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Competition Policy and Economic Growth

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The effectiveness of competition policy

- Well establish now in the empirical literature



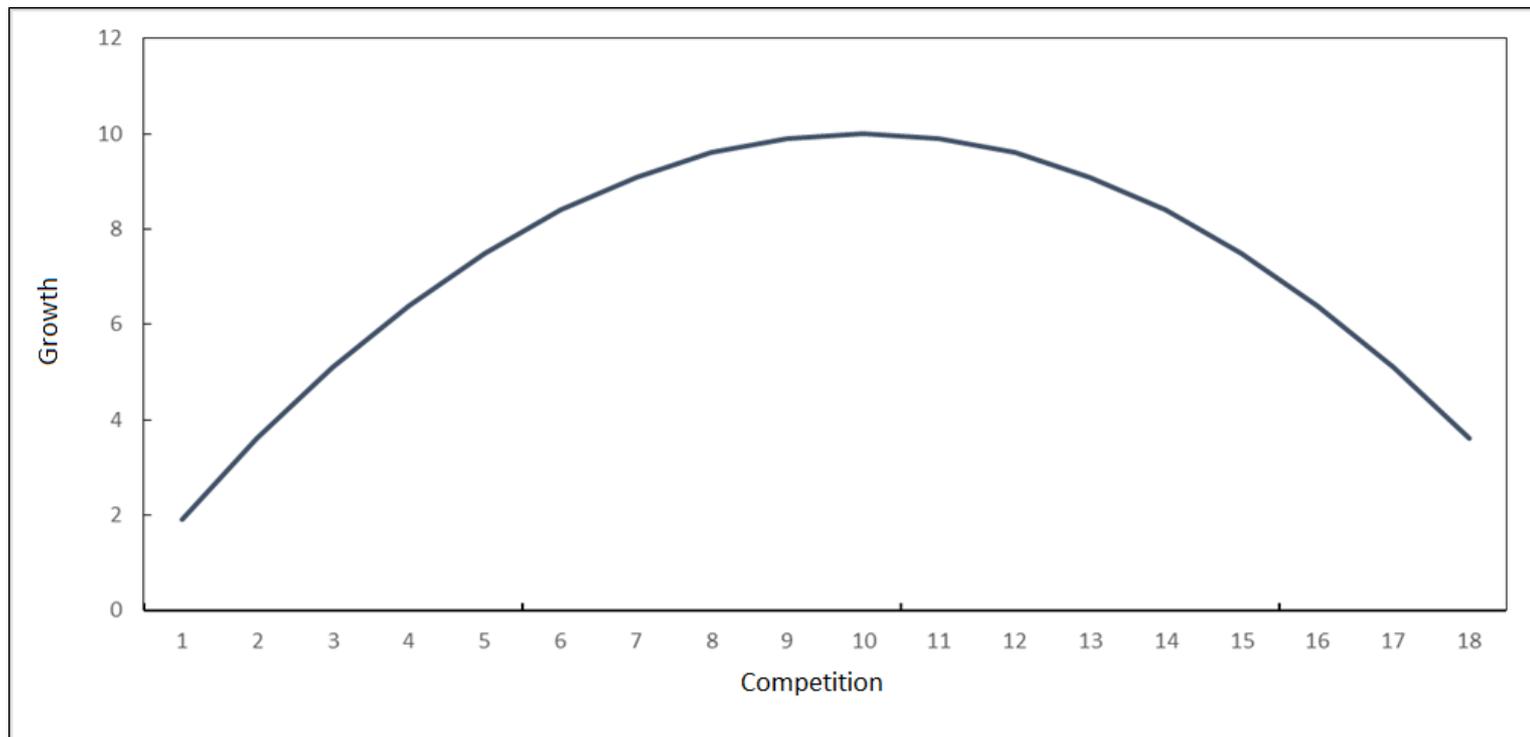
- On South Africa
 - Aghion et al. (2008): a 10% reduction in the mark-ups would increase productivity growth by 2 to 2.5% per year
 - My own computations:
 - Cartels (1995 – 2013): 3.8% of GDP per year
 - Profits of cartels = 124 * Budget of Competition Authority

Is growth everything?

- Inequality
 - Anticompetitive agreements hit the poor
- Employment
 - Restrictions on competition reduce output and employment

Competition and Innovation

- The inverted U-shape between R&D and market concentration



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- Escape competition (Arrowian) effect for frontier firms
 - Schumpeterian effect for catching-up firms

More Competition = More Growth

- At low competition levels, 'laggard' firms have every incentive to catch up with the leaders
 - Industries exhibit 'neck and neck' property
 - 'Rising' side of the inverted-U

More Competition = Less Growth

- At high levels of competitive intensity, laggard firms have little incentive to innovate
 - Competition with the existing technological leaders eliminate the profits from innovation
 - The technological leaders face no incentive to innovate, when facing only technological laggards as competitors
 - The industry remains technologically differentiated, between laggards and leaders
 - This situation becomes more likely and more stable as the intensity of competition increases
 - Further increases in competitive intensity reduce the overall incentive to innovate
 - ‘Falling’ side of the inverted-U, where more competition leads to less innovation.

Scope for Competition Policy

1. Pro-competitive interventions in highly uncompetitive industries result in increased innovation
 - Example
 - monopolies protected by regulation
 - abusive deterrence of entry by the incumbent)
 - Enforcement actions by competition authorities are focused on highly uncompetitive industries and monopoly
 - The more competitive industries don't raise competition concerns

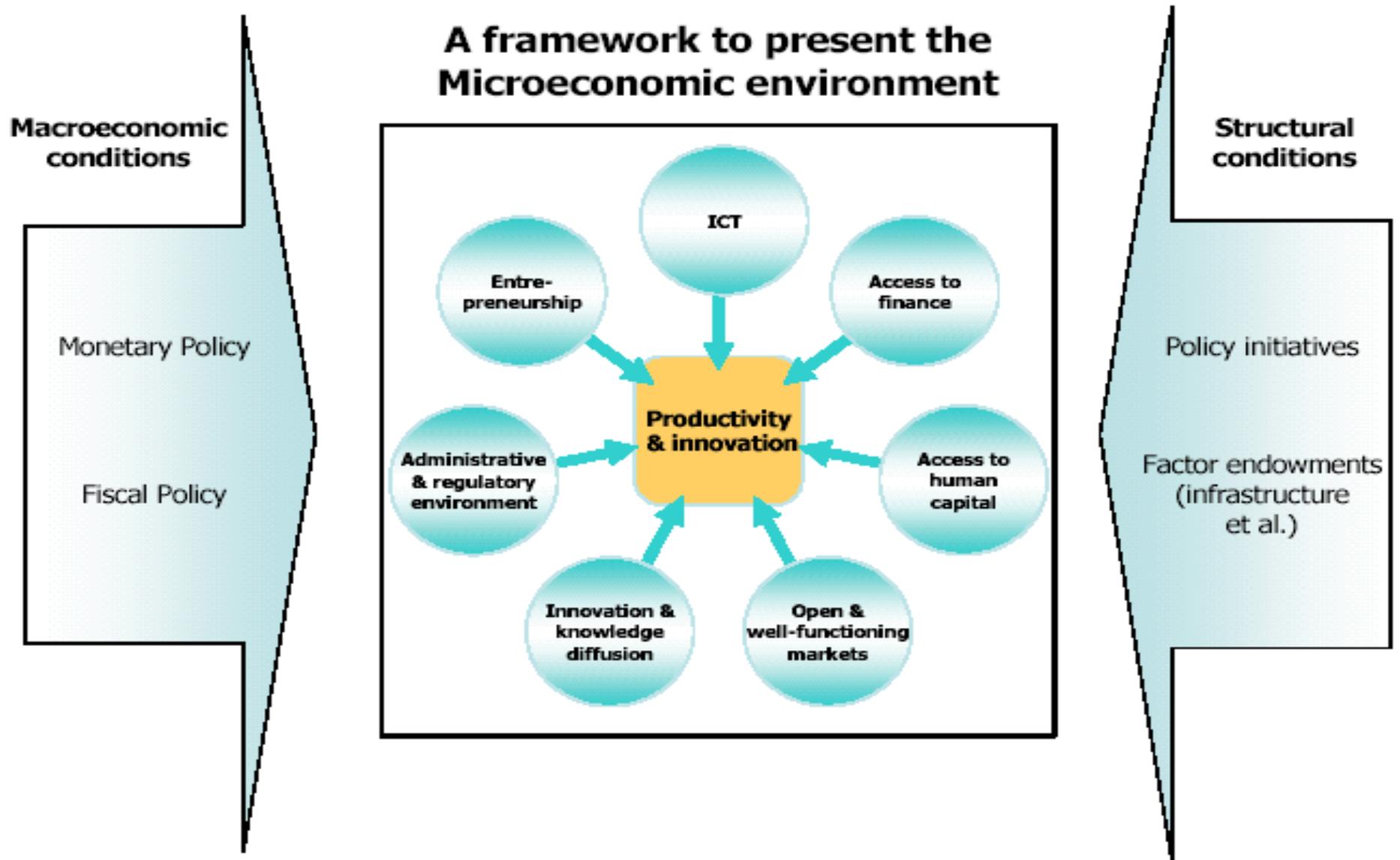
Scope for Competition Policy

2. Important interaction between intellectual property rights and competition
 - Innovation incentives depend on the difference between pre-innovation and post-innovation profits.
 - As long as patent protection for real innovators is effective, stronger product market competition should result in higher rates of innovation
3. Competition policy is particularly important in industries in which firms are technologically advanced

Scope for industrial policy

- In highly competitive markets, move to the same level playing field
 - Industrial policy

Industrial Policy



Concluding remarks

- Competition is effective
- Competition fosters innovation and growth
- Industrial policy and competition policy are complements
- NOTE:
 - Increasing concentration in all industries worldwide
 - Mitigation of growth