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Regulation, competition and income distribution: An outsider's perspective

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Abstract

This comment explores some implications and extensions of the papers collected in this volume. It stresses the disadvantages of ignoring the very long-run nature of the distributional question. It analyses the difficulty of finding practical as well as satisfactory policy solutions, especially in the case of education, and the importance of harmonizing them with the social, cultural and political traditions with which they are often in conflict. It argues, optimistically, that growth and income redistribution have been possible during the 20th century in many parts of the world but, realistically too, that they may not necessarily be just "around the corner" in many of those examined here.
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A reading of the papers assembled in this volume should prove a highly stimulating exercise both for the regional specialist and for all those who are in general interested in the welfare effects of growth, regulation and de-regulation. The story, which is here largely a Latin American one, is well known and has been told many times. Under the pressure of rising international capital mobility, inflation, slowing growth and fiscal crises, governments throughout the region embarked, from the late 1980s, on a course of market liberalization, de-regulation, large-scale privatization, financial consolidation and various anti-inflationary policies. Besides the need to balance public finance, other intentions were to stimulate economic growth, by widely encouraging competition, to reduce inefficiency and to raise technological intensity. Faster growth would help combat poverty. Deregulation and accrued competition would also force the consequent productivity gains to be passed on to consumers, thereby improving income distribution. Reduced

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waste in public spending would release resources for social programs and thereby hasten further redistribution.

After a decade and a half, the results throughout the region have been disappointing. Growth has been sluggish, the poverty rate (the percentage of the population living below an acceptable minimum per capita income) has remained stationary and the distribution of income (measured by the Gini coefficient) has not improved. There are striking examples of banking sectors whose interest rates and spreads are quite excessive (**Pelozo**, **Barros**)[1] and of utilities, such as electricity or transportation, which have come to exclude the poorer deciles of the population from satisfying their basic needs (**Petrecolla**[2], **Paula** and **Avellar**). Government policies that badly distort market mechanisms remain very much present and frustrate the grand initial design (**Fachini** and **Testa**, **Barros**). It is not surprising then that the authors in this book share a common view that is on the whole negative regarding this recent history, although with varying degrees of critical intensity. This is evident not only from their diagnoses of the individual situations they portray, but is also revealed, in many cases, by policy proposals devised in the belief that the more harmful welfare effects in question could and should be corrected.

Does this mean that "liberalization" has been an entirely negative process and that it would have been better had it not taken place? The articles before us do not attempt to assess this counterfactually, nor do they really tackle this issue head-on in any other way. Some clearly perceive redeeming features, under given conditions, in the privatization and de-regulation of the 1990s (**Amann** and **Baer**, **Coes**). Others (**Parker et al**., **Minogue**) are far more doubtful about the net benefits of these reforms or about the possibility of introducing worthwhile corrections. For the authors of the majority of papers, however – those who focus especially on policy recommendations – not only can something be done to improve the situations created, but also it is worth trying to do so. Is this because they view "liberalization" as something that has come to stay, and, no matter how regrettable, the best is to try and limit the damage? Or is it that they recognize this new era in economic policy and institutions not only as inevitable, but also as a superior solution, although one that requires vigilance, given its tendency to generate socially harmful or inefficient outcomes? From my reading of this excellent material, the latter seems the most favoured, but the question remains and is significant. Undoubtedly, it deserves further discussion and will probably continue to receive it.

As one might expect given the strong policy orientation of the papers presented at the Paraty conference, the majority of these chapters are sectoral in nature and their analysis is microeconomic. This has three advantages. It provides a sharply focused and highly informative view of the particular situations observed, e.g. Paraguayan banking (**Pelozo**), Argentine electric utilities (**Petrecolla**), Brazilian education (**Holanda**). It affords a privileged angle on the intricacies and limits of policy formulation in areas where solutions of this kind are both highly relevant and needed. It brings particularly strong light to bear on the institutional and political dimensions of the effects of liberalization (**Mueller**).

This first group of papers is nicely complemented, however, by two others, with somewhat different slants. One of them consists of surveys and reflection pieces covering a very wide ambit and offering rich seams of information that is comparative in scope (**Parker et al**., **Metcalfe and Ramlogan**, **Minogue**, **Asiedu and Esfahani Cook** and **Uchida**). They constitute an admirable backdrop against which to view the above mentioned, more 'specialized' items of the agenda.

[1] Reference in this text to the chapters in the volume is made by using the author's short name in bold.

[2] Diego Petrecolla's paper on "Market Reforms, Poverty and Income Distribution in Argentina in the 1990s" could not be included in this volume but was presented at the Paraty conference.

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