Philip R Lane: Competition policy and central banking

Remarks by Mr Philip R Lane, Governor of the Central Bank of Ireland, at the European Movement Ireland and Central Bank of Ireland Joint Dinner in honour of Commissioner Margrethe Vestager, Dublin, 24 January 2019.

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Dear Commissioner Vestager, distinguished guests,

I am delighted to host this dinner together with European Movement Ireland in honour of Commissioner Vestager. Welcome to Dublin and welcome to the Central Bank of Ireland.

The central banking community takes a strong interest in the competition portfolio held by Commissioner Vestager. In particular, there is increasing evidence that the level of competition and the vigour of competition policies are key factors in determining macroeconomic performance and long-run living standards.

For instance, the recent empirical research of Guttiérrez and Philippon (2017) and Dottling et al (2017) finds that investment rates are negatively correlated with indicators of market concentration. Moreover, the incentives for the leading firms in an industry to innovate are weaker in the absence of competitive pressures. Taken together, less investment and less innovation imply lower productivity growth and lower living standards.

One factor behind the different patterns by which market concentration is rising in the United States but not in Europe is the vigorous approach to competition policy in the EU (Gutierrez and Philippon 2018). Importantly, this also maps into better outcomes for consumers, with prices higher in less competitive sectors. More competition also improves the prospects for workers by limiting the monopsony power of dominant employers to constrain wages.

In addition to macroeconomic performance, competition policy (and related State aid decisions) is also influential in shaping the European financial system. The process of restructuring the European financial sector in the aftermath of the crisis has been disciplined by the imperative to maintain a level playing field. In terms of adjudicating the design of State aid interventions, the implementation of this principle is not always straightforward and this remains an ongoing challenge under the revised European bank recovery and resolution regime.

A fundamental development in recent years in the euro area has been the initiation of Banking Union. As Commissioner Vestager herself remarked earlier this month: “the fundamental strength of our internal market is its size” (Vestager 2019). In the aggregate, the European banking system is quite fragmented: the development of Banking Union has the potential to deliver a more efficient, more competitive and more stable pan-European banking system. In the transition to Banking Union, we may expect to see an increase in cross-border mergers and acquisitions, with a duty on competition authorities to facilitate welfare-enhancing consolidation while protecting and enhancing competition in each local market.

Finally, as a member of the Eurosystem and the European System of Financial Supervision, the Central Bank of Ireland shares with the European Commission and European Movement Ireland a common commitment to working together on a pan-European basis in order to safeguard stability and protect consumers. Only through a strong European Union can we successfully manage the twin challenges posed by globalisation and technological change, with shared sovereignty the foundation for effective and sustainable international policymaking (Lane 2018).

In closing, Commissioner Vestager: as a memento of your visit to the Central Bank, I would like to present to you our recent commemorative coin that marks the centenary of the women’s right to vote in 1918.

I look forward to listening to your speech at the close of this dinner.

I thank Valerie Herzberg and Mícheál O'Keeffe for their assistance in preparing these remarks.

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