



OPEN MARKETS OUTLOOK

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**Business does not, should not,
speak with only one voice...**

**There is no such thing as a single
'pro-business' policy position**



EFFECTIVE COMPETITION POLICY IS PRO-BUSINESS

There is a debate to be had, certainly in the USA but increasingly on this side of the Atlantic too, between the two ends of the business lobby spectrum - those representing the biggest businesses - including oligopolies - and those supporting the rather different needs of most of the rest, especially the small business.

At this newsletter, we have no view about one being 'right' and the other 'wrong'. Both are essential to a thriving economy.

We report these debates because there is nowhere else that you can read about these issues in the UK. But we do also have a different understanding of the needs of business from, say, Boris Johnson - who sought to prove his backing for business by saying that he supported the banks in 2008. Sympathy we might understand; support we don't.

That would imply that there was one indivisible business case, and only one business interest, which is patently not the case.

So, let us set out, as clearly as we can, what this newsletter means by backing business.

We know there are threats to ordinary businesses that come not just from government regulation but from other, larger businesses that seek to exert a monopolistic control over others - and thereby raising prices, cornering

markets and undermining the case for innovation and entrepreneurial freedoms.

Being anti-monopoly is a strongly 'pro-business' position...

Don't let anyone tell you that concern about monopolies is somehow anti-business. Nothing could be further from the truth. It is emphatically pro-business and pro functioning markets.

...effective competition policy is all we have to ensure a thriving free market system

We will continue to represent the needs of all businesses by interpreting the growing debate about monopoly on both sides of the Atlantic for a UK audience of business and policy makers.

In the above context, a new alliance of thinktanks and campaigners has formed in the USA, called Athena. Its purpose is to resist the rise of Amazon to dominance in the world of business in whatever way seems most possible at the time.

Some of the groups are the predictable leftist or trade union campaigners. Some - like the Institute for Self-Reliance - are dedicated to small business. What is not clear is whether they only represent high street small businesses or also the small businesses that make a living through the use of online platforms. Small business has many different voices too!

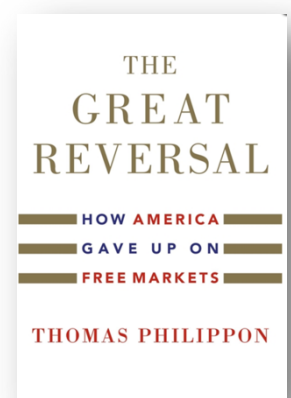
The world needs both small and large businesses. Effective competition policy is the only tool we have to ensure that both can thrive, compete fairly, and maintain a vibrant market system.

That also implies effective competition in the online retail space – something that is, at the moment, somewhat lacking.

What happened when the USA forgot the idea of free markets?

DID AMERICA GIVE UP ON FREE MARKETS?

The French-American economist Thomas Philippon has produced a book called *The Great Reversal: How America gave up on free markets*, described by the *Financial Times* columnist Martin Wolf as "superbly argued" - that turns much of our accepted thinking about American business in its head.¹ Don't believe what we have been told, says Wolf:



"America is no longer the home of the free market economy, competition is not more free there than it is in Europe, its regulators are not more pro-active, and its new crop of superstar companies are not radically different from their predecessors."

Martin Wolf
Financial Times, 14 November 2019

That is Wolf's summary of a book which began with Philippon trying to work out why mobile phone plans are so expensive in the USA. *The Great Reversal* is the result of his journey of discovery.

The effects, he says, include higher prices, less productivity and entrenched managers, buttressed by campaign contributions. It is also why, for example, broadband access is about twice as expensive in the USA as it is in comparable countries. Prices for passengers for airlines are a great deal higher in the USA compared to else, says Philippon.

Higher prices, less productivity, entrenched managers – with oligopoly bought through political campaign contributions

Philippon says he is in the USA, where he teaches at New York University, partly because he believes in the free market.

"Markets here have become more concentrated and more persistent and profits have increased".

Thomas Philippon
The Great Reversal

As Wolf suggests, this may turn out to be an important book.

HOW CONCENTRATION IS DESTROYING MARKETS

Open markets are disappearing both in the US and the EU

The points made above are illustrated in the following chart published in The Economist.



- Decreased competition is delivering increasingly abnormal profits to the few

- It is killing new entrants into markets
- There is no difference between the US and the EU in market concentration

THE BIG QUESTION

WHY ARE COMPETITION AUTHORITIES SO INEFFECTIVE?

Dominance of the accounting market by PWC, Deloitte, KPMG and EY now reaches 100%

CONCENTRATION AT THE TOP OF ACCOUNTING MARKET

Over the last year, the big four accountancy firms have managed to increase their coverage of the FTSE-100 to 100 per cent, up from 96 per cent a year before.² This has led to complaints about the now record dominance of the accounting market by PWC, Deloitte, KPMG and Ernst and Young.

Sir John Kingman, who was to have led a government initiative has attacked ministers for failing to create the promised new accountancy watchdog with stronger powers.

There are also fears that the replacement of Greg Clark with Andrea Leadsom as Business Secretary would lead to an official rowing back from competition reforms.

DO NATIONALISATION PLANS SKEW THE IMPORTANT DEBATE?

If Labour's nationalisation plans for BT were making investors nervous, as the *Financial Times* has been reporting, they were also making monopoly campaigners nervous.³ The fear was that Labour was reacting automatically with a nationalisation solution rather than market reform to tackle the over-concentration of market power, and looked therefore like missing the point.

Will the UK's Conservative government react to Labour's widespread nationalization plans by avoiding reform altogether?

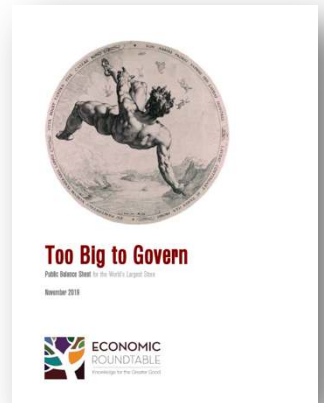
The fear was that this would discourage Conservative policy-makers also from tackling market concentration: there are already signs that the Conservatives are moving instead to counter nationalisation threats by avoiding reforms altogether.

THE ONLINE WORLD – GOOD, BAD OR SIMPLY INEVITABLE?

Amazon has become the poster child of a world of commerce that is moving from bricks and mortar to being increasingly online.

A new report analyses the social and environmental impact of Amazon's online and home delivery model....

A new report⁴ in California by the Economic Roundtable, a nonprofit research group that focuses on social and economic issues in Southern California asks: *What does Amazon cost the local economies where they have bricks and mortar?*



It attempts to understand Amazon's push into almost every aspect of modern life. With Amazon having 97,000 employees over the summer, the report is called *Too Big to Govern*.

The report lays out how, every day, ships, trucks, trains, and airplanes bring an estimated 21,500 diesel truck loads of merchandise to and from 21 Amazon warehouses in the four-county region of southern California. In total, Amazon's trucking operations in the four-county region in 2018 created an estimated \$642 million in uncompensated public costs for noise, road wear, accidents, and harmful emissions, says the report.

With an average of 2,180 miles travelled per flight, Amazon's flights into and out of airports in Riverside and San Bernardino counties released an estimated 620,000 metric tons of carbon into the atmosphere in 2018. The climate change resulting from those emissions creates an estimated \$45 million in social costs for impacts on agricultural productivity, human health, flooding, and ecosystem services.

...but fails to ask the deeper questions about a world of commerce moving online

Maybe the report is also notable because, by focusing so exclusively on Amazon, it fails to ask some bigger questions:

- Are the harms listed in the report greater than the harms that arise from thousands of trucks delivering merchandise to scattered bricks and mortar outlets compounded by thousands of consumers driving to city centres and out of town malls to complete their purchases?
- Are Amazon's activities any more socially damaging than, say, those of Fedex, DHL and all the others who are in the logistics and delivery business?
- Not to mention the damages inflicted by the endless to-and-fro movement of goods through globalized supply chains
- Are the changes seen a result of Amazon as a single business? Or are they an inevitable consequence of a world moving inexorably online?

- Are former bricks and mortar businesses better off continuing to complain about the impact on their business or should they accept the inevitable growth of consumer preference for online purchasing and convenient home delivery and adapt accordingly?
- Is the issue of the higher cost of bricks and mortar businesses (eg. through having to pay retail business taxes) an issue of 'unfair competition'? Or is it yet another case of public policy being no longer fit for purpose in a changing world?

We need serious analyses of the policy implications of a commercial world increasingly moving online

Answering these missing questions is important if we are to distinguish between comprehensive analyses of a rapidly changing world and another anti-Amazon rant.

There is no doubt that being a poster child of change, and having grown so large, has started to have some costs for Amazon.

Last Autumn, the company was forced to begin paying a \$15 hourly minimum wage nationwide. In February, it abandoned plans to establish a new headquarters in New York after opponents mobilised against it and the politicians who had approved the deal.⁵

Last month, an attempt to stack the city council in Seattle, the company's hometown, with members more acceptable to Amazon backfired with voters.⁶

BID TO BLOCK GOOGLE BID FOR FITBIT

The Washington-based thinktank the Open Market Foundation is among eight lobby groups to ask the federal US government to block Google's \$2.1 billion bid for the wearable devices manufacturer Fitbit.⁷

They have asked them to do so partly in response to leaked plans by Google to dominate the healthcare market. Their letter included the following:

“Through its vast portfolio of internet services, Google knows more about us than any other company, and it should not be allowed to add yet another way to track our every move. This transaction should not be permitted because Google already holds a dominant position in the digital marketplace, health data is critical to the future of that marketplace, and the data protection concerns stemming from the acquisition will have far-reaching consequences including a dramatic erosion of consumer privacy. This proposed acquisition should set off alarm bells at the FTC. It was, of course, Google that moved to consolidate user data across 60 different Internet-based services back in 2012, over the objection of consumer groups, members of Congress, state attorneys general and even the Chairman of the FTC. And the outcome was predictable: competition diminished, innovation diminished, and data protection diminished.” Markets here have become more concentrated and more persistent and profits have increased”.

About Radix

Radix is a non-aligned think tank for the radical centre of contemporary politics. Its aim is to re-imagine the way government, institutions and societies function based on open-source, participative citizenship. To kick-start the thinking that is needed for politics to embrace technology, innovation, social and cultural change.

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⁴ <https://economicrt.org/wp-content/uploads/2019/11/Too-Big-to-Govern.pdf>

⁵ <https://www.nytimes.com/2019/02/14/nyregion/amazon-hq2-queens.html>

⁶ <https://www.nytimes.com/2019/10/18/technology/amazon-seattle-council-election.html>

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