Don't Blame Lax Antitrust for Spawning Superstars: Jackson Hole

di Christopher Condom, Bloomberg, 24 agosto 2018

There’s plenty of evidence that many industries in the U.S. and across the developed world have become more concentrated, with market share controlled by a smaller number of firms.

That’s led to a lot of hand wringing over whether weakened competition and softened antitrust enforcement have enabled the rise of corporate giants, with dire consequences for consumers, workers and the economy.

A new paper by economist John Van Reenen, presented Friday at the Federal Reserve’s annual symposium in Jackson Hole, Wyoming, throws cold water on some, but not all, of those concerns. He argues that new technologies and globalization have amplified the advantages enjoyed by the largest and most productive companies, propelling them to their dominance.

“If more markets are becoming ‘winner-take-all’ as with digital platform competition, this will generate the dominance of ‘superstar firms,’” Van Reenen writes. “The success of such firms may be as much due to intensified competition ‘for the market’ rather than anti-competitive mergers or collusion ‘in the market.’”

Real Markets

The paper kicks off the annual retreat for central bankers hosted in Grand Teton National Park by the Federal Reserve Bank of Kansas City. This year’s conference is focused on the changing structure of real markets -- not financial markets -- and the implications for monetary policy.

Van Reenen, a professor at MIT’s Sloan School of Management, relies heavily on previous research suggesting that aggregate trends in higher profits, growing wage inequality and low productivity -- all of which point toward a general erosion of competition -- may be misleading. He and other economists have found, for example, that most American firms have seen either no increase or a decline in the markups they can charge above cost for their products.

The well-documented rise in overall profits, in other words, is driven entirely by a minority of companies, which also show the highest levels of productivity and innovation.

“The vast majority of the changes are due to reallocation between firms towards larger, more productive and profitable firms,” he says.

‘Superstar’ Firms

He detects a similar dynamic in declining labor share -- the percentage of corporate income that goes to workers. Again, he points to research finding labor share at most companies has remained steady, but declined dramatically among “superstar” firms where profits were concentrated.

Whether Van Reenen is right has implications for monetary policy. If weak competition and lax antitrust enforcement are the culprits, the concentration we’re witnessing will eventually lead to “inefficiently higher prices,” he says. That, in turn could force central bankers to tighten monetary policy. On the other hand, if the superstar scenario proves true, rising productivity should drive more growth and higher wages with less inflation.

Van Reenen is careful, however, to point out that even if he’s correct, that shouldn’t allay broad concerns about concentration and competition.

“Even if superstar firms attain their currently dominant positions on their merits of out-competing rivals, it does not mean that they will always use their power for the good of consumers,” he writes. “They may well try to entrench their position through lobbying, erecting entry barriers and buying up future rivals.”

So, the lack of antitrust enforcement may not be to blame for concentration, but concentration may make future antitrust enforcement, and other regulatory action, necessary.