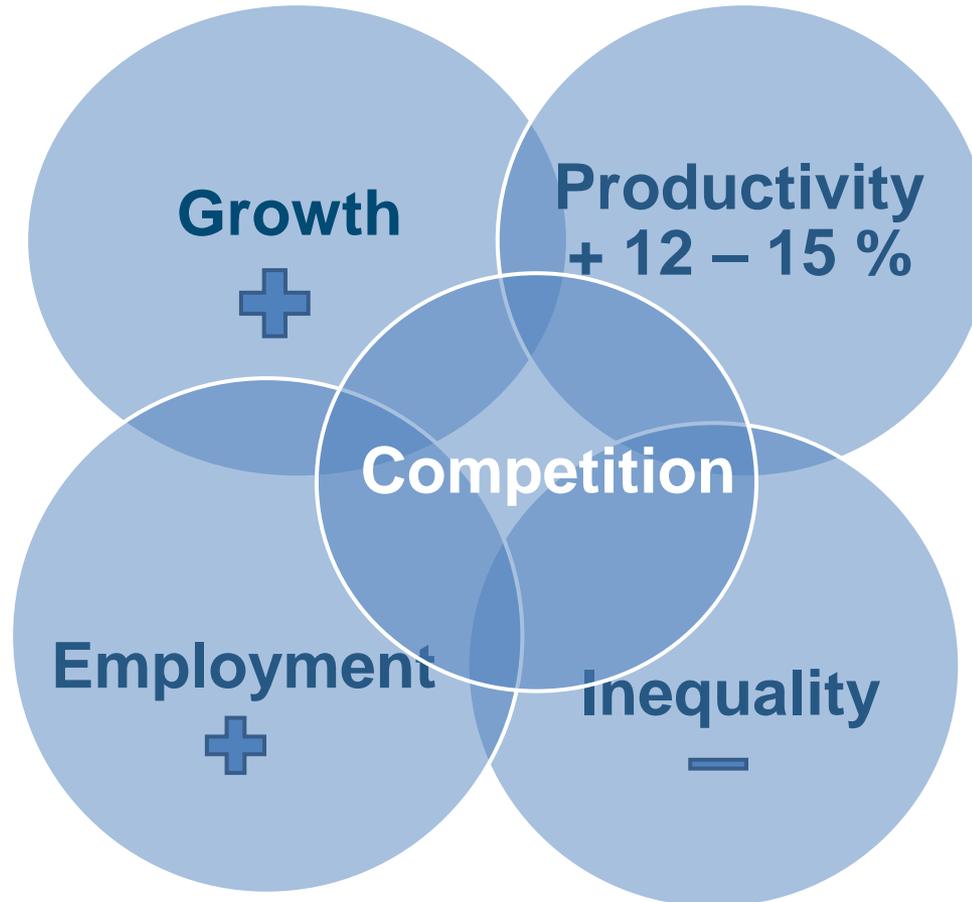
# Benefits of Competition Policy for a National Economy

Antonio Capobianco  
Senior Competition Law Expert  
Competition Division, OECD  
[Antonio.Capobianco@oecd.org](mailto:Antonio.Capobianco@oecd.org)

CNESE – 4 November 2021



# Why We Care About Competition?



Source: OECD 2014



# Benefits of competition policy for the national economy

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- Aggregate economic benefits:
  - Short-term for consumers, and other buyers including public sector
  - Longer term: innovation and growth
- Distributional benefits
  - Inequality
  - Poverty reduction
  - Employment
- Social benefits
  - Fighting corruption



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# Consumer benefits

## Harm from Cartels

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- 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

*Source: Estimates from Clarke and Evenett 2002*



# Consumer benefits

## Prices for consumers rump up

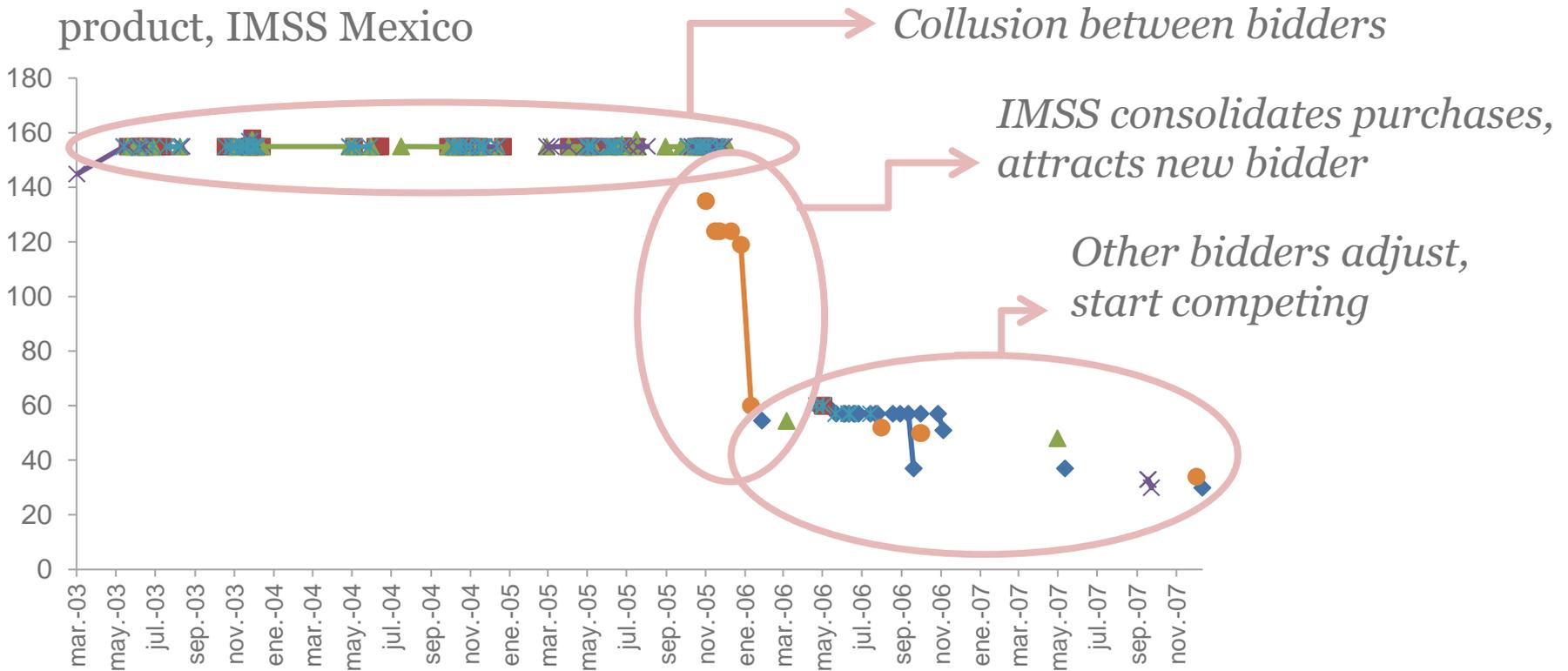
Reference	Number of Cartels	Mean Overcharge (percent)	Median Overcharge (percent)
Cohen and Scheffman (1989)	5-7	7.7-10.8	7.8-14.0
Werden (2003)	13	21	18
Posner (2001)	12	49	38
Levenstein and Suslow (2002)	22	43	44.5
Griffin (1989)	38	46	44
OECD (2003), excluding peaks	12	15.75	12.75
<b>Weighted average</b>	<b>102-104</b>	<b>36.7</b>	<b>34.6</b>



# Consumer benefits

## Cheaper public procurement

Winning bids for one pharmaceutical product, IMSS Mexico



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

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
<i>Everything else</i>	???	263	???

*OECD review of 4 sectors in Greece* **Total: €5.2bn + ???**



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# Productivity and growth

## Mechanisms





# Productivity and growth

## Economic studies: UK, South Africa

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- “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

*Aghion, Review of Economics and Statistics, 2009*



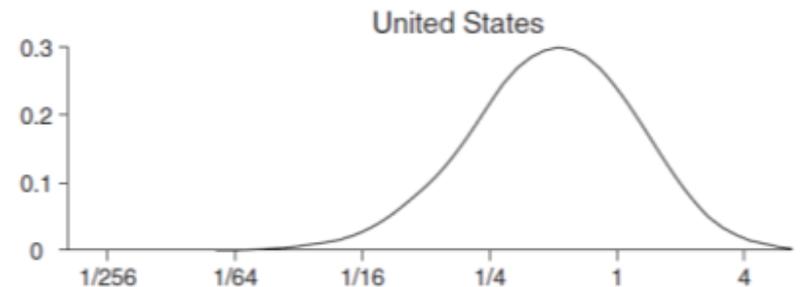
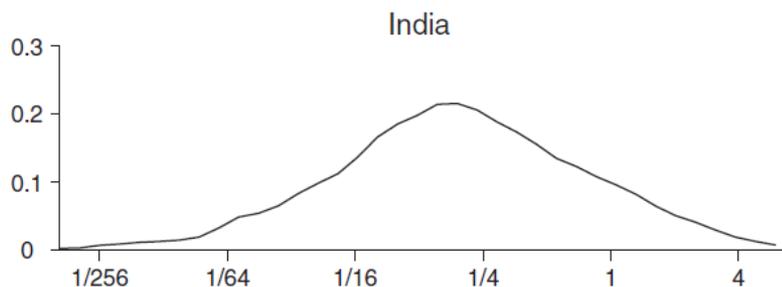
# Productivity and growth

## 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



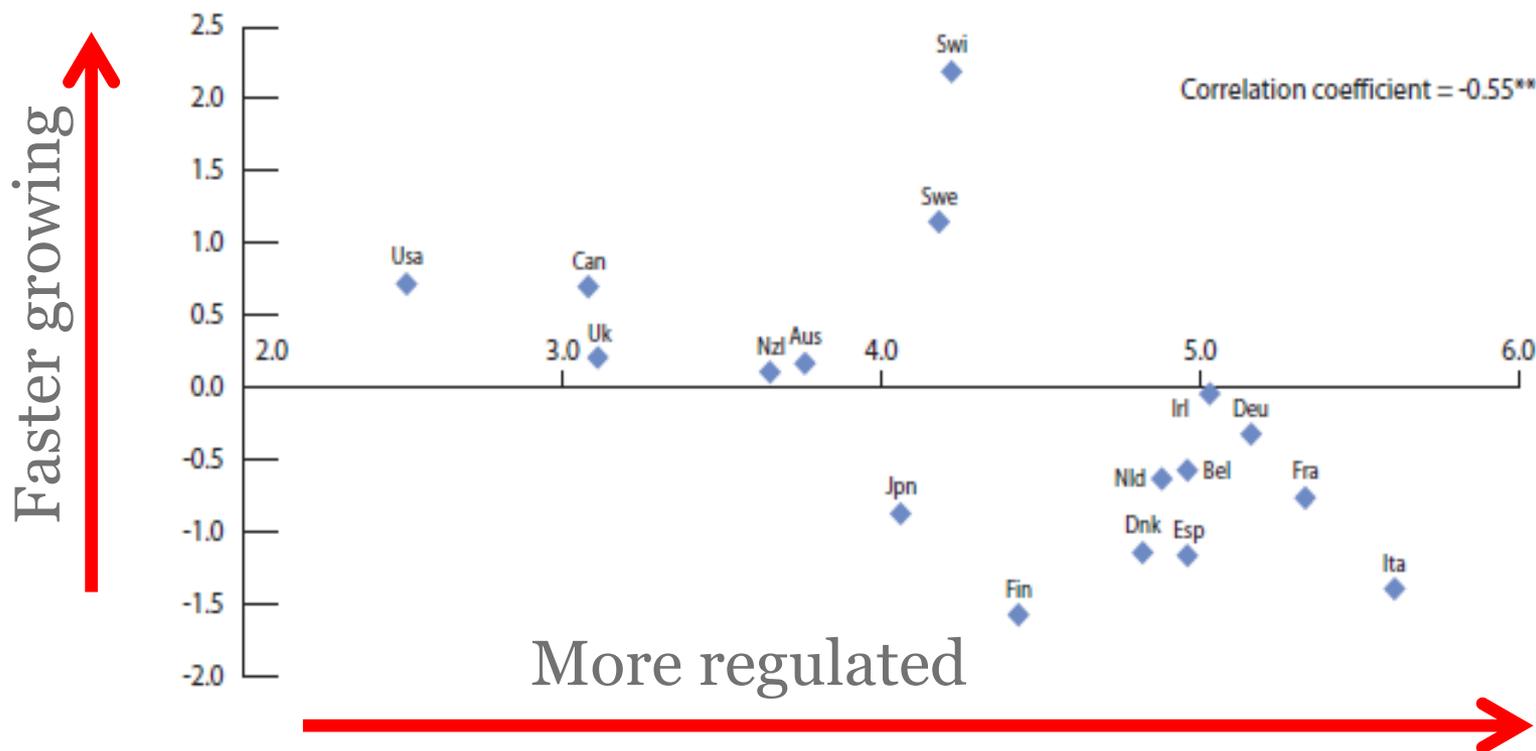
*Source: Hsieh and Klenow (2009),*



# Productivity and growth

## Regulatory barriers hold back growth

*Increase in multi-factor productivity compared to regulatory stance*

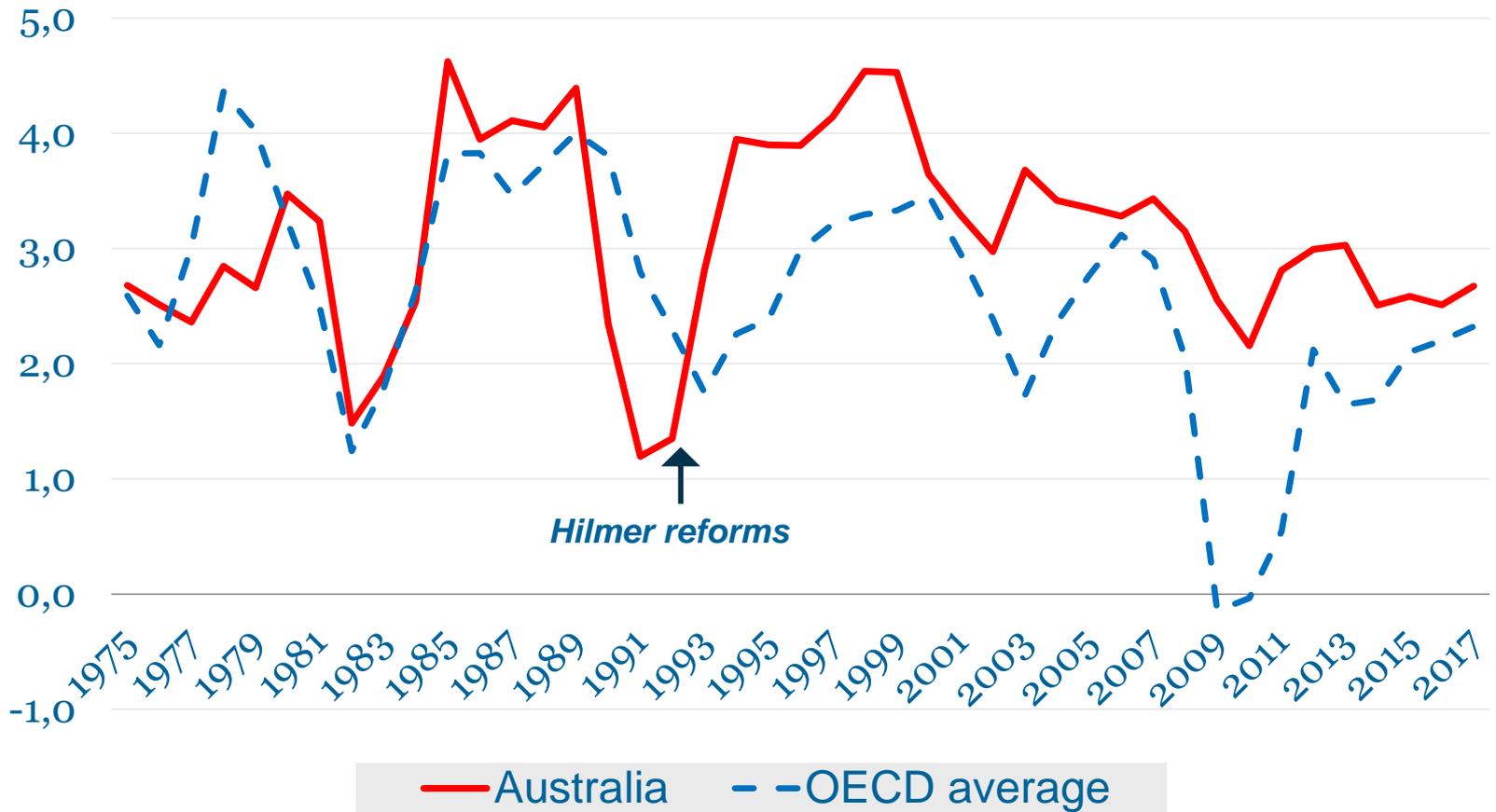


Source - Arnold, J., Nicoletti, G. and Scarpetta, S. (2011). "Does anti-competitive regulation matter for productivity? Evidence from European firms". IZA Discussion Paper No. 5511.



# Productivity and growth

## Australia



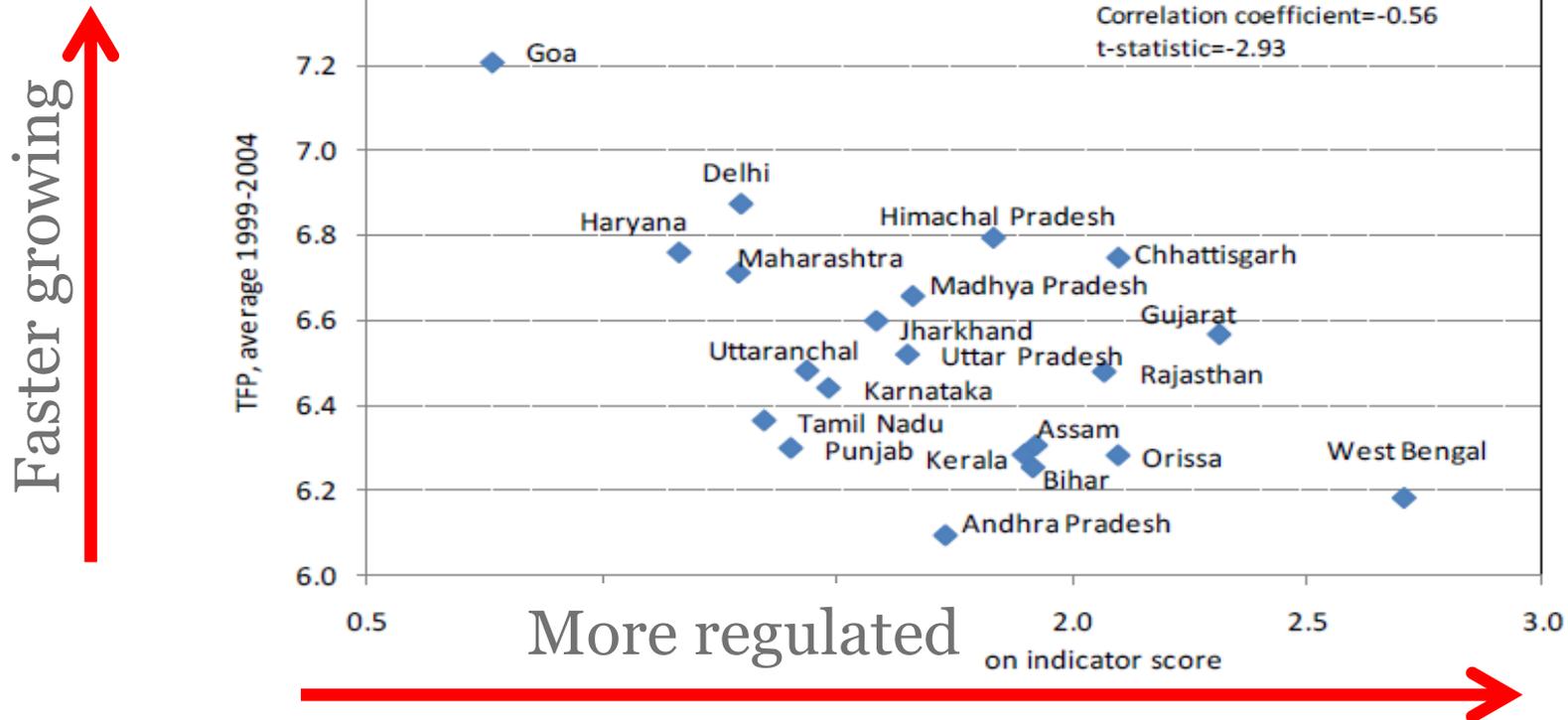
Note: Gross domestic product (expenditure approach) – annual growth rate, three-years moving average.  
Source: OECD statistics, National accounts, 1. Gross domestic product (<https://stats.oecd.org/>)



# Productivity and growth

## ...in developing countries too

*Increase in multi-factor productivity compared to regulatory stance*



*Source: OECD, using Indian National Accounts statistics*



# Benefits of competition policy for the national economy

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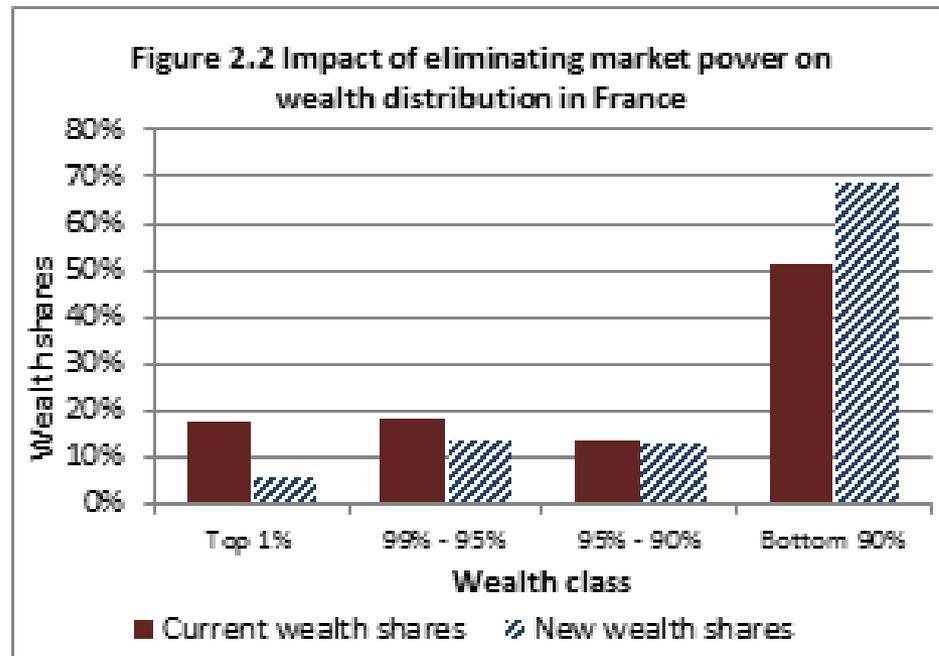


# Distributional outcomes

## 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

### Monopolies create inequality

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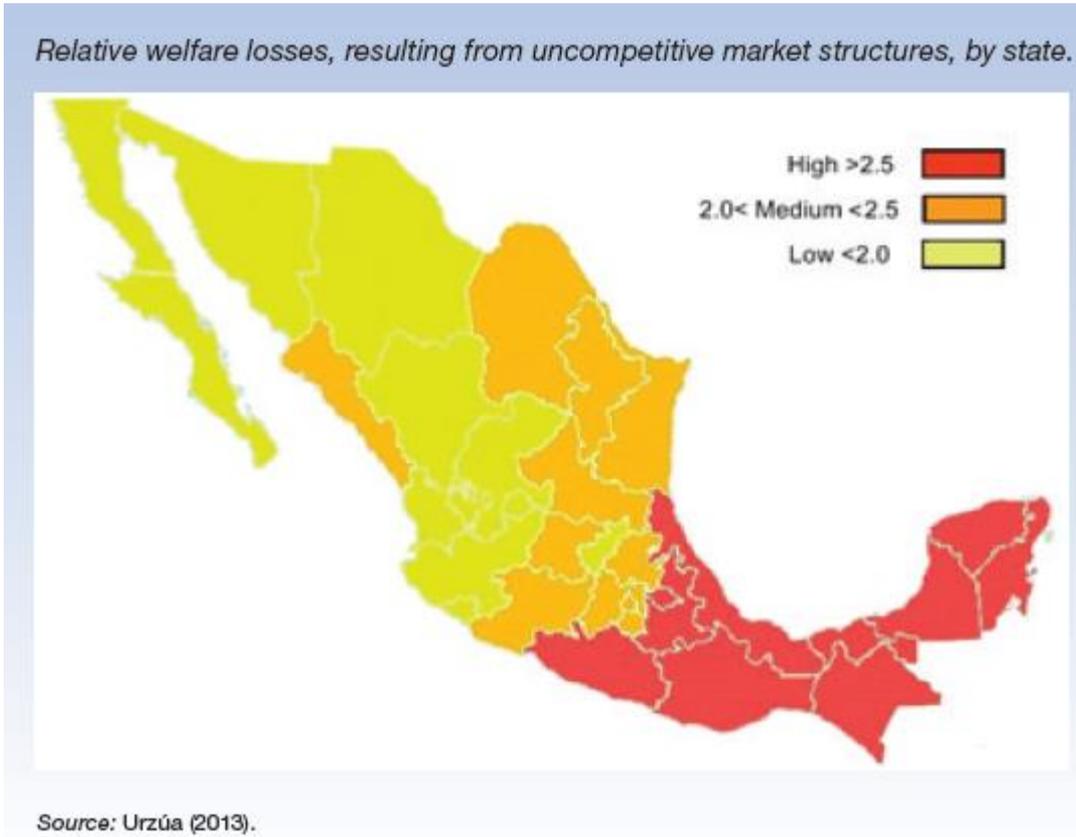
- Data from eight OECD countries (Canada, France, Germany, Korea, Japan, Spain, the UK and the US)
  - for an average country in the sample, market power *increases the wealth of the richest 10% by between 12% and 21%*, while it *reduces the income of the poorest 20% by between 14% and 19%*



# Distributional outcomes

## Monopolies create inequality

Example Mexico:



**Impact of market power on household spending on staple products like tortillas, chicken and milk.**  
→ Harm caused by monopoly power is greatest among the poorest 10 % of households. In urban areas they suffer a welfare loss that is 20 % higher than for the wealthiest 10 %, even more pronounced in rural areas.

Source: OECD 2015a



# Distributional outcomes

The poor suffer most from price-fixing





## Distributional outcomes

### Competitive markets create jobs

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- 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



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...and it's not just economic outcomes

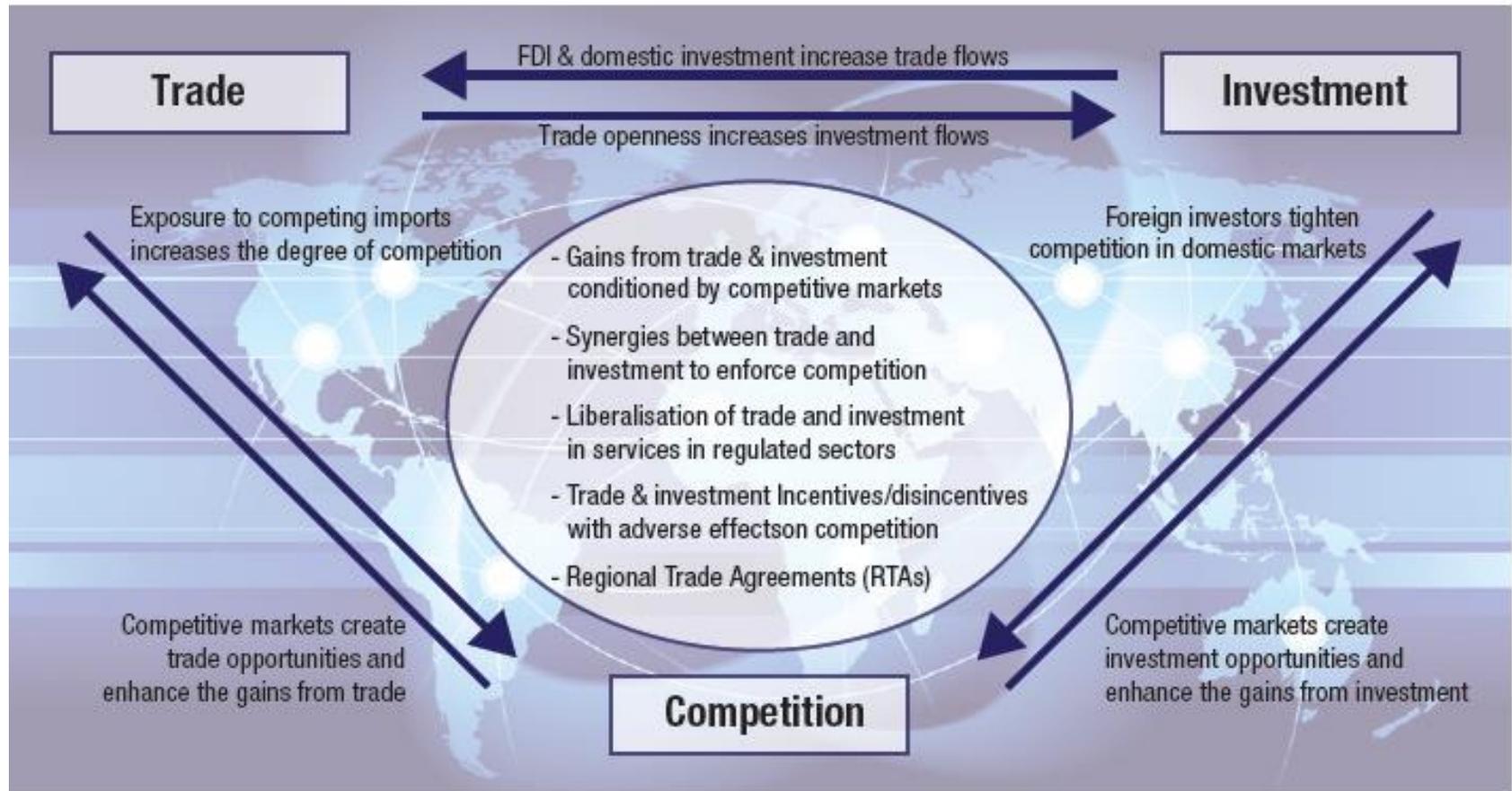
Monopolies corrupt the political process





# Relationships between trade, investment and competition policies

The relationships between outward-oriented trade, investment and competition policies



Source: OECD 2007



# OECD materials:

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- OECD (2017) INEQUALITY: A HIDDEN COST OF MARKET POWER;  
[https://one.oecd.org/document/DAF/COMP\(2015\)10/en/pdf](https://one.oecd.org/document/DAF/COMP(2015)10/en/pdf)
- OECD (2016) INVENTORY OF PROVISIONS IN INTER-AGENCY CO-OPERATION AGREEMENTS (MoUs);  
[https://one.oecd.org/document/DAF/COMP/WP3\(2016\)1/REV2/en/pdf](https://one.oecd.org/document/DAF/COMP/WP3(2016)1/REV2/en/pdf)
- OECD (2015a) Competition law and policy: Drivers of economic growth and development in: Coherence for Development, Issue 4, 2015; [http://www.oecd.org/pcd/002014381\\_CfD\\_E-book\\_FINAL%20VERSION%20FOR%20WEB.pdf](http://www.oecd.org/pcd/002014381_CfD_E-book_FINAL%20VERSION%20FOR%20WEB.pdf)
- OECD (2015b) Does competition kill or create jobs?;  
[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/GF\(2015\)9&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/GF(2015)9&docLanguage=En)
- OECD (2014) Competition and macroeconomic outcomes factsheet;  
<http://www.oecd.org/daf/competition/factsheet-macroeconomics-competition.htm>
- OECD (2013), Competition and Poverty Reduction, OECD Policy Roundtables, OECD Global Forum on Competition, Paris; <http://www.oecd.org/daf/competition/competition-and-poverty-reduction.htm>
- OECD (2007), The interaction amongst trade, investment and competition policies, OECD Trade Policy Working Paper No. 60, OECD, Paris



*Thank you for your attention*

Antonio Capobianco  
Senior Competition Law Expert  
Competition Division, OECD  
[Antonio.Capobianco@oecd.org](mailto:Antonio.Capobianco@oecd.org)

CNESE – 4 November 2021