

HARVARD
UNIVERSITY

Competition Policy in a New Era of Growing Income Divide under Rapid Technological Change

Jason Furman

**Harvard University and Peterson
Institute for International Economics**

March 5, 2021

**CPRC International Symposium
Japan Fair Trade Commission**

Outline

1. Increased Concentration
2. Four Questions on Digital Competition
3. What Should Policy Do?
4. Next Steps

Outline

1. Increased Concentration

2. Four Questions on Digital Competition

3. What Should Policy Do?

4. Next Steps

The market for beer

Anheuser-Busch

InBev

Heineken



Source (images, left to right): beerandbrewing.com (x2), instacart.com, drizly.com, fourpeaks.com, beeradvocate.com, beerandbrewing.com, walmart.com, beeradvocate.com, cervezaslacibeles.com.

Consistent with findings from numerous IO studies of more well defined markets

Agriculture: Share of revenues held by the top four firms increased between 1972 and 2002 in eight of nine dairy processing and manufacturing industries (Shields 2010)

Appliances: Following Whirlpool-Maytag merger, Herfindahl-Hirschman index (HHI) increased by 800-1,600 for refrigerators, dishwashers, clothes dryers, and clothes washers (Ashenfelter, Hosken, and Weinberg 2013)

Beer: Substantially increased concentration in the beer industry with the HHI increasing from about 1,000 in the mid 1970s to over 4,000 by 2009 (Gokhale and Tremblay 2012)

Fertilizer: Increased Lerner indices of oligopolistic firms from late 1990s/early 2000s to early 2010s (Taylor and Moss 2013)

Financial Services: Loan market share of the top ten commercial banks increased from about 20 percent in 1976 to about 50 percent in 2010 (Corbae and D'Erasmus 2013)

Hospitals: Between the late 1980s and 2006, average HHI across hospital markets increased by about 40 percent to about 3,200, level associated with just three equal-sized competitors in a market (Gaynor, Ho, and Town 2015)

Railroads: Increased market concentration in at least two-thirds of crop reporting districts for four different agricultural commodities between 1985 and 2007 (Prater et al. 2012)

Wireless: Average HHI for wireless providers in a market increased from under 2,500 in 2004 to over 3,100 in 2014 (FCC 2015)

Interpreting greater concentration

Increasing concentration could mean:

More competition

or

Less competition

Potential sources of increased concentration

Good/Natural Causes: *More competition*

- Superstar firms
- Globalization

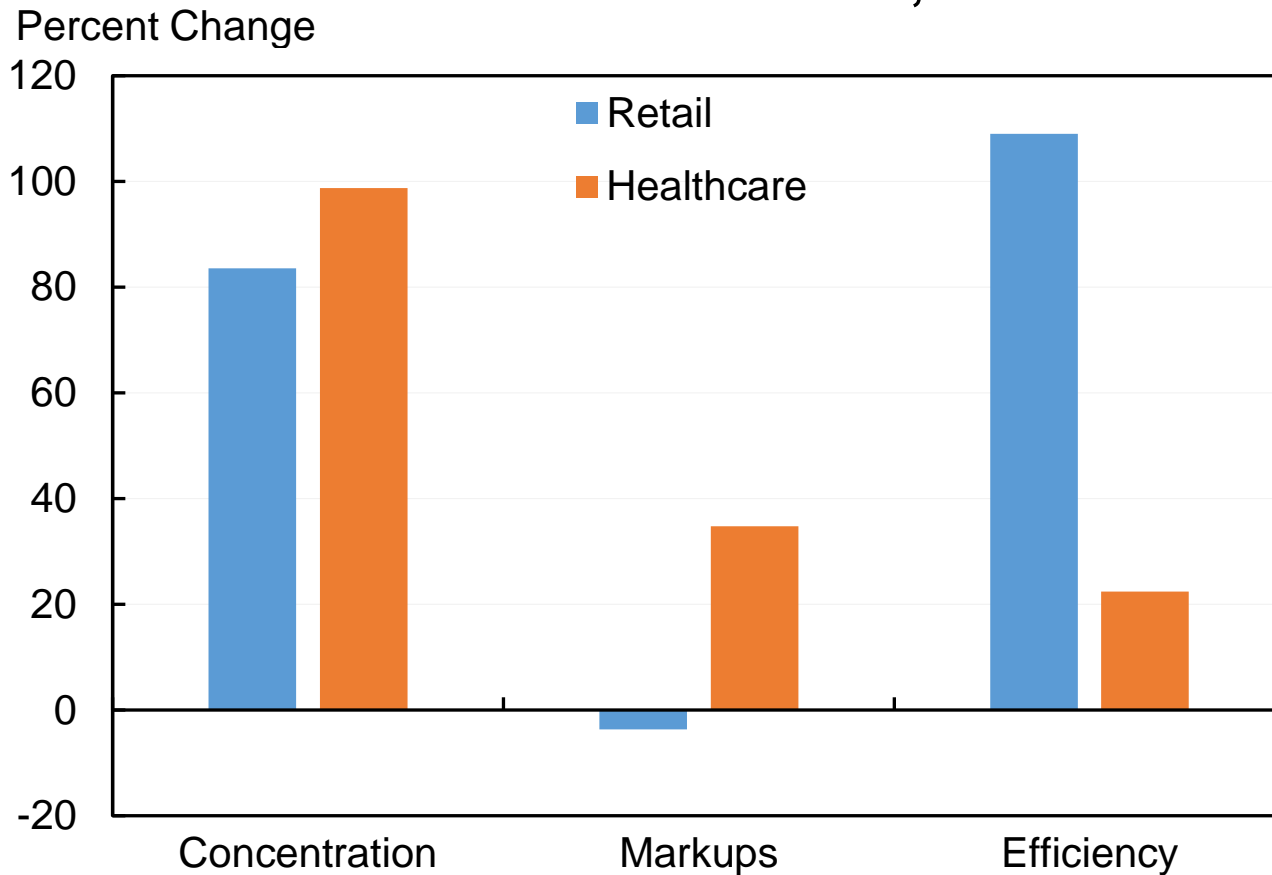
Bad/Unnatural Causes: *Less competition*

- Reductions in merger and antitrust enforcement
- Increased regulatory barriers to entry

Cuts both ways (natural cause but might have bad side effects): Increasing returns to scale and network externalities

Retail concentration growth may reflect “good” causes while healthcare may reflect “bad” ones

Change in Concentration, Markups, and Efficiency in the Retail and Healthcare Sectors, 1988–2015



Note: Concentration measured by Herfindahl-Hirschman Index (HHI); markups represent markup of price over cost; efficiency measured by output per hour. “Retail” is “consumer sector” in Crouzet and Eberly.

Source: Calculations based on Crouzet and Eberly (2018).

What about them? Good or bad sources of growth?



Outline

1. Increased Concentration

2. Four Questions on Digital Competition

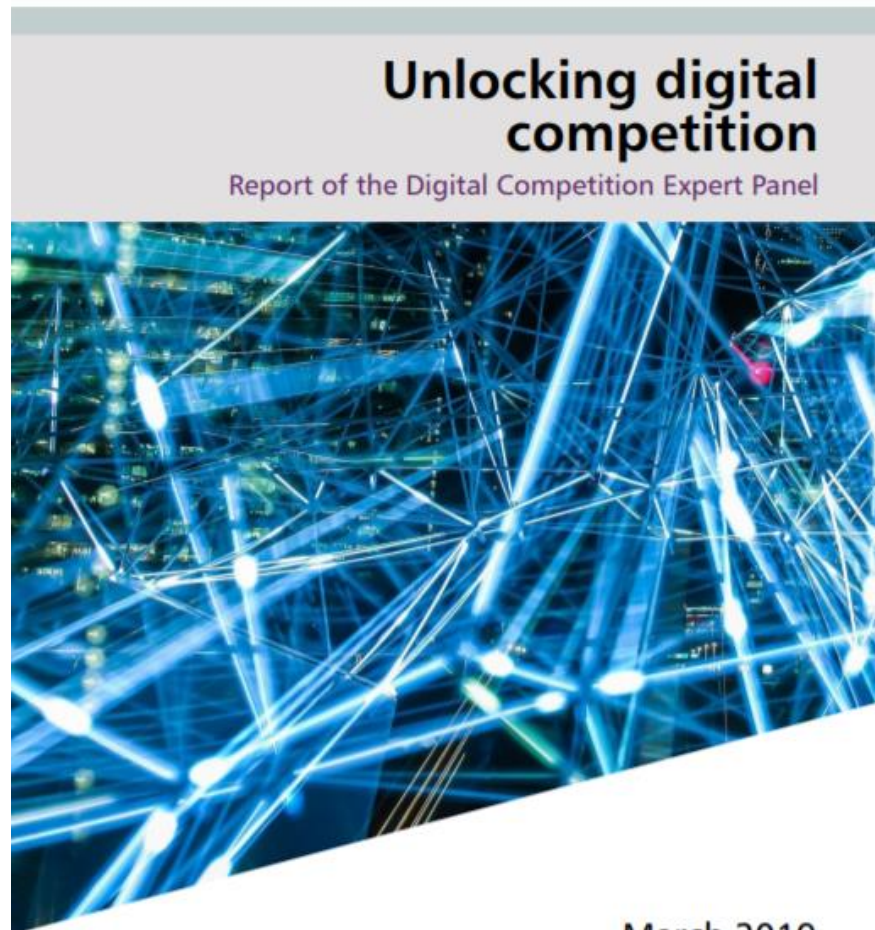
3. What Should Policy Do?

4. Next Steps

The Digital Competition Expert Panel



The report



March 2019

Four Questions on Digital Competition

1. Is competition in the digital sector beneficial?
2. Is competition in the digital sector absent?
3. Is the lack of competition costly?
4. Can there be competition in the digital sector?

It depends what you think of consumer preferences



OR



Competition policy is a hammer, but not everything is a nail



Four Questions on Digital Competition

1. Is competition in the digital sector beneficial?
- 2. Is competition in the digital sector absent?**
3. Is the lack of competition costly?
4. Can there be competition in the digital sector?

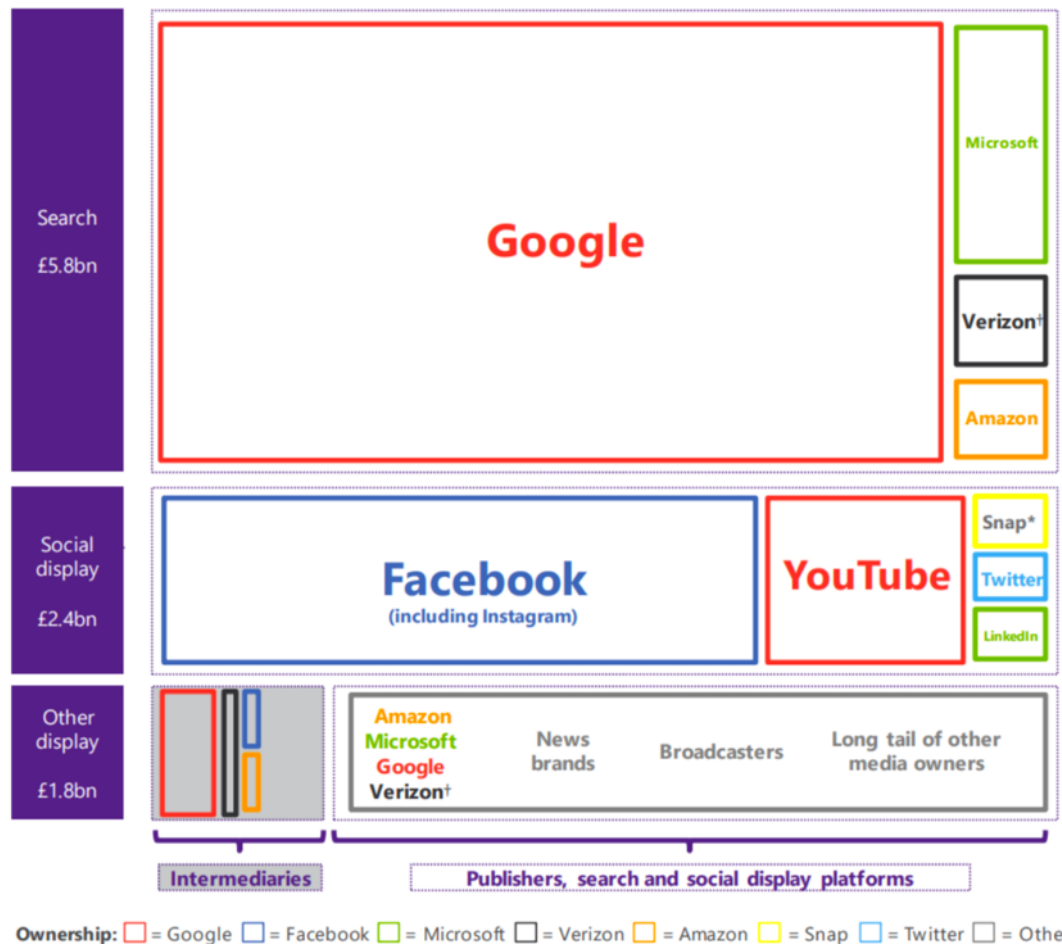
Features that make digital markets “winner take most”—through a process called tipping

- Network externalities
- Economies of scale/scope (near zero marginal cost)
- Data as a barrier to entry
- Capital and brands
- Behavioral features—consumers do not seem to switch

These features are present in other markets as well, just not in nearly as strong a form individually and in combination.

The online advertising duopoly

Figure 1.A: Indicative market share of online advertising expenditure by major competitors, 2017



Even with tipping, winners could be overthrown and replaced by another winner

Competition in the market

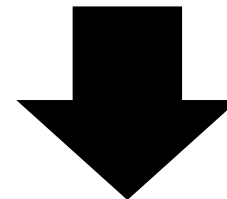
Multiple competitors at a time

Competition for the market

One leader, can be replaced



vs.



Four Questions on Digital Competition

1. Is competition in the digital sector beneficial?
2. Is competition in the digital sector absent?
- 3. Is the lack of competition costly?**
4. Can there be competition in the digital sector?

Why is “free” costly?

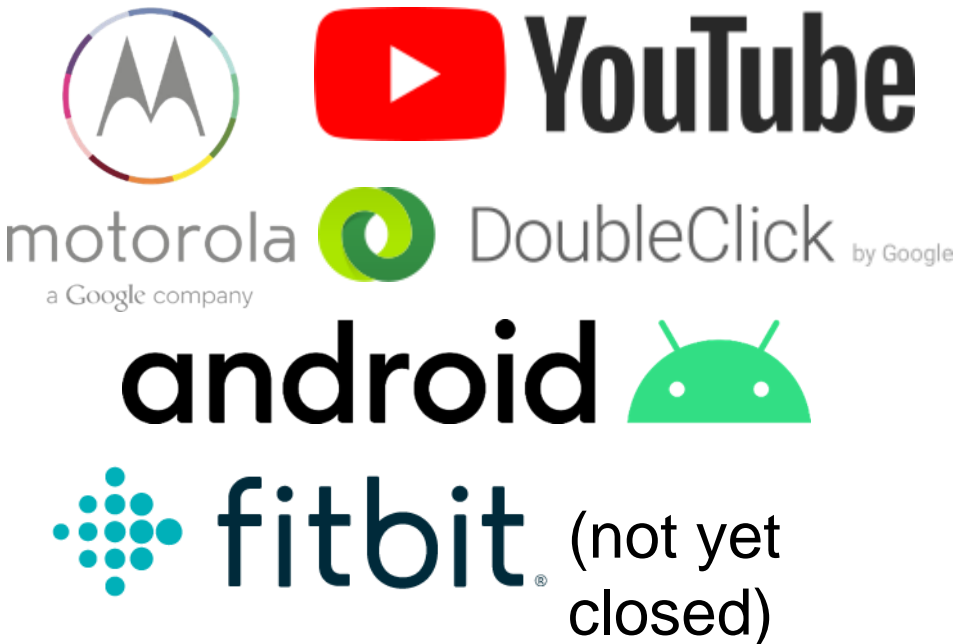
- Zero is just another number—equilibrium price might be negative
- Pay more in cash due to advertising markups
- Pay in data, privacy
- Lost quality, variety
- Lost innovation

Four Questions on Digital Competition

1. Is competition in the digital sector beneficial?
2. Is competition in the digital sector absent?
3. Is the lack of competition costly?
4. Can there be competition in the digital sector?

**Not just organic growth, over 400 acquisitions
by major platforms as well**

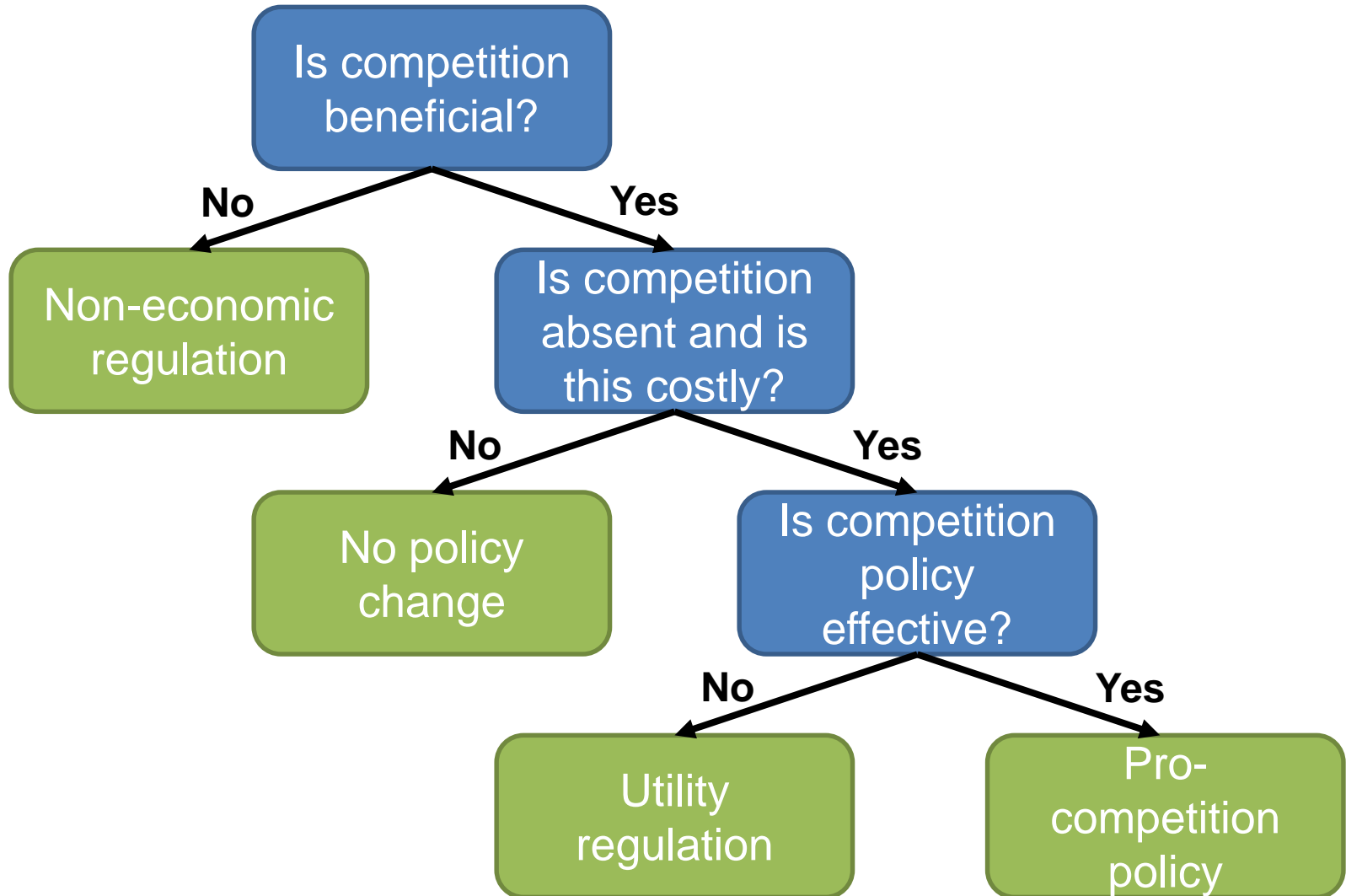
Google



Facebook



Summary of the questions



Outline

1. Increased Concentration

2. Four Questions on Digital Competition

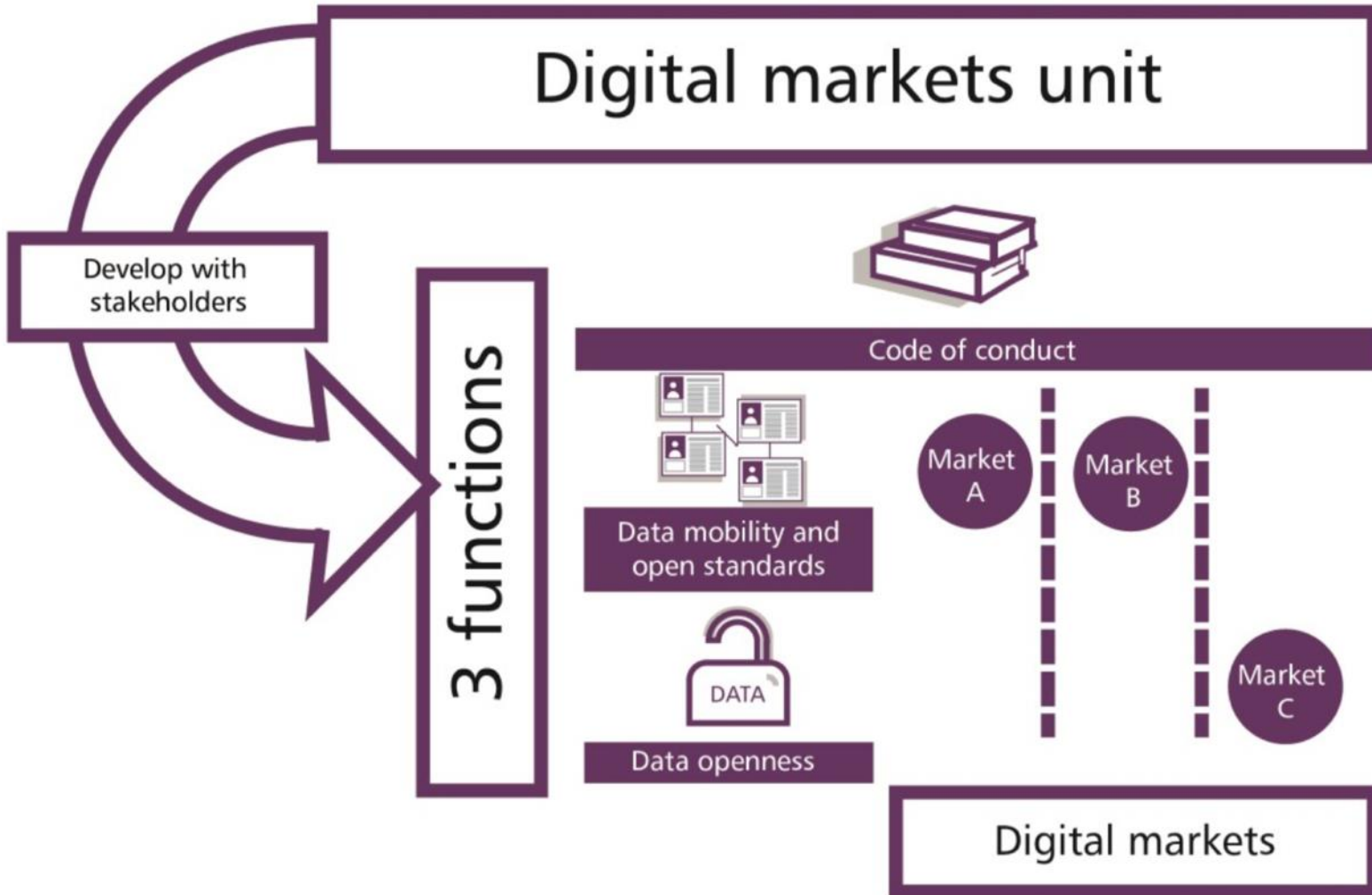
3. What Should Policy Do?

4. Next Steps

The Code of Conduct is similar to existing antitrust rules

1. Tougher merger enforcement
2. Tougher antitrust enforcement
3. Establish a pro-competition digital regulator

Digital markets unit

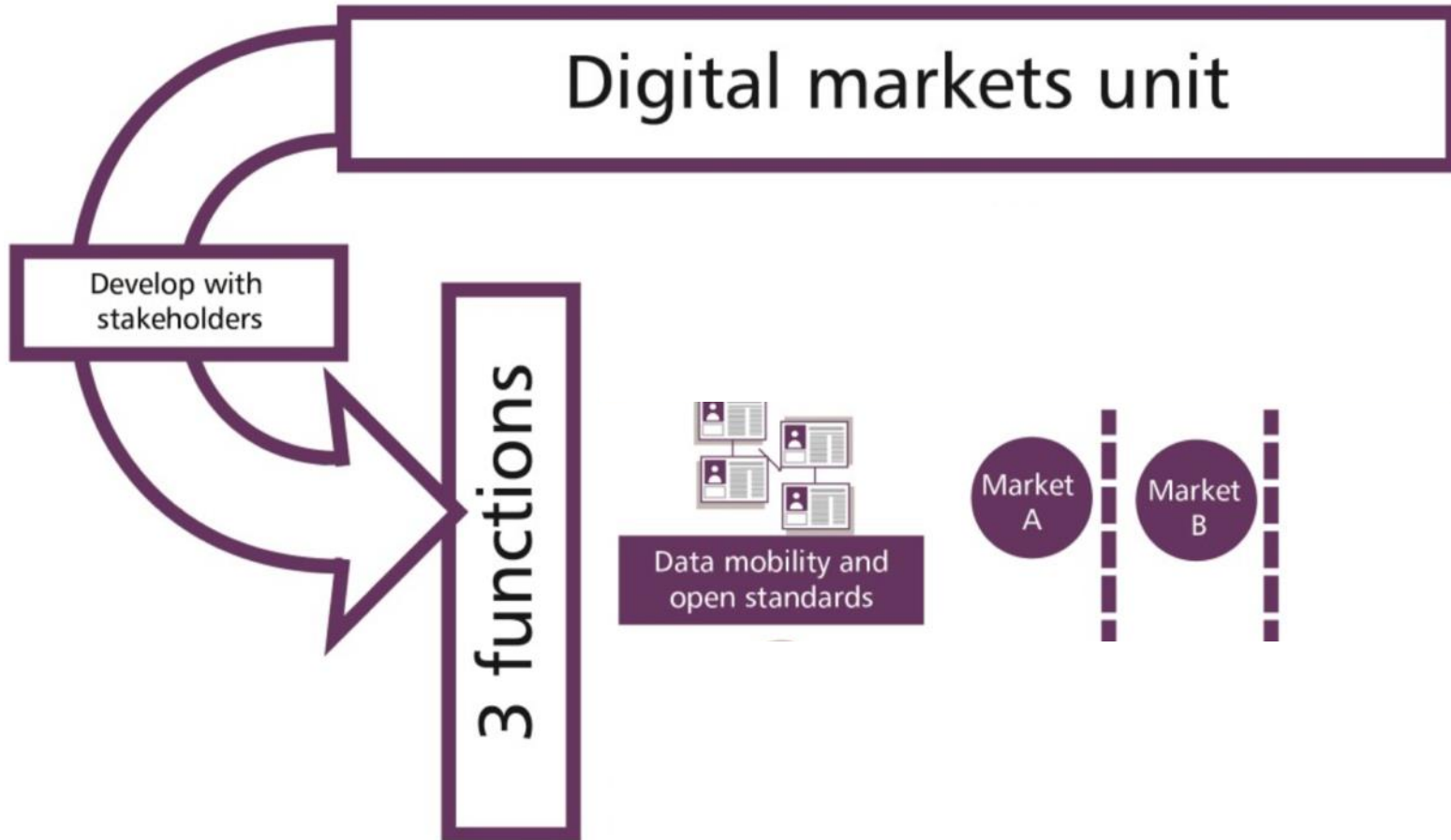


The Code of Conduct is similar to existing antitrust rules

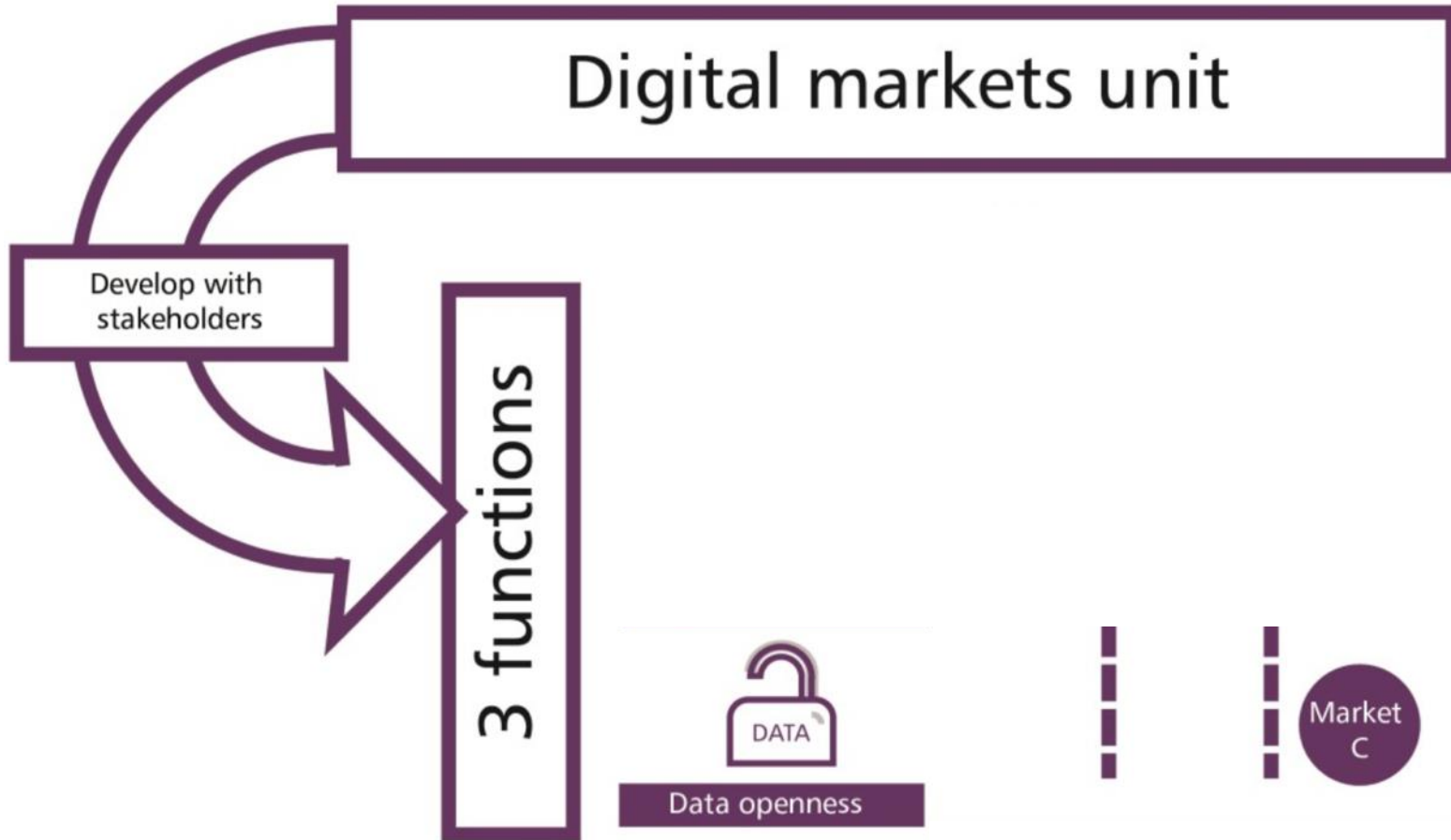
Principles for businesses with “strategic market status”:

- Access to designated platforms on a fair, consistent and transparent basis
- Prominence, rankings and reviews on designated platforms on a fair, consistent, and transparent basis
- Not unfairly restricted from, or penalized for, utilizing alternative platforms or routes to market

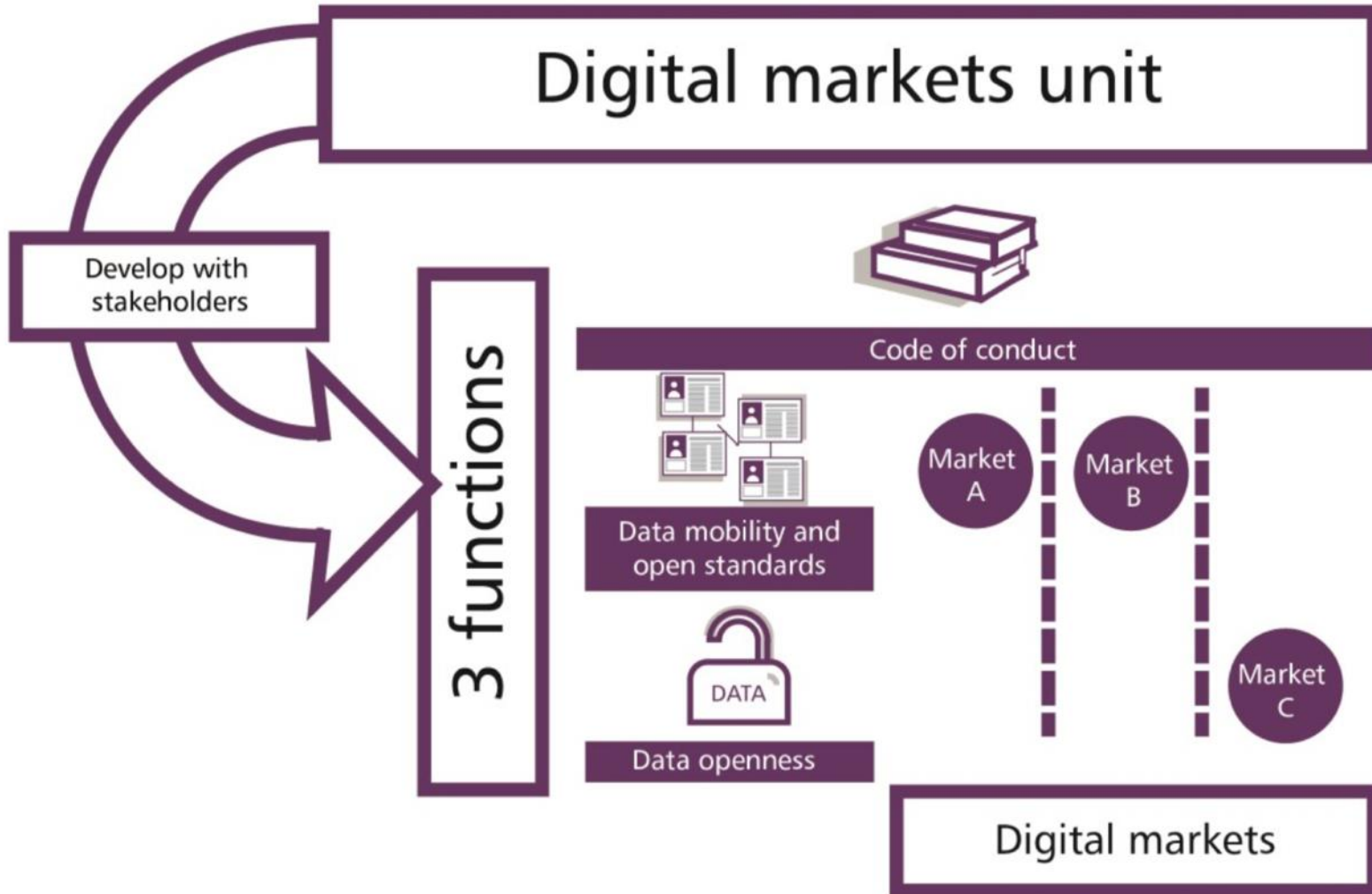
Digital markets unit



Digital markets unit



Digital markets unit



Outline

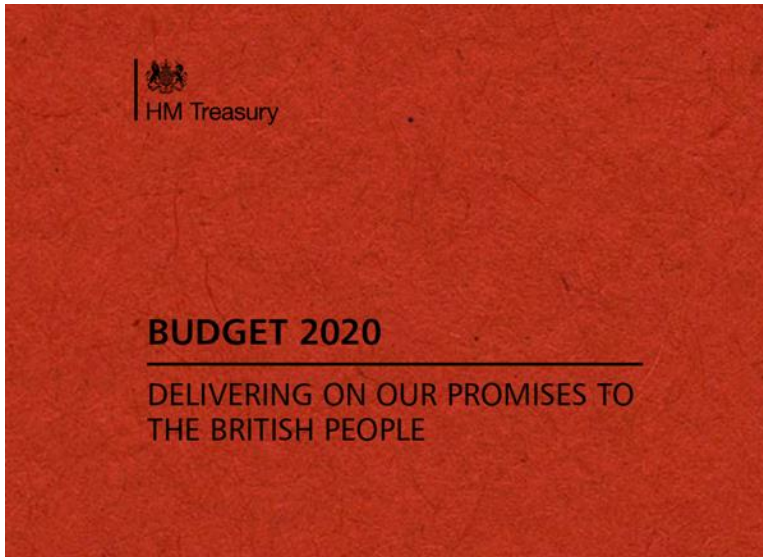
1. Increased Concentration

2. Four Questions on Digital Competition

3. What Should Policy Do?

4. Next Steps

UK Government accepted the recommendations and CMA has made further progress



Online platforms and digital advertising

Market study final report
1 July 2020

“To empower consumers and boost competition, the government will accept all six of the Furman Review’s strategic recommendations for unlocking competition in digital markets.”

-Budget 2020, United Kingdom

Growing international interest in these issues

Press release | 15 December 2020 | Brussels

Europe fit for the Digital Age: Commission proposes new rules for digital platforms

Page contents

- Top
- Print friendly pdf
- Related media
- Press contact

The Commission has proposed today an ambitious reform of the digital space, a comprehensive set of new rules for all digital services, including social media, online market places, and other online platforms that operate in the European Union: the [Digital Services Act](#) and the [Digital Markets Act](#).

European values are at the heart of both proposals. The new rules

German report recommends EU-wide digital regulation

Charley Connor
10 September 2019

[in](#) [twitter](#) [facebook](#) [email](#) Buy PDF



Tech Consumer Tech Future of Transportation Innovations Internet Culture Space Tech Policy Video Gaming

Tech Policy

Justice Department sues Google, alleging multiple violations of federal antitrust law

The suit filed Tuesday kicks off a legal fight between Washington and Silicon Valley that could have vast implications not only for Google but for the entire tech industry

INVESTIGATION OF COMPETITION IN DIGITAL MARKETS

MAJORITY STAFF REPORT AND
RECOMMENDATIONS

SUBCOMMITTEE ON ANTITRUST,
COMMERCIAL AND ADMINISTRATIVE LAW
OF THE COMMITTEE ON THE JUDICIARY

Jerrold Nadler, Chairman, Committee on the Judiciary

David N. Cicilline, Chairman, Subcommittee on
Antitrust, Commercial and Administrative Law



UNITED STATES
2020





HARVARD Kennedy School
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

Competition Policy in a New Era of Growing Income Divide under Rapid Technological Change

Jason Furman

**Harvard University and Peterson
Institute for International Economics**

March 5, 2021

**CPRC International Symposium
Japan Fair Trade Commission**