

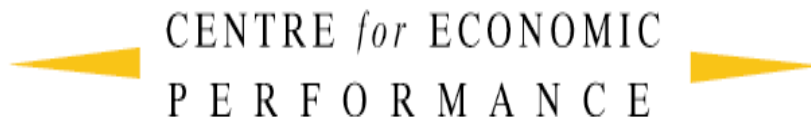
Competition, Competitiveness & Industrial Policy: New Convergence or New Conflict

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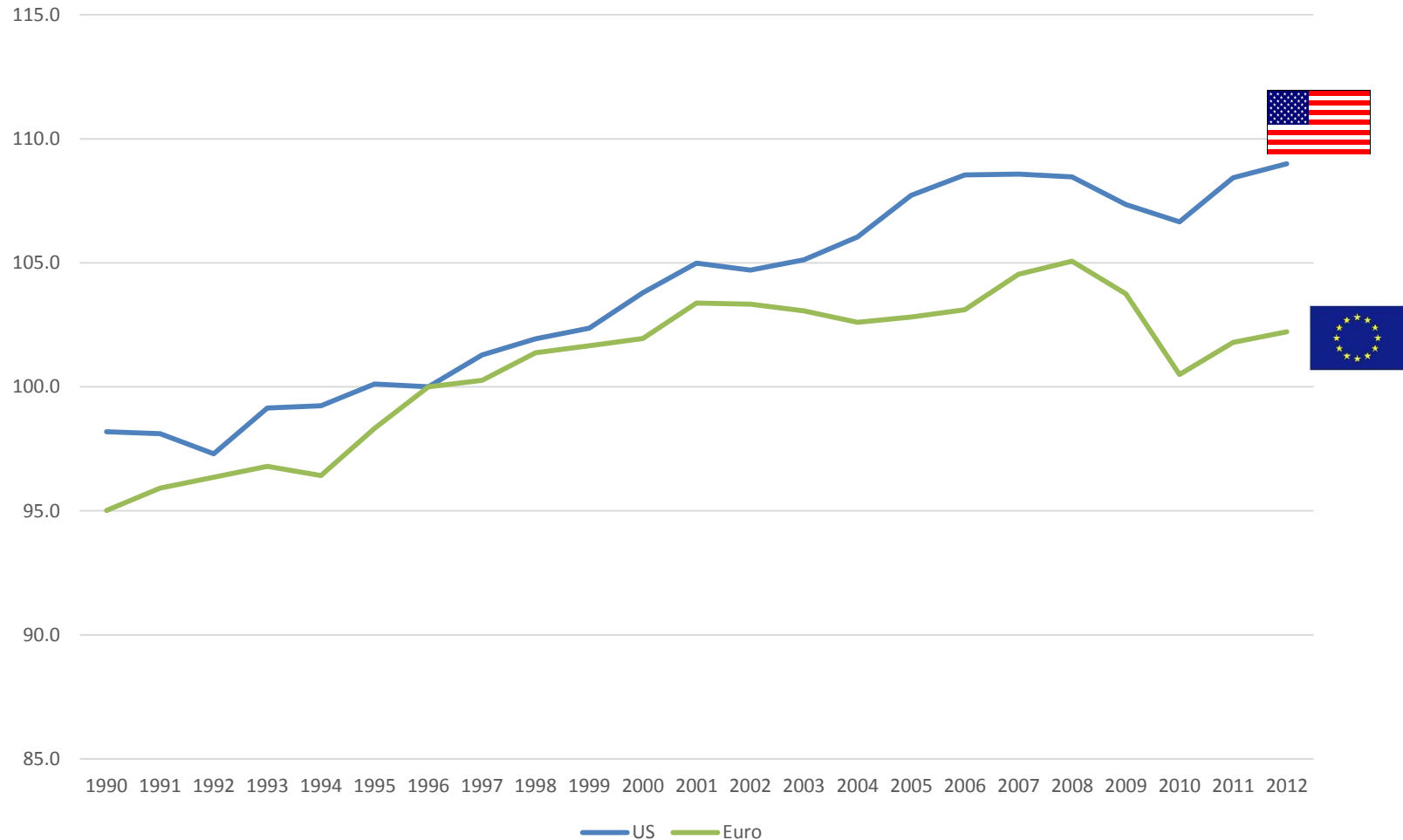
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INTRODUCTION

- Productivity isn't the only thing that matters for material wellbeing, but in the long-run it is almost the only thing
- Still about a 10% efficiency gap between US & EU-15
- “Competiveness” for a country different than for a firm.

EUROZONE FALLING FURTHER BEHIND US PRODUCTIVITY SINCE MID 1990S



Notes: Cumulative TFP growth index=100 in 1996

Source: Conference Board Total Economy Dataset (2013)

RESURGENCE OF “INDUSTRIAL POLICY”

- Means different things to different people
- Policies that are specific to an industry (or group of firms)
 - Subsidies (e.g. cheap loans, production/export, FDI)
 - Trade protection (e.g. tariffs, quotas)
 - Broader help with skills, infrastructure, etc.
- These “vertical” policies discredited in many countries after failures in 1970s of national champions
- “Horizontal” policies to deal with market failures
 - Law enforcement, defence, education, health
 - Competition policy
 - Pollution, standards, research
- Great Recession & Asia’s rise led to calls for more industrial policy - perceived failure of free market policies

RATIONALE FOR INDUSTRIAL POLICY

- Industry-specific public goods
 - Training & skills; R&D
 - Could co-ordination be achieved through employer organizations? Role for gov in fostering co-ordination
- Directed technical change – e.g. “green growth”
- Many theories why subsidising particular firm/sectors can be helpful
 - Industries where there are global rents (airframers)
 - Infant industry protection for learning by doing
- In practice in EU industrial policy failed (East Asia may be an exception)
 - Reduces competition (e.g. exit of inefficient firms/plants)
 - Gov bureaucrats better at picking losers than winners
 - Extensive lobbying for special interests

HOW DOES COMPETITION AFFECT CONSUMERS?

- Standard approach to mergers, etc. focuses on *prices*
- Look at other things like efficiency as a defence (e.g. less competition but more productivity & innovation so prices fall)
- Competition can increase productivity & innovation
 - Theory is ambiguous, but data strongly suggests positive effects on productivity

RECENT ECONOMIC RESEARCH: DATA

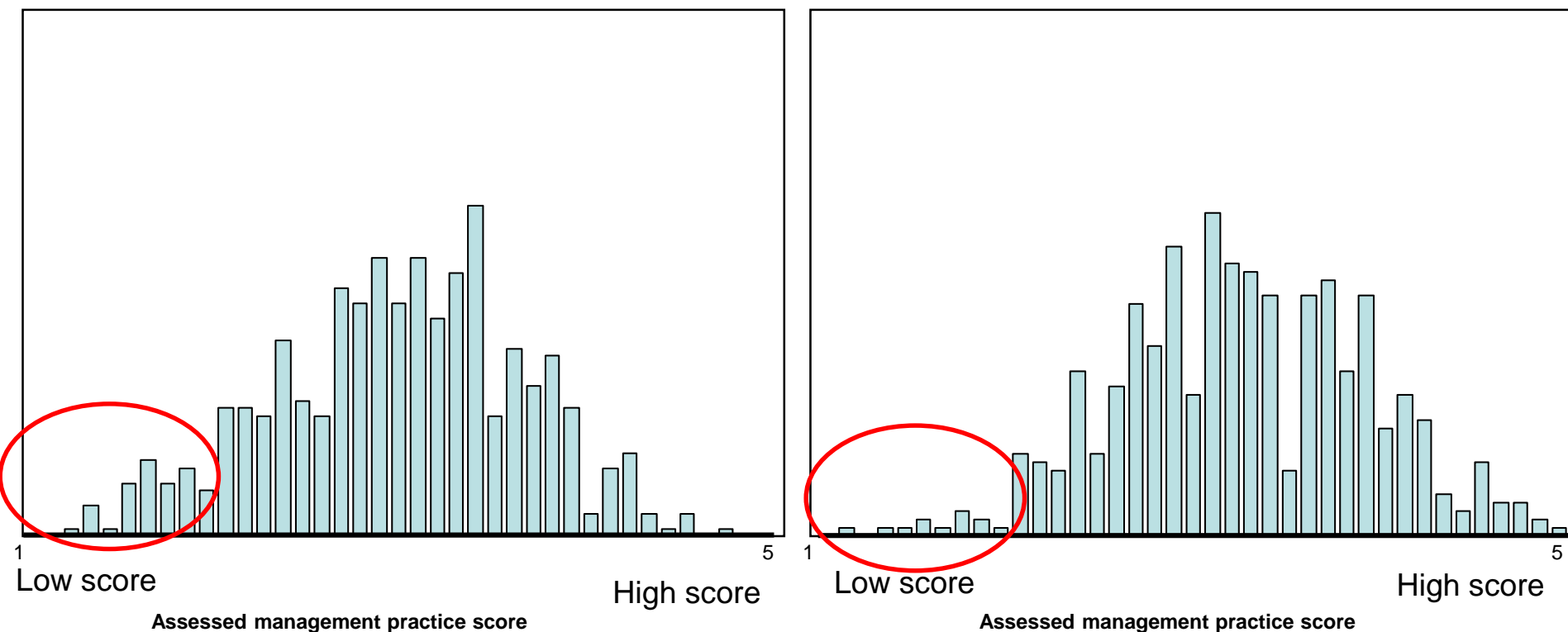
- “Natural experiments”: analysis of particular industries when there has been a big change in competition
 - Ending of cartels
 - Changes in trade (e.g. elimination of quotas in textiles & apparel when China joined WTO)
 - Technological changes (e.g. ICT, railroads)
 - Regulatory changes (e.g. Reducing entry barriers)
- General findings of **large positive** effects of competition on productivity. Some component operates through changing management practices (not just technologies)

MUCH OF THE EU-US DIFFERENCES DUE TO THE “LONG TAIL” OF LOW PRODUCTIVITY FIRMS

% of firms with different levels of management quality

 FRANCE

 U.S.



Source: Bloom, Sadun & Van Reenen (2013), WMS Survey

<http://worldmanagementsurvey.org/> 15,000 firms

INCREASING COMPETITION NOT IDENTICAL TO TOUGHER COMPETITION POLICY

- Competition policy only one way to increase competition
- Other ways to increase competition:
 - Trade policies (e.g. Doha Round)
 - Reducing barriers to entry (e.g. Licensing & planning restrictions). Services Directive.
 - Reducing barriers to growth (e.g. labour market flexibility)
 - Consumer information & awareness

A MODERN INDUSTRIAL POLICY?

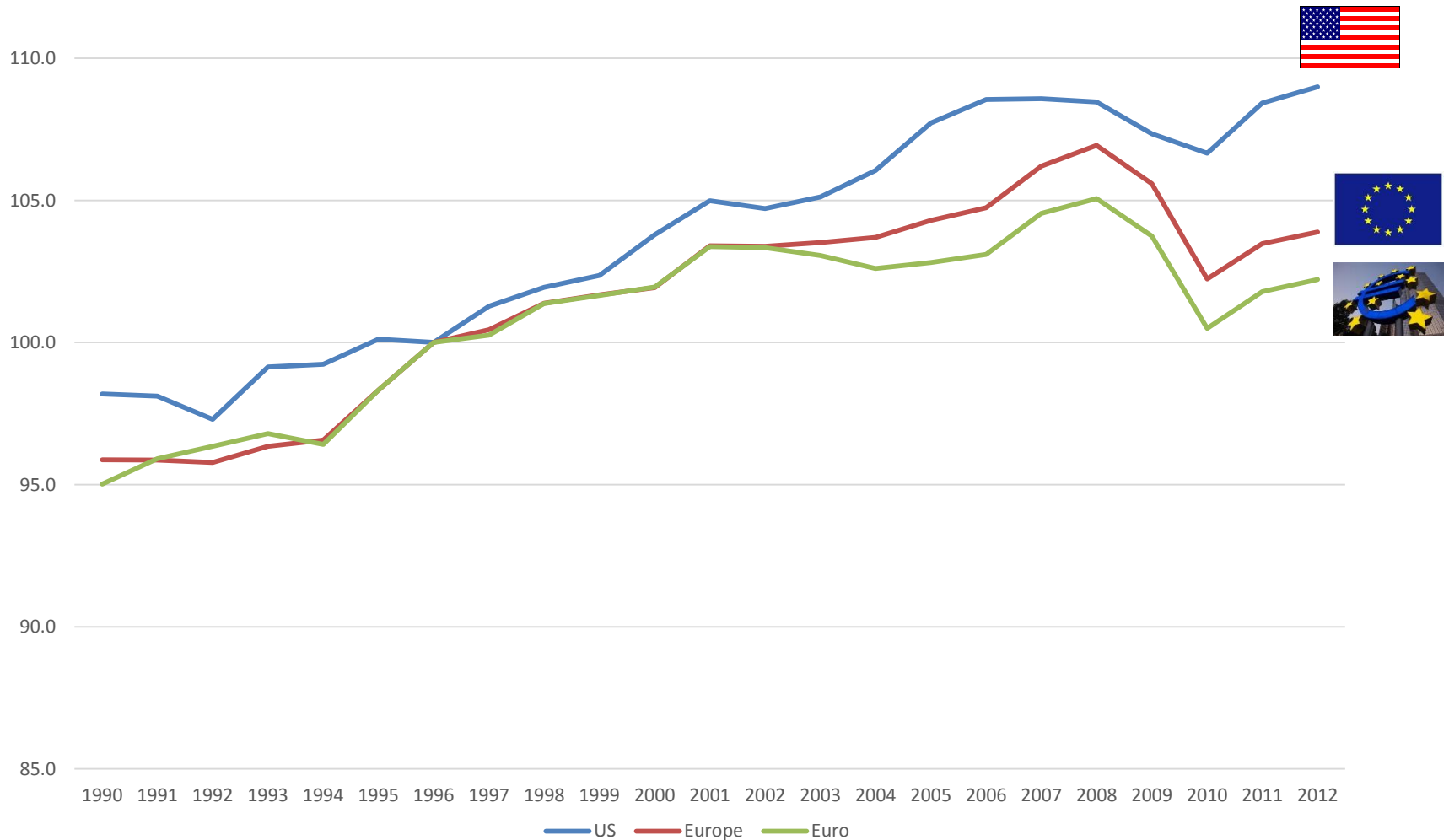
- Should complement a strong competition policy
- Pragmatic: government affects almost every industry
- Strategy
 - Where does Member State have latent comparative advantage?
 - Which sectors are likely to see global growth?
 - Consider how current set of regulations & policies affects these sectors & spend political capital to change policy according
- Examples from UK (LSE Growth Commission)
 - Higher Education & immigration policy
 - Software sector around Cambridge & planning regulations



FURTHER READING

- Van Reenen, John (2011) “Does competition raise productivity through improving management practices?” *International Journal of Industrial Organization*, 9(3), 306-317, <http://cep.lse.ac.uk/pubs/download/dp1036.pdf>
- Aghion, Philippe Tim Besley, John Browne, Francesco Caselli, Richard Lambert, Rachel Lomax, Nick Stern and John Van Reenen (2013), “Investing for Prosperity: Report of the LSE Growth Commission” <http://www2.lse.ac.uk/researchAndExpertise/units/growthCommission/documents/pdf/LSEGCG-Report.pdf>
- <http://blogs.lse.ac.uk/politicsandpolicy/archives/8131>
- <http://worldmanagementsurvey.org/>

EUROPEAN FALLING FURTHER BEHIND US PRODUCTIVITY SINCE MID 1990S



Notes: Cumulative TFP growth index=100 in 1996

Source: Conference Board Total Economy Dataset (2013)

RECENT ECONOMIC RESEARCH: THEORY

- What are the effects of greater competition on Productivity, Innovation & Management
- Good evidence of a powerful *selection* effect of competition
- But effect of competition on *incentives* to increase productivity (e.g. via innovation) is ambiguous
 - **Bad** because lower return to R&D (e.g. Schumpeter),
 - **Good** because firms with market power don't want a new product to cannibalize existing profits (e.g. Arrow); also agency effects
- Theory helps in thinking in which industries one force will dominate, but need to look at empirical work