From Micro to Macro: Market Power, Firms' Heterogeneity and Investment

Conference take aways

A large part of recent research dedicated to market power highlights the importance of granular data and microfounded analysis. To explore and understand the insights gained from such analysis, the five organizing institutions/networks gathered at the European Investment Bank on March 18-19 to hold a joint CompNet-EIB-ENRI-IMF-IWH Conference titled "From Micro to Macro: Market Power, Firms' Heterogeneity and Investment".

To investigate how micro-data can help to improve the understanding of the effects of market power, five session, each taking a different angle on the topic, were hold over the course of two days. Each session attempted to shed light on a number of puzzling macroeconomic trends present in the last three decades: sluggish investment, productivity slowdown, falling labour share or rising income inequality.

The first session investigates how financial constraints and investments play a role in the development of market power. There is a possible nexus with access to finance, from two points of view. The first is that the easier the access to finance (and this is positively related with firm size, but bigger could well stand for well known, with an established relation with the financial intermediaries) the higher the mark-ups charged. The second is related to the impact of access to finance on start-ups.

This was a recurrent theme during the conference, because start-up and firms' demography play a role in shaping the evolution of mark-ups, influencing the relationship between market leaders and the other firms. This role was highlighted in two papers regarding specific countries episodes, while, on a theoretical point of view, the need of including the analysis of firms' demographic trends was strongly highlighted during the discussion.

The second session focused on cross-country analysis. The papers presented highlighted that the trend of rising mark-ups and growing distance between the top firms and the rest is clear in the US, but more scattered in other areas. It can be very similar for big, listed firms and in some advanced economies. For converging countries, such as eastern European countries, it can be however quite different, as for example their history is characterized by a growing integration in the global value chains.

The work focused on single countries discussed in session three highlighted the diversity of mark-up development in Europe. The first presentation highlighted the negative impact of globalization on mark-up dynamics in Poland. Presented evidence suggests that the participation in global value chains can create a negative pressure on mark-ups. The second presentation presented evidence of the dynamics in Belgium, which not only seem different compared to the polish case, but also to the US. In Belgium firms that increase their mark-up reduce their size, while the evidence for the US suggest that high mark-up firms increase their size and their market share.

Session four was dedicated to measurement issues regarding misallocation and concentration. It was convincingly highlighted that both, the measurement of revenue productivity dispersion and its association with misallocation, should not be straightforward. The issue of the reference market and the relationships with globalization and exports should be taken into account and further analysed.

The fifth session showcased the importance of considering in the market power discussion not only the product market, but also the input markets. It was suggested that input markets characterized by monopsony power cannot only explain a significant amount of the mark-up-, but also of the labour share dynamics.

During the many discussions throughout the sessions and in the policy panel several further issues were raised. There was a lot of debate on the consideration that if firms that are able to charge higher mark-ups are more productive, invest and innovate more, there is nothing to worry about. If, on the opposite, higher concentration means less competitive pressures and hence, less push for innovation coming from a fierce competitive effort between the incumbent leaders and the challenging new firm’s policy, actions are needed. There is some evidence that it has not happened yet in Europe, where competition policy seems to have played a role. Nevertheless, consensus persisted that the phenomenon of rising mark-ups and firms’ growing heterogeneity has to be further analysed and kept under check.