

MUTUALLY INTRUSIVE, Germany in a competitive internal market

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Structure

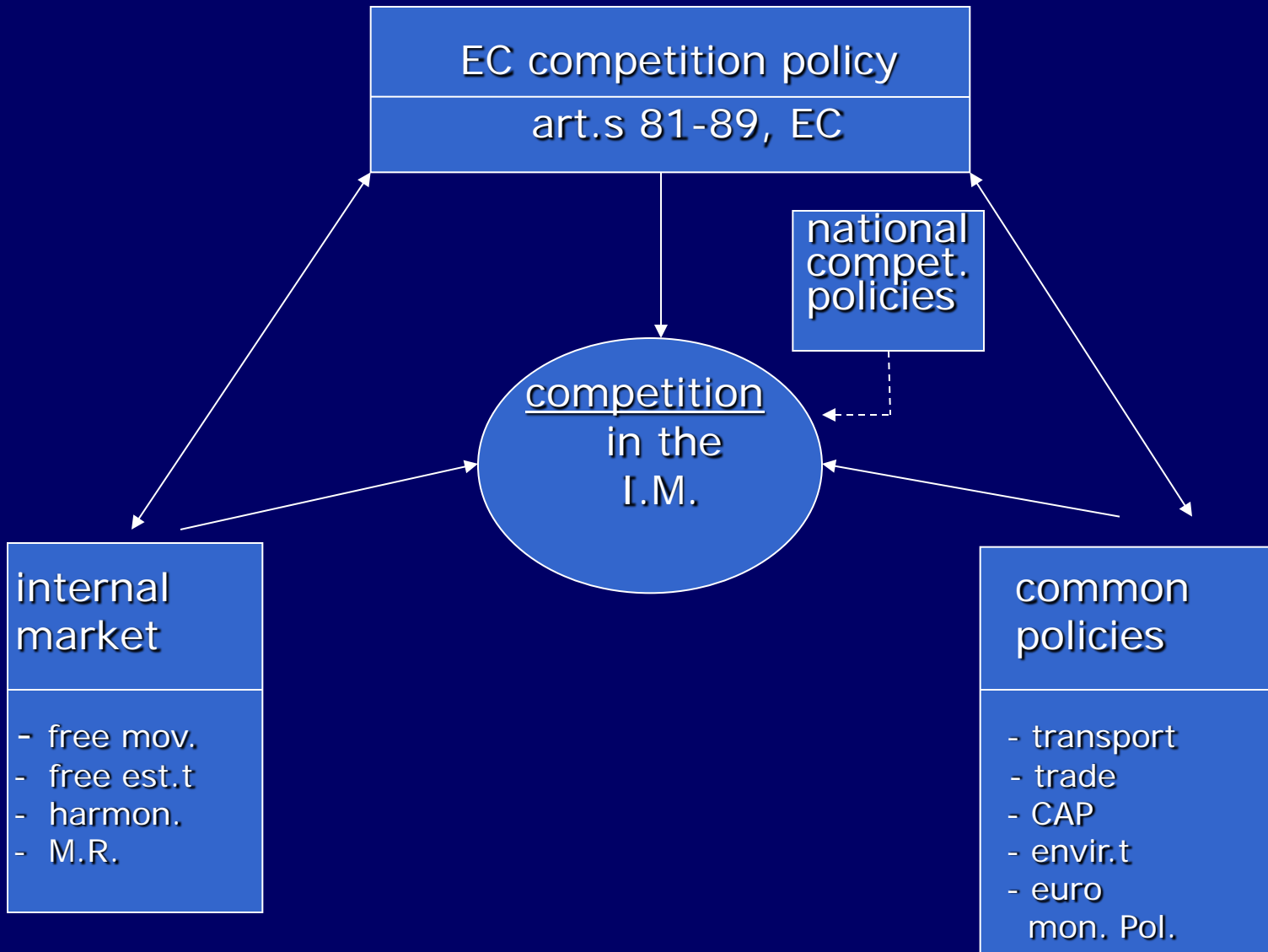
1. Competition and change, crux of market integration
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Competition and change, crux of market integration

actual or potential cross-border mobilities prompts

- direct price competition (later, scale/restruct.)
- greater choice (initial & strategic)
- response by innovation in products, technologies, processes, marketing, etc.
- widening of quality ranges
- exposure of X-inefficiencies ('cold shower')
- establishment & M & A and FDI strategies
- eventually, corporate 'europeanisation' of (parts of) value-chain and intra-industry trade

Competition is 'systemic' in EU integration



TRIPLE intensification of competition in IM



TRIPLE intensification of competition in IM (2)

deepening IM, incl. competition policy

- from goods (tariffs, quotas) to selected technical barriers, to broad regulatory barriers in goods, horizontal approaches (public procurement, product liability, fiscal, IPRs)
- sharpening of competition policy
 - cartels & leniency approach
 - stricter exemption conditions (e.g. cars)
 - firmer on exclusionary abuses
 - better on state aids
 - removing (cross-) subsidisation, etc. in state ownership

TRIPLE intensification of competition in IM (3)

widening IM scope, incl. competition policy

- from goods to selected services (transport, financial markets) to professional services and network industries, to horizontal service liberalisation, to capital, to labour (and some infrastructure)
- competition policy widening
 - application in services (and stock exch.s)
 - merger control
 - competition & regulation in network industries

TRIPLE intensification of competition in IM (4)

more pro-market common policies

- open trade policy
- FDI, national treatment
- liberal transport policy
- more market conforming in agriculture
- incentive-based policies in environment
- more market-centred consumer policy

Greater competition, qualitative evidence (examples)

1. *Drastic changes in the car industry*

[from cosy national competition, and little intrusive IM competition [Hocking, 1980] to combination of co-makership and sharp cuts in margins of component producers, to fierce interbrand competition and parallel car trade]

2. *Overhaul in several modes of transport*

- from quota-based road haulage, fraught with restrictions, to fully-fledged EU-wide competition
- air transport (scheduled), complete overhaul
- maritime, end of exemption for 'liner conferences'
- freight rail, end of the overly protected, X-inefficient 'national' models

3. From restrictively regulated capital markets (with strong national attachments), and often with exchange controls [6 of 12 EU countries in 1986!], altered into innovative and open capital markets, and far less costly clearing & settlement in stock exchanges (+ exch. controls forbidden!)

Greater competition in EU analytical evidence

- micro-economic empirical literature e.g.
- >> Cecchini et al., 1988 ; Allen et al., 1998 ;
Veugelers, 2004 ; Sauner-Leroy, 2003 ;
- recent studies on benefits/costs of anti-trust
- price convergence
- declining home bias
- restraining prices & new entry (postal, airlines)
- quality, race-to-the-top ? (postal quality)

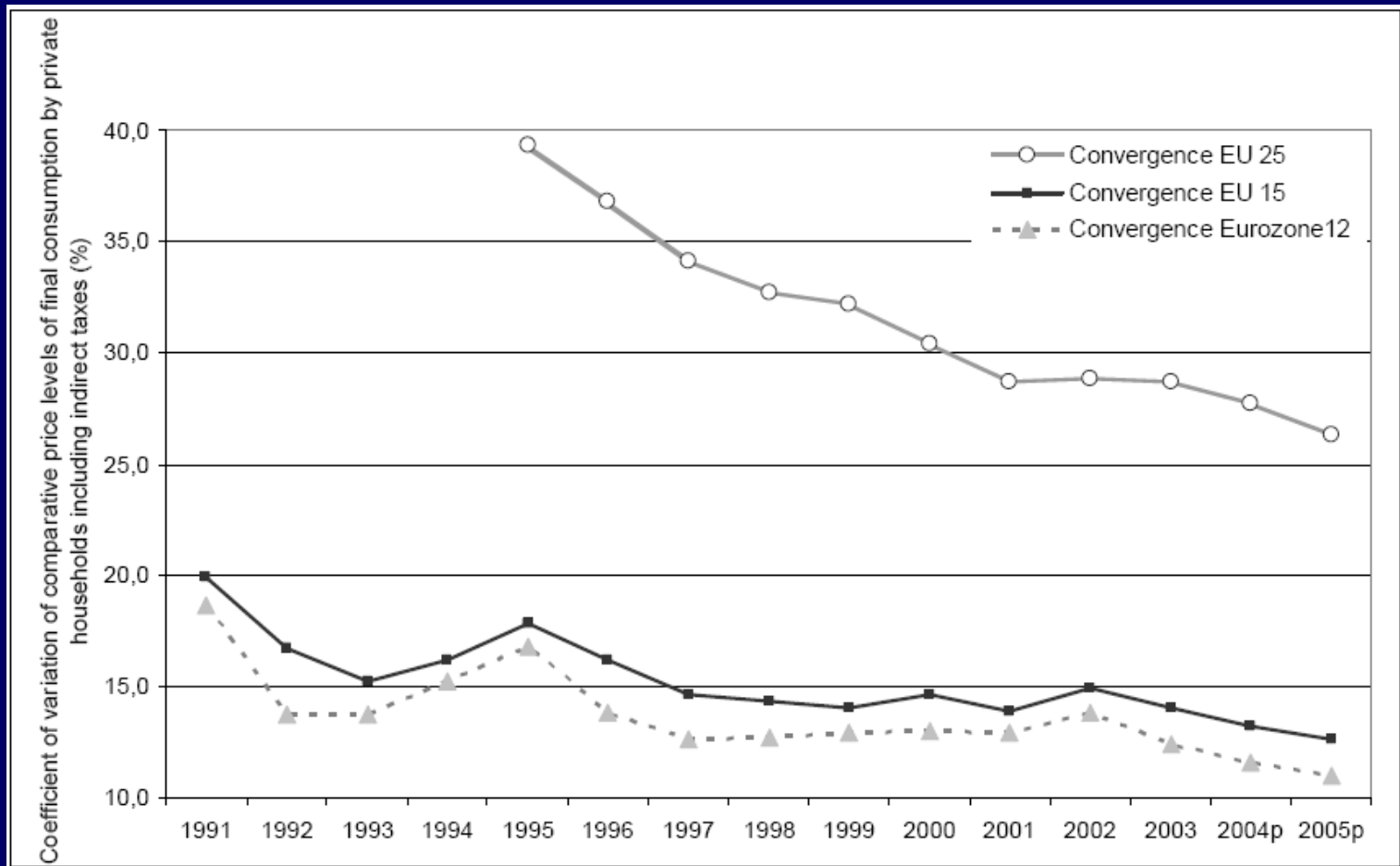
Pro-competitive impact I.M.

- Allen, Gasiorek & Smith >> impact on intensity (price-cost margins down in home market) and nature (less home bias) of competition ; large welfare gains
- Sauner-Leroy, 2003 >> mark-ups declined during EC-92, recovered later due to X-efficiency gains
- Veugelers, 2004 >> market integration (EC-92 and later) selective deconcentration and turbulence in sector leadership ; productivity growth accelerates in such sectors

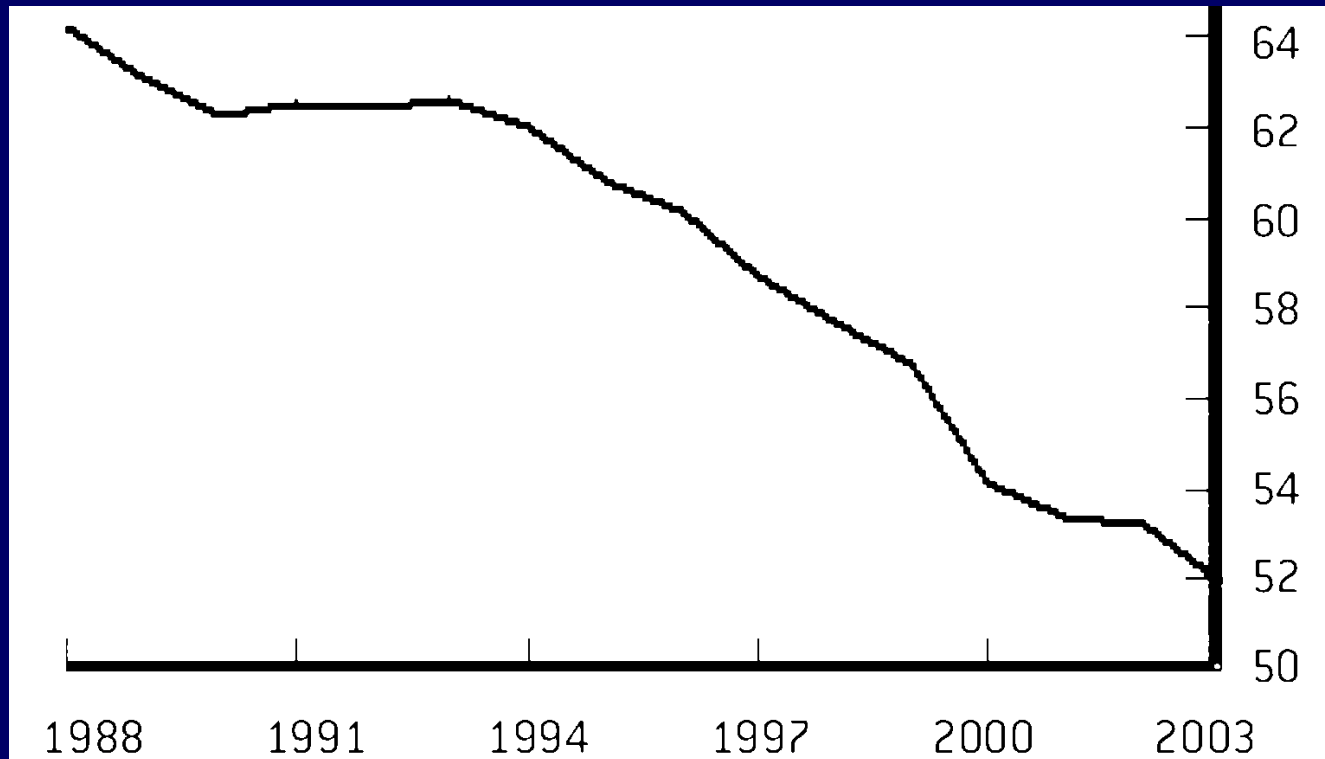
Benefits/costs of (EU) anti-trust

- debate emerging on measuring the net societal benefits of (EU) competition policy
- so far, few studies, and only partial, with hard evidence
- e.g. Neth.s >> guesstimate € 4,2 bn cons. surplus ('98 – '07) [van Sinderen & Kemp, 2008]
- Eur. COM (late '07) >>> € 4 bn cons. gains annually for cartels alone, not speaking of fines
- take with several grains of salt, still, ...

Price convergence, sign of market integration

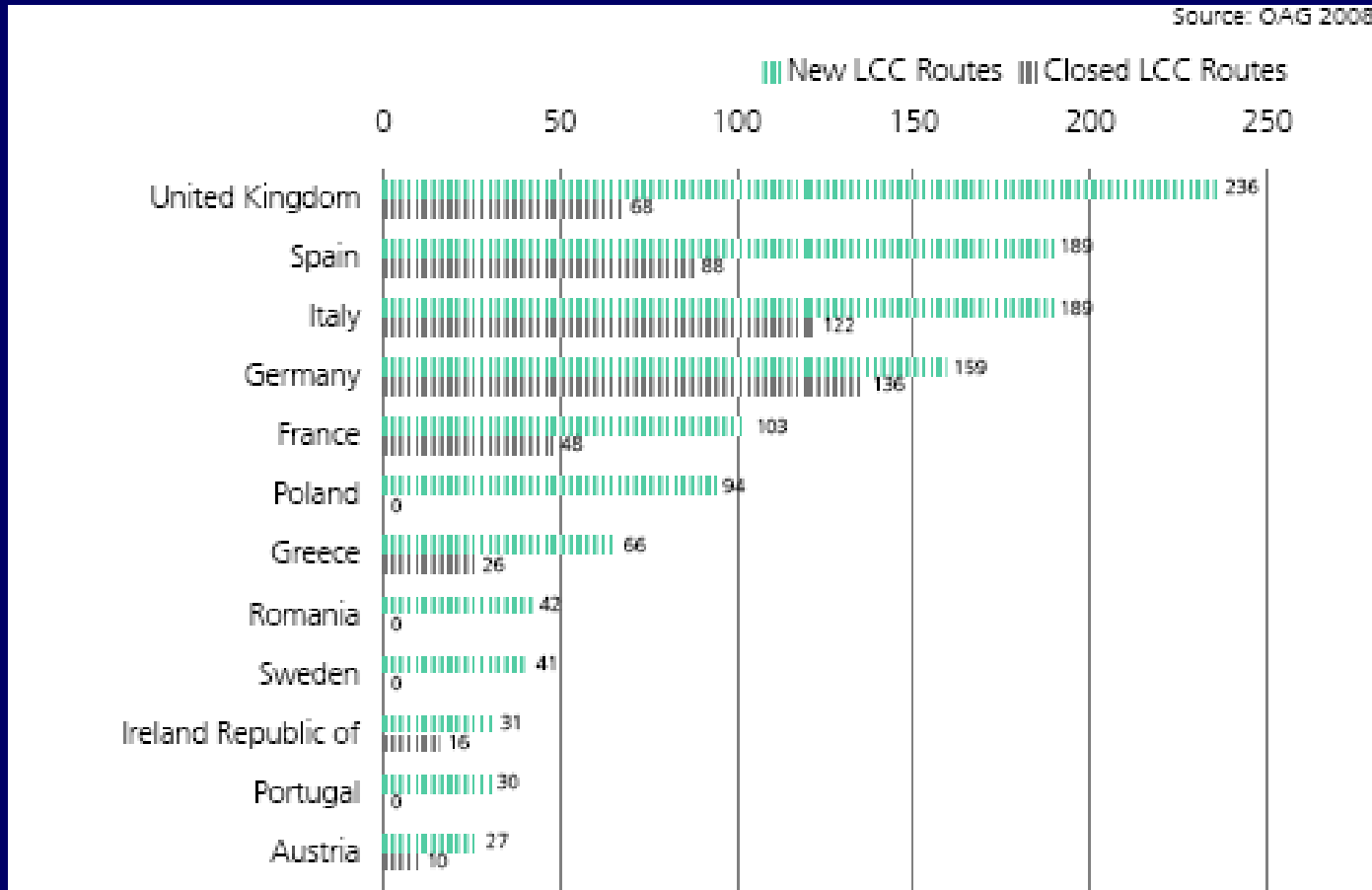


Declining home bias in EU

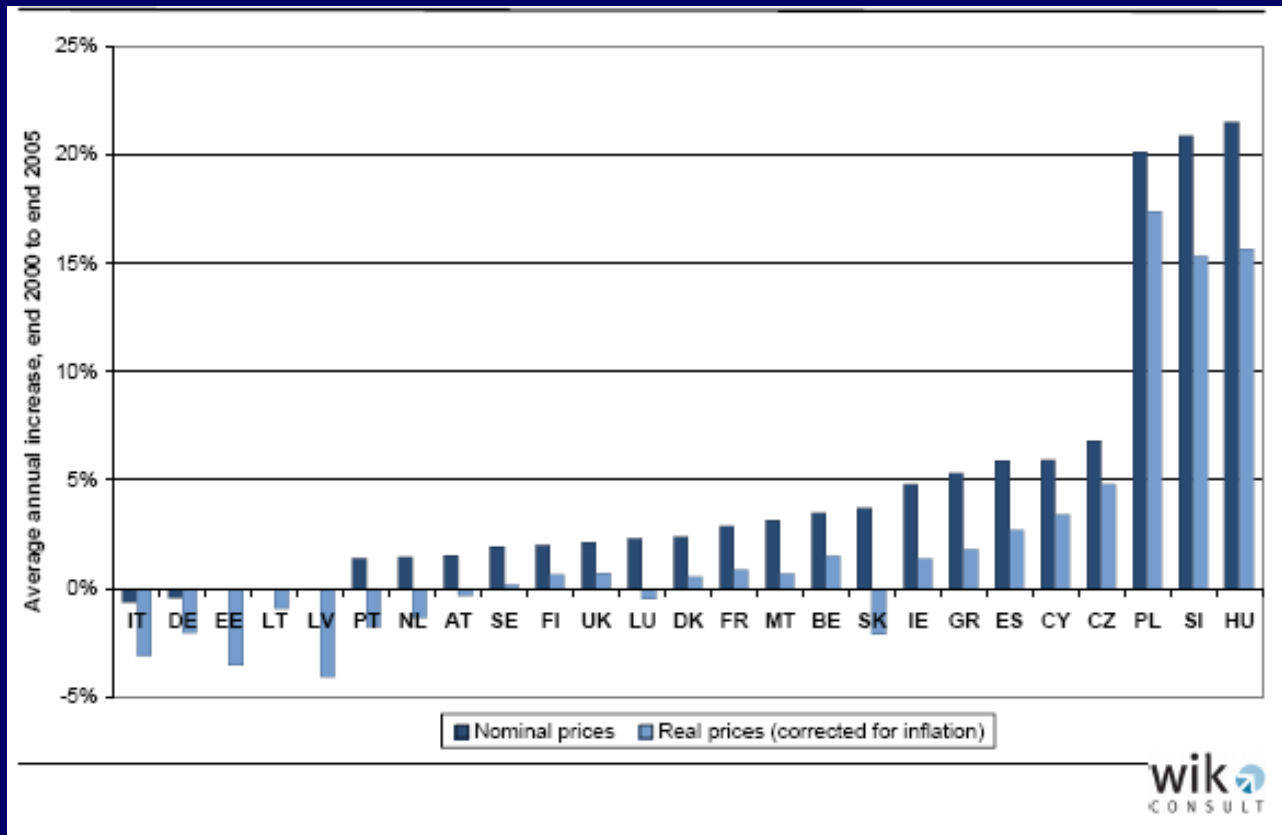


Source: Delgado, 2006

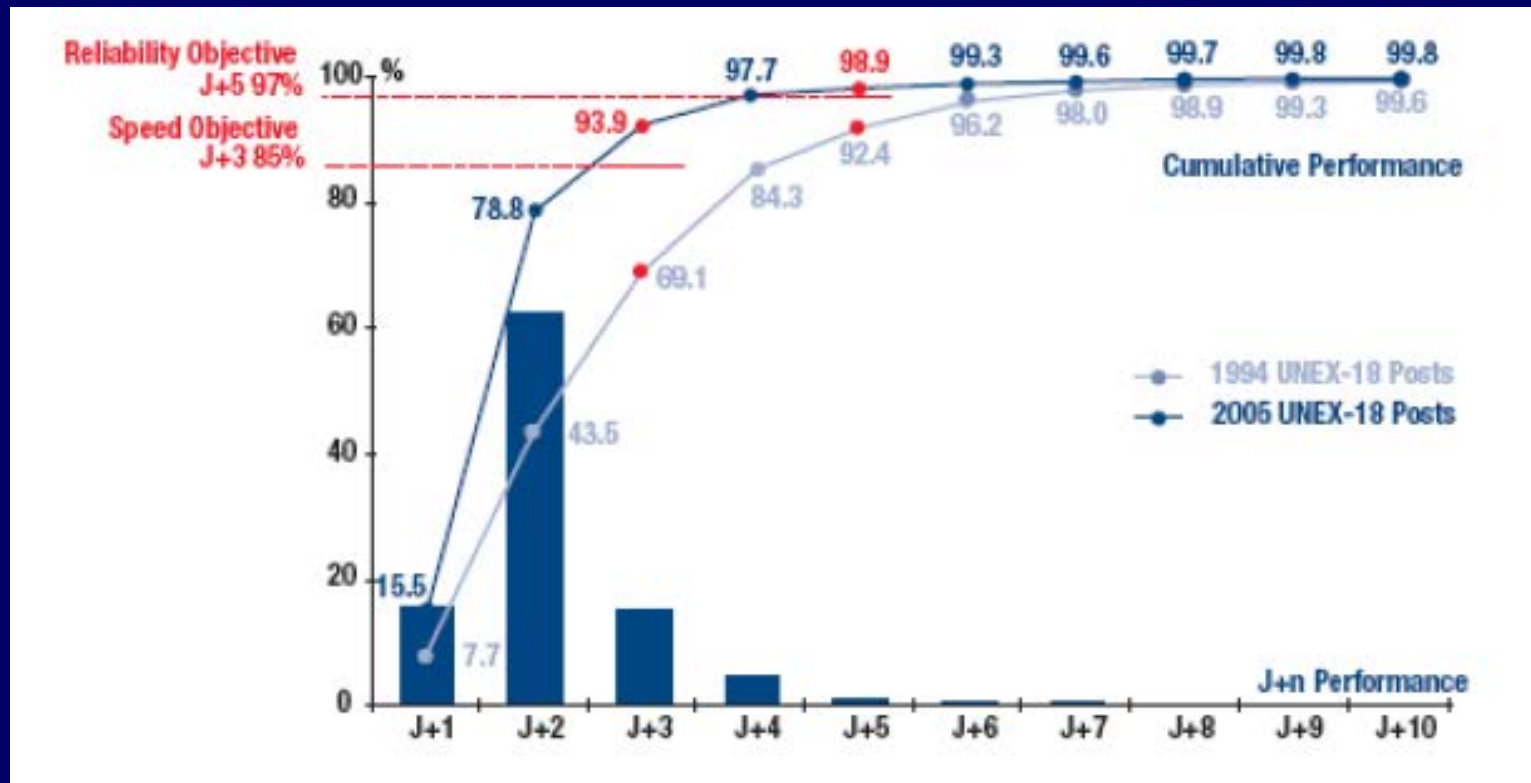
Low-cost airlines, rivalry intensifies



Competition in postal restrains stamp prices, %, 2000-2005



Postal competition in I.M. & REIMS II drive up quality



Germany's initial pro-competitive impact

Germany, was a 'sine qua non' for EU competition policy !

- in treaty negotiations in '56/7
- Commissioner Von der Groeben
- legalistic approach forced notification tsunami's
- tireless competition advocacy in the 1960s

remember also

- Chanc. Schmidt : tariff menace against steel subsidies 1981
- 1982 transparency dir. on state-owned enterprises (German DG was ousted !)
- imitation effect M.S., now all have national competition policies

Germany led by example in goods markets

- powerful IM drive in quality goods
- rapid adjustment away from text/cloth/shoes/toys, etc.
- pro-free trade in industrial goods

I.M. returning the favour to Germany

- but, not unlike other EU Member States, where Germany
 - was not competitive
 - ‘enjoyed’ cosy non-competitive arrangements
 - had an internal socio-political blockage
- **I.M. deepening and widening turned out to be helpful, at times critical, to competition in Germany**

Examples:

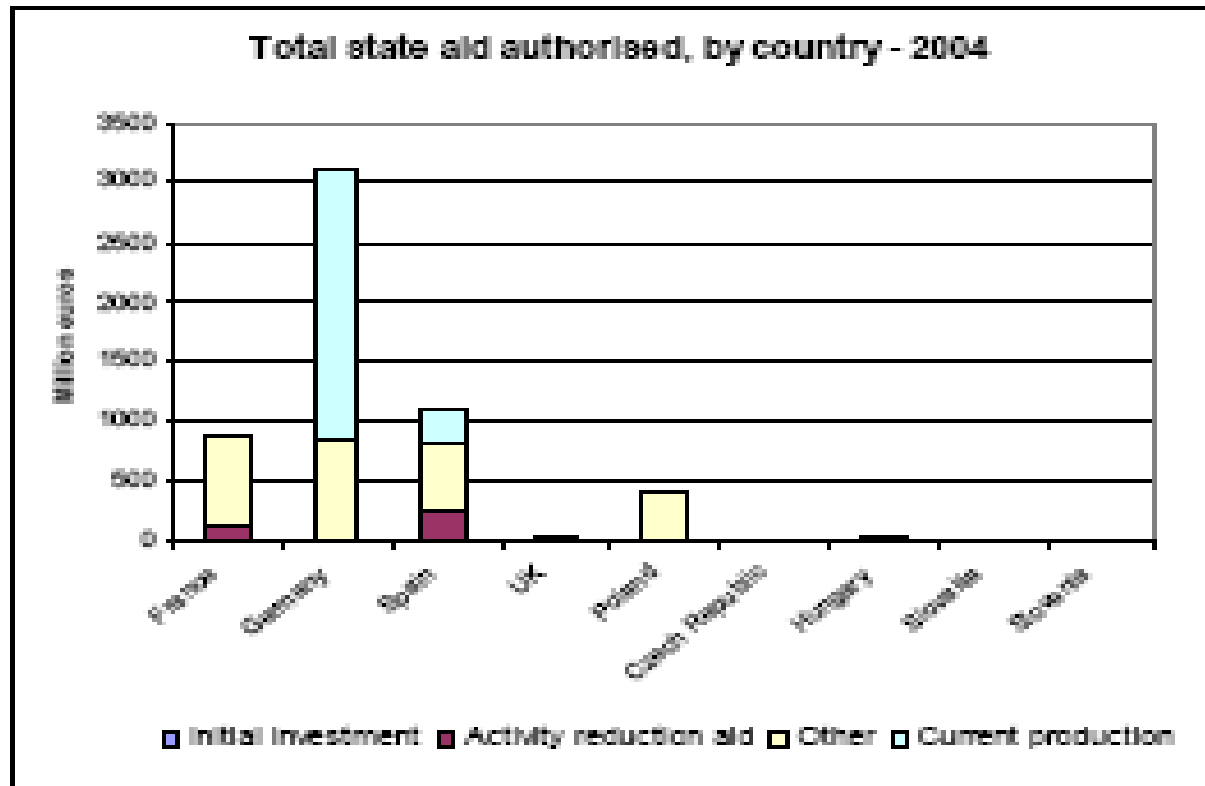
- road haulage (from e.g. Weber 1967 to ECJ ruling, 1985)
- agriculture
- (authorisation of) insurance / 4 ECJ insurance cases
- shipbuilding subsidies (from 1957 treaty !)

All these cases have become (more) competitive

Germany's deep ambivalence about I.M.

- Banks of the Laender
- coal never really part of I.M. (+ art. 19, GATT since 1958 !); subsidies per miner still nearly € 100000 in late 1990s
- deep conflict host C.C. for workers, w' out minimum wages (free mov.t & posted w.)
- resistance to state aid logic in some cases
- hesitation on horizontal services liberalisation
- certification monopolies & accreditation biases
- resistance regulated (vs. negot.) TPA in electra
- huge feed-in financing of wind industry over 10 yrs
- intended Opel state aids w'out 'industrial logic' (Beirat)

Coal subsidies are still large



Source: European Commission

How special is German ambivalence ?

- nothing special
- many MS show their own ambivalence
- public utilities in e.g. France and Belgium
- underregulation of financial markets in UK
- chaotic upshot ('97) of Dutch refusal to respect ECJ on 83/189 (on techn. barriers)
- Romania > new excise duty (despite EU pre-emption)
- Italy's superdominance in broadcasting
- Dutch 'cartel paradise' until MNa (1997)
- 'economic needs' entry test, services [7 MS until dir. 123/ 2006], which is a flat denial of I.M. + COMP ideas

CONCLUSIONS

- competition in Germany and Germany in the competitive internal market
- can no longer be regarded as separate phenomena
- today, but in intricate ways also over time,
- the two are MUTUALLY INTRUSIVE
- good for Germany and good for EU