

Digital transformation, concentration of production, and monetary policy

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Alejandro Neut

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The US Federal Reserve closed the summer with its famous annual symposium at Jackson Hole, where renowned economists delve into topics of key importance to monetary policy. Due to their nature, the subjects discussed have traditionally been approached from a macroeconomic perspective. However, this time the experts had to take out their magnifying glasses and cross over to microeconomics to join forces in analysing the organisation of industry. The reason is simple - this year the focus was on the complex process of digital transformation, any traditional approach to which is inadequate.

The meeting addressed one of the growing concerns about digitisation, namely the ever greater concentration of economic activity in a small number of large companies. Are the new technologies undermining the basis of healthy competition that drove growth in the twentieth century? These fears are not imaginary and go beyond the phenomenon of platforms: microeconomic evidence shows increasing polarisation in sales and productivity in a number of different industries, with production being concentrated in a small number of companies with large profit margins and ever-lower staffing levels. These trends are worrying, since it is easy to see how they could be a symptom of devaluation of the rules of the game, with a few companies increasingly managing to abuse their market power to extract non-competitive revenues.

There is an alternative view however, which argues that new technologies are bringing about change as opposed to damage to the competitive structure, going from competing in markets to competing for markets. These new systems, referred to as “superstar economies”, also involve a possible concentration of sales and profits, without this implying a reduction in the incentives and opportunities for all to compete on an equal footing to join the select group of successful firms (as has always been illustrated by the competitive markets of sports and the arts).

Nevertheless, how can digitisation transform the structure of competition? The answer is not obvious, as one characteristic of the new technologies is that they are easily scalable and replicable through software. This should facilitate the dissemination of innovations to all businesses and avoid both market abuse and the formation of superstar economies - why would you pay a footballer more, why would a football star make the effort to improve further, if anyone could easily imitate his technique? Several mechanisms provide an answer to this apparent paradox. New technologies have boosted the advantages of less readily observable features that are very difficult to replicate, such as business models, management practices and corporate culture. We all know that a computer does not miraculously help a disorganised person but does make an organised person's life easier. A second mechanism is associated with the reduction in the cost of information and communications technology (ICT), which has made it easier for large companies to patent the software that makes best use of the scale of their large distribution networks and inventories. A third mechanism comes from the growing proportion of intangible assets accumulated by the most successful companies - assets not confined to software but including brands and reputation, information and user networks.

The debate between the two views - the devaluation or transformation of competition - remains open, pending more evidence and a greater understanding of business behaviour. Although both present major challenges for society as regards distribution, their implications for growth and price and wage formation are very different. One scenario leads to a possible stagnation of innovation and control of the markets (including the labour market) in the hands of a few, whereas in the other scenario, economic dynamism is maintained, with opportunities for all. We should add that the two explanations are not mutually exclusive.

In short, as was made clear at the symposium, digital transformation, among other things, is altering market structures and, as such, is a factor to be considered in managing monetary policy. This is why the Federal Reserve turned the spotlight on it this year.

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BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain. Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 25 - bbvaresearch@bbva.com www.bbvaresearch.com