

There is a convergence between the objectives of consumer protection policy and competition policy. The main objective of competition policy and law is to preserve and promote competition as a means to ensure efficient allocation of resources in an economy, resulting in:

- the best possible choice of quality,
- the lowest possible prices, and
- adequate supplies to consumers.

To put it differently, ensuring competition is just a means to achieve the above-stated objectives. Obviously maximising of consumer welfare becomes a predominant concern. Competition policy makes market work and protect consumers from deception. These are also the two important goals of consumer protection.

Thus, the end objectives of both the policies are essentially the same. However, competition policy is more of a proactive policy that *inter alia* attempts to promote consumer interest in the marketplace, whereas consumer protection policy puts forward mainly a reactive agenda to protect the interests of the consumers, and provide access to redressal against abuses. Of course, consumer protection policy also has some proactive elements. In this regard there is a strong complementarity between the two policies in that consumer welfare is a common goal.

## Consumer Welfare – Different Perspectives

Consumer welfare means different things to different groups of people. Those who are relatively rich and can afford all comforts of life are more concerned about their range of choice of goods and services. For those who find it difficult to make their both ends meet, the most important concern is not choice but rather access to goods and services. Broadly speaking, while the former aspect is more important in developed world, developing countries would be more concerned about the latter aspect in administering their competition and consumer protection policies. Such dimensions of consumer welfare need to be kept in view while examining the link between the two policies. From a developing country perspective the role that the two policies play in promoting development and poverty reduction becomes the focal point in understanding the linkage between the two.

## Consumer Protection, Competition, Competitiveness and Development

Competition policy promotes efficient allocation and utilisation of resources, which are usually scarce in developing countries. This also means more output, lower prices and consumer welfare. It does not stop there only as more output is also likely to lead to more employment in the economy. Competition may of course lead to some job losses in some sectors or in the short run. But this can be taken care of by putting an appropriate social safety net in place.

A good competition policy and law lowers the entry barriers in the market and makes the environment conducive to promoting entrepreneurship and growth of small and medium enterprises. This has positive implications for development as small business and entrepreneurial activities promote employment growth. The lack of gainful employment or livelihoods is

considered to be one of the major causes for widespread poverty in developing countries.

There are two approaches to development. The first one is concerned with fulfilling the minimum basic needs of the people, removing the sources of poverty and marginalisation, focusing on problems like unemployment, basic health services and so on. The second approach to development is concerned with latest technologies, exports, industrialisation, more competition to provide better choice and so on. At the core of this lies enhancement and maintenance of competitiveness.

Consumer protection policy is part of the strategy that emanates from the first approach, while competition policy is an integral part of the second approach though there are significant overlaps. However, it may be noted here that the two approaches do not mean two alternatives, but rather two instruments that must be used simultaneously.

Competition policy has a significant role to play in promoting competitiveness and growth. The decline in the UK's (and Europe's) relative economic performance prompted much debate about the appropriate response. The UK White Papers on Competitiveness start from a recognition of the UK's relative decline and identifies ten policy areas that influence competitiveness. One of these ten areas is the policy related to fair and open markets. Similarly, the EU White Paper highlighted four areas for priority action and one of them is ensuring free and fair markets.

Efficient allocation of resources leads to increased competitiveness resulting in higher growth and development. This needs sound industrial and trade policies, complemented by a suitable competition policy and law. Similarly, a strong consumer protection regime with empowered consumers will remove managerial slackness and make firms more efficient (X-efficiency) and competitive in terms of quality and prices.

Exploitative practices are quite prevalent in developing countries and are a major obstacle to competitiveness. This can be taken care of if the consumers are sufficiently empowered.

As discussed above, competitiveness and development are both necessary to promote consumers' welfare in the long run. Together, consumer protection policy and competition policy embrace both competitiveness and development as central aims, although competition policy addresses more of competitiveness concerns and consumer protection policy addresses more of development concerns.

As enshrined in the UN Guidelines on Consumer Protection as well as Charter of the Consumers International, a crucial element of consumer protection policy is the right to basic needs. Adopting a policy framework on part of the government to ensure the basic needs at affordable costs is also essential to eradicate poverty. Sectoral regulatory policies which are integral parts of competition policy also play a major role in ensuring the right to basic needs, for example, by mandating universal service obligation on the service providers so that even at a loss, they will have to supply services to the poor and disadvantaged consumers at a reasonable price.

#### Competition and Consumer Welfare – The Limits

However, it is to be noted that even in developed countries, competition policy is not about just promoting maximum competition and hence maximum choice. An obsession with promoting choice may be counterproductive leading to inefficiency especially when goods and services concerned may tend to be homogenous or there are network externalities.

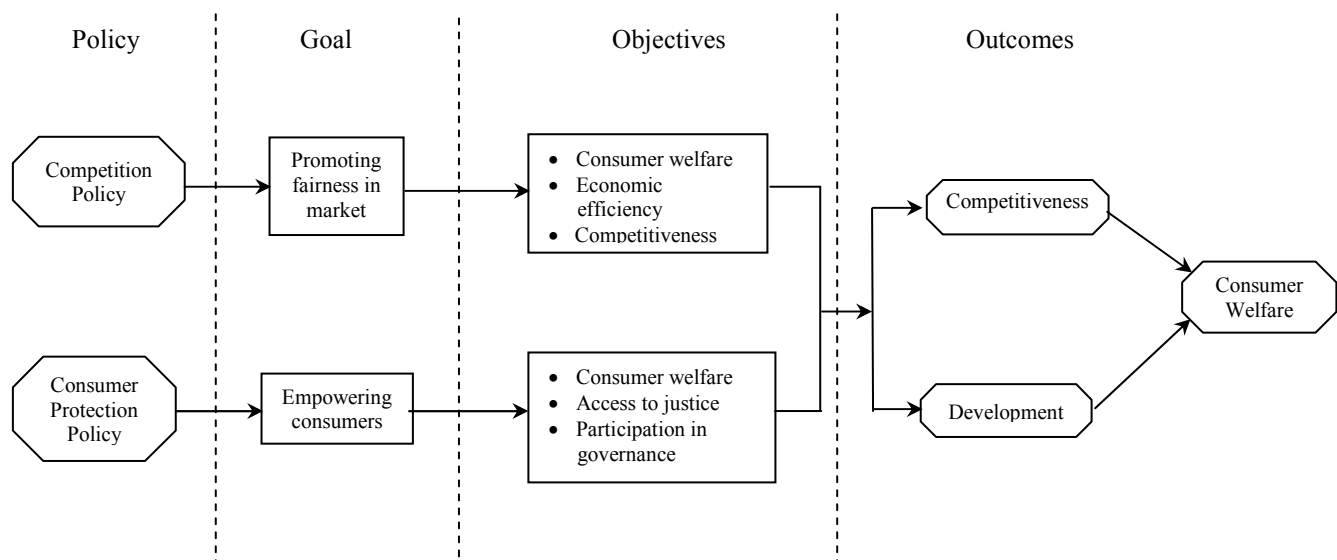
For example, research on retail competition in electricity market of Britain shows that retail competition for small electricity consumers has been an “economic disaster” for them. The study shows that even though the wholesale prices of electricity have fallen by 35% since 1999 and the price large consumers pay for generation have moved southwards by 22%, the price paid by small consumers has increased by 5%. This is because of duplication of competing facilities and lost scale of economies whose costs are ultimately borne by the consumers.

#### Conclusion

Thus, the interaction between competition policy and consumer protection policy may often be complex. There are issues of trade-offs and striking the balance. Hence, there is a strong case for bringing competition policy and consumer protection policy under an integrated framework. Such attempts have been made in some countries, most notably in Australia. Such an approach can be found even in the US where the Federal Trade Commission deals with both competition and consumer protection issues. This of course does not necessarily mean that these two issues have to be dealt with by a single agency but there has to be sufficient coordination and congruence.

Unfortunately, in most developing countries such an effort is missing. In fact, many countries have adopted a competition law due to external pressure, while a consumer protection regime is yet to be put in place as there is hardly any external pressure in this regard. However, countries should not ignore this as competition policy or law will remain incomplete in its impact and outcomes in the absence of an effective consumer protection regime.

### The Conceptual Framework



© CUTS, 2004

This Viewpoint Paper is written by Nitya Nanda of and for CUTS Centre for Competition, Investment & Economic Regulation (CUTS-CCIER), D-218, Bhaskar Marg, Bani Park, Jaipur 302 016, India. Ph: 91.141.228 2821, Fx: 91.141.228 2485, Email : [c-cier@cuts.org](mailto:c-cier@cuts.org), Web Site: [www.cuts-international.org](http://www.cuts-international.org).