General Discussion

Martin Eichenbaum interpreted the rising concentration in the banking industry through the lens of the authors’ framework. He noted that several regional banks in the Southwest had recently merged to form a super-regional bank. According to banking professionals, increasing returns play an important role in this industry, he said. Eichenbaum argued that this form of concentration seems consistent with increasing sunk costs or barriers to entry. He then asked the authors about their thoughts on the subject. The authors clarified that most of their analysis excludes financial services. They agreed that a rise in barriers to entry could explain mergers in the banking industry, together with an increase in efficiency from mergers. However, they noted that the evidence on increasing returns to scale in the banking industry remains mostly inconclusive. The emergence of “fintech” might potentially create more scope for such efficiency gains, they argued. The authors emphasized the role of lobbying by the banking industry. As an example, they mentioned data portability, which allows a client to share her portfolio information with another institution to obtain financial advice. Banks defeated calls for increased data portability in the U.S., the authors pointed out. On the contrary, they lost in the E.U., where their lobbying power is smaller. This illustrates the role of increased lobbying for the rise in barriers to entry in the U.S., according to the authors.

Laura Veldkamp spoke next. She noted that uncertain revenue streams should command risk premia when investors or managers are risk averse. Veldkamp pointed out that markups could be the firm's compensation for that revenue risk. They might not reflect market power at all. Veldkamp wondered how the authors took this into account in their analysis. The authors mentioned that they measure firms’ value using market values, which should address concerns related to risk premia. On the relation between firms’ value and entry into an industry, they referred to another paper of theirs. Fixing barriers to entry across industries, a standard efficiency condition would predict a positive correlation between the share of entries and Tobin’s q across industries, they argued. In Gutiérrez and Philippon (2017), they found that this correlation was positive and strong in the data until the late 1990s, but is zero nowadays. This fact is consistent with a substantial increase in the variance of “competition” shocks (SIGMA) and “barriers” shocks (KAPPA) in their model, they noted.

Two topics dominated the rest of the discussion: the decline in firm entry and the rise in barriers to entry since the 2000s, and the role of lobbying.

On the first topic, Erik Hurst noted that various series related to technology and employment feature an inflection point in the early 2000s. This coincides with the apparent sudden increase in barriers to entry. He was curious about the source of these structural changes, and asked the authors about their opinion on the subject. They responded by referring to a recent paper of theirs. In Gutiérrez et al. (2019), they used a structural model with dynamic entry-exit, risk premia and firm heterogeneity to back out implied time-series entry rates. The corresponding barriers to entry don’t feature any discontinuity in early 2000s. Instead, they rise smoothly since the mid-2000s. Other shocks
contributed to the decrease in entry rate at that time. The rise in lobbying is an important source of higher barriers to entry in the U.S., according to the authors. However, they admitted that they don’t have an explanation yet for the increase in lobbying in the U.S. over the past 20 years, and why it didn’t occur in Europe.

Kristin Forbes offered an alternative explanation for the decline in firm entry since the early 2000s. She noted that China’s entry in the WTO in 2001 disrupted global supply chains and international competition, which might have affected firm entry. The authors referred to evidence of theirs on the effect of the China shock. This shock contributed to an increase in exit rates, and an increase in investment and markups, they mentioned. However, the exposure to China only affected a limited part of the economy, they argued. Furthermore, the China shock fails to explain the increase in concentration for airlines and telecom, or the different experiences in the U.S. and Europe.

Antoinette Schoar emphasized instead the role of the bursting tech bubble in the early 2000s. She argued that existing firms in broad segments of the economy acquired new technologies after the crash. This contributed to changes in production and distribution technologies, she suggested. The authors agreed with the importance of accounting for technological change. This motivated their comparative approach between the U.S. and Europe, they explained. By comparing industries that use the same technology on each side of the Atlantic, such as airlines or telecoms, the authors found divergent trends for profits, markups and prices. This is suggestive of a U.S.-specific source of rising barriers to entry, according to the authors.

Robert Gordon shared Schoar’s view. He mentioned that investment collapsed between 2000 and 2003, while productivity growth was higher during the 2000-2004 period, compared to the 1996-1999 period. Gordon argued that this evidence is suggestive of lagged learning and a late adoption of digital technologies developed in the 1990s. Janice Eberly joined the discussion. She referred to recent work by Gordon and Sayed (2019), which documents different trends in productivity between the U.S. and Europe. Eberly wondered whether these differences could affect the authors’ comparative approach between the two continents. Gordon followed up on Eberly’s comment. He pointed out that productivity growth at the industry level was highly correlated between the U.S. and Europe during the period 1995-2005. He argued that this correlation masks an important difference in trends: productivity growth in Europe was roughly half that in the U.S. in every industry over that period. Gordon found this lack of productivity revival in Europe puzzling. He asked the authors about their thoughts on the subject. They nuanced the view that productivity is diverging between the U.S. and Europe. The authors suggested instead that differences in productivity growth in the early 2000s between the U.S. and Europe were mostly transitory and reflected different life-cycle compositions of firms within industries. Growth in GDP per capita over the period 1999-2019 was very similar on both sides of the Atlantic, they argued.

On the topic of lobbying, Chad Syverson agreed that a rise in lobbying and an increase in barriers to entry were intrinsically related. He suggested that increased lobbying is the consequence of higher barriers to entry, rather than its cause. Syverson also pointed out that lobbying expenditures typically amount to a few billion dollars only. These figures are low compared to other forms of entry cost such as building a new plant. The authors pointed out that the estimates of lobbying costs found in the
political economy literature have evolved significantly over the past decade. Factoring in all relevant costs, including political campaign financing, current estimates are now substantially higher, they argued. The authors noted that returns to lobbying seem high nevertheless, so that part of the puzzle remains.

Antoinette Schoar inquired about the institutional context in Europe to better understand differences in lobbying on both sides of the Atlantic. Specifically, she wondered whether European regulators were more prone to regulate certain industries when those were supplied mostly by U.S. firms. The authors suggested that lobbying seems to have very little influence on the decisions of European regulatory agencies. They referred to the example of the Alstom-Siemens merger, which was blocked by the European Commission despite intense pressures from two major European countries, France and Germany.

Finally, Silvana Tenreyro asked if differences in inflation between the U.S. and Europe might affect the measurement of mark-ups. Chad Syverson seconded Tenreyro, admitting that the measurement of mark-ups is notoriously difficult. The authors noted that price inflation over the past 15 years has been 15 p.p. higher in the U.S. than in Europe, while wage inflation has been 8 p.p. higher. At the same time, productivity growth has been 3 p.p. higher in the U.S. As a result, the average mark-up in the U.S. increased by 10 p.p. compared to Europe. The authors argued this back-of-the-envelope calculation falls within the 10-15 p.p. range documented in the literature. They argued that this figure is rather small on an annual basis.

References

