



# Implications for the wider economy

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## A practical view

- Five questions
- Who's to blame?
- What can we expect?
- What should we do?
- Five answers



## Implications for the wider economy

### - the five questions

- Is there a read-across from the banking/finance discussion?
- If not, how is competition policy to be applied to the general economy during the recession, and what dangers are there for competition as the economy emerges from it?
- Are the principles sound and what do we mean by the sensitive or pragmatic application of those principles.
- Is recession part of a healthy competitive process and will measures to alleviate its affects damage competition in the longer term?
- May we expect further "public interest" considerations to be added to the present list (for example, "effect on employment")?



## The World is Upside Down

- People who took risks are saved
- People who saved prudently have lost
  - Lost value of shares and property, lost interest income.
- The solution is to spend our way out of debt
  - Or inflate our way out of debt
  - Higher taxes – affects everyone
- An essential requirement for normal service is trust in borrowers' balance sheets



## Who/what is to blame?

- Paul Moore, whistleblower
  - formerly head of risk at HBOS
- BBC's Robert Peston
- Bonuses, off balance-sheet finance and accounting.
  - Prevailing wisdom moved from “cash is king” to “gearing's the thing”
- Selling things to people who don't understand what they are buying
  - the only ex-derivatives trader at the CC?
- Human nature: Frauds work by making you think that despite suspicion – you'll be looked after. Prof John Kay



## What can we expect?

- **Expect opportunistic mergers and acquisition activity – but currently:**
  - No debt except for top rated bond issues (so Coca Cola can bid for China Huiyuan Juice Group Ltd)
  - Equity is available
  - Bankers all taking holidays (those that have jobs)
- **Expect more state aid**
  - In the public interest – but the citizen pays (Mervyn King knows this)



## What next?

- The government
  - over-reacts and regulates everything out of sight?
- Others
  - Auditors doing more research.
  - Insurance companies in the spotlight not just AIG. Credit insurance has dried up.
  - Moral hazard on ‘nationalised’ bank lending



## Recession

- Recession can be healthy for competition
  - Why should there be three major US car companies if the public don't want to buy the cars?
- Synergies and mergers will be key drivers in business to cut costs
  - Use crisis as lever for change



## What should we do?

- **Counter the public interest card**
  - Lloyds/HBOS. People want to be sure the bankers and government are not “getting away with it”.
  - Keep up the pressure – OFT ‘watching brief’?
- **We are all ambassadors.**
  - M&A deals with competition issues work better
  - Concrete examples of Competition benefits always go down well.



## Implications for the wider economy

- five answers

- Is there a read-across from the banking/finance discussion? Yes
- If not, how is competition policy to be applied to the general economy during the recession, and what dangers are there for competition as the economy emerges from it? N/A
- Are the principles sound and what do we mean by the sensitive or pragmatic application of those principles. Yes
- Is recession part of a healthy competitive process and will measures to alleviate its affects damage competition in the longer term? Yes
- May we expect further "public interest" considerations to be added to the present list (for example, "effect on employment")? Yes



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