Market Concentration Is Threatening The U.S. Economy

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Market Concentration Is Threatening The U.S. Economy

By Joseph E. Stiglitz (bio at end of article)

March 11, 2019

Rising inequality and slow growth are widely recognized as key factors behind the spread of public discontent in advanced economies, particularly in the United States. But these problems are themselves symptoms of an underlying malady that the U.S. political system may be unable to address.

New York - The world's advanced economies are suffering from a number of deep-seated problems. In the United States, in particular, inequality is at its highest since 1928, and GDP growth remains woefully tepid compared to the decades after World War II.

After promising annual growth of "4, 5, and even 6%," U.S. President Donald Trump and his congressional Republican enablers have delivered only unprecedented deficits. According to the Congressional Budget Office's latest projections, the federal budget deficit will reach $900 billion this year, and will surpass the $1 trillion mark every year after 2021. Yet, the sugar high induced by the latest deficit increase is already fading, with the International Monetary Fund forecasting U.S. growth of 2.5% in 2019 and 1.8% in 2020, down from 2.9% in 2018.

Many factors are contributing to the U.S. economy's low-growth/high-inequality problem. Trump and the Republicans' poorly designed tax "reform" has exacerbated existing deficiencies in the tax code, funneling even more income to the highest earners. At the same time, globalization continues to be poorly managed, and financial markets continue to be geared toward extracting profits (rent-seeking, in economists' parlance), rather than providing useful services.

An even deeper and more fundamental problem is the growing concentration of market power, which allows dominant firms to exploit their customers and squeeze their employees, whose own bargaining power and legal protections are being weakened. CEOs and senior executives are increasingly extracting higher pay for themselves at the expense of workers and investment.

For example, U.S. corporate executives made sure that the vast majority of the benefits from the tax cut went into dividends and stock buy-backs, which exceeded a record-breaking $1.1 trillion in 2018. Buy-backs raised share prices and boosted the earnings-per-share ratio, on which many executives' compensation is based. Meanwhile, at 13.7% of GDP, annual investment remained weak, while many corporate pensions went underfunded.

Evidence of rising market power can be found almost anywhere one looks. Large markups are contributing to high corporate profits. In sector after sector, from little things like cat food to big things like telecoms, cable providers, airlines, and technology platforms, a few firms now dominate 75-90% of the market, if not more; and the problem is even more pronounced at the level of local markets.

As corporate behemoths' market power has increased, so, too, has their ability to influence America's money-driven politics. As the system has become more rigged in business's favor, it has become much harder for ordinary citizens to seek redress for mistreatment or abuse. A perfect example of this is the spread of arbitration clauses in labor contracts and user agreements, which allow corporations to settle disputes with employees and customers through a sympathetic mediator, rather than in court.

Multiple forces are driving the increase in market power.

One is the growth of sectors with large network effects, where a single firm – like Google or Facebook – can easily dominate. Another is the prevailing attitude among business leaders, who have come to assume that market power is the only way to ensure durable profits. As the venture capitalist Peter Thiel famously put it, "competition is for losers."

Some U.S. business leaders have shown real ingenuity in creating market barriers to prevent any kind of meaningful competition, aided by lax enforcement of existing competition laws and the failure to update those laws for the twenty-first-century economy. As a result, the share of new firms in the USA is declining.

None of this bodes well for the U.S. economy. Rising inequality implies falling aggregate demand, because those at the top of the wealth distribution tend to consume a smaller share of their income than those of more modest means.

Moreover, on the supply side, market power weakens incentives to invest and innovate. Firms know that if they produce more, they will have to lower their prices. This is why investment remains weak, despite corporate America's record profits and trillions of dollars of cash reserves. Besides, why bother producing anything of value when you can use your political power to extract more rents through market exploitation? Political investments in getting lower taxes yield far higher returns than real investments in plant and equipment.

Making matters worse, America's low tax-to-GDP ratio – just 27.1% even before the Trump tax cut – means a dearth of money for investment in the infrastructure, education, health care, and basic research needed to ensure future growth. These are the supply-side measures that actually do "trickle down" to everyone.

The policies for combating economically damaging power imbalances are straightforward. Over the past half-century, Chicago School economists, acting on the assumption that markets are generally competitive, narrowed the focus of competition policy solely to economic efficiency, rather than broader concerns about power and inequality. The irony is that this assumption became dominant in policy-making circles just when economists were beginning to reveal its flaws. The development of game theory and new models of imperfect and asymmetric information laid bare the profound limitations of the competition model.

The law needs to catch up. Anti-competitive practices should be illegal, period. Beyond that, there are a host of other changes needed to modernize U.S. antitrust legislation. Americans need the same resolve in fighting for competition that their corporations have shown in fighting against it.

The challenge, as always, is political. But with U.S. corporations having amassed so much power, there is reason to doubt that the American political system is up to the task of reform. Add to that the globalization of corporate power and the orgy of deregulation and crony capitalism under Trump, and it is clear that Europe will have to take the lead.

BW: See about the Author on the next page.

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Joseph E. Stiglitz, a Nobel laureate in economics, is University Professor at Columbia University and Chief Economist at the Roosevelt Institute. A recent book is *Globalization and Its Discontents Revisited: Anti-Globalization in the Era of Trump*. And his latest book, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent*, will be published in April.