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Schumpeter

The University of Chicago worries about a lack of competition

Its economists used to champion big firms, but the mood has shifted

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ONE sign that monopolies are a problem in America is that the University of Chicago has just held a summit on the threat that they may pose to the world's biggest economy. Until recently, convening a conference supporting antitrust concerns in the Windy City was like holding a symposium on sobriety in New Orleans. In the 1970s economists from the "Chicago school" argued that big firms were not a threat to growth and prosperity. Their views went mainstream, which led courts and regulators to adopt a relaxed attitude towards antitrust laws for decades.

But the mood is changing. There is an emerging consensus among economists that competition in the economy has weakened significantly. That is bad news: it means that incumbent firms may not need to innovate as much, and that inequality may increase if companies can hoard profits and spend less on investment and wages. It may yet be premature to talk about a new Chicago school, but investors and bosses should pay attention to the intellectual shift, which may change American business.

The fear that big firms might come to dominate the economy and political life has its roots in the era of the robber barons of the 19th century. In 1911 the government broke up Standard Oil; until the 1960s regulators policed mergers with a big stick. But by the 1970s the economy was sputtering, and America Inc was losing ground to Japanese and European industry. Free-market scholars at the Chicago school argued that the pendulum had swung too far towards the state and antitrust action.

They felt that regulators were intervening arbitrarily. Richard Posner, an academic who later became a judge, damningly wrote that they relied on "eclectic forays into sociology", not hard analysis. Firms were being prevented from getting big enough to create economies of scale that could benefit consumers, argued backers of free markets. Well-run companies that naturally gained market share were being penalised for success.

Over time the Chicago school's ideas became so influential that the courts and the two antitrust regulators, the Department of Justice (DoJ) and the Federal Trade Commission (FTC), adopted a far more favourable approach to big business. Today Mr Posner, who is 78, jokes that he became a judge in 1981 expecting to specialise in monopoly cases, but regulators stopped bringing them to court. He remains a true believer in the laissez-faire approach. But at Chicago (and elsewhere) a younger generation of scholars, including Luigi Zingales and Raghuram Rajan, are worried that competition is not as vigorous as it used to be.

What has changed? The facts. The pendulum has swung heavily in favour of incumbent businesses. Their profits are abnormally high relative to GDP. Those that make a high return on capital can sustain their returns for longer, suggesting that less creative destruction is taking place. The number of new, tiny firms being born is at its lowest level since the 1970s.

Two explanations are plausible. One is successive waves of mergers. When you split the economy into its 900 or so different industries, two-thirds have become more concentrated since the 1990s. Regulators may also have been captured by incumbent firms, which get cosy treatment. American companies collectively spend $3bn a year on lobbying. In regulated industries that don't face competition from imports — health care, airlines and telecommunications — prices are at least 50% higher than in other rich countries, and returns on capital are high.

The technology industry's expansion could exacerbate the problem. An analysis by *The Economist* in 2016 suggested that about half the pool of abnormally high profits is being earned by tech firms. The big five platform companies — Alphabet, Amazon, Apple, Facebook and Microsoft — earned $93bn last year and have high market shares, for instance in search and advertising. They are innovative but sometimes behave badly. They have bought 519 firms, often embryonic rivals, in the past decade, and may stifle them. The data they gather can lock customers into their products. They may also allow firms to exert their market power "vertically" up and down the supply chain — think of Amazon using information on what consumers buy to dominate the logistics business. Investors' sky-high valuations for the platform firms suggest they will, in aggregate, roughly triple in size.

If the summit showed that there is a consensus that competition has weakened, there was little agreement on how to respond. Pessimists abound. Many antitrust technocrats plead that they have little power: bodies like the DoJ and the FTC are not meant to run the economy, but instead to enforce a body of law through courts that have become friendlier to incumbents. Some radicals argue that the government is now so rotten that America is condemned to perpetual oligarchy and inequality. Political support for more competition is worryingly hard to find. Donald Trump has a cabinet of tycoons and likes to be chummy with bosses. The

Republicans have become the party of incumbent firms, not of free markets or consumers. Too many Democrats, meanwhile, don't trust markets and want the state to smother them in red tape, which hurts new entrants.

Lessons from the old school

What is needed is a three-pronged approach. A campaign to drum up public backing for competition might prod politicians to act: it was popular anger about monopolies in the 1890s that led to crucial reforms in the early 20th century. The technocrats have more power than they admit. Antitrust laws, such as the Sherman Act of 1890, give plenty of latitude. They must be braver. Lastly, scholars should learn from the first Chicago school. Its leading lights did not seek quick victories, but won the battle of ideas over years, their views percolating into politics, the courts and public opinion. America must rediscover the virtues of competition. With luck, in a couple of decades, it will seem embarrassing that anyone had to hold a conference to debate its relevance.