

BdE-IMF Conference "Spain: From Recovery to Resilience"

Is there a *competition deficit* in Spain, and if so what should be done to deal with it?

3 April 2018

Jorge Padilla



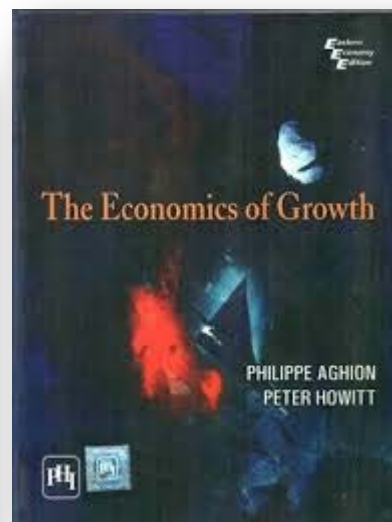
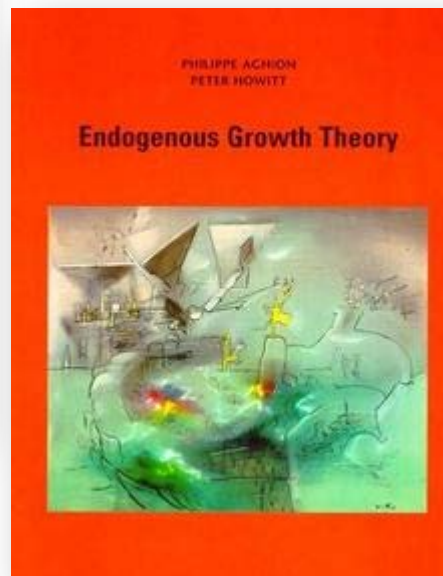
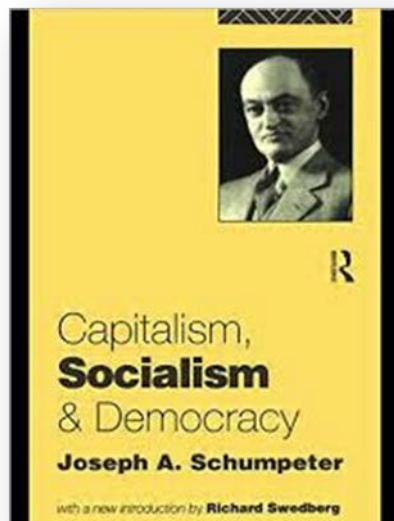
Growth, innovation and competition policy



Lessons from economic theory
and evidence

GROWTH, INNOVATION AND COMPETITION POLICY

- According to Schumpeterian growth theory, the medium growth prospects of an economy are driven by the rate at which its firms develop leading edge innovations and the speed with which those innovations and innovations developed elsewhere are implemented.



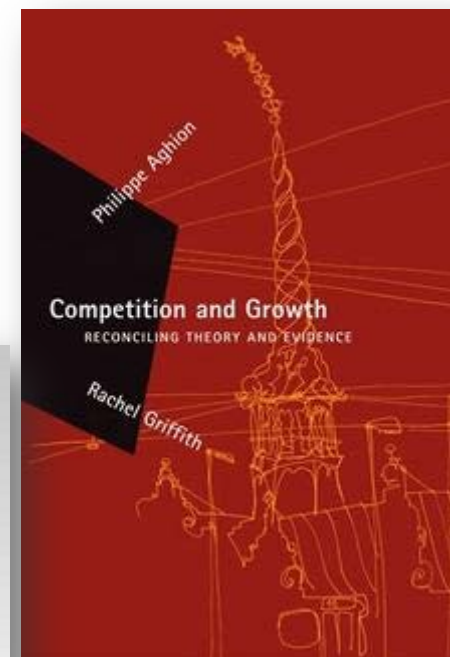
GROWTH, INNOVATION AND COMPETITION POLICY

- Leading edge innovations take place in economies where firms have the ability and incentive to innovate, i.e. in economies with access to abundant human capital with tertiary education and risk capital, competitive markets and risk-taking entrepreneurs. Innovations are implemented faster in economies with similar characteristics.



GROWTH, INNOVATION AND COMPETITION POLICY

- Competition encourages innovation and accelerates the adoption of new technologies because firms which innovate prosper while innovation laggards are marginalised and, possibly, forced to exit. In addition, competitive markets reallocate resources from inefficient companies to efficient ones, thus increasing productivity and fostering growth.



GROWTH, INNOVATION AND COMPETITION POLICY

- Competition policy can therefore have a positive impact on medium term growth by increasing both the rate at which an economy innovates and the speed with which it adopts innovations.

The screenshot shows the VOX CEPR's Policy Portal website. The main article is titled "Competition policy and inclusive growth" and is dated 19 June 2016. The authors are Fabienne Ilzkovitz and Adriaan Dierx. The article text discusses the impact of market power on income inequality and the role of competition policy. The article has 77 comments and is accompanied by two author portraits: Fabienne Ilzkovitz, Competition Directorate General, European Commission, and Adriaan Dierx.

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Competition policy and inclusive growth

Fabienne Ilzkovitz, Adriaan Dierx 19 June 2016

Firms with greater market power can behave monopolistically, and recent research suggests that declining market competitiveness is driving income inequality. While competition authorities already measure the overall impact of their interventions by using customer savings, these measurements do not account for indirect effects of intervention. This column introduces a DSGE model to model competition policy interventions as a negative mark-up shock. Competition policy has a significant and positive impact on growth and jobs, and impacts richer and poorer households differently. Interventions have important redistributive effects that benefit the poorest in society.

G f t p + 77 A A

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Is there a competition deficit in the Spanish economy?



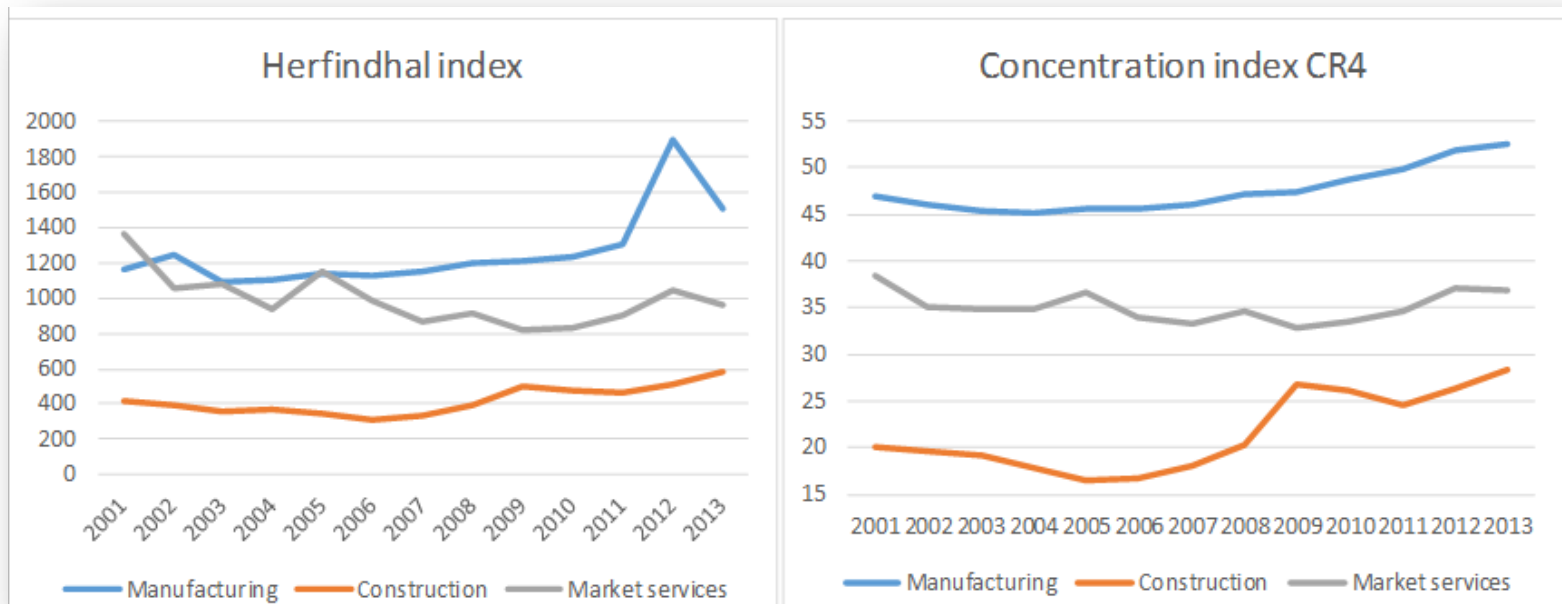
The answer, I am afraid, is yes!

IS THERE A COMPETITION DEFICIT IN SPAIN?

- The above discussion suggests that one way to increase the medium-term growth prospects of the Spanish economy is to promote competition in all sectors of the economy that are not effectively competitive and, in particular, those which are most important due to their size and their linkages with others, e.g. energy, telecoms, banking, etc.
- Of course, a policy of promoting competition makes more sense in economies with key sectors where competition is weak. This is why it makes sense to investigate whether there is a competition deficit in key sectors of the Spanish economy.

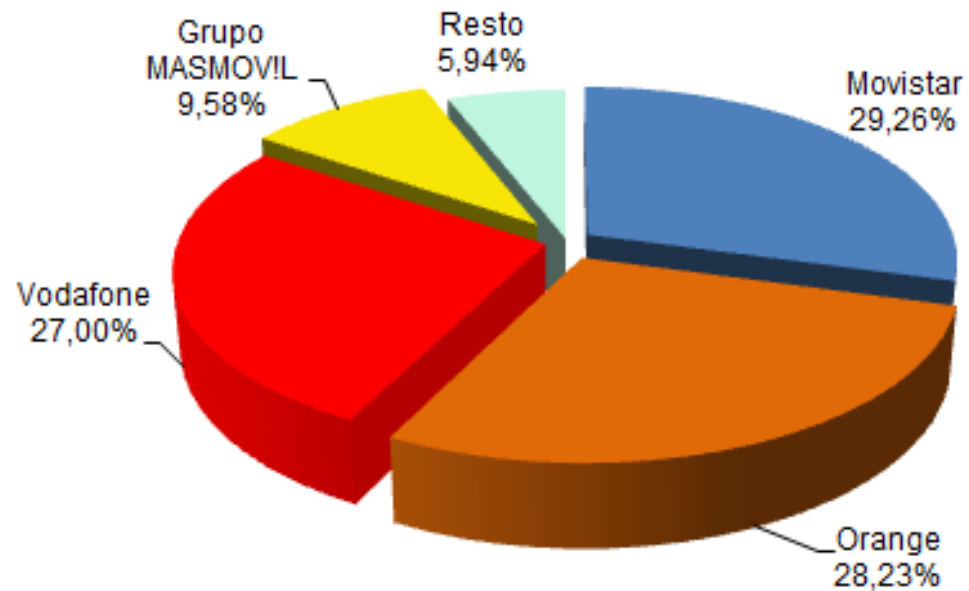
IS THERE A COMPETITION DEFICIT IN SPAIN?

- I believe the answer is yes.
- Concentration is very high in many sectors of the economy, but especially in energy, telecoms and banking and it has been growing over time as a result of mergers and acquisitions.



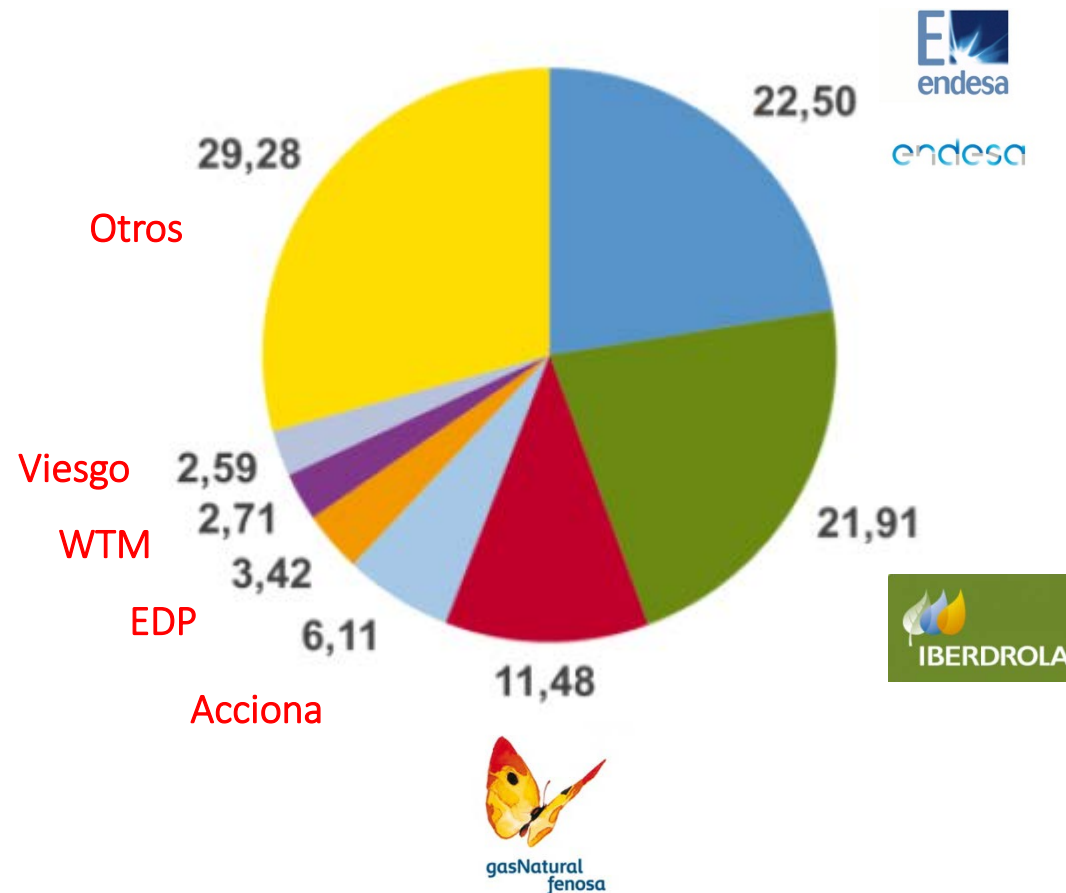
MOBILE TELECOMS CONCENTRATION

Market Shares Mobile Broadband Lines 2017



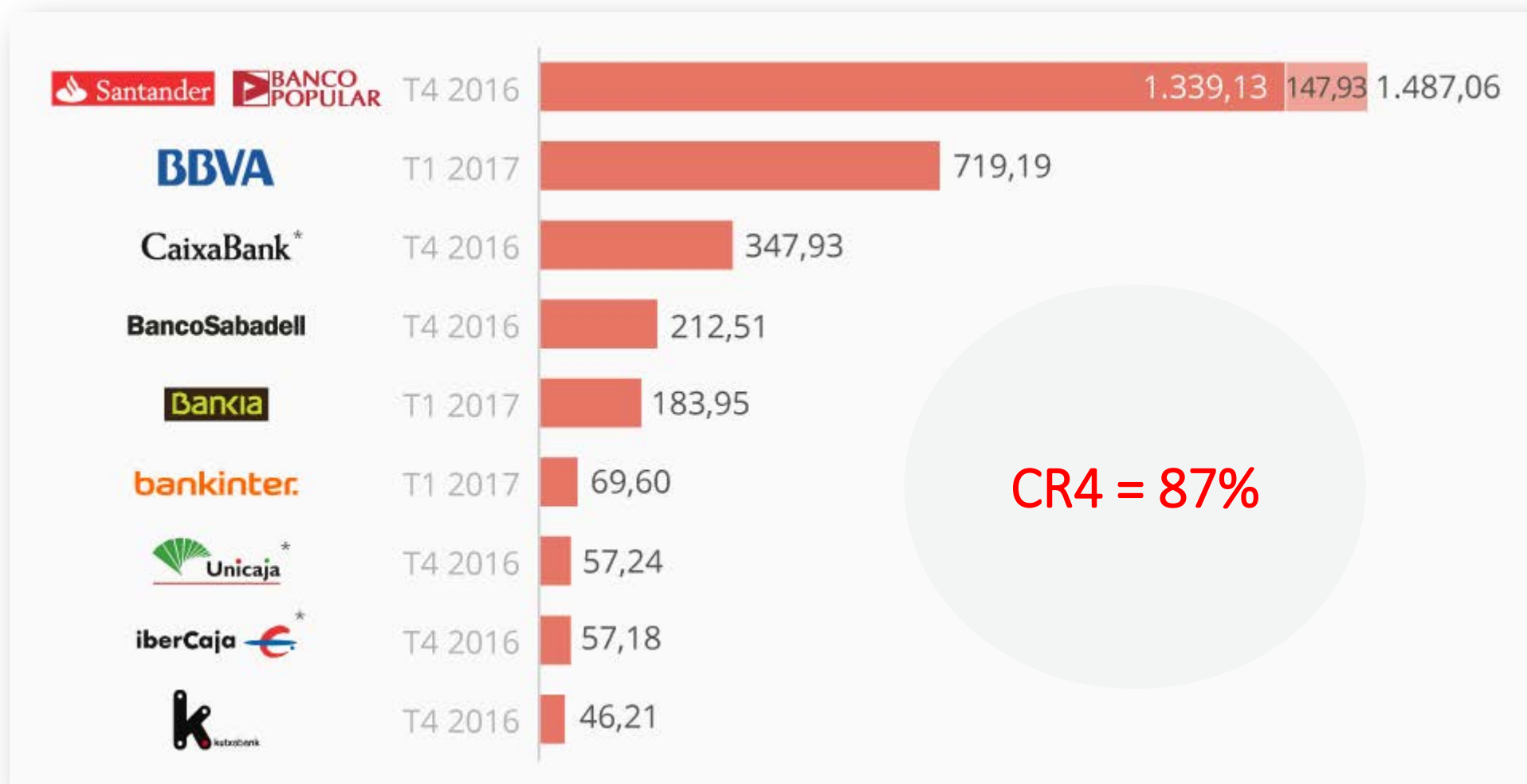
ELECTRICITY MARKETS CONCENTRATION

Market Shares Daily Generation Market January 2018



BANKING SECTOR CONCENTRATION

Total Assets (billions) 2017



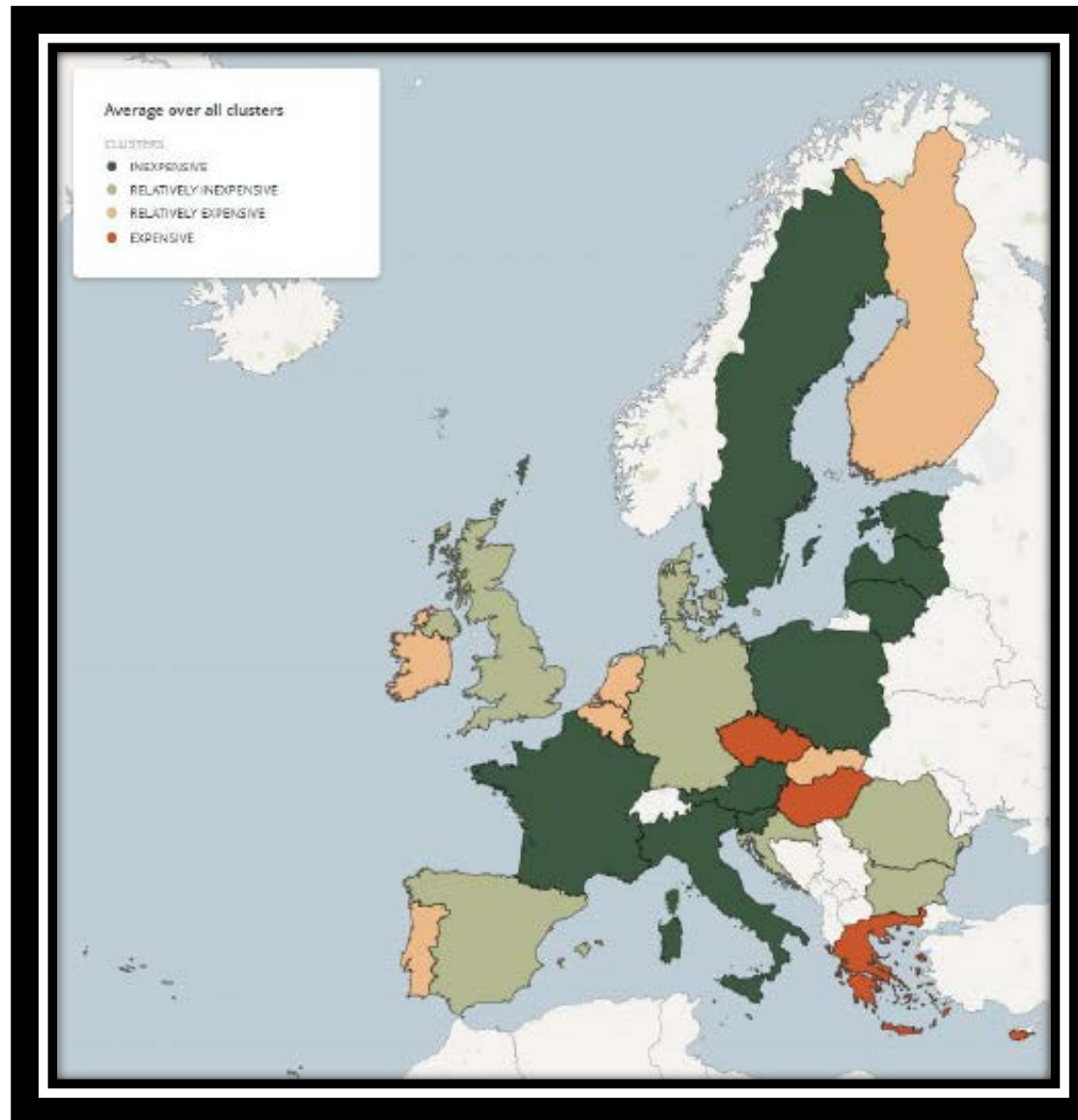
BANKING MERGERS



IS THERE A COMPETITION DEFICIT IN SPAIN?

- Prices in those sectors are high when compared with relevant EU benchmarks. Profit margins have been growing in many sectors, especially those more concentrated or where concentration has been increasing faster.

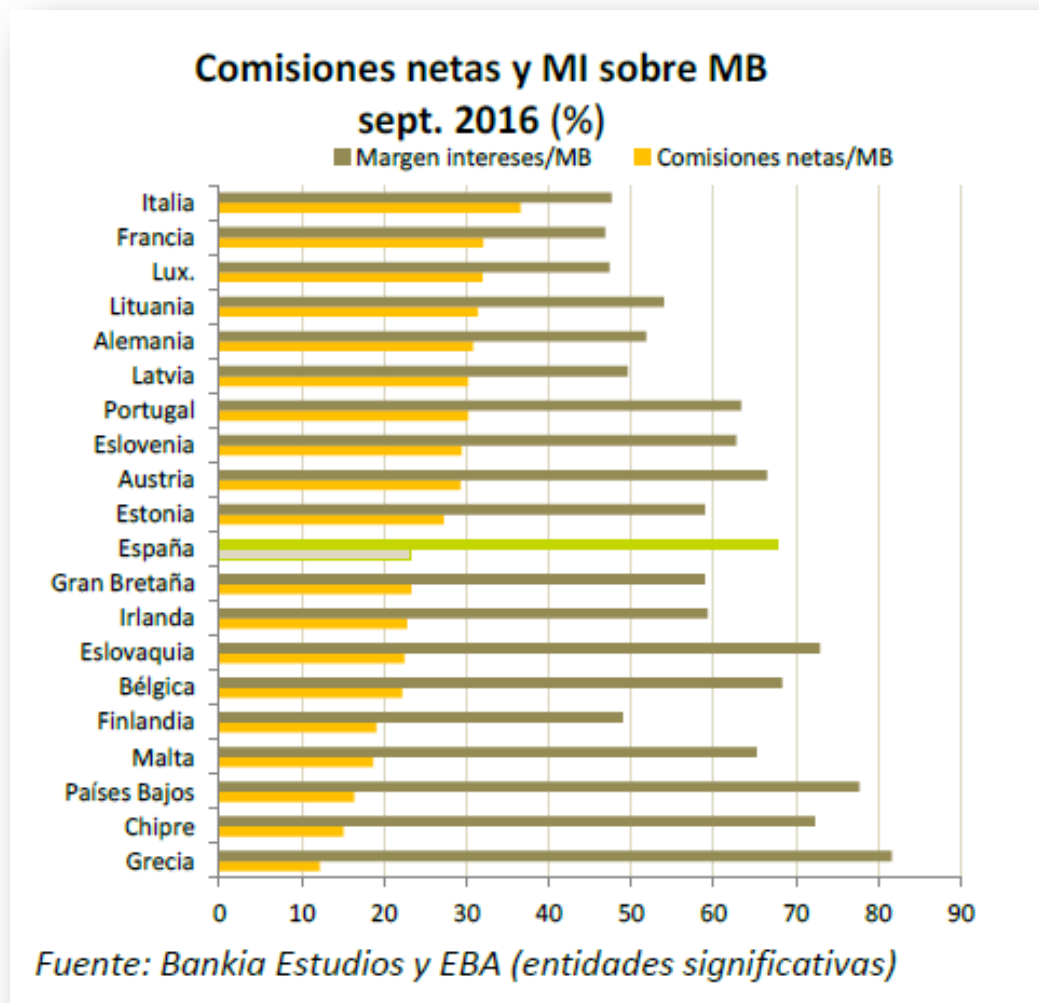
MOBILE BROADBAND PRICES 2017



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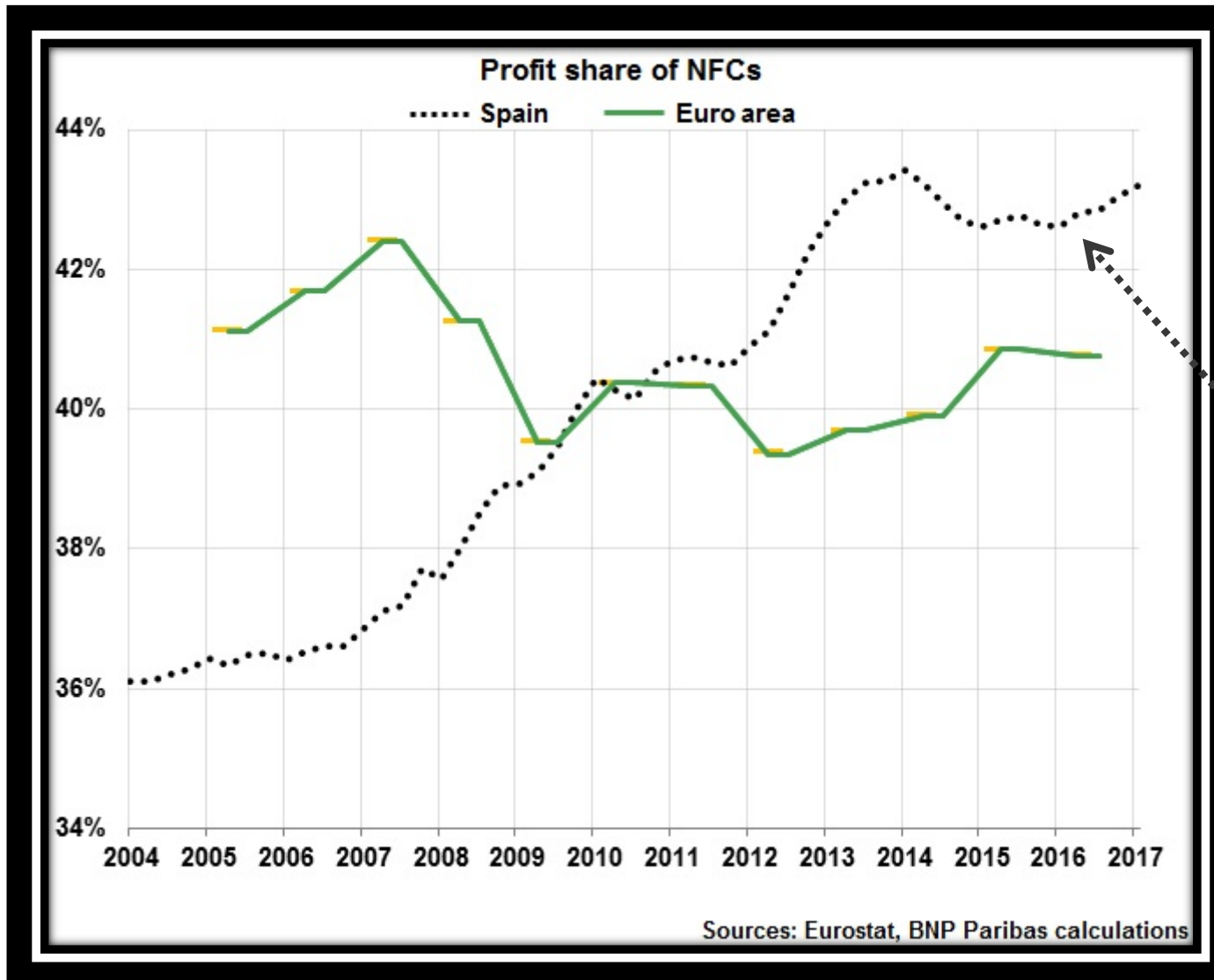
BANK COMMISSIONS



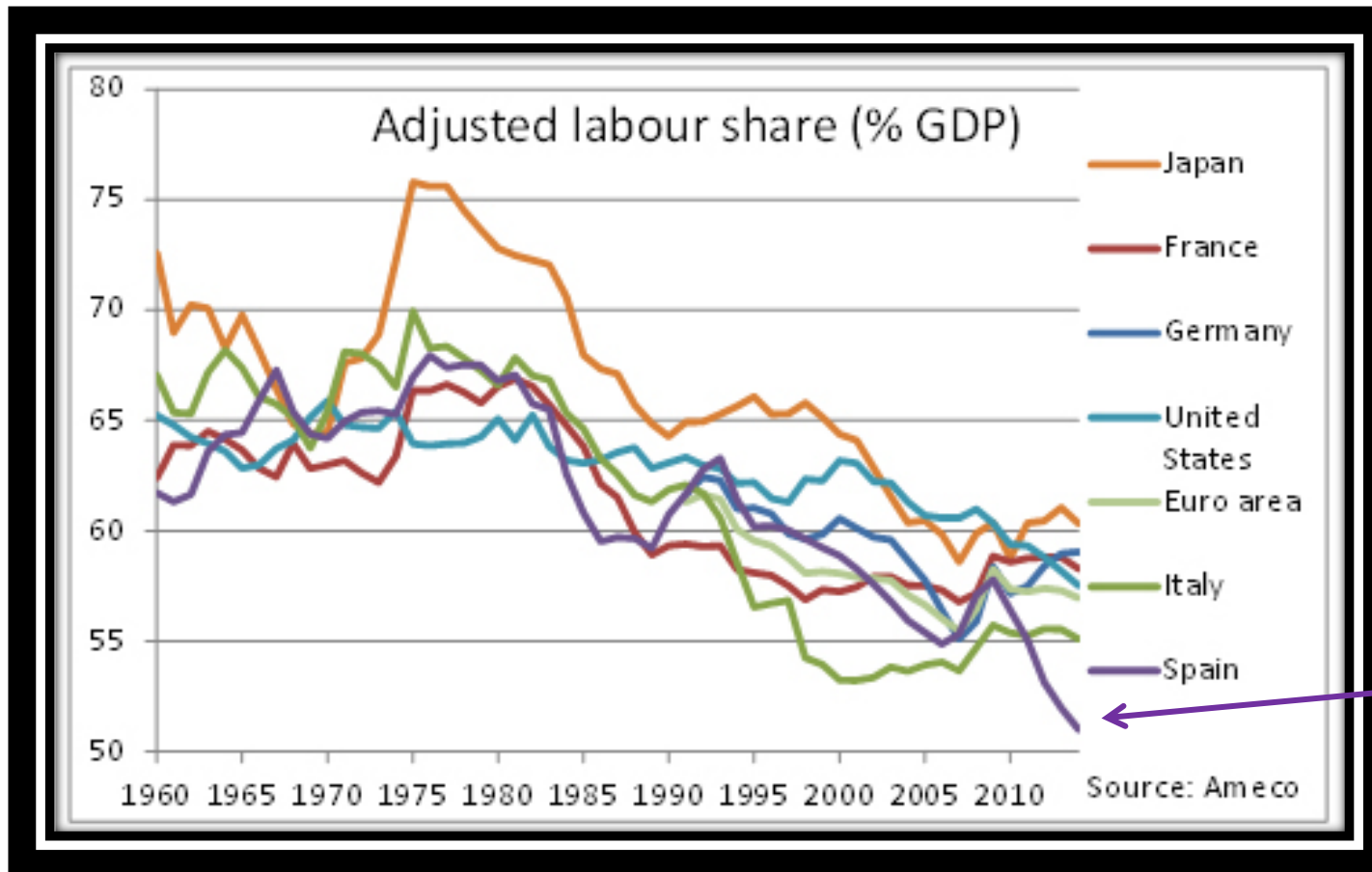
IS THERE A COMPETITION DEFICIT IN SPAIN?

- Profit margins have been growing in many sectors, especially those more concentrated or where concentration has been increasing faster.

INCREASED PROFIT MARGINS

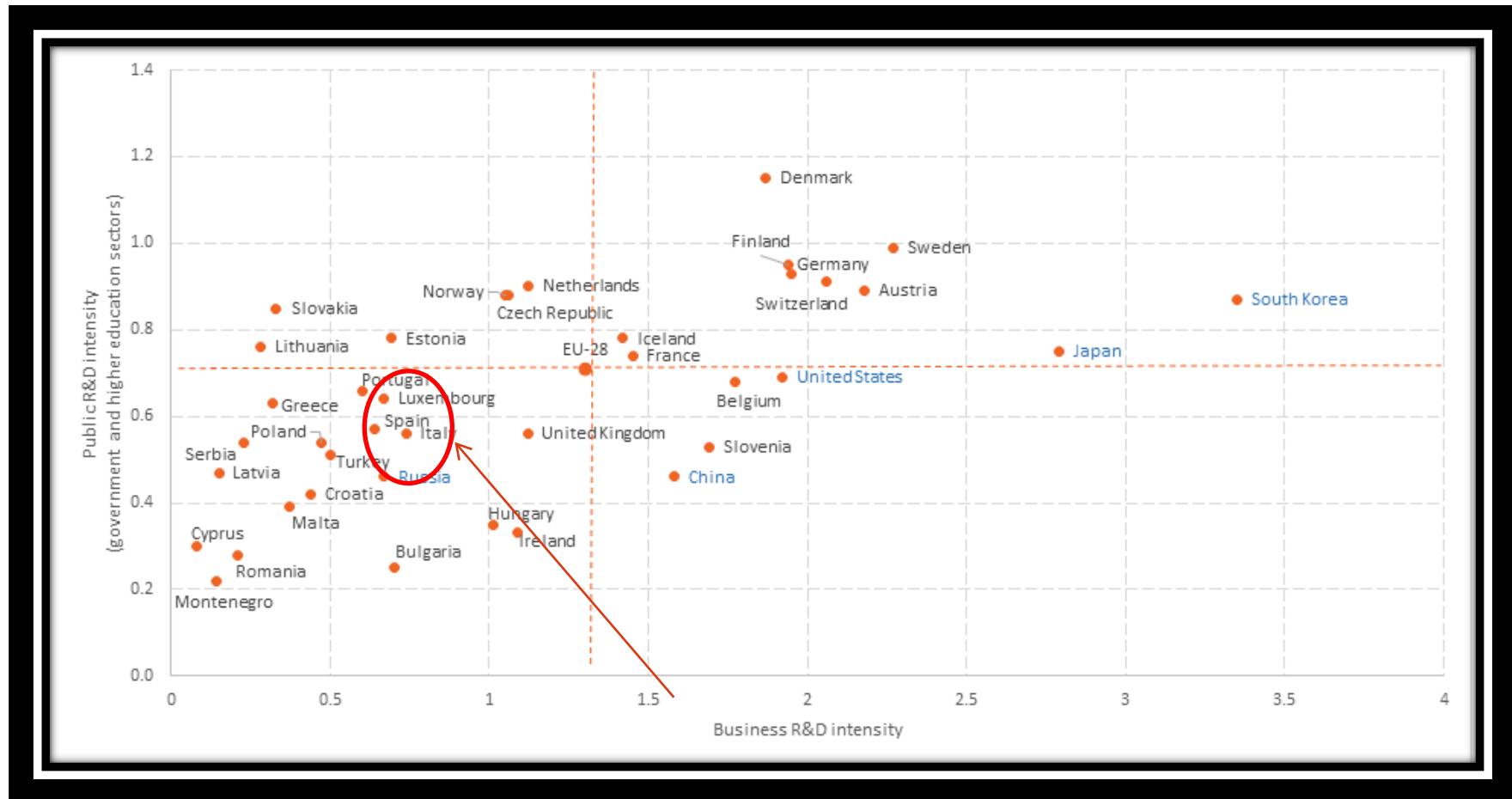


DECLINING LABOUR SHARE



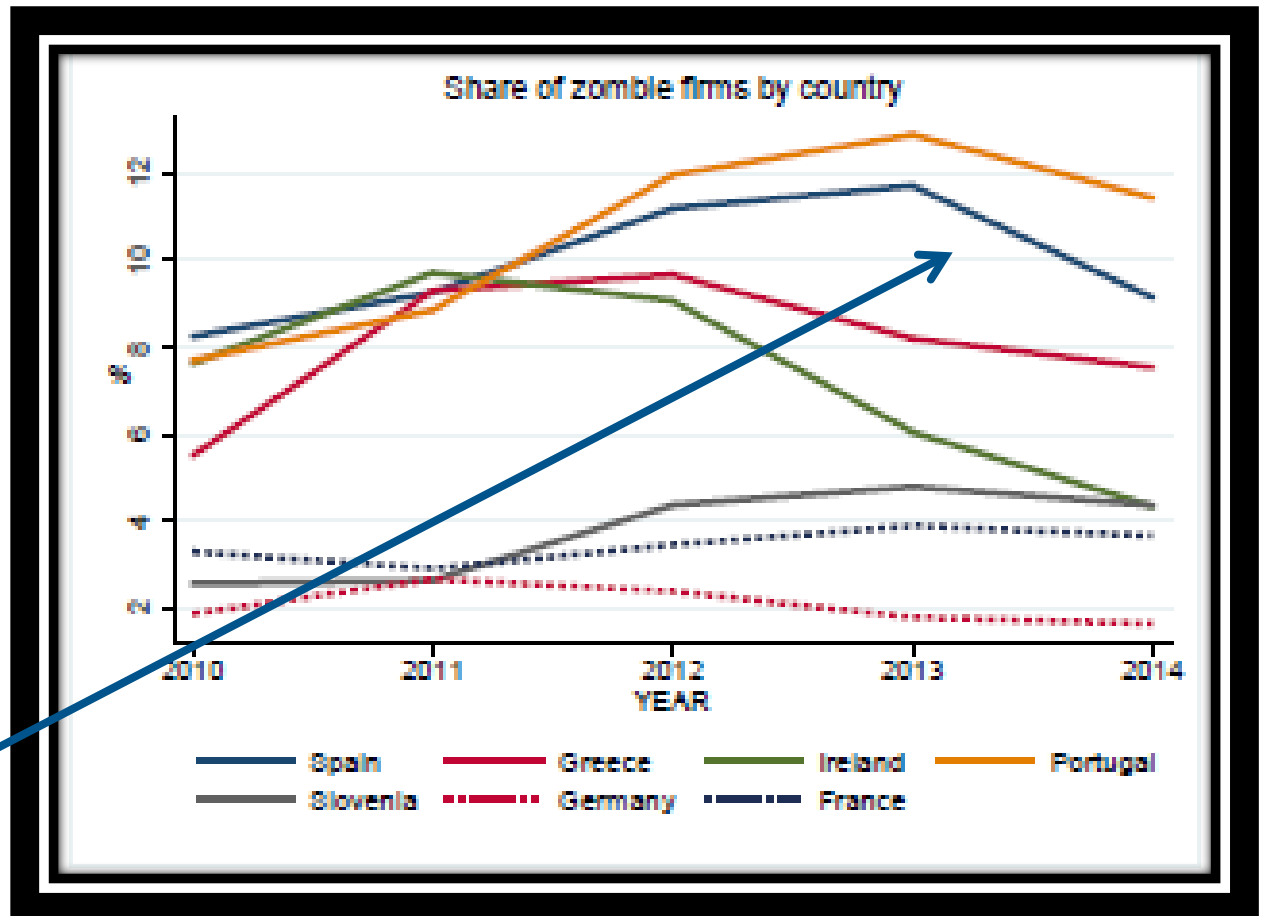
LOW R&D INVESTMENT

- Not surprisingly perhaps Spanish firms do not invest as much as their counterparts in R&D ...



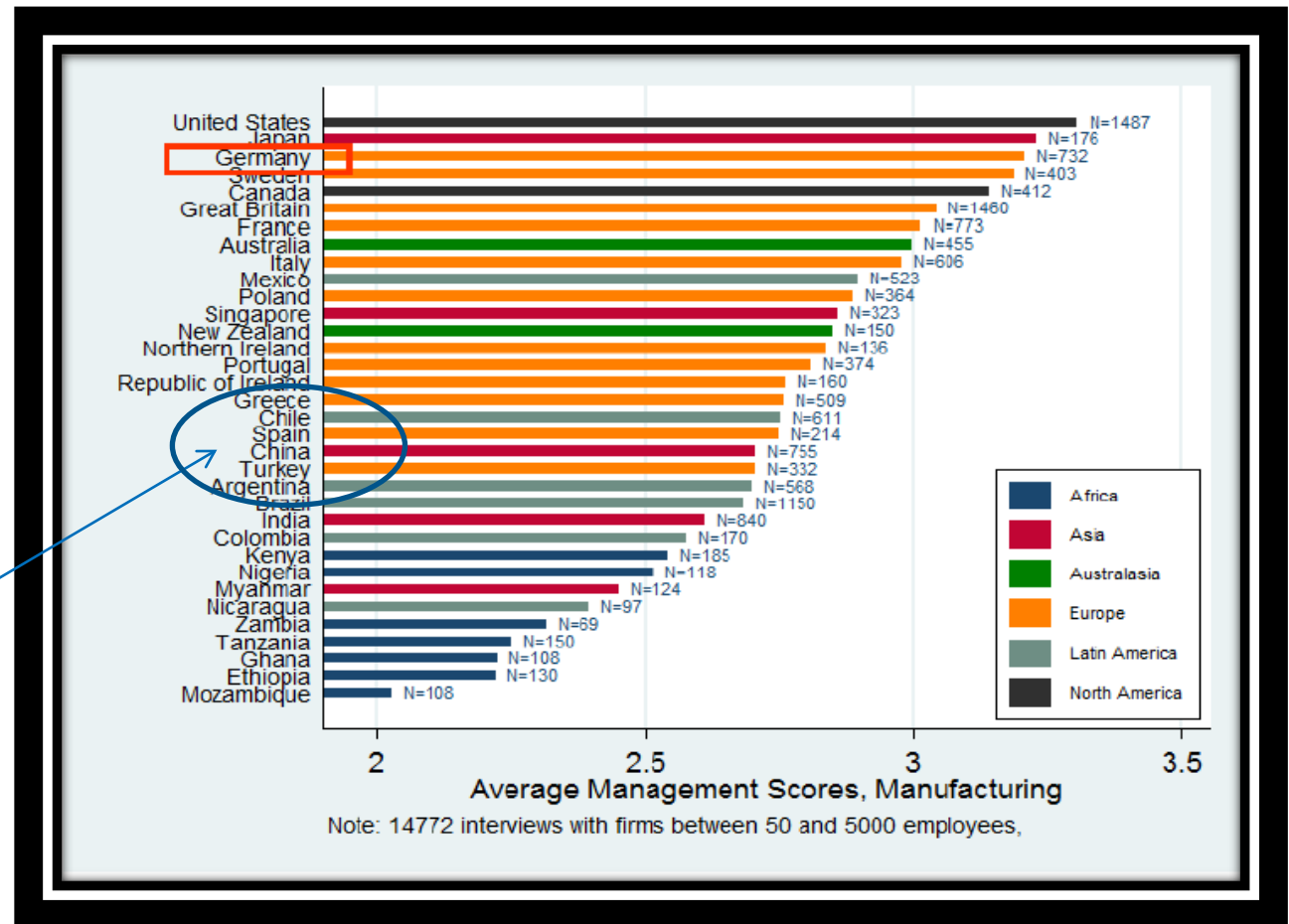
TOO MANY ZOMBIE FIRMS

- inefficient firms walk dead for too long ...



POOR MANAGEMENT QUALITY

- and the quality of managers is very low.



What should be done then?



While the competition deficit is not the only barrier to medium term growth, it is a significant impediment and one that should be dealt with!!

COMPETITION IS NOT THE ONLY PROBLEM

- Lack of effective competition is not the only factor driving those poor outcomes:
 - Limited access to high quality human capital and venture capital;
 - Frictions in labour market regulations
 - Risk aversion due to harsh bankruptcy laws – no fresh starts;
 - Poor governance in third-generation family firms;
 - Ineffective market for corporate control;
 - Limited market size (due *inter alia* to regional fragmentation)
 - Inadequate R&D policies:
 - Insufficient R&D incentives;
 - Limited public R&D investment;
 - Limited collaboration between firms and universities;
 - Etc.

AND COMPETITION HAS INCREASED IN MANY SECTORS

- Competition has increased in many sectors of the Spanish economy, as a result of:
 - Liberalisation and deregulation initiatives;
 - Integration of markets within the EU single market;
 - Efforts to avoid the regional fragmentation of markets;
 - Regulatory intervention to reduce barriers to entry in energy and telecoms;
 - Proactive competition policy interventions:
 - Fighting cartels;
 - Prohibiting or conditioning anticompetitive mergers;
 - Advocating in favour of procompetitive policies and against the creation or maintenance of administrative barriers to entry;
 - Etc.

BUT WE ARE NOT YET THERE

- We need to strengthen our **competition policy enforcement**:
 - Additional human resources:
 - More professionals;
 - Better trained professionals;
 - More enforcement powers;
 - New enforcement tools:
 - **Market studies**;
 - Ability to stop anticompetitive regulations;
 - **Consumer protection**;
 - Etc.

[In red those measures that could help address competition problems in oligopolistic markets where competition does not work even if there is no obvious infringement of the competition rules. See UK Competition Act]

BUT WE ARE NOT YET THERE

- We need to empower the sectoral regulators and **remove all political interference** in the regulated sectors.

Independent Agencies, Political Interference, and Firm Investment: Evidence from the European Union

Economic Inquiry, Vol. 55, Issue 1, pp. 281-304, 2017

24 Pages • Posted: 21 Nov 2016

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Date Written: January 2017

Abstract

Investment in network infrastructure is crucial for economic growth. This article studies the impact of the presence of independent regulatory agencies (IRAs) on the investment of European regulated firms. We account for measurement error in formal independence of IRAs by exploiting cross-country heterogeneity in the quality of political institutions. Results show that regulatory independence increases firms' investment rate by around 1.2%–3.3%. The positive effect survives when we control for social capital accumulation, investor protection, and market liberalization. However, the effect of IRAs is not immune to politics, as we find that political interference in regulatory functions persists in the European Union and is detrimental to firm investment.

BUT WE ARE NOT YET THERE

- We need to identify and then remove all **barriers to entry** created by regulation and/or legislation at the national, regional or local levels.

La CNMC amenaza al Gobierno con el Supremo si mantiene la ley anti Uber



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	28 July 2016 www.cnmc.es

BUT WE ARE NOT YET THERE

- We need to ensure that our courts have the resources to deal with competition damages cases effectively.



Official Journal of the European Union

L 349/1

I

(Legislative acts)

DIRECTIVES

DIRECTIVE 2014/104/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 26 November 2014

on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union

(Text with EEA relevance)



BUT WE ARE NOT YET THERE

- We need to investigate the role of **cross-shareholdings** in the Spanish economy.



Hearing on Common Ownership by institutional investors and its impact on competition - Note by the United States

BUT WE ARE NOT YET THERE

- Importantly, we can implement all these measures without spending much; in fact, by getting rid of many inefficient and costly regulations, we may save public money. But even if we had to spend some money, the upside is significant.



**Can You
Be Too
Obsessed
with Your
Budget?**

Budget

In conclusion



Bad news: we have a problem!!

Good news: it can be solved, it just takes political initiative and courage!!

IN CONCLUSION

- The potential for growth of the Spanish economy would increase considerably if we adopted measures aimed at increasing competition in many, if not all, of its sectors. During the worse years of the last Recession, the Spanish economy was saved by the exceptional performance of the exporting sectors – i.e. the sectors subject to more competition.
- Competition spurs innovation and creativity and innovation fosters growth.
- By strengthening our competition policy and regulatory authorities we can transform our economy, making it more competitive and innovative, more resilient.

IN CONCLUSION

- And more importantly, we will also contribute to **legitimise our market economy** by ensuring that
- the gains from growth are passed on to **consumers**,
- that incumbents cannot prevent the emergence of **new competitors**,
- that the process of **creative destruction** which is the engine of Schumpeterian growth works,
- and that the **oligarchic capitalism** that has characterised our economy since the mid XIX century gives way to the sort of **meritocratic capitalism** that is the only one that can guarantee growth and prosperity for all – i.e. **inclusive growth**.

THANK YOU!



jpadilla@compasslexecon.com

View my research on my SSRN author page: <http://ssrn.com/author=47132>