

How does competition serve the society?

- There are three main benefits
 - Affordability
 - Innovation and efficiency
 - Integrity

How does competition serve the society?

- **Affordability**
 - Lower prices for consumers – the most obvious benefit!
 - Consider a monopoly/cartel: It can increase its prices and will only lose a few of its customers
 - This would hold for a dominant company
 - Private and seeking profit
 - Public and most often seeking revenues to cover high production costs
 - This would cause people to have less purchasing power and consume less
 - The entry of competitors puts downward the pressure on prices and makes consumers less captive

How does competition serve the society?

- **Affordability:** Examples
 - Taxi industry in France
 - High prices
 - Poor-quality service
 - Shortage of available vehicles
 - The entry of Uber (although controversial) has increased competition
- The airline deregulation in Turkey
 - 1983: The first part of the deregulation gave private enterprises to establish airlines and airport operators
 - 2003: The second one gave rights to airline companies to operate domestic routes independently.
 - Since 2003 competition has increased and prices fell

How does competition serve the society?

- **Affordability:** Examples
 - Cell phone or the Internet in African countries
 - Competition between companies has provided more affordable telecommunications
 - An example of the adverse effects of restricting competition
 - France's Raffarin and Galland Laws of 1996
 - [The Raffarin Law](#) made it illegal to open a new supermarket of more than 300m² without government authorization.
 - This law was supposed to restrain the power of large supermarkets but immediately the value of shares in the big chains went up!
 - The opening of large supermarkets was blocked for 10 years
 - The Galland Law banned supermarkets from passing on to consumers the price reductions
 - This led to supermarkets to stop discounting
 - Who loses? Who gains?

How does competition serve the society?

- **Affordability:** Final examples
 - Protection against international competition
 - Opening up the European market to competition from imports drastically changed the organization of the automobile industries and productivity
 - France; Renault and Peugeot-Citroen sharply increased their efficiencies
 - China's accession to the WTO in 2001
 - Following this there was a sharp increase in innovation and productivity in textile companies threatened by the Chinese competition
- The effects are not negligible for consumers

How does competition serve the society?

- **Innovation and Efficiency**
 - Competition
 - encourages businesses to produce more efficiently and innovate.
 - Promotes a diversity of approaches and experiments, giving rise to new technologies and business models, as we can see ONLINE
 - Productivity gains can be broken down into
 - Gains in existing businesses
 - Which improve when spurred by competition
 - Gains through creative destruction
 - When inefficient enterprises disappear and are replaced by more productive startups.
 - In the US and in France, at least a quarter of the productivity growth is estimated to be attributed to this

How does competition serve the society?

- **Innovation and Efficiency**

- We already know that lack of competition makes life easy for companies, their executives and employees, who enjoy the tranquility in a protected market
 - Monopoly rents!
- But monopolies
 - Tend to have high costs
 - Usually generate little innovation
 - They really don't need to innovate because the executives face no criticism in the absence of competition

How does competition serve the society?

- **Innovation and Efficiency**

- Innovation in products and customer service are not ALWAYS due to extraordinary technical advances.
 - Taxi example: Uber, SnapCar, Lyft, and others using a mobile app to link drivers and passengers
 - Snapcar is a French language application that lets you request a car and chauffeur at your location.
 - Lyft is an on-demand transportation company primarily providing ride-hailing services and based in San Francisco, California
 - Have introduced simple ideas for which users are voting overwhelmingly with their feet and wallets
 - Geolocation makes it possible to follow the driver's route to the destination and work out how long it will take to arrive. This traceability protects the consumer
 - Paying with a preregistered debit card using an APP that sends an electronic receipt direct to the user simplifies the payment process
 - makes it easier for business travelers to reclaim their expenses.
 - Another innovation: **Feedback**.
 - It allows drivers and users to build a reputation for courtesy and punctuality.
 - Providing a bottle of water or letting passengers recharge their cell phone are hardly technologically revolutionary.
 - However, taxi companies had either never thought of these innovations or just did not bother to introduce them.

How does competition serve the society?

- **Integrity**

- When there is competition, companies cannot obtain monopoly rents through government regulations. Therefore, they do not spend large sums on rent seeking
 - **Recall:** rent seeking imposes costs on society because they are not productive and lead to monopoly rents due to the privileges they lead to
- Corruption represents the **extreme quest** for rents
 - Import controls in developing countries
 - Licenses are granted by government officials who have powerful friends and enrich themselves at the expense of everyone else.
 - If the goal is to limit imports, it is better to
 - levy a tax
 - Allocate quotas to the highest bidder through a government auction (**competition**) , whose revenues would go to the state

Targeted Industrial Policy

- The question of the state's role in organizing industry is a longstanding political debate
- Some politicians are sensitive to the demands of the business leaders who want to have access to public funds
- Others sincerely think that attempting to develop or save specific industries that they believe are creating wealth and jobs is in the general interest
- Most economists show lack of enthusiasm toward industrial policy

A blind approach

- Picking winners
 - Politicians and voters lack information about the technologies, sectors, and businesses that will produce tomorrow's economic wealth
 - At best, the government choose more or less at random; at worst, they favor certain pressure groups
- White elephant projects:
 - Anglo-French Concorde (taken out of service in 2003)
 - Groupe Bull (a French computer company that aimed to compete with IBM;s supercomputers and way kept alive by public funds),
 - M

In modern usage

A blind approach

- Clusters

- Many countries have invested in industrial clusters
- Goal is to promote a specialist research and industrial complex (in fields like biotechnology and medicine, software, or nanotechnology) in a small geographical area
- But such government interventions often fail to achieve their objectives that are numerous
- This results in a scattering of resources
- We must face the fact that most important hi-tech clusters usually form spontaneously.
 - **Kendall Square** are near MIT – **temple** of biotechnology.
 - MIT had **no** medical school but it did have several famous biologists on its faculty

A blind approach

- Clusters

- It seems obvious that significant technological innovations will be necessary to limit **climate change** to a tolerable level
- Yet, no one really knows which technologies will achieve this.
- It is hard to imagine governments choosing the winning technology in these conditions
- The same goes for nanotechnology, biotechnology, and future technologies in general.

A blind approach

- Clusters

- Whether privately or publicly funded, best on technology are inheritably risky.
- Not surprising that governments sometimes make the wrong choice
- On the other hand, **it is important** to recognize our mistakes and not continue to support projects that are failing
- The money can be used to finance other investments
- Yet, governments often yield to the temptation to solve problems by **throwing** money at them
 - To show that they were right after all
 - Or to satisfy the very pressure groups

A blind approach

- Clusters
 - It is very difficult to stop public projects
 - Beneficiaries of subsidies end up organizing to prevent the flow of money from drying up even when the subsidy is no longer justified
 - Thus, **private financing** can have an advantage in this regard.
 - It knows where to stop funding what is no longer fruitful or necessary, and when to redeploy the money to more promising uses

A blind approach

- Although the failures of industrial policy mentioned above are anecdotal, a similar situation also holds for the success stories
 - Airbus (competition with Boeing), DARPA (Arpanet network → Internet, Global Positioning System)
 - Contribution of industrial policy to the development of economies such as South Korea and Taiwan
 - State plays a fundamental role by granting (competitive) financing, for example to some American Universities such as MIT, Caltech, Harvard...
 - Yet, successful government interventions are rarely motivated by consideration of industrial policy
 - Much more often, they are motivated by national objectives, such as defense

Which Industrial Policy?

- Given the lack of rigorous evidence, what can we conclude?
- Whether or not we like industrial policies, governments will continue to pursue them
 - We have to try to make such initiatives **as successful as possible** accepting that our knowledge will continue to evolve

Guidelines (by Dani Rodrik)

1. Identify the reason or the market failure, in order to be able to respond more effectively
2. Use independent, appropriately qualified experts to select projects to receive public funding
3. Pay attention to the supply of research capability as well as the demand for it
4. Adopt a neutral industrial policy that does not distort competition between companies
 1. Desirable on economic grounds
 2. Protects against officials who might favor a particular company or a recipient of public goods

Guidelines (by Dani Rodrik)

5. Evaluate interventions after they have taken place, and publish the results;
 - Include a “sunset clause” which ensures that support can be withdrawn if the policy is not working or is no longer needed
6. Involve the private sector closely in the risk taking
7. Bear in mind how the structure of the economy is evolving