New Concentrations of Capital

From The Disturbing New Facts About American Capitalism by Jason Zweig in The WSJ

> *Modern capitalism is built on the idea that as companies get big, they become fat and happy, opening themselves up to lean and hungry competitors that can underprice and overtake them. That cycle of creative destruction may be changing in ways that help explain the seemingly unstoppable rise of the stock market.*
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> *New research by economists Gustavo Grullon of Rice University, Yelena Larkin of York University and Roni Michaely of Cornell University argues that U.S. companies are moving toward a winner-take-all system in which giants get stronger, not weaker, as they expand.*
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> *Or look at supermarkets. In 1997, there were 36 publicly traded companies in that industry, with the top four accounting for more than half of total sales. By 2014, only 11 were left. The top four—Kroger, Supervalu, Whole Foods Market and Roundy's (since acquired by Kroger)—held 89% of the pie.*
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> *The U.S. had more than 7,000 public companies 20 years ago, the professors say; nowadays, it's fewer than 4,000.*
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> *Still, history offers a warning. Many times in the past, winners have taken all but seldom for long.*
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> *Perhaps the laws of creative destruction finally have been repealed once and for all. But sooner or later, capitalism has always been able to turn yesterday's unstoppable winners into the also-rans of today and tomorrow.*

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A disturbing new reality or just the first act of a new play?

It is worth noting that much of our innovation is not just new competitors but new categories. Apple, Facebook, and Google like Uber dominate categories that did not exist a few decades ago, categories that they largely created. This sounds more like ‘first act’ success than another delusional new paradigm. The lack of new startups may be a result of institutional friction costs, or a cultural shift away from risk. I would not yet conclude that creative destructive is dead.

I have a hard time visualizing how breaking up the new monopolies would end well for anyone since these companies are an empowering center of so many other enterprises. Monopolies are dangerous if they inhibit innovation or allow for abusive pricing power. It is hard to argue that this is the result of this new concentration.

The better solution worth an effort is to reduce barriers to startups. Going public has become so arduous from Sarbanes Oxley and other regulations that companies find it much easier to sell to a top player than to launch their own company.