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
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?