

## Summary of Intervention by Mario Monti - Opening Session of the Global Forum on Competition, 29 October 2015

Senator Monti began his intervention by indicating that he subscribes to the analysis and policy links regarding the impact of competition on employment outlined by the OECD Secretary General, and to the qualifications set out by the ILO. He then introduced two additional related linkages between competition and jobs that are relevant but not always considered: tax competition and jobs; and competition and political competition

With respect to tax competition, Senator Monti noted that work done by the OECD has highlighted long-standing trends in this area; namely, the distortive and negative effects on jobs of having a high degree of tax competition among countries as well as asymmetric tax competition. Uncontrolled tax competition among EU countries and globally has had impacts on economic factors and agents that depend on the mobility of the corresponding tax basis. The lack of tax coordination has created in particular an advantage for mobile tax bases (like capital and company headquarters), which can take advantage of their mobility to minimize their tax burden. Less mobile factors of production – specifically, labour and particularly unskilled labour – cannot avail themselves of benefits of tax competition due to the discontinuity in migration.

As a result, the average effective taxation rate on capital has gone down and the effective rate on labour has gone up, which goes against the goal of fostering employment. This trend has been the object of increasing policy concerns. The EU and OECD have worked to devise criteria on how to check this phenomenon without extinguishing tax competition altogether (since it is healthy to have governments submitted to some pressures to prevent unlimited increases in taxation/spending) and without ignoring the fairness implications of different forms of taxation.

While those examining employment do not often address tax competition as an aspect of competition, it should be taken into account.

With respect to the linkage between competition and political competition, Senator Monti noted the impact of the financial crisis on the willingness and ability to enforce competition policy. For example, State Aid controls in EU could have been under severe stress during the banking crisis. It appears that competition authorities and organizations like the OECD and ICN have demonstrated resilience in spite of huge political pressures.

In the next 5 years, one big challenge that may be faced in competition enforcement may be a more direct political crisis or opportunity: is there a link between the degree of political competition and the ability to introduce reforms to enhance competition in a marketplace (including structural reforms)?

When governments introduce unpopular reforms to stimulate competition, the opposition is often ready to castigate them. The conclusion Senator Monti has reached is that a temporary political indemnity from competitive political pressure may permit the introduction of competitive economic reforms. In Germany, for example, temporary grand coalitions limiting competition among political parties and spreading the political costs of introducing competitive reforms over broad shoulders may improve the political viability of these reforms. It's a paradox that political/constitutional decision-making may be a challenge to economic reforms. Without temporary cooperation among competitors, it reduces the likelihood that serious but unpopular reforms will be adopted.

The main threat which Senator Monti perceives for competition enforcement and pro-competitive reforms is populism, including the trend in all societies and political systems to look mainly at short-term effects of policy decisions, rather than on the longer term. This approach also neglects the indirect effects of decisions. The short-term frame of political debates that are conducted (e.g., 140 character tweets) encourages oversimplification and short-cuts to competitiveness.

However, some institutions are focused on the long-term and indirect effects. The OECD is the “temple of the long-term and the agent of bringing the long-term to bear” on decision-making in member countries.

The question remains, however, that if the political trend in the long-term is populism, which hates technocracy and independence from politics, what will be the impact on the ability of entities like competition authorities to conduct their work?

Senator Monti concluded with a word of praise for the way the competition world has tackled past competition crises but a serious warning about how to deal with a political landscape where populism is more diffuse than rationalism, internationalism and integrationism.