NOTES
BRICS INTERNATIONAL COMPETITION CONFERENCE
PANEL DISCUSSION
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COMPETITION, INEQUALITY AND INCLUSIVE GROWTH

It's quite **apposite that the concluding plenary** of this Conference should be on issues of **inclusive growth, inequality and competition**.

Quite often, in the midst of **agonising over macro-economic balances**, the **very purpose of economics** can be missed. The indicators assume a life of their own.

This **session reminds us that economics ultimately should be about the people**. And the fundamental question of political economy remains: how wealth and income are shared.

Competition policy should also be judged on this basis.

TRENDS IN INEQUALITY

The global dimension

Throughout the world, the **issue of social inequality has moved high up the agenda**, precisely because **the gilded age**, to quote Paul Krugman, **is once more upon us**. The Gini coefficient in the OECD countries is on the rise.

During much of the 20th century, the **division of national income between labour and capital owners** was essentially constant – but in recent decades **the labour share has been declining**.

The global economic downturn has somewhat **aggravated** the situation.

It is also a matter of interest that **economic growth and reduction in poverty even on a mass scale such as in China does not necessarily result in the reduction of inequality**. And so, special interventions have been introduced at least to lift the floor of the minimum wage.[1]

Latin America has generated great interest in terms of success in the past 15 years in reducing income inequality. Of course, **the sustainability of this in the context of a slowing global economy** is a question that continues to exercise the mind.[2]

The South African experience

What are the **major trends in South Africa**, particularly since the dawn of democracy? I'll select just five observations.

One: income poverty has been declining since 1994.[3]

Two: functional distribution of national income has worsened, with the share of national income resorting to the richest having grown massively[4]; and the **Gini coefficient** hovering in the mid to late 0.60s over the past 21 years.

Three: the per capita expenditure growth incidence curve evinces a U shape with the 'middle class' experiencing least income growth.

Four: millions can be categorised as the **working poor**; employed but earning poverty wages.

Five: inequality measures show a declining trend between races, while it has shown a rising trend within races.

Why inequality matters

Why does inequality matter? There is near-universal consensus that inequality is **morally reprehensible and bad for social cohesion**. However, its impact runs much deeper.

Wilkinson and Pickett (The Spirit Level) do demonstrate the **negative impact of inequality on various measures of human development** and wellbeing such as drug use, mental illness, life expectancy, violent crime and prison population.[5]

Berg and Ostry, in an IMF Discussion Note use empirical data to come to the conclusion that **inequality negatively impacts on the length of economic growth spells**: the higher the levels of inequality, the shorter the growth spells and vice versa.[6]

The World Bank, in its study on Latin America, shows that **high levels of income poverty are negative for economic growth**.[7]

INEQUALITY AND COMPETITION POLICY

What then **needs to be done to promote inclusive growth and greater equity**; and what is the **role of competition policy** in this regard?

Generic measures against inequality – inclusive growth

Experience has shown, at a generic level, that **a combination of measures** is critical to reducing inequality, for e.g.:

- through pro-poor economic growth and pro-growth poverty reduction
- by means of education and skilling
- through incomes policy targeted at the 'trickle-up effect', including a minimum wage
- utilising measures that promote profit-sharing and employee share-ownership schemes
- and through efficient non-income measures such as access to basic services, assets and opportunity.

Reducing the cost of living of the poor

These measures however **need to be combined with deliberate action to reduce the cost of living of the poor**. This is where the **centrality of competition policy comes out in bold relief.**

It is a matter of course that the **aggregate inflation rate experienced by workers and the poor** is often much **higher** and more **volatile** than that of the rich.

This pertains to such related matters as mark-ups over cost in the product markets, abuse of market dominance, monopoly pricing, collusion and other uncompetitive behaviour.

Generic relationship: inequality and competition policy

It is generally agreed that **competition policy, appropriately designed and effectively implemented**, does promote the **efficient allocation of resources** within an economy. This improves factor **productivity** and, ultimately, helps maximise **consumer welfare**.

Inversely, where market power is unregulated and unconstrained, it produces negative effects on the cost of living; it retards economic growth; and thus would have a negative impact on poverty and inequality.

As Baker and Salop argue, "…the **returns from market power go disproportionately to the wealthy**…" In part, this is because the **surplus accrues disproportionately to shareholders and executives**; confirming the assertion by Thomas Piketty about the capitalist system tending towards greater inequality.[8]

Inversely, as argued in a Working Paper of the South African Reserve Bank, **static and dynamic gains in productivity can be generated by increased competition**. Better managerial competency and efficient resource allocation are some of the **once-off/static gains**. The **ongoing/dynamic** gains include more rapid diffusion of technology, higher levels of skills, and so on. [9]

But should the aim be to **maximise consumer welfare in general**, or should the effort be **more focussed**? For instance, if producers of luxury goods bought by the wealthy are small and medium enterprises, interventions to protect consumers may in fact have the effect of worsening inequality.

As such, in order to achieve the objective of **reducing inequality, remedial actions of competition authorities need to be applied in a focussed manner**.

South African manifestations

Each country has its own specific path dependencies. What then are the manifestations of this in the **South African setting**?

South Africa's **capitalist system emerged in a colonial context**, and was **founded to some extent on large monopolies**. At the same time, there was the **deliberate exclusion of the majority** of the population **from most entrepreneurial activities**.

South Africa thus ended up with a **ubiquitous presence of large monopolies across its geography**; and the proportion **of small and medium enterprises is much smaller than in comparator countries**.

Of course, various measures have been instituted since 1994 to try and reverse this, but much, much more needs to be done.

Instructively, a Working Paper of the SARB asserts the following: "**South Africa's product markets generate exceedingly high mark-ups over cost by international standards**..."[10]

This also plays itself out **in relation to public services**. For e.g., **rail and port tariffs** in South Africa were a few years ago five times higher than in the US (Class 1 tariffs); while high mark-ups in the **telecommunications sector** have been the stock-in-trade.[11] This also plays itself out variously in the provision of such services as health and education.

Simulations on the **effects of competition interventions** show that, if you **halve mark-ups and increase competition in network sectors**, potential economic growth would rise to some 7% (compared to about 2% currently), and gross fixed capital formation would rise to about 28% of GDP[12] (compared to about 18%).

Such interventions would also **lower the cost of living of the poor**. In other words, competition interventions help to **attack poverty and inequality from an angle distinct from, and complementary to, incomes policy** (such as national minimum wage). Otherwise, a high minimum wage can be easily whittled away by high prices of goods and services.

POLICY CONSIDERATIONS

What then are **some of the policy considerations** that need to be kept in mind in **dealing with the nexus between competition, inequality and inclusive growth**?

Firstly, beyond economic efficiency, **competition policy should have a deliberate focus on improving consumer welfare; and the remedies should aim at benefitting the poor**.

Secondly, ways should be found to **deal with gaps in legislation**. Quite often, uncompetitive conduct derives from **abuse of dominance and excessive pricing**; and yet, in South Africa, legislation **renders it inordinately difficult to prove such abuse**.[13]

Thirdly, the debate should be joined, as to **whether the notion of inequality could expressly be built into competition legislation**, or whether this can be handled through **prioritisation in terms of the prosecutorial discretion of competition authorities**.

Fourthly, the **complexity** of issues that competition authorities have to deal with, the **arsenal** of resources in the hands of the dominant players, and the **hurdles** that need to be negotiated – all dictate that **competition authorities should be well-resourced both financially and terms of human resources**.

Lastly, there **should be consistency and clear strategies to manage the multiplicity of objectives** in broader economic policy. For instance, if the consequence of enforcing competition among dominant players is combined with policies to support, say, new black entrants in a manner that results in higher prices, the main objective, all-round, would be undermined.

Overall, in the context of experiences deriving from the **current global economic crisis**, and as a matter of **philosophical approach to economic policy**, how should a polity deal with the notions and actual manifestations of **'too big to fail'** and **'too big to jail'**? This does relate to the question whether the challenge is merely about **market dominance as distinct from abuse of such dominance**; and **existence of monopolies as distinct from monopoly behaviour**! Further, what is the ethical foundation of **socialising the consequences of private miscalculations and private misdemeanours**, as reflected in the treatment of the financial sector?

CONCLUSION

The **nexus between competitions policy, inclusive growth and inequality** does underline the **responsibility of competition authorities** in dealing with matters of social equity. However, competition policy is just one of the instruments.

Sharing of experience among the BRICS countries is critical, as the unique experiences that the various countries have amassed would definitely stand the whole BRICS community in good stead.

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[1] Simon Rabinovitch, FT, 06 February 2013
[2] Managed heterogeneity: Vinicius Rodrigues Viera, 2011
[3] Development Indicators (The Presidency), 2010/11 & 2011/12
[4] Ibid, 2012
[5] The Spirit Level: Why Equality is Better for Everyone: Richard Wilkinson and Kate Pickett
[6] Inequality and Unsustainable Growth: Two Sides of the Same Coin?, Executive Summary, p3
[7] World Bank Latin American and Caribbean Studies, Poverty Reduction and Growth: Virtuous and Vicious Circles, 2006
[8] Antitrust, Competition Policy, and Inequality: Jonathan Baker & Steven Salop 2015
[9] Achieving higher growth and employment: Policy options for South Africa: David Faulkner, Christopher Loewald & Konstatin Makrelov, July 2013
[10] Ibid
[11] Ibid
[12] Ibid
[13] http://www.compcom.co.za/abuse-of-dominance/