

Implementing  
regulatory  
reform

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# COMPETITION AS A SUBSTITUTE FOR REGULATION: Where Feasible, Advisable and Beneficial?



# General Definitions

- **COMPETITION:** *Independent* decision-making and rivalry between existing (and potential ) business entities in terms of such factors as prices, output, market share, quality, service and/or other conditions affecting the value of goods and services in order to profitably acquire, retain and increase the patronage of clients.
- **ECONOMIC REGULATION:** Direct or indirect oversight and control by government of business entities, requiring *mandatory adherence* to rules, procedures and other measures over such matters as prices, output, entry, ownership, investment, or factors affecting the supply, demand and consumption of goods and services.

# COMPETITION “*versus*” REGULATION

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**Competition preferred where-ever feasible:**

- >Efficiency, investment, and consumer-welfare**
- >Competitiveness, growth and employment**

**Economic regulation only when necessary.**

**If not properly conceived and implemented:**

- >Administrative and other costs including misallocation of resources, induces economic distortions, corruption.....**

***Preference for Competition Should Not Be A Matter of***

***Ideology—Matter of Simply Lower Costs and Higher Benefits***

***Competition Not A “Panacea” For All Situations***

# MARKET FAILURE

**Regulation May Be Necessary Because of:**

***Imperfect Markets* > Natural Monopoly**

**> Anticompetitive Markets &  
Business Conduct**

***Externalities* > Pollution, Noise, Congestion...**

***Information Asymmetry* > Shortage, Non-availability or Non-disclosure, High Costs of Information Gathering.....**

***Social and Other Objectives* > Health, Safety, Equity,**

**Fairness.....**

***However...***

**Frederic Bastiat (1801-1850):**

**“Petition” to Honorable Members of the Chamber of Deputies by Manufacturers of Candles, Tapers, Lanterns, Sticks, Street Lamps, Snuffers, Extinguishers,**

**And from Producers of Tallow, Oil, Resin, Alcohol, and Generally of Everything Connected with Lighting...for Protection from the Relentless and Unfair Competition from the SUN.....Floods the Market with Light the Minute it Appears.....and Sales of our Products Cease Immediately.....**

***Demand and Supply for Regulation***

# DEMAND & SUPPLY of REGULATION

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***Demand*** >By Firms, People, Various Interest Groups *via* Lobbying, Voting, Campaigns.....

***Supply*** >By Politicians *via* Populist Policies, Vote-Buying to Get/Remain Elected

>By Bureaucrats to Wield Power, Maximize Budgets.....

**Function of Number & Influence of 'Stake-Holders' Affected.**  
Generally Producers Better Organized Than

**Consumers. Producer Surplus>Consumer Surplus ?**

***Political Equilibrium: Public Interest vs. Capture Theory?***

***Latter Often Results in Excess Regulation at Expense of Consumers/Society.***

# SOME EXAMPLES

- **INDIA**—Demand for Regulation ...Ranging from *Price Controls* for Steel, Oil...*Duties* on Imported Poultry,...*Subsidies* for Export of Poultry, Freight for Maize, ...*Export Controls* for Onions,... *Ceilings and Redistribution* of Urban Land, *Price Premiums* for Products of Public Enterprises in “Competitive” Bid Contracts.....
- **BANGLADESH**—Unfettered Consolidation and Alleged Anticompetitive Market Structures in Cement, Corrugated Steel, Condensed Milk, Edible Oil, Mustard Oil, Sugar....Many with Entry Restrictions.
- **SEYCHELLES**—Monopolies, Import Restrictions, Price Controls....Chilli Sauce, Sugar, Tea.....Many Products *NOT* Produced in the Islands

## **SOME EXAMPLES—*Contd.***

- **MALAYSIA—Restrictions on Imports, Tariffs, Number of Firms (4), Price-Subsidies, and Government Monitoring in Rice.**
- **PAKISTAN—Anticompetitive Market Structure and Business Conduct in Cement, Fertilizer....Capture of Regulatory-Policy Review Process (?)**
- **Examples—*ABOUND* in Not Only Other Countries in the Region But Elsewhere....*Including Industrial Countries***
- **Critical Issue: Who Benefits (Winners), Who Bare the Costs (Losers)? And How Much?**

# **INSTRUMENTS FOR FOSTERING COMPETITION AND REGULATORY REFORMS**

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**Natural Monopoly--Basic Infrastructure Services >**

**Unbundling Competitive & Monopoly Segments**

**Competitive Bidding (for/in Market)**

**Performance Contracts.....etc.**

**Anticompetitive Market Structures-Business Conduct >**

**Competition Law-Policy**

**Competition Advocacy, Lowering/Eliminating Entry  
Barriers.**

**Periodic Regulatory Reform Reviews/Impact Analysis,**

**'Sunset' Clauses, Targeted Interventions, etc.....**

**Enhanced Consumer and Market Information**

**Checks & Balances in Government-Business Relations and  
Decision-making.**

# CONCLUDING REMARKS

- **>Economic Regulation and Government Interventions Often Over-Extended and Unnecessary or Could Be Better Designed.**
- **>Costs Generally Borne by Consumers and Society to Benefit Few.**
- **>Induce Distortions in Specific Industries/Markets...and Economy to Detriment of Productivity, Investment and Growth.**
- **>Developments in Economic Theory, Organizational Methods, Technology.....Make it Feasible, Advisable and Beneficial to Achieve Various Economic and Social Objectives in Less Costly Ways.**