SPEECH

Competition policy in a changing world

Speech by Christine Lagarde, President of the ECB, at an event to mark the 15th anniversary of the Autorité de la concurrence

Paris, 5 November 2024

It is truly a pleasure to be back here today to celebrate the 15th anniversary of the *Autorité de la concurrence*.

Competition policy in Europe has always played an important role in ensuring the functioning of our Economic and Monetary Union. The main objective of competition policy has been to preserve competition within Member States and within the Single Market.

At the political level, these policy objectives were sometimes challenged, as they were seen as an obstacle to the goal of creating national champions in some sectors.

This apparent contradiction has now been aggravated by profound changes in the global economic and political landscape.

New technologies are transforming markets, new competitors are emerging globally, and governments are facing a new set of priorities, including louder calls for state aid and industrial policy.

As a result, some argue that the supposed trade-off between competition and competitiveness is becoming more accentuated – in the sense that competition policy is limiting EU companies' ability to compete against larger, in many cases state-backed, global rivals.

In my view, this trade-off is not inherent. We should avoid walking backwards into the future.

With a careful approach, Europe can preserve the benefits of competition while adapting to the changing world we are facing.

So, in these remarks, I would like to recall why competition is vital to our economies and the new challenges facing competition policy today.

I will then offer three key principles that can help us navigate this environment without sacrificing our competitive framework. These are *consistency*, *complementarity* and *competence*.

The benefits of a strong competition framework

There are well-founded reasons for strong competition policy and enforcement. Let me briefly mention three.

First, competition has positive effects on growth.

It leads to resources being reallocated to the most productive firms more effectively, managers running their businesses more efficiently, and greater innovation and investment.

As a result, a recent review by the European Commission finds clear and consistent evidence that industries which experience greater competition also experience stronger productivity growth, and that weaker competition undermines productivity growth.[1]

Second, competition leads to lower and less volatile prices.[2]

It not only prevents firms from charging excessive markups, but also ensures that companies quickly re-optimise production after cost shocks, keeping inflation subdued.

In France, for example, products subject to online competition displayed lower inflation during the period from 2009 to 2018.[3] The difference in inflation between a basket of supermarket products sold only offline and those same products also sold online was 2 percentage points.

Third, competition makes the economy more sensitive to interest rates, which supports macroeconomic management by the central bank and the transmission of monetary policy.

When markets are competitive, firms typically have lower profits and cash reserves. As a result, they are less able to fund investments internally and need to look outside for finance. This exposure to external financing makes them more sensitive to changes in interest rates by the central bank.

ECB research finds that the lower the concentration of the market in which firms operate, the greater the impact of monetary policy changes on those firms.[4] Conversely, a concentration of market power is found to reduce the responsiveness of the economy to interest rate changes.

So, as competition improves productivity, lowers inflation and strengthens policy transmission, it should be no surprise that the ECB has always supported a robust competition framework.

Since the start of the euro, there has been a relatively stable consensus in Europe about the approach to competition. This approach was built around implementing the Single Market, strong antitrust enforcement and a strict approach towards state aid. And, by and large, it was a success.

Single Market integration did not prevent markups from rising in Europe, but they remained well below the levels seen in the United States.[5]

The instances of extreme market concentration in the United States – in terms of firms and sectors – were far less of an issue in Europe.[6]

And state aid was controlled, averaging just 0.7% of EU GDP each year between 2000 and 2019.[7]

Overall, the system of shared competence – with the Commission and national authorities jointly enforcing EU law – was effective. In fact, 90% of all competition decisions taken under EU law are taken by national authorities.

New challenges for competition policy

But in recent times, we have seen increasing tension between the internal and external dimensions of competition.

With the United States being the home of tech giants and China producing at astonishing scale, the question is whether Europe needs to change its competition policy to compete globally.

In some sectors, like telecoms, there are proposals to redefine the relevant market to encourage larger European players that can invest more and match their international rivals.[8]

In other sectors, like tech, the Commission is being encouraged to give greater consideration to "innovation criteria" when considering mergers to facilitate large investments.

And in the defence and space sectors, for example, there are calls to give more weight to "resilience criteria" as geopolitical dependencies are at stake.[9]

This shift is also being reflected in a new attitude towards industrial policy and state aid.

In 2022, almost 1.5% of EU GDP was spent on state aid – more than double the pre-pandemic average. 65% of this spending took place in the three largest EU countries.[10] Much of this aid was related to the pandemic and the energy crisis. But there is also a clear trend among governments to provide more funding to "strategic" industries such as chips and batteries.

We cannot wish these changes away. We are facing a new global landscape.

But we must also be clear that, if we prioritise fending off external competition over preserving internal competition, it will mean sacrificing other goals that matter to us today.

It is now widely understood that Europe needs to boost its lagging productivity growth, and that a key driver of our weak productivity is a static industrial structure. Unlike in the United States, the same "middle tech" companies dominate R&D spending year after year, while too few innovative companies rise up in high tech sectors.[11] There is also broad agreement that the best way to facilitate the scaling-up of young firms is to complete the Single Market.

Allowing more state aid or industry consolidation might seem attractive to protect the competitive position of incumbent companies. But if the price we pay is a more fragmented Single Market or new entry barriers for young firms, we will end up losing more than we gain.

So, the key challenge for Europe will be to construct a framework through which we can deliver on governments' new policy goals without sacrificing the benefits of competition.

Key principles to move forward

In my view, three principles will be key for success: *consistency*, *complementarity* and *competence*.

First, we need consistency in how we assess competition and deliver state support.

An unfortunate trend we are seeing today is the fragmentation of competition law at the national level, especially in new markets, like digital markets. Some countries are attempting to enforce their own rulebooks for large digital companies or adding national rules to EU legislation.

The singleness of EU competition law is what binds our whole competition framework together, so this trend must be stamped out to preserve the level playing field.

Likewise, if we are entering a world in which we systematically allow more state support for companies, it must be done, as much as possible, in a European way.

The optimal level for action is the EU budget, and I am encouraged by the Commission's intention to refocus the next Multiannual Financial Framework on competitiveness and simplify access to EU financing. But I also recognise the limitations here. We need to reflect deeply on how we can embed European principles in state aid policy when it remains largely a national concern.

Second, industrial and competition policies must be seen as complements, not substitutes.

From the competition side, there is no inherent trade-off with industrial policy if competition authorities take into account innovation, resilience and sustainability in their decisions – which they can already do within the existing EU rules.

And from the industrial policy side, interventions can be designed in an innovation-focused way that is pro-competition – not to protect national champions or "pick winners".[12]

As Philippe Aghion, Jean Tirole and Mathias Dewatripont recently argued, the mRNA vaccines introduced during the pandemic are a good example of how this approach can work.[13]

When COVID-19 emerged, the US Biomedical Advanced Research and Development Authority concentrated its funding on three technologies, with two projects per technology. The authorities did not pretend to know which technologies would work and offered no incumbency advantage.

While all six projects ended up being approved, the two main winners, the US firm Moderna and the German firm BioNTech, were actually small biotechs. This experience provides a useful model for Europe for how to combine state-led goals with innovation and competition.

The third principle is competence, by which I mean both assigning responsibility appropriately and drawing on the best available expertise.

Specifically, competition authorities must remain in the driving seat in determining the appropriate level of concentration in different types of markets.

There may be circumstances where allowing consolidation is justified to achieve wider policy goals. For example, economists in the Schumpeterian tradition have suggested that, to promote innovation, there is an optimal intermediate level of competition that balances some market power – creating a surplus for firms to invest in R&D – and competition to leave room for new entrants.[14]

But it is difficult to judge where different sectors lie on this curve. Studies find opposing results on the impact of mergers on innovation activity, driven by factors like differences in market structure and the reduction in the number of competitors.[15]

So careful analysis, carried out on a case-by-case basis by experts with deep understanding, will be essential. Competition policy is a field where both lawyers and economists will have to closely interact.

Conclusion

On that positive note, let me conclude.

Competition policy is entering a new phase, with internal and external forces pulling in different directions. Should this lead to less competition, it would be bad for Europe. But I believe there is a path ahead that will allow us to achieve our wider policy goals in a way that is pro-competition.

We will only be able to take this path if we refuse to accept false trade-offs, and if competition authorities remain at the heart of the process.

As Frédéric Bastiat said, "Détruire la concurrence, c'est tuer l'intelligence". Fortunately, the *Autorité* will be here for many years to come, keeping us on our toes.

1.

European Commission (2024), "Protecting competition in a changing world: Evidence on the evolution of competition in the EU during the past 25 years".

2.

See, for example, Przybyla, M. and Roma, M. (2005), "Does product market competition reduce inflation? Evidence from EU countries and sectors", *Working Paper Series*, No 453, ECB, March; and Andrews, D., Gal, P. and Witheridge, W. (2018), "A genie in a bottle? Globalisation, competition and inflation", *OECD Economics Department Working Papers*, No 1462, OECD, March. However, other studies find that greater market power, as measured by markups, reduces the cyclicality of inflation. See Kouvavas, O., Osbat, C., Reinelt, T. and Vansteenkiste, I. (2021), "Markups and inflation cyclicality in the euro area", *Working Paper Series*, No 2617, ECB, November.

3.

Dedola, L., Ehrmann, M., Hoffmann, P., Lamo, A., Paz Pardo, G., Slacalek, J. and Strasser, G. (2023), "Digitalisation and the economy", *Working Paper Series*, No 2809, ECB.

4.

Ferrando, A., McAdam, P., Petroulakis, F. and Vives, X. (2023), "Monetary Policy, Market Power, and SMEs", *AEA Papers and Proceedings*, Vol. 113, May, pp. 105-109.

5.

European Commission (2024), op. cit.

6.

Cavalleri, M.C., Eliet, A., McAdam, P., Petroulakis, F., Soares, A. and Vansteenkiste, I. (2019), "Concentration, market power and dynamism in the euro area", *Working Paper Series*, No 2253, ECB, March.

7.

European Commission State Aid Scoreboard.

8.

Letta, E. (2024), "Much More Than a Market: Speed, Security, Solidarity – Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens", Institut Jacques Delors, France, 27 April.

9.

Eurostat and European Commission (2024), "The Future of European Competitiveness: A Competitiveness Strategy for Europe".

10.

European Commission State Aid Scoreboard.

11.

Fuest, C., Gros, D., Mengel, P.-L., Presidente, G. and Tirole, J. (2024), "EU Innovation Policy: How to Escape the Middle Technology Trap", *EconPol Policy Report Series*, April.

12.

OECD (2024), "Pro-competitive Industrial Policy", *OECD Roundtables on Competition Policy Papers*, No 309, OECD Publishing, Paris, 27 September.

13.

Aghion, P., Dewatripont, M. and Tirole, J. (2024), "Can Europe Create an Innovation Economy?", *Project Syndicate*, 7 October.

14.

Aghion, P, Bloom, N., Blundell, R., Griffith, R. and Howitt, P. (2005), "Competition and Innovation: An Inverted-U Relationship", *The Quarterly Journal of Economics*, Vol. 120, No 2, May, pp. 701-728.

15.

For a review see Haucap, J. and Stiebale, J. (2023), "Non-price Effects of Mergers and Acquisitions", *DICE Discussion Paper Series*, No 402, Düsseldorf Institute for Competition Economics (DICE), Heinrich-Heine-University Düsseldorf, July.

CONTACT