

Market power

Economist

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Competition

- Competition forces companies to keep prices low to attract customers. But if a few firms become powerful enough, they can see off competitors and charge more.
- A new working paper presents evidence that this is happening across the rich world.

Markups

- Markups—selling prices divided by production costs.
- At 1, products are sold at cost; above 1, there is a gross profit.
- Using the financial statements of 70,000 firms in 134 countries, ...

Markups

Made from concentrate

Company markups*, ratio of sales prices to costs

North America



Europe



South America



Oceania



Asia



Africa



Source: "Global market power" by J. De Loecker and J. Eeckhout, NBER 2018 *70,000 firms in 134 countries

Outsourcing

- America and Europe saw the biggest increases.
- But in many emerging markets markups barely rose. In China they fell.
- That suggests rich-world firms may have been able to increase markups by **outsourcing** to cut labour costs.

Another possibility

- Another possibility is that **corporate concentration** may have increased because of lax antitrust enforcement.
- Or the growing heft of companies benefiting from network effects, like internet firms.

Lower wages

- Greater market power for firms may also mean less bargaining power for workers, and hence lower wages.
- A recent study found that workers' share of income in America has declined most steeply in the most concentrated sectors.