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Joseph STIGLITZ: Competition policy, the need for a more nuanced view

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Interview conducted by Eleanor Fox,
Walter J. Derenberg Professor of Trade Regulation, NYU Law, New York

INSTITUT de droit de la concurrence

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Since 2014
Chief Economist of the Roosevelt Institute

Since 2013
Co-Chair of the High-Level Expert Group on the Measurement of Economic Performance and Social Progress, attached to the OECD

2001
Awarded the Nobel Prize in Economics

1997-2000
Chief Economist and Senior Vice President of the World Bank

1993-1997
Member and then Chairman of the Council of Economic Advisors

Professor Stiglitz, you have given a great deal of thought to competition policies in developing countries and you have been very important in helping many of them frame their policy objectives. You also have been a leader in thinking about globalization and its impacts. Thank you for agreeing to share your thoughts on these important topics. What do you think are the greatest impacts of globalization on developing countries, and, to the extent that they are harmful, can competition policy help and how?

The impacts of globalization differ depending on the country—from opening up trade opportunities, to investment and the transmission of ideas. One of the concerns is that firms in developing countries are, almost by their nature, small, new, and less experienced. One of the problematic aspects of globalization is that you confront these new firms with some very powerful global companies that have a large capital base and long experience.

At a fundamental level, it's a David and Goliath kind of story. In the absence of some form of regulation or competition policy, the firms in developing countries risk being squashed. The failure of those firms will in turn impede the growth of the developing country's economy. This risks turning developing countries into producers, the factory shop of the world—a term that was used in the context of China at one time—but lacking the sources of wealth that a real domestic entrepreneurship would have created.

Competition policy can partially level the playing field. In particular, it can make sure the "Goliaths" don't engage in extremely anticompetitive practices or take undue advantage of the benefits they already have. In the best-case scenario, you can have an outcome like that in South Africa, where competition policy has been used to take a more affirmative stance on leveling the playing field. When Walmart wanted to come into the country, South Africa required Walmart to help assist small, African producers who could be part of the supply chain—rather than replacing and destroying the prospects of small producers—in the hope that it would enhance them.

Some would say that leveling the playing field is a dangerous concept because it means handicapping the efficiencies of these global firms. What is the answer to that?

People make this argument based on the premise or presumption that markets are naturally efficient and that the unfettered outcome of market processes will be efficient both in the short and long run. But we know that's not true. The example I always use in my class is if Korea had had to rely on the static comparative

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advantages of 1965, it would have remained a rice grower rather than becoming the industrial country that it has become, and its standards of living would be a fraction of what they are today.

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The market has imperfections that are associated with imperfect capital markets where the developed, large firms have a market advantage over developing countries. Walmart can take advantage of its size to get goods at a lower price, which is a kind of unfair competition. There are lots of other examples where you can clearly see that the unfettered working-out of the market would not lead to efficient outcomes. In some sense, all governments recognize this. The United States has a Small Business Administration to help small businesses because we don't believe that the unfettered markets left to themselves will give a fair chance to small businesses.

In a broader sense, if you look across many markets in our economy, they are already distorted. We have concentrated market power in telecom, subsidies in agriculture, and government-provided research providing the knowledge on the basis of which the pharmaceutical companies can thrive, all of which gives Western firms an advantage in those sectors. So the idea of this magical, efficient, competitive market left on its own is really just a myth.

Many developing countries suffer from longtime exclusions of a majority of the population from the economic mainstream. Is this an economic as well as social problem and should it be a factor in formulating principles of competition law in these countries?

It's obviously a problem—an economic, social, and political problem. It's an economic problem because if you believe in a market economy, then excluding them from the market is in effect not using a country's most important resource efficiently—its people. Unfortunately, because of the intergenerational transmission of advantages and disadvantages, those who are marginalized and excluded today will have children who are also marginalized and excluded. The problems get perpetuated and extended. To me, this is a very serious problem.

Good competition law must be construed broadly to advance societal well-being. It requires judgment. My own feeling is that, in the United States, we have construed competition law excessively narrowly. South Africa, for instance, gives competition policy a broader mandate. To go back to the Walmart case, the use of competition policy to help promote African entrepreneurship and to integrate African entrepreneurs into the supply chain is a way to use competition to increase the likelihood that globalization will have a positive impact—and to avoid what otherwise might have been harmful effects from globalization in South Africa.

Should developing countries' competition law be sensitive to issues of equality and inclusive growth? If so, how? Are you worried that attention to these factors will dilute efficiency and make everyone worse off?

Let me begin my response by saying that implicit in the last part of the question is an idea that has been propagated by the Chicago school of economics, but has been thoroughly discredited by advances in economics over the last 35 years. This fallacious idea is that you can separate issues of equity from efficiency. It's sometimes referred to as the Second Welfare Theorem. We now know that those two issues can't be neatly separated in that way.

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Going beyond that, one of the reasons for the original interest in antitrust and competition law was not a search for more efficiency, but rather a reaction at the end of the Gilded Age to the growth of inequality, and the political power that was associated with that concentration of economic power. The very roots of competition policy go back to a concern about equity as well as efficiency. ■

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