



# **RISING CORPORATE MARKET POWER: FACTS, MACROECONOMIC EFFECTS, POLICY IMPLICATIONS**

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INTERNATIONAL MONETARY FUND

**Workshop on Estimating the Costs of Non-Competition for the EU**

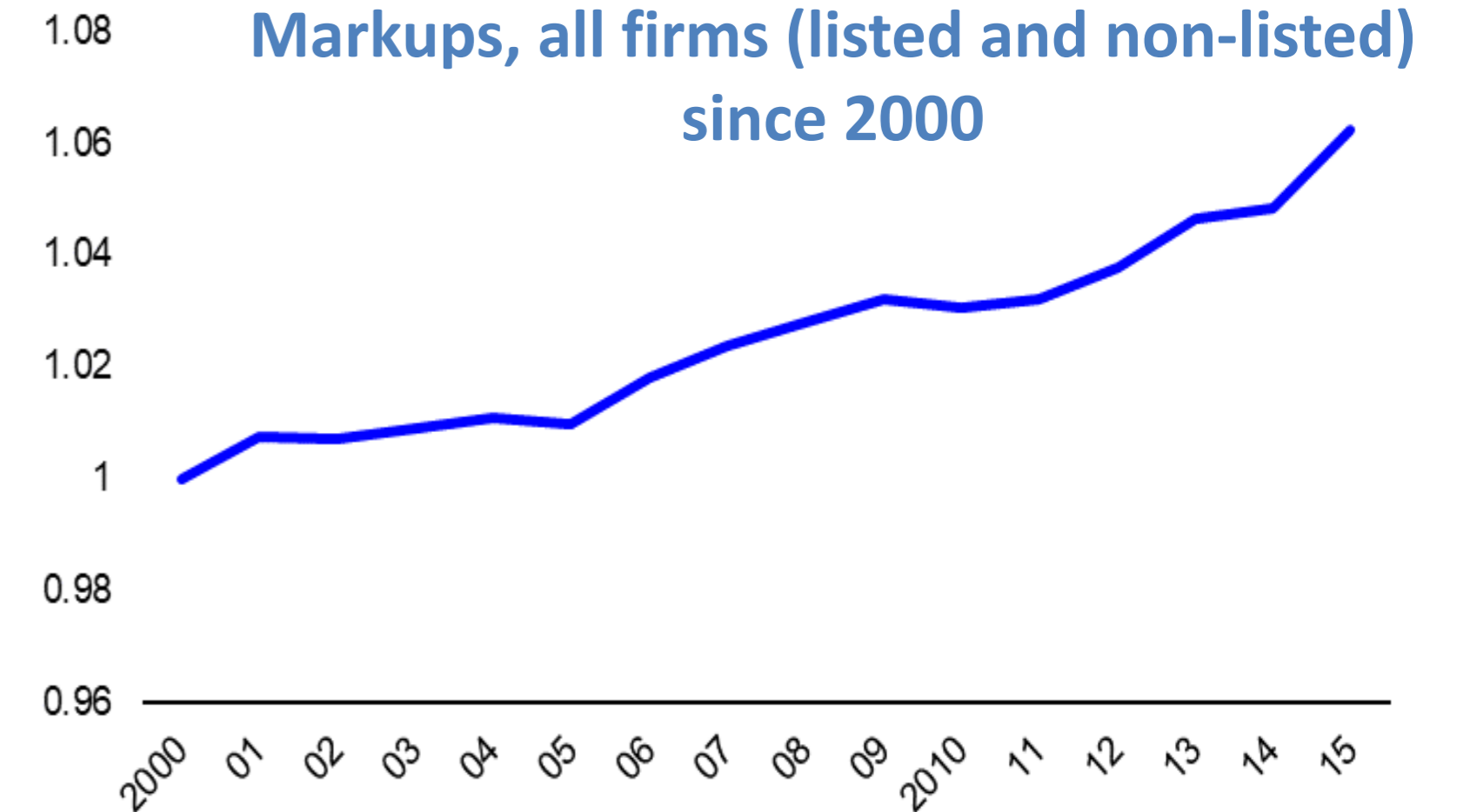
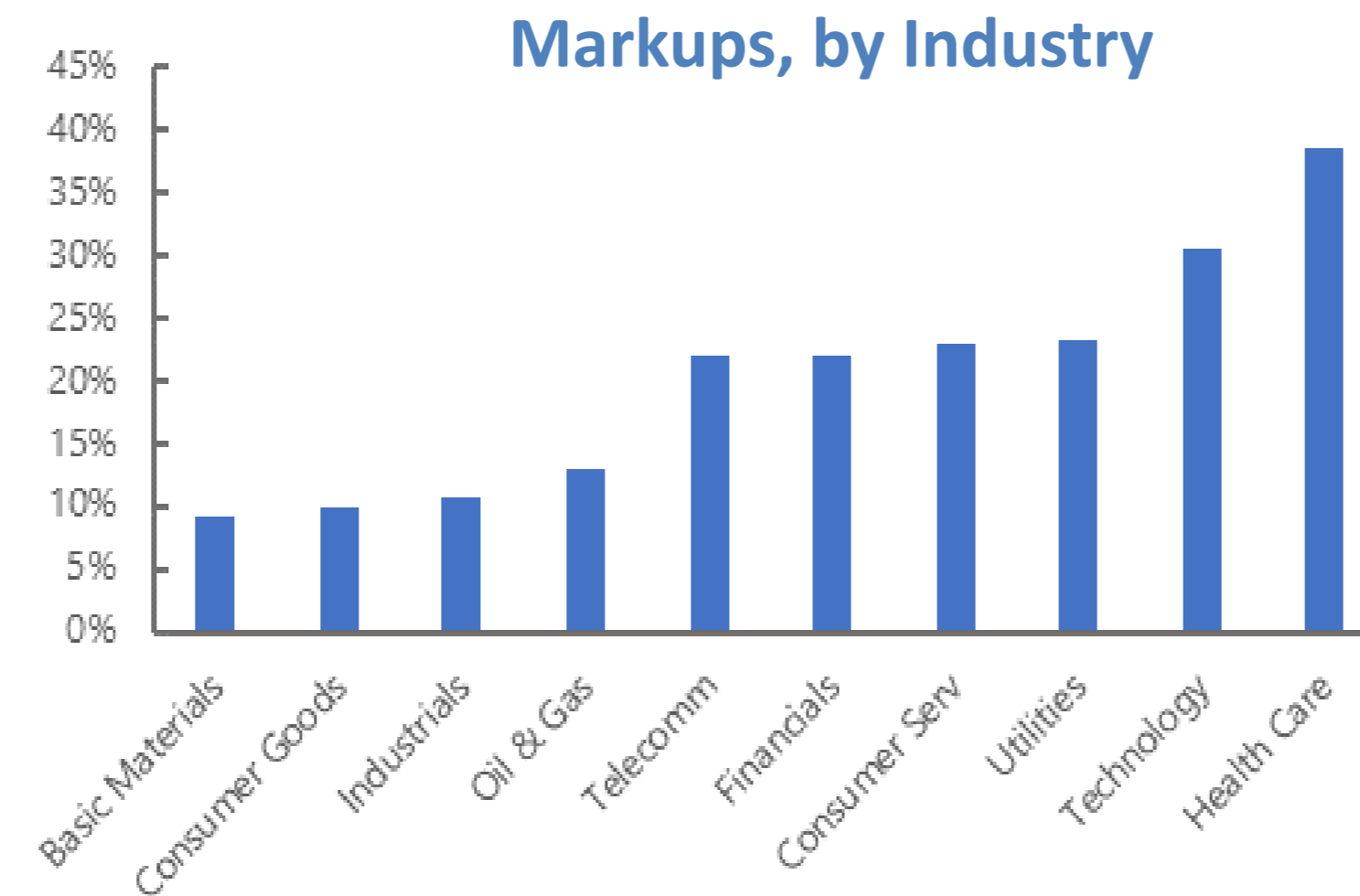
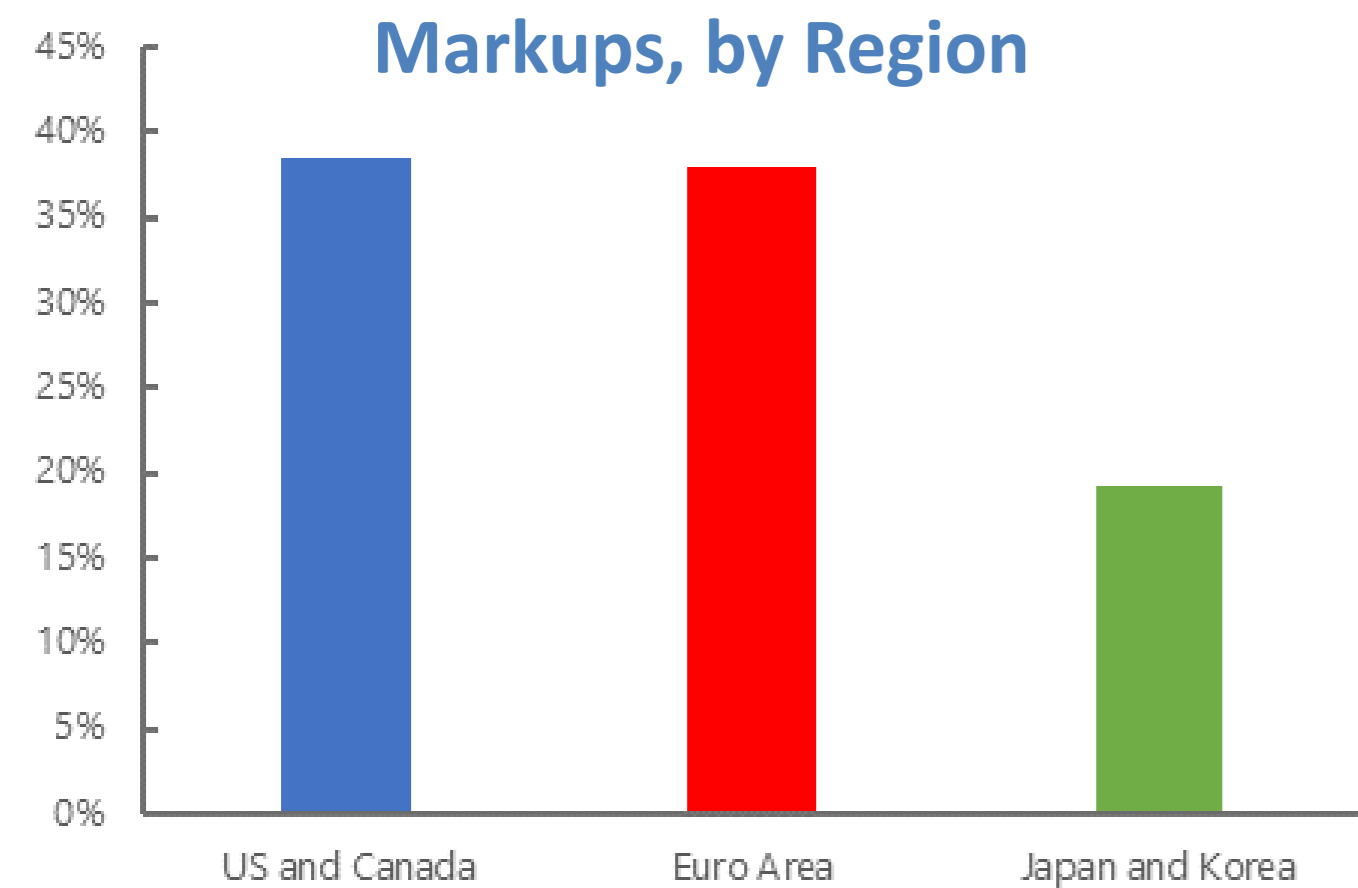
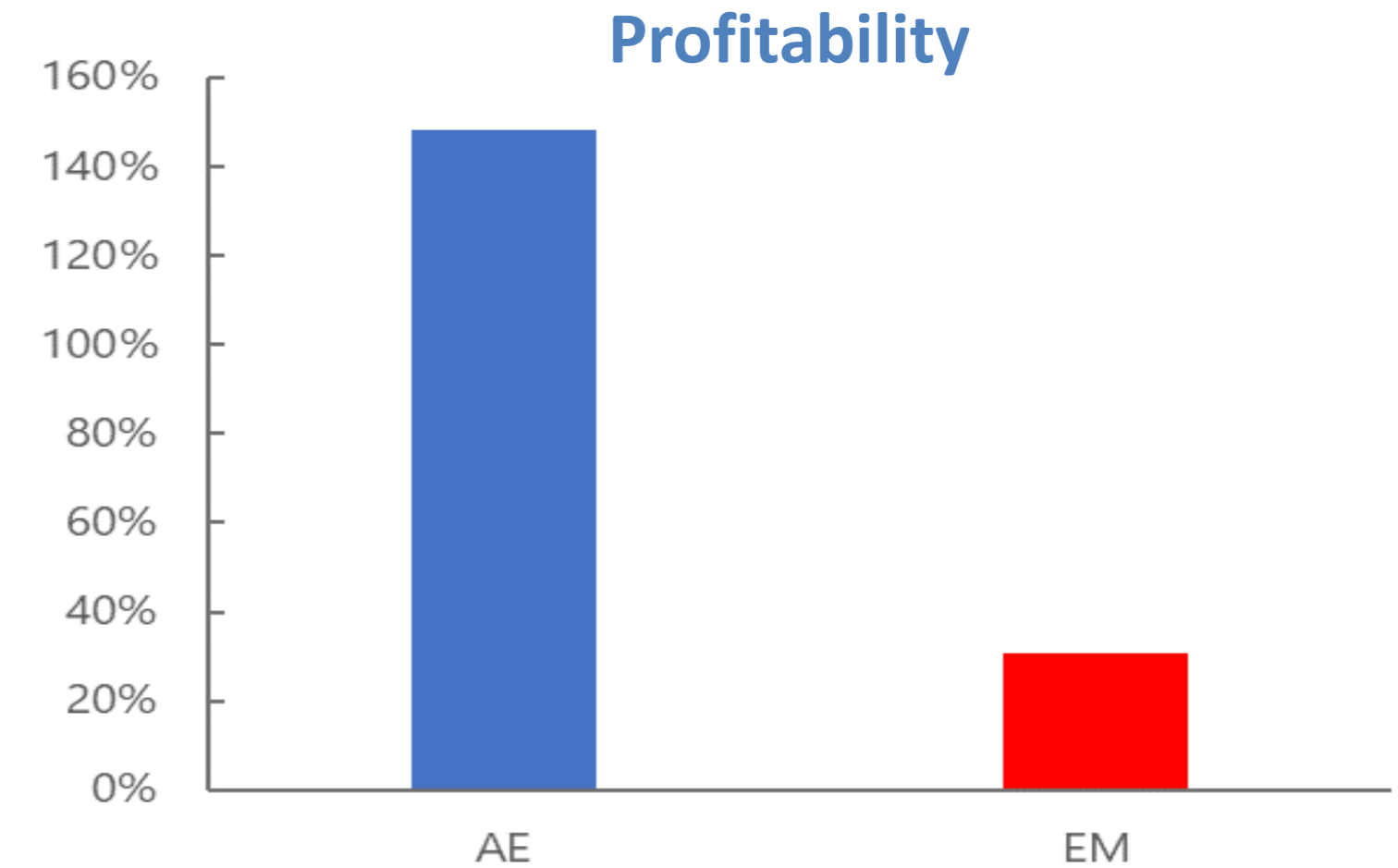
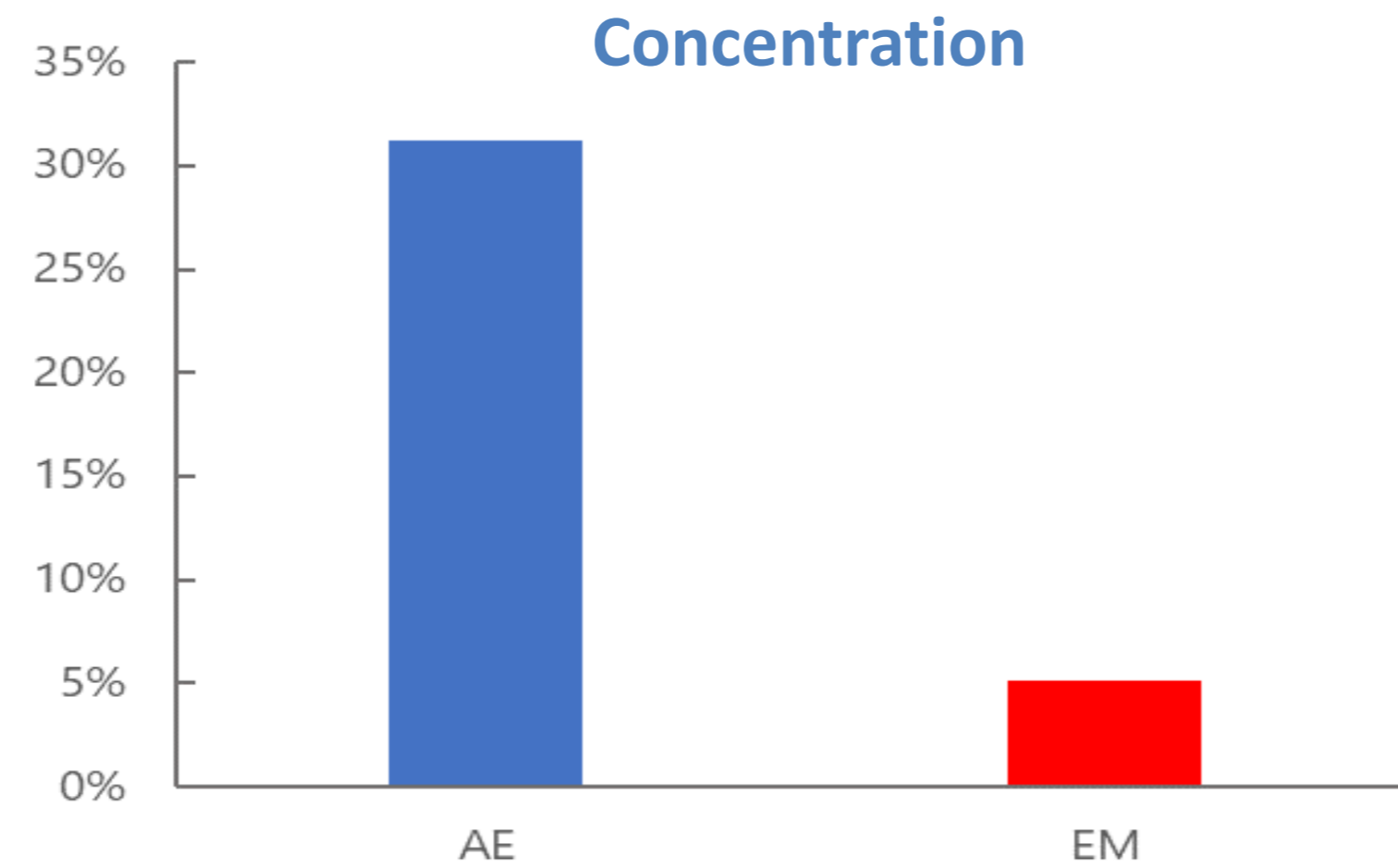
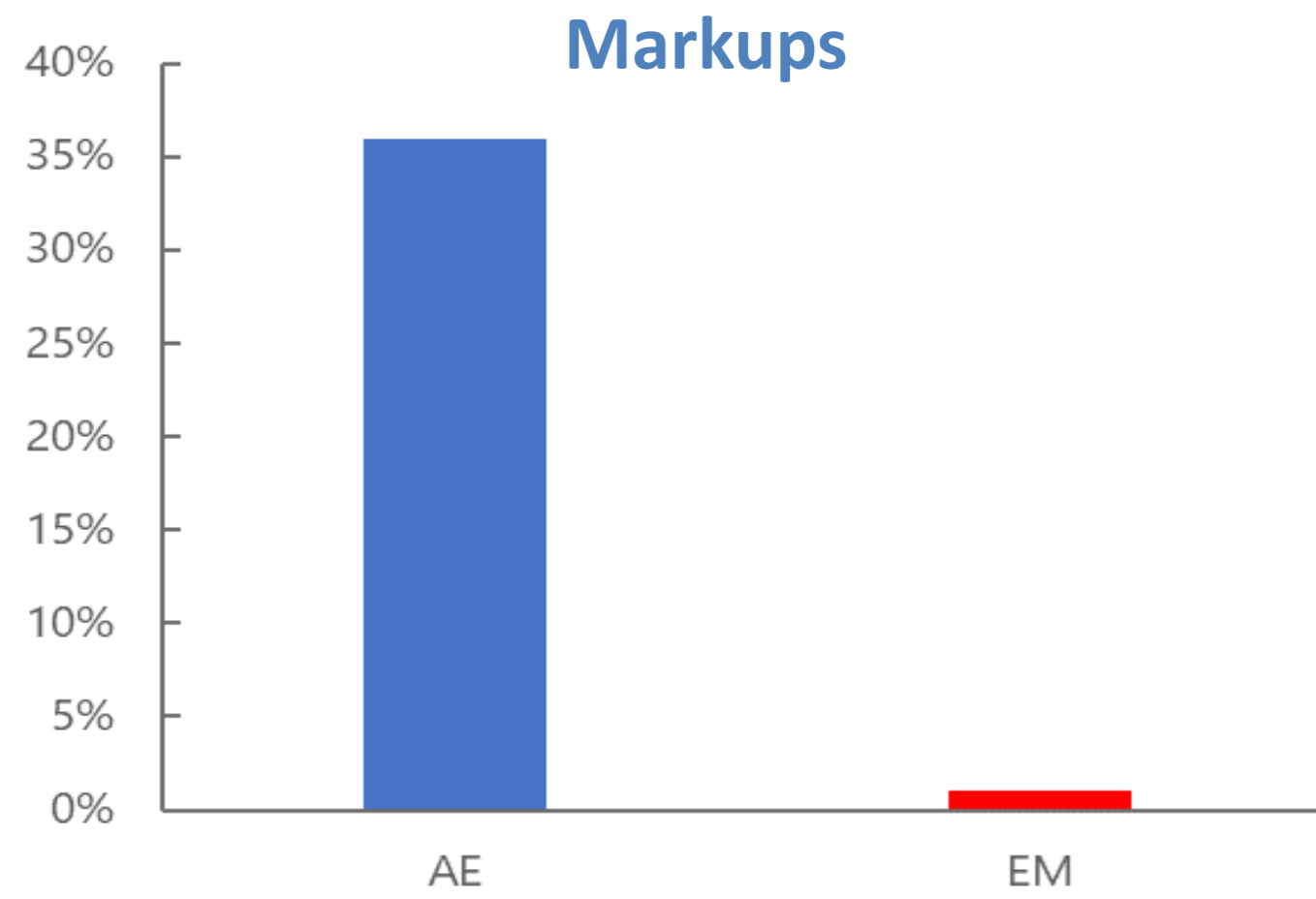
**June 23, 2022**

# Motivation and key issues

- Macroeconomic puzzles/worrisome trends and market power
- Corporate market power has increased across AEs in recent decades
  - Markups, various measures of concentration, profit rates
  - Covid-19 could amplify some of these trends (but not others)
- Whether/how to address this is still debated:
  - *Drivers:* rewards to successful entrepreneurship (technology/superstars) vs harmful decline in competition? (barriers to entry/antitrust enforcement)
  - *Macro implications:* for growth, investment, and wages
  - *Policy implications:* for competition policy frameworks and other policy areas

# MARKET POWER: FACTS

# Rising market power in advanced economies...

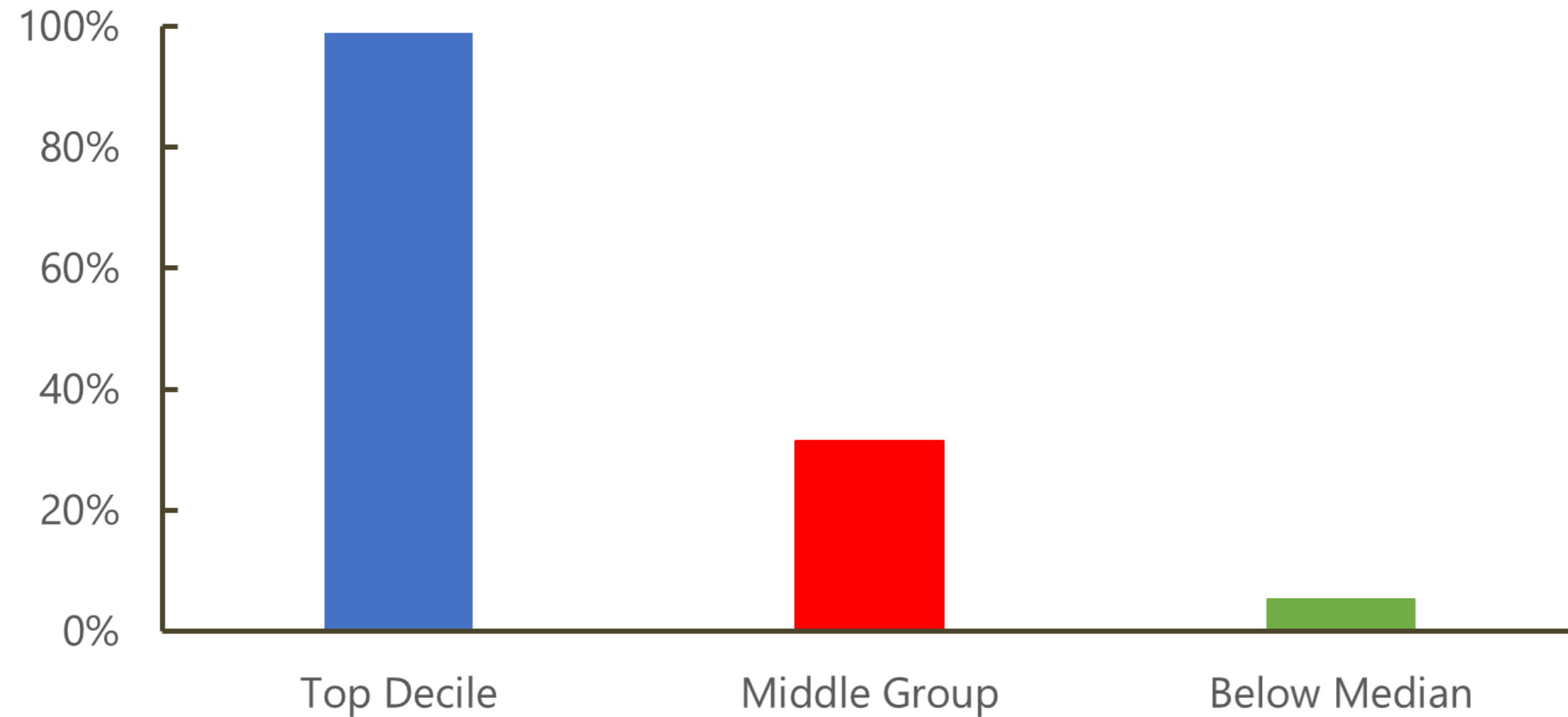


*(Cumulative Percent Changes over 1980-2016 (advanced economies), 1992-2016 (emerging market economies), or 1995-2016 (industry markups))<sup>4</sup>*

# ...concentrated among small group of firms with high and increasingly entrenched market power...

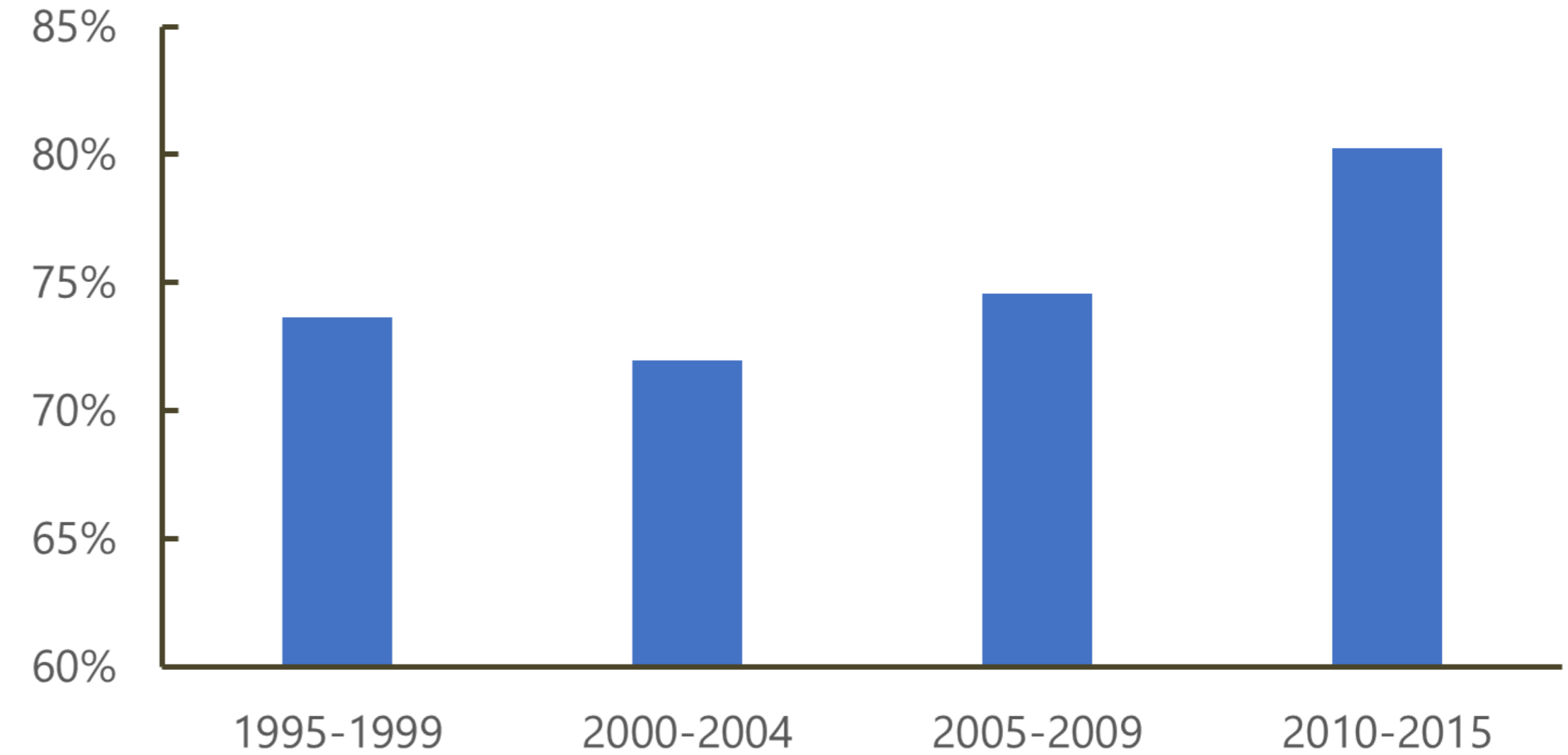
Markup Increase by Markup Level

*(cumulative percent change)*



Persistence at Top Decile of Markups

*(probability of remaining in the top decile, averaged)*



- Markup increase concentrated in small group of firms...
- ...whose market power is increasingly entrenched,...
- Concentration likely to rise further due to COVID-19

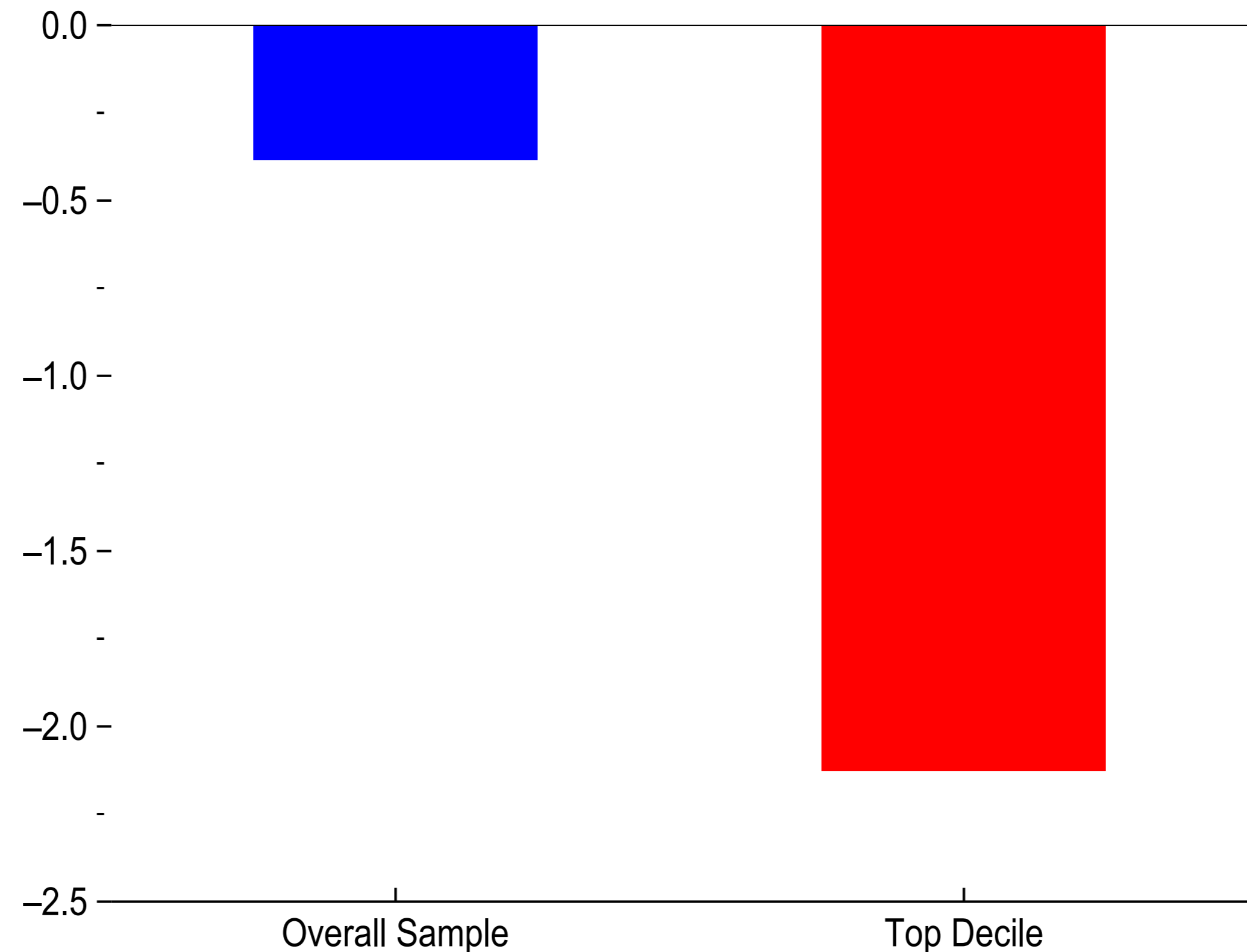
# MARKET POWER: MACRO EFFECTS

# Three worrisome, albeit so far moderate, macroeconomic implications

- **Lower growth:**
  - Lower investment
  - Ambiguous a priori, but increasingly negative effects in practice, on innovation/patents
  - Lower business dynamism, in part through M&As—notably by dominant firms
- **Lower wages:**
  - Rise in market power translates into lower labor shares...
  - ...possibly reinforced by labor market power of large powerful firms
- **Less effective macro policy stabilization:**
  - High-markup firms less responsive to macro policy actions
  - Rising market power may lead to (small) decline in natural interest rate

# Lower investment

## Implied Relationship between Higher Markups and Investment Rate over 2000-2015 (Percent point change)



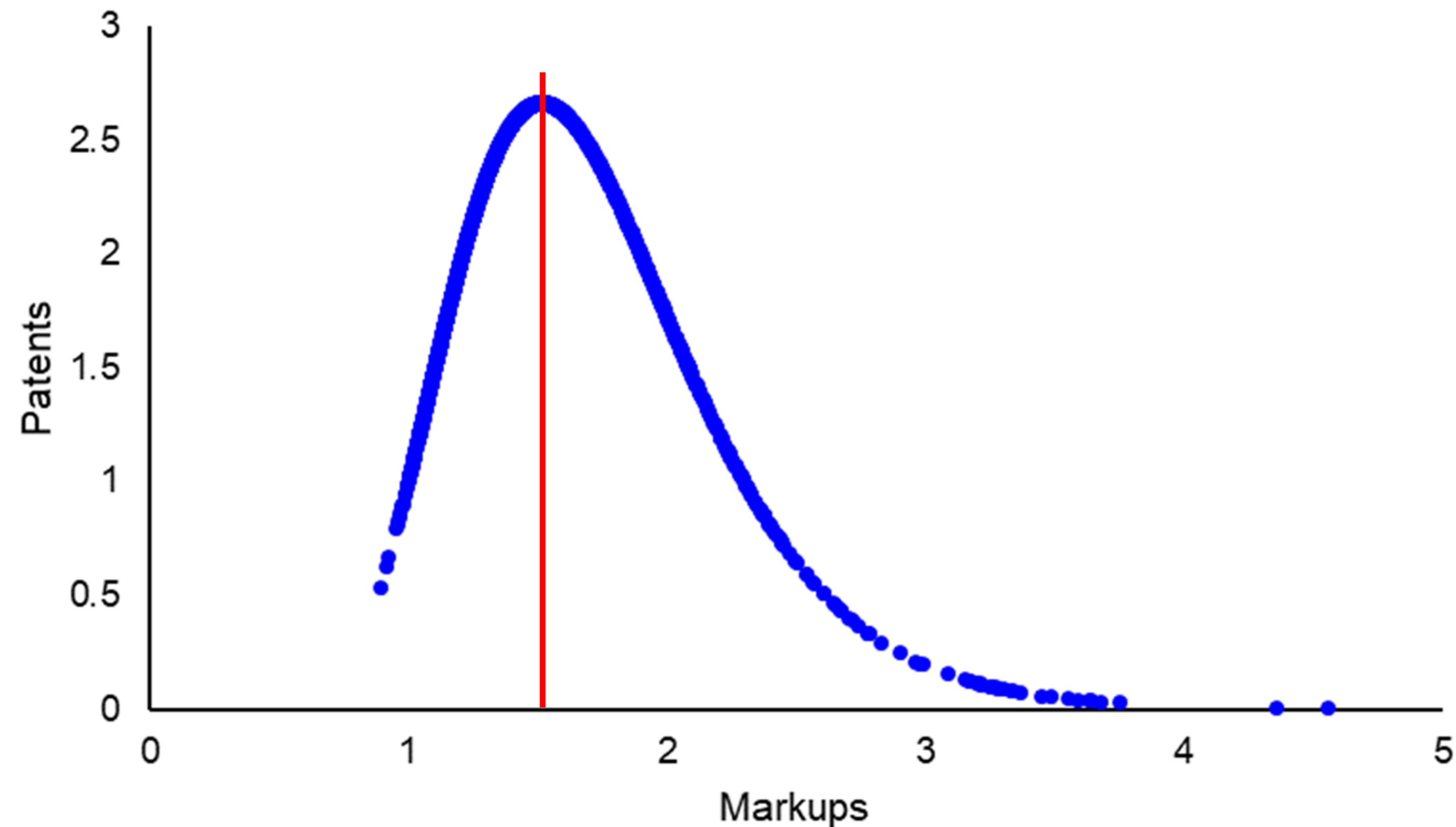
→ Under constant markups since 2000, aggregate K today could be 3% higher in average AE

Note: cross-country firm-level estimates using Orbis (sample of listed and non-listed firms over 2000-2015). These estimates capture the investment impact of the within-firm rise in markups over 2000-2015; they ignore the possible further negative impact from the rise in markups due to reallocation of activity away from low-markup firms towards high-markup ones.



# Ambiguous a priori, but increasingly negative effect in practice, on innovation

Hump-shaped relationship between market power and innovation



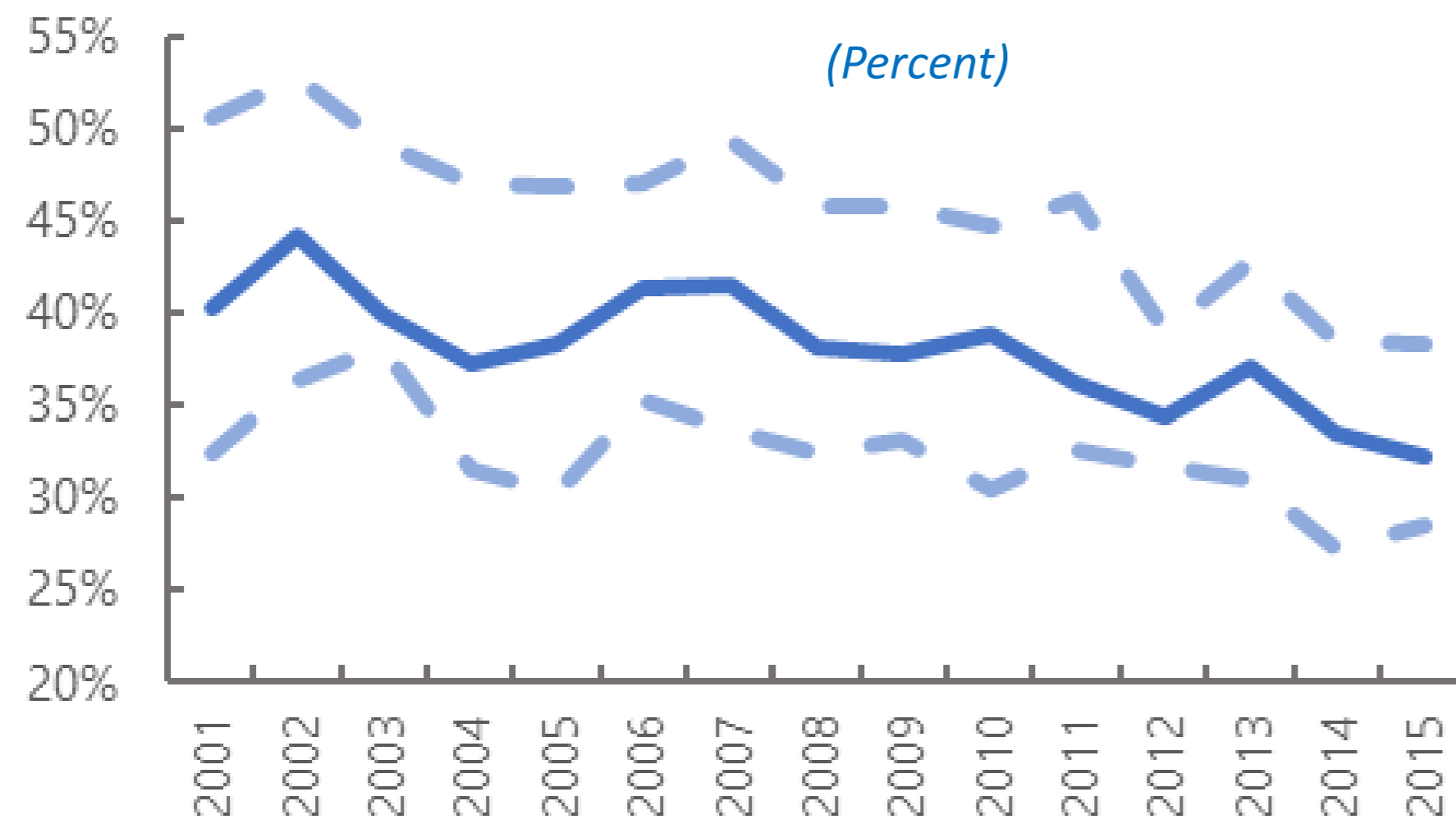
Source: Orbis; PATSTAT; and IMF staff calculations.

Note: The figure plots the effects of markups on the predicted average number of patents by country-sector. Predicted patents normalized to 1 for markups = 1.

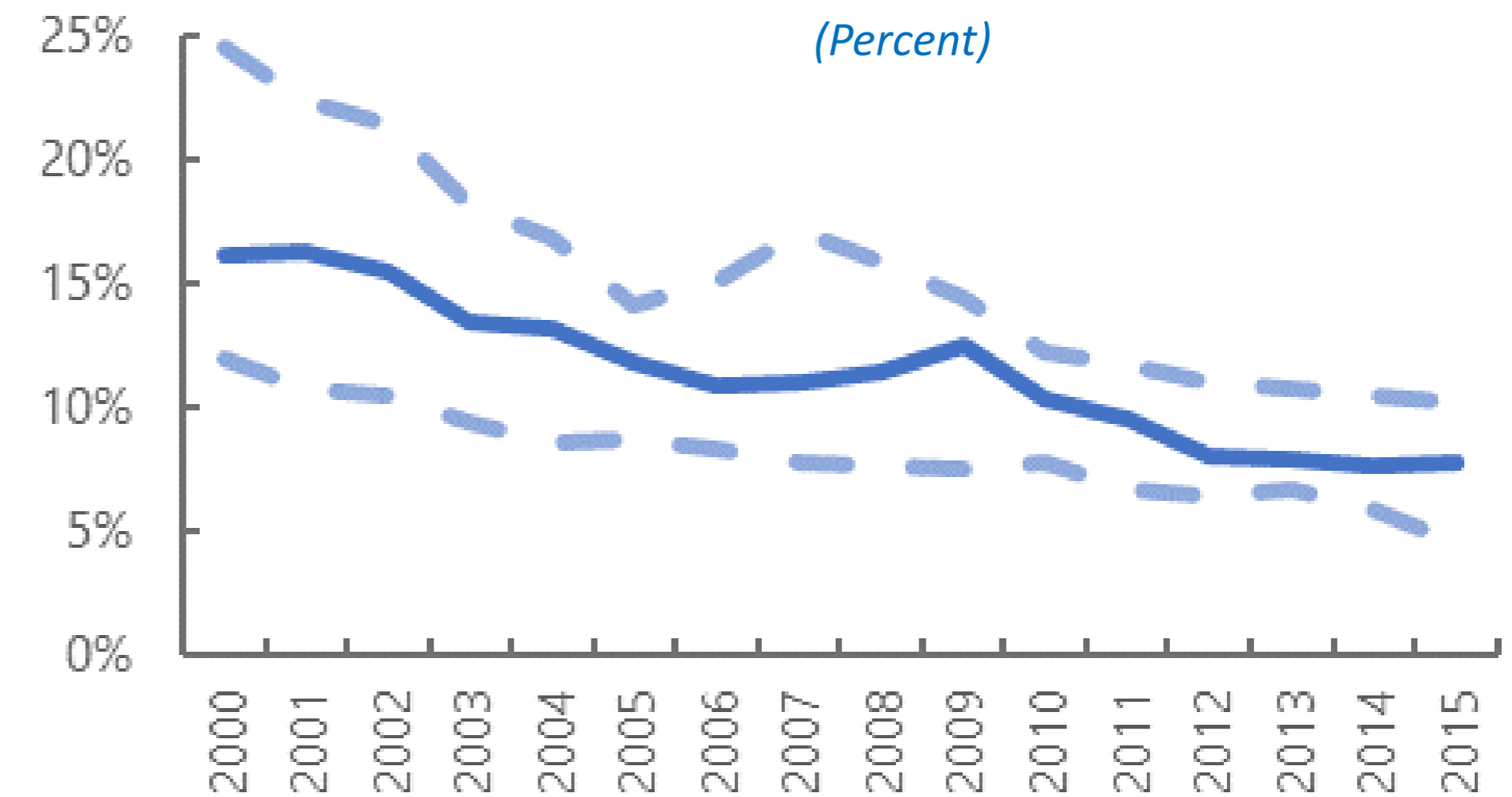
- ❑ But most high markup-firms are already on the right-hand side

# Declining business dynamism within industries...

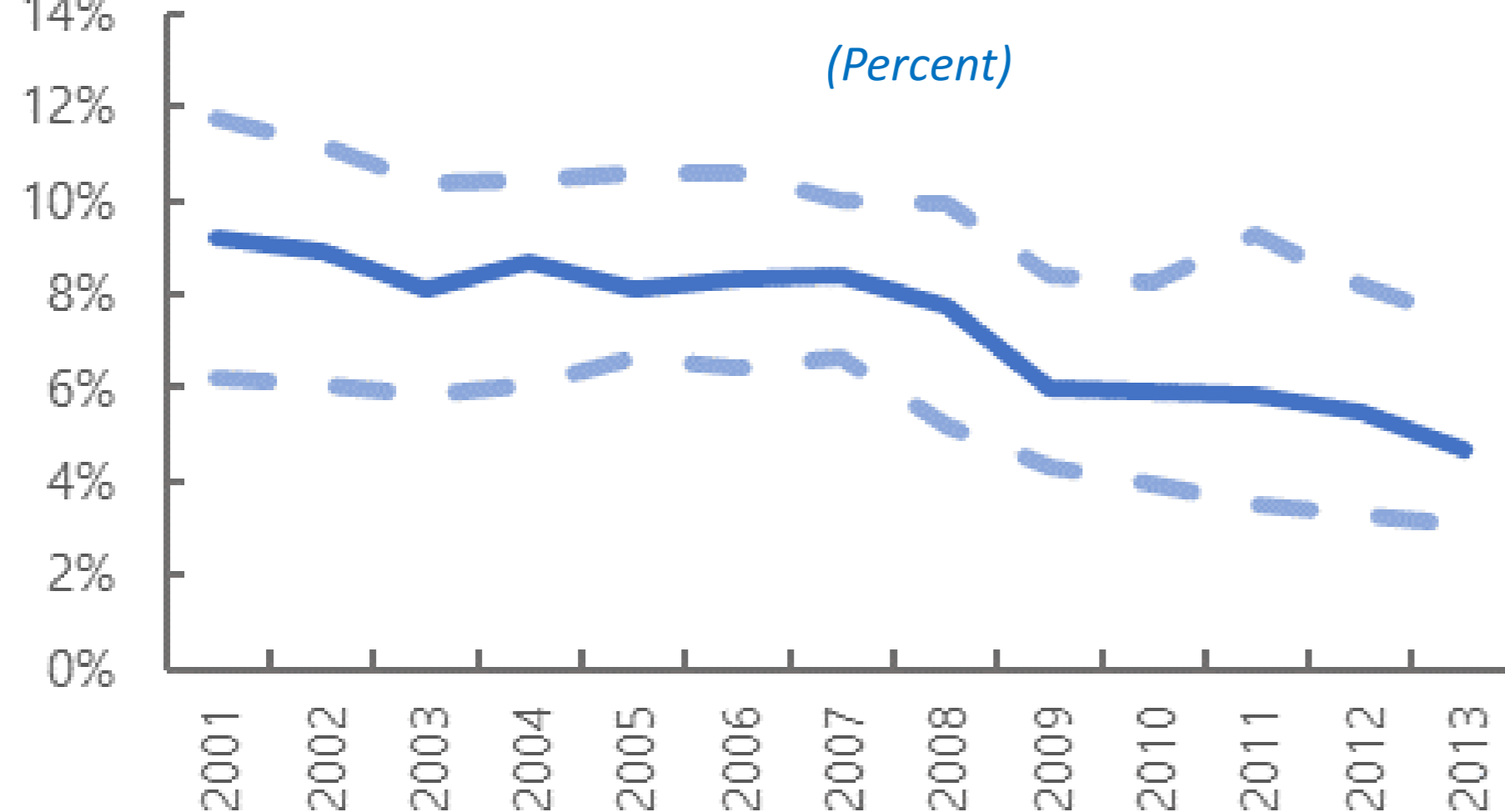
### Growth Dispersion across firms



### Share of Young Firms' Output



### Entry Rate

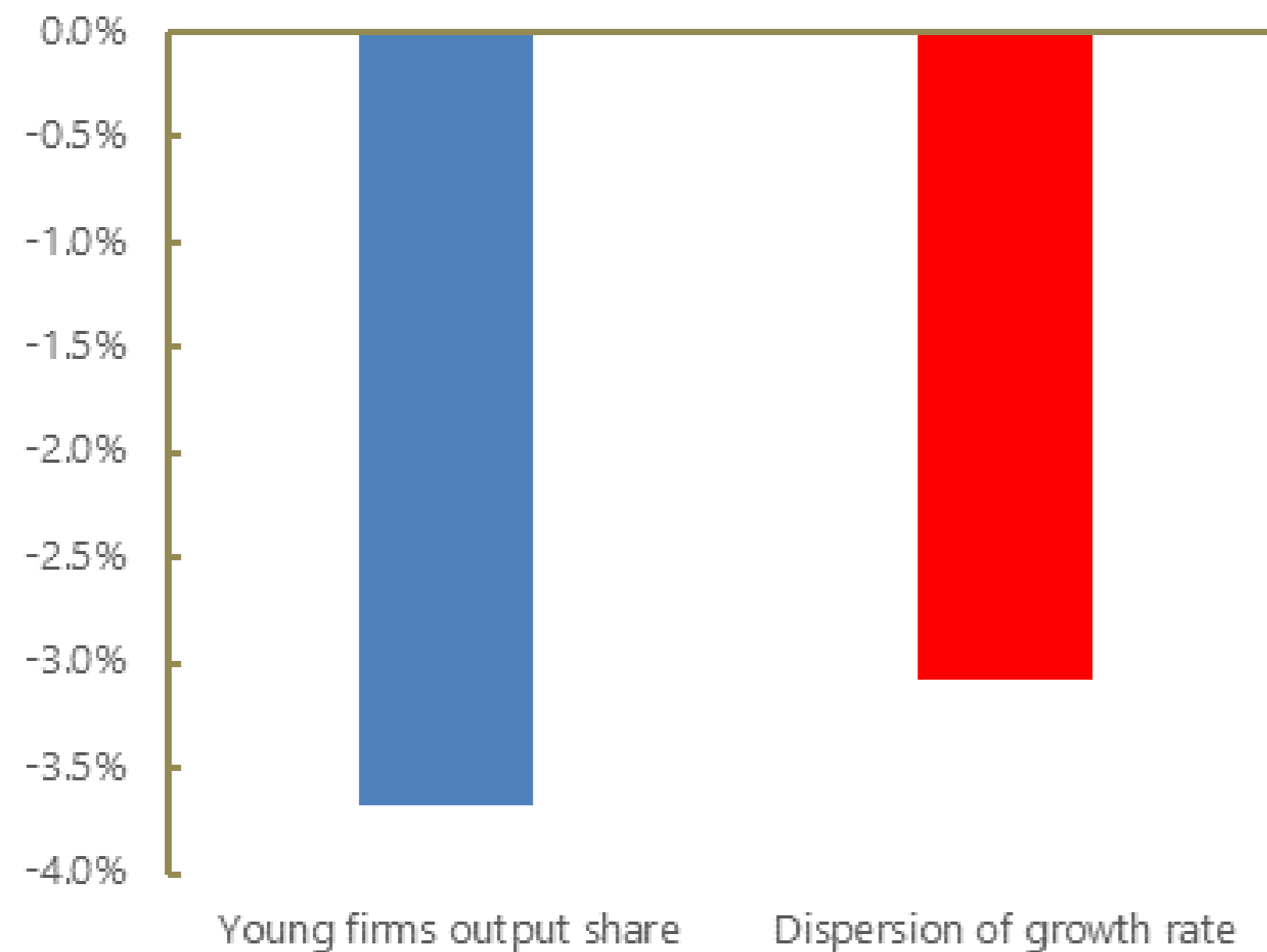


- Market power likely at work
  - Higher market concentration associated with lower output share of young firms (at country-industry level)

# ...in part connected to M&As

## Effects of Leaders' M&As on Business Dynamism

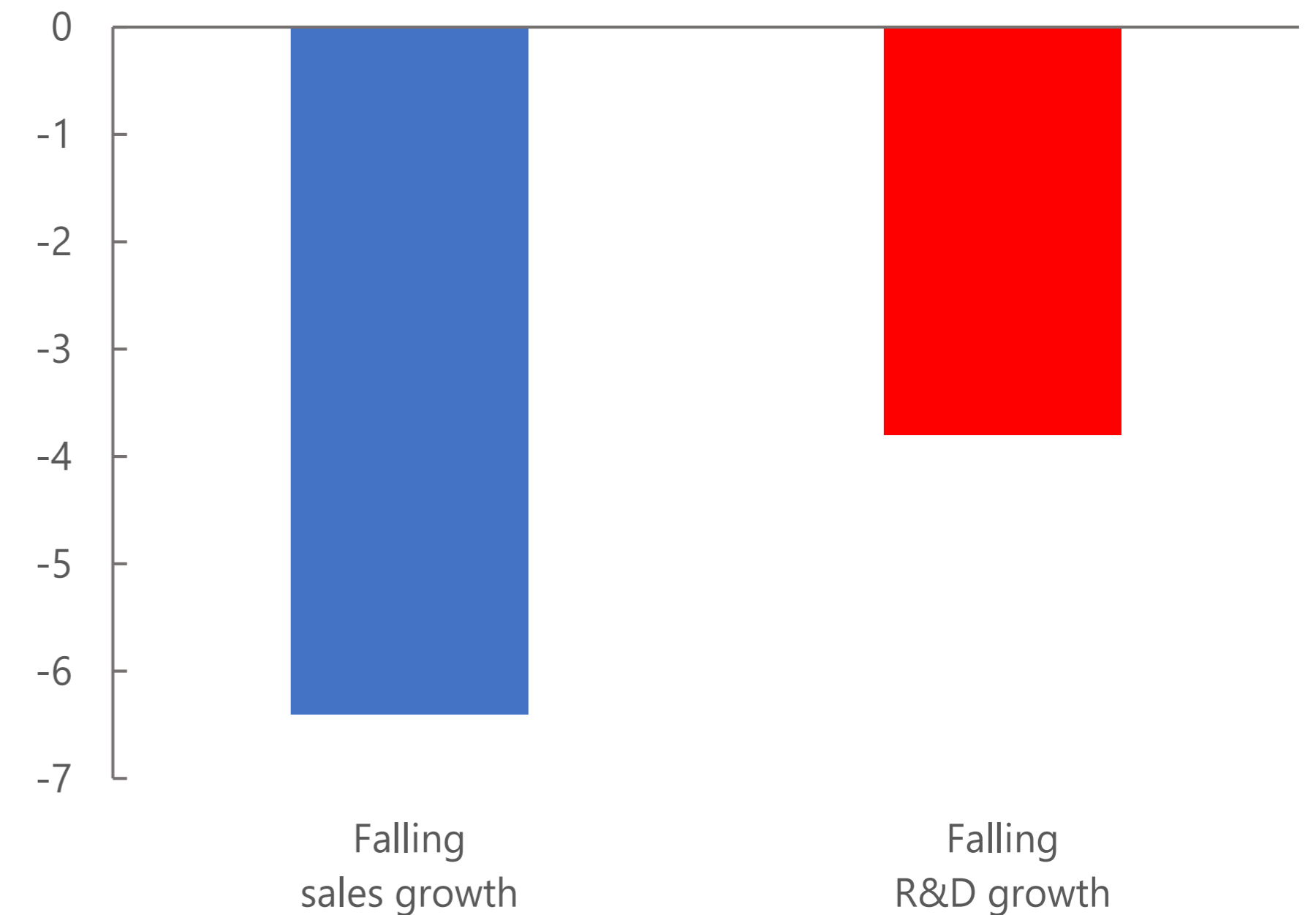
(Impact of one-standard deviation rise in M&A share of leaders, in percent)



- M&As by industry leaders linked to lower share of young firms in total output and to lower growth dispersion (within a country-industry)

## Effects of Leaders' M&As on Competitors

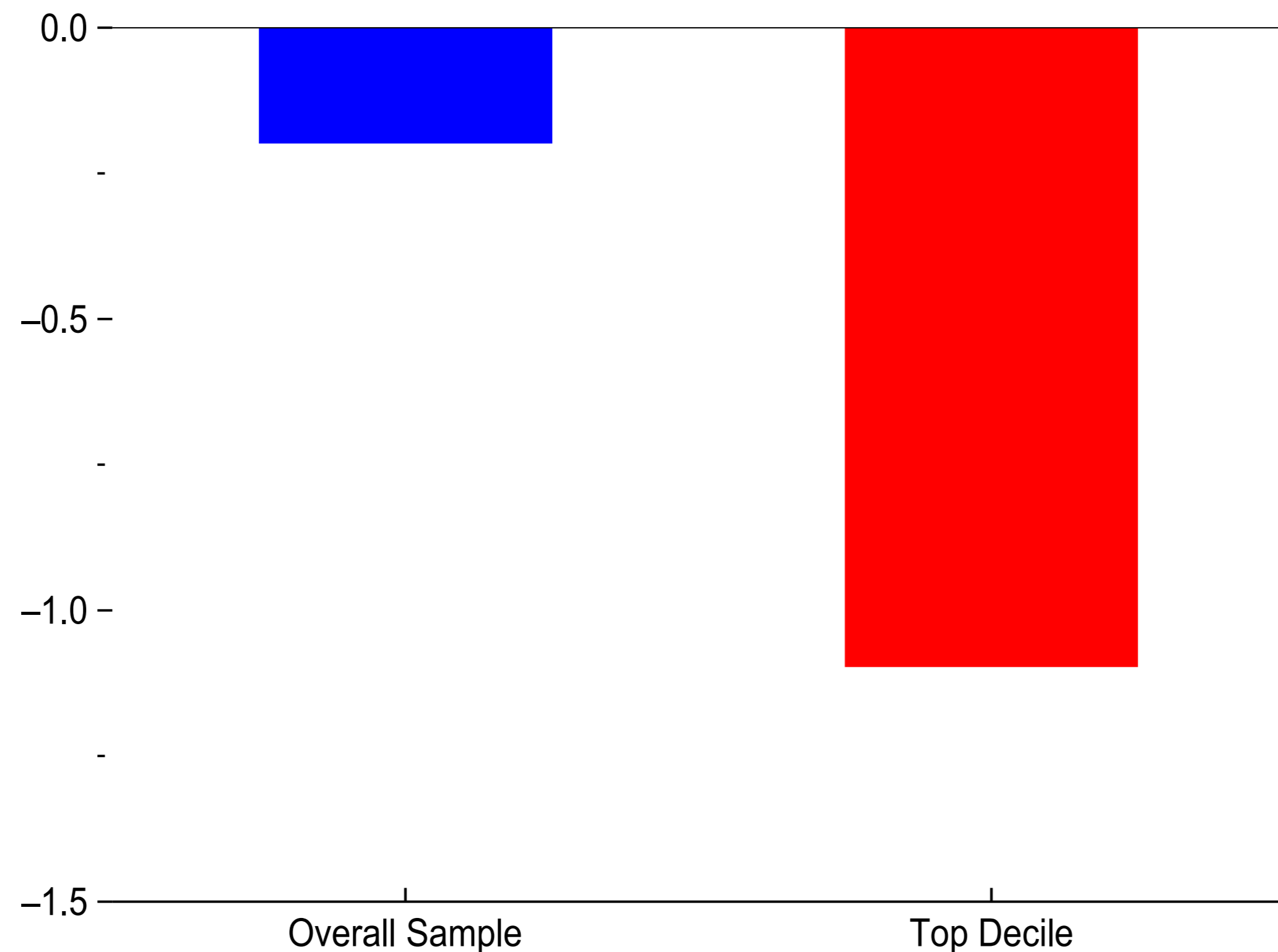
(Impact of one-standard deviation rise in M&A share of leaders, in percent)



- M&As by industry leaders weaken competitors' growth and innovation

# Lower labor income shares...

## Implied Relationship between Higher Markups and Labor income Share over 2000-2015 (Percent point change)

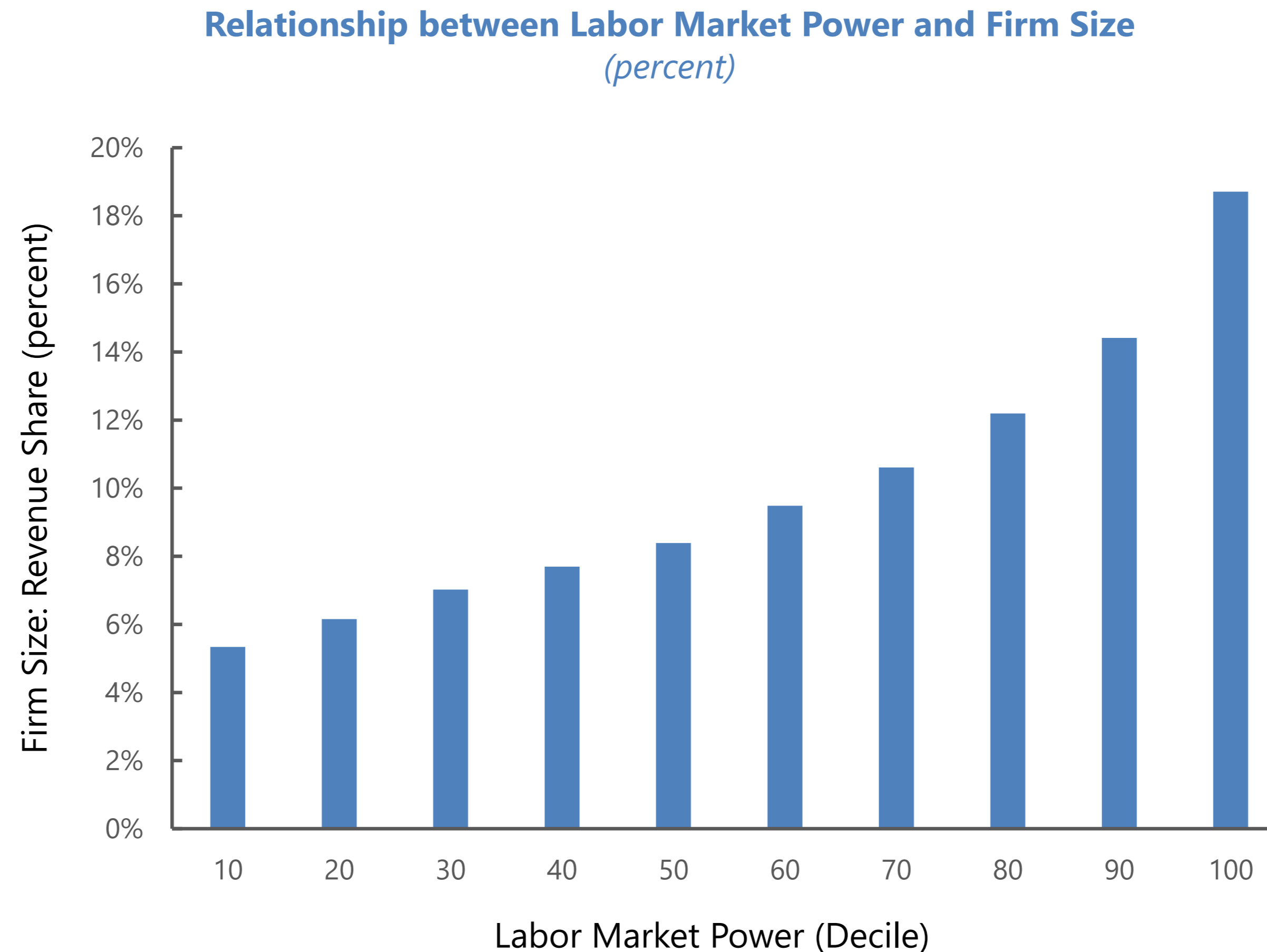


- ➔ Rising market power estimated to have contributed to at least 10 percent of labor share decline in AEs
- ➔ Effect on overall income inequality could be broader

Note: cross-country firm-level estimates using Orbis (sample of listed and non-listed firms over 2000-2015). These estimates capture the impact on labor income shares of the within-firm rise in markups over 2000-2015; they ignore the possible further negative impact from the rise in markups due to reallocation of activity away from low-markup firms towards high-markup ones.

# ...with labor market power also possibly connected to product market power of larger firms

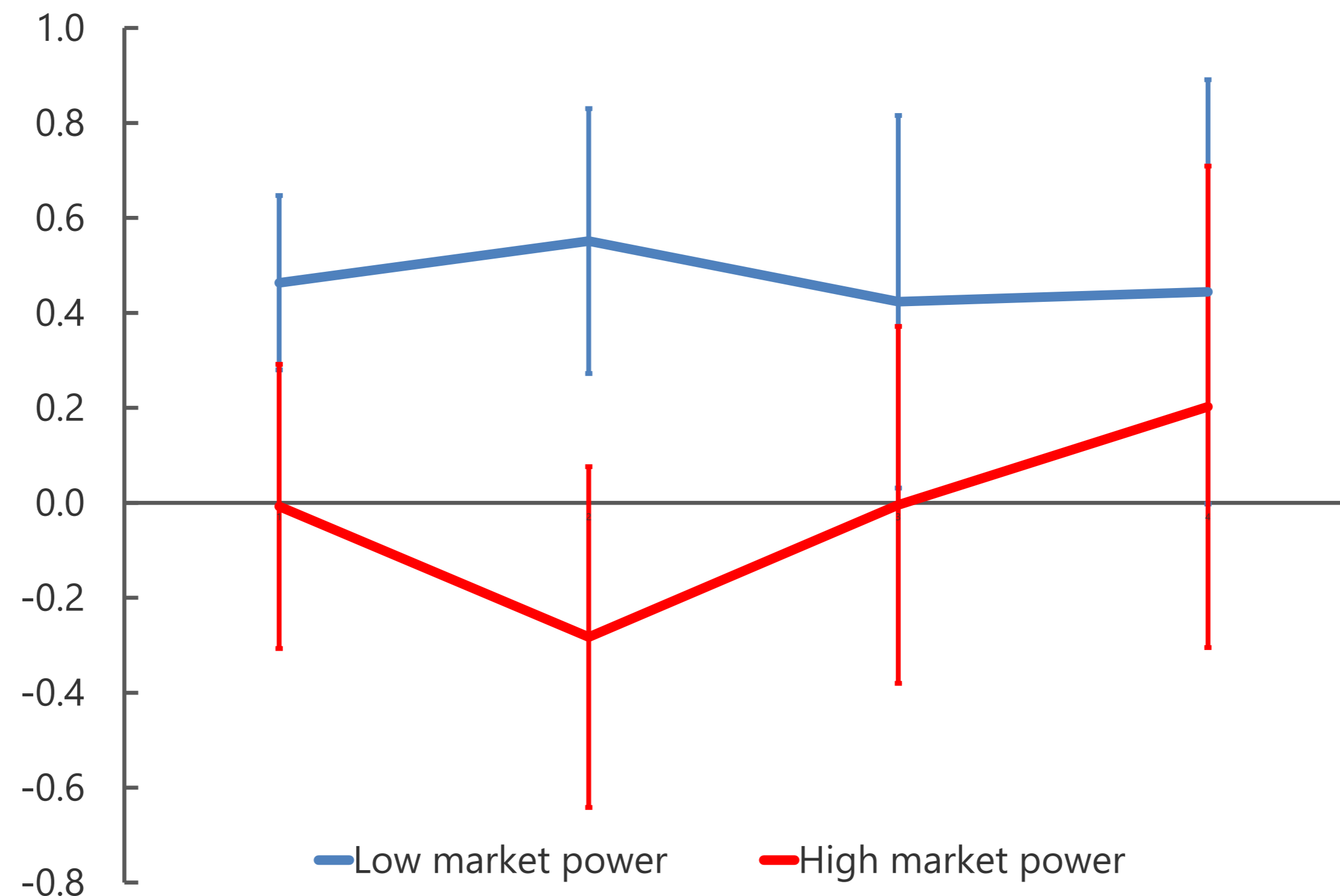
## Larger firms have greater labor market power



# Less effective macroeconomic policy...

## High-markup firms less responsive to monetary policy shocks than low-markup counterparts

Response to a 100 Basis Point Monetary Policy Stimulus: High-Markup (top 25%) versus Low-Markup (bottom 25%) Firms  
*(Deviation from output response of average firm in the country-industry considered, percent)*



# MARKET POWER: POLICY IMPLICATIONS

# Policy Implications (1)

- Changing structure of product markets (winner-takes-most dynamics)...
  - Concentration among small fraction of firms in many countries and industries
  - Larger markup increases in better-performing firms
- ...does *not* warrant inaction:
  - “Winner-takes-most” more likely where competition policy makes it easier to happen
  - Firms that achieved dominance through innovative product and business practices may entrench positions by erecting barriers to entry



# Policy Implications (2)

- Over-arching goal: level playing field across all competitors, including new firms:
  - Domestic and foreign competition: entry barriers, particularly in services (licensing requirements...etc.); trade and FDI liberalization
  - Competition policy—key complement to product market deregulation:
    - Merger control: Increased vigilance, ex-post analysis, review all relevant deals
    - Abuse of dominance: Market investigations and remedies
    - Competition authorities' resources
    - Dynamic perspective
  - Diffusion: IPRs to reward disruptive innovations much more than incremental ones

**THANK YOU!**