

Research Agenda for Competition Policy and Market Reforms

Arvind Panagariya
Columbia University
New York NY 10027

NCAER Conference on Competition Policy,
November 24, 2009

Outline

- Definition
- Traded Goods
- Traded Services
- Non-traded Goods and Services
- Factor Markets
- Government Policies

Definition of Competition Policy

- Policies and laws designed to alter market outcomes so as to raise social welfare
- Whose welfare is “social” welfare?
- What about the government policies that are themselves anti-competitive in the above sense?
 - In the end, a good competition policy has to attack both private anti-competitive practices and government-imposed barriers in the way of social-welfare maximizing outcomes.
 - This means the competition authority has greater responsibility not to be captured by lobbying interests than even the government

Traded Goods

- Here I will mostly count on competition from abroad to serve as the anti-trust policy
- In principle, exceptions may arise:
 - Large globally dominant suppliers of the product exist (pharmaceuticals)
 - Large domestic suppliers under Quantitative import restrictions (steel, chemicals under the License Raj)
 - Anti-dumping policies conflict with competition policies
 - Special circumstances of agricultural products
- With the case of global cartels rare and licensing gone, the last two exceptions are the most important

Traded Goods

Anti-dumping and Competition Policy

- Competition policy would consider sporadic and persistent dumping as good but this is not true of anti-dumping as practiced under the WTO
- Key Research Question: Has the practice of anti-dumping played an anti-competitive role in India?
If yes,
 - What has been the cost?
 - What are the solutions? Rewrite anti-dumping rules?
Restrain anti-dumping actions via the flexibility offered by competition law?

Traded Goods: Special Circumstances of Agricultural Goods in India

- Perishable nature of some goods may lead to localized monopolies. Solutions include
 - Improved infrastructure and communication to expand the scope of the market and bring competitors
 - Warehousing/storage facilities
 - Food processing to help enlarge markets
 - Role of vertically integrated supply chains
- Canalization of imports may undermine the competition from abroad (wheat, meslin, soybean, urea, acid oils).
Solutions include
 - End to canalization

Traded Goods: Special Circumstances of Agricultural Goods in India (Continued)

- Government interventions may undermine competition
 - FCI Policies (procurement, warehousing facilities, PDS)
 - APMC Regulations
- Solutions include
 - Limit FCI procurement, replace PDS by cash subsidies except in hard-to-penetrate areas for private retailers
 - Allow farmers to sell to whomsoever they please; allow free entry to super-market chains and all others who want to establish food/fruits/vegetable markets

Traded Goods: Special Circumstances of Agricultural Goods in India (Continued)

- Contract Farming
 - How should contracts be written to protect the interests of farmers while ensuring that food the contract remains attractive to upstream buyer
- Commercial Farming
 - How can commercial farming be gradually introduced such that it increases agricultural productivity and introduces modern agricultural practices while expanding employment opportunities for farmers
- Land titles
 - What are the benefits of giving proper land titles to farmers so that they may use their land as collateral or get the best possible price

Tradable Services

- Retail trade, legal services (potentially tradable though currently non-tradable due to entry restrictions)
- Insurance, telecommunications, medical services, banking
 - What are the benefits from increased competition in these sectors?
 - How best can competition be further strengthened in these sectors?

Non-traded Manufactures and Services

- Goods that are costly to transport in relation to their value and subject to scale economies in production
 - The obvious example is cement in which localized monopolies can arise. But these examples are relatively few
- Services monopolies: These may be publicly sanctioned or involve private participation
 - Publicly sanctioned: electricity, railways, higher education (UGC)
 - Private sector: retail trade, trucking, bus and air transport

Factor Markets

- Capital: Banking, securities markets, contract farming
- Labor: Labor laws leading to extra-high wages
- Land: urban land markets (FSI monopoly), absence of land titles in rural areas, restrictions on land leasing, ceilings on rent in crop-sharing arrangements

Government Policies

- Detrimental effect of government policies on competition must be studied in its own right
 - How to ensure the welfare maximizing outcome in state sanctioned monopolies (railways, electricity)
 - Government procurement policies (infrastructure, sales of spectrum etc.)
 - Policies favoring the state operator in markets that do have private operators: airlines, telecommunications (is USO rally required), state roadways, banking, insurance
 - Other: local taxi services