RADIX
THINK TANK FOR THE RADICAL CENTRE

OPEN MARKETS **OUTLOOK**

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The world's central bankers have been discussing antitrust – but what does this mean?

OVERVIEW: NOT JUST THE THREAT OF MONOPOLY, BUT ALSO MONOPSONY…

This issue of Open Markets Outlook, as we report inside, marks the rediscovery of the issue of monopoly power by the world's central bankers, meeting at their annual knees-up in Jackson Hole, Wyoming.

But in practice, being central bankers, they needed to look into the problem a little bit more closely. Hence [Alan Krueger's elegant paper] read to them on 'monopsony capitalism', where here are not just too few sellers but there are also too few buyers as well.

This is where the politics of monopsony in the USA is at its sharpest, because too few buyers means too few employers, which appears to be one explanation why wages have stagnated so badly on both sides of the Atlantic.

The main political question that occurs to us is why, given that monopolies - and monopsonies - have become such a growing political issue in the USA, and given that the activist competition commissioner in Brussels is so active on the Issue - why is it taking so long for politicians in the UK to take up these vital issues of our times.

You can read inside how Vince Cable has taken an interest. But one swallow does not make a summer, and the silence of the others is so peculiar, to say the least.

CENTRAL BANKERS TURN ATTENTION TO MONOPOLY POWER

"These shifts should concern central bankers since they likely have important linkages to observed structural changes in the global economy, including lower capital investment, a declining labour share, slow productivity growth, slow wage growth and declining dynamism."

Central bankers met in Jackson Hole, Wyoming at the end of August and this time monopolies and open markets were on the agenda. This was dressed up in some ways in corporate-speak, under the title 'Changing market structure and implications for monetary policy'. It is the first response from the central banks to growing fears that the rise of monopoly power is depressing wages, especially among the lower paid.

This has meant a new concentration on previously obscure indices, like the Herfindahl-Hirschman Index of corporate concentration, which has risen by 48 per cent since 1996. The academic economist Gustavo Grullon of Rice University has also shown that concentration is up in three quarters of US industries over the past two decades. It is some explanation at least for the paradoxical combination of rising profits and falling share of wages among their workforces.

The Federal Reserve of Kansas put it like this:

> *"These shifts should concern central bankers since they likely have important linkages to observed structural changes in the global economy, including lower capital investment, a declining labour share, slow productivity growth, slow wage growth and declining dynamism."*

It is also a potential explanation of why low unemployment in the USA – below four per cent – should not have fed through into rising wages. This is particularly so among the so-called 'Superstar companies', which have such a dominant position that they seem to be able to raise prices with impunity.

What can central bankers do about the concentration of corporate power?

The politicians in the USA have also begun to wake up to the problem, which they are generally not doing in the UK (though there are exceptions, see elsewhere in this newsletter). Massachusetts senator Elizabeth Warren has urged anti-trust authorities to get a grip and claimed that "competition is dying". The Department of Justice has disagreed.

Campaigners in the USA point to Google and Facebook capturing a huge 58 per cent of online advertising in the US last year, according to new a study by eMarketer – though rivals are beginning to bite.

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AMAZON SPARKS CAMPAIGN TO LIMIT GROWTH IN LOCAL GOVERNMENT

Internet giant Amazon has begun its next phase of expansion by moving into local government procurement in the USA. The new contract is with US Communities, which organises buying of stationery and books for local government across the USA an opens the way, say critics, for the online behemoth to corner the market in local government spending.

"Note that … you want to see your city using its purchasing to support your local economy."

The contract was exchanged quietly until the Boston-based campaign team at the Institute for Local Self-Reliance got wind of it. They are arguing that the call for bids was written in such a way that it favoured Amazon. Certainly, the previous contractors, Guernsey, felt shut out.

ILSR campaigner and author Stacy Mitchell has been arguing that Amazon's ambition is to take slices of every transaction, and that – despite Amazon's claim that they are helping entrepreneurs – they are actually having a "profoundly negative effect" on SMEs.

They have launched information packs for cities about the drawbacks of using Amazon for procurement and a survey of independent office products dealers about their experiences working with the online retailer.

The risks of buying through Amazon for cities, according to the ILSR campaign pack:

- Sucks spending power out of the area, which means it does not continue to circulate locally.
- Leaves cities vulnerable to inflation.
- Amazon positioning itself as universal middleman.
- Weakens local companies and undermines the local tax base.

GUARDIANS OF THE ARCHES

How might Grayling soften the blow? By giving tenants the opportunity to buy their own arches?

The Guardians of the Arches is an alliance of small businesses and other tenants of the huge sale by Network Rail of 5,500 business premises under railway arches – which is expected to lead to evictions of small cafés, gyms and boxing clubs, and many others, and to the tripling of rents.

The proposed sale, still going through, has caused an outcry on behalf of beleaguered small businesses, and especially in London, where the campaign has won the support of former Cameron advisor Rohan Silva. Ironically, he made this known in a column in the London Evening Standard, where the editor is George Osborne, who made the original deal with Network Rail that they should sell off some of their assets.

The arches have become a symbol of the increasing market concentration in London. Some concessions are expected, partly because the minister in charge of the sale is the equally beleaguered transport secretary Chris Grayling, whose political position is not strong.

VINCE CABLE BACKS BIG TECH BREAK-UP

Is there a case for splitting Amazon into three parts?

Liberal Democrat leader Vince Cable is showing signs of continuing his campaign to break up what he calls the "tech titans" and has suggested ways in which this needs to be done, so that Google will have to disgorge YouTube and similar other recent purchases.

His campaign continues after his April speech which first set out his demands, which in turn followed a meeting with Barry Lynn from the Washington-based Open Markets Institute. Lynn was sacked by think tank the New America Foundation a year ago after criticising Google in public, one of their funders. He has since become a major thorn in the side of the tech giants.

Vince Cable:

> *"There is a case for splitting Amazon into three separate businesses – one offering cloud computing, one acting as a general retailer and one offering a third-party marketplace," he says now. "Other examples would be Facebook being forced to divest itself of Instagram and WhatsApp as a condition for operating in the EU, creating two new social media networks. Divesting Google of YouTube would be another."*