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ED CONWAY

APRIL 26 2019, 12:01AM, THE TIMES

Superstar firms should be cut down to size

ED CONWAY

Consumers will be the winners if we take tougher line on mergers like Asda and Sainsbury's



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f you could boil capitalism down to a single principle it would have to be creative destruction. The idea, popularised by the

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drives each economic cycle: the rise and fall of the steam age, the industrial revolution, and so on. We all benefit from the prosperity and dynamism these forces of destruction bring the economy.

Except that in the past few decades, they seem to have petered out. Across a range of indicators including job creation and destruction, and the length of time companies stay at the top of stock markets, business dynamism has been in decline.

This matters for all of us because the more dynamic businesses are, the greater their productivity, which in turn should make us all better off. Is it any coincidence that productivity, the rate at which we generate income for every hour worked, is also sputtering?

We can see it throughout the developed world: in the US and in Europe; in small, open economies and big, closed ones; in high-regulation countries and thinly regulated ones. Diminishing dynamism; piddling productivity. Something seems to have gone wrong with the central mechanism of capitalism.

Silicon Valley gurus will tell you this is excessively gloomy. After all, aren't we living through a golden age of innovation? It could be that the statistics aren't telling us the full story. But there is another explanation that involves one of the big issues of the day: inequality. We talk a lot about the gap between rich and poor people but there is also one opening up between what economists call frontier firms — the big, brilliant, efficient ones — and laggards. The gulf between superstars and everyone else is widening to unprecedented levels.

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This is partly due to technology. In the internet age companies can establish themselves as world leaders much faster than before, whether that's social networks like Facebook or search engines like Google. But another part of the explanation is that the giants have become better at playing the system. Superstar firms have leveraged their size to merge, expand and gobble up the competition as they see fit. Once upon a time a tech start-up might dream of becoming the next Google; these days most entrepreneurs realise that however good their idea, the best they can hope for is to be bought by Google within a few years.

Or consider the pharmaceutical industry. The giant firms have long been acquiring smaller rivals, but far from boosting performance this has contributed to fewer new patents. The giants are increasing their share of profits but productivity is diminishing. In some cases it gets even worse. The Yale economist Florian **Ederer** recently discovered that some giant pharmaceutical firms were buying companies not in order to develop and market their medicines but to kill them off. He and his colleagues say these "killer acquisitions" accounted for 7 per cent of US drug takeovers between 1989 and 2011.

This is an extreme example but there is plenty of evidence that even as firms have been allowed to get bigger the outcomes for consumers and employees have been marginal at best. This winner-takes-all era has coincided with, and perhaps been

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taken over by their rivals that the UK has established itself as the country where anything goes.

So the decision of the Competition and Markets Authority yesterday to block the merger between Sainsbury's and Asda is rather significant. One can argue the toss over whether it is right or wrong. The CMA reckons the takeover would push up prices; the companies say it would cut them.

But there is something broader at stake here. Across the world, the mood music over mega-mergers and regulation of superstar firms is changing. You can see it in Brussels, where competition commissioner Margrethe Vestager has unsettled Google, Facebook and Apple with her campaigns and clampdowns. Even in Washington, where the Democratic presidential candidates have put these issues front and centre, one can hear the drumbeat of change.

Set against the Silicon Valley behemoths, Sainsbury's and Asda hardly look like giants. In theory blocking the merger should protect consumers but there is a risk that after the CMA decision a giant like Amazon may swoop into the UK grocery market and take advantage. In the long run that could be even worse for competition.

All of which underlines that it is about time Britain took another look at its archaic antitrust and competition rules, which tend to favour rootless tech firms over traditional companies. One benefit of leaving the EU (if that ever happens) is that we will regain some autonomy over such decisions.

It's about time too. As the giants attempt to cling on to their size and influence at the cost of productivity and competition

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Peter Lane | DAY AGO

Good turn of phrase, Creative Destruction is the success of Capitalism. Although the State often plays a big part through regulation, tariffs, taxes, subsidy, international alliances. Sometimes by accident.

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N

Nigel Brown | DAY AGO

Perhaps something worth considering is the fact that big fish are usually more dangerous in a small pond. The UK outside

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— Huawei anyone? Never mind the security issues. do we really want the comms world to be monopolised by a Chinese firm?

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Chris Braithwaite | 1 DAY AGO | *Edited*

Rather jumbled thinking from Mr Conway. At the beginning he bemoans the lack of dynamism and then closes with Amazon which has to be one of the most dynamic firms going and on the way pretty much ignores others such as Uber. As for cutting superstar Airbus and Boeing (yes, I know, they have problems right now) “down to size”, try building a complex airliner in a small firm.

And to end up with “archaic antitrust and competition rules” when the CMA has just proved they work is incredible. And then to imply it would all be better if we leave the EU is risible. Best leave Mr Conway at Sky if this is the best he has to offer.

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MJR | 1 DAY AGO

As you say, low productivity growth may be an indicator that the market structure is tilted too far away from the "creative destruction" theme of new entrants shaking up the markets of the old.

When Google, Amazon, Apple, Facebook and the likes command such massive market values and have such enormous firepower in terms of capturing start up companies before they can become a threat, you start to wonder whether the competition authorities have dropped the ball. I think they have, personally.

But surely another theme is increasing levels of complexity and technological sophistication make it that much harder for start up entrants in the first place, meaning they come to look for a "friendly" sponsor with deep pockets in order to fund their work. Rising complexity across regulatory, taxation, human resources and financial functions does represent another set of hurdles to overcome.



CSP | 1 DAY AGO

Today I went to Tesco, purchasing a dessert. There was a choice of well over hundred. How can it possibly be economical to package sugar and starch in so many ways? Perhaps the way forward is for supermarkets to simplify their

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It is economical because the market buys it. If they didn't, these things would disappear from the shelves.

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LapsedCalvinist | 1 DAY AGO | [← Csp](#)

Are you serious? That sounds very Soviet.

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William mckinney | 2 DAYS AGO

Nonsense. The fundamental principle underlying capitalism is freedom. Where there is freedom, capitalism necessarily follows.

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nigel foster | 2 DAYS AGO | [← William mckinney](#)

As in freedom to rig a market? BTW, capitalism is not a political philosophy. It as economic model.

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Csp | 1 DAY AGO | [← nigel foster](#)

Henry Ford said it was important to pay his employees a high enough wage so they would be able to buy his cars.

Today this simple rule seems to have been forgotten, low wages will eventually kill capitalism.

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I'm not Robert Winston | 2 DAYS AGO

When EU regulation first came in big Co was dead against it, until the legal eagles realised it could be used to stifle competition particularly quicker, lower priced and more agile companies..

I made a fortune taking on established management heavy sloth like corporates from when I was 17 yet since the 90's the Boa constrictor like rules and regs have made small co's non competitive.

Unless the business matter in hand is potentially life

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national purport to address they simply make worse, regulatory capture has done for SME's and we are all the poorer for it, I can certainly testify to the fact i could never pay pro rata what I once did, nor risk investing as I once did, nor afford the compliance costs that exist today.....government has become a 'racket'.



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Cut to the chase

2 DAYS AGO | ← I'm not Robert Winston

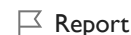
I agree completely. I have worked across many sectors from energy, extractives, banking and financial services. In all cases, excessive regulation only drives up costs, reduces returns, puts off investors from putting their money in the UK. There are many examples to cite but the consumer culture we have cultivated doesn't help matters either. "Something must be done" is the death knell for our competitiveness as a country and a potential source of wealth for entrepreneurs as you have outlined. This leaves a huge barrier to entry in far too many fields now requiring al types of compliance, forms, certifications... you name it.

Without selling the family silverware (Huawei), we need government to get out of the way to free up the creative potential in the UK.



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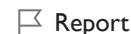
Michael New | 1 DAY AGO | ← I'm not Robert Winston

Some good points born out of experience but can you help us who are not at the coal face by picking a few examples of regulations that are injurious to start ups?



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Paul Beckett | 1 DAY AGO | ← Michael New

It comes down to the cost of compliance, particulalry

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years.

I work for a giant company, we can afford that. A start up? No chance. Many start ups don't even have a regulatory specialist on the staff to keep track of anything new.

As for REACH? Don't get me started. Hoops to jump

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