

# Competition Principles: The Foundation for Regulatory Reform

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# Consistent Application of Competition Principles Benefits the Economy as a Whole

- Greater growth
- Increased efficiency
- More resilience to shocks

# Greater Application of Competition Principles in OECD Countries

Over recent decades, a number of leading OECD economies have turned to competition policy to improve the performance of key infrastructure or network sectors, such as transport, communications and energy, environmental policy, the liberal professions, and so on.

# Benefits in the United States

Where competition-based reforms have been the most thorough and in place the longest, economic performance has been impressive.

In United States, competition policy-based reforms begun in the mid-1970s set the stage for a decade of unprecedented growth in the 1990s.

... in Australia and Mexico

Australia and Mexico provide more recent examples of comprehensive, competition-based reform programs that have led to very significant improvements in economic performance.

Both economies are now believed to be more geared for growth and more shock-resistant than they would have been otherwise.

... in the United Kingdom and Spain

Likewise, major European economies such as the United Kingdom and Spain now place great reliance on competition policy to improve their economic performance.

# Now in Japan



Japan, which has suffered from a long period of economic stagnation, has just now turned to increased emphasis on competition policy to return to the path of growth.

This trend towards an increased emphasis on competition-oriented reforms is evident across the OECD membership.

## Result: Competition Policy Given a Central Role

Following these trends, competition policy is taking on a more central role in the policy framework.

Additional resources are being devoted to competition authorities and related competition policy institutions in spite of tight budgets.



The macroeconomic benefits of sound competition principles are beginning to be measured by the OECD:

“... anti-competitive product market regulations ... were found to have significant negative effects on non-agricultural employment rates of OECD countries. ... [I]n some countries, the product market regulatory environment may account for up to 3 percentage points of deviations of the employment rate from the OECD average.”

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# Competition Principles also Provide Social Benefits

- Greater economic opportunity
- Stronger democracy through the dispersion of economic power

# Competition Principles Have 2 Elements

- Competition Law Enforcement
- Competition Policy

# Competition Law Enforcement

- Stopping cartels, anti-competitive mergers, abuse of dominance
- Stopping anti-competitive actions by government

# Competition Policy

All sectors of the economy, e.g.:

infrastructure or network sectors, such as transport, communications and energy

professional services, such as medical, legal, accounting

## Competition Policy ...

Covers industry structure as well as regulation, e.g.:

Separation of electricity generation from transmission

Separation of gas production from transportation

# Competition Policy ...

Covers many areas of government policy, e.g.:

Environmental policy

Trade policy

Procurement policy



# How to Ensure that Competition Policy is Applied?

Consistent application through institutional responsibility for :

- advocacy
- review of existing laws and regulations
- review of new laws and regulations

## By whom? – Some Examples

- United States - 30 years of advocacy
- Korea – Cabinet-level status for the Fair Trade Commission
- Australia – National Competition Policy Reform of 1995

# United States

Since the early 1970s, involves the:

- Competition authorities – equivalent of MAP
- President's Council of Economic Advisors

## United States ...

Cover all areas of Federal, State and Local laws and regulation

Examples range from air transport to energy, the environment, the professions and even local taxies

# Australia

The National Competition Policy Reform agreed in 1995.

Applied to 9 governments at federal, state and territorial level.

Required a systematic review of legislation that had anti-competitive effect.

## Australia...

Included laws that set up entry barriers, such as licensing regimes, or that controlled conduct by setting or controlling qualifications, opening hours, prices, technical specifications and marketing arrangements.

Identified 1700 enactments that needed review.

## Australia....

Standard of review: any restriction on competition should be necessary to achieve the objectives of the regulation, and the benefits of the restriction should outweigh the costs.

New legislation requires a regulation impact analysis that uses the same standard.

# Conclusions:



- Competition principles underpin reform
- Consistent application will benefit the economy overall
- Institutionalise competition advocacy
- Institutionalise competition review of laws and regulation
- Strengthen competition law enforcement
- Strong competition authority is key to success <sup>24</sup>