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Global Forum on Competition

COMPETITION AND POVERTY REDUCTION

Contribution from TUAC

-- Session I --

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COMPETITION AND POVERTY REDUCTION

-- TUAC --

1. We welcome the opportunity to contribute to the OECD discussion on competition policies and poverty reduction. The discussion should seek to assess the poverty impact of past competition policy reforms advocated by the OECD and consequently draw lessons for future recommendations on competition policy. The relationship between competition and poverty is a complex one. The OECD should refrain from adopting simplified or simplistic messages such as "making-competition-work-for-the-poor".

2. Market competition aims first and foremost at developing the private sector. This has the potential to lift people out of poverty, but the caveats are many. There should be no assumption that private sector development alone would automatically achieve poverty reduction. A pre-requisite for this to happen is the empowerment of people in or at risk of poverty so that they have the capabilities to effectively exercise their rights and to make effective use of their entitlements *inter alia* to health and education. They need to acquire sufficient bargaining power as consumers, as workers, as producers and as citizens. It would be wrong to simplistically use the "poverty agenda" to promote competition and market liberalisation reforms.

3. There is a general presumption that greater competition in product markets would serve well poverty reduction goals. As shown by OECD work, there is need to curb the excessive market power of multinational enterprises and networks through oligopsonies and in some cases monopsonies. Low added value manufacturing and agricultural markets for example are typically dominated by few big buyers of intermediate or final goods with an excess of producers of same or similar products. Small producers are then forced to agree to harsh pricing and other trade-related conditions, which costs most often are passed on to workers by way of compressed wages, poor working conditions and greater informality.

4. Ensuring fair competition in markets for commercial goods and services can then redress the balance of power throughout the supply chain, by improving the bargaining power at both ends – final consumers and small producers – and hence ensuring fair sharing of the wealth creation. Consumers and small producers of goods and services hence have interest in greater competitive and transparent international trade and markets. They also require that both domestic and cross-border competition take place with a minimum level playing field regarding social and environmental standards and norms, including core labour standards and wage setting institutions.

5. Labour market institutions, including collective bargaining and legal minimum wages, set floors in markets and are fundamental to ensuring decent work and beyond that help ensure robust solvent domestic demand and therefore to poverty alleviation. The weakening of workers bargaining power and the rise of income inequality across OECD economies during the pre-crisis period has contributed to the emergence of the "working poor"– trapped in precarious jobs, with no or little security regarding health and pensions – and to growing disconnection between rise in productivity and real wage levels. In the developing world, absence of labour market institutions has disproportional consequences not only on workers' wages but also on their very rights to decent working conditions – violation of labour and other human rights appears to be acceptable "business model" for some exporting industries.

6. Labour market institutions also help workers adjust to labour market changes and reduce the risk for hysteresis. Many OECD countries that grant a greater role to wage setting institutions and greater employment protection legislation have fared better than others in keep workers in employment and hence reducing poverty risks in the current post-2008 crisis period.

7. Greater commercial market competition is desirable as long as it builds on, not weakens the capability of workers to bargain for their fair share of productivity increases and the capability of consumers to make informed choices – that is the exact opposite situation of what we witness across the OECD with a "walmartization" of jobs and the economy.

8. For some specific services however, market competition may do more harm than good. Healthcare insurance, education and pension rights are in our view public goods which entail long term risks for which private sector options are inadequate as the main source of service delivery.

9. For example introducing or promoting competition in pension systems would supposedly offer workers and their families a greater choice in financing their rights to pensions. However the "pension risk" (i.e. the uncertainty about the level pension income at retirement arising from political, investment and longevity risks) is hard to assess from an individual worker perspective. There is ample academic literature that shows that workers under individual defined-contribution pension plans often fail to manage plan assets in a rational way. The economic model of private pension plans as the principal source of retirement finance also appears to be underperforming compared with public pay-as-you-go options on key poverty-related criteria such as population coverage and pension income security.