

Correcting for market power: Possible regulatory responses

Intensifying market power – the ability of companies to extract additional profits by raising consumer prices, holding down wages or discouraging market entrants – could shed light on two economic puzzles in the US since the turn of the millennium.



Puzzle 1: Sluggish wage growth

Despite US unemployment rates falling from roughly 9% in 2010 to a record-low 4% most recently, wages have not increased in line with expectations, growing 3% per year.

Source: Bureau of Labor Statistics

3.9%

Unemployment rate in the past year



9.7%

Decline in labour share of nonfarm
business income, 1992-2016

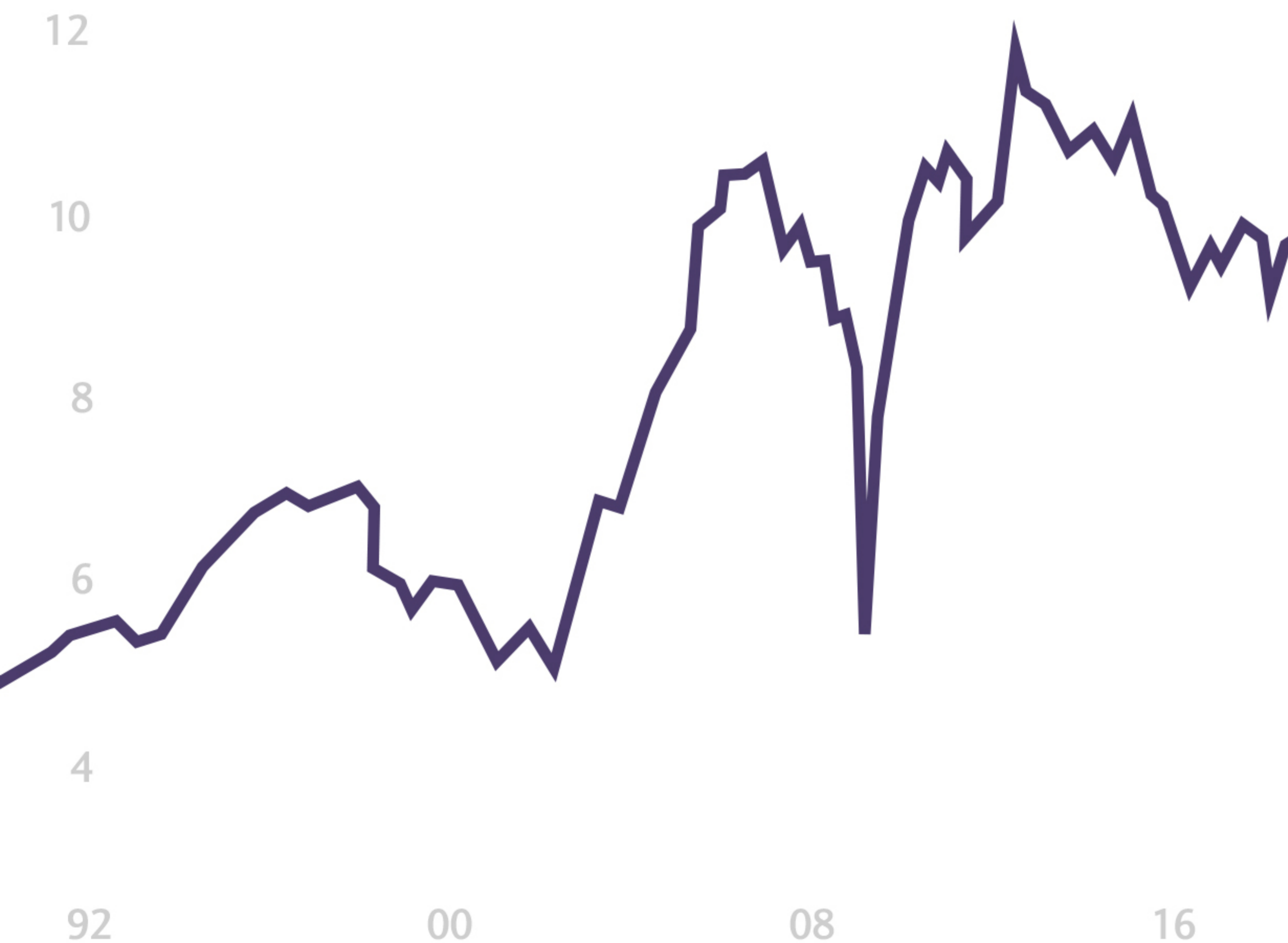


Sources of sluggish wage growth

Market power could share the blame for this trend. Companies could be delivering excess income to shareholders rather than employees and using their bargaining power to pay workers less – or a combination of both.

% GDP

— Profit Share



Puzzle 2: Growing corporate profit margins

Many companies have continued to maintain high profit margins despite cost pressures from tariffs, currency movements and other factors.



Sources of rising profits

Companies with market power could pass on these pressures to consumers and workers through higher prices and slower wage increases. They could also limit their investment or expansion to sustain outsized profits.

How could policymakers respond to rising market power?

As these economic trends persist, pressure on the government to take action will mount.



Enhanced scrutiny of mergers

One obvious step would be to re-examine antitrust standards for merger approval. This could help address competitive concerns over time, but revamping the process could be challenging.

Note: Government totals include civil and criminal cases involving the government as a plaintiff or defendant. Data for 1975-1991 are for the 12-month period preceding June of that year, for 1992-2000 are for the fiscal year, and 2001 onward are for the calendar year. Source: United States Courts, Sourcebook of Criminal Justice Statistics

Antitrust case filings have fallen since the 1970s



The challenges



One of the main obstacles will be providing updated guidance to the courts on interpretation of antitrust laws, which may require new legislation. Those challenging proposed mergers face other obstacles, such as accurately defining a set of competitors, which is difficult, as many industries (such as media) are expanding their scope. Plus, merger scrutiny will not address market power issues posed by existing dominant firms. Beyond that, some mergers may actually enhance competition if the new firm is better able to compete.

Rules to prevent firms from abusing their positions

The authorities could introduce regulations to prevent dominant firms from abusing their position. An example is the General Data Protection Regulation (GDPR) enacted in the European Union in 2018, with specific requirements for personal data protection and use. Yet additional layers of regulation come with their own challenges.



The challenges

This approach requires regulators to devise very detailed, industry-specific rules, which take years to develop and are complex, with often unintended consequences. Implementing them would likely be expensive and would therefore favour incumbent firms, as the barriers to entry may be too high for newcomers, thereby undermining the outcome sought in the first place.



New regulatory frameworks to boost competition

An alternative regulatory approach would be to introduce rules to encourage competition, rather than prevent abusive behaviour. For example, opening up access to existing infrastructure, such as telecommunications networks, would eliminate barriers to market entry by reducing set-up costs and breaking “natural monopolies”.





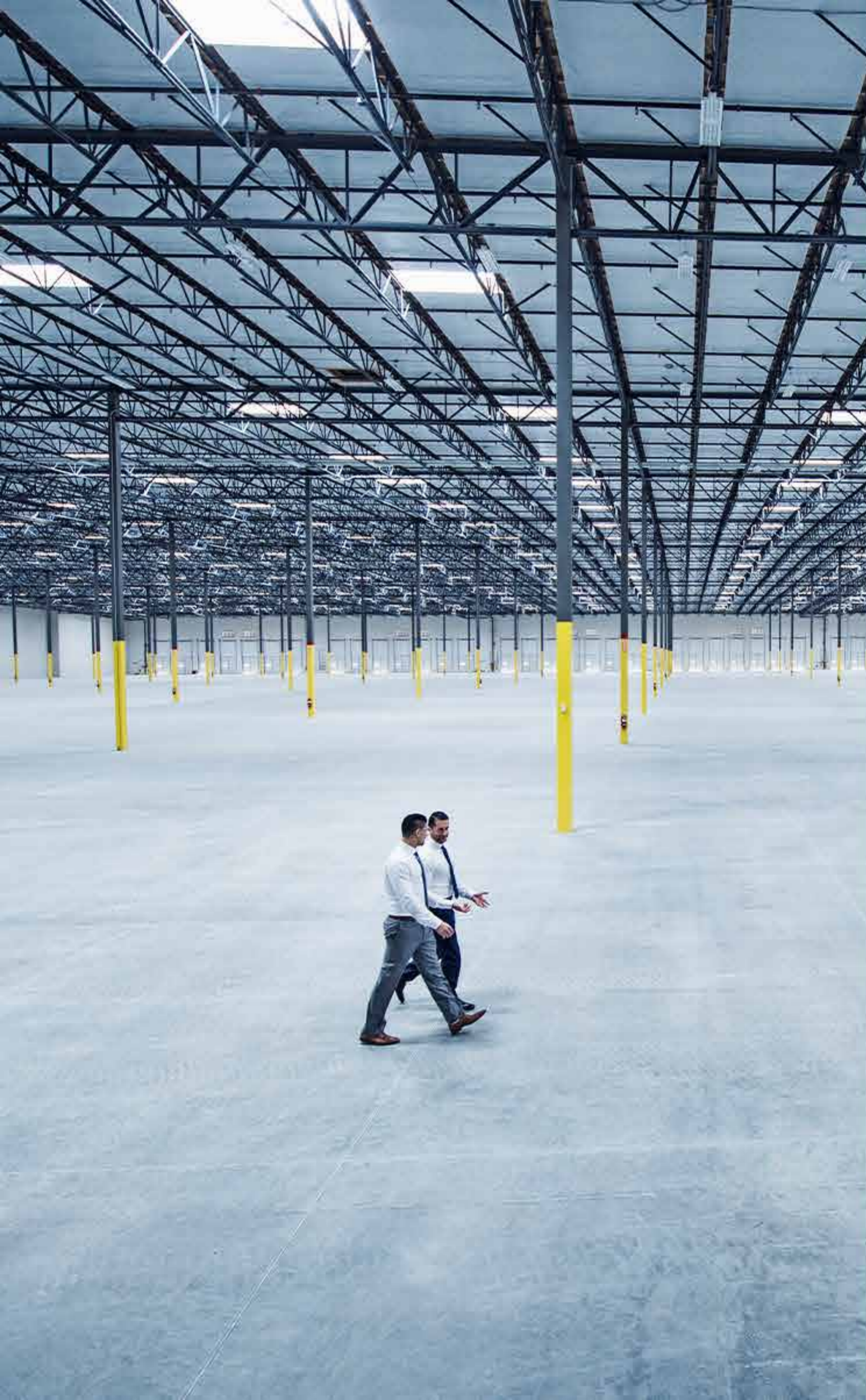
The challenges

Infrastructure sharing may not provide sufficient incentives for owners to maintain high-quality assets. However, if done right, it could encourage competition and reduce the waste of replicating costly networks. Allowing newcomers to share telecoms infrastructure in France, for example, has resulted in a highly competitive market.

Macroeconomic policies to encourage competition



Another approach could be to introduce non-industry-specific policies to encourage competition across the economy. This could include tax incentives for companies that invest more and measures to address job churn, such as improving the portability of employer-provided health insurance and relaxing zoning laws in cities with high housing costs.



The challenges

Studies suggest that investment tax incentives have had mixed effectiveness and may be difficult to design in a way that targets the comparative position of entrants. More broadly, poorly designed policies may inadvertently bolster profits, such as by increasing the abundance of labour in areas where an employer is already dominant.

Our analysts' view? Prepare for regulators to respond

Regulatory responses to growing market power are likely, which will have implications for the US economy and beyond. Businesses, investors and consumers alike will need to prepare for a new regulatory future.

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