

Unclassified

English - Or. English

31 May 2021

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

Methodologies to Measure Market Competition – Note by the United States

11 June 2021

This document reproduces a written contribution from the United States submitted for Item 3 of the 135th OECD Competition Committee meeting on 9-11 June 2021.

More documents related to this discussion can be found at
<https://www.oecd.org/daf/competition/methodologies-to-measure-market-competition.htm>

Please contact Mr Antonio Capobianco if you have questions about this document.
[Email: Antonio.CAPOBIANCO@oecd.org].

JT03477352

United States

1. Levels versus Changes

1. In enforcing the US Antitrust Laws, the United States Federal Trade Commission (“FTC”) and the Department of Justice Antitrust Division (“DOJ”) (collectively, the “Agencies”) are primarily tasked with identifying whether certain actions or events would tend to lessen competition, which is a central question in merger investigations. While this marginal analysis can present some significant challenges, it sometimes can allow the action or event to be analyzed under approximately a *ceteris paribus* assumption. For example, when investigating how a merger between two nearby hotels may affect competition in that market, it may be appropriate to assume that other factors such as the cost functions of the hotels, the supply of rooms by competing hoteliers, and the demand for hotel rooms in the market are not affected significantly by the merger. To the extent some of these factors are expected to change in particular ways due to the merger, an analysis may be able to account for those changes. The methods used to study the potential lessening of competition from a merger, a marginal effect, have received considerable attention, so we will not revisit that topic here.

2. Investigation of the competitive effects of the hypothetical hotel merger mentioned above would not require a comparison of the competitiveness of this specific hotel market to a hotel market in some other location where costs and demand conditions may differ significantly. Nor would it necessitate a comparison of the current market to that same hotel market many years ago when important characteristics of the market may have been different. These comparisons would require an assessment of the level of competition using an estimation procedure for a competition metric that could separate out the effect of differing intensities of competition from changes in other market characteristics that may affect market outcomes. While economists at the Agencies are most often required to assess marginal changes in competition, the Agencies have followed the developing literature on methods to measure levels of competition in the economics literature, and have found many informative resources, a selection of which is listed below.¹

2. Public Events

3. The second panel in first hearing of fourteen FTC Hearings on Competition and Consumer Protection in the 21st Century, held on September of 2018 was a discussion of research into whether markets were becoming more concentrated or less competitive. It was entitled “Has the US Economy Become More Concentrated and Less Competitive: A Review of the Data”.² Then DOJ economist Greg Werden moderated a panel consisting of Jonathan Baker (American Univ., former FTC BE Director), Steven Berry (Yale Univ.),

¹ We view this literature as being distinct from studies of market concentration, which were covered in a recent Note by the Agencies in connection with a 2018 OECD roundtable, available at https://www.ftc.gov/system/files/attachments/us-submissions-oecd-2010-present-other-international-competition-fora/market_concentration_united_states.pdf.

² Audio and video recordings and a printed transcript of this hearing are available at <https://www.ftc.gov/news-events/events-calendar/2018/09/ftc-hearing-1-competition-consumer-protection-21st-century>.

Fiona Scott Morton (Yale Univ., former DOJ DAAG for Economic Analysis), and Joshua Wright (George Mason Univ., former FTC Commissioner).

4. Later that same year, a panel discussion at the 2018 FTC Microeconomics Conference³ focused more directly on the literature on markups. The panel, “Estimating Markups,” was chaired by FTC economist Devesh Raval, who has a working paper on the subject, referenced below. Panelists included Allan Collard-Wexler (Duke University), Matthew Grennan (University of Pennsylvania, Wharton), John Haltiwanger (University of Maryland), and Ariel Pakes (Harvard University).

3. Some Relevant Research

3.1. Summary Articles

3.1.1. Published Articles

Basu, Susanto. "Are price-cost markups rising in the United States? A discussion of the evidence." *Journal of Economic Perspectives* 33, no. 3 (2019): 3-22.

Berry, Steven, Martin Gaynor, and Fiona Scott Morton. "Do increasing markups matter? lessons from empirical industrial organization." *Journal of Economic Perspectives* 33, no. 3 (2019): 44-68.

Shapiro, Carl. "Antitrust in a Time of Populism." *International Journal of Industrial Organization* 61 (2018): 714-748.

Shapiro, Carl. "Protecting competition in the American economy: Merger control, tech titans, labor markets." *Journal of Economic Perspectives* 33, no. 3 (2019): 69-93.

Syverson, Chad. "Macroeconomics and market power: Context, implications, and open questions." *Journal of Economic Perspectives* 33, no. 3 (2019): 23-43.

3.2. Estimated Markups

3.2.1. Published Articles

De Loecker, Jan, Jan Eeckhout, and Gabriel Unger. "The rise of market power and the macroeconomic implications." *The Quarterly Journal of Economics* 135, no. 2 (2020): 561-644.

Ganapati, Sharat. “Growing Oligopolies, Prices, Output, and Productivity.” *American Economic Journal: Microeconomics*. Forthcoming.

3.2.2. Working Papers

Bond, Steve, Arshia Hashemi, Greg Kaplan, and Piotr Zoch. “Some unpleasant markup arithmetic: Production function elasticities and their estimation from production data.” No. w27002. National Bureau of Economic Research, 2020.

De Loecker, Jan, and Jan Eeckhout. “Global market power.” No. w24768. National Bureau of Economic Research, 2018.

³ The agenda for this conference is available at <https://www.ftc.gov/news-events/events-calendar/2018/11/eleventh-annual-federal-trade-commission-microeconomics>.

Diez, Federico, Daniel Leigh, and Suchanan Tambunlertchai. "Global market power and its macroeconomic implications." International Monetary Fund, 2018.

Hall, Robert E. "New evidence on the markup of prices over marginal costs and the role of mega-firms in the US economy." No. w24574. National Bureau of Economic Research, 2018.

Raval, Devesh. "Testing the production approach to markup estimation." Available at SSRN 3324849, 2020.

Traina, James. "Is Aggregate Market Power Increasing? Production Trends Using Financial Statements." Stigler Center New Working Paper Series 17, 2018.

3.3. Profit Shares

3.3.1. *Published Articles*

Autor, David, David Dorn, Lawrence F. Katz, Christina Patterson, and John Van Reenen. "The fall of the labor share and the rise of superstar firms." *The Quarterly Journal of Economics* 135, no. 2 (2020): 645-709.

Barkai, Simcha. "Declining labor and capital shares." *The Journal of Finance* 75, no. 5 (2020): 2421-2463.

Karabarbounis, Loukas, and Brent Neiman. "The global decline of the labor share." *The Quarterly journal of economics* 129, no. 1 (2014): 61-103.

3.3.2. *Working Papers*

Hubmer, Joachim, and Pascual Restrepo. "Not a Typical Firm: The Joint Dynamics of Firms, Labor Shares, and Capital–Labor Substitution." No. w28579. National Bureau of Economic Research, 2021.

Stansbury, Anna, and Lawrence H. Summers. "The declining worker power hypothesis: An explanation for the recent evolution of the American economy". No. w27193. National Bureau of Economic Research, 2020.