COMPETITION POLICY AND ITS IMPACT ON SOCIETY

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Abstract: The competition policy gets in the center of international relations in the last decades. One of the main reasons why competition is considered more and more is because of the European common market. We understand that the competition policy is very important in managing the market, but also we are interested to see how much importance it has in assuring social welfare. To see if the competition policy influences social welfare, first of all, we analyze the impact of it on the consumer and its behavior. Then we focus on the consumer behavior influence on the social welfare. After analyzing multiple papers, we get to the conclusion that the competition policy as a cumulus of rules and laws bring advantages to the consumer as a part of the society and that social welfare, understood as happiness and contentment of the society is influenced by the consumer behavior.

Key words: competition policy; consumer; social welfare; EU; consumer behaviour

Introduction

Competition policy has a long history. It got special attention after World War II when the European states have tried to rebuild their economy. The War brought many damages to the economy and to the production system, which was oriented on the war. Because of this, we got a production line focused on military goods and a war based economy. To get over this state of decadence, the European nations take little steps to overcome together the economic crisis. The common purpose triggered between the European countries a desire to collaborate more and more at the supranational level, that as a response they builded a supranational organization- the EEC. This step encouraged the states to remove their national boundaries to create a common market with free movement of persons, goods, services, capital, and labor. Once they made this huge step the market should have been controlled, the producers should have been respected some rules and as a result the supranational structure decides to focus on the competition as a domain that follows the antitrust practices, the monopoly positions on the market, the mergers that do not encourage the variety of producers, products, the good quality of products and so on.

The competition field is sustained more after the fusion of the European Coal and Steel Community (ECSC), European Atomic Energy Community (EAEC) and the European Economic Community (EEC) that together form a single supranational
organization named European Union (EU). With the EU growing role, the competition step by step is transformed in EU policy. It is respected and implemented in the Member states of the EU help to the competition law.

The competition policy is dedicated to protecting the consumer from the effects of the anticompetitive practices of the producers on the market.

Giving the significant role of the competition policy in assuring the consumer benefits, in this paper, we will concentrate on the impact of the competition policy on social welfare. We start the work with an analysis of the competition policy, its history, the EU role in following the application of the competition law in the European space. Then we focus on the impact the competition policy has on consumer behavior and its benefits. To prove that, we underline a few papers that after empirical studies get to the conclusion that the competition policy influence positively the consumer by encouraging the consumer spirit and by giving to the consumer a large variety of choices. After that, we concentrate on proving that consumer behavior is essential in assuring the social welfare. To bring evidence that consumer behavior contributes to guaranteeing the social welfare we compare the times where the consumer have had no influence on the market choices, and specialists held its role, with today role of the consumer on the market. Lately, this role has been taken by the consumer. We give some examples of the opportunities given to the consumer to appreciate the quality of the services and the role of the consumer in encouraging the production of quality products at good prices. At the end we shape a few more arguments that the competition policy influences the social welfare.

1. Main terms and definitions

Since 1957 when the four liberties were declared the question of competition was raised and as a result, we have competition law aspects in the Rome Treaties. Before this event the national states did not give enough attention to the competition aspect, but once the national markets merged in one single European market the presence of competition policy was required (Motta, 2004).

The European Competition Policy has its development moment from 1950 until 1990. The policy was influenced by many factors like economic crises, enlargement of the EU, the change of the EU structure and its role in international relations (Cini, McGowan, 1998: 16). Competition policy becomes more and more important in the social grace to its “role in developing countries, promoting the competitive environment, building and sustaining public support for a pro-competitive policy stance by the government” (Hoekman, Holmes, 1999: 10).

The competition was found as a needed policy in Europe when the monopoly tendencies were growing in such a big market. To stop the agreements between companies that restrict the competition, or the activities that encouraged the abuse of a dominant position, the merging procedures that forced some companies to
follow the rules of the biggest companies and so on, the EU initiated the competition policy. Its purpose was to encourage the business area to make the best products with high quality and with a most right price (European Commission, 2012). Besside these activities the competition encourages also the economy.

In 2010 Timothy Besley, Torsten Persson, and Daniel Sturm described the competition policy as a trigger of economic growth (Besley, Persson, Sturm, 2010).

Three years later, analyzing the ASEAN Member Countries, Cassey Lee and Yoshifumi Fukunaga observe that the competition policy indeed represent “a key area of emphasis to achieve a highly competitive economic region” (Lee, Fukunaga, 2013: 1).

Looking at the EU and its beginning, we may say that the competition policy represented a key point for economic development. We refer to the European Steel and Coal Community that at its origins was a frame for international cooperation to obtain a common development after the World War Two and to the EU that we have today (a more than just supranational cooperation- an organization that formulates rules, laws and transfers them to the national states).

The competition policy in Europe is a policy of the EU, initiated to protect the national states from unfair competition and to protect a healthy market activity. Besides that, the EU uses this policy to protect consumers. According to Alison Jones and Brenda Sufrin, the EU competition policy is focused on consumer welfare more than on total welfare (Jones, Sufrin, 2014).

Following the consumer and his behaviour, often the competition policy is tangled with competition law. To make a difference between them Jones and Sufrin show that unlike the competition policy, the competition law is focused on pursuing the good application of competition policy by the market actors (ibidem.). According to the authors, we may see the competition law as a mechanism of implementation of the competition policy.

In 1997 Elanor Fox concentrated on a comparative study by analyzing the EU and USA competition policies and law systems. She observes that in both regions, the “competition policy defend the consumer interests and protects the free movement of goods in a competitive economy”(Fox, 1997).

Looking at the above observations, we get to the conclusion that in the EU, as in other developed regions, the competition policy is a very important key to cultivate a healthy economy and wealthy society. About the last one, we may say that the European competition policy is concentrated on assuring that on the free single market the actors respect the competition law and that their activity will not influence the consumers badly.

Analyzing what the above authors mentioned in conjunction with competition policy and its purpose, we understand that the consumer represents the central actor in the competition field. The competition authorities and the European Commission are following the activities on the single market to be competitive to ensure that the consumer will get benefits.
In 2000 Joan Giese and Joseph Cote found out that the consumer is watched to be satisfied. The authors identify that no matter how many authors have tried to define the consumer, they stuck at their satisfaction as the primary characteristic (Giese, Cote, 2000). Often to establish if the consumer is satisfied with the service or product we have to evaluate them. The ability to assess quality increases the role of the consumer on the market in competition relations (Darby, Karni, 2010). In most cases, the authors refer to a single consumer that represents society.

In the present paper, taking in consideration that the competition policy helps the economy to grow and the consumer to be happy, we will concentrate on analyzing the impact of the competition policy on the social welfare. Therefore if we note competition policy as A, consumer behavior as B and society wellness as C. If A implies B (A $\subseteq$ B) and B implies C (B $\subseteq$ C) than according to the property of transitivity of the implication relation A will involve C (A $\subseteq$ C). (Bodea, 2019: 12). To prove that competition has an impact on social welfare we have to show that the competition policy affects consumer behavior and that consumer behavior affects the social wellness. For that, in the next part of the research, we will concentrate on the first affirmation and the role of the EU institutions in promoting and sustaining the competition policy development and the right application of the competition law.

2. EU institutions and the Competition policy

The competition policy has a great history behind. It starts with international discussions on the subject. In 1997 Bernard Hoekman showed a part of the competition policy before 2000. The competition was seen as a necessity to develop international practices to encourage international fair trade after the declaration of the four liberties. The primary attention on the subject can be seen in the European states that have had the intention to develop a market with discipline, qualitative products and services and so on. A first intention to develop a strong organization on the competition subject was identified in the 1980s. The International Trade Organization (ITO) should have had the mission to follow the access on the market of the producers by following some rules. Unfortunately, the organization was not founded. Its activities were taken over by a General Agreement on Tariffs and Trade (GATT).

In 1993 we had an evolution of the subject that takes forward the competition. The international community is talking about ‘Minimum Antitrust Standards.’ All of the discussed ideas on the competition came as international rules of working. Therefore the competition was still a frame of discussions and recommendations. In 1995 the European Commission underlined the need of an international institution to follow the: horizontal restraints, and rules to watch on the competition standards (Hoekman, 1997: 1-3). Than Hoekman observes that the competition rules are not enough to follow a competition order.
The above observation were made by the EU that decided that in the common market to avoid the monopoly situations, the antitrust cases, the merges and so on, the community should follow some laws and being watched by some supranational institutions to apply these laws.

If the international level it is harder to work, at the European level the EU concentrated to apply a competition policy, to transfer to the national states competition laws in order to have a organized and fair common market. The EU changes in the competition field in matter of institution building. Cini and McGowan identify two types of EU institutions with an impact on the competition policy and authorities: main actors and peripheral actors.

The first type of actors is those that exert the most influence on the national competition authorities as the European Commission, Directorate-General for Competition, the European Court of Justice and the Court of First Instance. The Courts are central in establishing the legal path of the European competition by analyzing past situations and judgments (Cini, McGowan, 1998: 38-39).

The activity of these institutions constitutes mainly of restrictive practices in the competition and analysis of correct compliance to the restrictions.

We have to underline also that the EU concentrated from the beginning of the competition by mentioning it in its Treaties. Among the first articles on the competition policy was article 85(81) in the EEC Treaty in 1957. The article underlines "in general terms to catch almost all agreements between firms, including anti-competitive agreements between directs competitors and anti-competitive agreements between firms involved in different stages of the production/distribution/marketing process within a market" (idem.: 60-61).

Today, competition law is more extensive. We have in Treaty on the Functioning of the EU articles from 101 to 109 with rules on the competition. These rules refer to "internet market, prohibiting anti-competitive agreements between undertakings, dominant market positions, mergers, takeovers" (European Parliament, 2018).

The European Commission still is one of the main actors in triggering the change at the national level, and the Courts remain important in chasing the change and the right application of it.

Once the EU developed, the competition law merged too to fold the new challenges and changes. The EU competition law was initiated to track the activities that do not lead to better qualities of products and diversity. The purpose of the competition policy and EU institutions that follow the right application of the competition rules and laws in the national states is to: "enhance consumer welfare and encourage functioning markets in the EU, to sustain the economic growth and the development in the areas that the competition can affect, to promote the culture in the EU and worldwide by supporting the cooperation between competition authorities across the globe, to reinforce the highest standards in the enforcement of the competition law (European Commission, 2019).
Knowing that the competition represents not only an essential subject for the EU but for the world, in the next part of the research we will concentrate on the impact of the competition policy on the consumer and its behavior.

3. The competition policy absence and the consumer

Even at the first look, we may think that the competition policy does not have a significant impact on the consumer but more on the companies that develop their activity on the single market, we will highlight the changes that the absence of the competition policy can have on the consumer and on the state activities.

We analyzed a few studies made on countries where the competition policy is not so important as in the EU, for example, Egypt and China. As a result of invisible competition policy, a substantial impact on the consumer can be observed and on the state activities too.

Justin Yifu Lin, Fang Cai, Zhou Li present the problems that China has encountered because of competition policy nugacity. The authors identify as a significant problem the state difficulty to manage the state-owned enterprises. A lack of competition policy causes the issue, therefore the proposed solution to overcome the question is “to create a level playing field so that market competition can provide sufficient information for the managerial performance of the state-owned enterprises and make the managers incentives compatible with those of the state” (Yifu Lin, Cai, Li, 2012).

Looking at the described problem, we can observe that the EU has tried to remove this problem from the beginning with the help of the Acquis Communautaire and with commercial agreements. This way, the candidate countries to the EU membership apply the EU required level of work, implement the EU rules, laws in matter of competition, quality and so on. For external actors that do not follow the membership, like China, in the matter of export on the EU single market, the EU imposes a quality of the products. If the enterprises from the Chinese market fulfill the requests, they can deliver their products in the EU.

We understand that if China has had a more strict package of laws in matter of competition and a strong competition authority to follow the excellent application of the competition laws - not only that it may have had a better economy grace to the successful commercial relationship with the World, but also because the local market would flourish by having a tendency to make better products, to bring a larger diversity with a better quality.

Unlike China, Egypt faces different kind of problems like the absence of consumer moves and lack of competition that is fair and effective. Ahmed Farouk Ghoneim identifies the factors that brought the described issues that caused the silence to the disappearance of the competition policy role. In the list of problems he enumerates: the absence of effective collective action in the competition filed, lack of a transparent framework for lawmaking, shortage of incentives of interested
parties to stimulate an adequate and fair competition and the lack of policy advocacy (Ghoneim, 2002: 6-13). These problems may be considered the key factors that have lead to a significant silence of the competition authority. The decreasing role of the competition authority is a negative change that finally lows the voice of the competition policy and leads to a market where the competition laws and rules are not considered.

We understand that the impact of the competition policy together with the competition authorities play a key role in maintaining a healthy market, promoting new ways of working, increasing the products quality and encouraging the economic growth.

Underlying the results of weak or absent competition policy in a state convinced us that the competition is a cornerstone of a flowering economy that harms the state activities by missing.

Besides the strong impact the competition policy has on the activity of the state and the economy, it may have the biggest impact on the consumer. T. Besley, T. Persson and D. Sturm in a 2010 paper highlight that “the lack of competition can be associated with “anti-growth policies” characterized by high taxes, lower capital, a reduced rate of respecting the right-to-work, low-income growth” (Besley, Persson, Sturm, 2010).

The competition proves to be very important in market management and for the consumer too. In the above-described study we observe that the changes the competition policy bring may support the consumer satisfaction or not in a direct way by increasing or decreasing taxes and prices, or indirect by growing or decreasing the economy.

In a study on the United Kingdom, Clarke I., Hallsworth A., Jackson P., Kervenoael R., Perez del Aguila R., and Kirkup M. have shown a different side of the impact that the competition policy can have on the consumers. The impact is direct and can be observed in the variety of choices that the consumer has. The authors find out that "competition often provides different models of choice and balance the dominant models of choice" (Clarke, and all, 2006: 29).

Earlier in 1985 Michael Katz and Carl Shapiro argued a similar idea. The competition policy together with competition rules contributes to market equilibrium and finally confirms the consumer expectations in matter of diversity and stable market (Katz, Shapiro, 1985: 439).

Another prove that the competition influences the consumer, in 1990, Hans-Werner Sinn underlines a case of the competition policy affecting the consumer directly. Similar to Besley, Persson and Sturm, Sinn analysis on Europe shows that the consumer could feel a weak competition policy in the case of direct taxation (Sinn, 1990: 1).

In 2005 Mark Armstrong and David Sappington develop a study on the same subject as the above authors, on the competition and taxation by analyzing the gas market. Armstrong and Sappington find that the tax is a result of the competition.
The authors analyze the additional competition and get to the conclusion that good competition will bring long-term gains for the consumers (Armstrong, Sappington, 2006: 18-19). In the case of producers that deliver to a large number of consumers, there is a case of growing the taxes or a situation where the quality can be questioned because of the monopoly position a company can take on the gas market. This way, the diversity of producers will encourage a stable and harmonized market where the prices are established by the competitive market, where the quality is a particularity to set the price. This aspect shows us that no matter how the competition influences the consumer (direct or indirect), its presence is favorable for consumers advantage form the market.

Another prove that bad competition policy can have a bad influence on the consumer can be seen in Patrick Rey and Joseph Stiglitz paper. They find two situations in a market with a lack of competition that can have a bad influence on the consumer: "a) a situation with a perfect market equilibrium; b) a disequilibrium on the market where a producer will increase the prices to get to the market where the rival has a similar product and to decrease the price to have buyers. As a result, both responses lead to higher consumer prices" (Rey, Stiglitz, 1994: 26).

Looking at the above, we understand that competition has a crucial role in assuring consumer advantages. Therefore the Competition authorities should follow the consumer interest by one side and sustain the firms, producers, companies on the other side. The Competition Authority should have the role of a balance custom between the two important actors in the competition policy field.

Given the fact that we observed that the competition policy influences the consumer, its behavior and welfare, in the next part of the research we will demonstrate that the consumer behavior can have a great influence on social welfare.

4. Consumer behavior and social welfare

Often the social welfare subject is analyzed through the theory of social choice that links the social welfare to the decisional process. To understand what are the factors that affect the social welfare we concentrate first on its definition. In 1963 Arrow defines the social welfare as “a social ordering of alternative states of affairs for each profile of individual preference orderings over those states” (Sen, 2017). The definition illustrates social welfare through lenses on social choice and happiness. We agree with this definition, even though we will build another definition that explains the terms as we have it in mind when we are developing the research. We start from the concept of society, which according to the Cambridge dictionary is "a large group of people who live together in an organized way, making decisions about how to do things and sharing the work that needs to be done. All the people in a country, or several similar countries, can be referred to as society" (Cambridge Dictionary, 2019). According to the same source the welfare term is
defined as "a general state of health or degree of success of a person, business, country." The term is also seen as a "state of happiness or a state of having enough money" (ibidem.). Merging the definitions, as a result, we will have the social welfare as: a state of happiness by having enough money and goods of a large group of people that live together in an organized way and have common rules and laws.

Giving the above definition, in the next part of the paper we will concentrate on the factors that most influence social welfare.

First of all, we should underline that the consumer as individual is a part of society. Therefore the consumer welfare is a factor that contributes to social welfare. At this point, you may understand that we refer to social welfare as to the total welfare. From this reason, we will show the difference between social welfare and total welfare. The last term includes not only individuals that take decisions to buy something from the available choices, but also the producers and other actors as a part of the whole. Thus, the total welfare may decrease the welfare of the consumer as individual (Alboek, 2013). The social welfare may include a process of keeping the number of producers under control, because their growing number may cause a market explosion, therefore, an increase of the anti-competitive practices that finally may cut the consumer choices, the quality of the products and a significant difference of prices.

Consequently, we understand that the consumer behavior has a significant role in ensuring the social welfare by giving the consumer a large variety of choices, the best prices, the best quality and a right balance of quality-price.

Consumer behavior influences social welfare by imposing product standards. Hand in hand with the competition policy, the consumer behavior brings for the society the products and services quality and price on the table (idem.: 74).

We must observe that people have different preferences thus take different choices. Therefore we may never have social welfare in terms of total social happiness, because it may be at least one part of the society that is not happy about the market evolution. Starting with this idea, we concentrate on ‘what may bring happiness to all the parts of the society’? We find that common for all the consumers is that they want the best offer; therefore they will take the choice that will bring them an advantage (Rob, Waldfogel, 2004). This makes us understand that to have social welfare we should have first a large variety of choices for different society parts or a society where the consumers have similar choices (Jorgenson, 1990).

Giving the fact that the competition brings with it a rise of the social choices on the market, we think that the society may be happy about the competition results because they are happy about the products or services they chose. From another side, concentrating on the similar choices, we observe that in the last period we have a more and more request for the ‘BIO products.’ The EU brought on the table the highest quality standards for the producers, which led to the appreciation of the consumers of the products with a good quality that does not influence their health badly.
Another example of consumer behavior role in establishing social welfare is the evaluation they give to the services or products they buy. For instance, the appreciation of the services of the cashier at the markets or evaluating the phone services of a phone company\(^1\), or evaluating the work of a hospital\(^2\) and so on.

From the above we observe a dual impact of the competition policy on the consumers: encourage similar choices, brings fulfillment to all the consumers by giving the possibility to buy good products for the reach as for the poor. This is one of the reasons why EU is concentrating more and more on the competition policy and consumer rights, and to protect consumer welfare (Alboek, 2013: 69).

The idea that the competition policy supports the social welfare is also sustained by Joseph Bradley, that in 1987 underlines that a basic aspect in assuring the consumer welfare would be to respect the competition aspect of antitrust law (Brodley, 1987: 1020).

We observe that the competition policy assures that the producers follow the competition rules by finally giving the consumers a large variety of choices and the consumer behavior as decision making from the multiple choices available influence the social welfare by encouraging the producers to give to the consumers the best variety of choices.

The fact that consumer behavior is a fundamental pillar of social welfare is sustained also by Richard Hugman. Hugman say that initially, we have had experts that established if the quality-price report was good. Lately, the competition policy of the EU empowers the consumer to take this kind of decisions by evaluating the products quality and finally by buying the products or services that have the best balance of quality-price (Hugman, 1998: 138).

After all, we observe that the consumer behavior becomes one of the main factors that assures social welfare in a market where the competition policy is respected. If the consumer is well informed about his rights and choices, if the competition is appreciated and brings to the consumer enough choices the consumer, as a part of the society will achieve the welfare state. Therefore each member of the society being in the same situation will contribute to the social welfare were comparing to the society variations of the salary we will have variations of products to offer universal access to the market to the poor society parts. The advantage of the competition policy would be that even for the poor, that buy the cheapest product, it will have a guaranteed basic quality imposed by the EU competition rules.

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\(^1\) As an example of consumer appreciation of the phone services visit the link: [https://forum.vodafone.ro/t5/Feedback-%C5%9Fi-sugestii/Chestionar-privind-calitatea-serviciilor-de-relatii-cu-clien%C8%9Bii/td-p/135092](https://forum.vodafone.ro/t5/Feedback-%C5%9Fi-sugestii/Chestionar-privind-calitatea-serviciilor-de-relatii-cu-clien%C8%9Bii/td-p/135092)

\(^2\) For more details on the consumer role on the hospital visit the link: [https://www.reginamaria.ro/chestionar-de-satisfactie](https://www.reginamaria.ro/chestionar-de-satisfactie)
Conclusions

The competition policy was initiated to minimize the antitrust activities and to eliminate the dominant positions on the market, to liberalize the market, to correctly implement the state aid, to avoid mergers that have the purpose of controlling a part of the market. Its role is summed up to guarantee for the consumer a broad range of choices and right prices (European Commission, 2019).

We are asking ourselves if the Competition policy influences not only the consumer but the social welfare by training the consumer behavior. To see if it does, we concentrate first on analyzing how the competition policy can influence the consumer and its behavior. Then we analyze how consumer behavior can influence social welfare.

We define social welfare as a state of happiness and contentment of a large group of people identified as a society. As a result, our paper is resumed to analyze if the competition policy influences the happiness of society.

After analyzing a few studies on the competition policy we observe that the competition policy indeed has a great role in influencing social welfare. The consumer as a part of the society is modifying its behavior by the opportunities the competition policy puts to its disposal. Therefore the consumer behavior and its decisions finally contribute to social welfare so that the consumers support the competition that brings them multiple choices and guaranteed quality. The consumers by their choices show that they are not so different, that at the end their behavior is reduced to choosing the best product at the best price.

By having this attitude, the consumer encourages the competition on the market that provides a continuous variety of choices and better products at the best prices which assures the happiness of the society.

This paper can serve as a starting point for research subjects like the competition policy impact on the market actors, the competition and the evolution of the EU market, the EU competition policy and the future changes of the common market and so on.
References: