13 June 2022

## How can competition curb soaring inflation and the cost-of-living crisis?

## Closing remarks

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Here this morning we have discussed the relationship between competition and inflation and the cost of living. In particular, contemplating whether dominant corporations may be using their market power to raise market prices more than they otherwise could.

These ideas are of special relevance for a small economy like Iceland, where the domestic markets are generally characterised by oligopoly, with two or three firms dominating the most important markets.

It is though difficult to blame increase in concentration on the rising inflation rate observed throughout the world economy. Studies show that there have been moderate increases in concentration in the EU over the last 20 years, and US-based research confirm this trend. But this is a slow trend, and a slow growth rate cannot explain a fast growth rate, i.e. inflation.

Further, economic theory suggests that firms in markets characterised by limited competition respond less to changes in costs than pure competitors do. Market power may most certainly cause high prices, but not rapidly rising prices. We do, however, have a pretty clear idea of what is driving inflation and that is the rise of prices in energy markets. On the other hand, inflation may reduce competition in the market and make firms more complacent about raising prices.

Classical competition policy is concerned with merger control, cartel control, antitrust and proportionality and market distortions brought about by state aid. The conservative nature of competition policy makes it difficult to interfere in the working of the market, like fiscal and monetary authorities do. In addition, antitrust policy takes a long time to have an impact, far longer than would be needed to combat inflation.

So what then should Competition Authorities do, if anything? It should be noted incentives have not changed and firms will behave in the same way as before. Inflation may indeed facilitate collusion, by giving a signal of price increases, making anti-competitive prices harder to detect and provide excuses for firms wishing to engage in communication or coordination. Competition Authorities should maintain their vigilance, look for signs of potential collusions and keep an eye on key sectors where the prices have increased considerably. They should also advocate for pro-competitive reforms, such as those that reduce barriers to entry, and raise public awareness of the dangers of policies such as price controls to make sure they do not contaminate the principles of competition. Lack of competition is still an urgent problem, but we do not have over-regulation but much rather under-regulation.

Before closing this conference, I would like to thank all those participating in the event. Special thanks go to the Lilja Dögg Alfreðsdóttir, Minister of Culture and Business Affairs, Pierre Regibeau, Chief Competition Economist DG Competition, Ana Sofia Rodrigues, Chief Economist of the Portuguese Competition Authorities, Martin Gaynor, Professor of Economics and Public Policy at Carnegie Mellon University, and Ásgeir Jónsson, Governor of the Central Bank of Iceland. I thank those of you attending the meeting in person or online also for your participation and hope you all enjoy the rest of your day. Thank you.