Competition - growth and prosperity

Competition – growth and prosperity is the first of a new series of analysis to be published by the Danish Competition Authority. The report summarizes the current knowledge on how competition works and the effects of competition on companies, consumers and the society as a whole.

Competition is a main driver of productivity and prosperity. Several studies have found that competition has a substantial impact on productivity. One study finds that competition explains 70 percent of overall productivity growth.

Competition affects productivity and prosperity in several ways.

Competition encourages firms to use internal resources more efficiently and encourages the management to increase performance thereby increasing static efficiency in firms.

Competition also ensures dynamic efficiency in that new efficient firms enter the market, while inefficient firms exit the market. This increases the competitive pressure on incumbents and encourages them to increase productivity. In Denmark, around one in ten firms either enters or exits the market each year.

Furthermore, competition encourages firms to innovate. Firms innovate to diversify themselves from competitors and to increase profits or to improve the production process. This put a competitive pressure on the competing firms and leads to even more innovation. In Denmark a product or a process innovation was introduced in 37 percent of the firms during 2004-2006.

The most important results of intensive competition are lower prices, better quality of goods and services, a high innovation rate, a richer commodity supply, higher employment and stronger competitiveness.

Open markets, market oriented regulation and an effective competition law are prerequisites for obtaining an effective competition. Several studies have found that deregulation of specific markets have led to price reductions by up to around 25 percent.