LATIN AMERICAN COMPETITION FORUM

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Session I: Competition and Poverty Reduction

-- CONTRIBUTION FROM THE UNITED STATES FEDERAL TRADE COMMISSION --

1. Competition has a direct relationship to poverty reduction. When competition leads to lower prices for the basic necessities of life, the greatest benefits may accrue to the least well off, as their access to necessities improves and, potentially, resources are freed up for discretionary spending that can allow them to invest in improvements to their lives. By focusing on anticompetit9 (i)6 (t)-5 (i)-5c (o)2a2 (d)2 (u)2 (c)

Economic growth slows and nations remain poor."[2] While competition may thus have great potential for improving the lot of impoverished economies as a whole, it also has potential to improve the lives of individual consumers.

4. Similarly, the World Development Report 2000-01 states that "markets work for the poor because poor people rely on formal and informal markets to sell their labor and products, to finance investment, and to insure against risks. Well-functioning markets are important in generating growth and expanding opportunities for poor people." It follows that when anticompetitive practices interfere with the functioning of markets, such as through cartels that raise the price of a farmer's fertilizer or of a family's basic foodstuffs, or through exclusionary practices that keep poor people from setting up small businesses or that keep telecommunications costs artificially high, the poor will pay the price.

5. That price falls most heavily on the poor. While the more affluent may be able to absorb anticompetitive overcharges by reducing discretionary spending – possibly without even recognizing that they are doing so – a poor person living on a few dollars a day may have to curtail spending on basic necessities such as food or health care. Paying more for necessities means that fewer resources will be available to make longer-term investments, such as opening a small business, investing in equipment that will make a farmer more productive, or investing in education.[3]

6. Further, in many cases, poorly designed government policies impose undue, and perhaps unintended, burdens on the poor. When unnecessary regulations impede competition, the poor often pay higher prices, face limited access to goods and services, and receive lower quality goods and services than a competitive market would deliver.[4] Regulation may also make it difficult for poor consumers to legally establish small businesses, such as farms, retail establishments, and taxis that might compete with established firms. Through their competition advocacy functions, competition agencies can seek to remove some of the more burdensome of these regulations.

7. Finally, supplier collusion in public procurement imposes costs on consumers, especially poor ones. It has been observed that "even small improvements in the performance of public procurement programs can yield large social benefits, especially for the least affluent citizens. Public procurement outlays account for just under twenty percent of GDP in the United States; in formerly planned economies, the state's share can exceed fifty percent. Many of these expenditures are for infrastructure and social services that are designed in large measure to assist economically disadvantaged populations."[5]

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2 W. Lewis, The Power of Productivity: Wealth, Poverty, and the Threat to Global Stability 13 (2004). See also D. P. Majoras, Chairman, Federal Trade Commission, National Champions: I Don't Even Think it Sounds Good (March 27, 2006), available at http://www.ftc.gov/speeches/majoras/070326munich.pdf.

3 DFID - Department for International Development Investment Climate Team, A Competition Assessment Framework: An Operational Guide for Developing Countries, London, UK, 2007.; See R. S. Khemani,

II. Competition's Effects on Markets for Essential Items, In Reality

8. While in principle the relationship between competition and poverty reduction seems clear, the real challenge is to demonstrate, in practice, how promoting competition can lead to substantially lower prices and be beneficial to poor consumers.

A. Illustrative Experience in Other Countries

9. A brief comparative example of telecommunications liberalization illustrates the relationship. As documented in other papers,[6]

10. In Kenya, by contrast, the privatization of and resulting competition in the telecommunications sector led in significant

will focus on the interaction between competition in markets for healthcare goods and services and poverty reduction. Health care consumes nearly 18 percent of the U.S. GDP.[13] Many Americans are uninsured or underinsured and must pay nonemergency health care costs out of pocket or do without needed care or medicines. Even for the insured, the high cost of health care may be reflected in the cost of insurance premiums, various co-payment, deductible or other cost-sharing mechanisms, or reductions in the scope of their insurance benefits, which do not necessarily cover all essential services.[14] Moreover, as our public health agencies have noted, competition is important to improving health care quality, and access to health care, for the publicly insured as well as private consumers.[15] The sector has long been a major priority of the FTC.

1. Hospital Mergers

13. *FTC v. ProMedica Health System* involved a merger of two of the three hospitals serving Toledo, Ohio. Toledo is characterized by a declining industrial base, high unemployment, and a relatively high poverty rate. The FTC challenged the transaction out of concern that it would significantly harm consumers in the Toledo area by creating

be eliminated by the proposed transaction to the detriment of consumers in Albany.[18] While the court agreed with the FTC's assertion that the merger would reduce competition, the court concluded that the merger was immune from challenge because a regulatory scheme under Georgia law immunized the transaction from federal antitrust review. That conclusion, which was affirmed on appeal, is now under review by the United States Supreme Court, and a decision is expected in the near.

15. A common argument raised in such cases is that hospitals that are freed from competitive pressures are able to offer more charity care to poor consumers because insured patients, particularly managed care and privately insured patients, cross-subsidize a hospital's charity care.[19] The FTC's Bureau of Economics analyzed the argument that increased competition in the health care sector inhibits a