



Institutional Change: Competition Policy in Transformation

A Comparative Analysis of the Russian Competition Policy from
Institutional Point of View

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Topics

- I. Institutions and the institutional change.
- II. System transformation as institutional change.
- III. What is „Competition Policy“?
- IV. The competition policy in Russia as an institution.
- V. Which mistakes Russia has done with the implementation of the competition policy?
- VI. Summary of Russian experience.
- VII. Concluding remarks.

I. Institutions and the Institutional Change (1)

Institutions and Theoretical Concepts in Economics:

- Neoclassical approach
- Ordoliberal approach
- Old Institutional Economics (OIE)
- New Institutional Economics (NIE)

I. Institutions and the Institutional Change (2)

Characteristics of Institutional Change:

Path-dependence through

- increasing returns
- lock-ins

Temporary increasing of transaction costs

Possible inconsistency of institutional development

I. Institutions and the Institutional Change (3)

Determinants of Effectiveness: de facto rule = de jure rule

- Legitimation by social actors
- Familiarity with new rules in the society
- Adjustment of formal and informal institutions

Efficiency of New Institutions: low transaction costs

- Concept of transaction costs

II. System Transformation as Institutional Change (1)

System transformation =
extreme case of institutional change

Three possible strategies:

- Copying or transplanting of existing successful institutions without changes
- Adapting of existing successful institutions to national particular conditions
- Gradual development of own national institutions on the basis of assumptions

II. System Transformation as Institutional Change (2)

Particular characteristics of transformation process:

- High autonomy of political actors
- Lack of stability / high level of uncertainty

Recommendations:

- High universality of new rules
- High transparency on changes of rules
- Credibility of government / political actors
- Adequate adaptation of formal and informal institutions

III. What is „Competition Policy“?

F. Böhm:

„Competition policy is a constitutional institution“

Economic function:

Protection from restrains and promotion of economic activity

Social function:

Protection of freedom (economic and political) and building the public confidence in institutions

IV. The Competition Policy in Russia as an Institution

1. Establishment of the Competition Policy as an Institution

- 1991 – foundation of ministry for Antimonopoly politics (MAP)
- 1994 – change from gradual transformation strategy to the Big-Bang
- Since then more emphasize on privatization and financial issues
- From 2004 the competition policy returning to focus of attention
- 2006 – Extensive reform of the competition law

IV. The Competition Policy in Russia as an Institution (2)

2. Market structure

- Many big enterprises which still represent geographical and sector-specific monopolies - mostly maintained from socialistic period
- No efficient internal and external control for enterprises exist
- New oligarchs has few incentives for company's restructuring and for boosting of competition
- Small and middle sized enterprises have little chance to enter the markets
- Politics supports resp. forces economic concentration process

IV. The Competition Policy in Russia as an Institution (3)

3. Measures of Competition Policy

“Law on Competition” of 1991 – Reform in 2006:
Federal Law “On protection of competition”

- Prohibition of competition restrictive agreements or concerted actions
- Abuse of dominance
- Merger control
- Restrictive action to competition of administrative bodies
- State aid (new)
- Separate rules for financial institutions (new)

IV. The Competition Policy in Russia as an Institution (4)

4. Violations of the competition law (statistics of 2005):

	2004	2005
Abuse of dominance	1422	1432
Restrictive agreements	156	152
Restriction activities by administrative bodies	1598	1985
Merger	1332	n.n.

Increases of law violation 1996 - 2005:

- Abuse of dominance – by 110,5 %
- Restrictive agreements – by 144,8 %
- Restrictive action of administrative bodies - by 477,2 %

V. Which Mistakes Russia has done with the Implementation of the Competition Policy?

1. Creation and advancement of a legal-institutional framework was not the main focus of transformation process
2. Task overload and little political support to administrative body
3. Little interest in promoting competition by politics and all interest groups

VI. Summary of Russian Experience

Competition policy in Russia shows a little effectiveness and efficiency

Evidence:

- Little changes in the market structure
- Strong dependence of competition authority from politics
- Low significance of decisions made by competition authority
- High transaction costs

Main problems:

- ✓ **No political commitment to enforcement of the rule of law**
- ✓ **Social norms do not support the idea of competition**

VII. Concluding Remarks

Is a lacking effectiveness of transplanted institutions inevitable?

Important: the determinants of effectiveness

Possible solutions:

1. Strength of politics and its commitment to legislative institution
2. Political commitment to the reform and professional support of foreign specialists
3. Gradual adaptation through more universal rules in order to avoid a strong inconsistency between formal and informal institutions
4. Promoting of competition and educational forces for staff and population

**Thank you
for your attention...**