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DOES COMPETITION KILL OR CREATE JOBS?

Contribution from Morocco

-- Session I --

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COMPETITION AND EMPLOYMENT: ALLIES OR ENEMIES?

-- Maroc --

1. The impact of competition on employment levels remains a matter of much dispute. In times of economic crisis, indeed, it becomes a matter of hot public debate. In fact, whenever a competitive shock strikes in an industry or in an economic sector, established enterprises will loudly presage mass layoffs, while the new arrivals will promise to create new jobs.

2. In these circumstances, the argument most used by the critics of competition is that it will drive firms to curtail their costs by cutting back employment and growth, with the attendant redundancies. Hence the widespread notion that competition means job losses.

3. But this is really just a rehash of a debate that has long raged among economists, especially during times of acute crisis, and it boils down to the question of whether it is better to adopt an industrial policy, with government intervention as its corollary, or instead to resort to competition policy to stimulate the economy, while confining the role of the state to that of an economic regulator.

4. This debate is especially sharp in developing countries like Morocco, where employment needs are immense and the still-young population is faced with an economy that creates very few jobs.¹ Consequently, many observers argue that such countries should pursue a deliberate industrial policy, rather than attempt to encourage competition. In Morocco, throughout the period 2000-2010² the question of whether a competition policy is appropriate has consistently been posed in these terms: is competition a prior and necessary condition for the country's economic development, or is it instead a consequence of that development?

5. This paper seeks, first, to formulate a clear response to this question, and then goes on to discuss the benefits of competition in terms of job creation in a developing economy such as Morocco's. It concludes with an analysis of the conditions that must exist in order for that economy to maximise the benefits of competition.

1. Competition policy and developing countries: the case of Morocco

6. Developing countries have until very recently taken little interest in questions of competition policy, and even if some have adopted a thoroughly modern legislative framework, as Morocco has done, those laws have not really been enforced in a regular way. The questions that arise here revolve around

¹ According to Employment Ministry statistics, 80% of unemployed persons are under the age of 35, while 50% are between 15 and 25 years old. The average annual number of jobs created over the last five years has rarely reached 100,000, and the year 2012 was in fact a washout, with almost no jobs created. By contrast, employment needs are estimated at 140,000 jobs a year.

² It will be recalled that Morocco adopted its first competition law in 2000. That law called for establishment of the Competition Council as the body responsible for regulating market competition, but it was not activated until the end of 2008.

whether competition is a prior and necessary condition for economic development, or whether it is instead the result of an economic take-off. Should developing countries feel compelled to adopt a policy similar to that of developed countries?

7. Before considering some answers to these questions, we must recall that the approach espoused by Moroccan policymakers in the 1980s was to postpone the introduction of any real competition policy. Accordingly, Law 06-99 on free pricing and competition, which was promulgated in 2001, called for creation of a Competition Council, but it was not effectively put in place until the end of 2009.

8. In examining the rationale invoked by the champions of that approach, we can see that they were proffering plausible arguments while attempting to conceal the reality of the national economic fabric. It is indeed instructive and even legitimate to argue that, in order to ensure economic take-off, government intervention is often necessary, both as the co-ordinator of initiatives and also as an investor. Consequently, the relationships forged between the private sector and the State will not always be conducive to the implementation of an independent competition policy. Another argument that has been put forward holds that economic take-off entails a great accumulation of capital, and thus the promise of high profits for businesses that invest. In this case, if competition is too fierce it is likely to reduce the profitability of projects and thus hold back the process of capital accumulation and of economic take-off.

9. However, these arguments lose some of their force when they are viewed in the context of a national economic fabric that is highly oligopolistic and subject to influence and interference by the inner circles of political power. In fact, most sectors that are regarded as profitable (production and distribution of petroleum products, commodities production, agri-food industries etc.) operate in a situation of either monopoly (legal or de facto) or oligopoly. The resulting monopolistic and oligopolistic rents accrue to a minority of economic agents who have privileged relationships with those in political power. Thus in Morocco, those who argue in favour of delaying or postponing the introduction of a true competition policy are merely protecting and perpetuating the rents they currently enjoy.

10. In opposition to this line of argument and in favour of adopting an ambitious and effective competition policy as a lever of economic development, we may note, first, the impact of competition on demand as the principal factor of economic growth. In effect, thanks to the lower prices that it provokes, competition not only acts as a powerful lever for consumers' purchasing power but it also tends to expand the size of markets and thereby encourage new investment that will create new jobs.

11. At the same time, competition has a very strong impact on supply, by encouraging firms to explore new markets, new products, new technologies, etc., and to innovate in order to retain or expand their market share. In this way, competition should encourage market entry by new players who will bring with them different economic models, often more effective, and who will give existing firms the incentive to re-examine their approach and hence to reinvent themselves.

12. Moreover, in Morocco's case, having a competition policy in tandem with its industrial policy is all the more important because the country is engaged in a process of trade liberalisation, consisting essentially of reducing customs duties and opening its domestic market to foreign firms (through free trade agreements signed with the EU, the USA, Turkey and others). In this situation, and in the absence of a competition policy, there is a risk that the Moroccan economy would suffer the full brunt of anticompetitive behaviour by foreign firms – such as through cartels or abuse of dominant position – without having the legal means to defend itself.

13. This situation has a dual impact on the country's economy: first on consumers, whether final or intermediate (i.e. those using products or services as inputs), who will be faced with rising prices, and second on local enterprises, which may exploit the presence of cartels to raise their own prices, but which

may also suffer if the cartels decide to close off the market through various manoeuvres (unleashing price wars, locking up distribution networks, etc.).

14. Lastly, it is important to remember that Morocco, like most developing countries, was committed during the 1990s to an ambitious program of privatisation involving the takeover of public enterprises by private capital, domestic or foreign. In the absence of a true competition policy, this programme was of limited effectiveness, and it tended to perpetuate pre-existing rents. It was only the nominal ownership of capital that changed hands: the State was replaced by the private sector, and monopoly continued to rule in the markets concerned.³ It seems that the public authorities failed to consider the fact that the gains from privatisation depend in the first place on the intensity of competition and not on the ownership of capital.

15. Consequently, it is interesting to consider how competition can generate efficiency gains for firms and how those gains can translate into job creation.

2. How competition can boost employment

16. Curiously enough, its detractors see competition as a barbaric institution that embodies the law of the jungle – the rule of the strongest at the expense of the weakest. For its advocates, on the contrary, competition is a highly civilised institution: an "invisible hand", a source of emulation that reconciles private interests with the general good. In fact, these two concepts are not antithetical, for competition is both a powerful machine of wealth generation and also a formidable engine of inequality, in the sense that it can create jobs and incomes for some but it can also cause job losses for others, and plunge them into insecurity.

2.1 Competition and the "creative destruction" of jobs

17. By allowing new activities to flourish, an economy where there is competition between producers can permanently expand the size of the "pie" that society has to share, and can thereby increase demand, as noted above. Unfortunately there are two downsides to this miracle: the birth of new activities, while creating new and more productive jobs, will destroy older jobs that are no longer sufficiently productive or that belong to a sector or industry which is now obsolete and losing steam. Thus, in a competitive economy, firms must innovate constantly, trying out new production methods and new personnel management approaches, or attempting to sell new products, in order to enhance or simply maintain their profitability. Some innovations will prove fruitful, while others will be bound to disappoint or even to fail. Firms that have the capacity and the opportunity to adopt sound innovations will wrest market share from the others.

18. It is within this continuous process of trial and error, inherent in the quest for profits, that productivity growth finds its source, leaving in its wake a reallocation of jobs among firms but also within firms. In this sense, the destruction of jobs expresses the creation of added value: an enterprise will see some jobs destroyed because other, more productive jobs are being created in that same enterprise or elsewhere. This is the logic of the "creative destruction" process that was dear to Joseph Schumpeter (1942).⁴ According to that logic, prosperity flows from the reallocation of employment.

19. The nature of job reallocation is often misunderstood, for its benefits, in contrast to its drawbacks, are diffuse and not immediately apparent. In fact, while the job losses induced by competition

³ S. Belghazi, "L'expérience de la privatisation au Maroc", CERAB (Centre d'études et de recherches Aziz Blal).

⁴ J. Schumpeter, "Capitalism, Socialism and Democracy", 1942, Harper and Row, New York

are quick to be recognised and deplored, the newly created jobs that competition also makes possible⁵ receive little attention in the media because they are regarded as a normal phenomenon. People tend, then, to forget about them.⁶

2.2 *The relationship between employment, competition and productivity*

20. With copious data now available from surveys covering long periods of time, recent studies have shown that innovation boosts productivity primarily through the process of creative destruction. A significant portion of that process takes place within existing firms,⁷ but this is not always the case and jobs will often be reallocated among different firms. By way of example, the emergence of new firms and the disappearance of older firms accounts for half of the productivity growth in the North American manufacturing sector during the 1980s and 1990s.

21. Yet productivity growth sparks fears. The public readily imagines a mechanism that is *a priori* logical: to enhance productivity, people will have to be laid off. In fact, quantitative studies reveal the exact opposite. For example, Bruno Crépon and Richard Duhautois find that in France during the 1980s and 1990s it was those firms where productivity grew fastest that created the most jobs. A study focusing on the United States arrives at a similar conclusion.⁸ Thus, contrary to popular belief, it would seem that higher productivity leads on average to greater employment.

22. Thus, it is obvious today that there is a positive relationship between competition and productivity at the sector level, regardless of the manner in which competition is measured. It is also now generally accepted that, at the macroeconomic level, stronger competition has a positive impact on productivity in sectors where competition is initially of limited intensity.

2.3 *The true "enemies" of competition*

23. In many circumstances, politicians can derive substantial advantage from protecting the potential victims of competition by limiting or even preventing it through regulation. History is full of examples where interest groups have succeeded in protecting their activities by limiting competition via the political route. The staunchest enemies of competition are not always those we might suspect. In fact, workers exposed to loss of their job are not the only ones opposed to competition.

24. The fiercest opponents of competition are frequently wealthy business executives at the head of very large firms, who will seek to preserve or gain market share through procedures that may involve a simple understanding, lobbying or sophisticated ideological manipulation. As the French economic historian Fernand Braudel has stressed, this tendency, of very long standing, has governed the dynamics of capitalism since it first emerged: "We hardly need point out that these capitalists, under Islam as under Christianity, were the friends of the prince, allies or exploiters of the State. Very early on they exceeded 'national' bounds, they established understandings with merchants in faraway places. They have a thousand ways of distorting the game in their favour, through the manipulation of credit, through the

⁵ See Karl Polanyi, "The Great Transformation: the Political and Economic Origins of Our Time", 1944, which describes this phenomenon during the Industrial Revolution in Great Britain.

⁶ For example, the French press carries daily stories of employees bemoaning the loss of their jobs.

⁷ See the study covering 10 OECD countries, conducted by S. Scarpetta and P. Hemmings: "The role of policy and institutions for productivity and firm dynamics: evidence from micro and industry data", Working Paper No. 329, 2002, OECD

⁸ Baily, M., Bartelsman, E. and Haltiwanger, J., "Labor Productivity: Structural Change and Cyclical Dynamics", The Review of Economics and Statistics, 2001, vol. 83, No. 3, pp. 420-433

fruitful game of trading good currencies against bad ones.... They have superior information, intelligence and culture. And they always grab anything within reach that is good to take. Who can doubt that they have available to them monopolies or simply the power to wipe out competition nine times out of ten? Writing to one of his underlings in Bordeaux, a Dutch merchant advised him to keep their plans secret: otherwise, he said, 'this business will turn out like so many others – as soon as there is competition there is nothing left to drink!'"⁹

25. Throughout his work, devoted to the dynamics of capitalism, Braudel is at pains to stress that the prime enemies of competition are certain owners of capital. He concludes his analysis by declaring: "What I regret for my part, not as a historian but as a man of my times, is that the capitalist and the socialist world alike refuse to distinguish between capitalism and the market economy. To those in the West who attack the ravages of capitalism, the politicians and the economists reply that these are a lesser evil, the necessary flip side of free enterprise and the market economy. I don't believe any such thing..."

26. The market economy, as Fernand Braudel understands it, is a very fragile system and one that is under constant threat – for while competition may benefit the greatest number, the losses it can inflict on certain individuals or groups are, for them, infinitely greater than the gains of others. On an individual basis, nobody makes enormous profits from defending competition, and this poses a severe constraint for the formation of coalitions or groups to defend competition. On the other hand, the losers, who are comparatively few in number but suffer great losses, have a strong incentive to pull together. It is the losers in the game of competition, whether they are employees or entrepreneurs, who will exert pressure on the political authorities to impose restraints on competition.

2.4 *The dead weight of anticompetitive regulations*

27. In order to combat the destruction of jobs, we may initially be tempted to protect existing firms through regulations limiting market entry by new firms that use different or less labour-intensive technologies. The erection of such barriers serves to curtail job destruction in the short term, and can therefore be said to promote employment.

28. Nevertheless, given the scope of job turnover, the short-term effects are swift to fade away. Barriers to entry will quickly come to have the essential effect of exerting upward pressure on prices, and this is always inimical to employment. They also have the tendency to limit innovation, which stymies the emergence of new products, and this is again generally unfavourable to employment. The consumer, for his part, will see a steady decline in his welfare, as he will pay more for goods and will not benefit from innovations and new products.

29. Empirical studies show that anticompetition regulations intended to protect existing jobs by limiting the entry of firms using new technologies will translate into overall job losses. Moreover, the adverse impacts of barriers to entry are not limited to the level of employment: a recent study¹⁰ covering 85 countries (with data relating primarily to the number of procedures, processing times and costs that a potential entrepreneur must face before he can legally begin his activity) finds that a country with more barriers is generally a country where corruption is greater, where the informal economy is larger, but where the quality of goods and services, either public or private, is none the better.

⁹ Fernand Braudel: "*La dynamique du capitalisme*", Edition Arthaud, 1985 pp.60-61

¹⁰ S. Djankov, R. La Porta, F. Lopez-de- Silanes and A. Shleifer, "The regulation of entry", *Quarterly Journal of Economics*, February, 2002

30. Thus, corruption and barriers to competition are mutually reinforcing. When public authorities are in thrall to powerful pressure groups they will tend to erect further barriers to competition. The fact is that constraints on competition produce "rents", and in order to preserve those rents a certain fraction may have to be diverted into the pockets of public officials.

2.5 *The macroeconomic impacts of competition policy on the level of employment*

31. Studies using international data have sought to establish a link between barriers to competition and the level of employment in each country. The first task of such studies is to construct a single indicator summarising all barriers of this type, which can be used to classify countries according to the "degree of overall competition". Two recent studies, conducted respectively by the OECD¹¹ and the World Bank¹², have been devoted to this exercise. In the OECD study, the construction of this indicator takes into account, among other things, the weight of State ownership in the capital of firms, the scope of antitrust legislation, price control practices, the ease of obtaining an operating license, barriers to entry for foreign firms, the structure of network industries and administrative obstacles to creating a business. According to that study, which is based on several thousand observations, it is the English-speaking countries that present the fewest obstacles to competition. In the OECD area, the most "liberal" countries are, in descending order, the United Kingdom, Australia, the United States, New Zealand and Canada. The countries of northern Europe follow closely on their heels. By contrast, France ranks 23rd (out of 30), ahead of only Greece and Italy within the European Union.

32. The World Bank study relies on an "ease of doing business" indicator, the criteria for which are substantially the same as those in the OECD study. It is not surprising, then, that the ranking of countries is also close to that of the OECD. Thus, according to the World Bank, the leading countries in terms of the ease of doing business are, by descending order and including only countries of the OECD zone, New Zealand, the United States, Canada, Norway, Australia, Denmark and the United Kingdom. France stands 24th: among the members of the European Union only Greece ranks lower (while Morocco placed 70th in 2012 out of a total of 120 countries). These two studies point to the same finding: France is a country where regulatory barriers remain significant. And France is unfortunately the example that Morocco has adhered to most closely.

33. There is a very strong correlation between the employment rate and a country's ranking against these two indicators. Those countries that have the fewest regulatory barriers are also those where the employment rate is highest. For example the employment rates of the four top-scoring countries – New Zealand, United States, Canada and Norway – are respectively 73.5%, 71.2%, 72.6% and 75.6%. By contrast, the employment rates for France, Greece, Italy and Turkey, which stand well down in the ranking, are 62.8%, 59.6%, 57.4% and 46.1%.¹³

3. Principles for sound management of competition

34. An effective approach to regulating competition must have as its primary objective that of ensuring that society as a whole will benefit from the gains that it generates, while limiting the economic

¹¹ Paul Conway, Véronique Janod et Giuseppe Nicoletti (2005), "Product Market Regulation in OECD Countries: 1998 to 2003", OECD Economics Department Working Papers, No. 419

¹² Doing business in 2006, World Bank, 2005

¹³ Nicoletti, G. and S. Scarpetta, "Regulation, productivity and growth: OECD evidence", Economic Policy, April 2003

harm it may cause to a minority. Viewed in this way, competition regulation amounts to a public mission¹⁴ that is essential to the proper functioning of a modern society. Healthy regulation of competition must then rely on two levers: independent authorities to decide the measures to be taken to prevent competition from being distorted, and a sufficiently developed system of insurance or guarantees.

35. Regulating competition is a complicated matter, for at least two reasons: first of all, violations of competition rules are often hard to establish. Recent history has shown, for example, that it was very difficult to prove that Microsoft was abusing a dominant market position (in a case that dragged on for more than six years in the EU). On the other hand, the public interest may at times require certain activities to be limited because they have adverse effects on society as a whole. For example, transporting freight by road is more polluting and more dangerous than by rail. The State can thus quite legitimately tax the first sector and subsidise the second, even if this constitutes a distortion of competition. These problems make it difficult to apply simple and incontestable rules when it comes to regulating competition.

36. This state of affairs can produce pressure to erect regulatory barriers that will work against harmonious competition, as we have seen in the examples cited above. Thus, one of the key challenges in competition regulation is to put in place institutions that will protect society against such pressures.

37. In Morocco, the regulations governing competition¹⁵ during the past decade have shown their limitations by confining the Competition Council to an advisory status, while effective power of control over competition lies with the head of government, assisted by the Competition and Prices Directorate of the ministry responsible for governance. Experience from the Council's six years¹⁶ of existence since it was reactivated in 2009 confirms this finding and offers evidence that the dualism instituted by that law, in terms of combating anticompetitive practices, is a source of confusion and even of stalemate, and that it undermines the effectiveness of competition policy (requests for investigations have languished unattended for more than four years, and there are no penalties against anticompetitive practices). Consequently, it could not be said that there was an independent body responsible for regulating competition in Morocco under the aegis of Law 06-99 mentioned above.

38. However, we must note that competition regulation in Morocco is now going through an important transition: it began in 2011 when the Competition Council was given constitutional status, and it continued with the introduction of a new legal framework for competition in 2014, comprising two new laws. The first of these governs free competition and pricing and repeals the old law, while the second gives broad powers to the Competition Council, including decision-making powers with respect to concentration, penalties for anticompetitive practices, investigations and self-initiation of proceedings.

4. Conclusions

39. By way of conclusions, we may point out that a market economy in which competition prevails is one that creates wealth and jobs by constantly evoking innovations that will give birth to new products, new firms and new industries, while causing old practices to disappear. A market economy is characterised, then, by an uncertainty that is constant and, above all, inevitable, because it is an integral part of the competition in which entrepreneurs are engaged. It is no doubt true that the succession of

¹⁴ Jurists speak of the "public economic order" and consequently competition law has become an instrument of economic regulation; it enforces respect for that order, which favours the general interest over private interests.

¹⁵ Law 06-99 on free pricing and competition

¹⁶ Establishment of the Competition Council was foreseen in Law 06-99 of 2000 on free pricing and competition. Yet apart from a brief experience of a few months, the Council remained a dead letter until 2009. According to the Law, again, the Competition Council is a collegial body, the president and 12 members of which are appointed by decree of the head of government.

innovations will mean a steady increase in the collective wealth, but we do not know what effects it will have on the future of each individual. A society where robots perform ever more complex tasks will be richer than the societies that preceded it, but will it need more or fewer unskilled workers? No one knows. Will the development of automatic translation software lead to the disappearance of interpreters and translators? No one knows. And even if these professions were in fact to disappear, no one can predict how long that will take.

40. It is the unpredictable nature of the market economy that makes it anathema to many. Indeed it is difficult to appreciate that the growth of wealth is intimately linked to the uncertainty that competition generates. That uncertainty is all the more problematic because it can lead in time to a highly unequal distribution of wealth.¹⁷

41. The constant momentum of creation and destruction produces gains for society as a whole but they are not necessarily distributed according to the merits and responsibilities of each individual. Intrinsicly, the market remains a wonderful instrument for creating wealth, but it is also an instrument of exclusion. These two phenomena are intimately linked: by giving rein to the profit motive, the market enriches some but impoverishes others, often those who were already the poorest to begin with.

42. It is apparent that the distribution of risks has become more unequal over the last 20 years, not only among workers but also between shareholders and employees as a whole. A recent study by David Thesmar and Mathias Thoening shows that since the late 1980s, the business risk has been borne less and less by shareholders and more and more by employees.¹⁸

43. Essentially, this phenomenon can be laid to the declining importance of family firms and the growing power of firms belonging to multiple shareholders, controlled in the end by investment funds. Investment funds are much better placed to diversify risks (which is good for the shareholders) but this brings much greater volatility to profits and to employment in each firm (which is not so good for employees of the firm in question).

44. One way to "compensate" workers for assuming this new role would, of course, be to raise wages. But as Philippe Martin,¹⁹ professor of economics at the University of Paris 1, quite rightly points out, this risk transfer is not accompanied by any change in the sharing of value added. For the last 10 years, "labour" has been awarded about two-thirds of the wealth produced, while "capital" rakes in the remaining third. Any increase in wages would be bound to shift the relative shares of value-added in the short term, but firms would react by gradually reducing their employment levels, and the sharing of value-added would not change over the long term. The real capital-labour conflict today, then, is not over the sharing of value-added but rather over the sharing of risk.

45. In a society where the collective wealth is steadily rising, it is easy enough to "insure" each individual by diluting risks and spreading them as widely as possible among the entire population. Yet the institutions that would allow this effective risk-sharing have yet to be devised.

¹⁷ An unregulated market economy is prone to many other shortcomings, in particular with respect to the environment and the well-being of future generations. In his book, "*L'Economie de marché*", Flammarion, 1996, Roger Guesnerie offers an exhaustive balance sheet of the successes and failures of this form of organising trade.

¹⁸ D. Thesmar and M. Thoening, "Financial market development and the rise in firm level uncertainty", article published in Mimeo October 2004

¹⁹ Philippe Martin, "*Capital et travail, inégalité des risques*," article published in the newspaper *Libération*, 4 July 2005, p. 37

46. In the employment area, thinking about this point²⁰ has progressed greatly in recent years. The idea of employment security, which is incompatible with the "creative destruction" process described earlier, is today giving way to the idea of "career security" or "Occupational Social Security."

47. If competition is to be of benefit to all, the gains it produces must not be confined to the few. Those gains must accrue to society as a whole, through the institution of an effective insurance system that socialises life's risks, and in particular the risk of unemployment.

²⁰ Robert Shiller has sketched out the main features of such institutions, which could provide "lifelong insurance". See *The New Financial Order*, Princeton University Press, 2003.