'Superstar companies'. Labour market

Economists warn on dominance of US corporate giants

Slow wage growth amid rising revenues is contributing to income inequality, say experts

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Powerful: internet companies' growth has fuelled claims that 'competition is dying' in the US
FT montage; Bloomberg; Reuters

America's biggest companies are grabbing a swelling share of revenues while workers suffer from pedestrian wage growth, teeing up an intensifying debate over whether public policy needs to respond.

So-called superstar companies are becoming increasingly powerful in their sectors, allowing some to widen the mark-ups they charge on products and services. As these highly profitable businesses become more dominant, workers are capturing a smaller slice of the economic pie, some analysts say, contributing to income inequality.

Democratic party politicians and progressive think-tanks have latched on to the phenomenon: Elizabeth Warren, the Massachusetts senator, has urged that antitrust authorities sharpen their teeth and claims that "competition is dying" in America.

The notion that antitrust laws are too lax is contested, however. A presentation from the US Department of Justice and the Federal Trade Commission at the OECD in June cast doubt over some of the research on concentration in the corporate world, saying the analysis was not tracking meaningful product markets.

Economists increasingly agree that some sectors are becoming more dominated by a few big corporate players. A standard measure of corporate concentration — the Herfindahl-Hirschman index — is up 48 per cent since 1996. There has been greater concentration in about 75 per cent of US industries in the past two decades, according to research from academics including Gustavo Grullon of Rice University.

America's internet giants have, for example, built powerful positions in their markets. Google and Facebook together controlled more than 58 per cent of total US digital advertising spending last year, said eMarketer, a market research company.

Amazon is on track to capture nearly half of America's ecommerce market this year, according to the research group, while its share of overall retail in the country, including offline sales, is 5 per cent. Healthcare has meanwhile seen a wave of acquisitions, including hospital tie-ups and the proposed merger between CVS Health and Aetna.

The IMF published research in June focusing on a measure of corporate power — mark-ups measuring the gap between the prices charged and production costs. Among US publicly listed companies these have risen by a sales-weighted average of 42 per cent from 1980 to 2016, in a possible sign of weaker competition. Similar trends are visible in other countries.

"We see evidence of rising market power and declining competition in the US," said Daniel Leigh, deputy division chief in the western hemisphere department of the IMF. "This is coupled with signs that the [labour] share is going down."

A group of researchers, including David Autor of Massachusetts Institute of Technology and David Dorn of the University of Zurich, have found that as the economic weight of a small number of highly profitable and innovative "superstar" companies has increased, workers' slice of the pie has fallen in their industries.

This may have contributed to a broader fall in labour's share of income that has been particularly noticeable in the US since the beginning of the 2000s. At the same time, corporate profitability has surged to record highs.

Goldman Sachs analysts say rising product and labour market concentration has imposed a drag of 0.25 percentage points on annual wage growth since the early 2000s. They also stress, however, that America's dreary productivity growth is a bigger problem.

As big, highly profitable companies' power increases, there is a risk the economy may suffer.

The IMF argues, for example, that innovation and investment may ultimately fall after an initial spike as industries become highly concentrated and big companies rest on their laurels.

"While bigger corporate mark-ups are initially associated with higher investment and R&D, this reverses when market power becomes too strong," said Mr Leigh.

Jason Furman, of the Peterson Institute for International Economics, and Peter Orszag, a managing director at Lazard Freres, have argued reduced competition and depressed dynamism in the economy have contributed to inequality and poor productivity growth.

The drivers behind increasing corporate concentration are difficult to untangle.

Part of the explanation might stem from new technologies that were conferring advantages on successful companies in "winner takes most" markets, said Mr Autor.

His research finds that the growth of concentration is disproportionately apparent in industries experiencing rapid technological change.

Some politicians and analysts say regulatory policy is also an important part of the phenomenon. They argue, for instance, that authorities have permitted too many mergers and done too little to crack down on overly powerful companies.

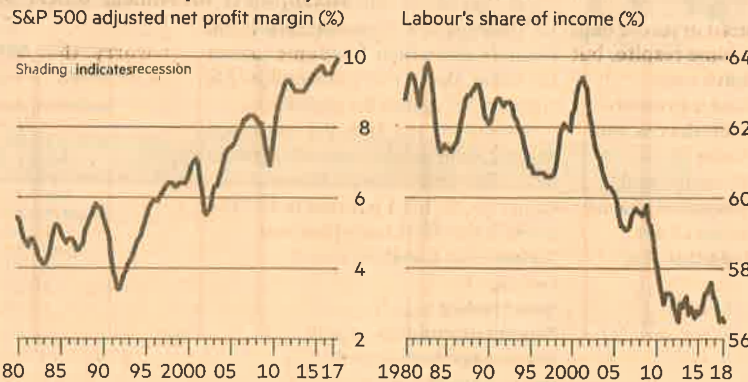
"There has to be a reconsideration of antitrust law to be more mindful of the costs of these mergers and acquisitions," said Ro Khanna, a Democratic congressman for California. He stressed that it was "sloppy thinking" to argue that big was necessarily bad, adding: "We should be more precise and look at whether there is an anti-competitive behaviour."

"The question is at the margin: are you allowing mergers you would not have allowed before?" said Mr Furman.

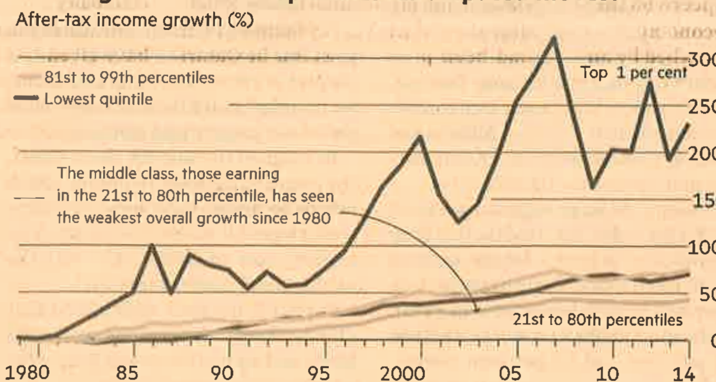
Kevin Hassett, chairman of Donald Trump's Council of Economic Advisers, said that while there was evidence of rising concentration, it was not clear that government intervention was merited. "The question is that if we are thinking about consumer harm from concentration, then we should think [whether] there is a role for government to do something about it," he said.

"I guess there might be, sometimes, in theory. But the evidence is that the government very often can entrench the monopoly by putting so much red tape around the space that new entrants don't come in and compete."

As US business profitability rises... ...workers take home less



Income growth for the top 1% has far outpaced the rest



Sources: US labor department; Goldman Sachs Global Investment Research; Congressional Budget Office