An economic theory of everything

The IMF adds to a chorus of concern about competition

A new analysis reinforces worries about market power

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PHYSICISTS' QUEST for a "theory of everything" to explain all of their observations about the world is well-known. The equivalent in economics is the hunt for common causes for the rich-world macroeconomic trends of the past decade or so: a shrinking share of the economic pie for workers, disappointing investment ar klustre productivity growth. These must be wages. Their bargaining clout may even allow them to suppress pay directly.

On April 3rd the IMF provided the latest evidence for parts of this theory. In a new study the fund's economists examined the markups over marginal cost—one proxy for market power—charged by over 900,000 firms in 27 countries. They found that markups rose by 8% on average between 2000 and 2015. In findings consistent with earlier analyses by *The Economist*, the fund concluded that market power has risen notably in America and by a smaller amount in Europe, and largely affected industries other than manufacturing (which trade keeps fiercely competitive).

Case closed? Not so fast. Those who doubt that competition has weakened attribute such findings to the rise of "superstar" firms. They argue that economic activity is becoming concentrated in the best firms because of technology, network effects and globalisation. This "winner-takes-most" pattern could explain rising average markups, if pricey but brilliant products are capturing more market share, or if superstar firms are unusually reliant on investments in intangible assets that do not count as marginal costs. Given the growing importance of intellectual property and brand value to obvious superstars such as Apple and Google, this objection is worth taking seriously.

The IMF study confirms that in most places a small share of firms are responsible for rising markups, which have soared among the best and are flat among the rest (see chart). The top 10% of firms are 50% more profitable than their peers, more than 30% more productive and much more reliant on intangible assets. The did not find that rising markups had slowed markups by the firms involved. Economists are sometimes accused of having "physics envy"—that is, of coveting the precision of the hard sciences. But if economics has a law worthy of the name, it is that firms prefer to merge than to compete.

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