

# Dismembering the Octopus

Radical Market in Corporate Control

Summarized by Mason Kuang [mason@pyruslabs.com](mailto:mason@pyruslabs.com)



ALBERTA  
WHEAT POOL

FARMER OWNED  
CO-OPERATIVE

ST. ALBERT



ST. ALBERT

Problem: Stagnant Wages

# The average wage in Taiwan is going nowhere

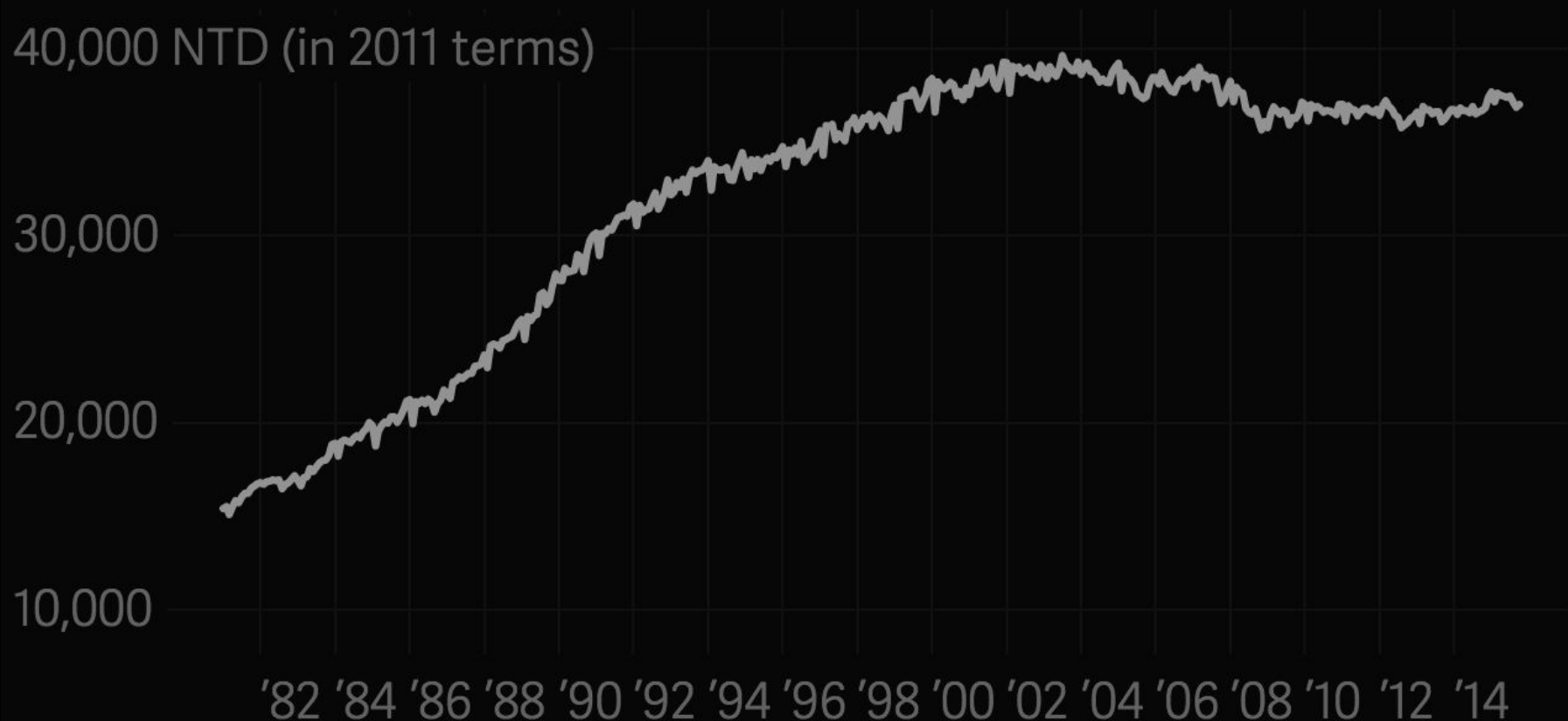
40,000 NTD (in 2011 terms)

30,000

20,000

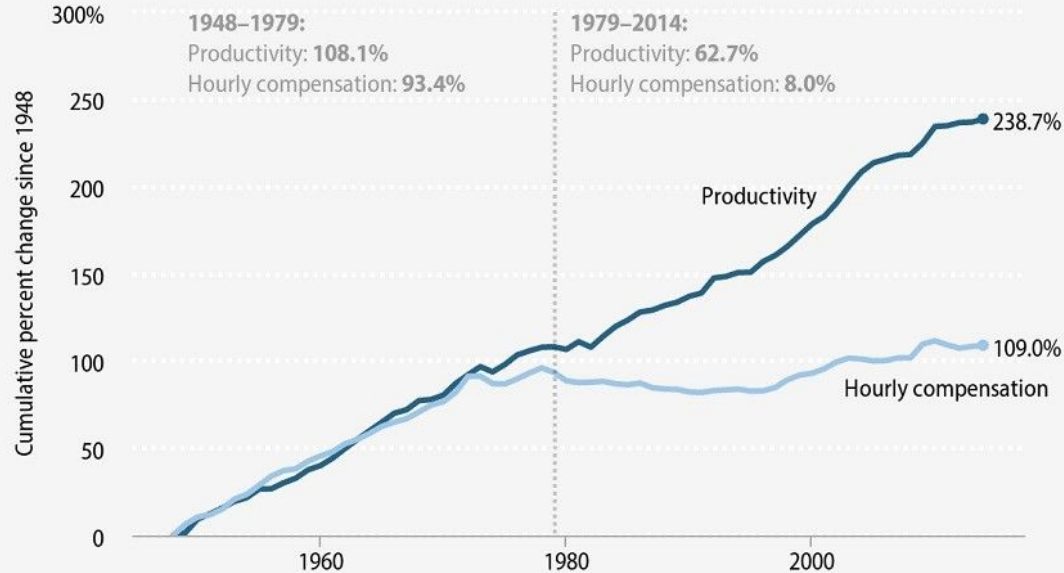
10,000

'82 '84 '86 '88 '90 '92 '94 '96 '98 '00 '02 '04 '06 '08 '10 '12 '14



# Workers' pay is no longer growing in tandem with productivity

Growth in productivity and typical worker's compensation, 1948-2014



**Note:** Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

**Source:** EPI analysis of BEA and BLS data (see technical appendix of *Understanding the Historic Divergence Between Productivity and a Typical Worker's Pay* for more detailed information)



10 Year Challenge

2 Bedroom Fair Market Rent

**2009**

**\$690/month**



10 year Challenge

**2009 Minimum Wage**

**\$7.25**

10 Year Challenge

2 Bedroom Fair Market Rent

**2019**

**\$933/month**



10 year Challenge

**2019 Minimum Wage**

**\$7.25**

# Stagnant Wages - Monopsony

**Def: Lack of competition in labor market**

Eg 1: Local Mine A and Mine B want to merge (less than 1% national prod not monopoly)

Merge -> reduce wage

= eliminate regional competition in wage without “national monopoly”



# Stagnant Wages - Monopsony

**Def: Lack of competition in labor market**

Eg 2: Large Purchaser (Walmart, Foxconn, Nike) let their suppliers compete for lowest bid.

Suppliers not wanting to lose the contract and keep cost low must keep wages low





# Who Really Owns a Company?

New “Monopoly” powers of the  
Institutional Investors

# Common Ownership of Banks Kills Competition

Banks many have different names  
but they don't compete

BlackRock, Vanguard, Fidelity,  
Wellington, State Street and  
Berkshire are the top owners of top  
6 banks

<i>JP Morgan Chase</i>	<i>[%]</i>	<i>Bank of America</i>	<i>[%]</i>	<i>Citigroup</i>	<i>[%]</i>
BlackRock	6.4	Berkshire Hathaway*	6.9	BlackRock	6.1
Vanguard	4.7	BlackRock	5.3	Vanguard	4.4
State Street	4.5	Vanguard	4.5	State Street	4.2
Fidelity	2.7	State Street	4.3	Fidelity	3.6
Wellington	2.5	Fidelity	2.1	Capital World Investors	2.4
<i>Wells Fargo</i>	<i>[%]</i>	<i>US Bancorp</i>	<i>[%]</i>	<i>PNC Bank</i>	<i>[%]</i>
Berkshire Hathaway	8.8	BlackRock	7.4	Wellington	8.0
BlackRock	5.4	Vanguard	4.5	BlackRock	4.7
Vanguard	4.5	Fidelity	4.4	Vanguard	4.6
State Street	4.0	State Street	4.4	State Street	4.6
Fidelity	3.5	Berkshire Hathaway	4.3	Barrow Hanley	4.0

Not limited US  
public companies.

Compare top  
shareholders  
Taiwan's TSMC  
and UMC with  
Globalfoundries

Source:



<https://money.cnn.com/quote/shareholders/shareholders.html?symb=TSM>

### Top 10 Owners of Taiwan Semiconductor Manufacturing Co Ltd

Stockholder	Stake	Shares owned	Total value (\$)	Shares bought / sold	Total change
Massachusetts Financial Services ...	1.03%	53,331,375	2,753,498,891	+813,747	+1.55%
Capital Research & Management Co....	1.02%	52,834,999	2,727,870,998	-1,241,390	-2.30%
JPMorgan Investment Management, I...	0.79%	41,127,150	2,123,394,755	+1,816,456	+4.62%
Sanders Capital LLC	0.71%	36,914,907	1,905,916,648	+1,011,400	+2.82%
The Vanguard Group, Inc.	0.66%	33,949,020	1,752,787,903	-2,734,310	-7.45%
Fisher Asset Management LLC	0.65%	33,924,328	1,751,513,055	-790,787	-2.28%
Walter Scott & Partners Ltd.	0.64%	33,062,389	1,707,011,144	+617,015	+1.90%
Capital Research & Management Co....	0.62%	32,327,821	1,669,085,398	-7,593,806	-19.02%
WCM Investment Management LLC	0.53%	27,285,756	1,408,763,582	+1,547,855	+6.01%
Baillie Gifford & Co.	0.51%	26,316,692	1,358,730,808	-519,919	-1.94%

# What's wrong with portfolio diversification?

Jose Azar: The Common Ownership Trilemma

Impossible to achieve the following objectives simultaneously:

- (i) portfolio diversification
- (ii) shareholder representation
- (iii) competition

As competition causes firms to “struggle” to please consumers. If top shareholders are the same, they can dictate policies to all companies they would not want any firm to “struggle” which decreases share value

# Solution

Allow institutional investors to invest in only **one** company in **each industry**

Eg. BlackRock already owns GM, they must sell their GM shares if they want to buy Ford.

Instead of relying on sectoral performance, investors are forced to increase the performance of each individual company leading to market competition which results in consumer gains

“The institutional investors that control most public corporations would have to choose one company to invest in within each industry they invest, so they could not hold (for example) both United Airlines and American Airlines. This would force them to promote competition between the companies they hold and those held by other institutional investors.”

# Political-Capital Connection

Democracy up for sale to the highest bidder

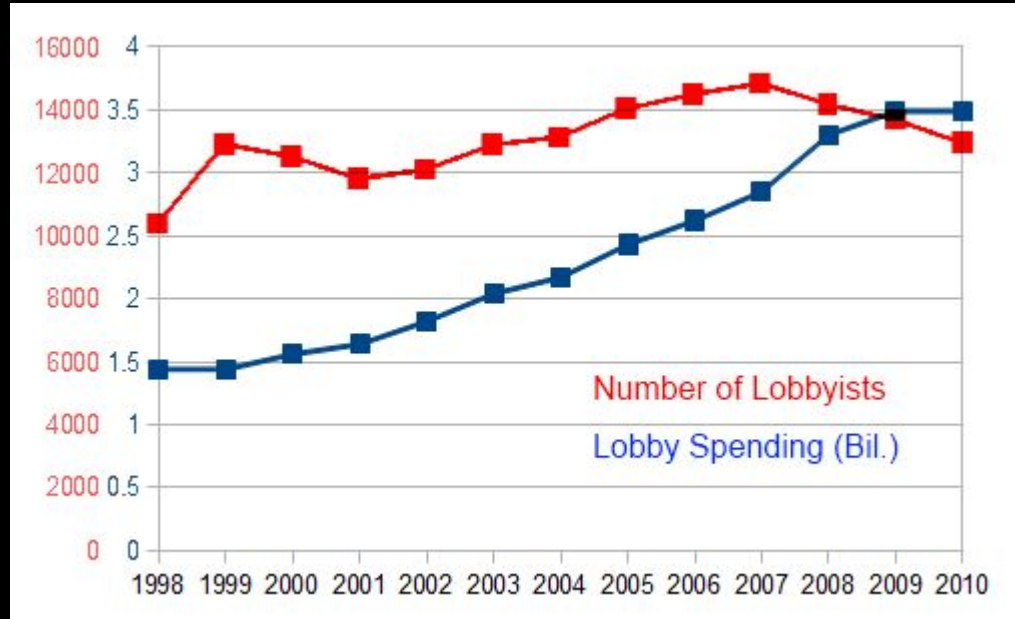




# Concentration of Political Lobbying Power

Less lobbyist

More spending



## Recap: Problems

- 1) **No wage growth** due to lack of competition in the labor market
- 2) New type of **trust fund** owned “monopolies”
- 3) Corporations use their **political connections** to get favorable laws passed

# Posner and Weyl's Proposal:

Apply Existing Monopoly Laws to Labor Markets, Institution Investors as well as Political-Capital Concentration

Clayton Act - Section 7

<http://www.ushistory.org/more/eniac/sec7.htm>

# Examples applications

## 1) **No wage growth**

Block mergers of companies that eliminate competition in labor markets

## 2) **Trust fund** owned “monopolies”

De-incentivize funds from investing in competing companies

## 3) Corporation **political connections concentration**

Block merger of companies that would gain larger political lobbying power

## Sources:

Radical Markets : Uprooting Capitalism and Democracy for a Just Society

Eric A. Posner; E. Glen Weyl, et al., Princeton University Press, 2019,

[www.amazon.com/Radical-Markets-Uprooting-Capitalism-Democracy/dp/0691177503](https://www.amazon.com/Radical-Markets-Uprooting-Capitalism-Democracy/dp/0691177503)

A Proposal to Limit the Anti-Competitive Power of Institutional Investors

Eric A. Posner, Fiona M. Scott Morton and E. Glen Weyl. Our detailed analysis of and proposal for addressing the market power created by institutional investors.

[https://www.americanbar.org/digital-asset-abstract.html/content/dam/aba/publications/antitrust\\_law/at\\_journal\\_81i3\\_posner.pdf](https://www.americanbar.org/digital-asset-abstract.html/content/dam/aba/publications/antitrust_law/at_journal_81i3_posner.pdf)

The Common Ownership Trilemma

Jose Azar

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3451462](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3451462)

Antitrust Remedies for Labor Market Power

Suresh Naidu, Eric A. Posner and E. Glen Weyl. Our survey of and policy recommendations for addressing the often-ignored threat of market power in labor markets.

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3129221](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3129221)

On Capital Markets

Vitalik Buterin

[https://vitalik.ca/general/2018/04/20/radical\\_markets.html](https://vitalik.ca/general/2018/04/20/radical_markets.html)

Clayton Act - Section 7

<http://www.ushistory.org/more/eniac/sec7.htm>