

Policy Perspectives on Market Power 2023: Conference Summary

IMPA's "Policy Perspectives on Market Power" was a small, high-powered conference that featured research presentations and wide-ranging discussions on the most crucial implications of market power for policymaking. The event aimed to provide a forum for leading policymakers and academics to present and discuss the causes and consequences of market power, focusing on the outcomes for fiscal, monetary and competition policy. The conference was held on Friday, March 3rd, 2023, at Columbia University, New York City, NY.

The conference was held in collaboration with The Initiative for Policy Dialogue (iPD) and Columbia Business School.

Getting the Models Right: Remarks by Prof. Joseph E. Stiglitz

The events of the day were bookended by opening and closing remarks delivered by Professor Joseph E. Stiglitz, who set the tone and agenda for the day's discussions. In his remarks, Prof. Stiglitz emphasized the crucial importance of macroeconomic models for policy making, since these models play a key role in determining which policies get blessed by institutions such as the Congressional Budget Office (CBO). However, these models often make problematic assumptions –such as assuming markets are perfectly competitive– which do not reflect the flaws of markets in the real world. For example, labor market imperfections, such as monopsony power, have a significant impact on how firms behave and how shifts in aggregate demand get transmitted to employment and wages. Yet such imperfections are not fully incorporated into models. Similarly, the financial market's monopoly power has a substantial effect on intermediaries, and has led to significant profits in that sector. Despite this, there are still no good models for financial market power, and explanations based on financial frictions are insufficient.

Getting the models right with respect to market power is therefore critical, Prof. Stiglitz said, because the implications of market power for monetary and fiscal

policy were enormous. On the monetary policy side, he noted that market power in the goods market is increasing and contributing to some of the inflation seen after the lockdowns. The measurement of labor market tightness and loosening needs to take market power into account, especially if it is relied upon to transmit monetary policy to bring inflation down. Shortages and disequilibrium dynamics during the pandemic may have allowed for tacit collusion, which has increased market power. The key message for researchers and practitioners was that market power needs to be taken into account when thinking about what monetary policy ought to be in the current inflationary episode. Models that move away from the competitive equilibrium assumption have a different set of policy implications. The need of the hour, he noted, was a theory of endogenous change in markups and how policy affects them.

On the fiscal side of policymaking, Prof. Stiglitz focused on the importance of viewing tax policy and antitrust policy as complementary tools in managing market power. The changing structure of the economy has led to the emergence of tech giants that can use their data to extend their market power in other areas. These economies of scope produce conflicts of interest that enhance their market power. Not only must standard antitrust laws be well implemented to address new sources of market power, but they also need updating. In this context, tax policy can be a very effective instrument. The corporate income tax has been a subject of long debate, and its interpretation as a contractionary tax on capital is outdated. However, this interpretation is derived from models that rely on the assumption of competitive markets. Prof. Stiglitz concluded by once again emphasizing the need to revisit such results in light of the increased prominence of market power. Updating the models to reflect the new realities of today's world should be of first-order importance to academics and policymakers.

Research Presentations: Market Power and its Policy Implications

The event consisted of three sessions, with two presentations in each session, complemented by discussions following each presentation. The research presentations and discussions reflected the three key takeaways from the conference: first, market power makes a difference in the conduct of policy

(whether monetary, fiscal or competition policy); second, more research is needed into the *causes* of market power; and third, old ideas and ways of thinking about policy need to be revisited in light of the new economic realities shaped by market power.

Session 1: Policy Aspects of Market Power

Labor Market Power and Antitrust Enforcement, by Ioana Marinescu (University of Pennsylvania and US Department of Justice, DoJ)

- Based on [joint work with José Azar and Steven Berry, 2022: "Estimating Labor Market Power"](#)

Data and Market Power, by Laura Veldkamp (Columbia University)

- Based on [joint work with Jan Eeckhout, 2022: "Data and Market Power"](#)

Session 2: Market Power and Taxation

Aggregate and Distributional Consequences of Corporate Taxation, by Juan Montecino (American University)

- Based on [joint work with Lídia Brun and Ignacio González, "Corporate Taxation and Market Power Wealth"](#)

Markups and Inequality, by Corina Boar (New York University)

- Based on [joint work with Virgiliu Midrigan, 2019: "Markups and Inequality"](#)

Session 3: Monetary Policy and Market Power

Market Power and Monetary Policy Transmission, by Davide Furceri (International Monetary Fund)

- Based on [joint work with Romain Duval, Raphael Lee and Marina M. Tavares, 2021. "Market Power and Monetary Policy Transmission"](#)

Monetary policy under Labor Market Power, by Anastasia Burya (Columbia University)

- Based on [joint work with Rui C. Mano, Yannick Timmer and Anke Weber, 2022. "Monetary Policy under Labor Market Power"](#).