

# **Government in Markets: why competition matters**

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# Outline

- **Why competition matters**
- **Why and how government intervenes in markets**
- **Changing role of government**
- **More effective intervention**

# Why should government care about markets?

- **Competition in markets delivers big benefits**
- **Examples show benefits of increased competition**
- **But hard to predict benefits in advance**

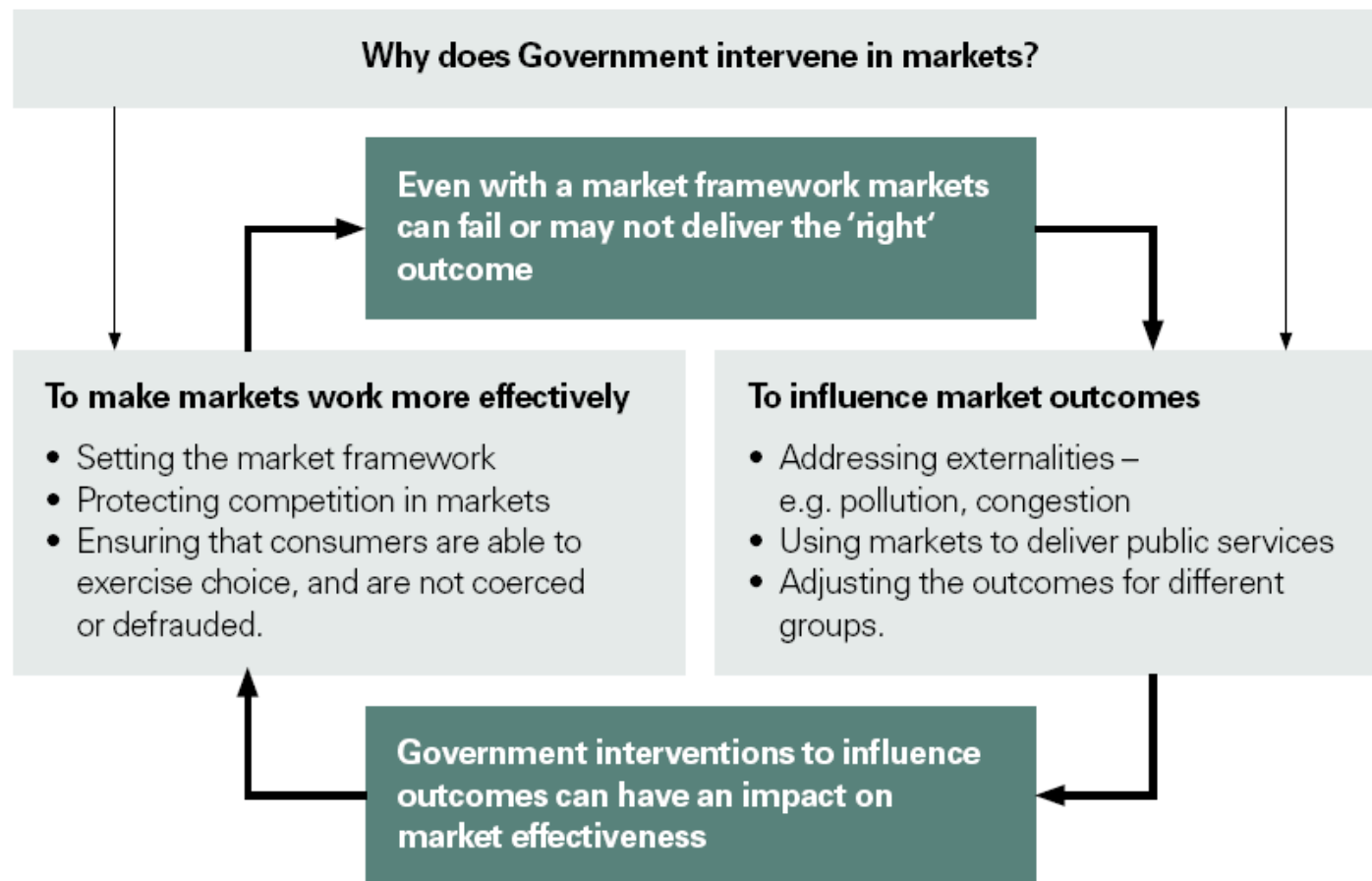
## Case study: EU aviation

- The EU aviation market was very heavily regulated up until the 1990s
- Reforms lead to reduced support for national carriers, and any airline with a license from an EU country was allowed to operate any route
- Led to exit (Sabena) and entry (e.g. Ryanair, Easy Jet)
- Results:
  - lowest non-sale fare fell by 66% between 1992 and 2002,
  - flight frequency increased by 78% during the same time period.
  - No worsening of safety associated with low-cost airlines or increased competition.

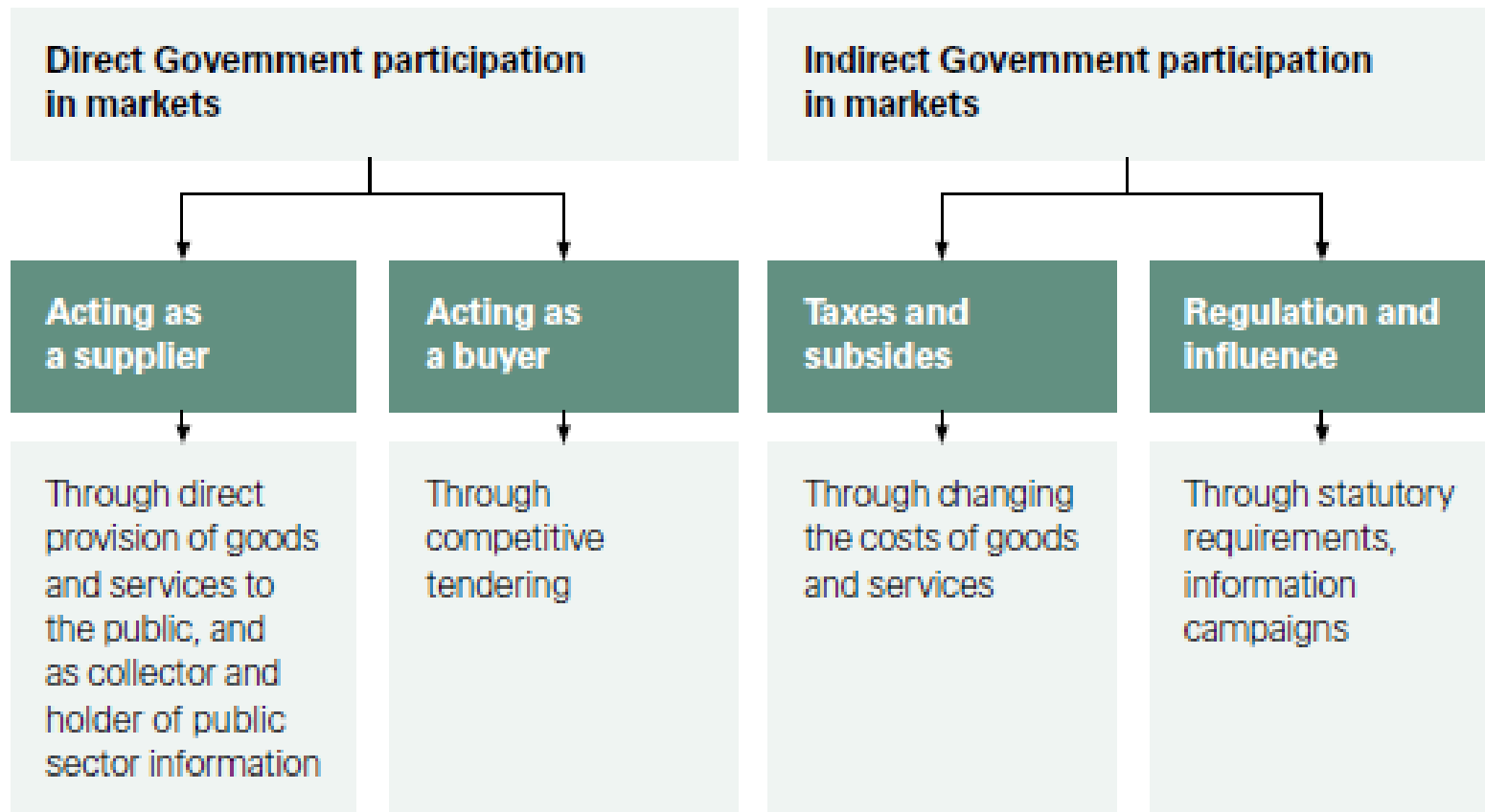
# Why should government care about markets?

- **Government and markets closely linked**
- **Intervention is frequently required**
  - Market failure
  - Outcomes

# Why Government intervenes



# How Government intervenes



## How is Government's approach changing?

- Long term trend – from direct state ownership to regulation and indirect control
- Impact of the economic downturn – too soon to tell?
- Softer intervention – alternatives to direct regulation
- Burden of proof – from justifying government intervention to justifying markets?

# Effective Intervention

- **Entry and exit**
- **Alternative instruments**
- **Consumer and producer interests  
(and evidential bias!)**
- **Importance of competition assessment early in the  
policy making process**
  - Part of Competition Authority advocacy role

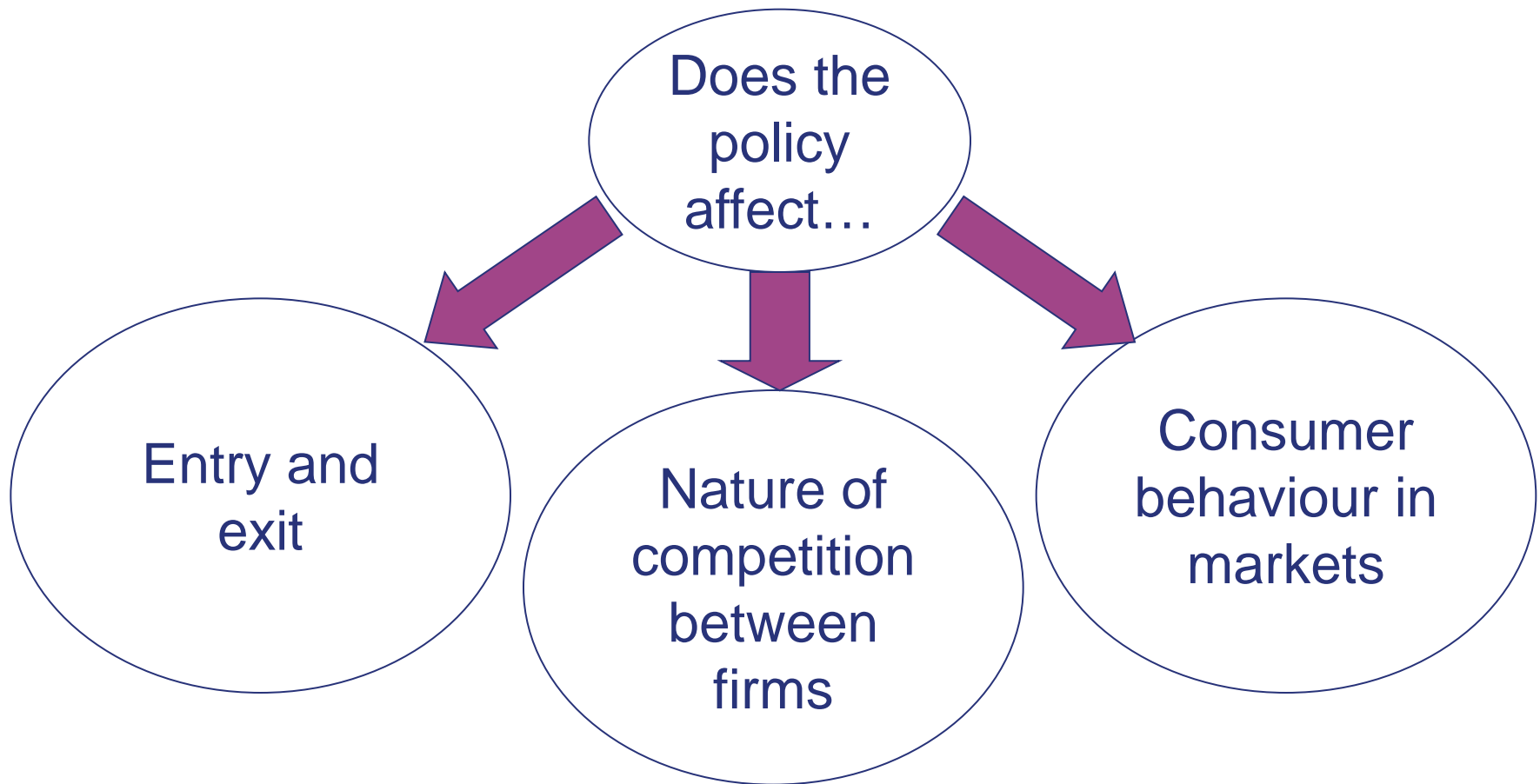
# Regulation issues in the UK

- **Pharmacies**
- **Energy**
- **Taxis**
- **Alcohol retailing**

# Regulation case study: pharmacies

- **Control of entry regulations were introduced in 1987 to reduce costs to the NHS. This:**
  - restricted consumer choice and convenience
  - restricted competition on ‘over the counter’ drugs
  - provided blunt incentives for pharmacies to compete on additional customer services
- **The regulation of entry costs consumers £25-30 mn per year more for over the counter drugs, businesses £16mn per year in compliance costs, and the NHS approximately £10mn per year in administrative costs**

# Key questions for policymakers



# Conclusions

- **Decisions to intervene**

- Are we at a turning point?

- **How we intervene**

- Can we improve the quality?

- **“Government in Markets”**

- [http://www.offt.gov.uk/shared\\_offt/business\\_leaflets/general/OFT1113.pdf](http://www.offt.gov.uk/shared_offt/business_leaflets/general/OFT1113.pdf)

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