

***On the effects of competition
and competition policy***

**(absent, weak or mistaken):
comments to the report of
RANE&PA**

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- The first paper assessing the social losses from weak competition and [insufficient] competition policy
- Among the first papers assessing the problems underlying *any* field of economic policy in Russia
- Should prevent *any further speculations* in the expert and political community on the topic of ‘*non-measurability*’ of the effects of policy
- Contains important implications for both theory and practice of competition policy...and in broad context – for any field of economic policy

‘The Effects of Weak Competition’: quantitative assessment and policy challenges

1. We cannot *even hope* for efficient organization of competition policy which is based on any ‘*voting*’ and or ‘*consultations*’ with any sample of business associations
2. There are substantial costs of weak competition *but there are also substantial costs of inefficient guidance of competition policy*
3. Competition agency should not be the only agency promoting competition

Direct implications of the paper for the benevolent state that we can discuss

- Who are interested in protection and/or improvement of competition in:
 - Domestic gas market (*which* incumbent is interested in?)
 - Rail freight transportation
 - Construction industry...?
- No one seller is interested in development of competition policy in appropriate extent... buyers are interested but not informed and influential enough
- *Collective action problem* in competition policy means that effective CP in Russia should be mostly organized ‘top down’

Implication for goal-setting of competition policy: market participants are very rarely able to set right goals and impose right incentives

- Wrongly defined goals of competition policy decrease social welfare in two ways:
 - by inducing the costs exceeding the gains *in the field where intervention is unnecessary*
 - by conservation of losses from weak competition due to insufficient intervention *in the cases where intervention is necessary*
- That is why *some* Russian economists oppose the introduction of new rules when enforcement costs *definitively* exceed the gains from enforcement, even if these rules are promoted as ‘*competition policy*’
- Just two recent examples...

Costs of wrong goal-setting

- Introduced at the end of 2009
- Without any comparison of cost and possible gains
- Three years later there is an evidence:
 - of large-scale enforcement
 - growing number of complaints (most of them unjustified)
 - increasing enforcement cost on the side of market participants and competition agency
- But still there is no evidence *that the real problems exist or once existed*
- The correct question might be not *Does you think that prevention of discrimination is a wrong goal?*
- The correct question might be *If you want to prevent discrimination why do you enforce the rule against small retail networks instead of Gazprom?*

Costs of wrong goal-setting: Law 'On Trade'

- Introduced at the middle of 2011
- With no clear evidence *even on the number of legal entities eligible to comply with the law* [200-400 thousands *according to the Deputy Head of Russian competition agency*]
- With no clear evidence that the problems of procurement inefficiency exist in every sub-group of legal entities
- However the rules adopted are universal for all types of legal entities (from Gazprom to small municipal unitary enterprise) and for all values of goods procured

Cost of wrong goal-setting: Law ‘On procurement of [public enterprises]’

- Once again: competition policy should be not only *protective*, effective CP should include *pro-active* components
- Factors of weak competition described in the report have nothing similar to *violations of antitrust legislation*
 - Gazprom & RZD: sector-specific rules
 - Construction industry: technical regulations, anti-corruption policy, rules of self-regulations
 - Pharmaceuticals: sector-specific rules
 - Sector of imported goods: trade policy

Implications for competition policy

- Effective competition policy in Russia would allow to improve welfare ('GDP') substantially
- The problem is not that we do not know the problems competition policy should address
- The problem is that Russian competition policy does not always address the problems of competition while imposing the most heavy burden on welfare
- Structural changes in Russian competition policy would improve situation substantially

Policy Implications



**THANK YOU FOR YOUR
ATTENTION**