

**Discussion of “How EU Markets Became More Competitive
Than US Markets: A Study of Institutional Drift”
by Gutiérrez and Philippon**

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2020 Winter EFG

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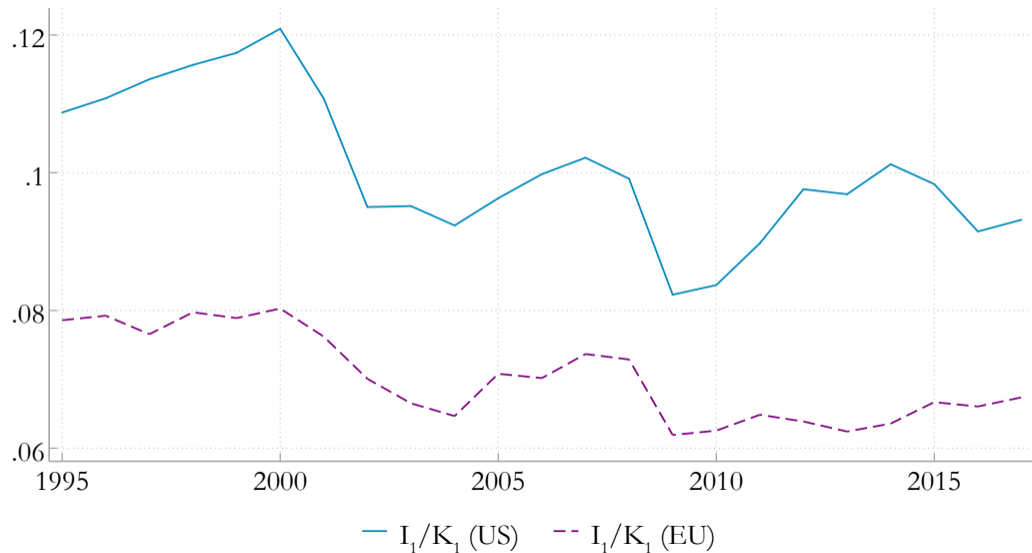
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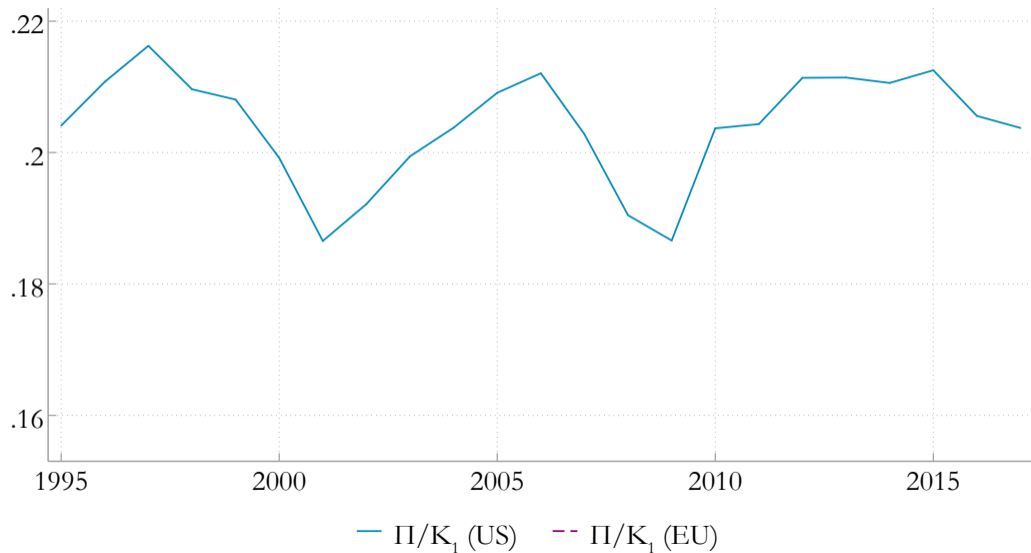
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 - enforces antitrust law — mergers, abuse of dominance, cartels — more actively

1. The macro symptoms

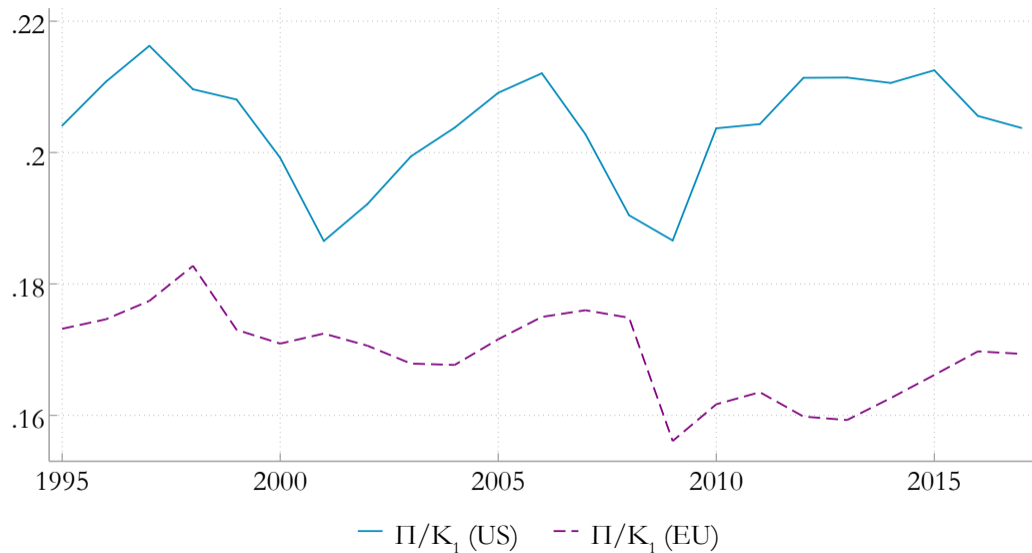
PPE investment rates are falling both the US and in the EU



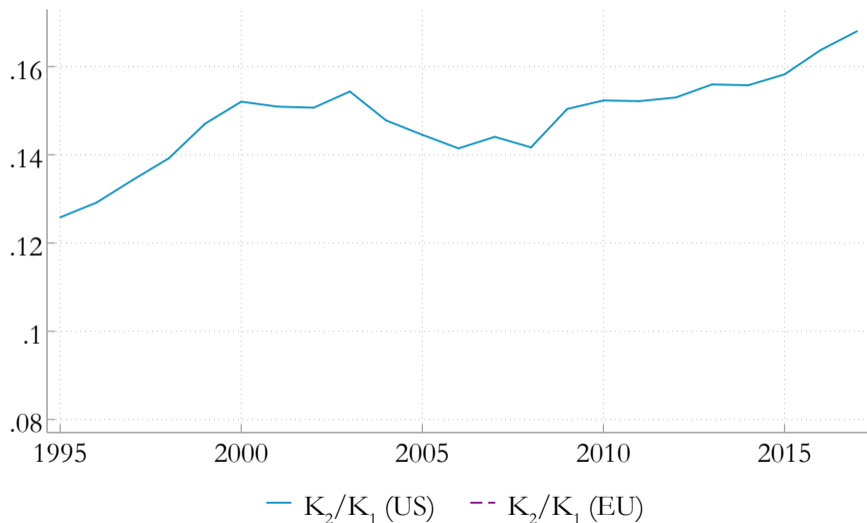
Average returns to physical capital are stable in the US



Average returns to physical capital are stable in the US, falling in the EU

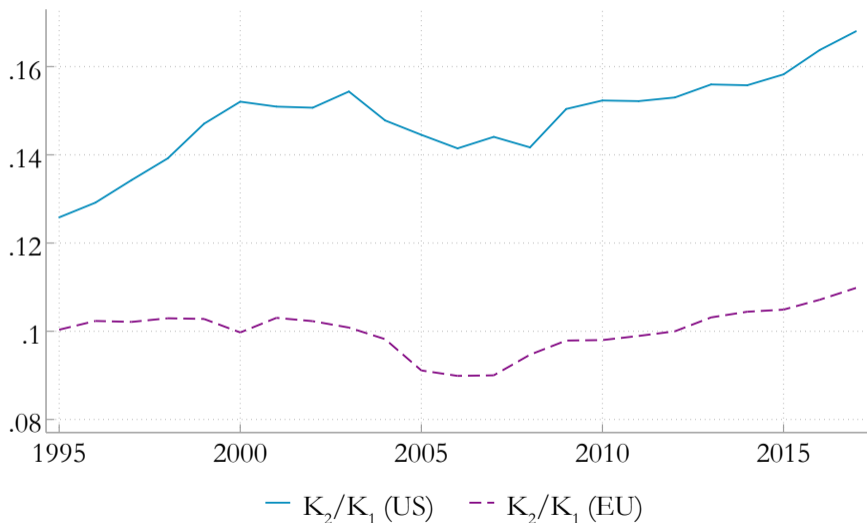


Intangible capital is rising in the US



K_1 = PPE and K_2 = R&D capital.

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Quantifying the role of rents vs. intangibles

Crouzet and Eberly (2020)

$$V_t = q_{1,t}K_{1,t+1} + q_{2,t}K_{2,t+1} + \sum_{n=1}^2 \sum_{k \geq 1} \mathbb{E}_t [M_{t,t+k}(\mu - 1) \Pi_{n,t+k} K_{n,t+k}]$$

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+ **rents** \rightarrow **intangibles**

“Investment gap”

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$$\text{"Investment gap"} = Q_1 - q_1$$

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R_n = Hall-Jorgenson user cost, modified for adjustment costs:

$$R_n \equiv r + \delta_n + \gamma_n g r, \quad n = 1, 2,$$

where γ_n = curvature of adjustment cost function.

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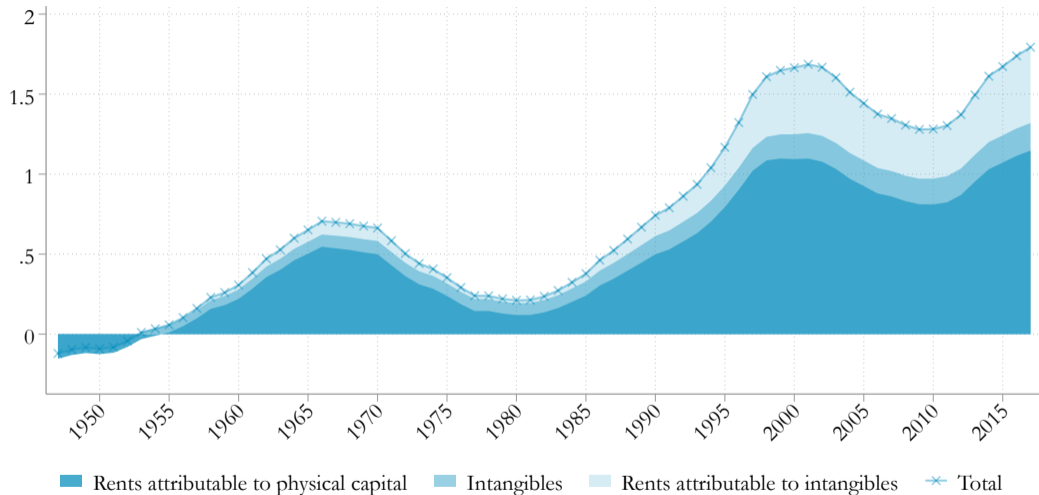
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This simple version of the investment gap can be constructed using a few (6) time series.

But the decomposition is very general — see our paper!

The investment gap in the US

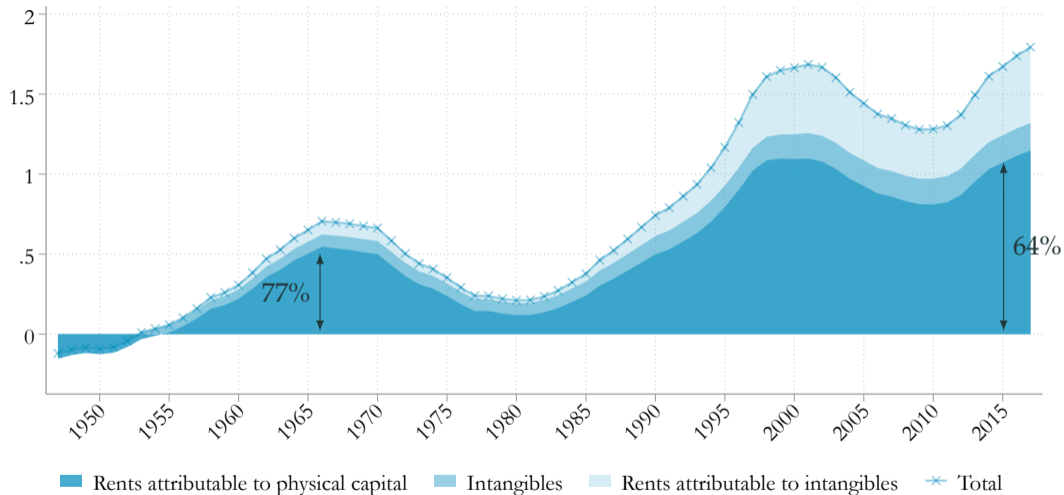
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1947-2017; sources: BEA fixed tables and Flow of Funds

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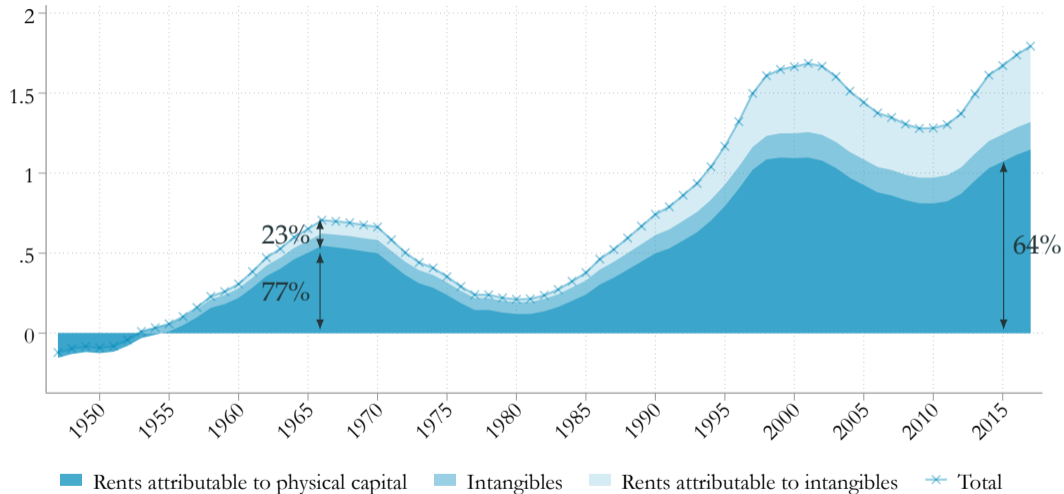
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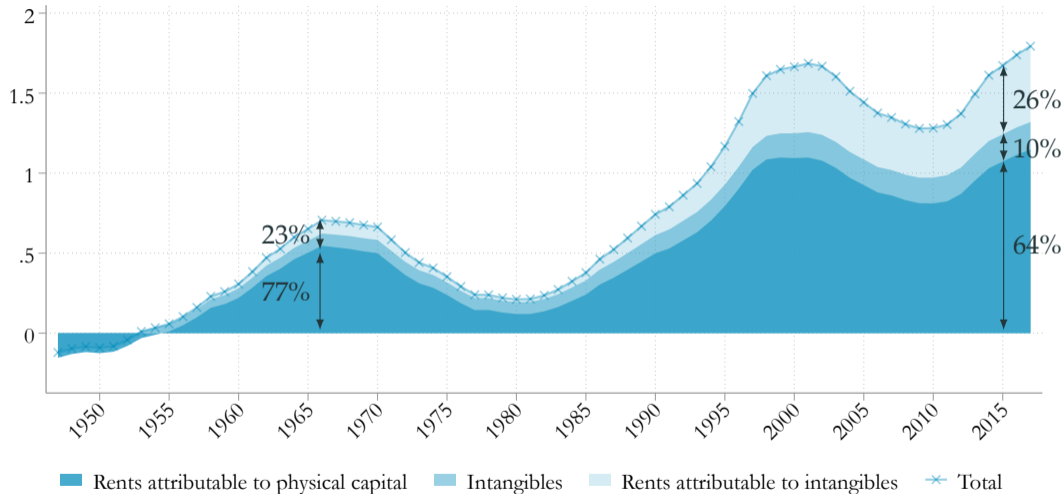
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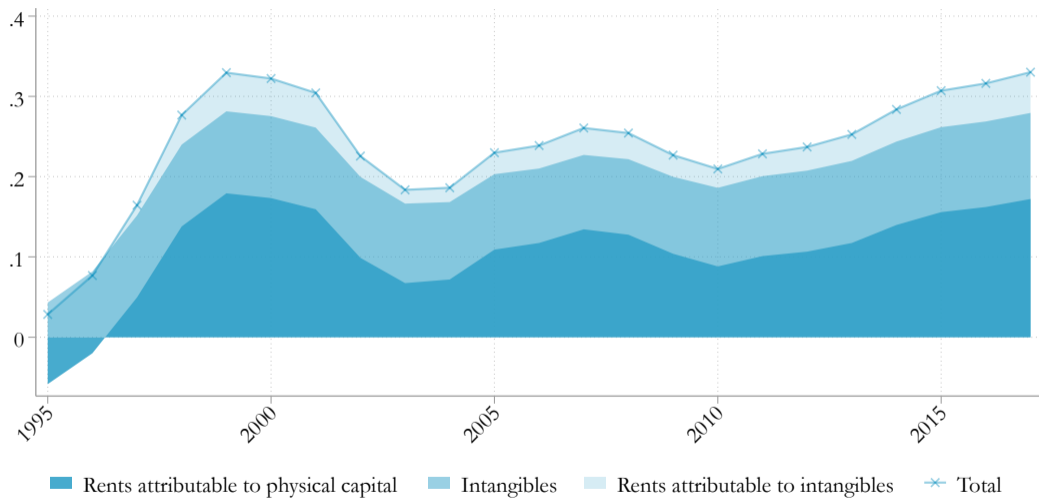
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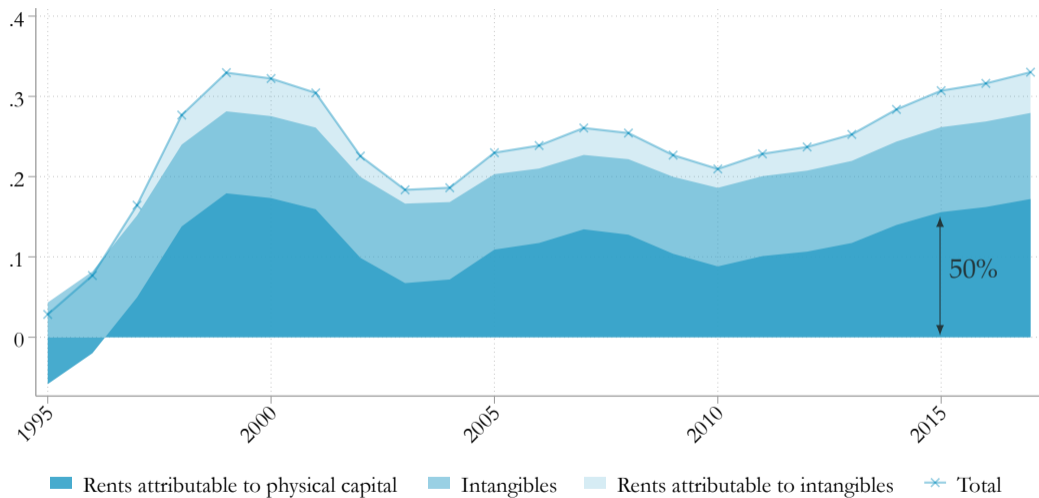
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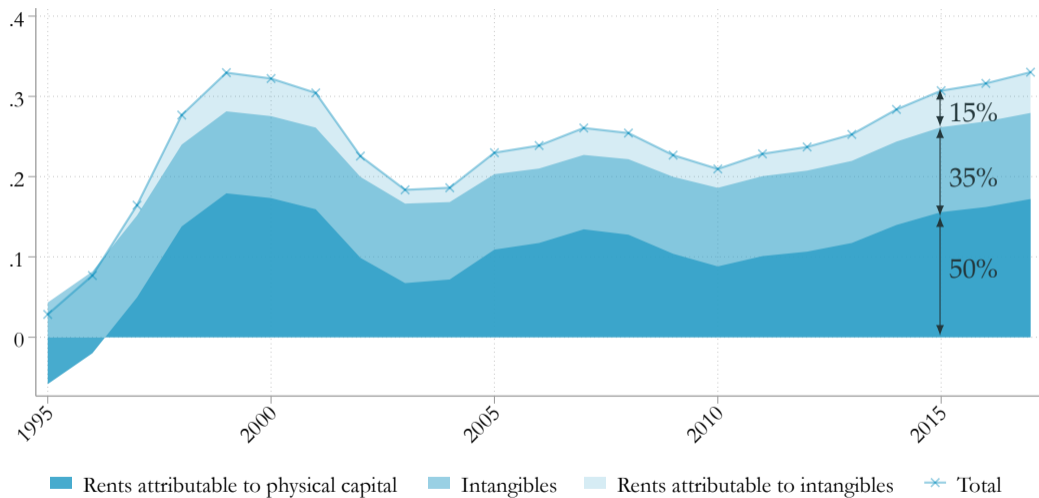
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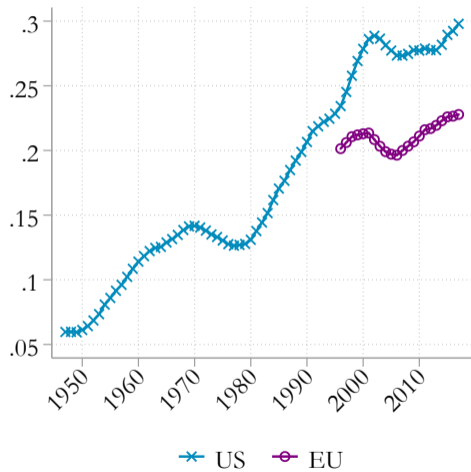
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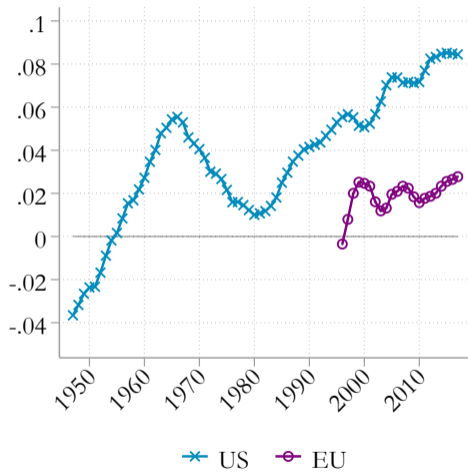
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Underlying structural changes

Cobb-Douglas intan share $K_t = K_{1,t}^{1-\eta} K_{2,t}^{\eta}$



Rents/v.a. $s = (1 - WL/PY)(1 - \frac{1}{\mu})$



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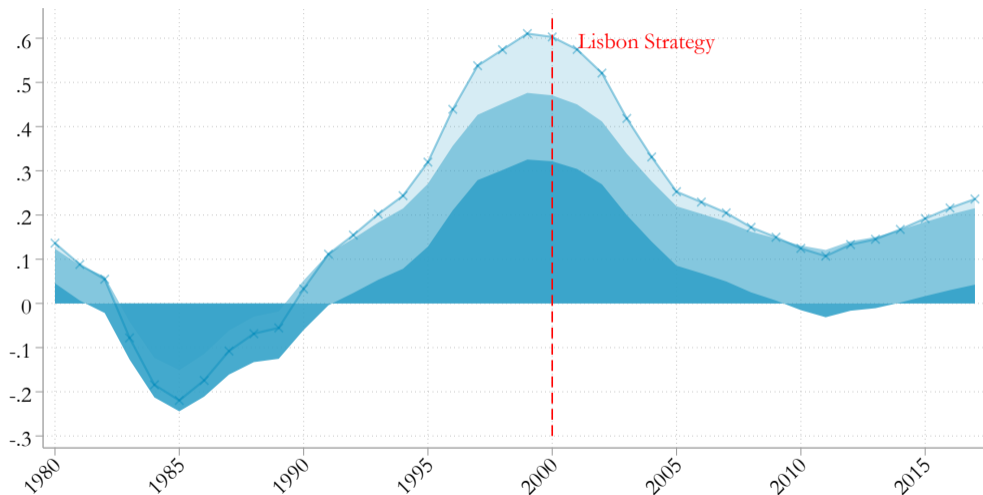
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The investment gap in France



1980-2017; source: OECD, INSEE, and Global Financial Database

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 - telecom evidence: compelling, but nationally regulated?

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2. Equilibrium regulation: theory

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- Regulator chooses markups \leftrightarrow prices \leftrightarrow quantities x_1, x_2

Unbiased supra-national regulator

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$$\max_{x_1, x_2} U_1 + U_2$$

$$x_1 = z$$

$$x_2 = z$$

$$U_1 = U^* = 2(\log(z) - 1)$$

$$U_2 = U^*$$

Biased supra-national regulator

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$$U_1 = U_+^{SR}(\theta) \approx -\log(1 - \theta) > U^* \text{ as } \theta \rightarrow 1$$

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Cost of capture by other country always outweighs benefits of control

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- Comment 2: what changed in the EU? in the US?
 - EU: why shift from *NR* to *SR* — within single market?

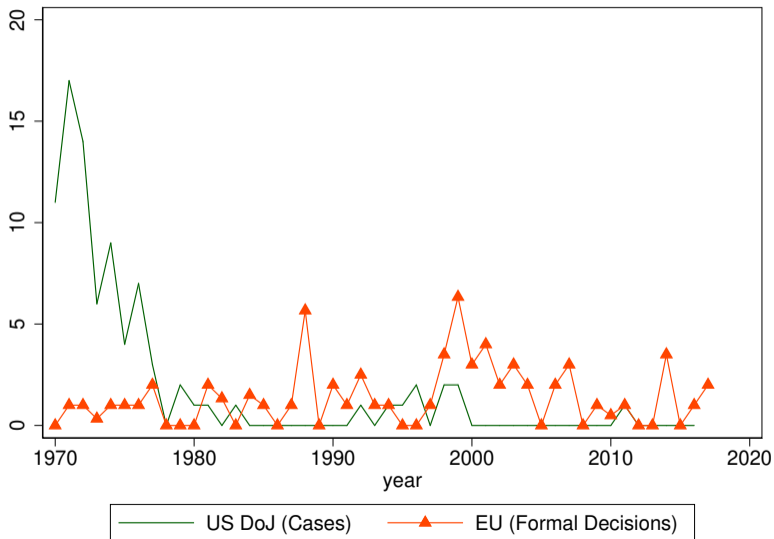
3. Evidence on competition regulation in the EU vs. the US

The DG comp is a tougher regulator (1/2)

- Evidence:

1. framework : DG comp stricter than FTC/DOJ and national EU regulators
2. enforcement : DG comp more active on mergers, abuse of dominance, and cartels

Abuse of dominance cases



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- Comment 2 : is DG comp tougher *because* it is supranational?
 - *economic conditions* : bigger gains from abusive consolidation in the EU?
 - *innovation* : DG Comp less concerned about preserving quasi-rents?
 - *risk attitudes* : FTC/DoJ — short-run consumer prices; DG Comp — long-run precautionary, approach?

Conclusion

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- Ambitious, important paper
- Shifted my priors on
 - macro symptoms in US vs. EU
 - enforcement of antitrust in US vs. EU
- But is it really the *supranational* nature of DG comp that matters?
 - would be better for the US if the answer were no!

Additional slides

National regulator

$$\max_{x_1} U_1 = \log(x_1) + \log(x_2) - 2x_1/z$$

$$x_1 = \frac{1}{2}z < z$$

$$x_2 = \frac{1}{2}z < z$$

$$U_1 = U^{NR} \equiv U^* - (2\log(2) - 1) < U^*$$

$$U_2 = U^{NR}$$

National regulators \sim monopolists