Competition, Wages and Growth

Competition in a globalised world: The role of public policies
Banque de France – 8th April 2019

Gilbert Cette – Banque de France and AMSE
1. Abundant literature

- **Abundant literature** on the impacts on productivity and growth of ...
  - ... Anticompetitive regulations
  - ... Structural reforms aiming to decrease anticompetitive regulations
  
  See for instance Aghion and Howitt (2009) for a large survey

- Within it, several papers from the Banque de France

- Usually find a **detrimental impact of anticompetitive regulations on productivity and growth**
1. Abundant literature

- But **in some cases, results are more complex**. For instance:
  - **In some fields**, some protections are useful to enhance growth
    Property rights: relation between protection and growth corresponds to an inverted U curve (see Aghion and Howitt, 2009)
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- But in some cases, results are more complex. For instance:
  - In some fields, some protections are useful to enhance growth
    Property rights: relation between protection and growth corresponds to an inverted U curve (see Aghion and Howitt, 2009)
  - Depends on the distance from the technological frontier (TF). Productivity impact of regulations would be:
    • Detrimental close to the technological frontier => \textbf{good to reform}
    • Possibly positive far from the technological frontier => \textbf{reform carefully}

See Aghion, Howitt (2009), Aghion, Askenazy, Bourlès, Cette, Dromel (2008), ... Babetskii and Campos (2007) propose a meta analysis of 43 papers concerning reforms mainly in developing countries: 1/3 positive effects, 1/3 no effect, 1/3 negative effects
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- Depends on the cyclical situation and a possible ZLB occurrence. If ZLB:
  Regulations ↓ from structural reforms =>
  Rents ↓ => Inflation ↓=> real interest rates ↑
  Possible detrimental impact on productivity and growth

See Eggertsson, Ferrero and Raffo (2014), ...
2. The channels

- Several channels

Anticompetitive regulations on ...

Relations 1 and 5
Direct impact
Cette, Lopez and Mairesse (2016)

- Product market
  (-) Lower competition, lower incentive to innovate

Relation 1

Productivity, Innovation, Growth

- Labor market
  (-) Higher costs of risky innovation strategies

Relation 5
2. The channels

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Anticompetitive regulations on ...

Relations 2, 3 and 4
Indirect impact through upstream/downstream industry relations
Bourles, Cette, Lopez, Mairesse and Nicoletti (2013)
2. The channels

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Anticompetitive regulations on ...

Relations 6 and 7
Indirect impact through investment in ICT and R&D
Cette, Lopez and Mairesse (2017)
3. The impact on productivity

- Concerning the channel corresponding to the previous relation 1
  Evaluation from Cette, Lopez and Mairesse (2018) - Country*industry*time dataset
  Expected total factor productivity gains
  From the adoption in each country of the most pro-competitive PMR in 2013*
  Implicit large reform program

*last year PMR indicator availability
4. Rent measurement

- **Usual Lerner indexes are not accurate for rent measurement**
  - They concern company share of rents and don’t integrate worker’s share

- **Need to measure « notional » rents** to be shared between capital and labor
  - Need for that to evaluate notional production costs, and notional labor costs:
    - labor costs without labor share of rents
4. Rent measurement

- **Lerner index, Mark-up rate and Workers’ share of rent** (% of production cost)
Evaluation from Cette, Lopez and Mairesse (2018) - Country*industry*year dataset
Kernel density estimation of the probability density function
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5. Structural reform sequencing

- Huge question for policy makers
- Seminal paper from Blanchard and Giavazzi (2003)
  - Product market anticompetitive regulations make rents
  - Labor market regulations influence the rent sharing process between workers and firms
- Optimal reform sequencing:
  - To reform first the product market, to empty the anticompetitive rents
  - Then less opposition to labor market reforms
- But ... Always difficult to implement product market reforms
5. Structural reform sequencing

- **Estimate results from Cette, Lopez and Mairesse (2018)**
  - Labor market regulations don’t influence the rent sharing process
  - Easiness of reform on labor market would depend on the trade-off between employment and wages in workers’ preferences:
    - If preference for employment, easier than if preference for wage

### Regulation impact on rent creation and rent sharing – Estimate results from CLM

<table>
<thead>
<tr>
<th>Product market regulations</th>
<th>Rent creation</th>
<th>Workers’ share of rent</th>
<th>Wages per hour</th>
<th>Hours worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barriers to entry and State control</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Employment protection legislation</td>
<td>0</td>
<td>0</td>
<td>+</td>
<td>-</td>
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6. Why is it so difficult to reform?

- 5 reasons for these difficulties are usually brought up
  See for instance Aghion, Cette Cohen (2014), Bergeaud, Cette Lecat (2018), ...

1. From a structural reform tackling a specific anticompetitive regulation...
   - a lot of people (the outsiders) gain but each gains little -> low support
   - few people (the insiders) lose but each loses a lot -> high opposition
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   - High level, powerful lobbying
   - Overrepresentation in Parliament of regulated professions
   - Electorally damaging threats (blocking car traffic or public transport...)
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3. Immediate political costs but (very) progressive positive impact of reforms in the future
   - Dissuasive German ‘example’ of Gerhard Schröder: Hartz labor market reforms
   - Nobody wishes to become ‘the new Gerhard Schröder’
   - => Better/safer to reform at the beginning of an electoral mandate
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More specific in “Southern Europe”

4. False economic representations
   ○ State intervention through regulation is often considered as economically efficient and socially protective
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5. Regarding the labor market, ‘class struggle culture’:
   - Idea that from any change (and reform), if firms win (lose), it means necessarily that workers lose (win)
   - No possible ‘win-win change’; No culture of compromise
7. To conclude

- **Channels**
  Several channels of regulation impact on productivity and growth

- **Reform impact**
  Large potential impact of structural reforms

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  Large potential impact of structural reforms

- **Reform sequencing**
  No clear sequencing suggested by the literature
  The best sequencing advice could be only:
  « Reform as much as you can when politically possible »