

# Economic Crisis and Competition Policy

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## Banks are different

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✦ No other sector has *both* the following characteristics:

✦ Collapse of large bank has negative impact on rivals

✦ Customer panic (also food scares?)

✦ Inter-lending and sharing bad assets

*and*

✦ Bank finance essential for all other sectors

✦ Also electricity

→ Double systemic contagion and need for bailouts

✦ Of course, this prospect was a significant cause of crisis

✦ Risk taking; biased bonuses; lobby deregulation

# Non-financial sectors should be subject to standard competition policy

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- ✦ Competitive markets work better than alternatives
  - ✦ Exit is an essential part of market mechanism
    - ✦ Selection of fittest; room for efficient to grow; incentives
    - ✦ Competitive order of restructuring and exit
  
- ✦ No firms are 'too big to fail', but:
  - ✦ Banks not fulfilling project selection function (rebuilding capital)
  - ✦ Bias against firms more reliant on bank finance?
    - ✦ Nationalise (i.e. control and use skills) RBS & Lloyds?
    - ✦ 'Market economy investor principle' (EC)
  - ✦ International subsidy wars
    - ✦ Retaliation if diplomacy fails (cf Clausewitz)

# Competition policy often suffers in times of crisis

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- ✦ Bargaining chip for politicians wanting something from business
  - ✦ Cost in the future and often hidden
    - ✦ Lloyds HBOS
- ✦ New Deal in USA
  - ✦ Interior dept received identical steel bids on 257 occasions in one year; 50% higher than foreign steel
- ✦ International protectionism
  - ✦ Including national champions
    - ✦ Bailouts; procurement policy

## Threats for competition policy (& remedies)

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- ✦ Agreements between firms
  - ✦ Crisis cartels: price; restructuring
  - ✦ Does it matter if fines threaten solvency?
  
- ✦ Abuse of market power/dominance
  - ✦ Potential to tip rivals over the edge (foreclosure)
  - ✦ Deflation and access prices?
  
- ✦ Mergers
  - ✦ Failing firm defence
  - ✦ Lack of buyers for divested assets?

## Other threats to competition

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- ✦ State aid
  - ✦ Who gets (needs) aid: political impact (vs credit rationed)
  - ✦ Aid vs state finance: 'Market economy investor principle'
  
- ✦ Consumer behaviour
  - ✦ After Icelandic banks, will all competitive offers become 'too good to be true' and so undermine competition? (Hviid)