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# FIRMS AND INEQUALITY

IFS Deaton Review on Inequalities

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# Why do we care? Not inequality among households

When thinking about industrial structure, *inefficiencies* come to mind:

- Monopoly and monopsony behavior
- Reduction in entry, and smaller labor force
- Lobbying

But also an *inequality dimension*:

- Inequalities among workers with similar qualifications (different employers)
- Superstar workers vs the rest
- Capital vs. labor

On the latter: supranormal profits? Discussion on ability to regulate later.

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# Policy interventions

Those suggested in chapter and accompanying pieces are reasonable:

- Increase human capital (middle and bottom of distribution): meritocracy is widely violated
- Innovation (part of infrastructure): provided that follows the precepts of modern industrial policy (gouvernance is key)
- Labor market (social security for independent workers, etc)
- Competition policy: how?

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# Chapter documents very useful facts for UK

- Stagnant productivity and (median/mean) wages
- Fall in labor share (less than in US, but less manufacturing)
- Increase in mark-ups and in firm size (superstar firms)

## *Why?*

1. Institutions (labor, competition...)
2. Technology
3. Globalisation
  - Interdependent
  - 2 and 3 maybe more important, but levers of action mostly on 1.

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# Regulation vs antitrust for the digital world

Large fixed/sunk costs (like utilities, but with a vengeance: MC often 0).

Regulation (COS or PBR) hard to implement, however. “Cost recovery”?

1. *International cooperation?* International transfer pricing. Unlike public utilities, tech companies are global firms.

2. *Measurement of the rate base?*

- Capital = in part data today (valuation?)
- Tech firms’ investment not monitored along their lifecycle

Ex-ante profitability: like for drugs, need to factor in (low and, more importantly, unobserved) probability of success.

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# Regulation vs antitrust for the digital world (2)

*Structural policies/breakups: not straightforward*

- Differs from AT&T/electricity systems/railroads. Rapidly evolving technologies
- Common input (data). Identify essential facility and “unscramble the eggs” [Facebook is unifying technical infrastructure]

*My gut feeling*

- Competition policy & consumer protection main game in town
- But must be adapted to digital context and made agile.

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# Light-touch regulation/ competition policy+

Digital agency for firms with “strategic market status”; regulatory touch:

- “Sectoral” (to the extent Tech cos are...)
- More forward-looking than competition authority;  
collects info + has ability to suspend decisions (enforcement power)
- Monitors defensive acquisitions: firms must pre-notify their acquisitions.  
Inverted burden of proof for early acquisition by dominant firms.

Like competition authority, aims at preserving contestability:

- Limits on exclusivity requirements by dominant platforms
- Enforces fair access if denied by dominant platforms (EU P2B: transparency to prevent favoritism in favor of private labels)

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## Raises questions

1. Does not cover abuses also committed by small firms (MFNs)
2. Why digital firms only?
3. Location (within competition authority?)

## In conclusion

Dream team, fantastic work!