

Competition Policy and Consumer Welfare

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1. Introduction

- Historical origin of competition policy.
- Key elements in competition policy.
- The theory and application of competition policy.
- The role of interest groups and government policy.
- How competition policy can be used for the benefit of consumers.
- Conclusions

2. Historical Origin of Competition Policy

- Anti-trust movement in the United States.
- Monopoly and Monopolistic markets – Oligopolies (see Figure 1).
- Cartels – arise because of imperfect competition
- Role of Interest Groups and selected examples of relaxations in anti-trust regulations.
- Selected government interventions in markets in the United States and in Malaysia.

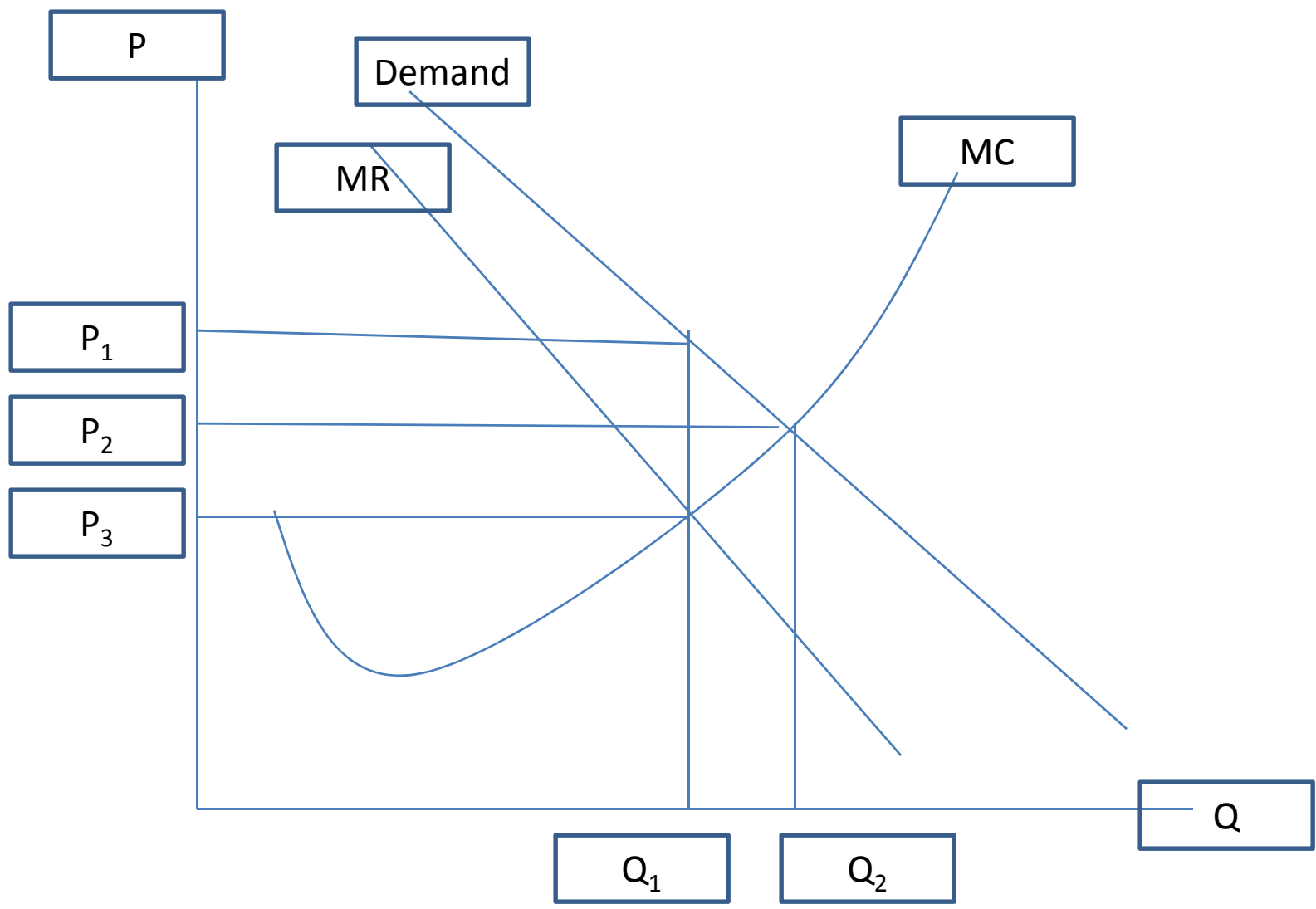


Figure 1: Logic of Consumer Surplus (Deadweight Loss in Consumer benefits)

3. Competition vs Markets

- Different types of markets: perfect competition (hypothetical), monopolistic and monopsonistic markets (imperfections and concentration exists); Monopolies and monopsonies.
- Competition is considered to lower prices to the level where sellers/buyers will enjoy normal profits.
- Competition is also considered to drive creative destruction (Schumpeter).
- Imperfect and asymmetric markets.

4. Economic goods and Markets

- Different categories of economic goods generate different type of competition and market conduct.
- Inferior goods (e.g. rice as staple) – reasonably inelastic demand.
- Normal goods (e.g. ice cream) – reasonably elastic demand.
- Public goods (e.g. knowledge) – its consumption by one does not preclude its further consumption by others.
- Public utilities (e.g. healthcare, power and water suppliers) – needs to reach everyone.
- Markets' allocation, coordination and distribution capacity varies with supply and demand structures (which varies with the economic goods involved).

5. Rationale for Competition Policy

- Far from simply raising competition, competition policy seeks to establish a framework for optimizing consumer welfare.
- Raising competition is one way of raising consumer welfare.
- Regulation against predatory market practices is another way to raise consumer welfare.
- Policy need to be evolutionary to take account of changes in the conduct of economic agents, supply-demand structures of goods/services, technologies involved in the production of the goods/services.

6. Competition Policy and Interest Groups

- Consumers come from diverse backgrounds. If competition policy is to help both the majority and the minorities, it needs to take account of the power of interest groups.
- Powerful interest groups can capture the agenda of competition policy to their advantage, which could undermine consumer welfare.

7. Competition Policy and Consumer Welfare

- The prime motives of competition policy are 1. to ensure improvements in productive and allocative efficiency, and 2. to ensure that consumer welfare is protected.
- Consumer organizations within the domain of civil society organizations play a critical role to raise awareness, as well as, champion the interests of consumers.
- Political will and accountability is necessary to ensure the effective implementation of competition policy.

8. Status of Competition Policy in Malaysia

- To the best of my knowledge a framework for competition policy has already been tabled in parliament but no clear discussion exists on anti-Monopoly practices.
- The country requires legislation against predatory monopolistic practices.
- What does NEM and 10MP offer poor consumers in Malaysia?
 - (40%) of the population with family income less than RM1500.
 - Why should the poor be subsidized?
 - How should the poor be subsidized?

9. Conclusions

- Presentation touched on the global origin, critical issues involved and the status of competition policy in Malaysia.
- Given its significance and compositional differences in economic goods, it is important that we seek the formulation of an effective competition policy that will be translated into keeping out predatory monopolistic/monopsonistic practices but without limiting producers capacity to use scale to drive knowledge-based innovative activities.