The Myth of Capitalism

Monopolies and the Death of competition

Jonathan Tepper and Denise Hearn

Jonathan Tepper is an author, a Rhodes scholar and a hedge fund analyst and trader. Denise Hearn is head of Business development at Variant perception – a global macroeconomic research firm.

At 40 of the 100 largest US airports, a single airline controls majority of the market.

All around the world, people have a sense of something is broken, this is leading to record levels of populism.

Capitalism has been the greatest system in history that has lifted millions out of poverty, however the capitalism we see today is a far cry from competitive markets.

Communism defined itself in opposition to private property, after the collapse of the berlin wall, communism collapsed and was widely discredited.

Capitalism without competition is not capitalism

2 corporations control 90- % of the US beer market
Four airlines dominate traffic in the US
Five banks control about half the banking assets
3 companies will control 70 % of the global pesticides market.

Existing laws were not written with digital platforms in mind.

A growing mountain of research points to lower competition leading to lesser wages, fewer jobs, fewer start ups and less economic growth.

Capitalism is a game where competitors play by rules that everyone agrees. Today the state as referee has not enforced rules that would increase competition, though regulatory framework has created rules that limits competition.

Adam smith's wealth of nations did not carry the words duopoly or oligopoly. The word oligopoly was created in the 1930 s by Harvard economist Edward chamberlain.

The Economist found that over a 15 year period between 1997 and 2012, two thirds of American industries were concentrated in the hands of a few firms.

Between 1996 and 2016, the number of stocks in the US fell from 7600 to 3600. in 1995, the top 100 companies accounted for 53% of all income from publicly traded firms but by 2015, they captured 84 % of all profits!

The MBA gospel is to erect regulatory and legal barriers in their industries

William Jevon said that if you make something more efficient or better value, then more people will use it. He proved this with coal in 1865.

Economists have studied cartels for a long time, they have concluded that what breaks up cartels is interest rates. Cartels break up during periods of high real interest rates.

Trust requires repeated interactions.

Almost all the focus in industrial concentration has been on profits, productivity and investment but the biggest impact has been on wages. Workers have lost power vs large companies.

The market for good is national while job searches are local .

In real terms, the average firm in the economy has become three times larger in the last 20 years.

Large companies are bureaucracies and tend to employ more people to manage more people, they do very little real work.

Monopoly deters innovation, the more concentrated an industry, the less likely there will be innovation in that industry.

As firms become dominant, the number of important patents declines.

Larry summers defined secular stagnation – the ability to save more while investing less.

Silicon valley owes its success to many things, innovation , access to capital etc. But one of the most important reasons is that there is no non compete clause in California. You can join any firm you want. This law was put in 1872

Silicon valley showed respect for individual talent and not company loyalty. People say I work in silicon valley and not in a company.

18 % of the American workforce is bound by non compete. Only three other states Oklahoma, North Dakota and Montana do not have no compete agreements. Non compete tends to hurt lower level workers in delivery, e commerce, quick service restaurants etc.

In Ohio, Amazon is one of the largest employers and 10 % of their staff is on food stamps.

Google , Facebook and Amazon have great technology but much of their current status and financial success comes from regulatory and anti trust mistakes.

When think tanks and academics don't do what Google wants, they either stop their funding or get the critical professor fired.

Facebook and Google are publishers but they don’t want to acknowledge that since they don’t pay the content owner anything.

Today , Facebook is a payola scam where you have to pay up if you want your fans to see your content on FB

Between Google, amazon, Facebook and Microsoft, they have bought 436 companies in the last ten years and spent $31.6 Billion in the process.

China is becoming a laboratory where big brother meets big data. China is going to have a trust index for every single citizen shortly.

Over the past year, Amazon, Apple, Facebook Google and Microsoft have added $825 billion in market cap, more than the entire market of every single firm in Brazil, Italy and Spain put together.

In the 1960s, CEOS launched the conglomerates – a kingdom of far flung unrelated businesses. They sold this on the logic of business cycles. Eventually conglomerates got discounted as real value was difficult to find.

Economics is the only profession where facts don’t matter and theory pre dominates.

Alan Greenspan gave us ‘ too big to fail” and that ‘ markets always worked perfectly”. After the crisis, he accepted that he was wrong, god knows how much damage he caused.

Blade Runner is a classic movie. Most of the brands that featured in the movie like Atari, Koss,RCA etc disappeared. Only Johnnie walker and Coca cola survived.

One thing that can make a monopoly permanent is government.

Excessive regulation has the ability to choke off growth. Studies have shown that over regulated industries produced fewer new forms, fewer new jobs in the period 1998 to 2011.

Lobbying is a critical part of business strategy. Big firms lobby to keep off start ups, keep off competition and fatten their bottom line.

The more distorted the economy becomes, the more the incentive for firms to invest in lobbying. The greater the lobbying, the more dysfunctional the system becomes.

Distribution is less defined by income and more defined by wealth. The top 1 % of wealth owners in the world are 36 million in total and own $128 Trillion of global wealth. The cut off is $ 1 mln wealth per individual.

Rising income inequality is not a function of capitalism, it is more a function of a decline in competition.

Earlier CEO salaries were based on internal equity, i.e. how much was the CEO worth compared to his colleagues, now it is based on external equity, i.e. how much is he worth relative to his peer group.

While silicon valley is recording record profits, however overall the bay area has been shedding jobs for the past few months. Silicon valley is destroying jobs, is not creating them anymore.

If we want to reform capitalism, we must go back and encourage competition.

Principles of Reform

- Capitalism without competition is not capitalism.
- The essential role of capitalism is not maximizing efficiency
- Monopolies, not big businesses are the enemy of competition
- Capitalism must be in favor of equal competition not equal outcomes
- Capitalism does not exist independently of government and society.

Regulation

- Must serve society, not erect barriers to entry for monopolies
- Regulation must be based on principles, not complex rules