International Competition Network

ICN Steering Group Statement: The Role of Competition & Competition Policy in Times of Economic Crisis

We issue this statement on competition in times of crisis to inform government responses and policy development. We urge governments to support and maintain competition as they respond to the crises we face.

Many contemporary crises threaten our economic wellbeing. The pandemic, war, and climate change are disrupting economies around the world. Growth and innovation are at risk. Employment, prices, and global supply chains are less stable.

During times like these, promoting and protecting competition can become less of a priority for governments. But history and experience teach us that it is important to keep competition front-of-mind in enforcement and policymaking. Competitive markets are more flexible and resilient. They respond faster and more effectively to economic disruptions. And they promote economic growth and innovation in the long run.

Fair and open competition, effective competition policy, and active competition law enforcement are critical components of any response to the economic effects of the crises we face today.

The role of fair and open competition

Competitive markets can help make sure that supply and demand adjust quickly to disruptions caused by these crises. They ensure that resources are put to the most highly valued use, with firms adapting faster to new market conditions. They promote resiliency, diverse supply chains, contestability, participation, growth, innovation, and recovery.

That is why competition has an important role in improving productivity and prospects for growth. Competitive, open, and dynamic markets have increased productivity, facilitated market entry and innovation, promoted growth and protected citizens across the globe.

Competition provides many important benefits for consumers. These include lower prices, more choice, and better-quality goods and services. Through economic growth and competition, workers benefit from higher wages and better benefits.

When markets work well, firms of all sizes thrive by meeting consumers' needs better than their rivals. The benefits of competition are particularly important for consumers who may be more exposed to concentrated markets and therefore disproportionately bear the costs of monopolization.

Competition provides a strong incentive for firms to be more efficient than their rivals, reduce their costs and innovate. This raises productivity growth across the economy.

The role of effective competition advocacy and policy

Competition policy can help economies adjust to and recover from the economic effects of a crisis by promoting open, competitive, and fair markets. Competition principles can inform other policies, which can help ensure that workers, consumers, and small and large businesses benefit from fair and competitive markets. Competition agencies and policymakers have an important role to play. They safeguard competition in the marketplace and use policy tools to help with recovery.

The outcomes of competition policy benefit from a holistic approach. Competition agencies help government departments and agencies look at policy questions with a competition lens, thinking how to embed competition principles in their work when designing and implementing policy. As a result, policymakers can design laws and policies that address the economic impact of a crisis and also maintain or support competition or minimize adverse effects on competition. Competition agencies can offer useful insight and advice on how a policy or economic measure, such as regulatory policy or trade policy, can support competitive markets. This includes advising on the impacts of measures that entail the risk of protecting firms from normal competitive forces – such as subsidies or the relaxation of merger control and/or competition law – allowing them to become entrenched at a cost to the wider economy. Policymakers need to keep a level playing field so that both existing and new businesses have a fair opportunity in the market.

Competition policy cannot be the only answer to these crises, but it can help address concerns about the adverse economic effects of increasing market power during a crisis and identify barriers to the entry or expansion of new businesses. It can help inform flexible and innovative solutions to the economic disruptions that crises cause.

The role of active competition law enforcement

We must actively enforce competition laws when the economy suffers from crisis conditions. A state of weakened competition due to the economic effects of a crisis can invite increased anticompetitive activities by firms and entrench market dominance. The harmful effects of too much concentration, collusion and abuse of market power can slow or prevent economic recovery. Strong enforcement can help ensure that economic disruptions do not provide cover for anticompetitive activities. This can allow citizens, workers, households, and businesses of all sizes benefit from fair and competitive markets.

Economic downturns can increase protectionist pressures to relax competition enforcement. However, eliminating or hindering competition law and policy during an economic crisis can harm consumers and producers by slowing rather than promoting economic recovery. History has shown that the cost of these measures can be substantial, often only becoming evident in the long run, and difficult to remove or reverse. Competition law is flexible enough to take into account market realities even under extraordinary circumstances without being lenient. Competition agencies may in a transparent manner provide companies with guidance concerning crisis management, such as cooperation initiatives designed to deal with e.g., supply chain disruptions. All measures need to be appropriate and proportionate, non-discriminatory, and limited in time.

Without active enforcement and policymaking, harmful economic conditions can last much longer. Measures that hamper enforcement or policies that result in companies getting more market power can have the opposite of the desired effect. More restrictions in output or productivity will likely make the effects of recession worse. They will also slow down recovery. This can make it more difficult for new firms to enter the market, and hinder growth.

Examples of ways that competition and competition policy can address the economic effects of contemporary crises

- <u>Promoting growth</u>: Competition and competition policy can help economies recover from slow or negative economic growth. This can be seen both during and after a crisis. Competition helps ensure that markets, industries, and economies are open, dynamic, and productive. When resources have fallen idle or been repurposed during a pandemic or war, competition helps ensure they are used where they are most highly valued. A competitive marketplace can also help create quality jobs. This may provide workers with more ability to switch jobs and negotiate higher wages. Competition and competition policy can also promote inclusive growth by focusing resources on protecting vulnerable consumers who spend a higher proportion of their income on basic needs and suffer disproportionately when prices of these goods increase.

- <u>Promoting green innovation</u>: Competition and competition policy can play an important role in a green economic recovery, strengthening incentives for green innovation and empowering consumers to make informed decisions.

- <u>Easing supply chain constraints</u>: Competition and competition policy can help markets adjust to supply chain constraints that come from crises in a more rapid and efficient way. This will help ease bottlenecks, for example by enabling alternative sources. Markets become more fragile and face a significantly higher risk of systemic failure when they are more consolidated and less competitive. Open and competitive markets add resilience to changes in supply chains.

- <u>Easing energy supply constraints and price shocks</u>. Competition and competition policy can help markets adjust to energy price shocks and supply constraints that come from crises in a more rapid and efficient way. This can help enhance supply and keep energy prices lower than they otherwise would be.

- <u>Mitigating impact of inflation</u>. Although inflation typically is the result of much broader factors, competition may make a difference by accelerating the adjustment of supply and demand to changing market conditions that are caused by inflation. Competition boosts economic growth and wages, which may help consumers to recover purchasing power lost due to inflation. Strong competition enforcement can prevent firms from using inflation as a cover for anticompetitive price increases and can also prevent mergers that would lead to price increases and make the effects of inflation worse. Opening up competition in sheltered sectors can reduce barriers to entry and translate into lower prices, hence giving back purchasing power to consumers.

Conclusion

Competition, competition policy, and competition enforcement should be part of the solution to economic crises. Competitive markets are resilient, inclusive, dynamic, productive, innovative, and efficient. Open competition, effective competition policy, and active competition enforcement can help support good outcomes for consumers, workers, households, businesses, and economies. They are vital to managing the economic impacts of crises. They also create a better environment for lasting and sustainable economic recovery.

We are a community of law enforcers operating in the global economy. We know that economic crises and weak competition enforcement in one jurisdiction can have broader effects. Other economies can be exposed to anticompetitive conduct. This means that we need to coordinate our enforcement efforts effectively. It also means that we need to align and reinforce our policies where possible so that we can continue to protect and promote competition.

For further information on the benefits of competition in times of crisis, please see "Competition policy in difficult economic times" (2009), available at https://www.internationalcompetitionnetwork.org/wp-content/uploads/2018/07/ICNSGCase4competition.pdf.