



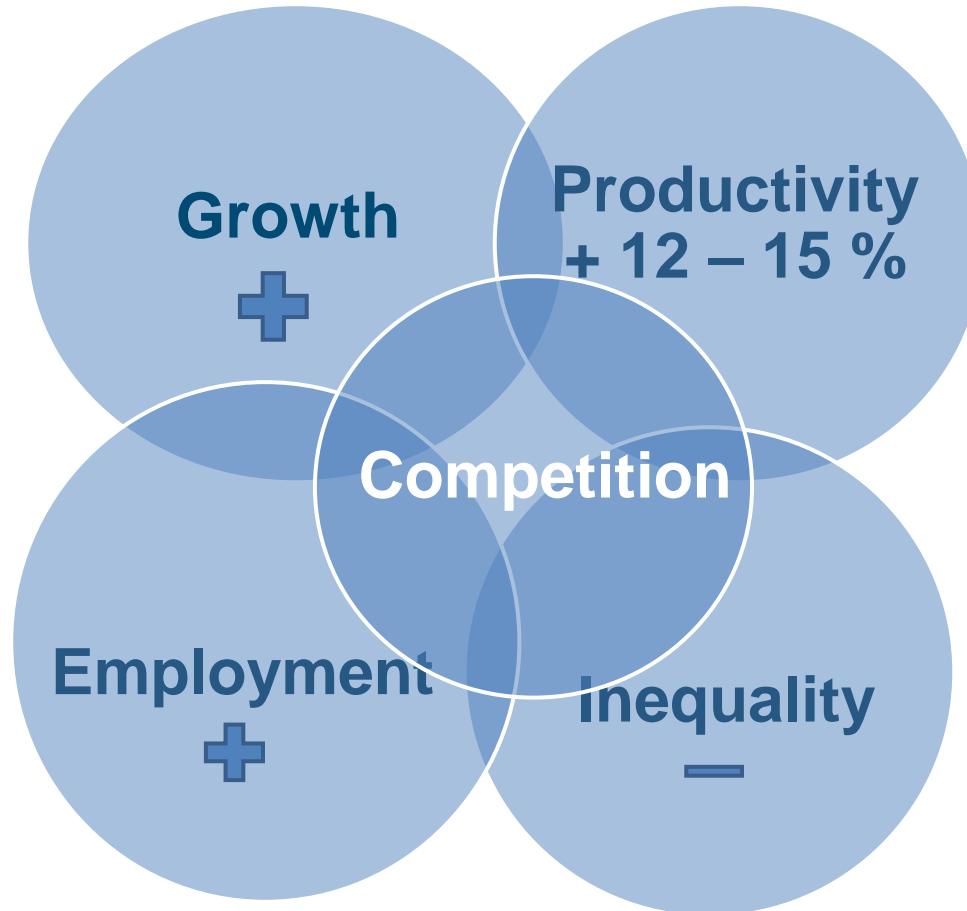
Benefits of Competition Policy for a National Economy

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Why We Care About Competition?



Source: OECD 2014



Benefits of competition policy for the national economy

- 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

- 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

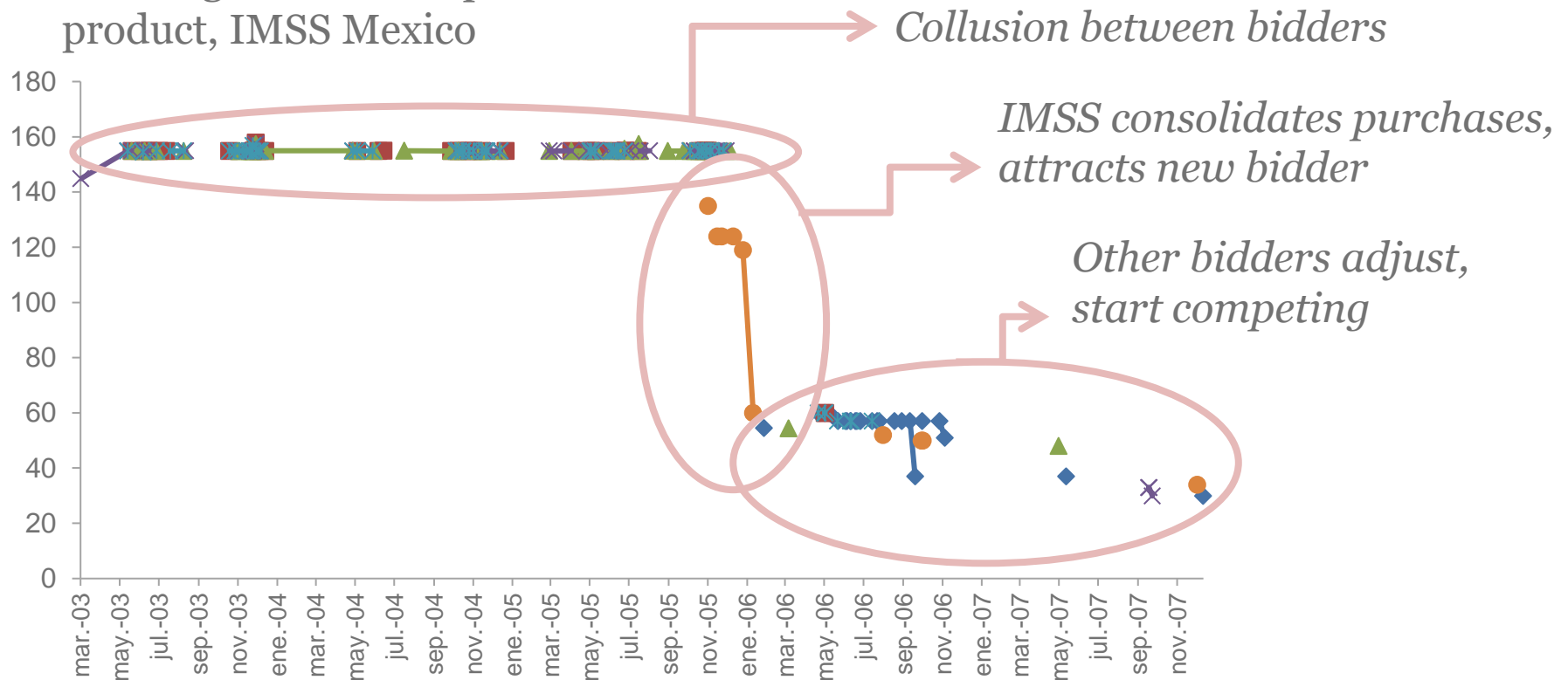
Reference	Number of Cartels	Mean Overcharge (percent)	Median Overcharge (percent)
Cohen and Scheffman (1989)	5-7	7.7-10.8	7.8-14.0
Werden (2003)	13	21	18
Posner (2001)	12	49	38
Levenstein and Suslow (2002)	22	43	44.5
Griffin (1989)	38	46	44
OECD (2003), excluding peaks	12	15.75	12.75
Weighted average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



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
Everything else	???	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

- “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



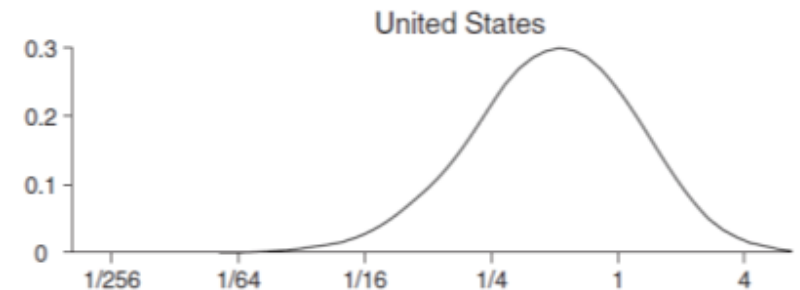
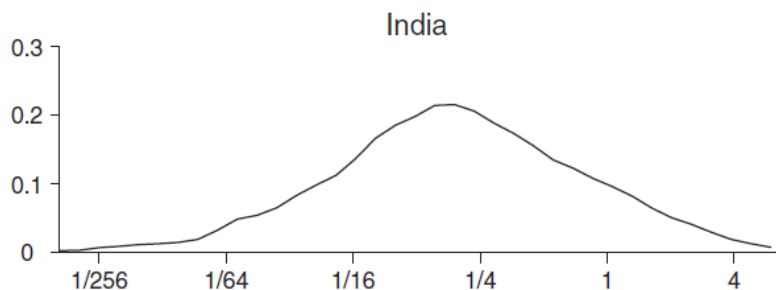
Productivity and growth

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



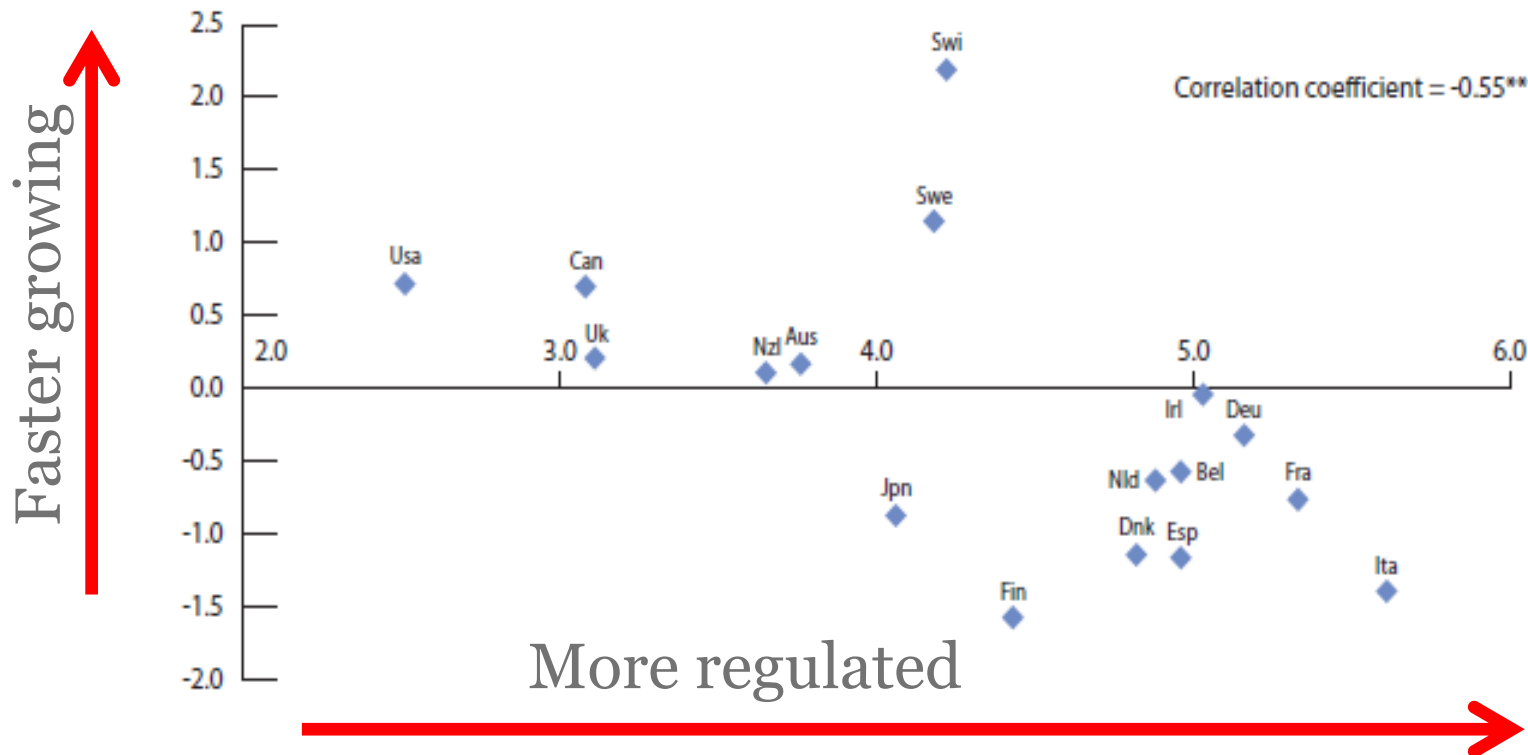
Source: Hsieh and Klenow (2009),



Productivity and growth

Regulatory barriers hold back growth

Increase in multi-factor productivity compared to regulatory stance

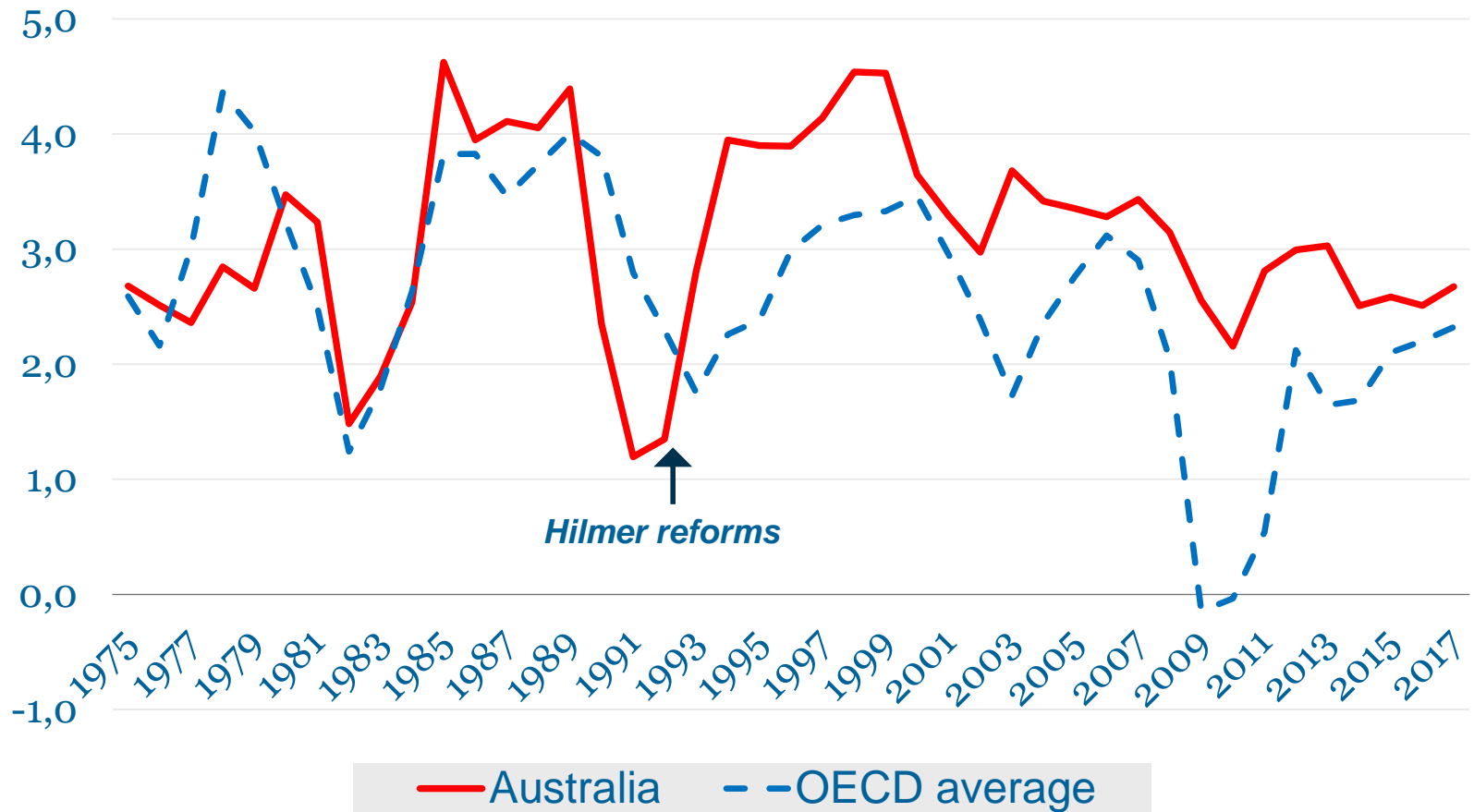


Source - Arnold, J., Nicoletti, G. and Scarpetta, S. (2011). "Does anti-competitive regulation matter for productivity? Evidence from European firms". IZA Discussion Paper No. 5511.



Productivity and growth

Australia



Note: Gross domestic product (expenditure approach) – annual growth rate, three-years moving average.

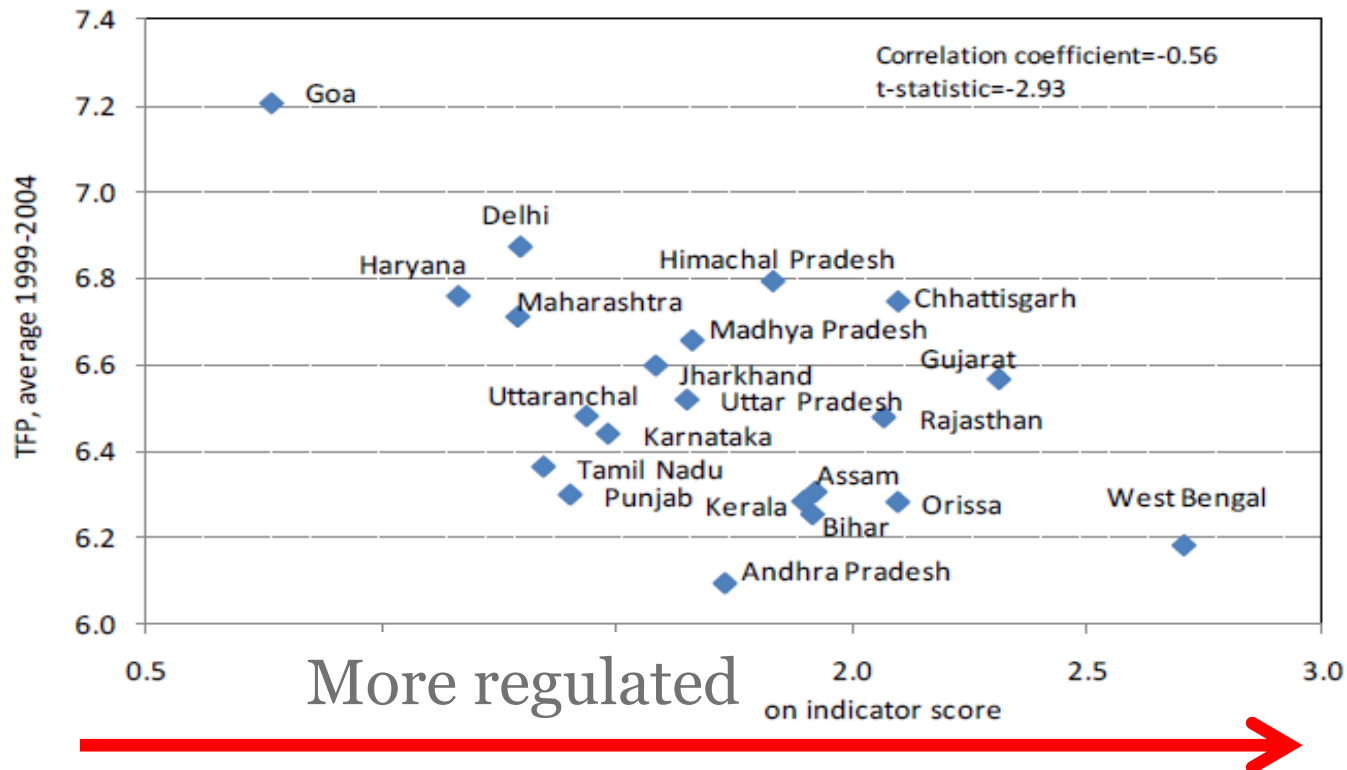
Source: OECD statistics, National accounts, 1. Gross domestic product (<https://stats.oecd.org/>)



Productivity and growth

...in developing countries too

Increase in multi-factor productivity compared to regulatory stance



Source: OECD, using Indian National Accounts statistics



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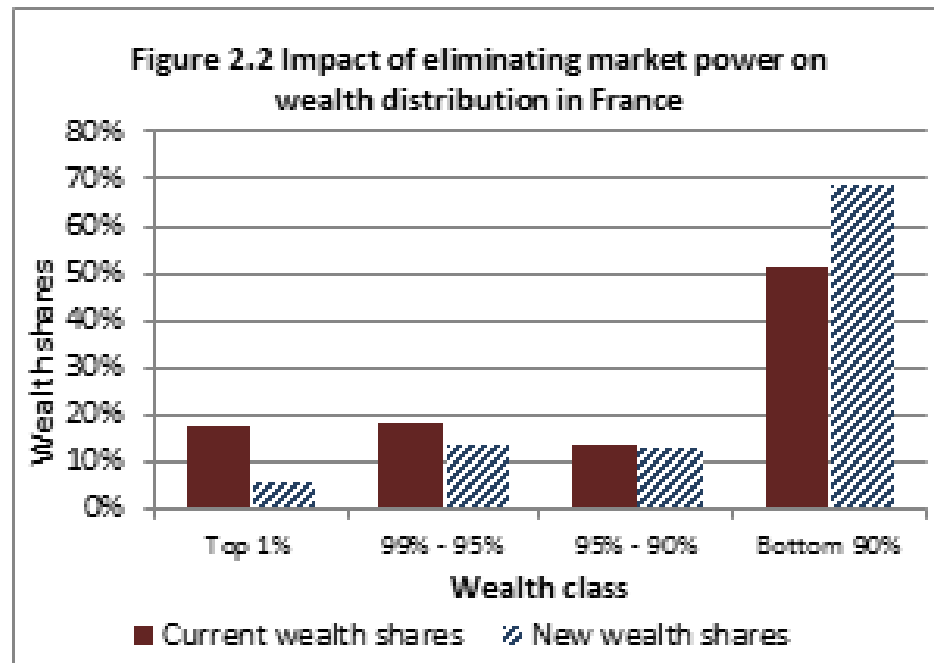


Distributional outcomes

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

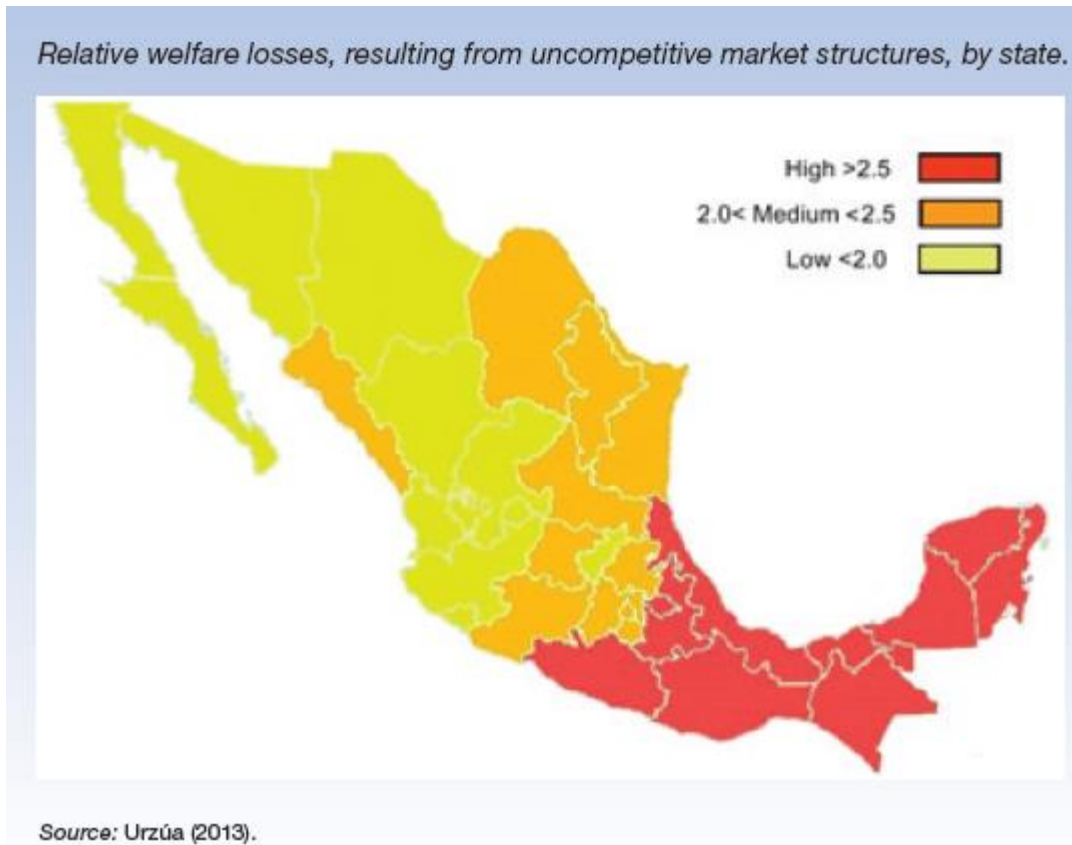
- Data from eight OECD countries (Canada, France, Germany, Korea, Japan, Spain, the UK and the US)
 - for an average country in the sample, market power *increases the wealth of the richest 10% by between 12% and 21%*, while it *reduces the income of the poorest 20% by between 14% and 19%*



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

- 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

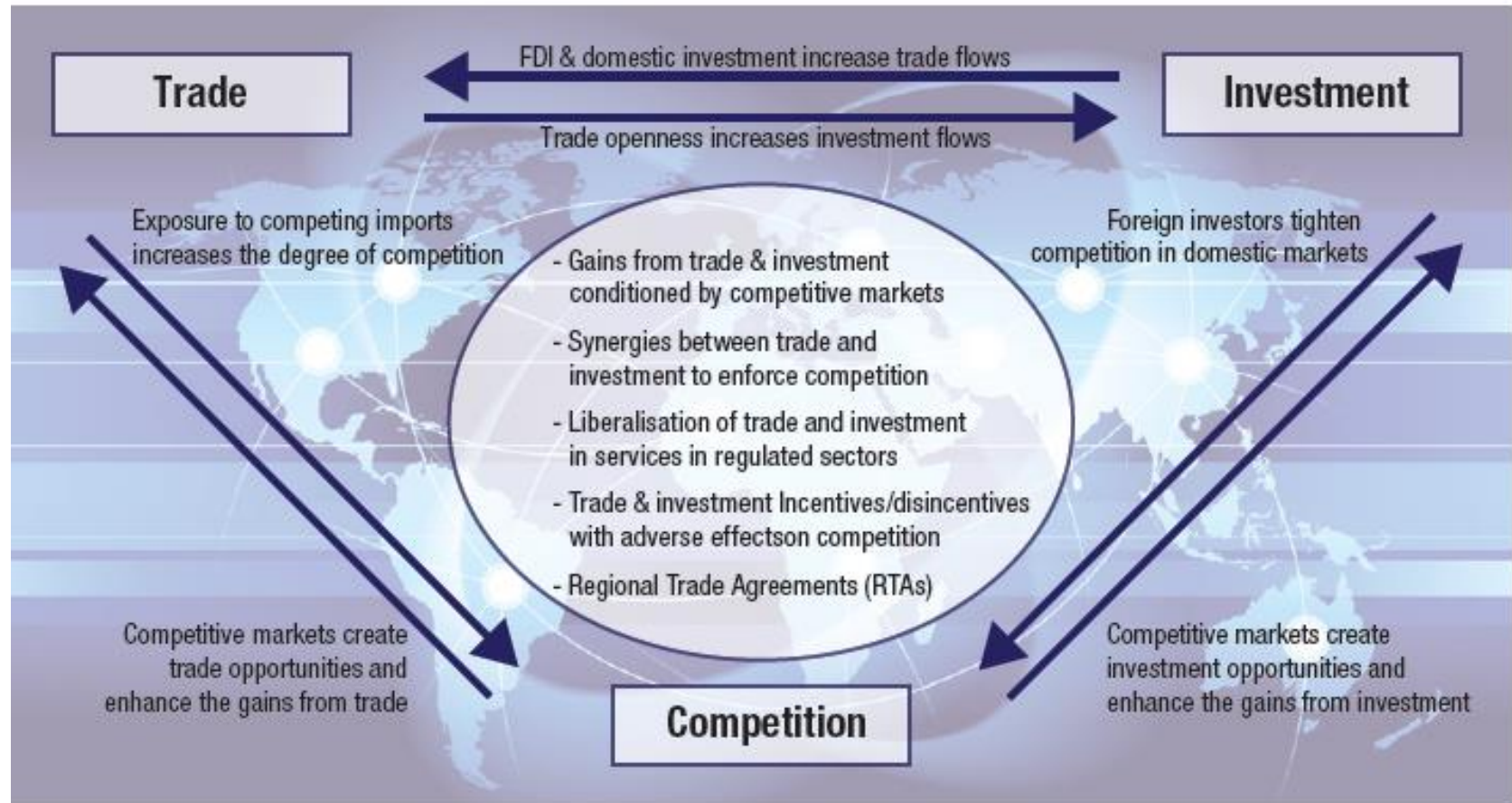
Monopolies corrupt the political process





Relationships between trade, investment and competition policies

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



Source: OECD 2007



OECD materials:

- 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
- 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

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