Can Competition be Effective in the Midst + of Unemployment and Company Closures?

Economic Stimulation: Is competition the New Hope?

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1. Introduction

1.1. Let me make it clear from the outset that I did not choose this topic. Someone else decided that I should speak on it in this conference. And so here I am this morning trying to answer a very weighty and forthright question: **Can competition be effective in the midst of unemployment and company closures?** It is tempting to respond with a quick and unequivocal "Yes". I have instead chosen to wrestle a bit with this question in order to get clarity as to what it is in fact about.

1.2. Could the conference organisers' concern be **"Effective Competition"** in the technical sense, i.e. as policy makers and subject specialists will conceptualise it? In other words, can we have meaningful competition in product and input markets when unemployment is high and business closures are fairly common place events? Alternatively, could their concern rather be the **effectiveness of competition** in stimulating innovation, productivity growth, competitiveness, economic growth, diversification, employment, job-quality, and poverty reduction? I hope we all agree that there is a world of difference between the two perspectives. Fortunately, we can, and in my view should, deal with both without separating them.

1.3. I would also like to suggest what we consider a fundamental premise for this discourse. Let us call it **Premise 1,** and it is this: *The persistence of unemployment* *and business closures suggests inadequate economic growth at best, and at worst, a generally deteriorating economic and business environment.* That suggests the economy is underperforming in the critical areas of competitiveness, productivity, innovation, investment and positive structural transformation. I emphasise transformation because human development requires not just rapid growth, but growth that is also sufficiently broad-based, inclusive, job rich and sustainable to transform both the structure of the economy and, most important, lives. We know from our own history that massive growth can result from one fortuitous event or even a calamitous one, such as when diamond mining assured Botswana persistent high GDP growth in the 70s, 80s, and 90s, albeit with anaemic addition to jobs, or when, following the recession of 2009, economic recovery yielded a 10.2% jump GDP that was more of a return to trend for the economy than an expansion.

1.4. **Premise 2,** which is implicit to the question, and we know to be true, is that Botswana currently endures the double whammy of a crisis of jobs and unusually high rates of business closures. In 2017, unemployment was estimated at 17.5% on the narrow definition that excludes discouraged job seekers and nominal employment such as participation in Ipelegeng. Poverty is also pervasive at 17%. Though not well documented, the rate of business closures is above normal. They cost the economy jobs. Nowhere in the country is the rise in the incidence of business closures more pronounced and intense than in Selibe Phikwe and the entire SPEDU region.

2. CONCEPTUAL AND DEFINITIONAL ISSUES

2.1. It will also be useful for us to define a few critical terms. I will concern myself with only two: **Effective Competition** and **Perfect Competition.**

a) *Effective Competition*

2.2. There is no consensus amongst expects regarding the meaning of "Effective Competition". So I will, for expedience, suggest that for our purposes, we adopt the common sense view of **effective competition** as *a market/industry situation in which there are h\'o or more players who do not collude in any way but rather act completely independent of each other and engage in rigorous competition for market share and profit.*

This moves us comfortably close to John Maurice Clark's notion of "workable competition", and safely away from the mirage of perfect competition. Of course effective competition is itself elusive. Further, note that in this instance we say nothing about market power, but an implicit assumption behind the concept of effective competition is that the relative strengths of market players permit meaningful competition. Our concern therefore is the absence of collusion. Understood this way, effective competition is a policy objective in all market economies. In fact, it is a core objective of regulation and the raison d'etre of competition policies, competition laws and competition authorities.

b) *Perfect Competition*

2.3. This is competition in its purest form. It obtains when the following conditions precedent exist: There are many buyers and sellers of a homogenous product, all of them too small to influence the market price or quantity; no information asymmetry, i.e. all buyers and sellers have perfect information about the market (availability, price, quality); entry into the market is free; all buyers and sellers seek to maximise their benefit, profit for firms and utility for consumers. The conditions are too exacting, so perfect competition is in fact a mirage. We know that firms and households always operate under conditions of serious information asymmetry. It is therefore far more helpful to talk about effective competition as opposed to perfect competition.

2.4. Let us return to the question.

3. CAN COMPETITION BE EFFECTIVE IN THE MIDST OF UNEMPLOYMENT AND BUSINESS CLOSURES

3.1. The answer has to be an unequivocal "YES" with regard to both effective competition, i.e. whether in fact firms compete vigorously rather collude, and the effectiveness of competition, that is whether competition yields the benefits theory says it should, in particular innovation, improved product quality, productivity growth, investment, diversification, economic growth, employment, wage growth and poverty reduction. There are several reasons why I say "YES" without equivocation.

3.2. **First,** competition is not conditioned by joblessness and business closures. Sure, in a competitive duopoly or oligopoly, the closure of one firm may profoundly alter market conditions. But this only happens in exceptional circumstances. The ubiquitous tendency is for large firms to survive adversity because they generally are resilient institutions. Thus, more often than not, the firms that close shop operate in relatively competitive markets and their departure does not alter the market dynamic. Take as an example, the banking industry in Botswana. The closure of any one of the big three - FNBB, Barclays or Standard Chartered will cause serious ripples in the economy - but it is unlikely to render the banking industry less competitive. The remaining banks are likely to continue competing vigorously, with concomitant benefits for society.

3.3. **Second,** competition is in fact an essential component of the response to joblessness and sluggish growth. Recall Premise 1. This is the reason effective competition is a central pursuit of regulatory policy in virtually all market economies. Competition makes markets more efficient and fairer, which is critical for private sector development, investment, and growth. Sometimes we look at industry behemoths such as Choppies and FNBB, see only their dominant positions in their respective industries and forget that they competed their way to their lofty perches. Both got where they are by outcompeting established rivals. In the process, they generated considerable value for the economy in terms of investment, innovation, productivity and economic growth.

3.4. **Third,** effective competition is not about unfettered markets. It is in fact for the most part regulated. It is regulated, foremost because effective economies are rule-based. Furthermore, markets do have imperfections that result in less than desirable market outcomes. Thus, where necessary, regulation will be used to steer markets in the direction of socially and economically desirable outcomes

4. ENSURING EFFECTIVE COMPETITION AND THE EFFECTIVENESS OF COMPETITION

4.1. We should agree that effective competition is crucial to the development of efficient and fair markets, and the development of a competitive private sector led economy. Beyond the developed world, the nations that are winning the development race today, for instance, China, India and Rwanda, have one thing in common. They all are aggressive market reformers. Their experiences, and well- documented global consensus, offer instructive lessons as to what nations ought to do in order to foster effective competition and unleash the power of efficient markets as a force for innovation, productive growth, efficiency, competitiveness, growth, employment and poverty eradication. These include:

a) Efficient regulation

4.2. Though its desirability is not in doubt, effective competition in markets is not automatic. In fact, competition has two vulnerabilities that necessitate efficient and effective regulation. One is poor regulation, i.e. bad policies, bad laws and weak institutions. Virtually all failed states and failing economies - Venezuela, Zimbabwe, etc. - fail in large measure because regulation stops them from harnessing the power of efficient and fair markets. Nick Godfrey (2008) makes the point that in developing countries, markets are often dominated by large firms with close ties to government. This presents a serious corruption risk. The more effective competition is, the lesser the opportunities for corruption and the greater the space for entrepreneurs and SMEs to grow. Effective competition in government procurement increases the effectiveness of expenditure on publicly provided goods and services and enhances value for money.

4.3. Our view of regulation should transcend Competition Policy and Law. In the end it is fundamentally about laws and policies in general. Of particular concern should be reforms guided by two globally accepted benchmarks: the Doing Business Indicators and those of the Global Competitiveness Index. It requires policy consistency and harmonisation.

4.4. It takes determined investment in sound policies, legislation and institutional capacity to competently enforce competition law to achieve effective * competition. In this regard, we must look at the Competition Authority as a strategic institution and worry about whether it has the tools to execute its mandate - good policies and laws, and the resources it needs to acquire the technical capacity to effectively enforce competition law in the interest of effective competition, competition effectiveness, efficient markets and the benefits they portend. As the 2005 Report of the Commission for Africa (CfA) observed, "Robust competition laws and policies with strong institutions to enforce them are vital to improving productivity and to promoting innovation and better prices" (p. 48).

4.5. The second source of vulnerability for competition is anticompetitive firm behaviour. Whether this assumes the form of harmful horizontal and vertical expansion strategies, or collusion, it needs to be identified timeously and sanctioned stiffly enough to achieve deterrence. Much of the focus of the enforcement of Competition Policy and Law is on the regulation of firm behaviour and strategies. For instance, mergers and acquisitions attract regulatory attention precisely because they concentrate market power, with potentially deleterious effects on competition. Similarly, large firms that seek to occupy more than one position on a value chain attract regulatory attention because of the risk that they could control the development of the value chain to their advantage, and at the expense of effective competition.

b) Investment in infrastructure

4.5.1. Infrastructure plays a critical role in promoting competition. Not only does it reduce the cost of doing business, it also helps address some of the constraints on competition. For instance, rail and road networks remove the advantage large and existing firms may have and facilitate the entry of new firms. Investment in quality ICT infrastructure facilitates access to information and markets. This addresses a critical constraint on competition, information asymmetry.

c) Advocacy, Information, Education and Communication

4.6. In the final analysis ensuring effective competition requires national competence on competition. Effective advocacy, information education and communication is a useful way of ensuring that all stakeholders play their part in supporting effective competition.

Thank you v gg