

Watchdogs of the world, unite!

Competition authorities should issue a strong joint statement explaining why vigorous enforcement is crucial during the crisis

Mario Monti

The current crisis has shown the need for more effective regulation of markets and, in particular, for more vigorous enforcement of existing rules by authorities willing and able to resist regulatory capture. It would be a paradox if the most established form of market regulation, competition policy, were to emerge from the crisis weakened. But the risk is there and calls for joint action by the world's key competition authorities.

In the US, Europe and elsewhere, governments' response to the crisis has put the fundamental principles of competitive markets under unprecedented pressure. Massive state aid and government-supported consolidation, especially in the financial services and automotive industries, and government-imposed suspensions of the normal merger control rules have been the most visible manifestations.

In addition, there are calls to push usual antitrust concerns to the side, as if competition were a luxury, unaffordable in times of crisis. Political, business and labour leaders advocate greater tolerance of cartels and other restrictive practices, abuses of dominant positions and trade restrictions as means to alleviate the impact of the crisis on companies and workers.

So far, competition authorities have not given in to such pressures. In the European Union in particular, competition commissioner Neelie Kroes has consistently enforced antitrust and state aid rules (only in the EU do the latter exist and form a key part of the competition authority's mandate). While showing some flexibility on government support in emergency situations, Ms Kroes is determined to exercise strong control when it comes to restructuring so as to minimise the distortions to competition caused by state aid.

Yet, as the economic and social consequences of the crisis unfold, the calls for a suspension or weakening of antitrust enforcement are likely to become stronger everywhere. Such arguments might appear altogether reasonable to the public, and it is precisely here that the danger lies. In fact, this would be misguided economic policy. Not only would consumers be penalised, but the longer-term prospects for economic growth and employment would also be compromised. Joseph Schumpeter's process of "creative destruction", conducive to innovation and development, would

be turned into its opposite: "destructive conservation". Social policies, not a suspension of competition policy, must ease the transition.

The lessons from the Great Depression are clear. The suspension of antitrust enforcement contributed to the depth and duration of the crisis. The return to vigorous enforcement in 1938 was a cornerstone of the New Deal. The new heads of the US antitrust agencies appointed by President Barack Obama - Christine Varney at the Department of Justice and Jon Leibowitz at the Federal Trade Commission - have stressed the importance of this historical precedent and the need to avoid new policy mistakes. Ms Varney also raised the question of whether more vigorous antitrust enforcement in the past could have stopped companies growing so large as to present a risk to the entire financial system.

There is a need for an intensive campaign of education and advocacy, aimed at the public and politicians alike. In their respective jurisdictions, the competition authorities are showing perseverance in this effort. But their message does not seem to be coming across with the strength and cohesion necessary to have a significant impact on the international debate. At a time when new principles, institutions and mechanisms for global governance are being designed, the global voice of the competition community needs to be heard.

The world's key competition authorities should issue a simple but strong joint pronouncement explaining why continued, vigorous competition enforcement is crucial during the global economic crisis. The EU and US authorities should take the lead, in an open initiative that could then involve the International Competition Network. John Fingleton, the chief executive of Britain's Office of Fair Trading who chairs the ICN, is an active promoter of competition advocacy and would no doubt appreciate the urgency of the current situation.

Such an initiative would be facilitated by, and give added visibility to, the convergence process among competition authorities. Policy positions adopted in the past couple of months by the new heads of the US antitrust agencies are bridging gaps that had opened up both between the Justice Department and the Federal Trade Commission, and between the US and the EU.

A joint statement in support of strong antitrust enforcement, issued by the leading competition agencies,

would be helpful in itself. If, in addition, it were endorsed by the US administration, a message would come from Washington that the government's current extraordinary role in various sectors of the economy is temporary; that stricter regulation of financial markets is not inconsistent with market principles; and that competition enforcement is part of the solution to the crisis.

Such a signal would have a significant impact. At a time when confidence in the market economy in Europe and elsewhere has been shaken by the huge deviations from market principles abruptly introduced last autumn by the US, the leading advocate of the market economy, the message cannot come too soon.

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