Intergovernmental Group of Experts on Competition Law and Policy
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Roundtable on:
The Impact of Cartels on the Poor

Contribution
by
OECD

Note by OECD

This is a PRELIMINARY AND PROVISIONAL DRAFT. It is being made available in this form to assist participants at UNCTAD's roundtable on the Impact of Cartels on the Poor. The text is still awaiting comments and possible amendments from meeting participants and should therefore not be quoted in its current form.

Once the final version is available and published on the OECD web site, it will also be published on UNCTAD's site, replacing and cancelling the current document.

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DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE

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Global Forum on Competition

COMPETITION AND POVERTY REDUCTION

-- Executive Summary --

28 February - 1 March 2013

This is a PRELIMINARY AND PROVISIONAL DRAFT of the Executive Summary of the roundtable on Competition and Poverty Reduction at the OECD's Global Forum on Competition in February 2013
The text is still awaiting comments and possible amendments from meeting participants and should therefore not be quoted in its current form.

Documents presented at the OECD's roundtable are available at:

http://www.oecd.org/competition/globalforum/programmeanddocuments.htm

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EXECUTIVE SUMMARY

By the Secretariat

1. Considering the discussion at the Forum, the delegates' written submissions, and the Secretariat's background paper, several key points emerge:

1. Poverty is multidimensional, not defined solely by incomes below an arbitrary level

2. Simple measures of poverty such as the number of people living below a poverty line, whether expressed in terms relative to median incomes or as an absolute benchmark like US$1.25 per day, are misleading. Such measures provide no information about how far below the line the poor are on average.

3. Beyond very low (or no) monetary incomes, absolute poverty entails lack of access to indispensable social services such as medical treatment and education, and adequate food, shelter and communication. Choices and opportunities are denied, and physical and economic security are absent. Many people in this category, for example subsistence farmers in remote rural areas, live largely outside the market economy, and competition policies may have little impact on their lives.

4. Delegates emphasised that in addition to people living in absolute poverty, there are far larger numbers living somewhat above that level, but who are still not well-integrated into the global or national economy and who would be plunged into deep poverty by any financial or medical upset. Such persons' living standards are directly affected by the strength of competition.

2. Competition can result in faster growth and lower prices, but these alone cannot eliminate poverty

5. Delegates agreed that stronger competition results in lower prices, benefiting consumers, including those living in poverty. Several delegates also emphasised the beneficial dynamics of stronger competition on economic growth. A McKinsey study showed that countries with strengthened competition experienced stronger innovation, greater competitiveness in export markets, and faster GDP growth. Millions have been lifted out of poverty as a result, particularly in China, as employment and entrepreneurial opportunities expanded. Faster growth also generates resources that can be used to finance more ambitious social policies.

6. However, delegates also acknowledged that growth and lower prices alone will not necessarily eradicate poverty. Even in countries with growing economies and competitive markets for essential goods and services, the distribution of income may still result in some people living in absolute poverty in developing countries, and in relative poverty in any country. Other policies, such as trade, anti-corruption and tax, are also crucial in the fight against poverty.

3. Moreover, stronger competition creates losers as well as winners

7. A number of delegates called attention to the possible negative effects of stronger competition on poverty. If stronger competition takes the form of lifting price controls on basic foodstuffs, energy or rents, abolition of subsidies on such goods or on the purchase of agricultural output at artificially high prices, the

poorest sections of the community would suffer disproportionately, at least in the short term. This was not regarded as a reason for keeping or intensifying such controls, as those policies also benefit wealthier citizens.

8. Other potentially negative effects of stronger competition on the poor include ending the sharing of economic rents with workers, or over-staffing, when cartels and monopolies are sanctioned and/or dismantled. However, there was some scepticism about the extent to which rent-earners actually share with their workers.

9. More generally, the panel of experts emphasised that competition can lead to losers as well as winners, especially during a transition period, and that some of the poor can be among the losers. Stronger competition not only leads to lower prices, but can destroy some jobs while creating others. Lower prices do not always have a major impact on individual or household consumption possibilities, but job losses can be catastrophic. Recognizing these attributes of competition, people in many developing countries are sometimes sceptical about its benefits and fear that it will deepen inequality domestically and globally. Therefore, flanking policies to address poverty directly, such as retraining or help in moving to areas where jobs exist, are helpful. In addition, competition advocates should be honest about the possible negative consequences for some individuals in the short term.

4. Competition law enforcement helps poor producers as well as poor consumers

10. Many developing countries tend to have markets with one or two of big firms, sometimes currently or formerly state-owned, and many small firms. Competition law enforcement breaks up cartels, exposes dominant firms that engage in anticompetitive conduct to more competition, and reduces barriers to entry, helping small firms to enter the market and survive. Entry provides a dual benefit to the poor, not only helping them as consumers by putting downward pressure on prices, but by expanding their employment and small business opportunities.

5. Technological progress combined with competition has aided poor consumers and producers

11. Several delegates mentioned mobile telephony and the ingenious uses to which it can be put as powerful means of raising the incomes and welfare of the poor, provided that competition between phone manufacturers and between service providers keeps prices low enough for the poor to benefit.

12. “Mobile money,” i.e. sending small sums via a mobile phone application, has made money transfers between individuals far faster, safer and more reliable than entrusting funds to, for example, bus drivers, which is how many people in developing countries still transfer funds across long distances. About two thirds of Kenyan adults now use mobile money services provided by several operators that use networks of agents, generally shopkeepers and garage owners.

13. Although mobile money is not banking (it is aimed at those who do not or cannot have bank accounts), established banks in some countries have resisted its implementation. In at least one case banks have succeeded in ensuring that the service is provided by them, and not by the mobile telephone operators. Mobile money providers argue that as typical transactions are small, and no credit is extended, regulation should be light.

14. By allowing poor producers, for example fishermen or small-scale producers of fruit and vegetables in remote areas, to obtain market information in real time, competitively-supplied mobile telephony permits them to optimise their time and effort, and reduces the market power of middlemen.

6. The focus of competition law and policy differs as between developed and developing countries

15. Delegates and panellists from developed countries noted that absolute poverty is hardly a problem there and relative poverty is addressed by social policies. Competition laws and competition policies were initially introduced to break up major cartels, and have usually been in force for decades. They are primarily seen as instruments to protect consumers from market distortions created or maintained by producers, and to reduce barriers to entry. Competition policies spur growth and raise material living standards, but their impact on the income or employment of the poor is a second order consideration. Moreover, competition authorities in developed countries usually have teams of economists and legal specialists, they are often independent from government, and have sufficient legal powers to pursue offenders. This institutional framework has helped to bring about a "competition culture" in developed countries.

16. By contrast, delegates from competition authorities in some developing countries explained that they have few highly-trained legal and economic experts and their powers to intervene are often weak. The overarching policy priority in developing countries is development: raising significant proportions of their populations out of absolute poverty and enabling more substantial proportions of their populations to have access to basic necessities such as clean water, education, and medical treatment. Widespread poverty among small producers as well as consumers exists side-by-side with small numbers of very wealthy landowners and industrialists. In such a context, the political credibility of the competition policy authorities depends to a large extent on how they are seen as contributing to poverty reduction and employment creation. It would be risky for them to state that their only target is combating harm to competition by producers, and that the impact of their efforts on poverty or inequality is irrelevant. They also often operate in an environment of comparatively large, industry-dominating firms that have solid political support. Markets may be small, the informal sector is important, and the poorest of the poor live outside the market system. In these circumstances, advocacy is often the most useful, or even only, instrument for the competition policy authorities to influence government decisions and educate the public.

7. Can there be "pro-poor" competition laws and policies?

17. Delegates agreed that competition is not an end in itself, but a means to an end, namely promoting consumer welfare and, ultimately, raising living standards. Thus there is no inherent conflict between the goals of competition policy and poverty reduction.

18. In countries where poverty is severe and widespread, the likely impact on the poor can be a factor in deciding which matters competition authorities pursue. Delegates gave several examples:

- The marketing and distribution chains for basic foodstuffs and other basic necessities are often found to be cartelised. Action against those cartels disproportionately helps the poor, so some competition authorities have given a higher priority to prosecuting them than to prosecuting, for example, luxury goods cartels. Delegates also mentioned some other cartels they pursued, in part, due to their harmful effects on the poor, including in markets for agricultural inputs, bread, chicken, tortillas, sugar, road transport and medicines;

- Some competition authorities prioritise strengthening competition in essential goods markets in which demand elasticities are high, rather than those in which demand elasticities are low, as small price declines will allow many poorer people to make purchases;

- Governmental restraints on international trade and ill-designed product market regulations are major causes behind high prices and barriers to entry in developing countries. Frequently, only a small number of firms, and often only domestic firms, are allowed to tender for public procurement contracts. The scope for corruption is substantial, but even when competition authorities have demonstrated the lack of competition, remedial actions have been rare and state officials have not been prosecuted. Corruption discourages foreign and domestic investment and raises the cost of doing business. Bid-rigging can raise the prices paid by governments by 20-30 percent. Nevertheless, publicity and advocacy rather than formal prosecutions may be the most effective actions for some competition authorities;

- Export cartels based in developed countries raise costs and prices in all importing countries, including developing countries. The importing countries may lack the means and powers to attack those cartels. Developed countries should revise their laws to make hardcore export cartels illegal.