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Global Forum on Competition

DOES COMPETITION KILL OR CREATE JOBS? A DISCUSSION ON THE LINKS AND DRIVERS BETWEEN COMPETITION AND EMPLOYMENT

-- Executive Summary and Summary of Discussion --

29-30 October 2015

The attached document is an executive summary and a summary of the discussion held during Session I of the 14th meeting of the Global Forum on Competition on 29-30 October 2015.

More documents related to this discussion can be found at http://www.oecd.org/competition/globalforum/links-drivers-competition-employment.htm

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EXECUTIVE SUMMARY

By the Secretariat

Opening session

The OECD Secretary-General, Angel Gurría, opened the 14th Global Forum on Competition. Mr. Gurría emphasised the importance for policy makers of considering competition issues, including the impact of competition on employment, in light of the uncertain global economic environment.

Mr. Gurría noticed the pressure faced by competition authorities to consider employment in their work, and stressed that available evidence suggests that more competition tends to lead to greater employment as well as greater productivity, lower prices and higher real wages. Further, he noted how competition may lead to job losses in network industries, but downstream job growth has been shown to more than compensate for these losses. The importance of complementing product market reform with productivity-enhancing labour policies was also underlined by Mr. Gurría.

Mr. Gurría concluded his introduction by highlighting that governments and competition authorities both have an important role in leveraging the benefits of disruptive innovations, including ensuring market participants do not prevent the entry of new and innovative firms with disruptive business models.

In his opening remarks, Guy Ryder, Director-General of the International Labour Organisation, noted a recent study of product market deregulation which found that increased employment and wage inequality could both result from the introduction of competition. Competition both creates and kills jobs, and employment systems must take into account considerations of fairness and social justice. Mr. Ryder indicated that policies to enhance product market competition must be complimented by sound policies in labour markets, recognising that the labour and product markets work differently and therefore require different approaches in policy design.

Mario Monti, Italian Senator and former Prime Minister of Italy, as well as former EU Commissioner for Competition, introduced two linkages between competition and jobs that are relevant but not always considered: tax competition and jobs; and market competition and political competition. With respect to tax competition, Senator Monti noted the distortive and negative effects on jobs of having a high degree of tax competition among countries as well as asymmetric tax competition. The lack of tax coordination among EU countries has created in particular an advantage for mobile tax bases (like capital and company headquarters), while less mobile factors of production – specifically, labour and particularly unskilled labour – cannot avail themselves of the benefits of tax competition due to their much lower mobility, unless the radical decision of migrating intervenes. As a result, the average effective taxation rate on capital has gone down and the effective rate on labour has gone up, which goes against the goal of fostering employment.

With respect to the linkage between market competition and political competition, Senator Monti noted that when governments introduce unpopular reforms to stimulate competition, the opposition often criticises them and joins forces with those in society whose rents are cut by the reforms. This may not be the case if a grand coalition of political parties which normally compete decides to support a broad package of reforms, simultaneously cutting the rents of several constituencies in a balanced way, so as to stimulate growth and job-creation. The conclusion Senator Monti has reached is that an agreed temporary suspension of political competition may permit the introduction of competitive economic reforms. The main threat which Senator Monti perceives for competition enforcement and pro-competitive reforms is populism, including the trend in all societies and political systems to decide on policy measures having essentially in mind the short-term effects on the popularity of those deciding, more than the longer term effects in economic and social terms

Session I: Does competition kill or create jobs? The links and drivers between competition and employment

The half-day plenary discussion on *Does competition kill or create jobs? The links and drivers between competition and employment* was chaired by Mr. Frédéric Jenny. The Secretariat received 24 written contributions from member and non-member jurisdictions. A panel of experts, from academia, the private sector and international organisations gave presentations. A large number of delegations contributed from the floor.

The panellists were: Mario Monti, Senator, Italian Senate, former Prime Minister of Italy; Mr. Victor Norman, Professor of Economics, NHH, Norges Handelshøyskole and, former Minister of Labour, of Norway; Mr. Klaus Tilmes, Director of Trade and Competitiveness Global Practice, the World Bank Group; and Mr. Jean-Luc Schneider, Deputy Director, Economics Department, OECD. Ms Ania Thiemann of the OECD Competition Division presented the Secretariat background paper.

The roundtable discussion explored the links between competition and employment. It started by looking at mechanisms through which competition can impact employment. Next, it considered the inclusion of employment as a public interest consideration in competition authorities' analyses. It then concluded with a discussion on the political pressure faced by competition authorities and potential areas for future work on this theme.

Victor Norman, who wrote a background paper for the session, stressed that competition is not primarily a tool for creating jobs, but it could provide a good economic framework for the pursuit of good employment policies for agencies other than competition agencies. Mr Norman then noted that the effect of increased competition at the industry level is, according to economic theory, ambiguous. At the economy-level, competition may not necessarily create jobs, but it creates the necessary basis for more productive jobs: it leads to a more efficient allocation of resources, it makes the economy more responsive to external shocks and it makes the economy more robust towards international competition. However, the effect of competition will often be a distribution of income which is unacceptable or incompatible with full employment. Considering these distributional effects is crucial in order to formulate a total policy package which makes competition, international competition and fairness compatible. This task, though, should not be left to competition agencies.

Klaus Tilmes underscored the importance of robust and competitive markets in advancing properly shared prosperity by creating meaningful employment, rising income and resilient economies. However, he noted, there may be short term trade-offs: progress towards better jobs is due in part to the disappearance of low productivity jobs as well the creation of more productive jobs in the short term. Competition encourages this dynamic through firms' entry and exit as well as the reduction of labour shedding or labour hoarding in firms that have previously enjoyed strong market power. Empirical research by the World Bank on the short-term impact of increased competition shows that this short term dynamic leads to more jobs being created than destroyed every year, and that the negative employment effect of a surge in total factor productivity is reversed after a relatively short period of time.

Jean-Luc Schneider presented some recent work by the economics department of the OECD showing that countries where regulations are more competition-friendly (as measured by the OECD Product Market Regulation Indicators) have higher employment rates at the macroeconomic level. Research also shows that the increase in layoffs from a sector after a procompetitive reform is largely offset by the rate of entry in the reformed sector, and that deregulation reduces the wage premium in the reformed industry.

The discussion moved on to consider the general relationship between competition and employment. Several delegations presented the effects of recent procompetitive reforms on productivity and employment in their country (e.g. Russia, Zambia), with examples of successes notably in the airline, telecommunications and broadcasting industries (Indonesia, Mongolia, Moldova). Delegates then discussed the inclusion of public interest considerations in competition law enforcement. While some countries affirmed the belief that public interest considerations should not be considered in the enforcement of competition law (United States, Swaziland), other delegations reported examples in which employment was regarded as a public interest criterion in the enforcement of competition law in their countries, notably in merger control (South Africa, Kenya, Nicaragua).

The Chair concluded the session by identifying some key messages emerging from the discussion: (1) the role of competition as a necessary condition for productive employment, (2) the complementarity between product market competition and labour market instruments, and (3) the importance of competition authorities' advocacy activity in favour of competition and labour policies that are respectful of competition.

SUMMARY OF THE DISCUSSION

By the Secretariat

1. Opening session

The Chairman, Frédéric Jenny, opened the 14th Global Forum on Competition. He noted that 105 delegates were in attendance, including representatives of 63 non-OECD member economies. Mr. Jenny discussed that the agenda, established through discussions between both members and non-members, would be comprised of: (1) a discussion of the link between competition and employment, which reflects the importance of integrating competition policy into a more general policy framework, including the question of inclusive growth (a subject being examined in other parts of OECD); (2) a discussion of the impact of disruptive innovation on competition law enforcement, a forward-looking topic; (3) a peer review of Kazakhstan; and finally (4) a discussion of industries in which there appear to be serial competition law offences. These topics are a combination of traditional subjects, forward-looking discussions and consideration of how to integrate competition policy into general economic policies. The Chairman then passed the floor to the Secretary-General of the OECD.

Angel Gurría, Secretary-General of the OECD, began by noting the importance of considering competition issues, including the impact of competition on employment, in light of the uncertain global economic environment. The Secretary General discussed the pressure faced by competition authorities to consider employment in their work, and available evidence suggesting that more competition tends to lead to greater employment as well as greater productivity, lower prices and higher real wages. Further, he noted how competition may lead to job losses in network industries, but downstream job growth has been shown to more than compensate for these losses. The importance of complementing product market reform with productivity-enhancing labour policies was also underlined by Mr. Gurría. Next, the Secretary General noted that governments and competition authorities have an important role in leveraging the benefits of disruptive innovations, including ensuring market participants do not prevent the entry of new and innovative firms with disruptive business models. In closing, Mr. Gurría recognised delegates for the high level of participation they have shown with respect to the Global Forum, including a wide range of written submissions. He concluded by expressing his interest in hearing the ideas of participants regarding how we can work together to protect competition, promote innovation, enhance productivity and put the global economy on a more sustainable and inclusive growth path.

Next, **Guy Ryder, Director-General of the International Labour Organisation (ILO),** discussed the impact of competition on employment. He mentioned recent trends in employment, including long-term unemployment, youth unemployment, the exit of unemployed workers from the labour force and the low-quality nature of jobs created in recent years. Mr Ryder also discussed issues regarding the prevalence of the informal economy in developing economies and rising inequality, stating that reducing the latter could contribute to the creation of better jobs and improved growth. Mr. Ryder noted a study of product market deregulation which found that increased employment and wage inequality could both result from the introduction of competition.

On the subject of creative destruction, Mr. Ryder noted the principle in the ILO's constitution that labour is not a commodity, and so it should be remembered that the reallocation of factors in the course of creative destruction includes people, quoting comments by Robert Solow on the subject. Ensuring wages grow in line with productivity, the set-up of social protection systems to act as automatic stabilisers and the better and faster matching of labour with job opportunities were all advocated by Mr. Ryder. Further, he cited studies finding that employment protection laws did not have a significant impact on growth. In conclusion, Mr. Ryder stated the view that work should meet both material needs and individuals' quest for personal development as well as a desire to contribute to something greater than an individual's (or their families') welfare. He opined that competition both creates and kills jobs, and that employment systems must take into account considerations of fairness and social justice while moving with the times, preventing falling down the "slippery slope of treating labour as a commodity." Finally, Mr. Ryder indicated that policies to enhance product market competition must be complemented by sound policies in labour markets, recognising that the labour and product markets work differently and therefore require different approaches in policy design.

The Chairman thanked Mr. Ryder, noting that the fact that labour markets are not subject to competition laws is a recognition of the difference between labour and product markets. Mr. Jenny indicated that an exploration of the complementarities between competition law enforcement in the product market and a well-functioning labour market would be a subject to which delegates would be turning throughout the day.

Senator Mario Monti spoke next, beginning his intervention by indicating that he subscribed to the analysis and policy links regarding the impact of competition on employment outlined by the OECD Secretary-General, and to the qualifications set out by the ILO. He then introduced two additional related linkages between competition and jobs that are relevant but not always considered: tax competition and jobs; and competition and political competition, also affecting growth and jobs.

With respect to tax competition, Senator Monti noted that work done by the OECD has highlighted long-standing trends in this area; namely, the distortive and negative effects on jobs of having a high degree of tax competition among countries as well as asymmetric tax competition. Uncontrolled tax competition among EU countries, as well as globally, has had impacts on economic factors and agents that depend on the mobility of the corresponding tax basis. The lack of tax co-ordination has created in particular an advantage for mobile tax bases (like capital and company headquarters), which can take advantage of their mobility to minimise their tax burden. Less mobile factors of production – specifically, labour and particularly unskilled labour – cannot avail themselves of the benefits of tax competition due to lower mobility, at least until the more radical decision to migrate intervenes. As a result, the average effective taxation rate on capital has gone down and the effective rate on labour has gone up, which goes against the goal of fostering employment. This trend has been the object of increasing policy concerns. The EU and OECD have worked to devise criteria on how to check this phenomenon without extinguishing tax competition altogether (since it is healthy to have governments submitted to some pressures to prevent unlimited increases in taxation/spending) and without ignoring the fairness implications of different forms of taxation. While those examining employment do not often address tax competition as an aspect of competition, it should be taken into account.

With respect to the linkage between competition and political competition, Senator Monti noted the impact of the financial crisis on the willingness and ability to enforce competition policy. For example, State Aid controls in EU could have been under severe stress during the banking crisis. It appears that competition authorities and organisations like the OECD and ICN have demonstrated resilience in spite of huge political pressures. In the next 5 years, one big challenge that may be faced in competition enforcement may be a more direct political crisis or opportunity: is there a link between the degree of political competition and the ability to introduce reforms to enhance competition in a marketplace (including structural reforms)?

When governments introduce unpopular reforms to stimulate competition, the opposition is often ready to criticise them, joining forces with those constituencies whose rents are cut by the reforms. The conclusion Senator Monti has reached is that a temporary political indemnity from competitive political pressure may permit the introduction of competitive economic reforms. In Germany, for example, temporary grand coalitions limiting competition among political parties and spreading the political costs of introducing competitive reforms over broad shoulders may improve the political viability of these reforms. It is a paradox that political and constitutional decision-making may be a challenge to economic reforms. Without temporary co-operation among competitors, it reduces the likelihood that serious (and necessary) but unpopular reforms will be adopted. The main threat which Senator Monti perceives for competition enforcement and pro-competitive reforms is populism, including the trend in all societies and political systems to look mainly at short-term effects of policy decisions on the popularity of those deciding, rather than on the longer term effects on the economy and society. This approach also neglects the indirect effects of decisions. The short-term frame of political debates that are conducted (e.g., 140 character tweets) encourages oversimplification and superficial decision-making. However, some institutions are focused on the long-term and indirect effects.

According to Senator Monti, the OECD is the "temple of the long-term and the agent of bringing the long-term to bear" on decision-making in member countries. The question remains, however, that if the political trend in the long-term is populism, which hates technocracy and independence from politics, what will be the impact on the ability of entities like competition authorities to conduct their work? Senator Monti concluded with a word of praise for the way the competition world has tackled past competition crises but a serious warning about how to deal with a political landscape where populism is more diffuse than rationalism, internationalism and integrationism.

2. Session I: Does competition kill or create jobs? The links and drivers between competition and employment

The **Chairman, Frédéric Jenny,** opened the session by introducing the four panellists: Mario Monti, Italian Senator and former Prime Minister of Italy; Victor Norman, Professor of Economics at the Norwegian School of Economics and former minister of labour of Norway; Klaus Tilmes, Director of Trade and Competitiveness Global Practice at the World Bank Group; and Jean-Luc Schneider, Deputy Director of the OECD Economics Department. The Chair explained that the overall discussion will be structured around three themes: first, the complex relationships between competition and employment; second, the inclusion of employment as a public interest consideration in Competition Agencies' analysis; and third, how to improve advocacy on the issue of employment. The Chair then gave the floor to Professor Norman for his presentation.

Professor Victor Norman started by stressing that competition is not primarily a tool for creating jobs, but it could contribute to the creation of a good economic framework for the pursuit of good employment policies for agencies other than Competition Agencies. Professor Norman then noted that the effect of increased competition at the industry level is, according to economic theory, ambiguous. Increased competition reduces the monopoly margin, thus increasing sales, reducing prices and boosting turnover, thereby potentially raising employment. At the same time, existing firms are challenged by new and more productive firms, and if they produce more with fewer people, the net effect might be a reduction in employment. Increased competition also removes rent seeking by special interest groups. The important point, according to Prof Norman, is that competition will raise productivity and lower prices, and through those mechanisms will have an effect on the rest of the economy of potentially providing room for creating new jobs in other industries.

To illustrate the effect of increased competition on employment at the economy-level, Prof Norman presented a graph showing productivity growth and employment growth in Norwegian industry from 1990 to 2010. The graph suggests that industries with the highest productivity growth are not those that have the highest employment growth. This can be explained by the income effect of increased competition: high productivity in one part of the economy generates extra income, which will be spent on goods and services in other industry of the economy where new jobs will be created as a consequence. Therefore, increased competition in one sector can result in job creation in other sectors where competition has not increased.

Product market competition also has an effect on wage formation in labour markets: increased product market competition reduces the scope for rent seeking thus making wage formation and the labour market function better.

A third channel that influences employment at the economy level is competition in trade and specialisation patterns in certain countries. Foreign competition makes open economies more responsive to external shocks, which could be good or bad for employment, depending on the shock; however, it will always be good for the allocation of resources. At the same time, the fact that domestic markets are more competitive leads to a sharper specialisation and fuller exploitation of comparative advantage at home.

Prof Norman concluded that competition does not necessarily create jobs, but it creates the necessary basis for more productive jobs: it leads to more efficient allocation of resources, it makes the economy more responsive to external shocks and it makes the economy more robust towards international competition. However, as Guy Ryder had noted in the opening session, the effect of competition will often be a distribution of income which is unacceptable or incompatible with full employment. Considering these distributional effects is crucial in order to formulate a total policy package which makes competition, international competition and fairness compatible. This task, though, should not be left to competition agencies.

Mr Klaus Tilmes spoke next, starting by underscoring the importance of robust and competitive markets in advancing properly shared prosperity by creating meaningful employment, rising income and resilient economies. According to estimates by the World Bank, in order to hold employment rates constant given the current demographic trends, the global economy must create 600 million new jobs by the year 2027, 90% of which need to be created in the private sector. Yet the goal is not simply to create new jobs, but also to create better jobs. To this end, greater competition is crucial to the process of creating productive jobs, driving the allocation of labour to more productive activities and leading to more and better jobs in the long term.

However, there may be short term trade-offs. Progress towards better jobs happens partly thanks to the disappearance of low productivity jobs and the creation of more productive jobs in the short term. Competition encourages this dynamic through firm entry and exit from the market, as well as the reduction of labour shedding or labour hoarding in firms that have previously enjoyed strong market power. Empirical research by the World Bank on the short-term impact of increased competition shows that this short-term dynamic leads to more jobs being created than destroyed every year, and that the negative employment effect of a surge in total factor productivity is reversed after a relatively short period of time.

Firms are aware of the short-term effect, and try to prevent it from happening: for example, they differentiate their products in order to reduce the sensitivity of customer decisions to price and thereby reduce the amount of price competition. However, this is difficult in markets where buyers' decisions are based exclusively on price such as procurement auctions for a standardised product or service. As a consequence, collusion is observed regularly in markets where buyers' decisions are almost exclusively based on price, either because products are homogeneous and there are no instruments to reduce the sensitivity of buyers' decisions to price, or by market design. This phenomenon is frequently observed, for example, in procurement auctions and in intermediate goods with commodities.

To uncover cartels, two types of screening exist: (i) structural screening, in which you look at industry traits that are thought to be conducive to collusion or empirically associated with collusion, and (ii) behavioural screening, in which you look at market data with regards to prices and quantities that would be seen as possible evidence of the presence of a cartel. In terms of structural screening, the existing empirical evidence presents two main concerns: first, the level of analysis is too aggregated with respect to a market that is likely to be cartelised; second, the analysis is limited to those variables which are present for all the industries in the data set.

Mr Tilmes therefore proposed a new framework for structural screening, based on an inductive approach instead of a deductive one. The central idea is to pick a market for which there is a high rate of cartel formation, to describe the constellation of traits for that market and finally to identify other markets with a similar constellation of traits. So, considering for example the cement markets, the inductive hypothesis is that cement markets have a series of traits and cement markets frequently have cartels, therefore most markets with that same set of traits frequently have cartels. The advantage of this different approach to structural screening, according to Mr Tilmes, is that it takes advantage of the fact that cartels are particularly prevalent in some product markets.

The **Chair** thanked Mr Tilmes for his presentation and invited Jean-Luc Schneider to illustrate the OECD point of view on the relationship between product markets and labour markets.

Mr Jean-Luc Schneider presented some recent work by the Economics Department of the OECD, to try and solve the dichotomy between the belief by most economists that competition is good for job creation and a widespread public perception that competition destroys jobs. A first result is that countries where regulations are more competition-friendly (as measured by the OECD Product Market Regulation Indicators) have higher employment rates at the macroeconomic level. This correlation is very significant by econometric standards, although Mr Schneider reminded the audience that of course “correlation is not causation”.

As pointed out earlier in the discussion, the introduction of more competition is usually accompanied by redundancies. Research shows that after typical reforms that increase competition in a network sector, for example, we observe a small increase in the number of workers exiting the sector every year. However, this increase in exits from the sector is largely offset by the rate of entry in the reformed sector. To sum up, after a pro-competition reform, there are more workers entering and exiting the sector every year than before the reform. Whether the net effect leaves the sector with more or fewer jobs is not clear. Different sector-specific studies have found different net effects depending on the country, the sectors and the features of the reform.

However, results show clearly that network deregulation over the last 30 years has reduced the wage premium in these industries. The latter effect has important consequences for the labour market. All other things equal, higher wages result in more demand for products and more demand for labour, more incentives to enter the labour market and to take up jobs. This translates into a lower rate of unemployment and ultimately more jobs in the economy. Looking more closely at the dynamics of such micro effects, the OECD found that a pro-competitive market reform has positive effects on labour market in a significant way already in the third year at the macro level.

Jean-Luc Schneider concluded his presentation by making three points. First, a pro-competitive reform increases the job churn not only in the reformed sector but also in the whole economy: after reform, both the probability of becoming unemployed and the probability of the job-seeker finding a job increases for people in the economy, with a net positive effect on total employment. Second, across economies, the effects of reforms are more important for lower skill workers: all categories of workers are affected by the reform, but the increase in job churn is higher at lower wage levels. This is an observation that the OECD will investigate further. Third, pro-competitive reforms play a key role in creating jobs. OECD estimates show that the macro effect of network liberalisation on total employment is as important as that of reforms directly affecting the labour market (e.g. reforms of unemployment benefits or active labour market policies).

Commenting on the presentation by Jean-Luc Schneider, **Professor Norman** remarked that in many circumstances, and for network industries, the case is certainly very strong: increased competition has been employment creating. However, he would not believe in empirics claiming that competition policy will always create more jobs.

Next, the **Chair** invited the delegations from France and from the European Commission to present their contribution tackling the macroeconomic approach to competition and employment. The delegate from **France** noted that the French Competition Authority agrees to several of the remarks made earlier by the expert on the effects of competition on employment: the need to look at the long term and the need to look at the macro and micro level, not just on a particular market.

The French delegate noted that competition is often accused of destroying jobs, notably by lowering barriers to entry (which increases imports and destroys jobs in the country) and by increasing productivity (so that, for an equivalent level of demand, there is less employment). Yet, in the long term, competition causes a net increase in employment, since it increases demand through lower prices and it increases firm competitiveness in the global market through higher productivity. Competition thus has the potential to create jobs, but the actual impact depends also on what happens in the labour market (e.g. if the labour market is rigid).

As to the role of competition authorities, the delegate from France underlined that taking into account employment considerations in merger and antitrust decision may even harm employment. For example, it would be counterproductive to prevent synergies permitted by a merger to preserve jobs in the short-term: this could indeed penalise companies facing competition. Equally, when sanctioning anticompetitive practices, job protection is not taken into account because: (i) jobs protected in a sector are jobs destroyed in another; (ii) anticompetitive strategies undermine business competitiveness in foreign markets, and (iii) such a policy would affect the mobility of resources and would harm economic dynamism.

At the same time, the advocacy activity by competition authorities could potentially include employment issues, in order to convince the authorities that competition creates more jobs than it destroys. For example, the French Competition Authority has analysed the effects of its reforms in two sectors: the automotive aftermarket and bus transport. In both instances, the Authority has also estimated the effects of such reforms on employment.

The delegate from the **European Commission** presented the results of some model simulations carried out in the six months prior to the GFC, which analysed the distributional and labour market impact of EU competition policy. The motivation behind the study was the perceived increasing scepticism about the benefits of competition policy for consumers and for workers, reinforced by the “Great Recession” following the 2008 financial crisis.

The analytical framework starts from the Commission’s activity; that is decisions in the area of merger control and cartels. It first looks at the impact of those decisions on competition, and then at the impact of competition on GDP growth, employment and income distribution. The model takes account of different types of households, making a distinction between high-skilled and low-skilled workers. The direct effects of competition enforcement decisions, i.e. customer savings, are computed based on the estimated overcharge avoided due to the decision, the turnover in the sector involved and the duration of the effect of the agency’s intervention. The model also takes into account the indirect deterrent effects of the interventions, assuming that their impact affects not only the market directly concerned by the decision but the whole sector.

Using data on the decisions taken from 2012 and 2014, the study estimates that the decisions caused a decrease in the mark-up of prices of 0.8 percentage points in 2014, i.e. a reduction of the mark-up from 13% to 12.2%. From a macroeconomic perspective, the results show that more intense competition increases GDP, consumption and labour productivity. Competition policy appears to be more beneficial for low-skilled households, which are more constrained in terms of disposable income and consumption. For the labour market effects, more intense competition in the model has a positive effect on labour demand and labour supply. Positive employment effects of competition are found both in the short run and in the long run.

The **Chair** noted that there are two potential uses of these results: the first is to reassure competition authorities that what they do contributes to higher employment, and the second is to use this evidence as an advocacy tool with regard to political leaders. He then asked to the two panellists who are also political leaders, Professor Norman and Senator Monti, whether they think that politicians are responsive to this kind of evidence that Competition Agencies or economists could bring forward.

Professor Norman answered that this type of work could be useful for advocacy, but that he was not sure that it would be persuasive, since from his experience it is possible through the choice of model in some empirical studies to give at least broadly the answer one is expecting. **Senator Monti** expressed a more optimistic opinion. According to him, this type of study can demonstrate to politicians that a competition authority’s work has a real impact. Moreover, empirical evidence can be a helpful instrument for a political leader. It can help him persuade his political colleagues and public opinion that competition is not a religion: it has black and white effects, and “positive effects on employment outweigh negative impacts”.

Next, the **Chair** invited the Mexican delegation to present their contribution. The delegate from **Mexico** explained that the Mexican government considers competition to be beneficial for overall economic growth, including growth in employment. Therefore, in 2013 the Mexican congress established the Federal Competition Commission (COFECE) as an autonomous body with the responsibility of helping realise the federal government's economic strategy. Since then, COFECE has participated in regulatory impact analyses to determine whether draft government regulations will have a positive effect on competition, with attendant implications for employment growth. COFECE does not explicitly include employment as an aspect of its decision-making in cases, including merger reviews. Rather, the authority considers only the economic efficiency effect of competition decisions, which contributes in COFECE’s view to long-term employment growth.

The **Chair** then invited the Russian delegation to summarise some of the macro effects of the transition from a planned economy to a market economy in their country. The delegate from **Russia** explained that at the end of the 1980s, the official unemployment rate in USSR was approximately 0.9%. The official ideology considered unemployment to be a phenomenon inherent to the capitalist economic system which was overcome in the common socialist economy. The transition to a market economy caused significant short-term job losses connected with the restructuring of the economy, the redistribution of the workforce between sectors and the closure of unprofitable enterprises. For example, employment in industrial sectors fell from 22.8 million to 10.2 million during the 1990s. However, the transition to a market economy also resulted in the creation of new sectors with concomitant job creation, including private hospitals, universities, schools, accounting firms and other financial market institutions, consulting firms, advertising agencies and recruitment agencies, among others. For instance, the number of enterprises in Russia in 1991 was 288 000 while at mid-2015, there were more than 5 000 000 enterprises in the Russian economy. A crucial role in the creation of new jobs is played by the services market, which constitutes today about 56% of total employment in Russia.

The **Chair** then turned to Tunisia and noted that Article 40 of Tunisia's Constitution guarantees all citizens the right to work in "favourable conditions with a fair salary". Despite this provision, Tunisia has a quite high unemployment rate, also due to many anticompetitive regulations. The Chair thus asked the Tunisian delegation to explain the role and successes of the Tunisian Competition Authority in advocating against such anticompetitive regulations. The delegate from **Tunisia** confirmed that the country has a high rate of unemployment in large part due to regulation that favours monopolies that are unproductive and have little incentive to invest and therefore create jobs. This issue is particularly evident in network markets (rail, merchandise transport, water distribution and international communication). The Competition Authority has always sought to prevent any regulatory bill limiting competition. The Authority discussed its advisory activity, including the formulation of *bills of specifications*. Indeed, the main purpose of these bills is the establishment of clear rules to avoid ambiguities that lead to restrictions on competition. The Authority also performs an advocacy role with the government. Further, a new Competition Law was passed in Tunisia in September 2015. The law states that the Authority must be consulted by the government with respect to any legislation that organises economic activity.

Next, the **Chair** invited the Zambian delegation to illustrate their experience with the transition from a planned economy to a market economy, and how it differed from Russia's experience. The delegate from **Zambia** explained how over the course of Zambia's transition to a market economy in the 1990s (involving privatisation of companies and deregulation), the formal economy quickly contracted and the informal economy grew rapidly. This caused an immediate drop in formal employment due to over-employment in the command economy. Despite these redundancies, however, workers found new opportunities created in liberalised industries. In particular, the promotion of competition in Zambia has resulted in ease of entry (with attendant job creation) and exit in industries, with only access to capital a barrier in larger industries. The growth of micro-, small- and medium-sized businesses has contributed to the expansion of the informal sector and corresponding employment growth, with unemployment gradually falling in recent years.

Next, the **Chair** invited three delegations to present their success stories regarding the positive impacts of competition on employment. A delegate from **Indonesia** discussed the case of the introduction of competition in the airline industry in that country, which was triggered by the advocacy of the competition commission. She began by noting that Indonesia is a country with a large and young labour force, but which has uneven labour distribution and labour force quality. Airlines are labour intensive and, according to the delegate, play a big role in connecting people in Indonesia, given it is an island nation, while also playing a role in providing opportunities for rural growth. Prior to reforms in the 1990s, there were only 6 airlines. The government allowed the airline business association to set the air freight rate, which was set at a high level. On 30 July 2001, the Indonesian competition authority recommended that the Government deregulate airline rates. The Ministry of Transportation in response introduced competition in rates, resulting in a reduction in tariffs, and the industry began to boom. The number of passengers, aircraft and employees grew: for instance, there was a 45% growth in "main" workers in the airline industry (pilots, maintenance etc.), a 40% growth in airline security employment and over 30% growth in airport personnel employment. The delegate noted that the Minister of Transportation has observed there are many potential routes that are still not flown, so this industry has a positive employment outlook. Other sectors that saw an improvement in employment growth after the introduction of competition include the construction industry. The delegate concluded by stating that the removal of barriers has had a significant impact on the development of industry and employment growth in Indonesia. This growth is not only the result of new businesses but also increased economies of scale permitting companies to take advantage of new opportunities and achieve an increase in market share.

Mongolia's delegation discussed the opening up of competition in the telecommunications sector. There was a monopoly until 1996 in the telecommunications sector. There are now several companies in the sector. With competition, new services reaching more people throughout the country were introduced, which in turn required more workers, increasing overall employment in the sector. In the last 10 years, the number of employees in the sector increased by about 5 times. In the mobile telecommunications industry, employment grew from 424 in 2005 to 2 147 after ten years, and the number of mobile companies increased from one to four. Therefore, the delegate concluded that in the Mongolian telecommunication industry, competition had had a positive impact on employment.

The delegation from **Moldova** was then invited to discuss the broadcasting sector, where the competition authority issued a decision preventing two cable providers from coordinating to encourage the exit of a third provider by maintaining low prices. This intervention ensured that the third provider continued to participate in the market and that its employees' jobs were maintained. In fact, the provider continues to compete in the market today and has created new jobs since the competition authority's ruling. In conclusion, the delegate from Moldova indicated that the strict application of competition policy is the best way to guarantee economic liberty, and that regulatory enforcement has not only an economic impact, but also an impact on society overall.

On the subject of designing policy responses to address employment concerns during economic recessions while allowing the competition authority to remain unwavering in its competition enforcement work, a delegate from **Singapore** discussed the national Jobs Credit Scheme. She noted that during economic recessions there are always pressures on competition authorities to reduce competitive pressures. However, in the long term, limits on competition slow down growth and makes recovery harder. In designing the Jobs Credit Scheme, the government adhered to the principle of non-discrimination to minimise any distortion within the economy. The scheme incentivised the maintenance or creation of local jobs in Singapore. The delegate discussed the outcome of studies which have found that this scheme was effective in saving jobs (estimated to be 120 000 jobs over 3 years). Further, the delegate described how the design of the scheme was competition neutral; specifically, it applied to all companies based in Singapore, and it had a definite duration of one year articulated up front. The JCS illustrated that policies aimed at preserving employment and improving labour market outcomes need not restrict competition between firms, or restrict firms' incentives to adapt to changes in economic conditions.

Morocco's delegate discussed the context of the question regarding the link of employment and competition in a developing country like Morocco. The delegate noted that the relationship between competition and employment is a polemic subject, and in particular in times of crisis, where there are competitive shocks causing negative impacts among some market participants. This debate is particularly relevant in a young country like Morocco which has high unemployment and where the economy creates few jobs. The delegate observed that many developing countries, including Morocco, have been reticent to adopt efficient competition policies, even if they have adopted formal legislation. Many ask whether an industrial policy should be undertaken to preserve jobs or whether a competitive policy should be followed for long-term growth. Further, there is in the view of the delegate a debate over whether competition policy is a prerequisite for economic growth, or whether it is something that should accompany economic development. There is also a view among some that economic development requires the accumulation of capital that would not be possible in a purely competitive environment. The competition authority in Morocco has engaged in advocacy to refute these views, and clarify that competition policies are not necessarily incompatible with industrial policies and job growth. Further, competition policy is, per the delegate, required in an open economy and essential for the success of privatisations.

The Moroccan delegate concludes by stating his view that competition is a wealth and job creator, including through new industries and new products. However, while these are communal benefits, we do not know what the individual impacts of innovation from competition – it may, for instance, create job losses in certain areas. This uncertainty creates questions about the sharing of wealth – some may benefit and some may not. The delegate opined that the market remains a formidable wealth creator, but can in fact enrich those who are already wealthy at the expense of the poor. Risk sharing should therefore be considered to ensure that all benefit from the collective increase in wealth from competition. While employment protection is incompatible with creative destruction, social security measures may help address these questions.

Professor Norman noted in response to the interventions thus far that competition and employment cannot be discussed in a vacuum – there is, rather, an optimum targeting approach for economic policy. Competition policy can concentrate on competition provided there are other policies, like labour market policies, to handle problems that arise from competition. There is also a question of how other policies, such as labour market policies or stabilisation policies, can be designed so as to not limit competition.

The **Chair** then invited delegates to contribute to the next topic of this session: the inclusion of *public interest considerations* in competition law enforcement. He began with countries who believe that public interest considerations should not be considered in the enforcement of competition law.

A delegate from the **United States** stated that the consideration of employment has never been a meaningful part of the application of US competition laws. The delegate described how there has been an evolution in the understanding of the purpose of competition laws in the US. In the early decades of US antitrust laws, there was an emphasis on firm size and competitors and a small role for economics. From the 1970s, there emerged a critique that, while protecting inefficient competitors, competition law was not protecting consumers. This led to an increased focus on economic analysis (analysis of consumer benefits) and consideration of only competition goals rather than other policy factors in competition law. The delegate noted that there is now a long-standing consensus that the goals of competition law are efficiency and consumer welfare. Other social and political objectives may be worthy of consideration, but not in the context of competition law, as they are not considered by courts and are not the focus of competition authorities.

The US delegate also pointed to some challenges associated with considering these other factors. First, it is difficult to estimate the employment impacts from competition, including the estimation of how many jobs would be lost or gained as a result of a transaction or conduct. Further, there are indirect effects where transactions that introduce efficiencies can create jobs in other areas of the economy including in downstream markets. Even if a reasonable estimate of net effects could be developed, the agency would be required to balance employment impacts against consumer welfare, and it is in the view of the delegate unclear how this balancing would work.

The US delegate closed by stating that it is already difficult for competition authorities to perform a sound competition analysis, and weighing other social factors could be an undue burden. Further, this would introduce substantial uncertainty in business planning. The US approach of not considering employment is, the delegate opined, the best approach for accomplishing competition authorities' primary objective of maximising consumer welfare.

The **Chair** noted **Swaziland's** contribution, which concurred with the US view on this issue. The contribution noted that, while unemployment is a big problem, it should not be dealt with piecemeal for example by attaching conditions regarding the continued employment of workers at acquired and acquiring firms, as such policies cannot in fact preserve employment. Rather, competition authorities can have an impact on employment by focusing their efforts on laws and regulations which act as impediments to economic growth.

The delegate from **Swaziland** responded to the Chair's comments by noting that there are a number of regulations and laws requiring improvement, but impediments to private investment do not just arise from laws and regulations – they also arise due to specific practices on the part of the government. For example, the land tenure system allocates a certain percentage of land as Swazi Nation land that cannot be used as collateral or as an asset for individuals wishing to expand businesses. Although any individual can acquire land in Swaziland, there is only a small percentage of land for which individuals can acquire title deeds. Reforms have not been implemented in this area. Further, on the subject of court hearings, the delegate notes that it takes a significant amount of time for cases to be heard in Swaziland.

Business registration was also discussed by the delegate: the government of Swaziland has reduced the number of days it takes to register businesses in Swaziland but there are still many barriers to business investment. For instance, the Minister of Health must issue a certificate of approval of premises for business registration, which takes a significant amount of time. Another regulation that impedes the establishment of SMEs in the formal sector is the requirement for a lease agreement to establish a business. Because access to finance is very challenging, the requirement to have a lease agreement can cause the failure of early-stage SMEs.

In addition, the delegate noted that there are still perceptions in the private sector that the government is not dealing with corruption effectively. Further, while some sectors have been liberalized, there is a need for capacity building among sector regulators to consider competition when issuing licenses to operate.

The Consumer Unity and Trust Society (CUTS) Secretary General, Pradeep S. Mehta, presented his views regarding the inclusion of public interest considerations in competition enforcement. He noted that some jurisdictions consider job losses in developing countries, and opined that the Indian authority cannot ignore public interest standards. Mr. Mehta discussed the promotion of competition in certain sectors, including the service sector, and the need to take into account the overall policy framework of a government when considering the impact of employment on competition. He described a case pursued by the Indian Competition Commission using public interest provisions, which involved a shoe company imposing exclusivity conditions on its suppliers and which could have had employment impacts. Mr. Mehta then noted the example of trade adjustment assistance in the US as an example of a tool to assist with the negative impacts of certain policies without burdening competition authorities.

When asked by the Chair about whether it is preferable to have no competition law (as may have been the case in certain developing countries if public interest considerations were not considered), or competition law with public interest provisions, a delegate from **The Business and Industry Advisory Committee to the OECD (BIAC)** stated that, even if competition law includes factors other than competition, it must be applied with independence, transparency and objectivity, which is preferable to no competition policy at all. The delegate stated BIAC's general view that, in its experience, pro-competitive policies do increase economic activity and have a long-term impact on employment.

BIAC's delegate emphasised the importance of transparent, timely and efficient decision-making processes for the benefit of all stakeholders. The delegate quoted International Competition Network (ICN) Guidelines calling for the interaction of competition and non-competition factors in a transparent manner. Where there are public interest factors, the delegate opined that it is important to also try to further the objectives of transparency and predictability by indicating how public interest factors should be balanced and weighed against other factors. The delegate proposed two ways of furthering guidance regarding public interest considerations: issuing guidelines by competition authority to determine specific criteria that will be weighed, and ensuring that the decisions made by competition authorities are as detailed as possible to enhance transparency and predictability of the application of competition law, important for economic growth.

South Africa's delegate then discussed the application of employment considerations to merger approvals in that country. The delegate noted that the first test for mergers is whether the merger results in anticompetitive effects. Next, the assessment looks at whether there are pro-competitive justifications that would offset the anticompetitive effects. There is also an assessment of whether there are any public interest considerations that may outweigh any anticompetitive effects. A merger may be approved or disapproved based on substantial public interest grounds, including employment.

In the Momentum-Metropolitan Merger the tribunal set out a two-step process. First, the Commission must establish a prima facie case on whether there will be job losses. The evidential burden then shifts on to the merging parties to justify the job losses. There are two criteria to meet the evidentiary burden: the reason for job losses and the numbers must be rationally connected, and there must be a justification of retrenchments (=redundancies) as not being contrary to the public interest. In determining whether the likely effect is substantial, one considers not just the number of jobs being shed but also whether the effect is substantial (based on the percentage of job losses and skill levels impacted). In the Momentum case, the parties could not justify why they arrived at a certain number of job losses. The tribunal found that job losses should not be inconsistent or arbitrary.

Kenya's delegate discussed similar provisions in their law. The delegate began by noting that the competition policy and law in Kenya is cognisant of the fact that competition can be a driver of employment. In Kenya, the Competition Act stipulates that the authority must consider the impact a merger would have on employment. In merger analyses, there are two tests: substantial lessening of competition and, if competition is not found to be negatively affected, public interest criteria are considered. Public interest criteria include employment, SME participation in markets, international competitiveness of Kenyan businesses and salvaging of failing firms. The delegate indicated that parties are expected to provide a definitive analysis of the impact of a merger on employment. There is a merger application form in which a commitment must be made regarding employment. The competition authority mostly bases analysis on the information contained in these forms. The delegate discussed balancing of efficiencies with impacts on public interests. For instance, the authority examines whether there is a public or private benefit to the efficiencies expected to be generated from a transaction.

The delegate from Kenya noted one case example – an acquisition in the life insurance industry of Real Insurance Company Limited by the British American Investment Company. The competition authority considered competition criteria and found there were no concerns. However, it was found that the merger raised public interest concerns regarding employment. There was a clause in the agreement stipulating there would be restructuring that would have employment impacts (specifically, the loss of duplicative positions), despite a commitment that there would be creation of jobs from growth. The competition authority negotiated employment conditions with the parties, while also considering other public interest considerations including increasing the capital base and the government's industrial policy in terms of the development of the insurance industry. The delegate indicated that this would facilitate international competitiveness and the creation of jobs.

Nicaragua's delegation noted that the defence of employment in a developing country is a priority, although they recognise the benefits of competition in innovation, growth and job creation. In the case of a merger in the food processing industry, the authority required the preservation of employment for 2 years. At the end of the 2 years, a few employees were lost in administrative positions, but most jobs were maintained, and 2 years later, the headquarters of the company in South America was relocated to Nicaragua. The delegate noted that Central America is seen as a single market by many companies, and as such, there is an organisation for competition authorities of the area to discuss mergers and competition issues.

A delegate from the **Trade Union Advisory Committee (TUAC)** expressed the view that competition can be a force for economic and social progress, but if unchecked, it can lead to unfavourable social outcomes. Thus one must look at all effects, rather than just short-term price effects, of competition. The balancing of various interests should not be exclusively the responsibility of competition authorities in the delegate's view, however, and there needs to be a division of tasks in considering public interest considerations.

With respect to mergers, however, the delegate stated that TUAC believes competition authorities need a specific mandate to undertake an alternative approach. Specifically, the delegate stated that authorities should look at the long-term competitive impact of a merger on a company (including debt/leverage conditions, future research and development and direct/indirect employment) and that workers and trade unions should be consulted by the competition authority to provide additional information to the authority and permit better management of the process of change at the company level.

The **Chair** then invited the panel to provide their concluding thoughts on the discussion.

Jean-Luc Schneider noted that economists try to distinguish the demand effects and supply effects of policies. He observed that there seems to have been a focus on demand effects; specifically, lower prices in an impacted sector will translate to higher demand in downstream sectors which may or may not increase jobs due to productivity gains. However, demand effects are usually short-lived (but positive in recessions). In the long-term, Mr. Schneider stated that relative prices balance across the economy and therefore this effect doesn't matter much.

What matters more, in Mr. Schneider's view, is the supply effect on the economy, notably higher real wages, higher labour market participation and lower equilibrium unemployment. If we wish to focus on the long-term effects of competition authority decisions on employment, we must be able to assess them, but Mr. Schneider observed that it does not appear that we are equipped to do that, even roughly. Decisions based on long-term effects would therefore have to be based on an act of faith that competition can be good for long-term employment – an assumption that can only be based on ex-post studies.

Senator Monti agreed that consumer welfare should be the sole standard for competition authority decisions, and that other public interest considerations should be reflected by other government entities. In his view, all competition agencies, including those applying a pure consumer welfare standard, would do well to assess the effect that having a high degree of competition in specific markets will have on employment and inequality.

Senator Monti then cautioned that if there is a rise in populist approaches to the public debate there will be more and more contentions that competition and competition policy interfere negatively with other essential public interests and values, including employment and inequality. It would be helpful in Senator Monti's view for competition authorities to look at this – although there may be negative side effects of competition on other elements of the public interest, these tend to be overestimated by those who attack competition.

Looking forward, Senator Monti stated that inequality will likely feature more prominently in considerations of economic policy in future years, and that this is not a bad thing, but there should not be short-cuts, and there should be evidence-based assessments of the lack of negative effects from competition.

With respect to advocacy, Senator Monti expressed the view that the European Commission benefits from having the competition commissioner sitting at the table where all decisions of that institution are taken, which ensures that he or she can influence all decisions, thus exercising an ex-ante in-house advocacy, highlighting the possible side-effects on competition that any measure may have. In his view, the Commission, as a major source of legislation in Europe, could have, even inadvertently, a more anticompetitive approach if there were to be a separation of the competition function from the rest of the Commission's decision-making (e.g. if competition were to be enforced by a separate agency). More generally, Senator Monti concluded by observing that it is challenging to consider how to engage in advocating competition while maintaining the independence of those entrusted with the competition function.

Professor Norman observed that it never struck him, as a former Minister of Labour and Competition, that competition and employment perspectives should be mixed. The best policy mix is to keep them apart in his view, having competition staff concerned exclusively with competition and labour policy staff concerned solely with labour, while ensuring that labour policy wouldn't infringe on competition. Professor Norman indicated that he believes competition authorities are not well equipped to make public interest assessments (just as labour experts cannot assess competition). Rather, these public interests are political, and some decisions have to be made at the political level. Professor Norman concluded by stating "there are some questions we don't have the answer to, and that's why we have politics."

Mr. Klaus Tilmes highlighted the importance of evidence, including ex-ante impact analysis, for competition authorities to reason with, and influence, political authorities. Even without having a full forecast of employment impacts, Mr. Tilmes indicated his view that we can engage in this sort of activity. Mr. Tilmes stated that competition policy is not solely responsible for answering job questions, and noted the intervention of Singapore regarding the government's employment scheme as a good example of policies avoiding competition impacts. He concluded by noting that the influence of competition on poverty reduction and the reduction of inequality has been shown to be very positive, particularly in the context of global production process. Those countries without strong domestic competition policies will lose out and will see their internal employment situation deteriorate further.

The Chairman concluded the session by identifying seven key themes that came out in the debate:

1. When we discuss employment, we do so in a macroeconomic and long-term context;

2. Job protection does not necessarily mean the promotion of employment; for instance, protecting unproductive jobs may not necessarily help address the problem of unemployment;

3. Competition is a necessary condition for productive employment, although it may not be sufficient for complete reallocation to productive employment;

4. There is complementarity between product market competition and labour market instruments – each can have a negative impact on the other, although one can find tools to address employment that do not impact competition;

5. In the context of competition enforcement, there is a difficulty in dealing with employment issues for those jurisdictions that are required to do so. These jurisdictions look at the impact of a merger on a market, rather than taking an economy-wide, macroeconomic perspective, and they look at these impacts in the short term. This narrow and short-term focus does not prepare us to deal with employment issues when we must deal with them.

6. Advocacy is important, and competition authorities should advocate for competition as well as labour policies that are respectful of competition.

7. When one must take into account employment issues, the best way is to be transparent about the criteria that will be used.