

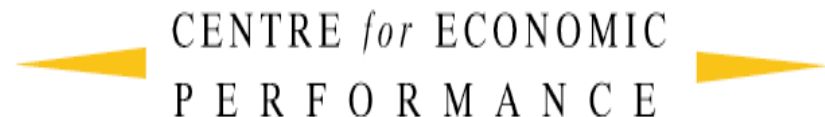
Competition, Consumer Policies and Economic Growth: Discussion of John Fingleton

Professor John Van Reenen

Department of Economics, LSE

Director, Centre for Economic Performance

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INTRODUCTION

- Worst recession since the Great Depression: where is growth going to come from?
- *“Productivity isn’t everything, but in the long run it is almost everything” (Nobel Laureate Paul Krugman)*
 - Higher Wages (& more leisure)
- EU-15 productivity about 13% below that of US & this gap has grown much wider over last 15 years
 - How much of this is this because of competition?
- EU needs structural reform to get out of crisis and grow

HOW DOES COMPETITION AFFECT CONSUMERS?

- Standard approach to competition focuses on *prices* (e.g. SSNIP)
- **But** greater competition can increase productivity & innovation in addition to any fall in price-cost margins
- “Efficiency defences” only discuss prospective productivity improvements following mergers

ECONOMIC RESEARCH: THEORY

- What are the effects of greater competition on Productivity, Innovation & management?
- Dual effects of competition
 - *Selection* (“creative destruction”) between firms
 - *Incentives* within firms
- Theory & evidence finds strong positive effects of selection on productivity

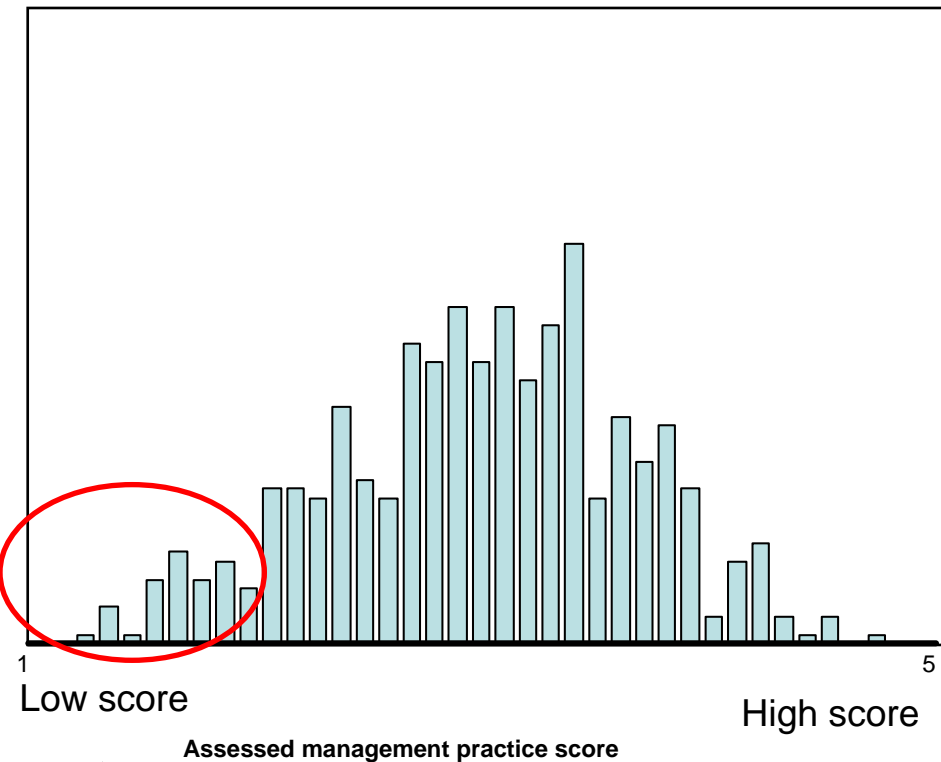
SELECTION = ECONOMIC DARWIN IN ACTION?

MUCH OF THE CROSS-COUNTRY DIFFERENCES IN PRODUCTIVITY ARE DUE TO THE “LONG TAIL” OF BADLY MANAGED FIRMS

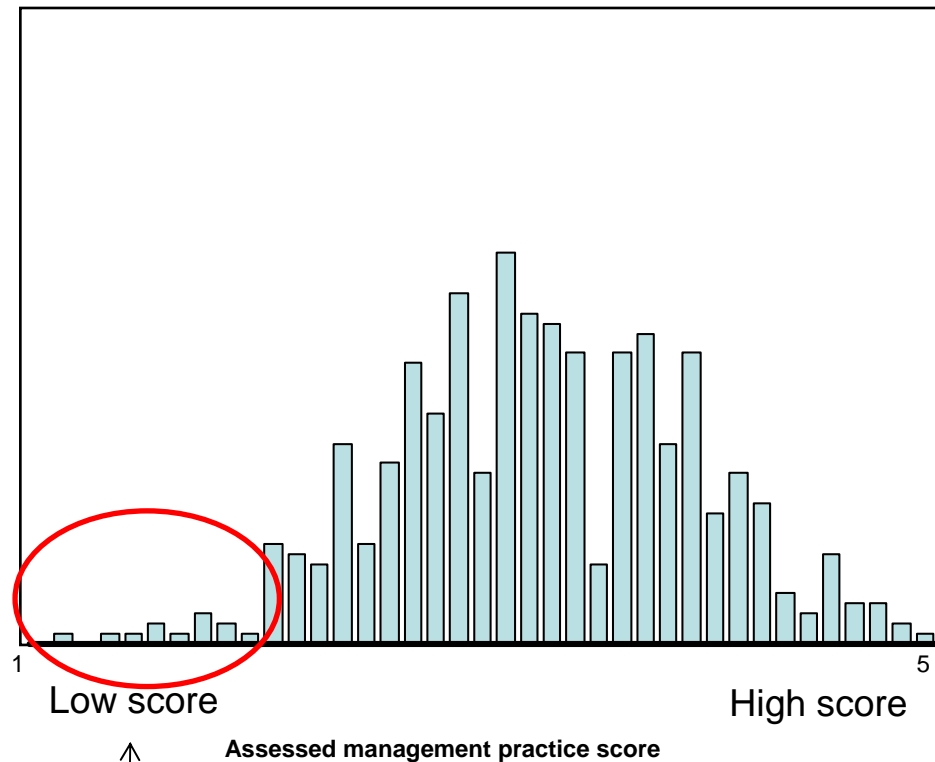
% of firms by management quality

 FRANCE

 U.S.



↑
The Truly Awful



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The Truly Awful

ECONOMIC RESEARCH: INCENTIVE THEORY

- But competition effect on *incentives* to increase productivity (e.g. innovation) is theoretically ambiguous
 - **Competition Bad?** because lower return to R&D (e.g. Schumpeter)
 - **Competition Good?** because firms with market power don't want a new product to cannibalize existing profits (e.g. Arrow); also agency effects, etc.
- Theory can give some guidance between industries where one dominates, but empirical evidence on facts should dictate

RECENT ECONOMIC RESEARCH: EMPIRICS

- “Natural experiments”: analysis of particular industries when there has been a big change in competition
 - Changes in trade barriers (e.g. elimination of quotas in textiles & apparel when China joined WTO)
 - Ending of cartels
 - Technological changes (e.g. Computer revolution, railroads)
 - Regulatory changes (e.g. Reducing entry barriers)
- General findings of *positive & large* effects on productivity.
 - Not all through selection because incumbent firms change
 - Some part of this operates through changing *management practices* (i.e. not just technologies)

INCREASING COMPETITION NOT IDENTICAL TO TOUGHER COMPETITION POLICY

- Competition policy only one way to increase competition
- Other ways to increase competition:
 - Trade policies (e.g. Doha Round, WTO)
 - Reducing barriers to entry (e.g. Licensing & planning restrictions).
 - Reducing barriers to growth (e.g. labour market regulations)
 - Consumer information & awareness
- Country specific. Role of OFT-like organizations as a “competition advocate”

QUESTIONS FOR JOHN

- Circumstances in which more competition could be bad for productivity?
- Land planning issues
- Competition Commission and OFT merger
 - What are major challenges?
 - What should OFT/CC cut back on
 - Who will investigate this merger to monopoly?