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Competition is not the only problem for bankers at Jackson Hole

Policymakers should take issues of governance and corporate behaviour just as seriously

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Rampant corporate mergers have led to [falling competition](#), higher profits, lower investment and a decline in the share of US national income that goes to workers. This may be the most important hypothesis in economics today. If correct, it explains many of the economic ills plaguing America, and suggests a simple solution. Fire up competition policy, smash some monopolists and make the world a better place.

So popular has the theory become, it is on the agenda for this week's [confab of central bankers](#) in Jackson Hole, Wyoming. There has been a rise in market concentration, the organisers declare, and central bankers should be alarmed by its "important linkages" to lower capital investment, a declining labour share, slow productivity growth, slow wage growth and falling dynamism.

Not so fast. Weak investment and wages are all too real. Whether competition policy caused them, however, is in hot dispute. The assembled central bankers would be wise to keep an open mind. Bashing big companies may be popular, but if the diagnosis is wrong, the cure will not work. Worse, policymakers will miss their chance to prescribe more effective treatments.

The worthies at Jackson Hole should recognise that at least three theories can explain the facts. One is competition. Second is the rise of intangible assets. Third are issues of governance, short-

termism and corporate behaviour. If the latter are most important, then senator Elizabeth Warren, who suggests worker representatives on US corporate boards, or President Donald Trump, who has mooted an end to [quarterly reporting](#), are at least on the right track, whatever the merits of their specific proposals.

A first, crucial question is whether concentration really has made markets uncompetitive. Many [recent studies](#) claim to show just this, but Carl Shapiro — the top US competition economist under Bill Clinton and Barack Obama — is [not convinced](#). He argues they look at overly broad industries and mix up national data with local markets. If local groceries merge into national chains, then it will create a big rise in concentration at the national level. But what matters for competition is how many different stores there are in your town, which may not have changed at all.

Mr Shapiro questions whether the rise in concentration is big enough to have the effects claimed for it and notes it is not the specialists who are complaining: “Are antitrust economists, who have looked most closely on a case-by-case basis at the relationship between concentration and competition, completely off base here? Possibly, but I doubt it.”

A second important strand of evidence for declining competition is companies that sell products with a rising mark-up over costs. A widely-cited 2017 paper by the economists Jan De Loecker of Princeton University and Jan Eeckhout of University College London found that, since 1980, these [mark-ups have risen](#) from 18 per cent to 67 per cent. In theory, high mark-ups should attract competitors. If that does not happen, it suggests something has gone wrong.

But again the evidence is hotly disputed. James Traina of the University of Chicago shows it is closely linked to how you define costs. Include overhead expenses such as marketing, as well as the raw cost of goods sold, and the apparent [rise in mark-ups disappears](#).

The most plausible examples of weaker competition are [“superstar” firms](#), where a single winner, often fuelled by the power of online networks, captures most of the profits in a market. Such companies may well have monopoly power, invest modestly and employ relatively little labour. Addressing them will require new competition tools. But they say little about merger policy for established industries such as shops, chemicals, shoes or cement.

Perhaps the most [interesting study](#) of the falling labour share, by the economists Loukas Karabarbounis and Brent Neiman, tries to match up all three possible theories with the long-run path of the economy. Declining competition does not fit, and they struggle to reconcile intangible assets with the data.

The answer that works best is a growing gap between the yield on Treasuries and the perceived cost of capital. In other words, rather than behaving like a set of monopolies, corporate America

collectively acts like it needs a 10 per cent return on any investment, even though interest rates have barely recovered above zero.

Prof Karabarounis and Prof Neiman do not explain why this would be so. But such behaviour fits with concerns about cross-ownership by big investment funds or the incentives for corporate managers to minimise long-term investment in favour of buybacks that push up the stock price. Under [pressure from activist](#) shareholders, many companies have explicitly adopted high hurdles for new investment.

None of this means competition policy is perfect, or even good. The US Supreme Court's recent decision in favour of American Express is a blow to [competition in credit cards](#) and many other markets. Consolidation has very likely gone too far in markets such as beer and cable television. The UK should reject the planned merger of supermarkets Asda and Sainsbury. Internet groups such as Apple and Google deserve the close attention of competition regulators.

Crack down on monopolists, by all means. But alone it will not end our economic woes.

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