

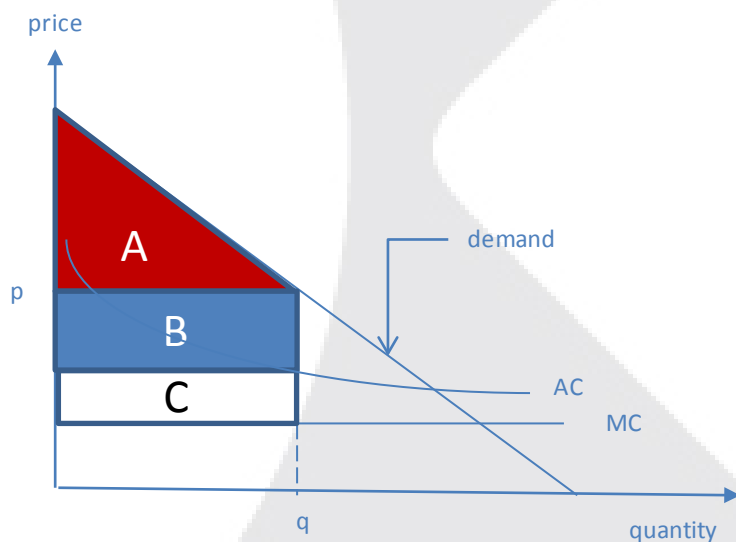
# Welfare standard in antitrust

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# The benchmark: Total welfare

- The difference between the value consumer place on output, minus what it costs the society to produce that output



- Total welfare =  $A+B$
- Consumer surplus =  $A$
- Producer surplus =  $B$
- If fixed cost is zero, then  $AC=MC$  and  $C = 0$

# Why economists usually prefer total welfare standard (TWS)?

- maximizing the cake
- focus on efficiency, not distributional considerations
- enough to look at partial equilibrium
- optimizing the investments

# Why consumer welfare standard (CWS)?

- 1) Information asymmetries
  - 2) Unequal balance of power
  - 3) Merger dynamics
  - 4) Less scope for lobbying
  - 5) Harmonization with other jurisdictions
- Konkurranselovutvalget:
    - Overall goal is total welfare, but by modelling a policy game consumer welfare standard will improve total welfare more than a total welfare standard itself.

# 1) Information asymmetries

- An argument for giving more weight to the consumers than to the producers
- But, KT requires 'documentation' of costs savings, and often those requirements are not met by the merging parties
- It's accepted that some of the potential profit is wasted

## 2) Unequal balance of power

- An argument for giving more weight to the consumers than to the producers

# 3) Merger dynamics

- No evidence that alternative mergers will improve total welfare more.
- Closer look at the efficiency gains
  - CWS implies that only mergers with short run reduction in marginal costs will be approved
  - Reduction in fixed costs doesn't matter, even though reduction in fixed costs
    - may benefit consumers in the long run (innovation, improved quality, reduced long term price)
    - release resources for use elsewhere in the economy

## 4) Less scope for lobbying

- No! The parties will still do lobbying, but focus on reduction in marginal costs!



## 5) Harmonization with other jurisdictions

- Most countries have consumer welfare standards
- Some exceptions:
  - Norway
  - Canada

# Conclusion Konkurranselovutvalget

- Konkurranselovutvalget argues that a consumer welfare standard will improve total welfare more than a total welfare standard itself, but they have not *modelled* a policy game that gives this result – just argued that there are problems with the implementation of the total welfare standard.
- Their argumentation is an argument for giving more *weight to the consumers* – not an argument for giving *no weight to the producer surplus*
- KT's proposal harmonize with §1 ...

# KT's proposal – Weighted Total Welfare Standard (WTWS)

- Konkurranseloven §1

*'The purpose of the Act is to further competition and thereby contribute to the efficient utilization of society's resources.*

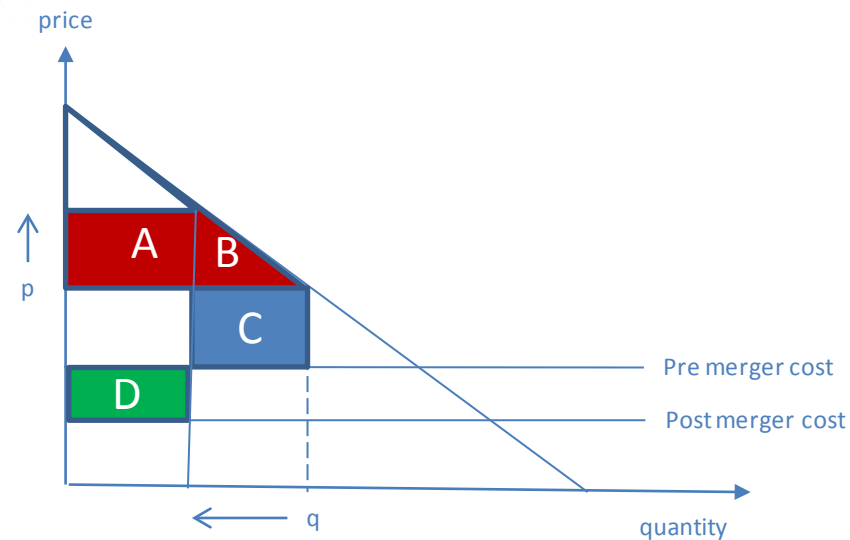
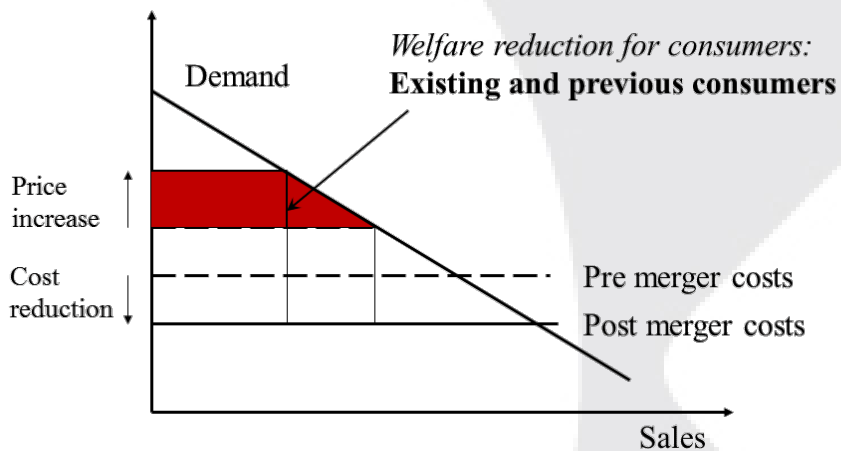
*When applying this Act, special consideration shall be given to the interests of consumers.'*

- KT proposal. New section in 16

*En foretakssammenslutning som er forbudt etter første ledd kan likevel tillates dersom foretakssammenslutningen leder til en samfunnsøkonomisk effektivitetsgevinst som er vesentlig større enn det tap som påføres forbrukerne.*

- In implementing §1, KT proposes to give the consumers twice as much weight as the producers

# Comparison of the three welfare standards



- $dCS = -2(A+B)$
- $dPS = A+D-C$
- $dWTW = D-(C+A+2B)$

