



Competition Policy and Inflation

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Disclaimer

The views expressed in this presentation are the personal views of the speaker only and cannot be regarded as stating an official position of the European Commission.

Outline

- Is the current inflationary episode the result of increased industrial concentration?
- Does concentration increase or decrease the impact of supply or demand shocks?
- What (if anything) can/should competition policy do?

Is current inflation due to an increase in market concentration?

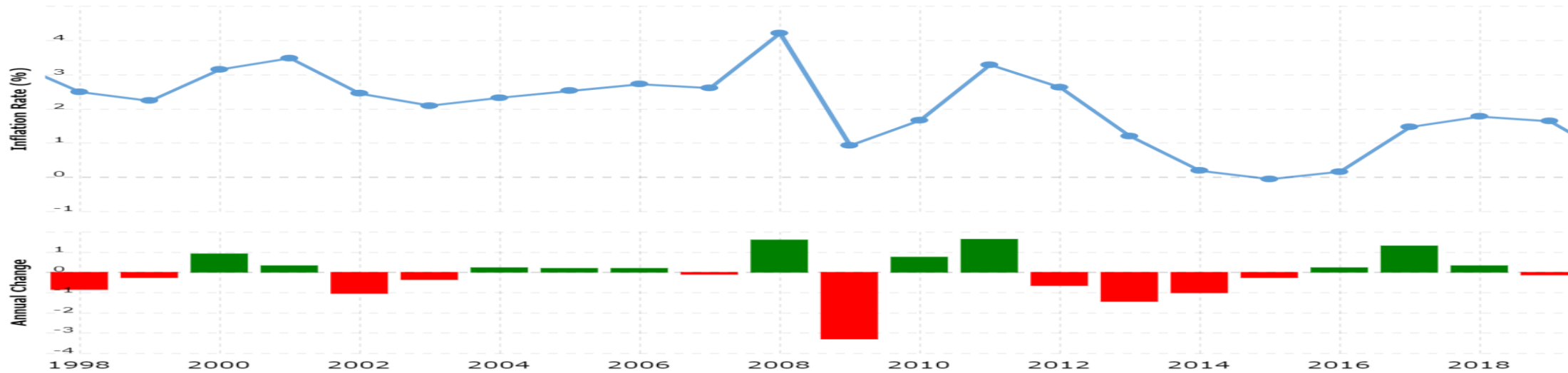
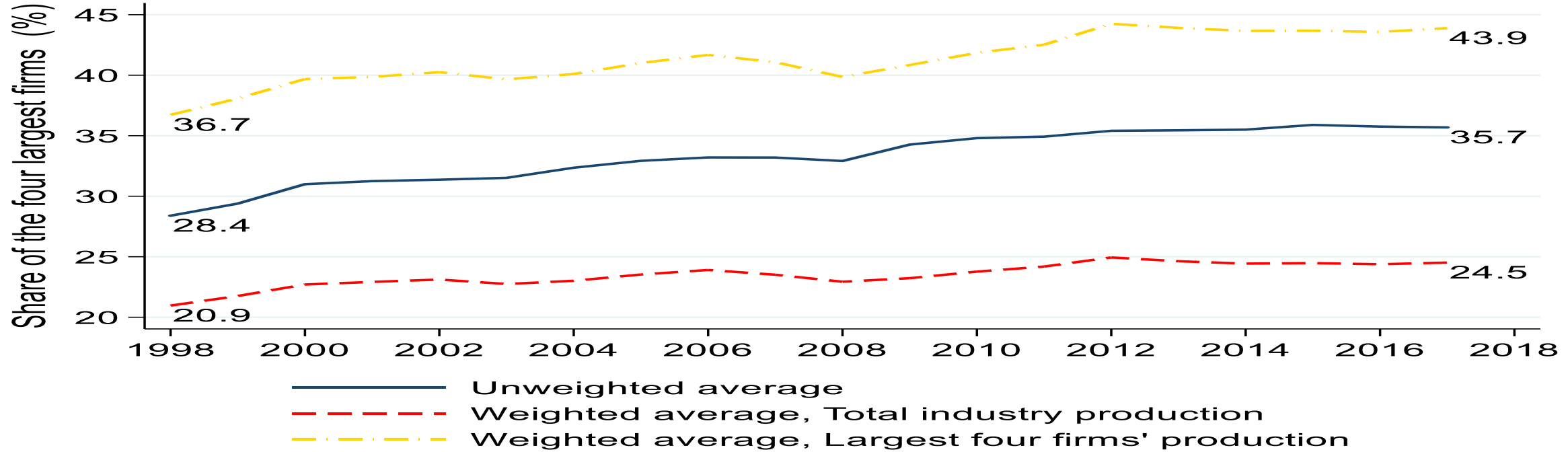
General Points

- Hard to explain a fast growth rate with a slow growth rate.
- Inflation does not necessarily imply long term changes in real consumer income, increased/decreased competition does.

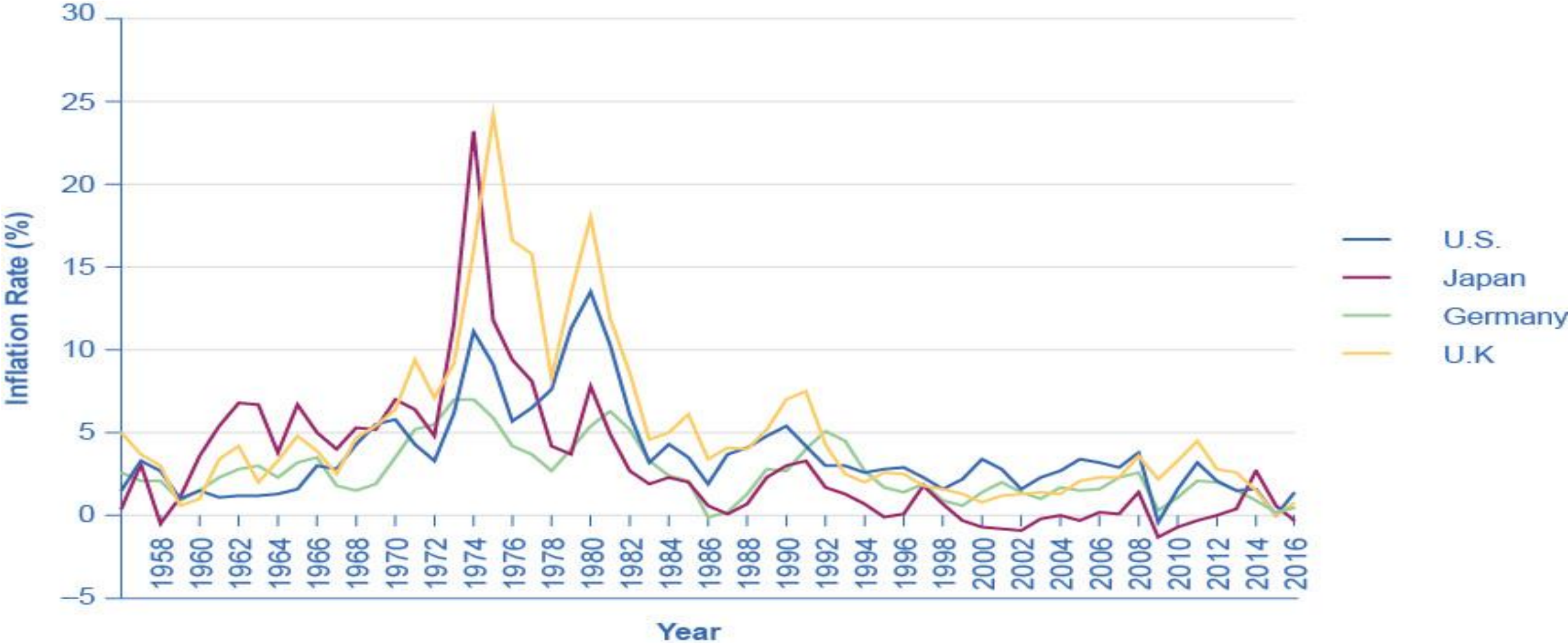
Increased Concentration?

- Koltay Lorincz, Valletti: Moderate increase in concentration in the EU over the last 20 years.
- Other studies, mostly US-based, confirm the trend
- However, doubts do remain:
 - Changes in treatment of labour income
 - Market Definition: Duso vs Werden.
 - Other data issues

Average concentration trends



Inflation: The Long View



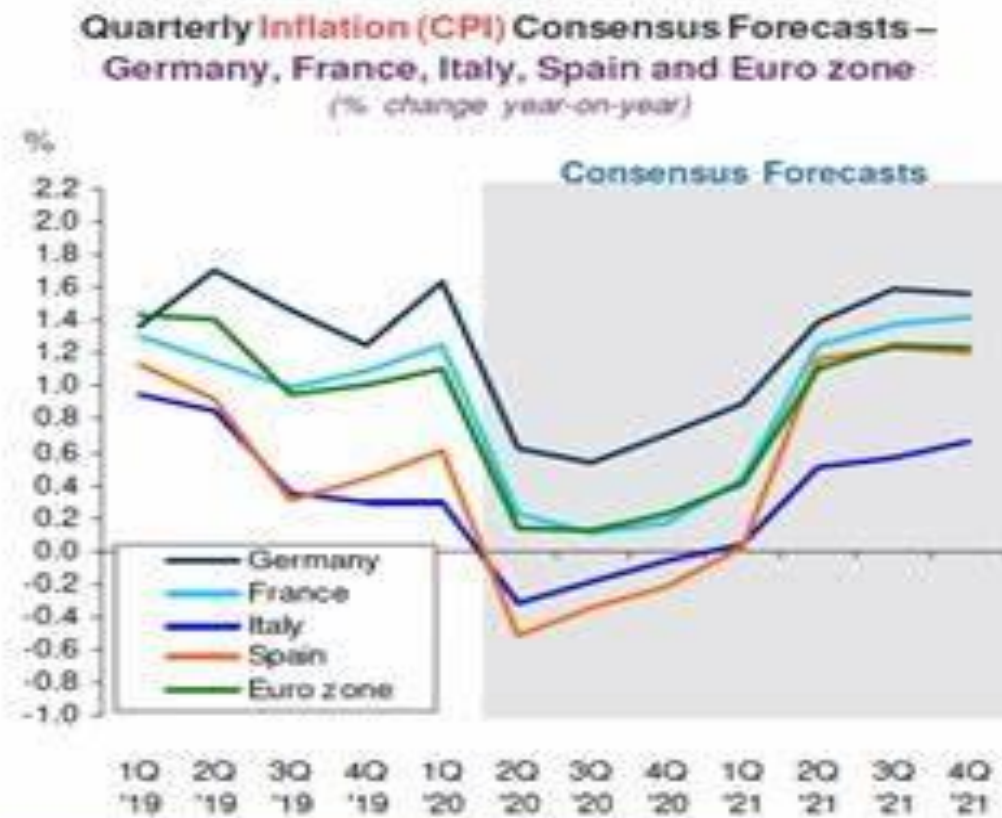
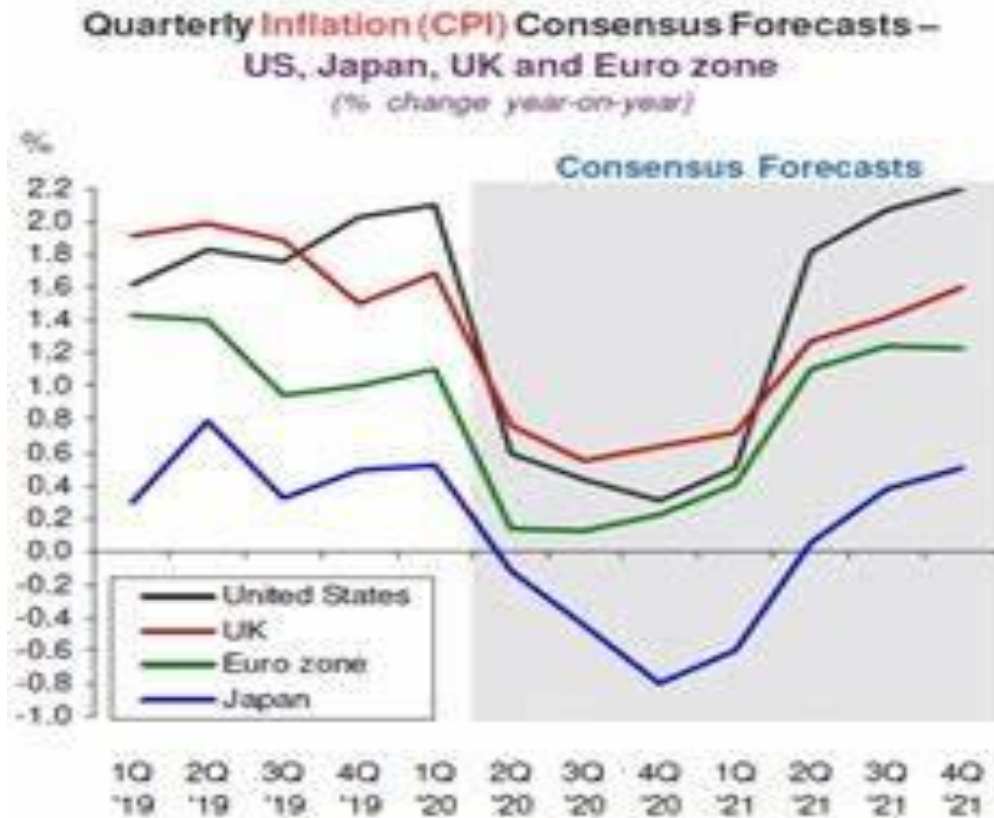
Inflation: Where Are We Now

Country/Area	Inflation Rate, March 2022
USA	8.5%
Japan	1.2%
Brazil	11.3%
UK	7.5%
Turkey	61.1%
EU	7.8%
Lithuania	15.6%
Netherlands	11.7%
Belgium	9.3%
Germany	7.6%
Italy	6.8%
Denmark	6%
France	5.1%

Inflation: Forecasts

Country/Area	2022	2023
EU	6.8%	3.2%
US	4.3%	2.7%
UK	7.4%	2.6%

Current Rates of Inflation Were not Expected

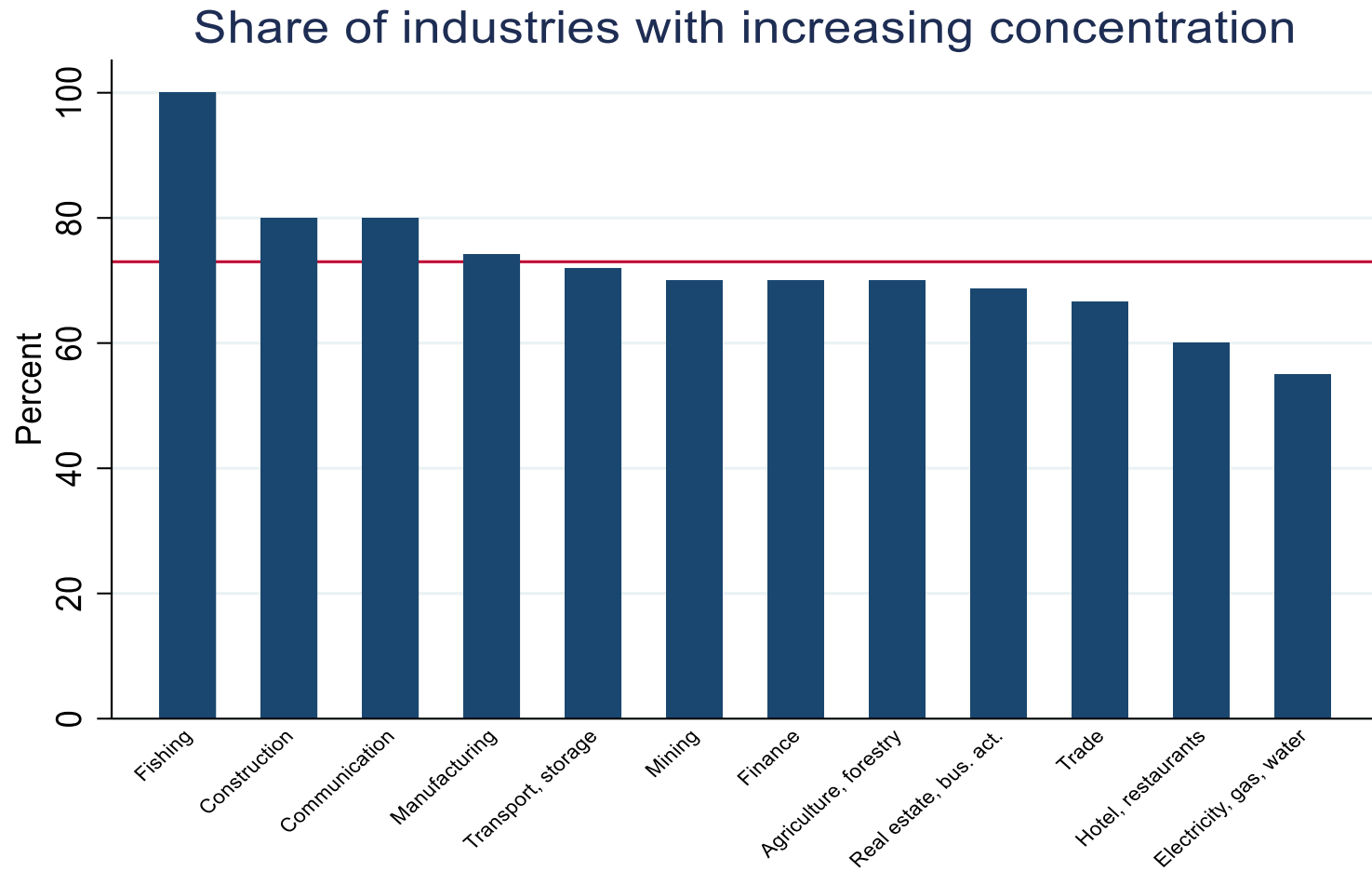


Source: G7 and Western Europe Consensus Forecasts Survey, June 8, 2020

Remark

- If inflation were the result of a well-documented increase in concentration, then the current inflation increase would have been expected.

Pattern by Sector



Pattern By Sector (January 2022)

Sector	Annual Rates (%)
Housing, water, electricity, gas and other fuels	12
Transport	10.1
Food and non-alcoholic beverages	4.9
Restaurants and Hotels	4.6
Furnishing, Household Equipment	3.4
Recreation and Culture	3.2
Alcoholic Beverages, Tobacco and Narcotics	2.8
Misc. Goods and services	2.3
Personal Care	2.1
Health	1.3
Clothing and Footwear	0.9
Education	0.4
Communications	-0.1%

Source: Statista

Maximum Effect of Competition Policy on Prices

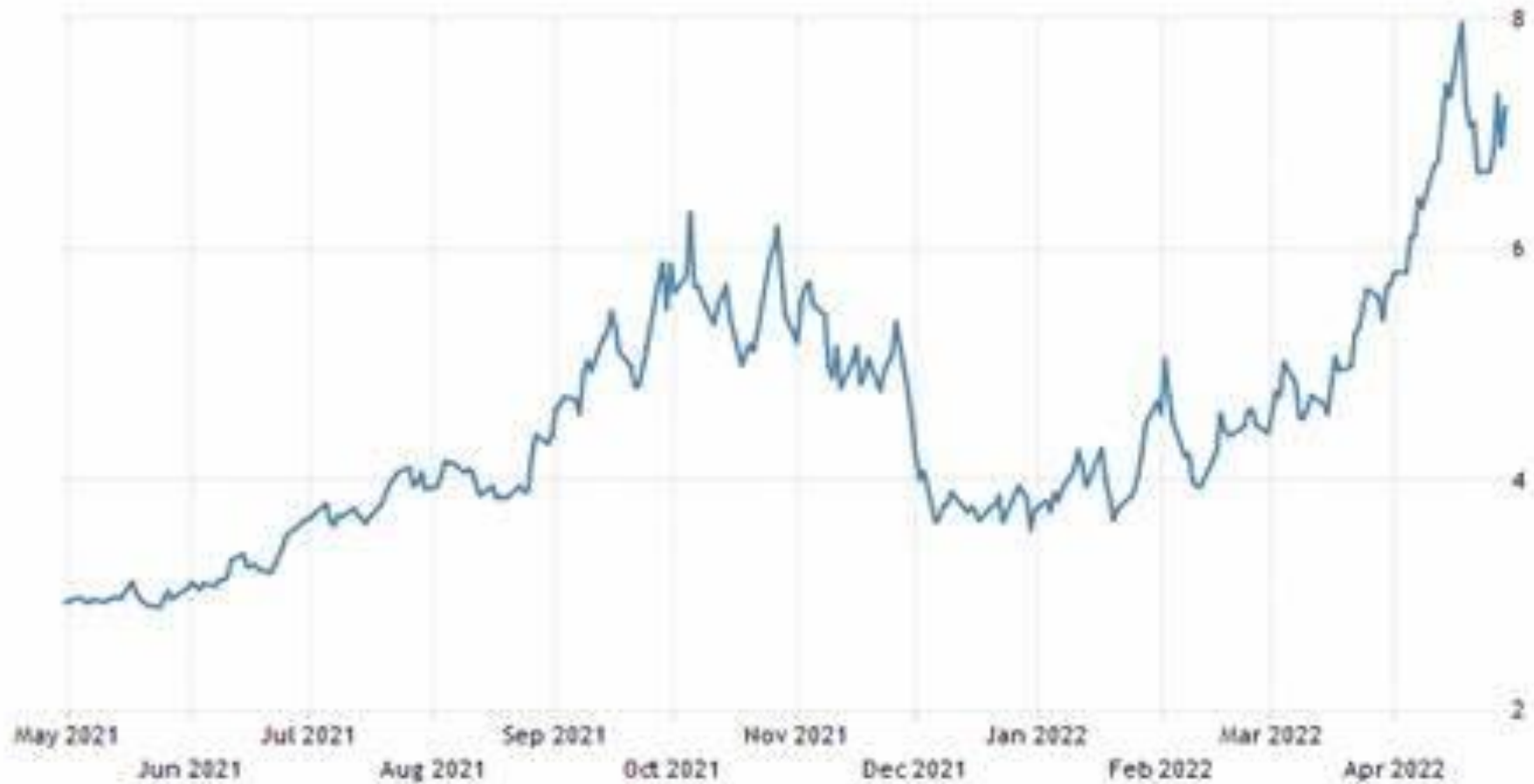
- Assume linear demands and monopoly margins of 33%
- Moving all sectors from monopoly to perfect competition would decrease price levels by 50%.
- Over 20 years, this is about 2.2% per year.
- If starts with margins corresponding to observed concentration, the total room for improvement is about 20% decrease in prices, or less than 1% per year over 20 years.

Inflation and Market Power

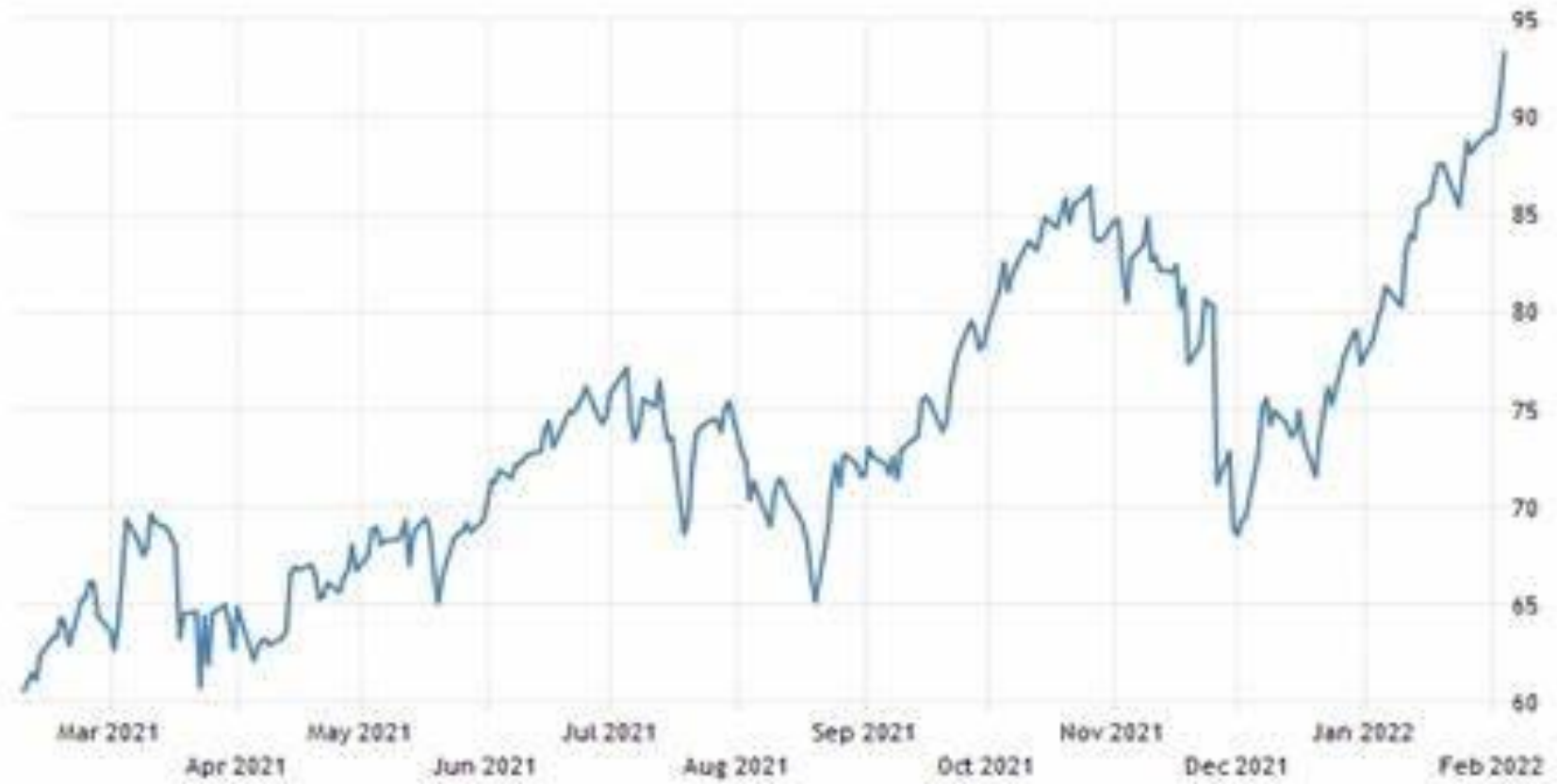
A Benchmark: Perfect Competition

- Price levels affected by demand and supply shocks.
- Perfect pass-through of input prices increases

Natural Gas (2021 data, 2022 forecast)



Brent Crude Oil (2021 data, 2022 forecast)



Actual, Apr 22:
107

The multiplicative effect of energy prices

- Direct effect in proportion of direct energy use.
- Indirect effect in proportion of energy used in other inputs.
- Impact on the cost of labour

Market Power and Reaction to Shocks

- A *different* question is whether market power makes a difference to how the economy reacts to a temporary shock in demand or in supply.
- The main take-aways from the RBC literature are:
- Given a supply-side shock, it follows that in standard cases, in which demand is not too convex, pass-on will typically increase with the intensity of competition.
- Given a demand-side shock, market power is crucial for demand side effects to have an impact on prices. So greater market power could indeed lead to higher price increases.
- In this view, while increased market power might have contributed to a price increase due to the covid-related demand shock, it cannot explain the current surge in prices now that disturbances are mostly on the supply side.

What Can Competition Policy Do?

What does Competition Policy Usually Do?

- Merger Control
- Cartel Control
- Ensure level playing field (antitrust)
- Proportionality and market distortions in state aid.
- Estimates of yearly benefit to consumers: Euros 12B to 20B
- VERY conservative: no deterrence, no innovation or quality effect, no state aid, short time horizons.

Appropriate CP Response.

- Stay the course: this really is not our problem.
- Keep an eye for potential collusion in important sectors (food, construction,.....)
- Ensure that policies aimed at fighting inflation do not have anti-competitive effects (example price controls on inputs used unevenly by rivals)

Inflation and Coordinated Effects?

- *Incentives* do not change
- But maybe inflation *facilitates* collusion:
 - Gives a signal of price increases
 - Makes anti-competitive price increases harder to detect
 - Provides excuses for communication/coordination (shortages, vertical bottlenecks)

Inflationary Spirals and Labour Markets

- Important to ensure that some workers do not get “stranded” and experience significant loss to their real income.
- Special concern for the “gig economy” workers → DG Comp’s review of collective bargaining by these « independent entrepreneurs » + reforms of labour Law/Jurisprudence.

Supply disruptions and Self-Sufficiency

- Possible efficiency grounds for temporary and narrow agreements.
- Ring-fencing exceptions. Example: Microchips legislation.