

Why Compete, When You Can Cooperate?: The Effect of Competition on Economic Units

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1. Competition vs. Cooperation
2. Effects of Competition and Antitrust Law on Business
3. Effects of Competition on Social Welfare: Economic Growth and Consumers
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Competition vs. unlawful Cooperation

- Cooperation means «working jointly towards the same end.»
- The early use in 17th century, the term ‘competition’/‘compete’ has an etymological meaning rooting from the word ‘cooperation’. According to the *Oxford English Dictionary*, the word “compete” derives from Latin, in which “com-” means “together” and “petĕre” means “to fall upon, assail, aim at, ask, seek.” Based on this derivation, valid meanings of competition would be “to aim at together,” “to try to reach together” and “to strive after together.” (Taylor, 2015)
- In today's dictionaries it took on a new meaning «to be in a state of rivalry».

Why Competition Matters?

- Competition is the backbone of the most developed economies (Stucke, 2013).
- There is a strong and positive correlation between the level of competition in markets, industries and economies and the level of allocation of resources, increased productive, transactional and dynamic efficiencies (Hüschelrath, 2008).
- «There is no significant doubt among economists that competition policy has established itself in most industrialized countries as an integral part of public policy that contributes substantially to the improvement of the wealth of nations (Hüschelrath, 2008)».

What are the Effects of Competition on Economic Units?: -Effects on Business II-

- In competitive markets, unless undertakings improve their productivity they will not lose customers to other firms and new entrants. Competition is a fundamental driver of intensified productivity by promoting efficiency, eliminating entry and exit barriers and boosting innovation.
- This leads to lowering the cost of the production, charging competitive prices in the markets.
- Competitive pressures from other firms and new entrants lead firms to look for better, more efficient ways to organise their business, thus reduce managerial costs (OFT, 2008).

What are the Effects of Competition on Economic Units?: -Effects on Business I-

ICN Competition Benefits Report (2018) suggests that:

- «Competition policy protects business by ensuring that provisions of the legal framework are applied to companies equally and that a playing level field is maintained. A non-discriminatory treatment promotes competition and benefits not only businesses but also consumers by allowing them access to better services at better prices, thereby generating welfare for the public.»
- Competition policy has an essential duty in increasing productivity, thus the growth prospects, of an economy.
- When competition is healthy and strong, productivity is strong.

What are the Effects of Competition on Economic Units?: -Effects on Business: Productivity and Decrease in Costs-

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Hüschelrath, Kai

Working Paper

Is it Worth all the Trouble? The Costs and Benefits of
Antitrust Enforcement

ZEW Discussion Papers, No. 08-107

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Suggested Citation: Hüschelrath, Kai (2008) : Is it Worth all the Trouble? The Costs and Benefits of Antitrust Enforcement, ZEW Discussion Papers, No. 08-107, Zentrum für Europäische Wirtschaftsforschung (ZEW), Mannheim

Table 2. Improvements in productive efficiency and consumer welfare after regulatory reforms in the United States

Industry	Studies	Improvements in productive efficiency	Improvements in consumer welfare
Airlines	Morrison and Winston (1998)	Average industry load factors have increased from roughly 52% the decade preceding deregulation to roughly 62% since deregulation. Real costs per revenue ton-mile have declined at least 25% since deregulation. Industry profits have been very volatile during deregulation, although higher, on average, than they would have been under regulation.	Average fares are roughly 33% lower in real terms since deregulation, and service frequency has improved significantly.
Less-than-truckload trucking	Corsi (1996a)	Carriers have substantially reduced their empty miles since deregulation. Real operating costs per vehicle mile have fallen 35%, but operating profits are slightly lower than they would have been under regulation.	Average rates per vehicle mile have declined at least 35% in real terms since deregulation, and service times have improved significantly.

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Truckload
trucking

Corsi
(1996b)

Carriers have substantially reduced their empty miles since deregulation. Real operating costs per vehicle mile have fallen at least 75%, but operating profits are slightly lower than they would have been under regulation.

Average rates per vehicle mile have declined at least 75% in real terms since deregulation, and, because of the emergence of advanced truckload carriers, service times have also improved significantly.

Railroads

Winston et
al. (1990)

Railroads have abandoned one-third of their track miles since deregulation. Real operating costs per ton-mile have fallen 60%, and rail profits are much higher than they would have been under regulation.

Average rates per ton mile have declined more than 50% in real terms since deregulation, average transit time has fallen at least 20%, and the standard deviation of transit time has fallen even more than 20%.

What are the Effects of Competition on Economic Units?: -Effects on Business: Investment and R&D I -

- «Project selection decisions are complex because firms must consider not only financial returns, project risk and fit with strategy, **but also competitive circumstances.**»
- A research done on a **unique database** consisting development of drug pipelines of the **top 15 pharmaceutical companies** between **1999 and 2016** to analyze how **efforts of a rival project boosts development of a drug from pre-clinical laboratory trials to Phase I clinical trials in humans**, reveals that **early-stage rival projects administer a stronger market rivalry signal.** (Markou et al., 2020).

What are the Effects of Competition on Economic Units?: -Effects on Business: Investment and R&D II-

Zschocke et al. (2014) argues that:

- **PepsiCo took into account of Coca Cola Company's investment decisions in searching for new markets as a conscious strategy. Thereby, it increased PepsiCo's international revenue and returns substantially by the end of the 1990s.**
- If the number of competing undertakings rises, firms invest a great amount of funds into the projects in a mature market. This is called incrementalism which is a direct benefit of competition and it is aggravated by the number of undertakings in an industry.

What are the Effects of Competition on Economic Units?: -Effects on Business: Corporate Social Responsibility-

Reported from Vural-Yavaş (2021):

- Competition in the product market augmented the overall social performance of the US firms. This is a positive externality of competition which invigorates undertakings' constructive social influence and decreases the negativities (Leong & Yang, 2019).
- Fernández-Kranz and Santaló (2010) claims a positive relationship between competition and firms' social ratings.
- Sheikh (2019) asserts that «the positive relationship between CSR and firm value is valid only in competitive industries».
- Han et al. (2018) demonstrates that CSR participation decreases sales performance solely «in noncompetitive industries for Chinese firms» .

What are the Effects of Competition on Economic Units?: -Effects on Small Business I-

- Small enterprises are foundational components of the domestic economy, providing employment of most of the workforce throughout the economies and economic policies encourage the development of small businesses.

What are the Effects of Competition on Economic Units?: -Effects on Small Business II-

According to SBA (2008):

- Antitrust enforcement helps small undertakings in competing against larger ones, because they constitute an essential part of the sustainable growth and development in an economy.
- Antitrust laws protects small businesses «via restraining market power on the supply side, keeping down the prices of goods and services small businesses depend upon; restrains market power on the buying side, keeping small businesses from being crushed by the need to sell to a single dominant buyers; restrains competitors from unfairly blocking entry into a market or acting in an unfairly oppressive manner; and restrains market power in vertical relations».

What are the Effects of Competition on Economic Units?: -Effects on Economic Growth and Consumer Welfare-

According to ICN Benefits Report (2018);

- Competition policy has a significant duty in enhancing the productivity, thus, in the growth expectancy of an economy.
- Innovation serves as a robust driver of economic growth via the dramatically renovated products and services.
- The evolution of novel and enriched processes lower the costs and boost efficiency of manufacturing.
- Competition forces the communities in providing a competitive environment to producers by «improving roads, bridges, docks, airports, and communications, as well as improving educational opportunities».

What are the Effects of Competition on Economic Units?: -Effects on Economic Growth and Consumer Welfare-

OFT's 2008 report on «Government in markets: Why competition matters-a guide for policy makers» states that:

- «Well-regulated, competitive markets can maximize consumer welfare and by raising economic growth, also increase total welfare».
- Effective competition in properly regulated markets can deliver lower prices, better quality goods and services and greater choice for consumers.

What are the Effects of Declining Competition on Economic Units?: - Rising Market Power and Decreasing Total Welfare I -

- Reduced competition would likely result in higher prices (Baker, 2019).
- An important research done with **the data from the financial statements of over 70,000 firms in 134 countries shows the evolution of markups over the last four decades.** Average global markup has gone up from close to 1.1 in 1980 to around 1.6 in 2016. Markups have risen the most in North America and Europe and the least in emerging economies in Latin America and Asia (De Loecker&Eeckhout, 2018).
- Mark-ups are considered as a tool for measuring market concentration.
- «**In advanced economies, markups have increased by an average of 39 percent since 1980** (IMF, 2018)».

What are the Effects of Declining Competition on Economic Units?: - Rising Market Power and Decreasing Total Welfare II -

IMF Working Paper on «Global Market Power and its Macroeconomic Implications, 2018»:

- **There is positive relation between firm markups and other indicators of market power, such as profits or industry concentration.** Focusing on advanced economies, the paper investigated the relation between markups and investment, innovation, and the labor share at the firm level.
- Higher markups are correlated primarily with rising and then with receding investment and innovation rates.
- «Higher markups are associated with lower investment, especially for companies that are operating in industries with high levels of market concentration».

What are the Effects of Declining Competition on Economic Units?: - Rising Market Power and Decreasing Total Welfare III -

- «Higher markups and higher market concentration are also associated with a declining labor share».
- When companies increase their market power, they reach a growing share of the rents from production, leaving smaller returns accruing to labor. Increasing market power over recent decades may thus have contributed to the decline in the labor share.
- Higher markups are associated with rising inflation.
- «These trends have been driven by a relatively small number of “superstar” firms in the upper tail of the distribution that are able to extract increasingly large markups» (IMF, 2018).

Conclusion

- Declining competition and increasing unfair cooperation causes substantial loss of total welfare.
- Undertakings could take advantage of cooperation, but competition is the only option which every stakeholder in an economy could benefit from.
- The concept of 'cooperation' is best at work when it ensures and increases the coordination between the competition authorities in order to establish well-functioning economies both nationally and internationally.
- This is one of the ways in which we will be able to increase the total welfare of humanity.