Emerging Oligopolies in Global Markets: Was Marx Ahead of His Time?

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The purpose of this paper is to examine the trends toward global industry concentration and discuss the implications of the lack of effective global regulators for the global economy. The paper reviews Karl Marx's conclusion that the inevitable result of capitalism is a monopoly in light of the evolution of capitalism in the United States from the late 1800's until the mid-1900s that lead America to enact laws aimed at increasing competition, regulating monopolies and controlling externalities. The focus then shifts to a discussion of the implications of the new era of global industry consolidation without a "global" regulator.

INTRODUCTION

The implications of globalization and the interconnectedness of firms, capital and people around the world have received extensive discussion over the past couple of decades. While there are different interpretations of the term, "globalization," this paper uses the definition Harman has in *Zombie Capitalism*: *Global Crisis and the Relevance of Marx* "the world, organized according to the free flows of capital, without any intervention by governments" (2010). We are describing globalization as the acts of governments lowering their trade barriers and firms moving from traditional domestic operations to multinational or transnational entities (Johansson, 1994). The globalization movement has been accompanied by an increase in worldwide capitalism and free markets.

Most discussions of these trends focus on the benefits of global, capitalistic, free markets. Some of the benefits attributed to capitalism include increases in innovation, competition and efficiency, among other things. It is assumed that global capitalism will create even more efficiencies resulting in lower prices, higher quality, and increased standards of living for countries around the globe (Machan, 2010; Zupan, 2011). Even though free markets have done a great job promoting competition and efficiency over the past 200 years, even the most radical proponents will acknowledge there have also been the potential for negative side effects. In general these fall in two major categories: externalities and the inevitable trend toward monopolies. In national economies these problems have been managed through regulation. What has not been widely discussed is the fact in a global economy these national level regulations lose their effectiveness and there are not yet any international bodies capable of setting and enforcing international regulations. The purpose of this paper is to examine the trends toward global industry concentration and the implications of the lack of effective global regulators for the global economy.

The paper will be separated into five main parts. Part one will review Karl Marx criticism of capitalism, particularly his conclusion that the inevitable result of capitalism is a monopoly. Part 2 will examine Marx's hypothesis in light of the evolution of capitalism in the United States from the late 1800's until the mid-1900s. We will describe the circumstances that lead America to enact laws aimed at increasing competition, regulating monopolies and using controlling externalities. Part 3 will then discuss the new era of global industry consolidation that is taking place as competition shits from competition within domestic markets towards global competition. This section focuses on the time period from the mid 1900's until today. Part 4 will provide a discussion of antitrust laws within a global economy. Part 5 will provide concluding remarks.

LITERATURE REVIEW

Marx Criticisms of Capitalism

Marx's fundamental criticism of capitalism is that capitalism's greatest strength, the ability to insure that only the most effective and efficient producers survive, is also its greatest weakness because it inevitably leads to monopolies (Dowd, 2002). No matter how many producers there are in a market initially, or how fiercely competitive the market may be, as more innovative and efficient producers drive less innovative and efficient producers out of business, over time the number of producers will decline until eventually the industry becomes an oligopoly and, ultimately, a monopoly.

Literature on Marx is very extensive, and encompasses many different conceptual frameworks and quantitative tests. Some of the literature questions the capability and/or sustainability of globalized industry and capitalism. Amin and Luckin (1996) use Marxist analysis in discussing historical capitalism and globalization. They discuss the recent challenges created by globalization and the implementation and functionality of its alternatives. Others, such as Dowd, have recently attempted to modernize Marx literature, emphasizing relevant aspects to current trends in capitalism (2002). Others, such as Friedman in, "The World Is Flat: a Brief History of the 21st Century," which gives an in-depth analysis on globalization in the 21st century and explains what he considerers to be the "ten forces that flattened the world" (2006), have argued that history has proven Marx wrong. We will attempt to go a step further than Dowd (2002) by hypothesizing that Marx may have been prematurely discredited and that, as history repeats itself on a global basis; his criticisms are once again a major concern.

Historical Synopsis of Monopolies and Antitrust Laws

Capitalism has been described as "a system whose specificity by comparison with previous systems lies precisely in the dominance of economic authority, "the law of value not only dictates economic life but all aspects of social life" (Amin & Luckin, 1996). The industrialization of the late 19th century propelled a very capitalistic environment and marked a turning point for the capitalist mode of production. Often referred to as "modern industry", evolution to the current capitalist system can largely be accredited to establishment of the mechanized factory in the nineteenth century (Amin & Luckin, 1996). One could even argue that with the concentration of power seen among industries during this period, Marx's concerns for capitalism may have been coming to fruition. By the early 1900s the United States was plagued with monopolies in almost every industry. The explosion of the industrial revolution beginning in the last part of the 18th century produced, among other things, market power never seen before. The growth among firms and industries developed to such an extent that various socio-economic issues began to take place. At the forefront of these mega-industries were the steel and railroad industries (Epstein & Greve, 2004).

Demand in the steel industry flourished between 1860 and 1900 due to the technological advances enabling firms to shift towards new low-cost methods of making steel. Even with the increased efficiencies in the production process, the industry still faced high fixed costs (Rogers, 2009). This problem, combined with the influx of new entrants, and output steadily exceeding demand resulted in price-fixing and mergers among firms. This collusion on price and production has been referred to as "trusts", and often these trusts were highly coordinated. Rogers gives an example of the extent to which the steel industry colluded: The pool organized controlled the behavior of its members through a financial incentive. To be in a price-fixing pool, a firm had to deposit a fund of money in the organizations bank account or "pool" when it first joined and replenished it periodically. If the member firm lowered price or produced beyond its quota, it was fined, and the fine was taken out of its deposit in the pool (2009). These actions resulted in not only the obvious outcome – price fixing, but also blocked potential entrants from entering the market. The results of such actions were of course seen in the form of market inefficiencies, such as higher prices than what would have been seen in a competitive market and constrained supply.

The U.S. railroad industry during this period of industrialization is another example of early industry consolidation; according to Carstenson and Farmer: "the United States railroad industry has indeed mirrored the overall trend of substantial merger activity following regulatory reform" (2008). While there was some consolidation among neighboring railroad companies before the civil war, it wasn't until 1869 (connection of the railroad from east to west) that the railroad companies power reached beyond regional, becoming national, subsequently leading to their high concentration (Conigliaro, Elman, Schreiber, & Small, 1996). The railroads power seemed to result not only in horizontal mergers but vertical mergers as well, "As companies grew larger, they began to take over other related fields. Soon, large trusts were formed that controlled many aspects of both the economy and society; as more and more areas became controlled by the octopus of the railroad industry, it became apparent that regulation was imperative" (Conigliaro et al., 1996).

Harman connects theories of Marx and the monopolization of the late 19th century, "the capitalist firm which exploits the worker is therefore, necessarily in competition with other capitalist firms. If it cannot out compete them, eventually it will be forced out of business" (2010). Industry concentration was not only occurring in the United States. Harman gives examples of other consequences of that era consistent with Marxist ideology:

A quarter century of falling profit rates led to massive pools of poverty in London and other cities and to mass unemployment in the mid-1880's. It was not surprising that Frederick Engles could feel that the logic of Marx's model was working itself out right in front of his eyes in England as "the decennial cycle of stagnation, prosperity, overproduction and crises" seemed to give way to "a permanent and chronic depression (2010).

The growth of industry monopolies during this period also resulted in the birth of industry regulation in the form of antitrust policies. As Kwoka and White note, "the first law to be enacted – the Sherman Act of 1890 – was a reaction to widespread discontent with business during the industrial revolution" (1985). This discontent arose largely out of unreasonable prices for certain tangible and nontangible commodities as a result of collusion among industries. Not only wealth but the land itself seemed to be caught in some centralizing system. In the 1865–1885 period people began to speak of "land monopolies" as well as the "money trust." There were many dimensions to both. Speculators and railroads preempted free land and forced the price up (Piott, 1985).

The trusts formed by these industries, and others, caused inefficiencies in the market, antitrust policy was a form of correction for these inefficiencies. As Epstein and Greve note, "The antitrust laws, in contrast, are designed to preserve the functioning of competitive markets that, at least presumptively, produce allocative efficiency" (2004). Prevention of collusive and/or monopolistic behavior that results in supply constraints and/or price fixing is the main purpose of antitrust law, it intends "to encourage the production of quality goods and services at the lowest prices, with the primary goal of safeguarding public welfare by ensuring that consumer demands will be met by the manufacture and sale of goods at reasonable prices" (West's Encyclopedia of American Law, 1997).

There are three principal federal antitrust laws that mark the foundation for competition policy, the Sherman Act, the Federal Trade Commission Act and the Clayton Act (FTC, 2008; Mueller, 1996). The Sherman act marks an important time in antitrust history, as it was the first law to completely outlaw trusts (Mueller, 1996). Within the law contained two arguably broad based sections. Section 1 forbade any form of collusion that would restrict interstate or foreign commerce, Section 2 restricted attempts to monopolize, as stated by West's Encyclopedia of American Law (1997). The Sherman act largely operated as a temporary fix, since, firms found loopholes in the law and continued to monopolize to an extent.

To counter the shortcomings of the Sherman Act, the Federal Trade Commission Act was established, creating the FTC. Primarily, "the Federal Trade Commission Act bans, "unfair methods of competition," and, "unfair or deceptive acts or practices," which is similar to what the Sherman Act does. The FTC acts as a means of enforcement since violators of the Sherman Act are also in violation of the FTC Act (FTC, 2008). The Clayton Act was another policy enacted to address weaknesses of antitrust law. One of the main reasons the Sherman Act was limited in preventing collusive behavior was the generalized nature of its restrictions. The Clayton Act took a more micro approach at competition policy, since it, "addresses specific practices that the Sherman Act does not clearly prohibit, such as mergers and interlocking directorates (that is, the same person making business decisions for competing companies)," (FTC, 2008).

The interpretations of these laws and degrees to which they are enforced have fluctuated over the past century. Since the monopolization of industry that began forming around the turn of the century, the U.S. has taken a less restrictive approach to antitrust enforcement. As World War I and the 1920s reversed the outlook of previous years, antitrust policy was characterized by the hands-off policies of President Calvin Coolidge, who declared, "The business of America is business." Economic trends created and supported this attitude; prosperity seemed a worthwhile reward" (West's Encyclopedia of American Law, 1997). In part, the relaxation of the enforcement of antitrust laws was the result of a second major force that reversed the Marx effect.

The Era of Global Industry Consolidation

The First Wave of Globalization

Although antitrust law was, and remains, a major solution to the monopolies of the last century, antitrust laws are not the only reason the power of monopolies receded. The 2nd major influence on national monopoly power was a first wave of globalization that started in the early part of the 20th century. Advances in transportation and technology made it easier and easier for companies to compete on a global basis. Instead of competing with other national companies for domestic market share, companies were increasingly competing with other major companies from other countries for global market share. The move from national markets to global markets increased the number of producers in a given industry leading to increased competition and many of the positive effects of competitive markets. For example, in the U.S. the automobile market went from a national market dominated by three, and almost two, firms to a more competitive market with strong competitors from Europe, Japan, and South Korea.

As monopolization started to happen in the U.S. once could conclude that Marx's theory on capitalism was partly correct. One way to describe Marx's theory on capitalism is with an inverted U hypothesis of globalization1. Globalization leads to increased efficiency and increased competition initially (as a result of lenient trade policies etc.), until it reaches a steady state, then, any increase in globalization will ultimately lead to decreased competition and higher concentration (from the consolidation of firms at the global level).

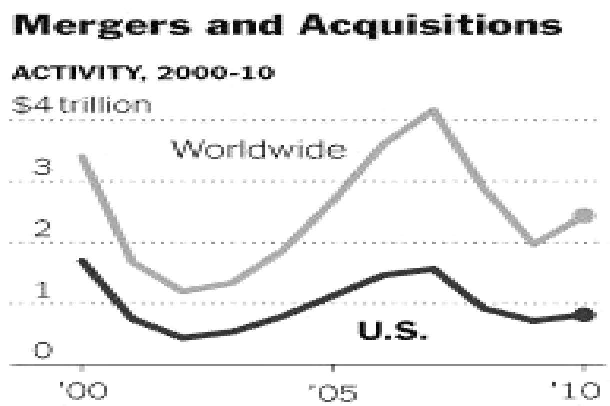
Second Era of Globalization

While changes in technology and transportation paved the way for global emersion of business and trade, it wasn't until recently that the globalization of nations would reach full force. Some consider the current time period as the "second era of globalization," starting from 1989 to the present. According to Amin & Luckin, "the dominant economic actors of the current day – large multinational firms – are capable of developing global strategies of their own, which to a great extent free them from the tutelage of states' national policies" (1996). Friedman largely accredits the causes of globalization to two events – the fall of the Berlin wall, symbolizing a "seamless" world thereafter, and the birth of the internet, allowing the sharing and spreading of ideas (Friedman, 2006). The creation of the worldwide web was a fundamental step for capitalism to reach its full capacity; Marx describes capitalism within his framework as "the need and ability to "nestle everywhere, settle everywhere, and establish connections everywhere." Even at a time when the world was seemingly larger, or less interconnected than today, Marx still foresaw the force of which capitalism could/would propel itself. While attempting to "update" and reconcile some of Marx's theories to present times, Dowd discusses the differences that distinguish this era of globalization from the previous.

In Marx's time, centralization, "was thus a narrower concept than today, and its reference point was national. Our time, in contrast, has seen not only an intensification of all forms of "M&A's," but their becoming intersectoral (including those between all other sectors and finance); that in turn evolved naturally into an explosion of transnational corporations, themselves crossing not only all borders but all forms of combination." (2002).

The extent to which mergers and acquisitions have increased can be seen almost weekly in newspaper articles, according to Merced and Kane of the New York Times, "Global dollar volume in announced mergers and acquisitions rose 23.1 percent in 2010, to $2.4 trillion" (2011). As shown in figure 1, worldwide merger activity more than doubled from around 2002 up until approximately 2007, where merger and acquisition activity began to drop off, mainly believed to be a result of the recent recession. Even still, global M&A activity is on the rise once again. Unlike earlier parts of the 20th century, when the U.S. was virtually the only thriving economy, many segments of the world are doing just as well economically; some may argue they are doing better. While the U.S. still "accounts for 34% of global deal volume, the biggest theme in mergers and acquisitions in 2010 was the growth in emerging markets. In the Asia-Pacific region, deal volume jumped 43.5 percent, according to Merced and Cane (2011).

FIGURE 1



Retrieved from: http://dealbook.nytimes.com

REGULATION IN A GLOBAL WORLD

With firms branching out into global competition and countries lowering their trade barriers to promote such competition, the absence of effective global regulation once again raises Marx concerns. Because of strong federal governments, national governments were able to pass and enforce, through the uses of military or police force where necessary, laws that regulated externalities, such as pollution, and antitrust. At the moment there is no strong federal government at the global level and, therefore, no one to pass and enforce laws that effectively regulate externalities or antitrust. Epstein and Greve raise a Marx like concern, "when firms have international market power, one would expect them to behave as monopolists just like domestic firms with market power" (2004). Therefore, without any dominant form of regulatory governance, industry concentration could very well replicate what was seen in the late 19th century, though, globally instead of nationally. Carstensen & Farmer discusses this tendency towards M&A's: The transformation of formerly regulated or noncompetitive industries to competition is closely linked with merger movements. The historical record demonstrates that once faced with competition, leading firms in these industries began to merge. This has been the pattern in airlines, banks, railroads, electric and gas utilities, health care and, with great prominence, telecommunications (2008).

While some may argue that reaching that level of concentration is unlikely, one should consider current industries that hold a considerable global market share. "Although it may be more difficult to establish and maintain market power internationally, there is no reason to believe that it is impossible or, for that matter, rare. Industries such as pharmaceuticals, passenger aircraft, and software illustrate the phenomenon" (Epstein & Greve, 2004).

There are actually quite a few firms who have emerged into the global market that hold what can be considered a significant share within global industries, ranging from manufacturing, financial intermediation, and transport service along with other service industries. For example, The European Aeronautic Defense and Space Company and The Boeing Company combined hold more than 50% market share within the global civil aerospace products manufacturing industry. Goldman and Sachs hav2 20.20% market share within the global investment banking and brokerage industry and Vivendi holds 20.10% within the global music production and distribution industry. United Parcel Service holds 23.80%, within the global logistics – couriers industry (IBISW, 2011).

We do not intend to imply that the monopolization that had plagued the United States in the late 19th century has emulated itself at the global level, creating one dominant firm controlling an entire global industry. However, it does appear that a number of industries are starting to exhibit Marx, "inevitable move toward a monopoly."

The increase in oligopoly power at the global level presents unprecedented challenges. Reaching a cross-country consensus on competition policy is a difficult. Epstein & Greve discuss some of the issues that arise when attempting to unite foreign and domestic competition policy. Competition policy embodies imprecise normative judgments that invite controversy and defection rather than consensus and commitment. Because its scope extends to such a wide range of economic activity, it has the potential to inflict significant costs on many transactors. In particular, competition policy tempts states both to impose nominally neutral policies that favor local producers and consumers at the expense of global welfare, and to administer their policies in a discriminatory fashion to similar ends" (2004).

While more and more countries are adopting competition policies, this seemingly positive step towards unification of trust law has its negative effects. "Nearly one hundred jurisdictions now have antitrust laws" according to Epstein & Greve, this raises increasing issues of "jurisdictional overlaps" since many countries will assert their "jurisdiction over extraterritorial conduct that has a domestic impact" (2004).

Antitrust enforcement agencies around the world have tried to cope with the increased power of global corporations by staying in regular and increasing contact with one another on individual merger cases as well as on general issues of mutual enforcement interest. Through instruments such as the 1995 Recommendation of the Organization for Economic Co-operation and Development (OECD) that its 29 members cooperate with one another in antitrust enforcement and bilateral agreements like that which exists between the United States and the European Community, the antitrust agencies notify one another when a case under investigation affects another's important interests and they share what information they can and otherwise cooperate in the investigation and resolution of those cases (1999).

Richard Parker, Senior Deputy Director of the Bureau of Competition FTC, presenting on global merger enforcement, discussed the implementation of the Organization for Economic Co-operation and Development (OECD) and concluded with examples of global merger enforcement. While attempts at unified standards of competition policy are underway, the efforts of the OECD are considered to have substantial limitations on enforcing global merger laws. Epstein and Greve state: Information sharing or "soft" cooperation has also been pursued at the Organization for Economic Co-operation and Development, which has generated several aspirational texts. None of these impose obligations on states, and they are not intended to do so. Their goals are modestly limited to improving communication on competition issues.

History shows us that even with a strong federal government with the ability to enforce laws through the use of force where necessary, such as the United States federal government has on its states, firms are very good at ignoring or getting around antitrust laws. If the U.S. government did not have strong federal power over states, and it was up to the states to reach agreements on antitrust laws, one can easily imagine that there would likely be problems resulting in less strenuous competition policy. Take for example state control over age discrimination laws. When these laws originated, states chose whether to enact policies aimed at protecting workers rights. By 1960 only 8 states had age discrimination laws until the federal government enacted such regulations as the Age Discrimination Employment Act of 1967 (ADEA). This, along with the Department of Labor in 1979 giving administrative authority to the U.S. Equal Employment Opportunity Commission (EEOC), established unified laws protecting individual employment rights (Lahey, 2007). Without this dominant authority of the federal government, fair employment practices may still continue to be a regionally dependent right. In the current era of globalization, where industry's actions domestically can be felt by all corners of the globe and vice versa, without a global entity with strong "federal" powers capable of monitoring and enforcing competition policy, it seems reasonable to conclude that Marx may in fact be proven correct: the inevitable result of the efficient market is increasing concentration of power resulting in global oligopolies or, eventually, monopolies.

CONCLUSIONS

Over 100 years before globalization, largely led by capitalism, reached a point at which the world would be interconnected in virtually every way Marx felt the need to write on the short comings and flaws of capitalism. Around the time of his death, with the consolidation of industry (among other things) there was increased evidence of the validity of some of his beliefs and concerns regarding capitalism. However, the ability of the U.S. federal government to establish and enforce domestic antitrust laws and other regulations and the increased competition that resulted from the transition from national to global markets made it appear Marx concerns might not be as critical as he believed. Today, however, no one can deny the fact that the world is indeed smaller than it once was, allowing industries, firms and even people to create a significant impact on the world.

Although intervention has been largely successful at the domestic level, since there is no global entity capable of establishing unified standards, laws or guidelines for global firms to follow, and, as far as we know, there are no inter galactic competitors ready to enter world markets, the possibility of history repeating itself in emerging global industries should be of grave concern. If global monopolies and externalities develop globally, as they did in the US during the 1800s, and there is no strong federal government to control externalities or regulate antitrust, Marx nightmares could come back to haunt us all with significant negative impact not only on world economies but on the world's environment and standards of living.

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