More Competition, More Growth

The UK is the most liberalized country in the EU15, followed by the Netherlands and Sweden. The least open markets are to be found in Italy, Greece and Denmark. This is the result of Istituto Bruno Leoni’s Index of Liberalization, a project that aims at measuring the degree of openness in 9 sectors of the economy of the 15 member states of the “old” European Union.

The nine economic sectors are: gasoline and diesel retail distribution, natural gas market, labor market, power market, postal services, telecommunications, televisions, air transportation, train transportation. For each sector, the 15 countries are assigned a score ranging from 100 for the most liberalized economy to 0 for the least liberalized one. The sectoral results are then averaged in order to estimate a country-specific Index of Liberalization.

The Index of Liberalization is fairly correlated with other measures of economic freedom or competitiveness, such as the Heritage Foundation’s Index of Economic Freedom, the World Bank’s Ease of Doing Business Indicator as well as the Regulatory Quality index from Worldwide Governance Indicators, and the World Economic Forum’s Competitiveness Index.
For each sector a number of criteria are employed in order to assess the existence of barriers to entry in, organization within, and exit from the market. The existence of such barriers is inferred from a number of quantitative as well as qualitative indicators. Among the former, concentration indexes, price dynamics, the public vs. private ownership of the incumbents, and other structural indicators are considered. Among the latter, we look at such indicators as the degree of unbundling for essential facilities in network industries, the existence of fiscal or legal discriminations against the newcomers, the regulatory quality, etc.

The Index of Liberalization provides both an explanation for the past economic performances of each surveyed country, and as an handbook for reforms. As far as its descriptive nature is concerned, liberalizations, privatizations and competition are associated with higher economic growth and a better ability to adjust to changing economic situations. This is particularly true for “non-tradable” services, where governments tend to interfere the most and/or to protect “national champions”. This results into higher prices and lower innovation, which ultimately undermines the economy’s ability to grow and the standard of living of the people.

European integration should not be just about introducing a pan-European bureaucracy: it should be much more about exporting each country’s best practices into the other economies. The Index of Liberalizations provides a useful guide to the success models in several economic sectors. Competitive markets can unify Europe much more effectively than burdensome regulations.
The most liberalized country for street fuel distribution is the UK. A number of indicators are employed that reflect the number and the nature of existing obstructions to normal market functioning. In particular, the following variables are considered: excise taxes; the deviation of the price (net of taxes) from the EU average; and some organizational variables (particularly the share of self service gas stations, as well as the share that also offers non-oil products).
The most liberalized country for natural gas is Ireland. To assess the degree of liberalization in this market, an econometric model is specified that explains the deviation from the EU average price for a medium-size industrial consumer controlling for a number of structural variables that reflect: the number of competitors with a market share above 5%; per capita demand of natural gas; the ratio between natural gas imports and domestic production; the degree of network unbundling; and the availability and governance of natural gas storage facilities.
The most liberalized labor market in the EU15 is the British one. The degree of liberalization of the labor market is estimated by looking at four main indicators: the OECD indicators on the rigidity of Employment Protection Legislation; the impact of labor taxes; the long-term unemployment as a share of total unemployment; and youth unemployment as a share of youth labor force.
The most liberalized economy is the Netherlands. The sectoral liberalization index is estimated through an econometric model that accounts for the deviation from the EU average price for a medium-size industrial consumer controlling for a number of structural variables that reflect: per capita demand of electricity; the ratio between domestic production and foreign import of electricity; the share of subsidized, renewable energy production; the policy tools used to subsidize renewable generation; and the degree of network unbundling.
The most liberalized country for postal services is the Netherlands. The index follows a two-track indicator that looks at the regulatory situation as well as the actual potential for entering the market. As far as the former issue is concerned, the following is taken into account: the scope of formal liberalization with respect to the range of postal activities; the number of years since formal liberalization occurred; and the degree of independence of the regulatory body. With regard to the market access, the following is considered: the market share of newcomers; the nature of Universal Service Obligations; public vs. private ownership of the incumbent company; the incumbent’s business areas; the regulation of Universal Service Obligations; and the existence of fiscal discriminations against the newcomers.
The country with the most liberalized telecommunications system in the EU15 is Great Britain. In order to measure the degree of market openness in this sector, several variables are considered that allow to assess: the degree of competition in the market; the degree of competition between alternative infrastructures; and the switching rates. Each indicator is developed for the fixed lines, mobile lines, and broadband connections.
Television

The most liberalized country in the EU15, as far as televisions are concerned, is Luxembourg. The degree of liberalization is assessed by looking at three main areas: the regulation of public service, including the existence of government-owned broadcasting channels; the existence of competing technological platforms and the regulation thereof; and the actual competition in the market as it can be inferred from concentration indexes, the number of competitors, the ratio of foreign operators, etc.
The most open economy with regard to air transportation is the UK. The liberalization index for this sector takes into consideration two sub-indexes. The former explores the regulatory barriers, by looking at: the degree of independence of the regulatory bodies; the existence of legal barriers to new entrants; the regulation of airport facilities and the degree of collusion with the incumbent airway; and the degree of stability of the legal framework. The latter sub-index looks at the market performance with regard to: the growth rate of the air transport demand; the market share of newcomers; concentration indexes.
The country where railways are the freest is Sweden. In order to achieve this result, the country has been able to score well under two sets of indicators. On the one hand, we look at a number of variables that have to do with the market design: the degree of regulatory independence; the regulator’s ability to monitor and enforce non-discrimination rules in network operation; the degree of network unbundling. On the other hand, we look at the actual level of market opening, by considering variables that reflect: the actual competition in the regional transportation; the actual competition on high-speed rails; and the growth rate of the market.