

Regulating Competition

Remarks by

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Economic Freedom Network Conference 2011

Oct. 11th, 2011

Kuala Lumpur, Malaysia

Members of Parliament,
Ladies and Gentlemen,

first of all I would like to thank the organisers of the conference for inviting me. It is my first trip to Malaysia. I arrived Saturday night, so I had a chance to see a little bit of Kuala Lumpur already. What strikes me - I think this is normal for first-time visitors - is how developed Malaysia is. It makes me think that in terms of the economy, many things must be going right. Oil and gas are helpful, but not enough to create a dynamic economy.

I do know that Malaysia has built downstream industries and has diversified it's economy. But I also learned that the country now faces the so called middle-income trap. Apparently, the government is heavily involved in running the economy. Now the Prime Minister is taking steps to transform the system. This brings me to the topic I would like to address today: To what extend should the government regulate? Specifically: Should competition be regulated?

Generally, speaking about competition and market-economy is easy. I was born 1945 in Germany, just after the war ended. Germany's industries were destroyed. Over the next 55 years until 1990, I saw a market-economy with competition lead to prosperity in West Germany. And I also saw a government-controlled economy without competition result in disaster in East Germany. Today, unified Germany is doing well.

Since we all agree that competition is useful, it is also clear that it does not make sense to curb or to distort competition. And then, some may wonder: Do we need to regulate competition at all? The answer is yes. We do need rules and we do need the government. I share the views of the Freiburg School of Economy. Walter Eucken and others stated

Quote - "Competition is an affair of the state" - end of quote.

Initially, this quote tends to make Liberals shiver. But what Eucken and his colleagues mean of course is that the state must ensure that competition can take place. We need laws to prevent monopolies and cartels. The state must ensure that competition is fair. No special treatment for anyone, any group or any industry. It is the role of the government to give us a framework to operate in. But within that framework, actors must be free to operate as they wish.

The key question is not if the state should regulate or not - the state indeed must set rules and it must ensure a level playing field.

Rather, the key question is to what extent the state should get involved. And here, again, the answer is easy: The state should be involved to the extent that it sets the rules and acts as a referee. No more, no less. When rules are broken, when fair competition does not take place, the state must intervene. But that's it. The state may not go further, the state may not take an active role as a player in the economy - for example by running State Owned Companies. They are nicely called Government Linked Companies here in Malaysia.

When the state becomes referee and player at the same time, competition becomes unfair for all other players. Their freedom is curbed, which is counter-productive. We will see it again in the Economic Freedom of the World Report tomorrow. We are all very aware of it: States with governments that curb economic freedom do not do as well as states that allow freedom and competition.

Ladies and Gentlemen,

I used the terms referee and state. It is important to keep in mind that making rules and enforcing rules are different matters. A state is more than a government, more than a parliament. A proper state includes independent courts. The rule of law is essential. Competition needs to be safeguarded.

When speaking about government, parliament and courts - I can't help but to say a few words about democracy and about freedom in general. Freedom is not a concept that may be allowed in one area and declined in another. To combine economic freedom and political repression, to allow economic competition while not allowing political competition will not work. I am impressed with economic developments in states like China and Singapore. But I firmly believe that maintaining curbs on civil liberties will not be sustainable.

Back to the issue at hand, regulating competition.

I suspect that not all of you share my the views, not all of you agree with the Freiburg School. But my believe in Ordo-Liberalism grew even stronger with the global financial crisis since 2008, and with the current debt-crisis in some european countries. The global crisis came about because we did not regulate financial markets enough. The debt-crisis in Greece was possible because while we did have rules, they could be violated with impunity. Now, finally, monitoring and sanctions are under discussion.

Ladies and Gentlemen,

to create a national framework in which competition can thrive is rather simple. More and more governments are acting. In the 1980's, just 20 countries had competition laws. Currently, more than 100 countries have such frameworks. But to create an international framework is much more complicated. A few years ago, a wave of international mega-mergers created very large companies. Some worried that these huge multi-nationals could become too dominant for healthy competition. Some academics called for a Global Competition Order, among them Professor Henning Klodt of the Kiel Institute of World Economics.

I QUOTE - "Global competition order should initially concentrate on prohibiting hard-core cartels (including export cartels) and on controlling horizontal mega-mergers. In institutional terms, a global competition order should be established at the WTO, as this organisation has many years of experience in settling international disputes." - END OF QUOTE

The WTO is important. But negotiations are slow and the world economy moves fast. I said earlier that national frameworks are much easier to set up than global ones. However, we have a chance to set up such frameworks for competition where-ever we have political alliances. The European Union for example has an effective competition regime and a Director General for competition.

Here in Southeast Asia, ASEAN is building an Economic Community by 2015. In the process, the ten ASEAN nations have a chance to ensure fair competition.

Ladies and Gentlemen,

Not only do we need regulation and enforcement - we also need market-players, who compete in good faith. In Germany, we use the term "Ehrbarer Kaufmann", loosely translated "Honourable Businessmen".

Good faith is needed to move economies forward without wasting time in courts. Corruption, nepotism and getting rich by betting on failures - it all damages fair competition. Unfortunately some players do not act in good faith. As Liberals, we all know that freedom brings responsibility. We value competition and want a world in which everybody has a moral compass. But allow me to once again quote Walter Eucken, a Liberal mind you, who believed

QUOTE - "Supplier and Buyer always seek to avoid competition and to gain or protect monopolies." - END OF QUOTE

Euckens assessment is gloomy. But he is right. We need to protect those who act in good faith from those who don't. We need rules to ensure fair competition.

Thank you for your attention