

**COMMUNICATION FROM ARGENTINA**

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Competition in Times of Crisis

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Even before the adoption of the theory that the market is the most suitable instrument for the efficient allocation of resources, many of the world's societies suffered economic crises that adversely affected their consumption, savings, investment and production levels.

In all instances, their governments adopted active policies geared towards restoring stability and shaping a path back to economic growth. The measures taken generally involved more extensive State intervention in the supply and demand of goods.

In ancient Greece, the activities of economic agents with a certain degree of market power were already regulated on the basis of public interest. One example is that of a small and densely populated area with poor soil, located in Attica, where the government regulated food imports by fixing ceiling prices. The grain trade was affected by continuous warfare in the region, so the government proposed the creation of a cartel to forestall competition among traders by fixing "reasonable prices". The officials' objective was thwarted, however, by the importers forming part of the cartel, who drastically increased prices at the very first sign of unrest – opting for a short-term solution with no thought to the consequences.

The industrial era offers a similarly compelling example. After the wild hyperinflation of 1923 in Germany, the industrial sectors and the government jointly initiated a period marked by the formation of monopolies and isolation of the economy. The desks of officials faced with the responsibility of weathering the storm were piled high with proposals for sectoral agreements and protectionist measures. Once again, the decisions taken translated into measures with a strong short-term impact, in order to try to resolve immediate problems without thinking of what the future might bring.

The end of the Second World War saw a gradual move towards the dismantling of monopolies and the adoption, in 1947, of antitrust legislation which was radically at variance with the laws of 1923 and 1933 and which created a climate conducive to the development of competition. The law of 1958 brought those ideas to maturity and established the *Bundeskartellamt* – an institution independent of political power that has significantly contributed to the country's development and has

gained unquestionable international repute. With the consolidation of European integration and the establishment of strong and independent supervisory bodies and sound, outward-looking economic policies, Germany swiftly took the lead, and today competition and respect for consumers' rights are notions that are firmly ingrained in German consumers and businesses.

In Argentina, there is constant talk of the devastating effects of the crisis. The opening up of the economy, initiated in the 1990s without providing for sufficiently strong and independent supervisory bodies and accompanied by an unprecedented process of concentration, has had a number of undesirable consequences.

Almost all the relevant legislation was belatedly adopted and presented numerous lacunae. Merger and acquisition control, for example, was not incorporated in the Law on the Defence of Competition until we realized that this valuable instrument had served to increase competition in the petroleum and gas sector. It is common knowledge that greater market concentration is likely to lead to the formation of cartels, for the simple reason that it is easier to reach agreement when there are fewer competitors. Hence, the risk of cartel arrangements is inversely proportional to the level of competition. Considering the less-developed countries' "natural barriers" to the entry of new competitors, moreover, the extent of the problem is clear.

Between 1993 and 1997, Argentina had an annual growth rate of 4.1 per cent and productivity rose by a cumulative average of 3.8 per cent. Between 1997 and 2000, the economy recorded zero growth and figures for overall productivity turned negative. After an initial dramatic surge prompted by deregulation and privatization, productivity gains lost impetus. In the early 1990s, Argentina's productivity averaged 29 per cent, and when the entire restructuring process was completed at the end of 2001, it was no higher than 32 per cent.

The Argentine Government and society are currently facing a number of challenges that had already arisen in both ancient Greece and Germany in the industrial era. We can address these challenges by ignoring the lessons of experience, imposing ceiling prices and isolating and protecting the economy without any strategic plan or credible institutions – or we can follow the correct path and think ahead.

In times of crisis, it is highly tempting to use legislation for the defence of competition to adopt measures that directly impact the markets, to impose price controls or to institute legal proceedings. In Argentina, after the initial moment of confusion the idea of intervening directly in the markets fortunately gave way to the decision to restore stability by other means.

The obstacles before us are receding, now that we are engaged in a process of integration which, setbacks notwithstanding, can and must be carried forward by defining a new competitive environment. There is greater consensus in determining export strategies to boost the economy and Argentine citizens are awaiting the establishment of institutions to represent them.

The strengthening of MERCOSUR will expose our enterprises to competition with other firms in the region by enhancing their competitiveness, and a sound strategic plan will give our sectors the correct signals by affording them greater comparative advantages.

Contrary to many people's views, Argentina is in an excellent position not to repeat past errors – whether its own or those made by others – by integrating competition into its social culture.

Restoration of the macroeconomic balance will not mean that we can abandon the sweeping microeconomic reform initiated in the public and private sectors. Regulatory changes in order to curb informal practices, the adoption of new technologies and more efficient organizational structures, coupled with an indefatigable will to foster competition, are the pillars of the action we need to take in order to play our part on the global productivity and export scene.

Institutional shortcomings in the competition field are not difficult to remedy either: The tribunal for the defence of competition must be set up, as stipulated in the legislation in force, and Argentina has yet to ratify the Protocol for the Defense of Competition signed in the framework of MERCOSUR.

Macroeconomic balance is necessary but not sufficient to guarantee wealth and well-being. Sustained economic wealth depends on the productivity of each country's resources. Countries with high levels of overall productivity are those in which teachers, police officers and nurses receive the highest wages. And we already know that productivity rises as competition grows.

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