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COMPETITION AND POVERTY REDUCTION

Contribution from the Competition Council of Morocco

-- Session I --

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COMPETITION AND POVERTY REDUCTION

-- Competition Council of Morocco* --

1. At first glance, the interactions between competition and poverty are not evident. Yet when one thinks generally in terms of the relationship between "economic" and "social" aspects in the life of society, a clear interaction becomes apparent, both directly and indirectly through the effects of the market economy of which competition constitutes the main foundation. This situation is even more obvious in this age of globalisation, when the ongoing debate focuses on the scope of the relationship between the globalised market economy and poverty.

2. For some, the market and its corollary, competition, constitute the ideal framework for the flourishing of economic activity and growth, a condition sine qua non for promoting employment and hence for combating poverty. In the view of other thinkers and players in economic life, growth is not always a direct determinant of employment nor is it a sufficient condition for improving the lot of the population as a whole, because of shortcomings in the distribution of resources; moreover, they hold that the frantic search for economic efficiency in the context of globalisation will inevitably generate marginalisation and poverty.

3. Such a debate, and in any case such a relationship, must be grounds for reflection. This is what we will attempt first in the course of this communication. We shall then try to define the concept of poverty before moving on to the third stage, where we analyse its relationship to competition.

1. The debate over the "competition-poverty" relationship

4. The least one can say is that the market economy and its corollary, competition, are the subject of much debate and even controversy as to their effects on poverty.

1.1 The argument that denies a positive link between the globalised market economy and poverty

5. The opponents of liberalism and of the globalised market economy maintain that the market, increasingly unfettered by regulation, constitutes the main cause of poverty. In fact, they argue, if competition has generated a certain level of growth in recent decades, it has also led to the marginalisation of large segments of the population, thereby raising the level of poverty. For supporters of this viewpoint, there has never been so much wealth constituted as during the last years, but at the same time the world has never seen so much absolute poverty and relative frustration as during those two decades. As well, the defenders of this thesis insist that while the market economy might be able to generate significant growth rates, it will nonetheless create a difficult environment of access for the less affluent, to the extent that integration into the system demands levels of education, qualifications and resources that are often beyond the reach of the most disadvantaged social layers. The "escalator effect" that the market economy is supposed to generate in favour of lower and middle classes is merely an illusion, as the system perpetuates

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the transmission of poverty from one generation to the next because of persistent difficulties of access to education, healthcare, and housing. This situation is all the more real because the unregulated market economy necessarily deepens social divides and bolsters the position of the most fortunate by creating situations of rent and privilege for the most influential lobbies.

6. Moreover, the favourable growth trend seems to have reversed itself and the world has been mired in a profound crisis since 2008. The liberal economic system has in a sense plateaued and the market has been unable to generate the conditions for regulating itself. The current crisis is irrefutable proof of the failure of the globalised economic system and hence the competitive market.

1.2 The proponents of a positive effect of the market and of competition for combating poverty

7. The champions of the market and of competition begin by pointing to the enormous production of wealth in recent years and argue that if there has been an economic downturn since 2008 this is because the market economy is no longer properly run and regulated. As they see it, anticompetitive practices are widespread and governments are often incapable of countering them because of the behaviour of certain proponents of orthodox liberalism, who treat regulation as suspect. The behaviour of the big banks and the world of finance offers an eloquent example here. Moreover, an examination of the historical evolution of the market economy shows that it has nearly always been accompanied by government regulation intended to lessen the negative effects that can accompany its positive aspects. Thus, with the shift from the feudal power arrangements of the Middle Ages to the nation state, the market expanded in a competitive setting, allowing the creation of significant wealth but also of social disparities and poverty, which led governments to intervene by instituting a panoply of social protection schemes that attenuated some of the market's negative spillovers. The same observation can be made in relation to the move from nation states to the establishment of broader economic groupings such as the European Union. There, as everyone knows, the market has expanded greatly; competition has flourished and the region has become substantially wealthier. But something had to be done about the differing levels of development and growing inequalities: consequently, the European institution has established support mechanisms to help the regions and social groups most seriously affected by the new, larger economic space. Unfortunately, in the passage to globalisation, the market has expanded enormously but the newly-created wealth has not been accompanied by the establishment of global institutions and procedures for reducing the poverty and exclusion inherent in the new world order.

8. Taking these elements as a starting point, then, we may say that it is not the market and its corollary, competition, that are to blame – since global openness has produced unprecedented wealth and the emergence of new economic powers that were formerly poor, such as China, India or Brazil and so many others – but rather the lack of regulation and of global support mechanisms that might have attenuated the excesses and avoided the crisis.

2. The concept of poverty

9. It is common to classify poverty in two types: absolute poverty, defined by statistical data that relate directly to the population concerned, and relative poverty, using comparative data among different segments of the population. We can in fact identify a third type of poverty, which we could qualify as psychological: it derives not from the direct level of income or the analysis of disparities of income distribution, but rather from the psychological positioning of certain social categories in relation to the prevailing model of consumption. Absolute poverty, relative poverty of the social kind, and psychological poverty thus constitute the three main forms that this social scourge can take.

2.1 *Absolute poverty*

10. Absolute poverty is generally defined as the inability to meet basic needs. It is most often measured in terms of the monetary incomes of certain population categories, and hence their purchasing power. Indicative poverty thresholds can then be set. For example, in Morocco the population living below the poverty threshold is estimated by the Planning High Commission at 8.9% of the total or 2.84 million individuals. On the other hand, the population targeted by the sickness insurance system, which is considered a disadvantaged group, represents 28% of the population or 8.9 million individuals.

11. In fact, this monetary analysis is being increasingly abandoned in favour of a structural approach which takes into account not only monetary income but also the possibilities of access to certain services that are now considered as indicative of people's living standards. These include basic education, health and housing as well as the availability of drinking water, electricity, heating and certain means of communication.

12. Looking again at the case of Morocco and the general situation prevailing there, the High Commission for Planning estimates the number of "vulnerable" people at 40% of the total population, or 12.7 million. This category covers not only the poor and vulnerable but also a portion of the middle class. We should note, however, that while poverty as measured by purchasing power increased between the beginning of the 1980s and the year 2000 and remains relatively high in Morocco, the trend seems to have reversed itself since that time, both in global terms and with respect to social disparities between women and men as well as between urban and rural zones.

13. The reversal of this trend can be attributed to the efforts made over the last decade to combat poverty and insecurity through targeted programmes for integrating the weakest social layers into the economy. By way of illustration, we may mention the compensation system intended to subsidise the prices of basic consumer products, the National Human Development Initiative (INDH), programmes of public investment in basic rural infrastructure, programmes for the allocation of microcredit and for combating illiteracy and encouraging school attendance, and programmes to promote small and medium-sized enterprises, in particular *tayssir* and *moukawalati*.

14. In conclusion, we may say that absolute poverty is now measured as much by access to what are considered indispensable social services as it is by the conventional yardstick of monetary income.

2.2 *Relative poverty of the social and psychological types*

15. Beyond the essentially quantitative aspect of the first approach, we may point to what is commonly called relative poverty, which reflects social disparities in the distribution of income. An individual or a household may have a fairly decent income and may have access to services not available at the absolute poverty level, but will nevertheless feel poor because, in terms of social comparisons, the disparities are so great as to evoke resentment among certain population groups.

16. Along with relative poverty of the social kind, a third type of poverty can be identified, one that has more to do with comparative psychological positioning. In any given society, for example, there may be significant social disparities in terms of income, but the feeling of frustration and psychological poverty will be different depending on the behaviour of the most affluent social classes. If in a given society the wealthiest groups are seen as saving and investing, there will be less feeling of frustration. If on the other hand the better-off social classes give themselves over to conspicuous consumption, as happens in many developing countries, the comparative effects will be more important as will be the feeling of poverty. For example, the clearly ostentatious lifestyle of the wealthiest people in Morocco is such that much of the population, including the middle class, aspires to achieve the same level of consumption and feels a degree

of frustration akin to poverty. What can be damaging is the fact that certain population categories that might qualify as middle-class often have levels of income that are higher than comparable populations in countries of the Maghreb, for example, but through the effect of comparison and imitation they will either take an aggressive stance against those more successful than themselves or will engage in shameful practices in order to boost their incomes.

3. The positive impacts of the free market and competition on poverty

17. Free markets and competition have positive effects on poverty, through the promotion of growth, the protection of consumers, the guarantee of a certain equality of opportunities, and the acceptance of certain social exemptions to the strict rules of competition.

3.1 Competition, growth and poverty reduction

18. It is obvious that when the competitive market functions properly without distortions it can contribute, through the effects of competition, innovation and creativity, to stimulating output and growth. It also reinforces this momentum by producing a better quality/price relationship that stimulates the competitiveness of the national economic fabric and hence its export potential. Obviously, a high level of growth is bound to spur employment and enhance the conditions for combating poverty. Growth is certainly not a sufficient condition for combating poverty, given the social inequality that it can generate, but it is surely a necessary condition for improving the social situation because it "expands the pie" available to be shared and, when accompanied by adequate social regulation, it can correct social disparities. Moreover, market competition necessarily entails the emergence of economic players able to compete on world markets, which generates higher growth rates and improves living standards. This relationship was demonstrated in a study conducted by McKinsey Global Institute, which sought to determine why some countries remain rich while others stay poor, even if they are supported by significant financial transfers through international aid mechanisms. In his book presenting the results of the study, William Lewis explained that "economic progress depends on increasing productivity, which depends on undistorted competition. When government policies limit competition... more efficient firms can't replace less efficient ones. Economic growth slows and nations remain poor". Thus, competition has great potential for improving the performance of an economy as a whole while having a direct impact on the purchasing power and well-being of individual consumers.

3.2 Competition and consumer protection

19. Although competition constitutes a factor for economic growth, because of the better quality/price ratio it generates, it also has a social dimension: this better relationship between quality and price is bound to benefit the consumer. This, then, is a social dimension of competition, one that is significant in terms of reducing poverty.

20. By focusing on anticompetitive conduct that increases costs to disadvantaged individuals, competition authorities may directly improve the lives of their countries' poorest citizens. Furthermore, by exercising their advocacy powers with respect to government measures that may affect competition, these authorities allow competitive markets to unleash their potential in terms of quality and price in favour of poorest. By way of example, the Competition Council of Morocco undertook a study in 2010 of competition in the mobile telephony sector. The fact that the study found practices resulting in rates that were too high, and that it was published and covered by the media, had the effect of gradually and substantially reducing the rates charged by the companies concerned.

21. We should also note that in the presence of anticompetitive practices, while the more affluent may be able to absorb the resulting overcharges by reducing their discretionary spending, a poor person

living on a few dollars a day may have to curtail spending on basic necessities such as food or health.. Paying more for the necessities of life means having fewer resources available for making long-term investments, such as opening a small business or purchasing agricultural equipment. Similarly, supplier collusion in public procurement imposes unjustified additional costs on consumers, especially poor ones. It has been observed that “even small improvements in the performance of public procurement programmes can yield large social benefits, especially for the least affluent citizens.[...] Many of these expenditures [on procurement] are for infrastructure and social services that are designed in large measure to assist economically disadvantaged populations”

3.3 *Competition, ethics and equal opportunity*

22. The logical rationale for the competitive economy is that everyone can gain the most by innovating and organising his production correctly without relying either on the unearned rents that result from anticompetitive practices or on legitimate subsidies from government. Competition, then, works in favour of ethics in business. But at the same time, by avoiding anticompetitive practices and barriers to entry, competition opens the way to a certain equality of opportunity and the possibility of entrepreneurship for the middle classes: this is bound to expand the "winners' circle" and to reduce poverty. The World Development Report 2000-01 states that "markets work for the poor because poor people rely on formal and informal markets to sell their labour and products, to finance investment, and to insure against risks. Well-functioning markets are important in generating growth and expanding opportunities for poor people."

3.4 *Exceptions in competition law and the struggle against poverty*

23. Competition laws and policies converge to establish an economic system where truth in pricing prevails, without unjustified rents to the benefit of certain economic agents. However, as we know, they allow certain exemptions from the general principles, of an economic and social nature.

24. When it comes to economic exemptions, competition law allows for state subsidies to promote "national champions" and SMEs. Exemptions in favour of SMEs can be said to help reduce poverty if they encourage the emergence and development of middle classes.

25. As to exemptions of a social nature, it must be noted, first, that the "best price" resulting from competition may be beyond the reach of certain social categories. For this reason, competition law makes it possible to subsidise the prices of basic consumer goods, subject to conditions, or to provide direct assistance to buyers. In Morocco, for example, there is a system of compensation to keep the prices of certain categories of flour, sugar and fuel artificially low. In the wake of a study by the Competition Council, the Moroccan government is now considering the possibility of eliminating this compensation system, which also benefits the wealthier classes as well as intermediaries, and to replace it by a system of direct grants to the poorest social groups.

26. Lastly, beyond these systems of direct support to the most disadvantaged, and in the context of reconciling competition policy with industrial policy or socioeconomic policy in general, the authorities may pursue various actions in parallel with competition policy, designed to improve living conditions. In addition to the price compensation system, the Moroccan government has introduced the “National Human Development Initiative" (INDH), which is intended to combat all forms of poverty and includes not only social assistance measures but also actions relating to education, health, water and electricity supply in rural and peripheral urban areas.

27. In conclusion, we may say that the marketplace and competition can serve to create conditions favourable to the middle classes and to economically disadvantaged groups, provided of course that regulation plays its proper role.