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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

Global Forum on Competition

COMPETITION AND POVERTY REDUCTION

-- Session I --

Call for Country Contributions

This document is a call for country contributions for Session I of the Global Forum on Competition to be held on 28 February - 1 March 2013. GFC participants are invited to submit their contributions by 7 January 2013 at the latest.

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TO ALL GLOBAL FORUM PARTICIPANTS

Re: Competition and Poverty Reduction

Global Forum on Competition (28 February and 1 March 2013)

Session I

Dear GFC Participant,

The OECD Global Forum on Competition will include an all-day session on Competition and Poverty Reduction on 28 February 2013. You are invited to make a written contribution to this session **by 7 January 2013 at the latest.**

Poverty reduction remains an important global challenge. Granted, worldwide poverty declined in every major region of the world between 2005 and 2008, according to the World Bank. It was the first time that happened since the Bank began collecting data in 1981. However, that fact alone does not tell an entirely accurate story. Most of the overall decline in the number of poor people is attributable to China's growth. If we exclude China, the number of people living on less than US\$1.25 per day barely changed between 1981 and 2008. As of 2008, the figure stood at about 1.1 billion (1.3 billion if we include China). Furthermore, the benchmark of US\$1.25 per day identifies extreme poverty. If we bump up the benchmark to just US\$2.00 per day instead of US\$1.25, nearly 45 percent of the world's people are still poor today.

Governments are looking in many policy areas, including competition policy, for answers that will help them to make more progress in reducing poverty. To help competition agencies in that regard, this session will explore the impact of competition on the poor. We will consider this topic with respect to competition's effect on the poor as both consumers (the demand side) and as small entrepreneurs or workers seeking jobs (the supply side). In both cases, our primary inquiry will be whether competition actually alleviates poverty or not.

The Poor as Consumers

A country's poorest people may not always be viewed primarily as consumers, but they necessarily consume things to live. Like everyone else, impoverished people need certain basic goods and services. But for the poor, the money spent on such things is a greater – and often far greater – share of their income than it is for wealthier consumers. Therefore, when those essential goods and services cost more than they should, poor consumers suffer disproportionately. For them, higher prices might make essential items altogether unaffordable or might require the sacrifice of another item that is also greatly needed. For that reason, this part of the session will focus on essential goods and services. (By “essential goods and services”, we mean, for example, basic foods such as chicken, rice, beans and tortillas; financial services like small loans and money transfers; public infrastructure like urban transit systems; and building materials such as cement.)

Higher prices have many possible causes, such as economy-wide inflation or supply failures. But when prices rise because essential goods or services providers merge with their rivals, use anticompetitive conduct to stifle them, or form a price-fixing cartel with them, protecting competition can lead to substantially lower prices. Other factors, such as overly restrictive or biased regulations, may also lead to unnecessarily low levels of competition and artificially high prices. Ironically, some government policies

might be motivated by pro-poor concerns but could wind up doing more harm than good by harming competition. Examples might include implementing government-provided financial services or mandating transportation services on infrequently-used routes. Competition authorities (“CAs”) may be able to identify such policies and advocate pro-competitive change as well as encourage competition considerations in pro-poor policymaking generally.

But is there any evidence that greater competition actually helps poor consumers in practice? Or do the benefits of competition mainly go to wealthy people?

The Poor as Employees and Small Business Owners

In principle, competition should also be able to help the poor in their capacity as small entrepreneurs or job seekers. To the extent that competitive product markets stimulate macroeconomic growth, greater competition should help to boost employment. It is conceivable that it might boost wages, too. Likewise, insofar as competition encourages innovation, it can help to create new product markets and businesses, which will present new opportunities for the poor to earn more money.

Competition law enforcement could also help the poor to earn more simply by carrying out its usual agenda of blocking anticompetitive mergers, breaking up cartels, and stopping the abuse of dominant positions. For example, a poor entrepreneur might want to start a business in competition with a large, established firm, and he or she might even have an idea for how to be a more efficient competitor. But if the incumbent is dominant and is blocking small entrants through some type of anticompetitive conduct, competition law enforcement could help. Furthermore, as with the demand side, other factors such as overly restrictive regulations may make it unnecessarily difficult for new businesses to compete, thereby taking away opportunities for poor people to find work and/or earn more. Making competition stronger by advocating for the reform of such regulations can give those opportunities back.

On the other hand, one can easily imagine scenarios in which greater competition might make the poor worse off, too. Fierce competition in labour markets, for example, would tend to drive wages down. In product markets, intense competition might drive employers to cut costs by, among other things, eliminating jobs or cutting wages. Competition-driven innovation might also turn out to be harmful to poor entrepreneurs and labourers, at least in the short term. New technologies can eliminate jobs by making older technologies obsolete and by driving small entrepreneurs and old-technology businesses out of markets.

Even if the net effects of competition on growth, employment, and wages turn out to be positive, it is one thing to say that competition drives those positive results in general. It is another to say that it reduces poverty in particular. The poor need *inclusive* growth – growth that gives *them* more opportunities, more jobs, and higher incomes. Is there evidence that greater competition actually does help poor entrepreneurs and workers in practice? Or do the benefits of competition mainly accrue to big businesses and wealthy people?

Other Considerations

Regardless of whether we are talking about helping the poor by lowering the prices they pay or by increasing the amounts they can earn, the degree of competition’s success in alleviating poverty in a country will depend on several framework conditions other than the quality and strength of the competition authority’s enforcement and advocacy. Those conditions could be part of the problem rather than part of the solution. For example, if corruption and non-transparency are widespread within a government, greater competition may not lead to better results for those below the poverty line. Alternatively, it may be difficult for a competition authority to act in the first place. In many countries, competition laws that could

be used to fix a competition problem are in place but they are not always adequately enforced. That could be because the authority lacks the political power and influence to fight multinational corporations, for instance, which are often well connected to other parts of the government. We will address these types of issues, as well.

Please also note that this session is about the poor wherever they are, not just the poor who live in generally poor countries. Obviously, the incomes of the poorer classes in developed and developing countries can be very different, but the idea of poverty as a lack of opportunity and choice is common to the two and very relevant to thinking about how competition policy affects poverty. The main question is still, “Do competitive markets reduce (or worsen) poverty?”

Format of the Meeting

Approximately half of the meeting will take the form of a hearing, while the other half will be a traditional roundtable. There will be no breakout sessions. During the hearing segment, the audience will put questions to the panellists, the panellists will respond, and all participants can take part in a free-flowing discussion. The general purpose of holding hearings is to familiarise delegates with a subject and to discover its competition-related issues. The idea is not to share enforcement experiences or to draw conclusions about best practices, which is what we do in roundtables. Instead, the idea is for the delegates to learn from the experts on the panel – in this case, about the causes of poverty, the ways in which theory predicts that competition will affect the poor, the ways in which competition has actually affected poverty in practice, and the ways in which other policies and conditions may interfere with (or enhance) competition’s ability to reduce poverty.

In the roundtable segment of the meeting, the Chairman will direct questions to the delegates based on their written contributions. The delegates will respond and the panellists will intervene from time to time with comments and perhaps with questions of their own. During this part of our meeting, the delegates will have opportunities to talk about their experiences concerning the effects that competition law enforcement and competition advocacy have had on poverty in their countries.

Please keep in mind that during the hearing segment, your main responsibility is to ask the panel questions. So we are relying on you to come prepared to interact with the panellists and take advantage of their broad expertise. Our panel will include Professor Eleanor Fox of New York University, David Lewis, the former Chair of South Africa's Competition Tribunal, Susie Lonie, one of the creators of the M-PESA mobile payment service in Africa, and Professor L. Alan Winters of the University of Sussex. A keynote speaker will be Lord Desai of the British House of Lords and formerly of the London School of Economics. There may be one or two other keynote speakers, as well.

The quality and utility of this session will be greatly strengthened by written contributions from participants. To assist with the preparation of your contribution, a number of issues and questions are attached, which you may wish to use to guide your submissions. This is not an exhaustive list so participants are encouraged to raise and address other issues related to competition and poverty reduction, in particular summaries of any relevant cases you have dealt with. A suggested bibliography is also attached. Please remember when writing about your case experience that we are interested specifically in how competition affects the poor rather than how it affects all customers generally. The cases we really want to hear about are the ones in which you have some knowledge of your intervention’s effect *on poverty specifically*.

Please advise the Secretariat by **3 December 2012** if you will be making a written contribution. As noted above, written contributions are due by **7 January 2013**. This deadline applies to both members and non-members. Failure to meet this deadline may result in the contribution not being taken into account in the preparation of the scenario for the roundtable discussion. In addition, late contributions may not be distributed via the meeting website www.oecd.org/competition/globalforum in advance of the meeting.

All communications regarding documentation for this roundtable should be sent to Ms. Jessica Escaip (Email: jessica.escaip@oecd.org; Tel: + 33 1 45 24 15 15; Fax: + 33 1 45 24 96 95).

All substantive queries relating to this roundtable should be sent to Mr. Jeremy West (Email: jeremy.west@oecd.org; Tel: +33 1 45 24 17 51).

The GFC Programme Manager, Mr. Greg Bounds, will be happy to answer any questions you may have about the GFC more generally (Email: gregory.bounds@oecd.org; Tel: + 33 1 45 24 84 43).

QUESTIONS AND POINTS FOR CONSIDERATION

Countries are invited to address the following issues by answering the questions below each of them, but please bear in mind that both the issues and the questions are intended to be illustrative rather than exhaustive. You should feel free to discuss other pertinent topics that are not mentioned here. Wherever possible, please demonstrate the points you raise by referring to specific cases.

1. **Defining poverty and identifying its causes**

- How should we define poverty in this session? A popular bright line for many years has been that poverty means living on one US dollar per day or less. Another possibility is that “poverty” includes not just chronically poor people, but formerly solvent people who have fallen below a certain standard of living because of a discrete adverse event, such as the global economic crisis. A third alternative is to use each nation’s official poverty line. In considering that question, think about how the needs of these newly impoverished people might differ from those of the chronically poor. You might also consider whether lower prices for essential goods and services are likely to make enough of a difference to help either of these groups escape poverty.
- What factors cause poverty?

2. **Competition’s effect on markets for essential items, in principle**

- From a standard microeconomic theory perspective, how should we expect competition to affect markets for essential goods and services?
- What role could competition policy play in making the provision of essential goods and services more efficient? (By “competition policy” we mean not only competition law enforcement, but the broader concept of competition advocacy, too.)
- Are there any theoretical reasons to believe that greater competition in these markets might actually make things worse for poor consumers?

3. **Competition’s effect on markets for essential items, in reality**

- What experience do you have with markets for essential goods and services? Have you intervened in any of these markets, or do you know of some other types of examples in which competition in an essential goods or services market increased for some reason?
- How has greater competition in essential goods and services markets – whether due to case-specific interventions by courts and CAs, competition advocacy efforts by CAs, or some other factor – actually affected poor consumers? Did they wind up with cheaper, better goods? If so, did such improvements actually help some of them to escape poverty? Or was poverty worsened? In the end, who were the beneficiaries of greater competition – poor consumers or someone else? With regard to cases in which CAs intervened, were there any instances in which

you discovered that your initial approach was misinformed or even naïve? What can others learn from your experiences? Please discuss examples from your jurisdiction.

- Even if more competition in essential goods and services markets would usually reduce prices and/or improve quality, are competition authorities always able to take the necessary actions? If they are, do they necessarily result in the desired outcomes? More specifically, does the success of competition – and competition policy – in reducing poverty depend on other framework conditions and policies? If so, which ones? Why?

4. Competitive markets versus “pro-poor” government controls/interventions

- Governments may be tempted to interfere in markets with well-intended policies that seem beneficial for fighting poverty, such as setting up government-owned businesses to serve “poor” geographic markets or forcing private companies to do so, or imposing price controls or granting subsidies, rather than relying on the more general policy of protecting and promoting competitive markets. Is that a wise idea? Do the poor actually wind up benefiting from government price controls, subsidies and interventions in markets in most cases? If not, what can competition authorities do to persuade policymakers that free and competitive markets work better for consumers (including impoverished ones) than tightly controlled or artificial ones?
- Have there been any instances in which you have advocated for or against a particular government program because of its effect on poverty? Please discuss your arguments and approach as well as the outcome of your efforts.

5. Competition’s effect on poor, small entrepreneurs and job seekers, in principle

- From a standard economic theory perspective, how should we expect competition to affect poor, small business owners and poor job seekers/labourers?
- What role could competition policy play in improving the prospects for poor entrepreneurs and job seekers to earn more? (Again, by “competition policy” we mean not only competition law enforcement, but the broader concept of competition advocacy, too.)
- Are there any theoretical reasons to believe that greater competition might actually make things worse for poor entrepreneurs and workers?

6. Competition’s effect on poor, small entrepreneurs and job seekers, in reality

- Based on your authority’s experience, do you know of some examples in which greater competition – whether due to case-specific interventions by courts and CAs, competition advocacy efforts by CAs, or some other factor – clearly affected poor, small entrepreneurs or poor job seekers/wage earners? How were they affected? Did they wind up with more jobs, higher paying jobs, and/or more business opportunities? If so, did such improvements actually help some of them to escape poverty? Or was poverty worsened? In the end, who were the beneficiaries of greater competition – poor people or someone else? With regard to cases in which you intervened, were there any instances in which you discovered that your initial approach was misinformed or even naïve? What can others learn from your experiences? Please discuss examples from your jurisdiction, focusing on cases in which the results were poverty-specific.

- As with the issue of competition's effectiveness in helping poor consumers, one may question whether – even if competition in certain markets would be likely to boost the economic prospects of poor entrepreneurs and job seekers – competition authorities are always able to take the necessary actions. If they are, do they necessarily result in the desired outcomes? In the supply side context, it is again relevant to ask whether the success of competition in reducing poverty depends on other framework conditions and policies. Does it? If so, which ones? Why?
- What can competition authorities do to ensure that the benefits of competition “trickle down” to the poor?

7. Competition policy toward poverty

- Based on your experiences, do you believe that competition policy should be different toward the poor than it is toward the rest of society? If so, how and why should it be different?
- When prioritising your authority's work, do you take the potential effects on poverty of a possible intervention into account? If so, how? Is any focus on poverty that your authority may have transparent to the public?
- If a competition authority wants to fight poverty, does it make sense to focus more on the retail sector than on parts of the production chain that are further upstream? Why or why not?
- What, if anything, should be done about small, highly localised monopolies (such as the village grocery shop)? These are typically too small to be pursued by a competition authority, but they may be gouging poor customers, so should governments intervene in some other way? How?

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