

The Impact of Competition Policy: What are the Known Unknowns?

BACKGROUND

- Evaluations of competition policy are increasingly common and typically establish that the consumer benefits from detected cases easily outweigh the costs of competition authorities.
- These assessments are often driven by data availability and only capture a small part of the total impact of competition policy because they sidestep the difficult issue of how to evaluate those cases that go unobserved because they are deterred. Assessments also ignore a second class of unobserved cases, those involving anti-competitive harm but which the competition authority fails to detect.

METHODOLOGY

- The authors present a broader conceptual framework for the evaluation of competition policy which takes into account the deterred and undetected cases as well as those which are detected.
- The analysis draws on stylised facts from existing academic and policy literatures, alongside what it is reasonable to infer from theory about what is not known, in particular, the nature of the underlying population of potential cases, and how samples are drawn from it, in the form of cases detected by the competition authority.
- Numerical simulations are conducted within this framework.

KEY FINDINGS

- The simulations suggest that, while the benefits of deterrence, especially for merger enforcement, are considerable, it is also likely that considerable harm may remain unremedied due to the non-detection of cartels.
- Drawing on insights from economic theory, the authors argue that selection bias is likely to be substantial because the unobserved cases could well be those which are the most harmful. If so, the deterrence of anti-competitive mergers may have a much greater positive impact, but the effects of non-detected cartels may be more serious than is usually supposed.

THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

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