

# The Role of Competition Policy in the Promotion of Economic Growth

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# Overview

- Policies that promote economic growth
- What is competition [antitrust] policy?
- How does competition policy promote economic growth?
- What about industrial policy?
- What are the tensions between competition policy and other policies?
- Advances in competition policy
- Conclusion

# Policies that promote economic growth (1)

- Encourage saving
  - Efficient financial markets: competition policy can help
  - Tax policy
  - Cultural influences
- Encourage efficient deployment of savings (investment)
  - Efficient financial markets and efficient markets generally: competition policy
  - Tax policy
  - Regulatory policy

# Policies that promote economic growth (2)

- Encourage productivity improvements and innovation
  - Efficient markets generally: competition policy
  - Schumpeter?
- Encourage entrepreneurial innovation
  - Efficient markets generally: competition policy
- Encourage efficient utilization of existing resources
  - Competition policy

# Policies that promote economic growth (3)

- What about Schumpeter and innovation?
  - “Creative destruction” is important; but so is incremental progress
  - Entrepreneurs are important
  - Enterprise size and market power may not be so important

# What is competition policy? (1)

- Policies that are intended to encourage competition and the allocative efficiency that accompanies competition
  - Preventing cartels and price-fixing
  - Preventing mergers that significantly lessen competition
  - Preventing unilateral actions that significantly enhance market power

# What is competition policy? (2)

- Not all “competition” policy at all times has been competition-enhancing and efficiency-enhancing
  - Sometimes (e.g., in the U.S.) antitrust policy has simply favored the preservation of small firms
  - Sometimes competition policy has simply misunderstood efficiency issues
    - For example, vertical relationships and restraints (e.g., resale price maintenance)

# How does competition policy promote economic growth?

- Helps maintain competition and efficient price signals
  - Better signals encourage better investment, etc.
- Encourages a markets orientation
- Can encourage sensible policies elsewhere in government
  - “Competition advocacy”: U.S. antitrust agencies “lobby” other federal agencies and state governments to promote competitive, efficient policies



# What is industrial policy? (1)

- "In current use, the term 'industrial policy' denotes the promotion of specific industrial sectors rather than industrialization overall... Industrial policies are direct, micro, and selective; they are an attempt by government to influence the decision making of companies or to alter market signals; thus they are discriminating... Industrial policy has sometimes sought to support the losers, delaying or retarding their decline; in other cases the goal is to succor or catalyze maturing sectors or to stimulate advancing sectors." (Driscoll and Behrman 1984, p. 5)

# What is industrial policy? (2)

- "Industrial policies are concerned with promoting industrial growth and efficiency." (OECD 1975, p. 7)

# What is industrial policy? (3)

- "Industrial policy refers to a set of measures taken by a government and aiming at influencing a country's performance towards a desired objective." (Pitelis 2006, p. 435)
- "Industrial policy means the initiation and coordination of governmental activities to leverage upward the productivity and competitiveness of the whole economy and of particular industries in it." (Johnson 1984, p. 8)

# What is industrial policy? (4)

- "Industrial policy' refers to all policies designed to affect the allocation of resources between and within sectors of the economy." (Lawrence 1986, p. 126)
- "... the term industrial policy indicates the relationship between business and government on a microeconomic level..." (Wachter and Wachter 1981, p. 1 )

# Does the U.S. have an industrial policy?

- No
  - There is no focused policy or set of policies along the lines suggested by Driscoll and Behrman
  - In the 1970s and 1980s the U.S. debated formal industrial policy, and declined
- Yes
  - There is a patchwork of government policies that, collectively, could be considered to be industrial policy along the lines suggested by Lawrence
    - Consider the current encouragement of corn-based ethanol as a motor fuel

# The tensions in the U.S. (1)

- Explicit exemptions from the antitrust laws
  - Agricultural and fishing cooperatives
  - Insurance
  - Export associations
  - Cooperative research joint ventures
  - Newspaper joint ventures
  - Ocean shipping “conferences”
  - Professional baseball

# The tensions in the U.S. (2)

- Federal actions that are at odds with the spirit of the antitrust laws
  - International trade restrictions
  - International investment restrictions
  - “Buy American” policies for government procurement
  - DoD and NASA technological development policies
  - Agricultural policies that subsidize, protect, and inhibit competition
  - Tax and subsidy policies that favor some industries over others

# The tensions in the U.S. (3)

- Federal formal regulatory regimes (past or present)
  - Transportation
    - Railroads
    - Trucking
    - Airlines
    - Pipelines
  - Telecommunications
    - Telephone
    - Broadcasting
  - Energy
  - Finance
    - Banking
    - Securities



# The tensions in the U.S. (4)

- Actions by the 50 states (past or present)
  - Anticompetitive restrictions on
    - Banking
    - Local trucking
    - Intra-state long-distance telephone
    - Insurance
    - Occupations and professions
    - Local taxicabs

# Discussion of the tensions (1)

- U.S. antitrust is flexible
- Antitrust isn't equipped to deal with externality/spillover problems; but
- Most policy interventions are not really about dealing with externalities
  - Even though sometimes they are “clothed” in externality stories
- Even where policy interventions are intended to deal with externalities, rent-seeking often inhibits competition and efficiencies

## Discussion of the tensions (2)

- The domain of markets and of antitrust in the U.S. is wider today than in the 1930s and even wider than in the early 1970s
  - The deregulation movement of the 1970s and 1980s was real and substantive; but
- The “concentrated interests”/“capture” model remains powerful

# Advances in competition policy

- Improved analysis of mergers
- Improved analysis of vertical relationships
- Improved analysis of predatory pricing
- Contributions by economics and economists have been important in all three areas
  - Economic analysis and publication
  - Economists' influence at the U.S. enforcement agencies
  - Economists' participation in U.S. antitrust cases

# Advances in competition policy still to come

- Assessments of promised merger efficiencies
- A more nuanced approach to unilateral predatory behavior
- A market delineation paradigm for monopolization cases
- A retrospective analysis of merger enforcement
- Economists should be able to contribute in all four areas

# Conclusion

- Competition policy is important for promoting economic growth
  - Competition policy should not be oversold
  - Competition policy should not be undersold
- Competition policy will always face tensions vis-à-vis other policies
- Competition policy has improved and will continue to improve
- The tasks of good policy analysts are never finished