

Platform Capitalism & Regional income disparities: the power of monopolies & finance

Maryann Feldman, University of North Carolina Chapel Hill

Frederick Guy, Birkbeck, University of London

Simona Iammarino, London School of Economics

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**Cities, regions and digital transformations: Opportunities, risks and
challenges**



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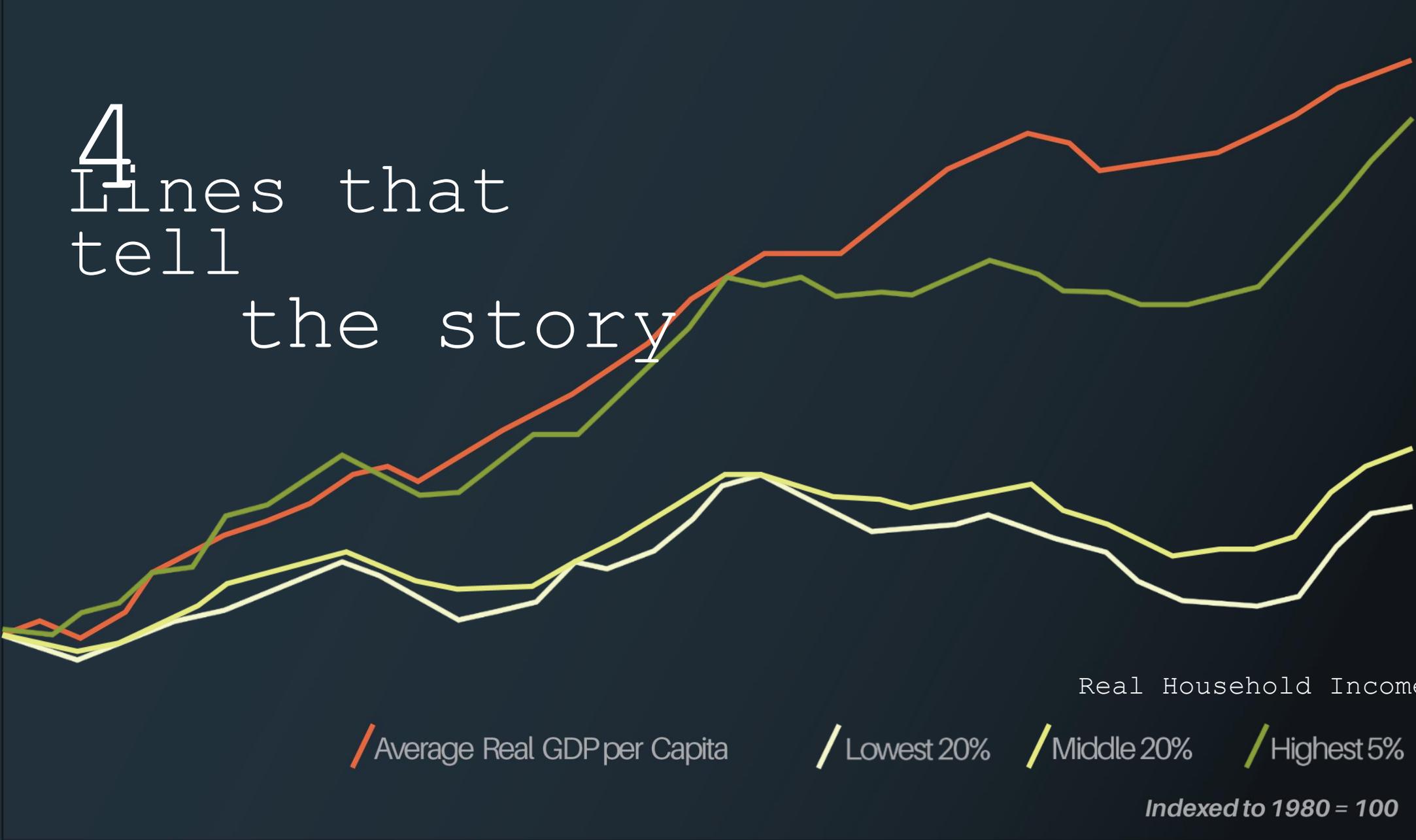
Geography
and Environment

The world since Thatcher and Reagan: Four familiar topics

- Rise in income inequality
 - Increased importance of
 - Localization economies
 - Urbanization economies
 - Increase in Monopoly power
 - big tech, big pharma, big banks
 - Financialization
 - enlarged financial sector role in governance of firms
- What do these trends imply for geography? We consider the US case

4
Lines that
tell
the story

175
150
125
100
75



Real Household Income
Average Real GDP per Capita / Lowest 20% / Middle 20% / Highest 5%

Indexed to 1980 = 100

1980 1985 1990 1995 2000 2005 2010 2015

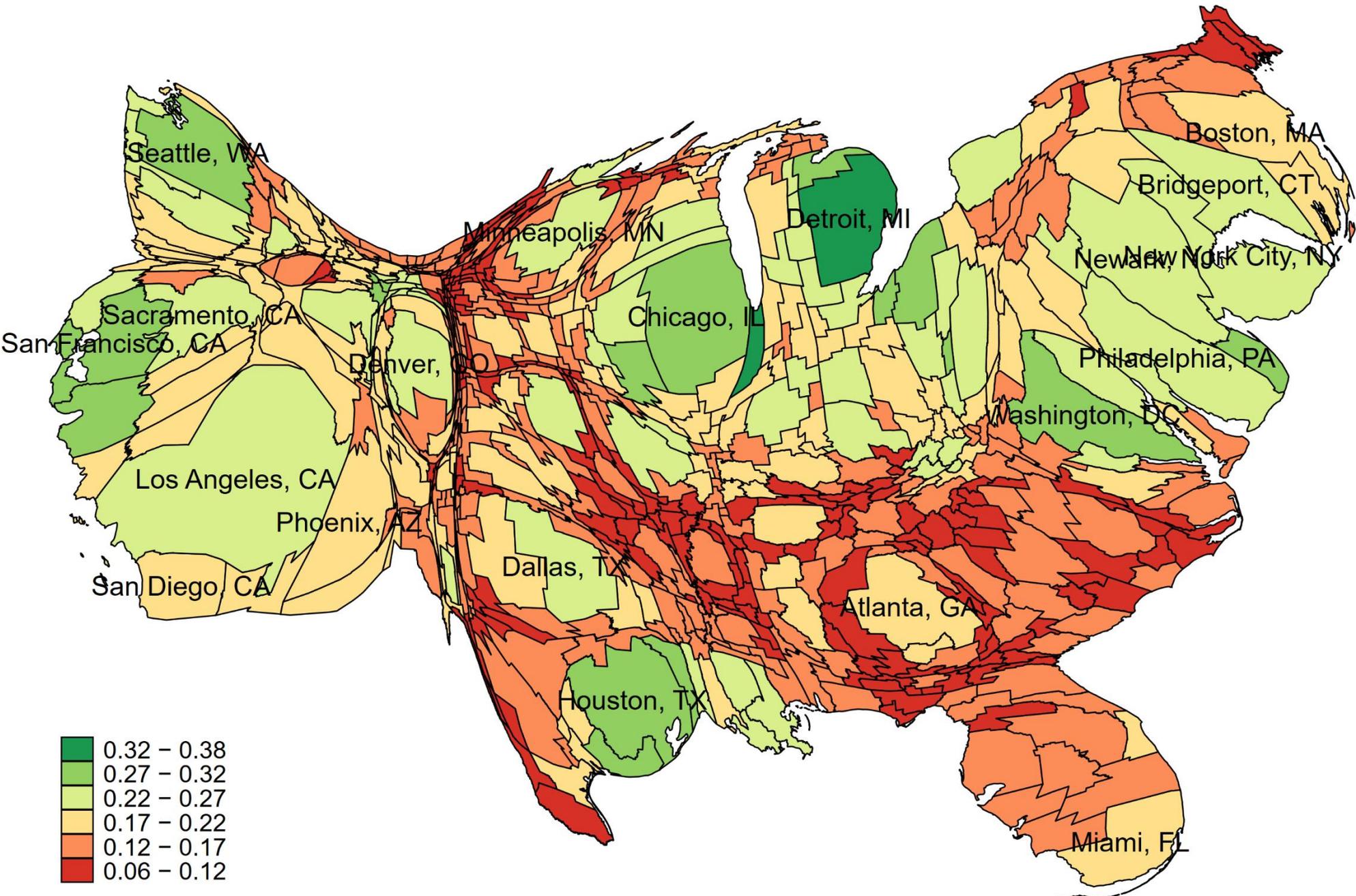
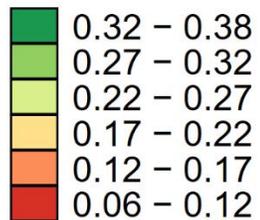
How has the geographic location of the top earners changed?

Consider those above the 80th percentile or the top 20%

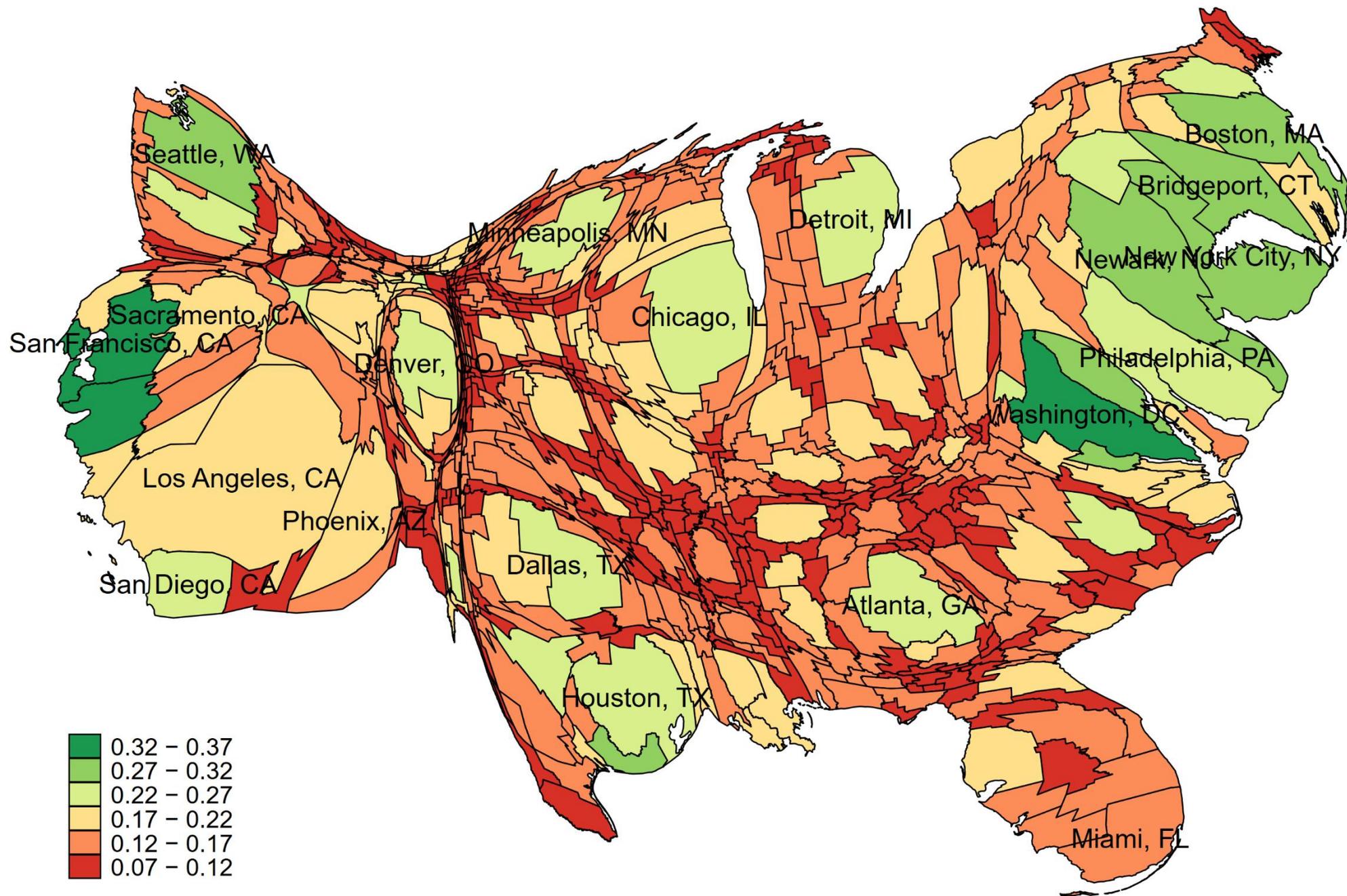
1980

Looking backward (1980):
proportion of employed people earning more than national 80th percentile in 1980

By commuting zone (CZ); areas scaled by population

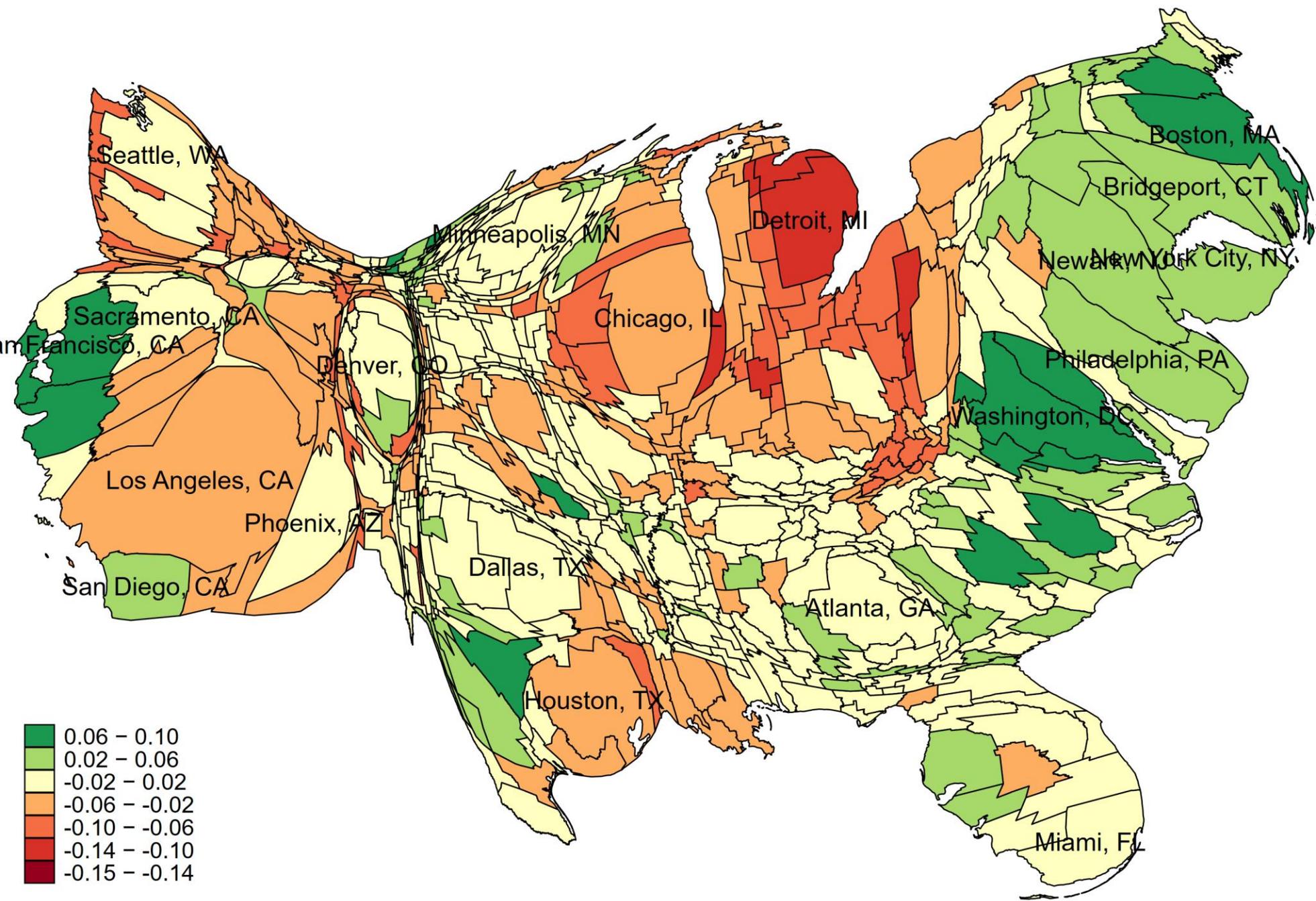


2016



At time of Clinton/Trump (2016): Proportion of employed people earning more than national 80th percentile

By commuting zone (CZ); areas scaled by population



Change from 1980 to 2016:
 some places are
optimistic,
diverse,
dynamic,
moving forward

-- Hillary Clinton,
 speaking in
 Mumbai, 2018

Increasing returns *to place* (external to firms)

- **Localization:** benign Marshallian forces
 - Specialized labor, knowledge spill-overs, value chain proximity
- Spatial unbundling → Increased local specialization within value chains
 - Technology: greater complexity, division of labor
 - Reduced communication & transport costs, higher speed
 - And, internationally, reduced tariff & regulatory barriers, regulatory arbitrage
 - Allows spatial concentration of high value added functions
- **Urbanization: bigger is better**

Policy Prescriptions: Fixing inequality when it's due to increasing returns to place

- Make your place better:
 - smart specialization
 - reform institutions,
 - Invest
 - Encourage entrepreneurship
- Move to the big city

Monopoly Power has increased

- Increasing returns internal to firm – network externalities
- Interaction with Marshallian externalities
- Amplification by financialization
- Result in spatial concentration

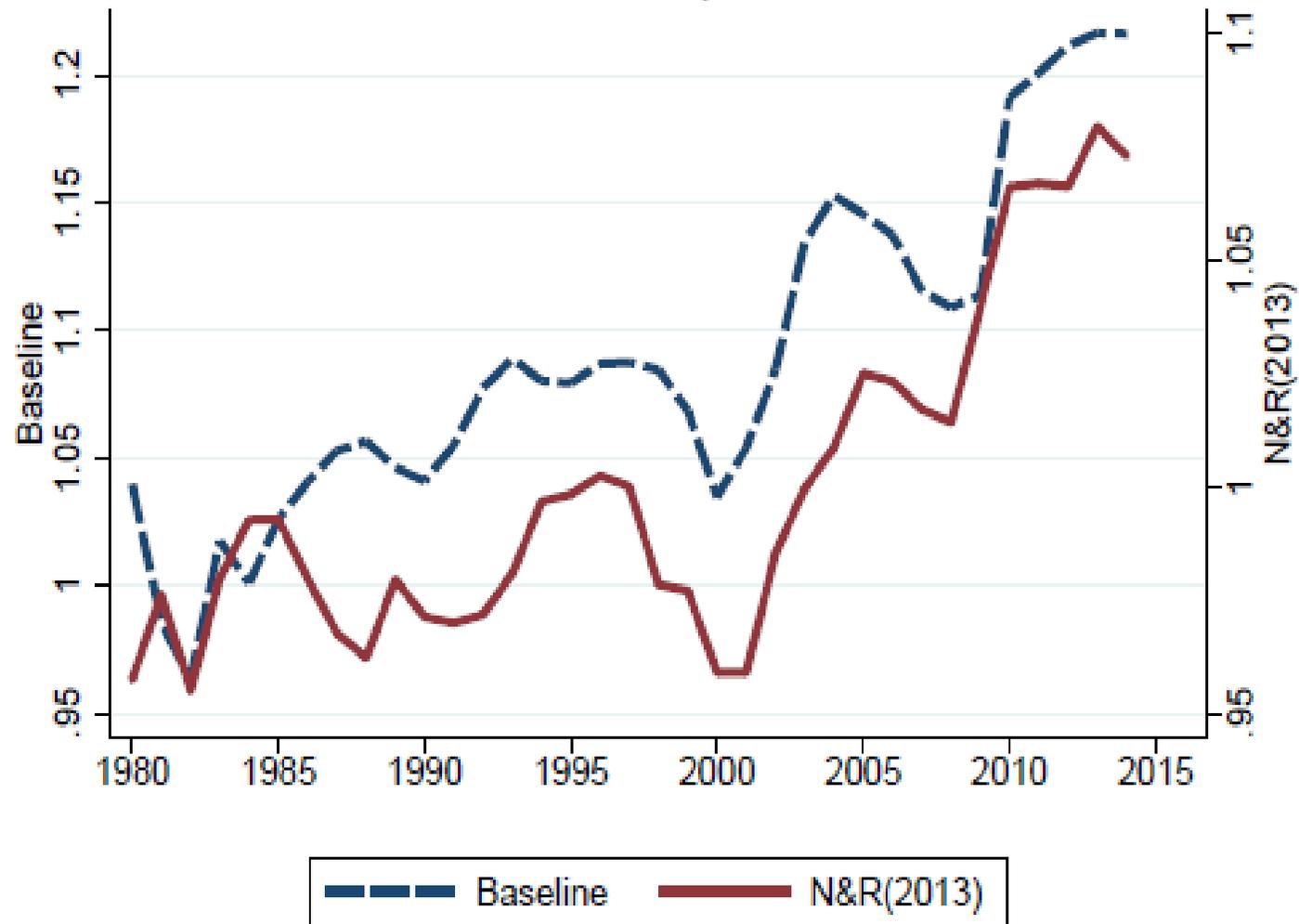
Benign Forces or something more?

- Platform Capitalism — Sascha Lobo (2014)
- The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google - Galloway (2017)
- The Age of Surveillance Capitalism – Zuboff (2019)

Eggertsson et al. (2018), KALDOR AND PIKETTY'S FACTS: THE RISE OF MONOPOLY POWER IN THE UNITED STATES

- Financial wealth has increased rapidly despite no real increase in the amount of investment in the economy.
- The financial value of many firms now is permanently higher than the cost of their assets.
- Despite higher profits & lower interest rates, more valuable firms haven't invested in their own operations or workforces despite higher profits and low interest rates.
- The average rate of return on capital has stayed steady while interest rates have dropped.
- Falling labor share, rising profit share.

Markups



Growing monopoly power in American business in the neoliberal era

source: Eggertsson et al. (2018), KALDOR AND PIKETTY'S FACTS: THE RISE OF MONOPOLY POWER IN THE UNITED STATES.

N&R refers to estimates by Nekarda and Ramey (2013).

Why the growth of monopoly?

- Institutional
 - Expanded intellectual property rights
 - Neoliberal Deregulation
 - Change in anti-trust doctrine (Chicago & Bork)
- Structural change
 - New network industries
- Financialization
 - Capital to feed the new monopoly sector

Network Externalities

Google and Facebook - 84% of global spending on digital advertising, excluding China (FT, 4/12/2017)

“The two companies’ hold on online spending has created a digital duopoly that is upending the advertising business.

Several analysts estimate that excluding Google and Facebook, the digital ad industry actually shrank in the first half of 2016.”

<https://www.ft.com/content/30c81d12-08c8-11e7-97d1-5e720a2677>¹



[As Amazon's dominance grows, suppliers are forced to play by its rules.](#) “At least 21 public companies [i.e., relatively large companies, with publicly traded shares] have disclosed they are generating 10 percent or more of their revenue through Amazon.”

“The bigger concern is that Amazon — not the suppliers — have a direct relationship with consumers because they're the ones selling the products.

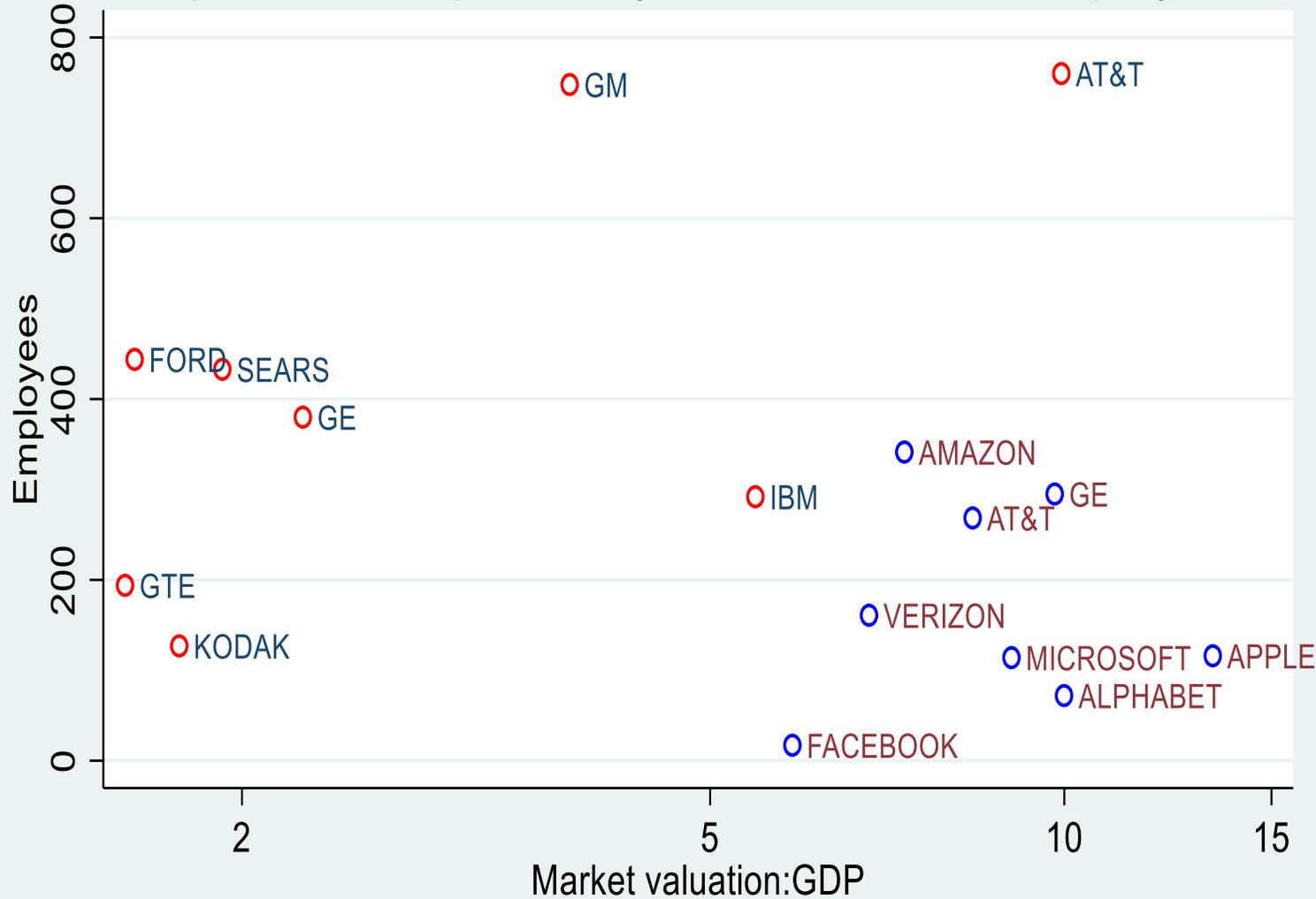
That means Amazon owns the customer data and knows what sells well on its site — and if needed, it can go make those products themselves at a lower cost, supplanting the larger brand almost immediately.”

(CNBC, 21/12/2017)



1976 vs 2016

Top 8 US Companies by Mkt Valuation & Employees



Excluding finance & oil companies
Market valuation scaled by GDP per capita x 1,000,000
Data: Compustat, World Bank

The giants in 2016: fewer employees, higher market valuations

● In 2016, seven of the eight are based on network products

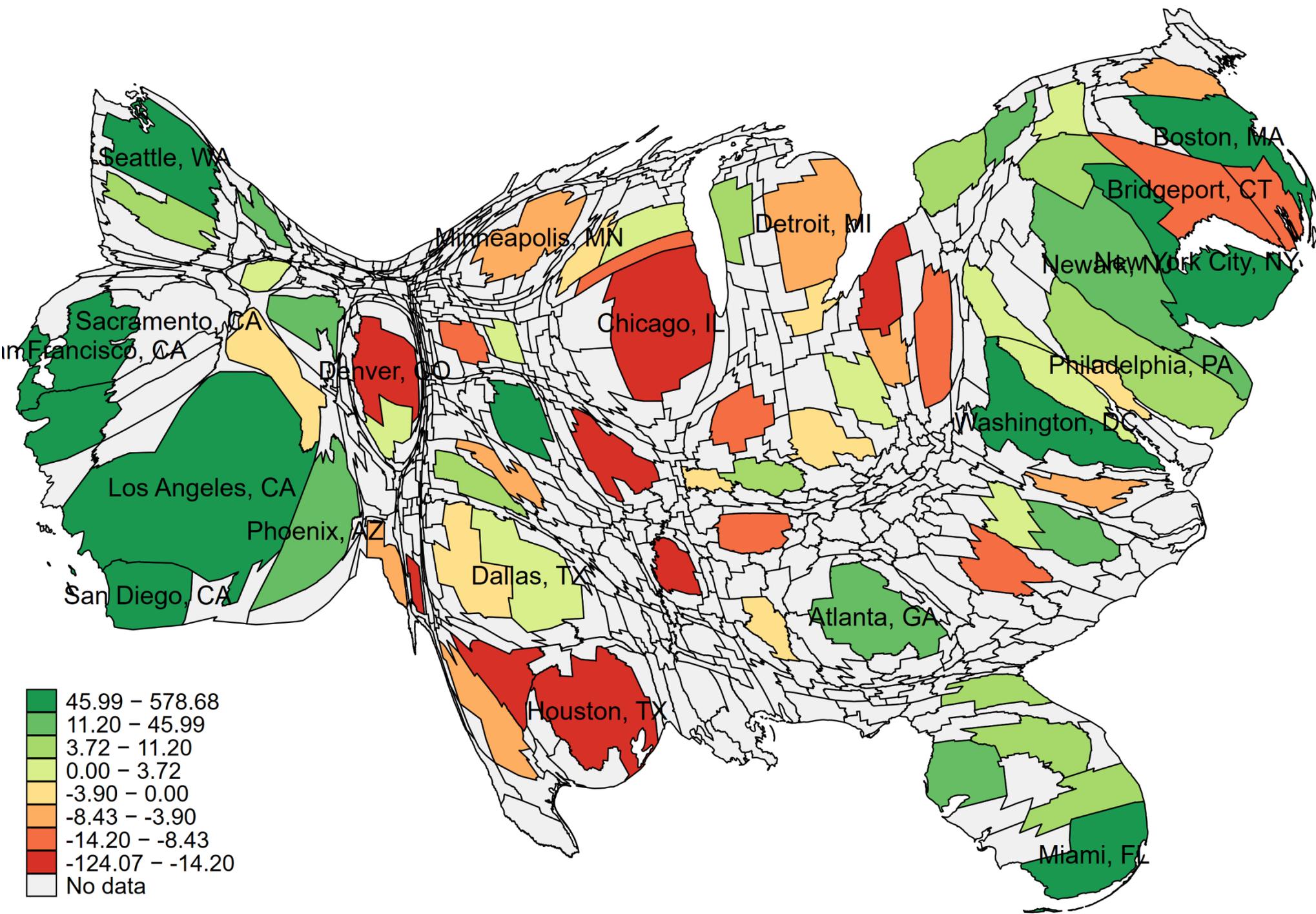
○ In 1976, the two with highest market valuation (AT&T and IBM) were both based on network products

Note: we've been here before - network industries before the internet

- Historically, roads, water, sewage
- mid-19th to early 20th centuries, vast expansion of old networks & of new ones: postal service, railroads, electric power, domestic gas, telephone
- “Natural monopolies”:
 - Strong increasing returns
 - Economically essential
- By mid-20th century, brought **either** into public ownership **or** under public regulation in **almost every** country of the world, regardless of political/economic complexion
- Note that in those cases, the location of the monopoly business's assets was co-extensive with its market (e.g. electric power grid): different politics of regulation from e.g. Facebook

Monopoly power has spatial impacts

- Monopoly test – Are consumers harmed?
 - Reinterpretation of antitrust legislation away from restraint of trade
 - Transfer from other businesses / places
 - Google, Facebook ads favor national companies
 - Consider business models of AirBnB, Uber, Monsanto
- Implications
 - Price setting - Deprive individuals / businesses of use of tools
 - Crowding out: *Software is eating the World* - Andreessen (2011)
- If your place can't capture a monopoly there is no future!



Headquarters of market power:
 Change in the ratio of market value to book value of assets, 1980-2016

(CZs with 5 or more non-financial firms in Compustat dataset)

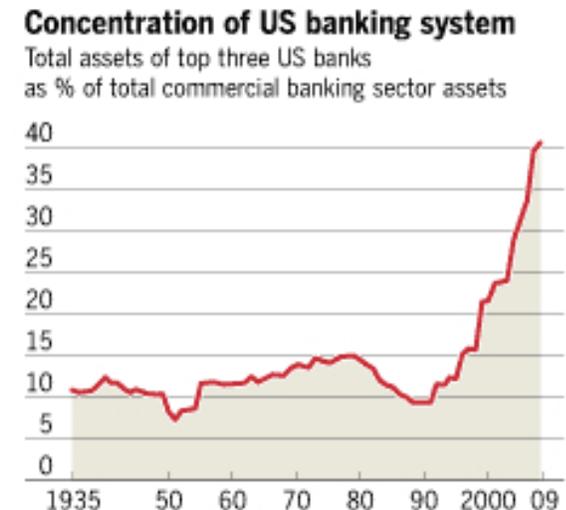
Marshall Meets Monopoly

Why locate a monopoly firm in a Marshallian cluster?

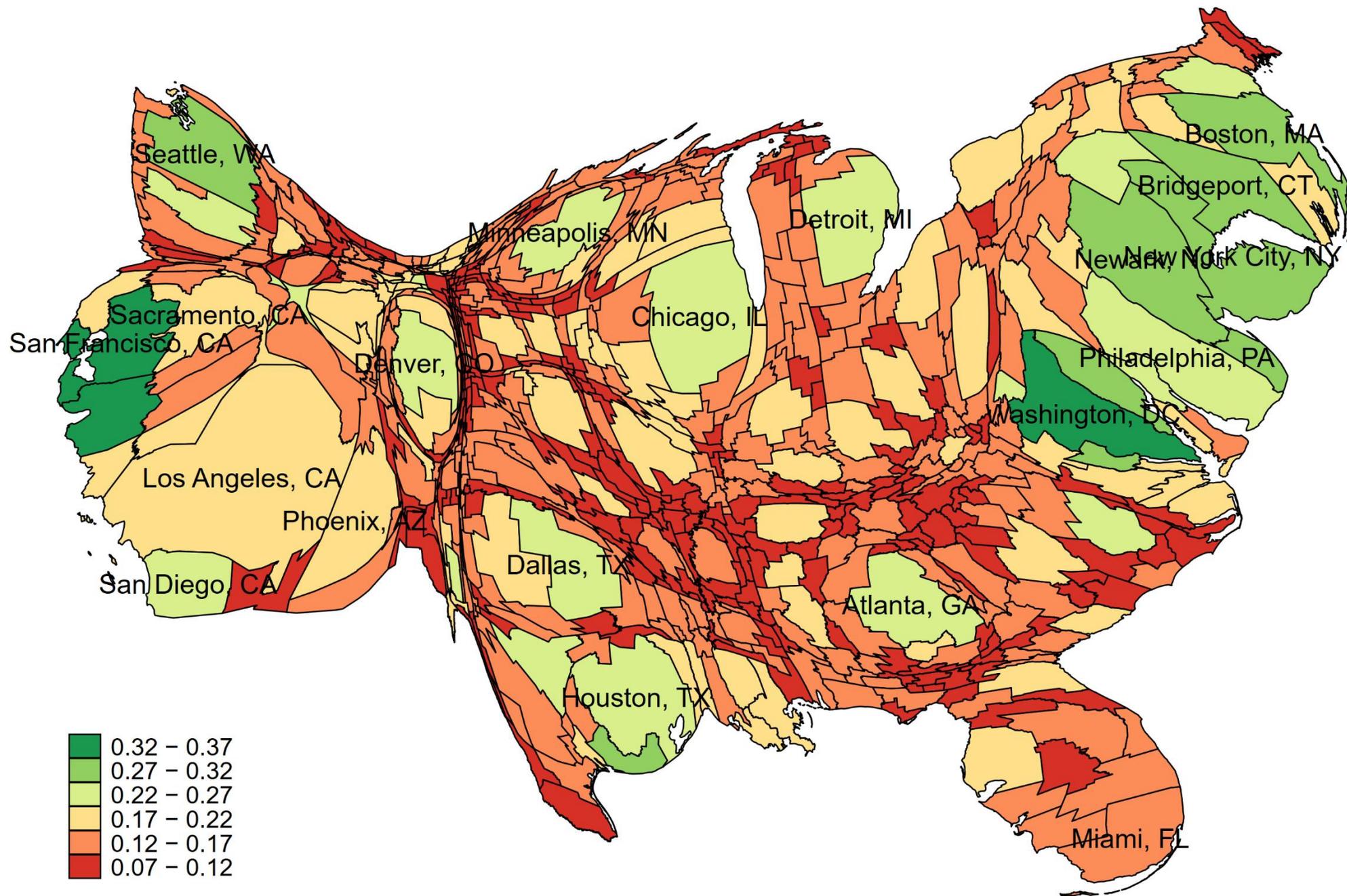
- Amplification of Marshallian productivity advantages
 - Winner-takes-all, you want the best programmers & the latest information
- Market for start-ups
 - Start-up objective: sell to bigger company
 - Google, Apple, Facebook objective: acquire or kill
 - Both strategies benefit from co-location
 - Proximity to venture capital

Monopoly of finance

- Four biggest banks in the U.S. have a combined \$8.5 trillion in assets
 - nearly \$4 trillion more than the combined total of the next 100 biggest banks
 - Smaller regional banks are healthier
- Post- Recession bank closures
 - disproportionate in small & medium sized cities & rural areas
 - Banking Deserts
- Long-term decline in new firm formation tied to 1930s bank closures (Babina and Berger 2017)



2016



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The top 20%

- ... work for the 0.01%
- ... for monopolies
- ... for the banks & private equity firms that finance monopolies
- ... for the lobbyists regulators and law firms which make the world safe for the monopolies and the banks

Earnings data: IPUMS micro-data, US Census Bureau
Market valuation & company accounts: Compustat
Maps by Andreas Diemer

More work is going on...

Thank you!

