

Eleventh Meeting of the UNCTAD Research Partnership Platform

17-18 December 2020

**THE ROLE OF COMPETITION POLICY IN A FAIR AND EFFICIENT
INCLUSIVE ECONOMIC RECOVERY FOR DEVELOPING COUNTRIES**

Competition and Industrial Policies in the Pandemic

*Presentation by Mr. Paulo Furquim de Azevedo
INSPER*

This material has been reproduced in the language and form as it was provided. The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

**The role of competition policy in a fair and inclusive
economic recovery**

Competition and industrial policies in the pandemic

11th meeting of the Research Partnership Platform

Paulo Furquim de Azevedo

INSPER

Roadmap

- Competition policy and development
 - The need and insufficiency of competition
 - Institutional variations
- Market regulation during the pandemic
 - COVID19's legacy
 - implications

Competition policy and development

- Competition
 - essential but insufficient for development
- Why essential
 - Theoretical link:
 - Competition and allocative efficiency
 - Anticompetitive strategy as a form of non-productive rent seeking
 - Dynamic effects

Empirical evidence

- Buccirossi, P., Ciari, L., Duso, T., Spagnolo, G., & Vitale, C. (2013). Competition policy and productivity growth: An empirical assessment. *Review of Economics and Statistics*, 95(4), 1324-1336.
- Competition policy quality is associated to higher TPF growth
- Institutional aspects of competition policy (e.g. independency, quality of comp law) are more relevant than direct enforcement (e.g. resources and actual punishment)
- Effect is higher when institutional quality is higher (legal origins) and in less regulated sectors

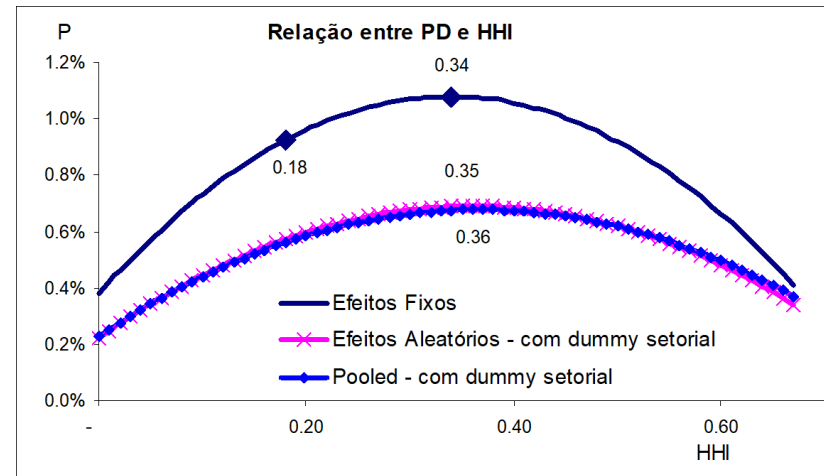
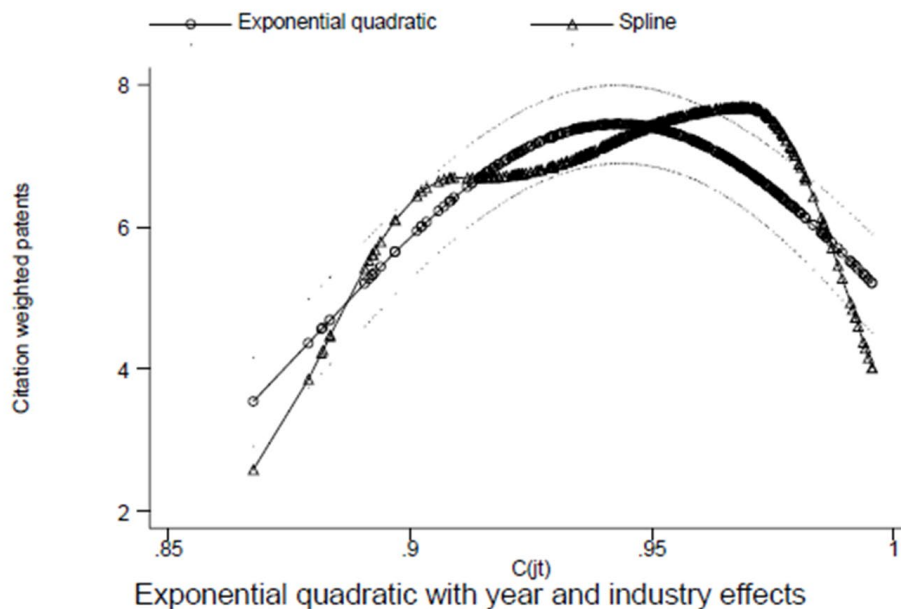
Yet insufficient

- Competition does not address all aspects of social preferences
 - E.g. income distribution, inclusion
 - Monopoly rents may be correlated with income distribution (and free entry with inclusion), but CP still lacks targeting
- Not sufficient even for productivity growth
 - Innovation: non-trivial dynamic effects

Innovation and competition

AGHION, Philippe et al. Competition and innovation: An inverted-U relationship. *The quarterly journal of economics*, v. 120, n. 2, p. 701-728, 2005.

Figure 8: Innovation and Product Market Competition:
Exponential quadratic and the semiparametric specifications: with year and industry effects



What type of industrial policy

- Complementary to competition policy
- Pro-competitive interventions (e.g. fostering entry)
- Incentives for accumulation and combination of knowledge
- Alternative institutional designs
 - Within the competition authority
 - Different government bodies:
 - Brazil: CADE and BNDES

Market regulation in the pandemic

- Multiple shocks
 - Demand: positive (ventilators, masks, alcohol gel); negative: (hotels, airflights)
 - Supply: production chain disruption (lockdown or international trade)
- Expected (naïve) adjustment in competitive markets
 - E.g. Price increase, incentives to reduce demand and to increase supply
- But: supply may be unresponsive to price if
 - Lead time is relevant
 - Uncertainty about the duration of the shocks
- **Competitive market does not adjust properly**

Reactions

- ICN statement: to promote and protect competition
- In several countries:
 - prosecution against excessive prices and price gouging (OECD 2020)
- In Brazil
 - CADE endorsed ICN statement
 - About 60 new bills to revise contracts, fix prices or to punish excessive prices
 - More than 2 thousands judicial procedures to intervene in prices
- I.e. Demand for populist interventions in prices
 - Ineffective in the short run, and harmful in the long run

Covid-19 legacy

- In extreme crisis, competitive markets may not adapt properly
- Urgent political answers are potentially harmful for future development
- A case for industrial policy to coordinate supply and to allocate essential goods
- How to avoid the conventional risks of industrial policy discretion
 - Transparency
 - Accountability
 - With participation of the Competition authority



Thanks