Competition, Regulation and Economic Performance

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Main Points

Competition is a key to productivity and growth

Review laws and regulations to reduce unnecessary government restrictions of competition

Strengthen competition law to better control private practices restricting competition
Competition is a key to productivity and growth
Competition Promotes Productivity and Economic Growth

• stronger market competition
  – disciplines managers
  – increases investment
  – increases employment
  – reinforces incentives for innovation
  – speeds the adoption of new technology and process of adjustment

• and results in higher efficiency and greater productivity growth
McKinsey links regulatory restrictions to economic performance

- McKinsey and Company compared productivity levels in Japan and the United States.
- In the sectors of the Japanese economy that were exposed to competition – in steel, automotive parts, metal working, cars, consumer electronics and computers -- productivity levels were about the same or higher compared to productivity levels in the U.S.
- Where Japanese sectors were protected from competition – in the retail sector, housing construction and food processing -- the productivity levels were as much as 50% below those of the U.S.
- These differences can largely be explained by competition and regulation. In the underperforming sectors, competition is highly restricted, in large part because of regulation.
Competition and Productivity -- Japan’s Dual Economy

Relative productivity levels
Index U.S. = 100

Steel
Automotive parts
Metalworking
Cars
Consumer electronics
Computers
Soap and detergent
Beer
Food processing
Retail
Housing construction

Employment
100% = 12.5 million employees

Source: McKinsey Global Institute
Reducing Poverty in India

- Per capita income has been diverging in Indian states over recent decades – the rich states are becoming relatively richer.

- Since mid-90s, labor productivity growth has been the primary driver of growth in GDP per capita in the majority of Indian states

- “Differences in product market regulation, as captured by the OECD’s PMR indicators, do appear to have a significant impact on productivity performance at the level of a aggregate state economies. Over the period of 1994 to 2004, there is a clear negative relationship between the restrictiveness of product market regulation and average labor productivity.”

Labour productivity higher in Indian states with fewer restraints on competition

Australia Benefited from Competition Reform

- Growth in real gross domestic income among the best of OECD countries
- Unemployment rate has fallen to around 5% -- lowest level since the 1970s
- Inflation within the target range
- A long stretch of fiscal surpluses, general government net debt eliminated.
- Living standards steadily improved since the beginning of the 1990s, now surpass all G7 countries except the United States.
- Wide-ranging reforms, particularly to promote competition, were instrumental -- OECD 2006.
Australia versus OECD
Real GDP Growth*

* 3-year moving average

Source: Fred Hilmer, University of New South Wales, OECD Stat Gross Domestic Product (output approach), Volume Index
Main Points

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Eliminating “Not Indispensible” Regulations a Great Step Forward

• President Calderon’s decision to eliminate all regulations that are “not indispensible” is a great step forward for Mexico.

• As the President said, many regulations just protect some companies from competition.

• But of course some regulations are necessary and will remain in many fields.

• Remaining regulations should be checked for excessive restraints on competition.
A Method to Review Necessary Regulations

• Based on Australia’s experience, the OECD developed a method to reduce government restraints on competition – the Competition Assessment Toolkit.

• The Toolkit has been implemented in a number of countries.

• COFECO already applies this method with OECD support.
Competition Checklist

• Key questions: Does the law or regulation
  – Limit the number or range of suppliers?
  – Limit the ability of suppliers to compete?
  – Reduce the incentive of suppliers to compete vigorously?

• If the law or regulation restricts competition, develop a less restrictive alternative that still achieves the government’s objective.
COFECO Reform Proposals

- External Trade – being implemented
- Banking – passed by the Senate
- Telecoms – with SCT
- Technical Standards – with SE
- Pharmaceuticals
- Electricity
- Airlines
- Intercity bus transport
Reforming Necessary Regulations Would Bring Major Benefits to Consumers

- Telecoms – $120 billion annually
- Pharmaceuticals -- $33 billion annually
- Airlines -- $12 billion annually
OECD Support for COFECO’s Work

- OECD staff in COFECO
- OECD staff in Paris
- Senior economists in US, Europe and Latin America
- Academic Advisory Council – top government competition economists now back in academia
Competition Assessment could be Applied in Mexico on a Large Scale

• Could be used to review large numbers of existing Mexican laws and regulations and draft legislation.
• Could also be used at the state and local levels
• Australia reviewed 1800 laws and regulations at federal and state level.
• Many indispensible regulations will need to be reviewed in Mexico.
Main Points

Strengthen competition law to better control private practices restricting competition
Mexico’s Competition Law Needs to be Stronger

Key areas for improvement:

• Stronger financial penalties for violations
• Criminal penalties needed for cartel violations
• Real search and seizure powers
• Injunction power to prevent irreparable harm
Conclusions

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