REFLECTIONS ON COMPETITION, COMPETITION REGULATION AND THE CURRENT CRISES

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ABSTRACT

Economists, politicians, business leaders and opinion makers are convinced that competition enhances efficiency and maximises social welfare. As a result conditions conducive to the maximisation of competition have been created throughout developed capitalist societies. This article explains how competition came to enjoy such an exalted status in Europe and then challenges conventional wisdom by bringing into focus the downsides of competition. It argues that excessive competition and neoliberal competition regulation have contributed to intensify the economic, political, social and environmental crises currently facing humanity. The implication of the argument is that these crises can only be solved if prevailing notions of competition and its role in society are reconsidered.

The game, mechanisms and effects of competition, which we identify and enhance are not at all natural phenomena; competition is not the result of a natural interplay of appetites, instincts, behavior. … [C]ompetition as an essential economic logic will only appear and produce its effects under certain conditions which have to be carefully and artificially constructed. … Competition is therefore an historical objective of governmental art and not a natural given that must be respected. (Foucault 2008:120)

INTRODUCTION

For what in fact is competition? It is absolutely not a given of nature. The idea that competition produces all sorts of positive effects has been hegemonic for some decades.[1] Economists, politicians, business leaders and opinion makers almost all universally agree that competition enhances efficiency and maximises social welfare. As a consequence of this widespread consensus, conditions conducive to the maximisation of competition have been created throughout developed capitalist

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societies: not only companies, but also employees, public administrations, hospitals, schools and universities have increasingly been exposed to the logic of competition. Never before has competition been fiercer than it is in the contemporary socio-economic order.

The metaphysical status assigned to capitalist competition as the most efficient organising mechanism of markets finds its precepts in neoclassical economics, building on what Adam Smith in *The Wealth of Nations* called the 'invisible hand' of the market. In line with Smith, mainstream economics textbooks praise harsh competition as a way to increase the competitiveness and to improve the performance of entire economies. In the words of two neoclassical economists, "competition benefits almost everyone" and is "the permanent driving force behind individuals as it rewards successful activities and penalizes laziness and failure" (Eekhoff and Moch 2004:1). The theoretical benefits of competition furthermore serve to legitimise the opening of markets worldwide: to compete freely eventually requires unimpaired market access. Put on a par with a natural selection process, in which the uncompetitive, weak and inefficient perish, unconstrained competition is believed to establish a Darwinian form of 'market justice'. Neoclassical economists refer in this respect to 'perfect competition' (Neumann 2001). Although perfect competition is widely understood to be an utopian theoretical construct that in all respects fails to adequately describe the nature of real world competition (see Stanford 2008), neoclassical economists act 'as if' perfect competition could be achieved. To let go of perfect competition as a central point of departure in their models and in their policy prescriptions would cost too much theoretically (Rist 2010:41).

In this article, we first outline how competition came to enjoy such an exalted status in Europe and then offer some reflections on competition and competition regulation in the context of the economic, political, social and environmental crises currently facing humanity. We suggest that excessive competition and the neoliberal type of competition regulation have contributed to intensify these various crises, and hence are part of the problem rather than the solution.

THE RISE OF THE COMPETITION STATE

This current status of competition should be understood in the context of the ascendancy of neoliberal ideas and policies after the 1970s, when the era of 'embedded liberalism' came to an end (Ruggie 1982). As pointed out by Overbeek, the era of post-war capitalism:

> [C]an be characterised as Fordism when considered at the level of the organization of production, as the era of the Keynesian welfare state when looked at from the level of society and state, and as the *Pax Americana* when looked at from the perspective of the overall organization of the capitalist world system. (1990:87)

Fordism, which had initially emerged in the United States, was 'exported' to Europe (especially Germany, France and the United Kingdom) after the Second World War and entailed mass production techniques and mass consumption of standardised goods. The Fordist growth model fuelled the post-war period of economic growth in Europe and was stabilised by what Jessop has dubbed the 'Keynesian Welfare National State'. The latter was *Keynesian* in the sense that it sought to promote full employment through counter-cyclical demand management policies (e.g. active fiscal policies); it was a *welfare* state insofar as it promoted the expansion of universal welfare rights to all citizens; it was primarily oriented towards the *national* level; and it was statist in the sense that state institutions would compensate for the failure of markets to deliver economic growth or full employment (Jessop 2002:59-61). The Pax Americana world order entailed the construction of national welfare states that were based on compromises between organised labour and national industrial capital, combined "with a measure of re-liberalization in the international sphere. Trade, however, held priority over money capital" (Overbeek and Van der Pijl 1993:6). To some extent, this world order entailed "Keynes at home and Smith abroad" (Gilpin 1987:355).

The era of embedded liberalism, stretching from the 1950s to the early 1970s, is also known as 'the golden age of capitalism' (Hobsbawm 1994). In this period the advanced capitalist economies experienced high economic growth rates, a massive increase in productivity, unprecedented levels of world trade and low unemployment rates. It was also an era in which the prevailing view on competition was very different from that of today. It was widely acknowledged that capitalist economies cannot function without competition, leading to the introduction of competition laws in a number of European countries. At the same time, it was also acknowledged that cutthroat competition is highly destructive and thus needs to be restricted or muted. Governments interfered in the markets with active industrial policies, in some cases with a view to promote internationally competitive 'flagship companies', in other cases to ensure the survival of strategically important enterprises in specific industries (Hall 1986). The invisible hand of the market (competition) was in other words supplemented with the visible hand of far-reaching state intervention.

In line with this, the competition laws of the core European countries allowed for a significant degree of flexibility with respect to the regulation of cartels and monopolies. This was also the case at the supranational level. The Rome Treaty of 1957, establishing the European Economic Community, contained rules that aimed at the protection of competition in the common market while at the same time potentially allowing for various anti-competitive practices (Buch-Hansen and Wigger 2011). By the early 1970s, capitalism's golden age came to its end. The world economy entered a deep crisis, which, especially after 1973, was reflected in sharp decreases in output, productivity and export growth combined with increasing unemployment and inflation in all industrial countries (for figures see Glyn et al. 1990:43-47). Limits to the possible expansion of Fordist production methods, growing discontent among workers, the emergence of multinational companies that could avoid national controls, as well as rising oil prices were among the most important causes of the crisis. In addition to this, high unemployment rates resulting from the economic crisis rendered the rather generous Keynesian welfare states very expensive.

Following Jessop (2002), in response to the economic slump and a gradual and partial transformation of the Keynesian welfare national state into a 'Schumpeterian workfare post-national regime' was initiated. In a similar vein, Cerny has suggested that a neoliberal 'competition state' gradually appeared after the 1970s:

> Rather than an attempt to take certain economic activities out of the market, to 'decommodify' them as the welfare state was organized to do, the competition state has pursued increased marketization in order to make economic activities located within the national territory, or which otherwise contribute to national wealth, more competitive in international and transnational terms. (1997:259)

Whereas the state in the embedded liberal period sought to shield internationally uncompetitive domestic companies from outside competition, while providing social protection for its citizens, the competition state does the opposite:

> The state and state actors have, in effect, become key promoters of globalization and therefore of global competition as the primary requirement for the achievement of economic growth … The underlying aim of state intervention in the twenty-first century is therefore not to replace the market, but to make it work more efficiently. Government promotion of competition … is the most fundamental and indispensable means to this objective. (Cerny 2010:159)

This transformation was premised on a major shift in the balance of power between social forces. Whereas the post-war societies were underpinned by compromises between organised labour and nationally oriented industrial capital, the neoliberal competition state is a result of transnational capital becoming re-empowered vis-à-vis organised labour. This allowed its representatives to advocate neoliberal policies, comprising of different sets of regulation facilitating the expansion of free markets and free competition, including the rollback of the welfare state, a monetarist focus on keeping inflation low, reduced taxes and fiscal austerity, as well as reduced labour costs in the form of wage repression and deregulation. The shift towards neoliberalism was premised on broader processes of deindustrialisation and technological change, as well as the growing transnationalisation of ownership structures and production circuits through subcontracting and outsourcing, thereby marking a gradual and partial transition towards 'post-Fordism' (cf. Jessop and Sum 2006). Neoliberalism, in short, sustained a capitalist order in which the dynamics of competitive accumulation of capital could proceed largely unhindered and uncontained.

As part and parcel of this shift, European competition regulation was profoundly transformed. This could be witnessed both at national and at EU level where competition regulation was increasingly refocused to benefit internationally competitive companies, whereas the interests of employees and not-so-competitive companies were increasingly disregarded. In the European Community, the neoliberal type of competition regulation gained particular momentum when free market hardliners Peter Sutherland (1985–1989) and Leon Brittan (1989–1995) assumed leadership in the Directorate General responsible for the European Commission's enforcement of EC competition rules. The changed course (which has ever since been followed by consecutive competition commissioners) became manifest in an aggressive prosecution of cartels, state aid and public monopolies and the adoption of a neoliberal merger control regulation (Cini and McGowan 2008).

Whereas the Commission tolerated certain forms of cartels until the 1970s, it started to prosecute them with unparalleled vigour from the mid-1980s onwards. Another central target was the prohibition of different forms of direct and indirect state aid such as subsidised loans, tax concessions, guaranteed procurement, financial guarantees and export assistance. By further specifying the conditions for state aid, the Commission narrowed the leeway for protectionist industrial policies at member state level. The imperatives of unfettered competition were also expanded to state-owned public utility sectors and networked industries, such as telecommunications, energy, postal services, water and transport – all sectors that were previously exempt from the need to compete under EC competition law (Wilks 2005). Despite fierce member state opposition, the Commission endorsed so-called privatisation directives under the Treaty's Article 106(3), a hitherto virtually unused provision, allowing it to issue directives in the field of public enterprises and monopolies without the approval of the Council. Privatisation was also a high priority when the Commission took over the role of guiding the Central and Eastern European Countries through the transition to free-market capitalism in the 1990s.

Finally, the EC merger control regulation that was adopted in 1989, and revised in 2003, moved the powers to control large mergers from the national to the supranational level (Cini and McGowan 2008). It entailed a purely neoliberal text, giving primacy to undistorted competition in assessing anti-competitive mergers, leaving no room for industrial and social policy considerations. At national level, a similar neoliberalisation of competition regulation took place, a prime example being the reform of the British merger control system (Buch-Hansen 2012).

In sum, neoliberal competition regulation can be seen as an important component of the competition state, which has contributed to continuously intensify the forces of competition. In the context of the many crises that confront societies today, neoliberal competition regulation seems to get further entrenched. As will be outlined below, EU institutions such as the European Commission, reiterate *ad nauseam* the need for strict competition control safeguarding free competition as a central engine to economic recovery.

COMPETITION AND THE CURRENT CRISES

There are several crises confronting our societies: first, an economic crisis of low growth, huge deficits and high unemployment; second, a social crisis of massive and growing inequality; third, a political crisis consisting of a weakening of democracy; and fourth, an environmental crisis driven by wasteful production and excessive consumption threatening to destabilise the climate (Speth 2008). In what follows, we will reflect on competition and neoliberal competition regulation in relation to each crisis. While we do not believe that competition and competition regulation alone have caused any of these four crises, we suggest that competition and competition regulation have contributed to intensify each of them.

First, excessive competition, or what we have referred to as 'over-competition' (Wigger and Buch-Hansen 2012; see also Brenner 2006), is one of the root causes of the current global economic crisis. Over-competition relates to the problem of over-accumulation, notably the lack of attractive possibilities for capital owners to reinvest past profits in real economy production at a particular historical juncture and location (Robinson 2010). Fierce competition can lead to lower profit rates, rendering further investment unattractive (Gordon 1980). As a result, investments are channelled elsewhere. As a matter of fact, investment relative to GDP development has slowed down in the Western industrialised regions and capital moved from the non-financial to the financial sector. As observed by Harvey, "heightened competition between producers started to put downward pressure on prices (as seen in the Wal-Mart phenomenon of ever-lower prices for US consumers). Profits began to fall after 1990 or so in spite of an abundance of low-wage labour." The result was that "more and more money went into speculation on asset values because that was where the profits were to be had" (Harvey 2010:29).

In the rat-race for ever higher returns on investment, also non-financial companies increasingly targeted financial markets (Krippner 2005:182). This significantly strengthened competition for short-term profits in the financial markets, at the expense of productive reinvestment of past profits and the creation of employment. The historically unprecedented global wave of mergers and acquisitions prior to the outbreak of the global economic crisis is also illustrative of this: more than a third of these mergers were triggered by finance capital and strongly speculative in nature (Wigger 2012). Giant financial bubbles were created, which, like all bubbles, were destined to burst. The rest, as they say, is history.

Second, while neoclassical economists might be correct to point out that competition leads to "a high degree of wealth in society" (Eekhoff and Moch 2004:4); their theories ignore the important question of how gains are distributed among people in society (Crouch 2011:56). Yet, competition creates and enhances inequalities in wealth and power, which extend from individuals and groups to classes and geographical regions in the world. Competition thus reaches much further than corporate rivalry. Entire territories (states, regions, cities or local townships) compete to create a business-friendly regulatory climate to attract and secure capital – and in this competition some societies come out as winners, while others lose out. Moreover, as Marx noted, "[t]he battle of competition is fought by cheapening of commodities. The cheapness of commodities depends on all other circumstances remaining the same, on the productivity of labour […]" (1965:626). The price of competition is ultimately paid by employees in the form of lower wages, longer working days, worse working conditions or redundancies. In today's globalised production chains, competition is "the greatest disciplinary force confronting workers" (Albo, Gindin, and Panitch 2010:79). In the presence of a reserve army of unemployed, competition pits not only capital and labour against each other, but also labour against labour. Alongside the fragmentation of labour, competition for jobs or for keeping jobs, as well as the individualisation of the wage relationship has severe repercussions for the organisational and bargaining power of labour, and in a wider sense, solidarity in capitalist societies.

Third, neoliberal competition regulation is part of the crisis of democracy. Whereas democratically elected politicians previously had a large say on the regulatory practices of many national competition authorities in Europe, this is no longer the case. That is, competition rules have increasingly come to be enforced by 'politically independent' (neoliberal newspeak for 'democratically unaccountable') authorities. At EU level, the Commission's neoliberal type of competition regulation has regularly led to political contestation, most notably from organised labour and governments concerned about the economic survival of less competitive domestic companies and industries. Such contestation has however been largely ineffectual. As a matter of fact, as pointed out by Erne, "EU competition policy making is completely insulated from the citizens that are affected by the decisions of the EU and from the directly elected parliamentarians" (2008:122). The system exemplifies what Gill and Law (1989) referred to as 'new constitutionalism'. Shielded from democratic influence, the Commission is under no pressure to consider the views of those losing from neoliberal regulatory practices – a situation it has taken full advantage of. Competition regulation is constitutive of the EU's long-standing democratic deficit, but also more generally of the political crisis.

Fourth, the global environment is incapable of sustaining the ever-growing impact of our economic activities. These activities are causing the oceans to acidify, temperatures and the sea level to rise, ice caps to melt, forests to disappear and natural disasters to occur more intensely and frequently. While competition alone cannot be blamed for this environmental crisis, competition (and policies fostering competition) contributes to worsen the global environmental crisis. As pointed out by Magdoff and Foster, "competition and the drive for profits causes many companies to cut corners regarding worker and environmental safety" (2011:30). Among other things, many companies seek to improve their competitive position by 'externalising' their costs, for instance by polluting or selling unsafe products, thereby shedding their liabilities outside the market place. Likewise, they seek to differentiate their products "in ways that are wasteful, useless, or even destructive: massive (and often misleading) advertising, excess packaging (to make products look 'bigger'), and artificial obsolescence (where products are artificially designed to wear out or become useless prematurely)" (Stanford 2008:137). The neoliberal type of competition regulation in Europe, which departs from efficiency gains in the form of lower prices for consumers as the central point of reference for anticompetitive conduct, does not pay attention to such negative 'externalities' at all. On the contrary, protecting rampant consumerism is sacrosanct to this form of competition regulation.

IN CONCLUSION

As pointed out in this article, competition in the era of neoliberal capitalism does not only involve companies. Regions, states and cities compete for business investments; universities compete for students, hospitals for patients, citizens for jobs, while the logic of competition and efficiency gains has also been projected on other public and semi-public institutions. Competition, in other words, has become all-pervasive, forcing the citizens of the competition state to behave as competitors. In the thrall of the welfare promises of neoliberalism, the call for fierce competition as a route to salvation in the current crises seems to mesmerise people of all political persuasions. The 'Compact for Growth and Jobs', recently adopted by European Heads of State or Government, meant to complement the harsh austerity measures implicit in the Fiscal Compact, also thrives on the rhetoric of free competition as the way forward (European Council 2012).

Endorsing the rhetoric of strict competition (regulation) may appear less painful than the tight austerity packages and the ongoing onslaughts on social rights and wage depression, particularly in times of economic slump and recession when lower prices appear much needed. More intense competition as an alleged panacea for the current crises does however neither substitute nor halt the draconian cuts in public spending. As pointed out by the Group of Lisbon (1995:97) more than a decade ago, the desire to win the war of competition may involve "sacrificing the interests of the most vulnerable people" in European societies. Competition "contributes to the development of social exclusion: the noncompetitive people, firms, cities, and nations are left behind. They are no longer the subject of history" (1995:98).

It is time to break with the one-dimensional neoclassical/neoliberal view and to recognise that competition is not a remedy to rising poverty and social exclusion. Neoliberal values such as egoism and self-sufficiency eclipse values such as tolerance, mutual aid and solidarity. Against the backdrop of the multiple crises currently facing us – crises that are all exacerbated by competition and neoliberal competition regulation – the competition state has become untenable. Rather than having competition as the overriding logic, it is time to explore alternatives that give priority to environmental sustainability, equality and cooperation.

NOTES

1. The present article is based on previous works, in particular Buch-Hansen (2008); Buch-Hansen and Wigger (2011); Wigger and Buch-Hansen (2012).

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