



COMISIÓN FEDERAL DE COMPETENCIA

Competition's effect on poor consumers: Mexican experience

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Messages

1. Monopolies harm economic efficiency and could also worsen income distribution.
2. Mexico has many monopolized markets with negative effects on the poorest.
3. Competition policy could help reduce social inequality.

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There is ample academic literature on the effects of monopolies on economic efficiency....

Evidence on effects of monopolies on efficiency

Static effects

Exorbitant profits and inefficient allocation of resources

- Multiple studies that estimate that the lack of competition significantly increases prices.
- Experiences in OECD countries show that when companies collude and form a cartel, the cost of goods and services can increase by 20% or more.
- Empirical evidence suggest that the welfare loss associated with monopoly as a percentage of gross domestic product (GDP) varies between 0.1 to 13 per cent.

Dynamic effects

Less incentives for productivity and innovation

- Vast evidence that more competition increases productivity and innovation.

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... however, the distributive effects of monopolies has been less explored.

The few studies identified suggest that monopolies can worsen social inequality:

"... it appears that the presence of past and current monopoly has had a major impact on the degree of inequality in the current distribution of household wealth."

(Commandor & Smiley, 1975)

" Whatever the size of the absolute welfare loss arising from monopoly, there may be a substantial effect on the distribution of welfare"

(Creedy & Dixon, 1998)

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In 2008, the CFC conducted a market study, supported by the OECD, to assess the distributive and spatial effects of monopoly power in the Mexican economy*

Market identification:

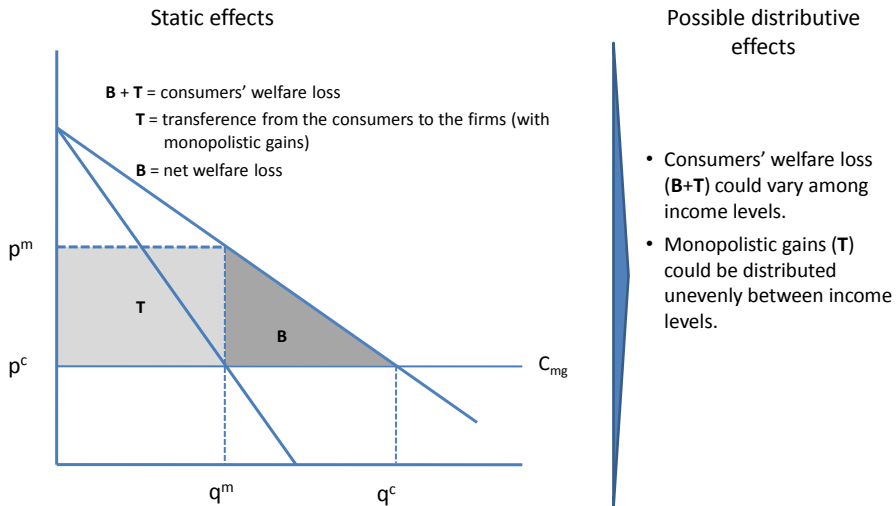
Private monopolistic markets with direct effects on household spending

Basic consumer goods:

1. Corn tortillas
2. Processed meats
3. Chicken and eggs
4. Cow milk
5. Carbonated soft drinks, juices and bottled water
6. Beer
7. Pharmaceuticals

* Carlos M. Urzúa (2008). "Evaluación de los efectos distributivos y espaciales de las empresas con poder de mercado en México".

The effects related to distribution of monopoly gains and consumer costs



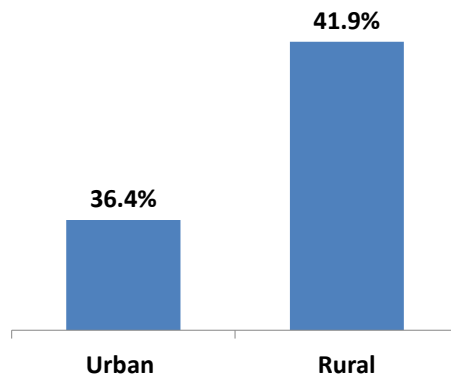
Source: Carlos M. Urzúa (2008).

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The study results indicate that the loss of consumer welfare arising from monopolies is significant....

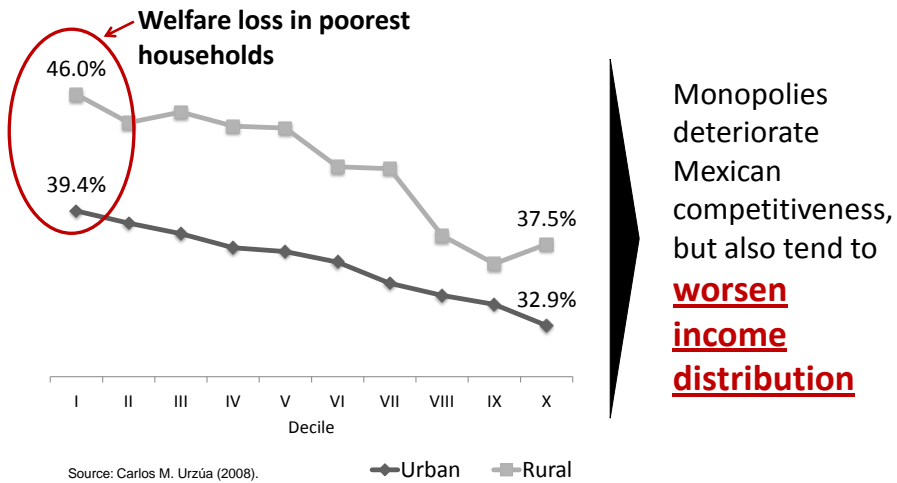
Consumer Welfare Loss Estimates

% expenditure on the monopolized markets analyzed

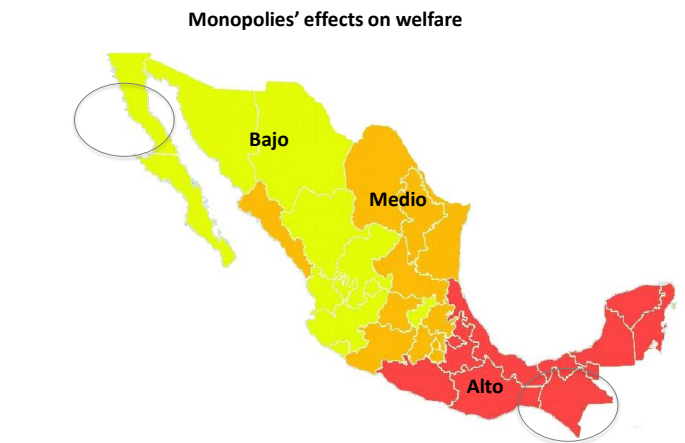


Source: Carlos M. Urzúa (2008).

...the negative impact of monopoly power grows as households are poorer.



These variances can also be observed between Mexican states – with different levels of income



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Monopolies in Mexico have been linked to particular anticompetitive behavior, however, in many cases they depend on restrictions created by the government ...

By ...

- Imposing barriers to foreign trade
- Implementing programs that facilitate collusion
- Imposing subsidies that reduce or eliminate incentives to compete
- Implementing strategies in public procurement that facilitate collusion and restrict entry (*OECD- CFC joint work to tackle this*)



e.g.
**medicines,
chicken &
egg, corn
tortilla**

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