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

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Workshop on Estimating the Costs of Non-Competition for the EU
June 23, 2022

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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...

Markups, by Region
- US and Canada
- Euro Area
- Japan and Korea

Markups, by Industry
- Basic Materials
- Consumer Goods
- Industrials
- Oil & Gas
- Telecommunications
- Financials
- Consumer discretionary
- Utilities
- Technology
- Health Care

Markups, all firms (listed and non-listed) since 2000

(Cumulative Percent Changes over 1980-2016 (advanced economies), 1992-2016 (emerging market economies), or 1995-2016 (industry markups))
• 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) to decline in natural interest rate
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...

- 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

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

- 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

Relationship between Labor Market Power and Firm Size

(percent)

Firm Size: Revenue Share (percent)

Labor Market Power (Decile)
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
• Changing structure of product markets (winner-takes-most dynamics)...
  o Concentration among small fraction of firms in many countries and industries
  o Larger markup increases in better-performing firms

• ...does not warrant inaction:
  o “Winner-takes-most” more likely where competition policy makes it easier to happen
  o 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!