

Competition Policy and Poverty

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Defining Poverty

- Must be operational to be useful
- Not the same as inequality
- Identification – who is poor
- Aggregation – summary measure for society

Identification - Concepts

- Income/consumption – minimum standard
- Multi-dimensional poverty e.g.
 - Assets, environment, health, security, vulnerability
- Security broadly defined is important
 - *Voices of the Poor* World Bank, 2000
- Amartya Sen:
Entitlements → Capabilities → Functionings

Identification – Practicalities

- What income/consumption poverty line?
 - Absolute vs. Relative
- Multidimensional Problems:
 - What dimensions, poverty lines and weights
 - Simple index numbers – trade-offs defined centrally
 - MPI – 10 measures; poor if below-par on 1/3rd
- Timely accurate data

Aggregation

- Headcount, poverty gap, poverty gap-squared
- MPI
 - national poverty = (% poor) * (average gap)
- Is aggregation necessary?
 - Macro vs. Micro focus – depends on issue
 - Individuals vs. Averages
 - Strong ethical arguments for individuals, but

How many winners compensate for one loser?

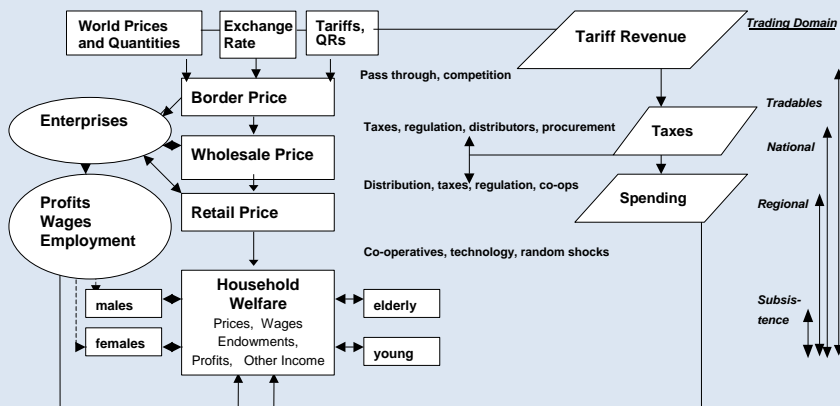
- The hypothesis '*There are no losers*' is intellectually uninteresting
- All public policy judgements are quantitative

Trade Liberalisation

- generally stimulates growth
- and through it poverty alleviation
- BUT
- it usually creates losers
- some of whom may be or become poor
- how do we identify them ex ante?

Conceptual Framework

Figure 4.2: Trade Policy and Poverty – Causal Connections



Key Questions

- Households and Markets
 - Are border price shocks transmitted to poor?
 - Are markets created or destroyed?
 - How well do households respond?
 - Do the spillovers benefit the poor?
 - Does vulnerability increase?
- Wages and Employment
 - Do wages or employment rise or fall?
 - Does transitional unemployment hit the poor?

Implications for Competition Policy

- Competition generally stimulates productivity and innovation
- Distribution channel seems key
 - Challenges in small economies
- Enterprises
 - rent-sharing possibly benefits some of the poor
 - But industrial lobbies are powerful and elite – will not share very effectively
 - Deep effects on few vs. shallow effects on for many

Approaches

- Transparency and honesty about losers
- Need for off-setting and compensatory policies
- Traditional industrial policy very suspect
 - Exceptions to competition law should be hard to win and hard to grant
- Horizontal industrial policy (Rodrik)
 - designed to maintain competition;
 - is often equivalent to competition policy because it fosters entry.

Institutions for Competition Policy

- Clear mandate to inform
- Ability to institute cases itself
 - Government must be vulnerable, as well as private sector
- Considerable independence (but not total)
 - Checks and balances in government overseeing it
- Resourcing assured for lengthy periods
- CP can aid general institutional development

Three caveats

- Need strong political base
 - Can't impose from outside
 - Bad CP worse than none - capture
 - There is a maximum speed of advance in this area
- Very demanding of highly skilled labour
 - Including private activity to match government's
 - Need to balance against other objectives
- International Competition Policy Agreement
 - A quite different matter.

Public Policy

- Proceed with trade liberalisation or competition challenges
- Predict the poverty impacts
- and possibly pre-empt them
- Protect the poor with general anti-poverty policies

Thank you