



Discussion Session II:

The consequences of competition and regulation in services

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Structure

- Motivation
- Specific points regarding both papers
- Related work done in European Commission



Motivation

- Market services are the largest economic sector (e.g. generating about 50% of euro area GDP)
- Strong backward (demand) and forward (supply) interlinkages with manufacturing
- Regulation of service activities is often impeding competition, with adverse consequences for economic performance
- Push for competition-friendly reforms (cf. the EU's Country-Specific Recommendations)



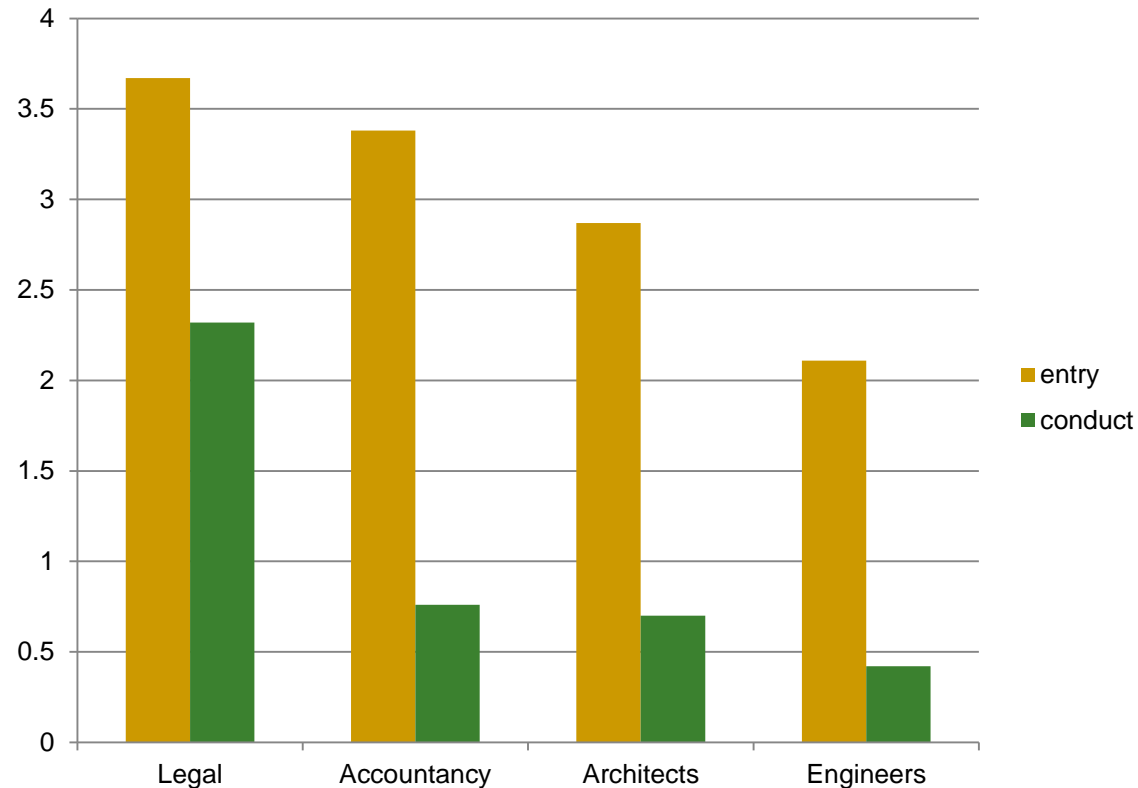
Services in the EU: What kinds of regulatory policies enhance productivity?

- Multi-country setting, based on firm-level data
- Split into entry and conduct regulation
- Regulations matter more when institutions are weak, an industry is close to the frontier, or a firm is foreign owned

- Logic behind the stronger impact of conduct regulation?; more scope for reform of entry regulation



Entry and conduct regulation in 19 EU countries (OECD's PMR)



Service regulations, input prices and export volumes: Evidence from a panel of manufacturing firms

- Firm-level data from Spanish manufacturers
- Price of intermediate consumption linked with regulatory impact indicator
- Investigation of firm's exports (impact of regulation through input prices)

- Heckman 2 step approach to distinguish extensive and intensive margin?



Further points

- Another interesting dimension would be to look at impact on current account balance:
 - (+) deregulation spurs exports
 - (-) deregulation leads to expansion of non-tradable sector
- Further explore consequences for sequencing of reforms: Should we prioritise service sector reforms depending on situation w.r.t. institutions and technology gap?
- Inverted-U relation in case of intangibles?
- Political economy of service sector reform



Work done in European Commission

- Benchmarking and preparation of thematic discussions in the EPC and Eurogroup
- Econometric analyses on impact of business environment (PMR, Doing Business) on productivity, FDI, allocative efficiency, mark-ups
- Impact of actual reforms
- Impact of reforms in closing-the-gap scenario



Econometric analyses

- Impact of regulation on allocative efficiency in regulated professions
- Panel regressions with country & sector fixed effects
- First step: A one point decrease in PMR would increase churn rate by 1.75%-point
- Second step: This increase in churn rate leads to an increase in AE by 5.7%-point



Productivity gains of reforms of professional services

- Reforms of legal services in Portugal reduced PMR by 0.63
- This is expected to increase business churn by 1.1%-point, and allocative efficiency by 3.6%
- Results from simulations with a DSGE (QUEST) show impact of GDP and employment over time



Closing-the-policy-gap: impact on AE

	Legal activities	Accounting activities	Architecture and engineering
PMR in DE	3.56	2.60	2.219
PMR in UK	0.79	1.75	0.365
Change in PMR in a closing-the-policy-gap scenario	-2.77	-0.85	-1.854
Impact on business churn	4.84%-point	1.49%-point	3.24%-point
Impact on AE	0.16	0.049	0.107
DE's predicted AE after the reform	-0.12	-0.03	0.07
AE in UK	0.06	0.15	0.06
Impact on labour productivity (%)	12.7%	3.7%	8.2%



Closing-the-policy-gap: impact on mark-ups

Simulated reform in professional services	
PMR in professional services in DE	2.65
PMR in professional services in UK	0.82
Change in PMR in a closing-the-policy-gap scenario	-1.83
Impact on mark-up	-0.094
Mark-up in DE	0.20
Mark-up in DE in a closing-the-policy-gap scenario	0.106
Mark-up in UK	0.10



Macroeconomic impacts using QUEST (combined effect of mark-up and AE)

Year	1	2	3	4	5	6	7	8	9	10	20	50
Real GDP	0.04	0.16	0.31	0.46	0.60	0.69	0.74	0.77	0.79	0.81	0.96	1.13
non-tradables	0	0.07	0.18	0.3	0.4	0.48	0.52	0.54	0.56	0.58	0.72	0.88
tradables	0.08	0.24	0.4	0.56	0.69	0.78	0.82	0.84	0.86	0.89	1.09	1.3
Employment	-0.01	0.01	0.05	0.08	0.10	0.10	0.10	0.09	0.09	0.08	0.07	0.07
Consumption	-0.09	-0.08	0.02	0.14	0.25	0.34	0.41	0.45	0.47	0.49	0.61	0.73
Investment	0.45	1.00	1.43	1.75	1.99	2.12	2.17	2.17	2.15	2.13	2.01	1.93
Trade balance	0.01	0.01	0.01	-0.01	-0.02	-0.04	-0.05	-0.05	-0.06	-0.06	-0.03	0.02

Note: Results for GDP, consumption and investment are % deviations and results for the trade balance are percentage-point deviations of net trade to GDP from pre-reform levels.



Thank you for your attention!

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