
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.

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?

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.

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.

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.

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)

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!