

Antitrust Enforcement Increases Economic Activity

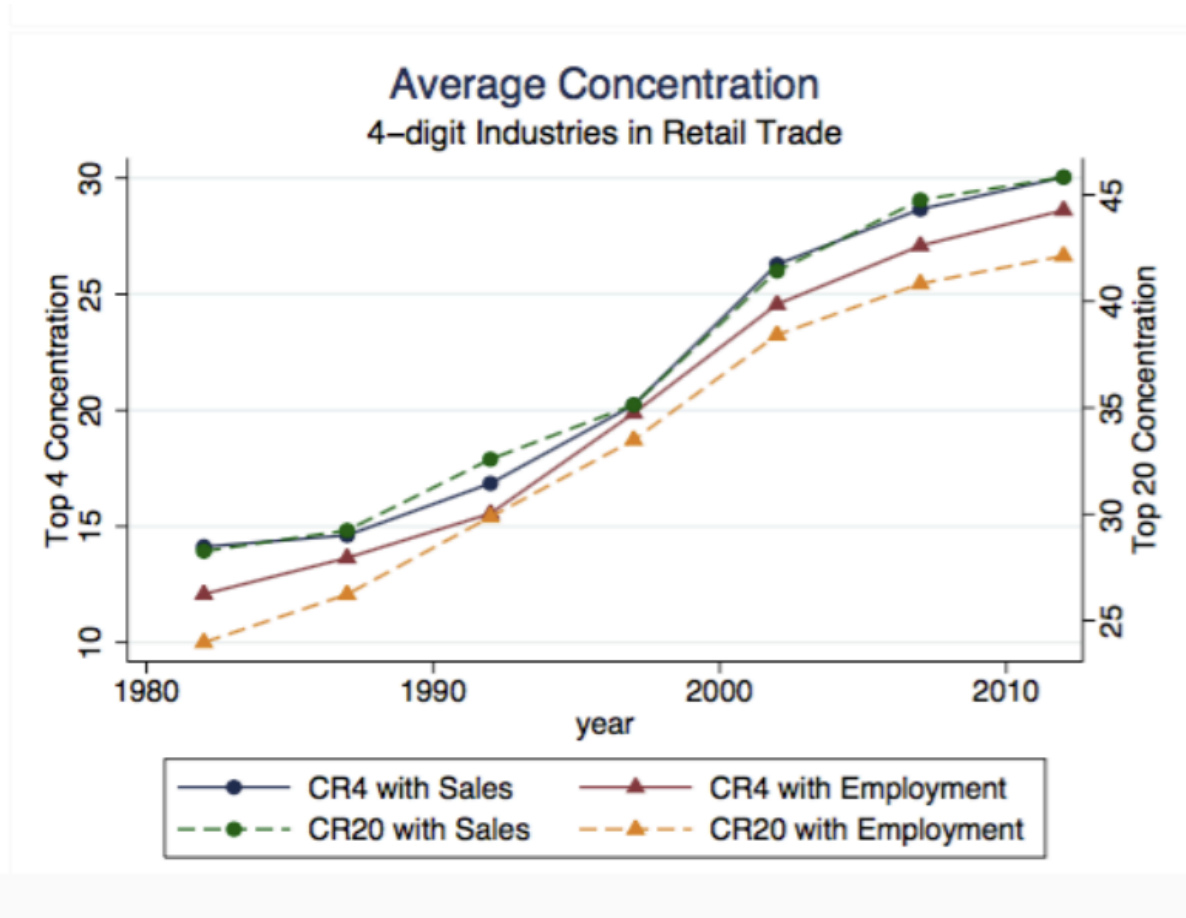
Babina Barkai Jeffers Karger Volkova

Discussion: Gabriel Unger (Stanford)

7/24/2024

Background

Industrial Concentration Up



Autor et al (2020): industrial concentration in SIC 4-digit industries up

Background

Markups Up

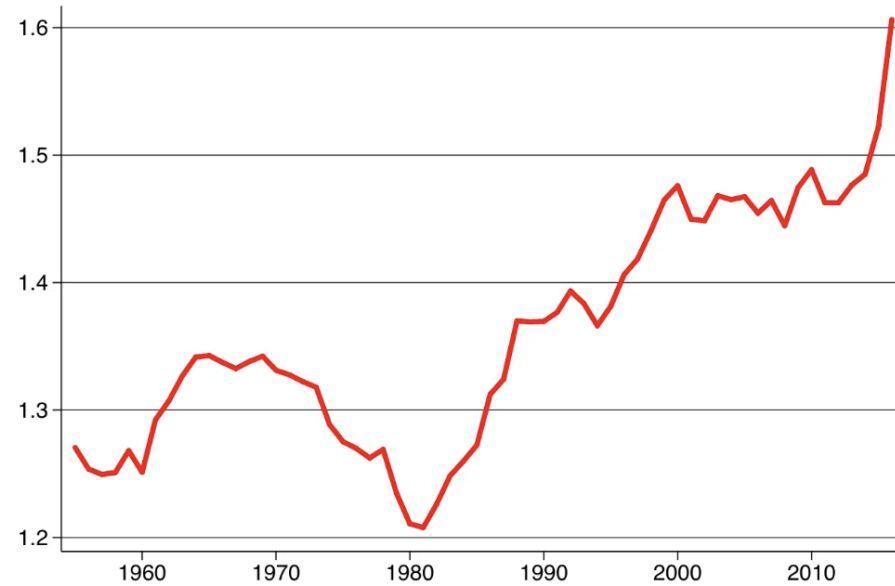


FIGURE I
Average Markups

DLEU (2020): aggregate markups rising

Background

Movement Antitrust and its Discontents

“One ongoing problem of antitrust enforcement is assessing effectiveness. Testing antitrust outcomes can be difficult. One advantage of the consumer welfare principle applied to merger law is that it gives us a testable proposition: if the goal of merger policy is to prevent mergers that threaten reduced output and higher prices, then we can evaluate consumated mergers by that standard and see how we are doing...Unfortunately, other areas of antitrust do not lend themselves so readily to such testing...Devising better testability needs to be an important piece of technical antitrust’s agenda. But this fact hardly places technical antitrust at a disadvantage vis-a-vis movement antitrust. **The grand generalizations of movement antitrust, with its far-flung expectations and unexamined rhetoric, defy testability.”**

- Herb Hovencamp, ‘Whatever Did Happen to the Antitrust Movement’ (2018)

Background

- **Great project: bring systematic empirical work to timely, well-defined antitrust question**
 - (Hand-collected DoJ lawsuits + Census microdata = heroic)
 - Consequences of looser antitrust enforcement?
 - How should we empirically assess + normatively evaluate US antitrust?
 - Consumer welfare standard vs. broader view of competition?
- **Good to be precise:**
 - Markups \neq Industrial Concentration \neq Antitrust
 - Antitrust: Merger Oversight \neq Policing Anticompetitive Behavior

Comments

1. Quick Summary
2. Margins of Economic Growth
3. Puzzles about Market Structure + Firm Structure
4. Larger Antitrust Debate
5. Little Things / Additional Empirics

1. Summary

Core of Paper

DoJ targets anticompetitive behavior \Rightarrow very large, positive economic outcomes:

$$\text{Outcome}_{jst} = \beta \times \text{Post Antitrust Enforcement}_{j,s,t} + \phi_{j,s} + \gamma_{j,t} + \pi_{s,t} + \epsilon_{jst}$$

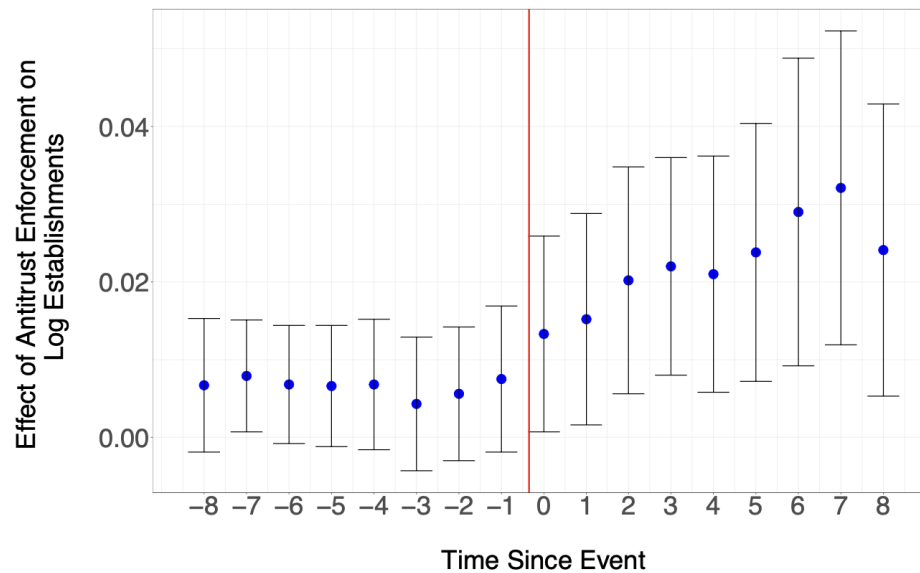
Headline result – local industries see:

5.4% employment boost, 4.1% business formation boost

Surprisingly large outcomes!

Bias?

Want to be super careful we're not missing any upward bias:



- Any reasonable story we could tell about upward bias here? Pre-trends?
- Nothing obvious, so take results at face value, try to make sense of them
- More structure/economic interpretation might be helpful

What Are We Really Talking About?

Outside the scope:

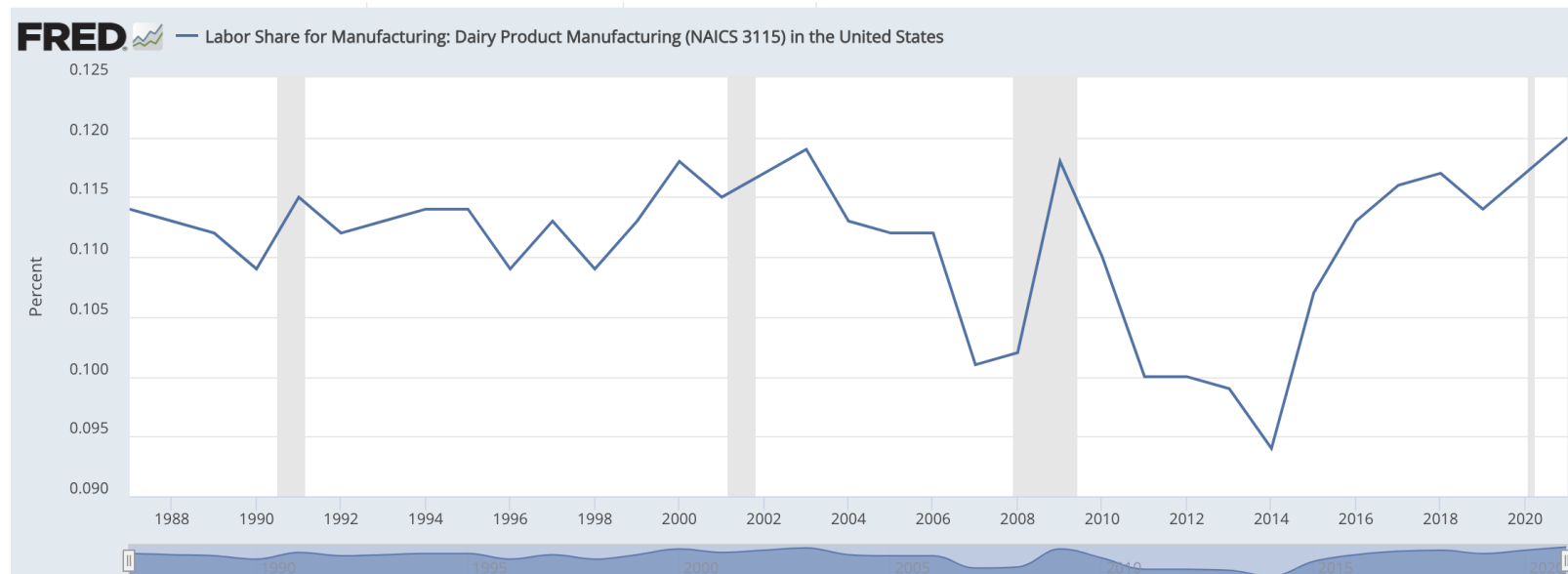
- ~~M&A Oversight~~
- ~~Anticompetitive Behavior in National Firms~~
 - ~~High Tech: Networks, Platforms~~
 - ~~High Finance~~

Typical fact pattern:

- Industry: construction, or not-super-tradable manufacturing (often construction adjacent: cement, lumber, etc).
- Violation: Bid rigging on a highway project
- Often high concentration at local level: very capital intensive, high entry costs, specialized labor + equipment, high regulatory barriers
- *Natural oligopolies?*

What Do These Firms Look Like?

Labor shares in the 10%-20% range (vs. 60%+ for most of the economy):



2: Margins of Economic Growth

- Get rid of bid rigging \Rightarrow clean auctions \Rightarrow better market allocation
- Better allocation of correct projects to correct firms \Rightarrow better allocation of labor and capital between firms
- Even *without* any big aggregate changes to employment or business formation, this could already lead to big improvement in aggregate productivity
- Might be under-selling gains to local economy!

Hsieh Klenow (2009)

Framework for Misallocation and Aggregate Productivity

THE
QUARTERLY JOURNAL
OF ECONOMICS

Vol. CXXIV

November 2009

Issue 4

MISALLOCATION AND MANUFACTURING TFP
IN CHINA AND INDIA*

CHANG-TAI HSIEH AND PETER J. KLENOW

Resource misallocation can lower aggregate total factor productivity (TFP). We use microdata on manufacturing establishments to quantify the potential extent of misallocation in China and India versus the United States. We measure sizable gaps in marginal products of labor and capital across plants within narrowly defined industries in China and India compared with the United States. When

Hsieh Klenow (2009)

Framework for Misallocation and Aggregate Productivity

- The decentralized and efficient allocation in a market economy satisfies a bunch of first-order conditions that equalize MP across firms
- Suppose the economy has idiosyncratic firm-level distortions τ_{si} that take you out of this allocation

$$(17) \quad 1 + \tau_{Ksi} = \frac{\alpha_s}{1 - \alpha_s} \frac{wL_{si}}{RK_{si}},$$

$$(18) \quad 1 - \tau_{Ysi} = \frac{\sigma}{\sigma - 1} \frac{wL_{si}}{(1 - \alpha_s) P_{si} Y_{si}},$$

$$(19) \quad A_{si} = \kappa_s \frac{(P_{si} Y_{si})^{\frac{\sigma}{\sigma-1}}}{K_{si}^{\alpha_s} L_{si}^{1-\alpha_s}}.$$

Hsieh Klenow (2009)

Framework for Misallocation and Aggregate Productivity

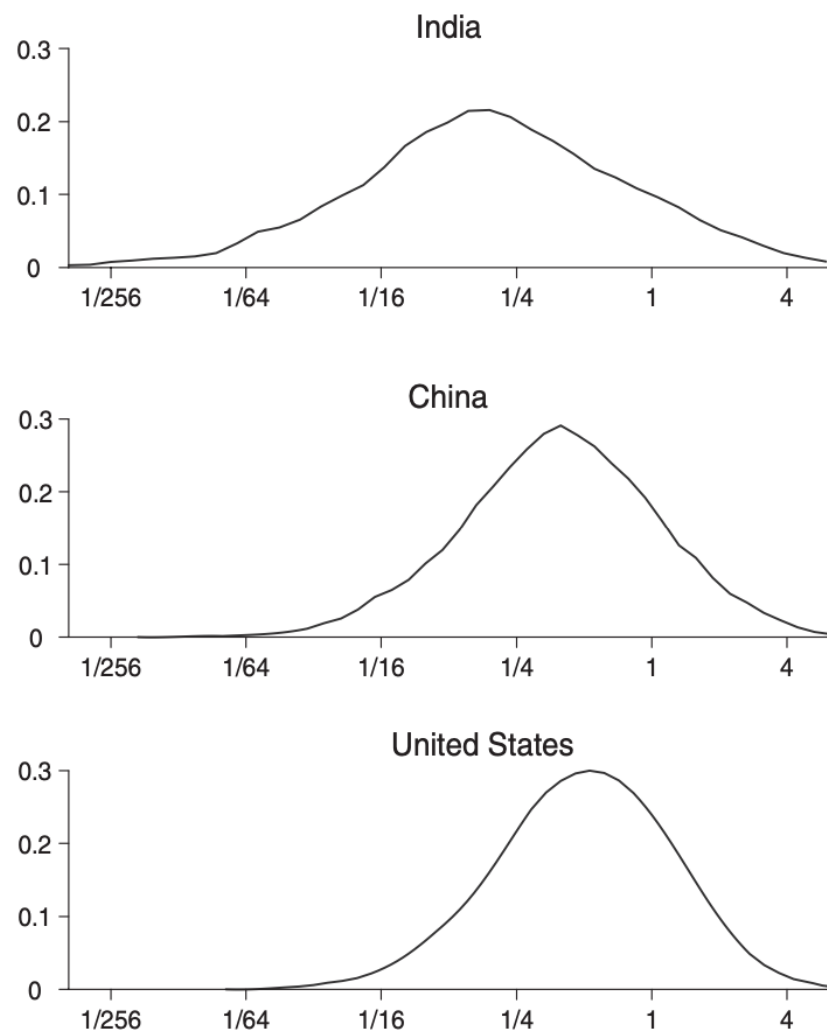


FIGURE I
Distribution of TFPQ

Economic Structure to Interpret Gains

Points to one possible framework for economic interpretation:

- End bid ridding
- Fix market signals
- Better allocation of projects to firms

Even without *aggregate* change to industry employment or firm starts, aggregate productivity should improve! Projects allocated to lowest cost (most productive) firms, not whatever firm was willing to break the law

3. Puzzle of Market Structure

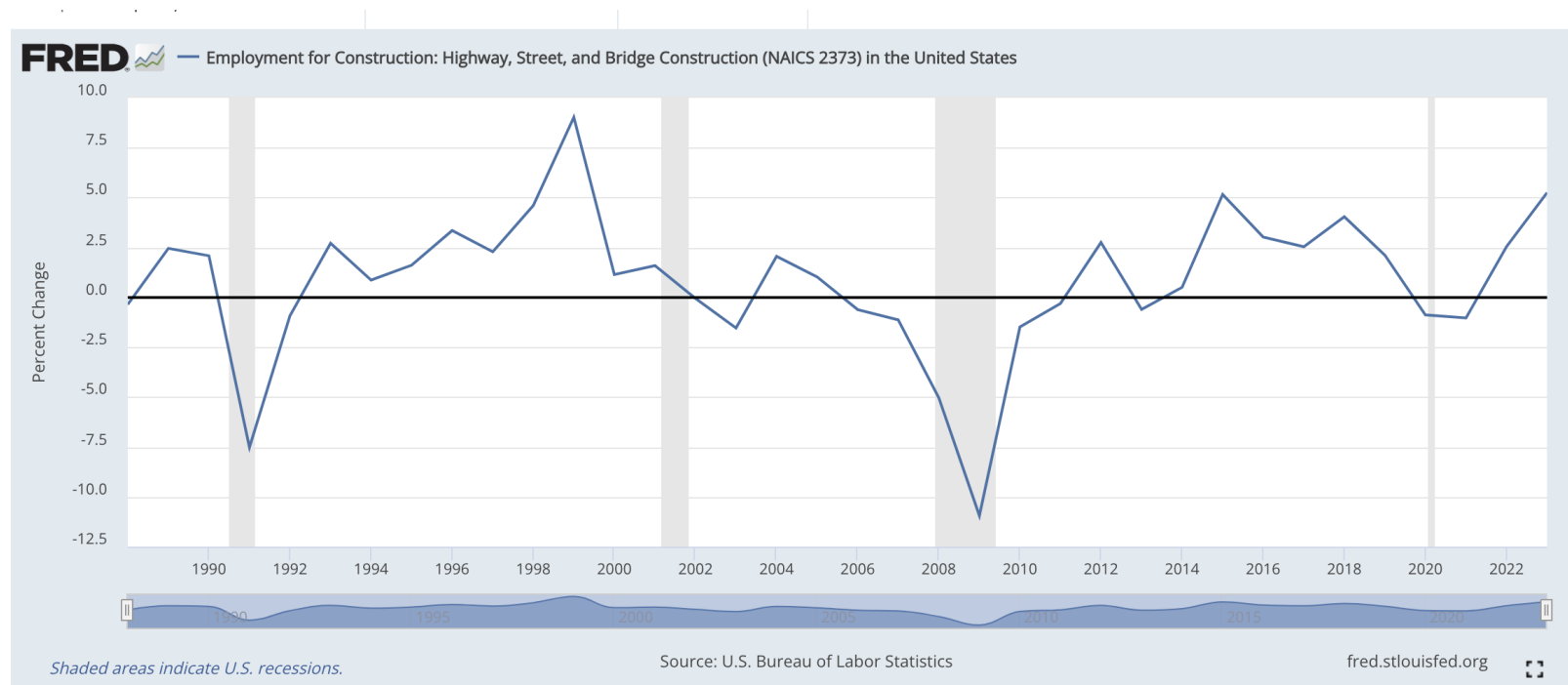
Assume a lot of these local industries look like oligopolies:

- High entry costs, capital intensive, regulatory barriers, etc
- Hard to imagine bid rigging outside of this (bid suppression, complementary bids, etc.)
- Even if DoJ says 'no more bid rigging,' you still have oligopoly!
- Should dampen pro-competitive effects of explicit collusion ban
- And yet: pro-competitive effects here are massive!
 - (What's the right benchmark to evaluate magnitude here?)

How should we make sense of this? Is there coherent model of market structure that's (1) oligopolistic, but (2) suddenly much more competitive when you cut off explicit coordination? Case study? Explicit model with quantitative exercise?

What's the Benchmark?

Highway construction employment (NAICS 2373), annual changes:



3.1: Puzzle of Firm Production Functions

- How can sales be flat but employment up?
 - Extra puzzling in super K-intensive industry
- Why are workers getting paid more?
- Why a new division of rents?

Works in practice, but does it work in theory?

What's the economic model (or story) that rationalizes all of this?

4. Larger Antitrust Debate

- Neo-Brandesians: Antitrust failures (esp to block M&A) \Rightarrow rise of industrial concentration
- Harm of industrial concentration isn't just about representative consumer + prices, it's about economic competition

This paper: policing anticompetitive behavior \rightarrow more economic competition

- Can we say something about *optimal* level of enforcement? (Do big results mean we're on wrong part of a regulatory Laffer curve?)
- Can we say something about mergers? (Future work?)

5. Additional Empirics/Little Things

- Look at prices?
 - BLS (tough...)
 - Nielsen Scanner Data (Groceries)
 - Other proprietary data sources for industry specific prices
- Look at investment!
 - CMF has capital for universe of plants/firms in years ending in '2' or '7'
 - ASM should have it for every year for big firms
- Aggregate labor share moving around is usually a compositional thing
 - Low elasticity of K and L within firm
 - Shift of market share between higher K/L and lower K/L firms
 - Autor et al (2020), etc.

Conclusion

- Great paper!
- Update priors about relative importance of policing anticompetitive behavior vs M&A oversight
- Antitrust debate, esp. in public discourse, can be fact free zone
- High returns to systematic empirical work here + being careful about object of inquiry

Lots of work still to be done in this space!