Competition Policy and Poverty

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Defining Poverty

• Must be operational to be useful
• Not the same as inequality
• Identification – who is poor
• Aggregation – summary measure for society
Identification - Concepts

• Income/consumption – minimum standard
• Multi-dimensional poverty e.g.
  – Assets, environment, health, security, vulnerability
• Security broadly defined is important
  – *Voices of the Poor*  World Bank, 2000
• Amartya Sen:
  Entitlements → Capabilities → Functionings

Identification – Practicalities

• What income/consumption poverty line?
  – Absolute vs. Relative
• Multidimensional Problems:
  • What dimensions, poverty lines and weights
    • Simple index numbers – trade-offs defined centrally
    • MPI – 10 measures; poor if below-par on 1/3rd
• Timely accurate data
Aggregation

- Headcount, poverty gap, poverty gap-squared
- MPI
  national poverty = (% poor) * (average gap)
- Is aggregation necessary?
  - Macro vs. Micro focus – depends on issue
  - Individuals vs. Averages
  - Strong ethical arguments for individuals, but ….

How many winners compensate for one loser?

- The hypothesis ‘There are no losers’ is intellectually uninteresting
- All public policy judgements are quantitative
Trade Liberalisation

- generally stimulates growth
- and through it poverty alleviation
  BUT
- it usually creates losers
- some of whom may be or become poor
- how do we identify them ex ante?

Conceptual Framework

Figure 4.2: Trade Policy and Poverty – Causal Connections

Trading Domain
- Tradables
  - Pass through, competition
- National
  - Distribution, taxes, regulation, co-ops
- Regional
  - Co-operatives, technology, random shocks

Border Price
Wholesale Price
Retail Price

Entire Enterprises
Profit, Wages, Employment

Household Welfare
Prices, Wages, Endowments, Profits, Other Income

Tariffs, QFIs

Exchange Rate

Tariff Revenue

Welfare
Prices, Wages, Endowments, Profits, Other Income

Elderly
Young
Males
Females

Taxes
Spending

Trade Domain

World Prices and Quantities

28th February 2013 OECD Global Forum on Competition
Key Questions

• Households and Markets
  – Are border price shocks transmitted to poor?
  – Are markets created or destroyed?
  – How well do households respond?
  – Do the spillovers benefit the poor?
  – Does vulnerability increase?

• Wages and Employment
  – Do wages or employment rise or fall?
  – Does transitional unemployment hit the poor?

Implications for Competition Policy

• Competition generally stimulates productivity and innovation

• Distribution channel seems key
  – Challenges in small economies

• Enterprises
  – rent-sharing possibly benefits some of the poor
  – But industrial lobbies are powerful and elite – will not share very effectively
  – Deep effects on few vs. shallow effects on for many
Approaches

• Transparency and honesty about losers
• Need for off-setting and compensatory policies
• Traditional industrial policy very suspect
  – Exceptions to competition law should be hard to win and hard to grant
• Horizontal industrial policy (Rodrik)
  – designed to maintain competition;
  – is often equivalent to competition policy because it fosters entry.

Institutions for Competition Policy

• Clear mandate to inform
• Ability to institute cases itself
  – Government must be vulnerable, as well as private sector
• Considerable independence (but not total)
  – Checks and balances in government overseeing it
• Resourcing assured for lengthy periods
• CP can aid general institutional development
Three caveats

• Need strong political base
  – Can’t impose from outside
  – Bad CP worse than none - capture
  – There is a maximum speed of advance in this area

• Very demanding of highly skilled labour
  – Including private activity to match government’s
  – Need to balance against other objectives

• International Competition Policy Agreement
  – A quite different matter.

Public Policy

• Proceed with trade liberalisation or competition challenges
• Predict the poverty impacts
• and possibly pre-empt them
• Protect the poor with general anti-poverty policies
Thank you