Competition, Competitiveness & Industrial Policy: New Convergence or New Conflict

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INTRODUCTION

• Productivity isn’t the only thing that matters for material wellbeing, but in the long-run it is almost the only thing

• Still about a 10% efficiency gap between US & EU-15

• “Competiveness” for a country different than for a firm.
EUROZONE FALLING FURTHER BEHIND US PRODUCTIVITY SINCE MID 1990S

Notes: Cumulative TFP growth index = 100 in 1996
Source: Conference Board Total Economy Dataset (2013)
RESURRENCE OF “INDUSTRIAL POLICY”

- Means different things to different people
- Policies that are specific to an industry (or group of firms)
  - Subsidies (e.g. cheap loans, production/export, FDI)
  - Trade protection (e.g. tariffs, quotas)
  - Broader help with skills, infrastructure, etc.
- These “vertical” policies discredited in many countries after failures in 1970s of national champions
- “Horizontal” policies to deal with market failures
  - Law enforcement, defence, education, health
  - Competition policy
  - Pollution, standards, research
- Great Recession & Asia’s rise led to calls for more industrial policy - perceived failure of free market policies
RATIONALE FOR INDUSTRIAL POLICY

• Industry-specific public goods
  – Training & skills; R&D
  – Could co-ordination be achieved through employer organizations? Role for gov in fostering co-ordination

• Directed technical change – e.g. “green growth”

• Many theories why subsidising particular firm/sectors can be helpful
  – Industries where there are global rents (airframers)
  – Infant industry protection for learning by doing

• In practice in EU industrial policy failed (East Asia may be an exception)
  – Reduces competition (e.g. exit of inefficient firms/plants)
  – Gov bureaucrats better at picking losers than winners
  – Extensive lobbying for special interests
HOW DOES COMPETITION AFFECT CONSUMERS?

• Standard approach to mergers, etc. focuses on *prices*
• Look at other things like efficiency as a defence (e.g. less competition but more productivity & innovation so prices fall)
• Competition can increase productivity & innovation
  – Theory is ambiguous, but data strongly suggests positive effects on productivity
“Natural experiments”: analysis of particular industries when there has been a big change in competition
  - Ending of cartels
  - Changes in trade (e.g. elimination of quotas in textiles & apparel when China joined WTO)
  - Technological changes (e.g. ICT, railroads)
  - Regulatory changes (e.g. Reducing entry barriers)

General findings of large positive effects of competition on productivity. Some component operates through changing management practices (not just technologies)
MUCH OF THE EU-US DIFFERENCES DUE TO THE “LONG TAIL” OF LOW PRODUCTIVITY FIRMS

% of firms with different levels of management quality

Source: Bloom, Sadun & Van Reenen (2013), WMS Survey
http://worldmanagementsurvey.org/ 15,000 firms
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)
  – Reducing barriers to entry (e.g. Licensing & planning restrictions). Services Directive.
  – Reducing barriers to growth (e.g. labour market flexibility)
  – Consumer information & awareness
A MODERN INDUSTRIAL POLICY?

• Should complement a strong competition policy
• Pragmatic: government affects almost every industry
• Strategy
  – Where does Member State have latent comparative advantage?
  – Which sectors are likely to see global growth?
  – Consider how current set of regulations & policies affects these sectors & spend political capital to change policy according
• Examples from UK (LSE Growth Commission)
  – Higher Education & immigration policy
  – Software sector around Cambridge & planning regulations
FURTHER READING


• [http://blogs.lse.ac.uk/politicsandpolicy/archives/8131](http://blogs.lse.ac.uk/politicsandpolicy/archives/8131)

• [http://worldmanagementsurvey.org/](http://worldmanagementsurvey.org/)
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RECENT ECONOMIC RESEARCH: THEORY

• What are the effects of greater competition on Productivity, Innovation & Management
• Good evidence of a powerful selection effect of competition
• But effect of competition on incentives to increase productivity (e.g. via innovation) is ambiguous
  – Bad because lower return to R&D (e.g. Schumpeter),
  – Good because firms with market power don’t want a new product to cannibalize existing profits (e.g. Arrow); also agency effects
• Theory helps in thinking in which industries one force will dominate, but need to look at empirical work