

Competition in Recession: Implications for competition in the wider economy- a few thoughts

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Things that will happen/ have happened- Import Competition

- Industries that rely on imports as the competitive constraint will be subject to significantly less competitive pressure, so long as present conditions prevail

Chart 1: Effective sterling index



Things that will/ may happen-

Mergers/ restructuring

- Mergers between firms clearly one way of reducing competition, and removing capacity from the market
- “Failing firm” defence likely to become easier to argue, and may need a speedier way of determining it
- Some restructuring in response to previous crisis periods- Chemicals, Electrical Engineering, “national champions”??

Things that will/ may happen- Cartelisation

- More players in an industry will survive a downturn if pricing/ competition is less keen
 - In equilibrium, a larger number of firms will exist under collusive behaviour than under non-cooperative behaviour (Sutton etc)
- Therefore, there may be calls for “codes of fair competition”, assistance for smaller companies to coexist alongside larger ones, etc.

Things that did happen in the Great Depression (US)- 1

- Acts that reduced the impact of existing competition policy:
 - National Recovery Act, 1933, codes of fair competition
 - Robinson- Patman Act, 1936, strengthened prohibitions of price discrimination
 - Resale Price Maintenance Act, 1937.

Things that did happen in the Great Depression (US)- 2

- “Sticky” or “administered” prices
 - In competitive industries, the Great Depression saw price falls of between 40 and 60 percent (commodity prices, farm produce, etc)
 - In some, more monopolistic, industries, prices remained static, or actually rose: cigarettes, nickel, aluminium
- No agreement as to what caused this, but fairly clear that the phenomenon existed
- In the present-day circumstances, would this relate to a difference between commodity prices and prices for domestically-produced manufactures?