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Competition and Inflation – Note by Argentina

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This document reproduces a written contribution from Argentina submitted for Item 12 of the 139th OECD Competition Committee meeting on 29-30 November 2022.

More documents related to this discussion can be found at
www.oecd.org/competition/competition-and-inflation.htm

Mr Antonio CAPOBIANCO
[Email: Antonio.CAPOBIANCO@oecd.org]

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Argentina

1. Global and local context

1. The world economy is undergoing a process of widespread nominal price increases for goods and services. The return of inflation as a universal economic and social problem has revived the academic debate about its causes. The current inflationary surge has been attributed to a variety of factors. Some argue that it is a consequence of the monetary and fiscal policy employed to deal with the Covid-19 pandemic effects. Others attribute it to the scale of dislocations in the global supply chains on which the production of goods and services depends –whether these disruptions arise from the complex geopolitical situation in Europe, or as a result of the implementation of quarantines in Asian countries. Another group of commentators sees inflation as a consequence of market structures that have become too concentrated in specific sectors.

2. For centuries, economists have debated the causes of inflation. Although the purpose of this paper is not to enter into a theoretical discussion of the phenomenon, we can mention the two most recurrent general approaches to explain the problem. Firstly, what is known as the “Quantity Theory of Money”, which establishes that the general price level is determined by the quantity of money in the economy. This theory is one of the most frequent when it comes to explaining price revolutions worldwide. A second theory reverses the causal relationship between prices and the quantity of money, stating that the increase in prices precedes the increase in the quantity of money, and any change in money supply only occurs so that all transactions can take place. Within the framework of this theory, the explanation of price increases may be linked to demographic issues, changes in productivity, crop failures, interest rate or exchange rate increases, etc.

3. The resurgence of inflation and the lack of agreement on the structural and circumstantial causes that may have given rise to the phenomenon has also generated a debate on which public policy tools are best suited to halt inflation. In this context, it is not surprising that some consider that competition enforcement may play a role at bringing the rate at which prices are rising back to tolerable levels.

4. Over the last thirty years, most countries in Latin America have managed to alleviate inflationary processes. The case of Argentina, however, is unique. Firstly, because it has one of the highest cases of hyperinflation in world economic history¹ and, secondly, because it has had a very long continuous inflationary period. If we look at the annual rate of the Consumer Price Index from 1945 to date,² we see that the only period with more than two consecutive years of single-digit inflation is between 1993-2001 (with the last three years of deflation), which is the period during which the Convertibility regime was in force, equating the Argentine peso to the US dollar. In other words, for forty-eight years (between 1945 and 1993), there were no three consecutive years with an inflation rate of less than 10%. An even more striking fact is that in only four of those forty-eight years (1953, 1955, 1968, 1969)³ did prices increase by less than 10%. As regards this century, since 2002, after

¹ It is ranked 27th in the "World Hyperinflations" ranking by Steve Hanke and Nicholas Krus of the Institute for Applied Economics, Global Health, and the Study of Business Enterprise at John Hopkins University. If post-conflict hyperinflationary cases are eliminated, the Argentine case rises significantly.

² The inflation data correspond to information from the National Institute of Statistics and Censuses of the Argentine Republic.

³ Annual inflation was calculated by accumulating the monthly inflation measurement. Some authors make a simple average of the variations of each month with respect to the same month of the previous year. If the latter methodology

a dramatic financial and political crisis, single-digit inflation was recorded in 2003 and 2004 (3.7% and 6.1%), and 2006 and 2007 (9.8% and 8.5%).

5. Within this context, the Argentine competition authority –the National Commission for the Defence of Competition (CNDC, for its acronym in Spanish), in conjunction with the Secretary of Commerce–, has experience in addressing the demand for solutions to the problem of inflation, which comes from both government administrations and constituents, something that the rest of the agencies seem to have only recently begun to deal with.

2. Inflation and its measurement

6. Inflation refers to a phenomenon characterised by a general and persistent increase in the prices of most goods and services over a given period of time; i.e. not limited to a specific sector of the economy. It entails a loss in the purchasing power of the currency, which increases the cost of living for those who trade in that currency.

7. Inflation is measured through an index composed of a basket of goods and services grouped into different categories. This basket is intended to be representative of the average expenditure of a given type of household.

8. A price index is usually constructed on the basis of a survey of a significant portion of the population about their household expenditures. The weight that each product and service will have in the index is usually determined by the results of this survey.

9. In Argentina, the survey of the prices of goods and services that make up the Consumer Price Index (CPI) is conducted on a monthly basis and in 39 cities in all 24 jurisdictions. Its results are published for the country as a whole as a national index and also as six regional indexes.

10. What is mentioned above has some implications that need to be considered when assessing the effectiveness of competition law enforcement in fighting inflation.

11. First, it does not seem appropriate to link inflation to price increases in a specific economic sector –e.g., energy– because the very definition of inflation refers to a phenomenon where most of the prices in the economy register sustained increases. However, there are certain CPI items that, given their relative weight in the index, may have a supra-average effect on its increase. Secondly, a given inflation rate does not imply that the cost of living of all population sectors rises similarly.

12. Thus, a distinction is made between what may be a scenario of a static comparison of sectoralised "supra-competitive" prices –perhaps a symptom of market power in that sector– and a dynamic of generalised price increases in an economy.

3. Inflation and competition enforcement

13. There is a group of practitioners who understand that competition legislation has a role to play in the fight against inflation through competition advocacy in specific sectors.

14. On a similar line of thought, governments could also fight inflation in a more vigorous way by "promoting" competition through market intervention via competition enforcement. In Argentina, the goods and services whose prices are set with some degree of intervention of a government agency belong to the regulated services category, which

is used, there are only three years with inflation below 10%: 1953, 1954 and 1969.

generally constitute legal and natural monopolies (electricity, natural gas, etc.). Although the process by which these prices are defined is not usually reviewed by the competition authority, according to current competition law – Act No. 27.442, also called the Competition Defence Act (LDC, for its acronym in Spanish)–, the CNDC may advise those in charge of implementing this policy. Nevertheless, the opinion that the competition authority may issue does not have a binding effect.

15. These prerogatives to advise different government agencies on delimited markets can be highly fitting since, in a high inflation environment, there is more willingness to adopt recommendations aimed at removing barriers to entry in markets with complex competitive structures. Inflation can undoubtedly induce a sense of urgency to implement some regulatory measures. The role that sectoral regulators can play in promoting competition in the markets they oversee cannot be underestimated –for instance, that seems to be the thesis behind the Executive Order signed by the Biden Administration in early September.

16. Another interesting issue is the inflation's influence on designing the authorities' agendas. A frequent criticism competition agencies receive is related to the fact that their work plan often does not reflect the concerns of citizens, which is one of the reasons why there is nowadays an intense debate about the objectives of competition policy.

17. As mentioned in the previous section, the inflation index is intended to be representative of the average expenditure of a given type of family. This makes it possible to easily identify those sectors that are critical in the cost of living of the population and, based on this, to design a work plan focused on fully understanding the structure of the markets in question, in order to implement the appropriate enforcement actions.

18. In Argentina, at the end of September this year, the Secretary of Commerce requested the competition agency to initiate a market study to determine possible anticompetitive practices in the textile industry value chain. In his note addressed to the CNDC, the Secretary of Commerce expressly alluded to the fact that, according to measurements made by the government bureau in charge of measuring inflation, the textile sector was registering month-on-month price increases well above the general index.

19. Market studies are procedures developed by the competition authority to obtain a thorough diagnosis of the conditions of competition in specific sectors of the economy. Their main objective is to promote and improve competition in the analysed markets. To this end, after studying the industry, the agency can make recommendations to regulatory bodies, legislators, business chambers, etc. It can also recommend the opening of an ex officio investigation for presumable anticompetitive behaviour if such conducts are detected in the process.

20. Moreover, the constant nominal increase in prices may add complexity to ongoing investigations, as it may be challenging for the competition authority to prove that price increases or price levels arise from the unlawful exercise of market power and not as result of the inflationary process affecting the economy. In the agency's experience, inflation becomes a ubiquitous justification when firms must explain "suspicious" price movements. In this sense, the loss of benchmark stability makes it challenging to analyse behavioural variables.

21. In particular, the type of anticompetitive practice that may go undetected in an inflationary context is that of abusive pricing, whenever such prices are excessive. Indeed, when carried out by a firm that holds a dominant position, the charging of excessive prices to its customers and, indirectly, to final consumers, constitutes an exploitative abuse of a dominant position.

22. As shown in the 2011 document compiled by the OECD Secretariat on the excessive pricing roundtable discussions, the charging of excessive prices, with the consequent transfer of wealth from consumers to a firm holding a dominant position and the obvious damage to general economic interest that this entails, is the type of harm that competition law enforcement and advocacy policies are designed to prevent. However, competition authorities are more often geared towards pursuing and sanctioning cartels and exclusionary abuses of dominance – that ultimately generate abusive prices as a consequence–, but are more reluctant to investigate and sanction cases of excessive pricing *per se*.

23. The lack of intervention by competition authorities in this type of cases is based on theoretical arguments, e.g. that this is a short-term type of behaviour that can be corrected by market dynamics, as well as on practical arguments: that it is difficult to determine and prove that the market price is indeed excessive, and that this is the consequence of a firm's abuse of its dominant position, and also, that competition authorities often do not have the resources to monitor prices in a market.

24. However, the harm caused to consumers by this type of practice, especially when it comes to goods and services that are part of the regular shopping basket –which adds to the damage already caused by inflation– means that competition authorities can be called upon to investigate particularly concentrated markets under the presumption that practices that violate the LDC are being committed.

25. Under this premise, at the beginning of November 2022, the Secretary of Commerce has instructed the CNDC to initiate investigations for alleged anticompetitive practices on some companies linked to the production and commercialisation of mass consumer products that have shown an extraordinary increase in prices during the past year, in order to determine whether these increases could be the result of an abuse of their dominant position.

26. On the other hand, as it was mentioned in the previous section, the current inflationary process is accompanied by significant disruptions in global supply chains. These problems are particularly acute in sensitive sectors such as energy, food and fertilisers. As noted elsewhere, economic crises often empower interest groups to propose anticompetitive strategies to compensate for their losses, so agencies must remain vigilant in this area.

27. It is to be expected that initiatives with problematic competition aspects will be proposed in the near future, and it is, therefore, advisable for competition authorities to step up their competition advocacy efforts.

28. Finally, if the inflationary process were to continue, it is expected that certain jurisdictions will have to implement mechanisms for updating specific monetary amounts and usually legally stipulated thresholds.

29. In Argentina, as a result of the experience derived from past legislation, the LDC has introduced a mechanism for periodically updating the mandatory notification threshold in the merger control regime –the annual turnover. Similarly, the LDC also has set an updating mechanism for the *de minimis* exception. In addition to that, an update of the maximum amounts for the application of fines for anti-competitive conduct was implemented, and this updating is carried out annually.

30. The LDC has not set these amounts in the legal tender. Instead, they have been established in a unit of account defined as a "mobile unit", which is automatically updated annually using the variation of the CPI published by the National Institute of Statistics and Censuses (INDEC, for its acronym in Spanish) of Argentina.

4. Final Remarks

31. The overwhelming problem of inflation has been a national concern in Argentina for decades. It has been and still is a public policy priority, given the depth of its effects on the entire country's economy and community. In this sense, competition enforcement is not exempt from demands when it comes to generating proposals to mitigate or solve the problem.

32. Inflation as a phenomenon of global relevance is a recent concern, which has generated a need to revisit the problem in theoretical and practical terms. The debates on the issue that are taking place and will surely take place in the near future in specialised fora will allow us to rethink the role of competition enforcement and advocacy when facing inflation and to generate instances of exchange and cooperation with other authorities in order to collaborate with the resolution of the problem.