Cartel Capitalism

SUMMARY: Mergers and acquisitions have caused a growing number of industries to be dominated by a smaller number of companies, while in the tech industry, network effects have led to the dominance of firms like Apple, Amazon, and Google. While these firms benefit from economies of scale that cut costs, their dominance can reduce competitiveness and economic dynamism. Additionally, by attracting the best talent, these world-beating firms capture a disproportionate share of productivity growth, contributing to stagnation in the rest of the economy.

Forecasts

- Enthusiasm for antitrust enforcement has ebbed in the last two decades in the United States. However, accelerating industry consolidation may bring about renewed interest in this form of regulation. Action against prominent tech or health insurance firms could trigger renewed public enthusiasm for antitrust interventions.
- Industries where consolidation has occurred include beverages, household appliances, mobile phone carriers, air travel, grocery stores, health insurance, and pharmaceuticals. These are likely to be primary targets if antitrust sentiment grows.
- Even without regulatory intervention, technology innovation will eventually disrupt some heavily concentrated industries.

Key Uncertainties

Willingness of regulators to pursue antitrust investigations

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Effects of changes in the American political landscape

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Effects of potential EU action against U.S. tech firms

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Inevitability of internet firm monopolies

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Relative priority of internationally competitive firms versus nationally competitive markets

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Supporting Trends

- **Frontier firm dominance.** Productivity improvement is being captured by a small number of elite global companies.
- **Decline in labor's share of income.** The share of U.S. national income going to workers has been declining since 2001.
- **Stalled income growth.** Income growth has stalled for the lower and middle classes in advanced economies.
- **Declining workforce participation.** The workforce participation rate in the United States continues to fall.
- **Economic growth decline.** Lack of transformational technological innovation may curb future productivity growth.
- **U.S. wealth concentration rising.** The share of wealth in the hands of the most advantaged 1 percent of Americans has been rising since the late 1970s.
- **Inequality of opportunity rising in the United States.** Studies have documented widening gaps in opportunity for U.S. children as a function of socioeconomic status.
- **Manufacturing jobs permanently falling.** Deep forces of change are reducing the number of manufacturing workers globally.
- **Oncoming instability.** A period of instability is under way in the international system.

Related Drivers of Change

- The Stagnation Economy
- American Inequality

Notable Data Points

CAPTURING PRODUCTIVITY

A study of 24 advanced economies found that in many sectors, **only the elite 5% of companies have benefited from productivity growth** between 2001 and 2015.

Source: Organisation for Economic Co-operation and Development

STALLED GENERATIONAL PROGRESS

65–70% of households in advanced economies **experienced flat or falling incomes** between 2005 and 2014.

Source: McKinsey Global Institute

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Strategic Insights

- Associations could play an important role in tracking how dominant firms are able to maintain high levels of productivity growth. Identifying best practices and disseminating them through the industry as a whole could boost the productivity of the entire sector.
- Regulatory intervention may be good for an industry as a whole, but not for its most powerful players. Associations need to walk a fine line in determining whose interests they represent and how to communicate and demonstrate those commitments to their members.
- Associations face the risk of being perceived as beholden to the interests of dominant firms in heavily consolidated industries. They may need to take active measures to differentiate their advocacy for the industry from advocacy for leading firms.
- Associations that rely on organizational membership may need to rethink their membership strategy as companies merge and industries consolidate.

Timing

- **Stage:** Mature
- **Speed:** Slow, with potential for a triggering event

Potential Alternative Futures

- **Global field of competition:** Maintaining competitiveness against global rivals overshadows concerns about industry oligopolies, reducing the political will for antitrust intervention.
- **Faltering behemoths:** Innovation enables smaller and more nimble firms to challenge incumbents in more areas. Firms increasingly break up voluntarily to keep up.
- **Cyber public utilities:** Tech firms prove so critical to consumers and the economy that they are converted to 21st-century "public utilities" and expected to serve as infrastructure for other businesses.

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Take Action

- **Monitor mergers and acquisitions.** Mergers of companies set off a chain reaction in trade associations and professional associations that offer organizational membership. Membership dues are affected. People find themselves in new corporate roles where their influence and needs may be different. An association may lose key volunteers or find multiple representatives from the same company on the board or key committees.

- **Find out what the big players need from your association.** Sit down face to face and talk about their needs. Major corporations often have in-house education and training programs for employees, but perhaps they would be open to bulk purchasing of access, welcome in-house custom solutions, or collaborate in sharing their expertise. They may have their own lobbyists who could amplify or conflict with your efforts. Smaller companies may perceive and resent larger companies exercising inordinate influence in association affairs.

- **Refresh your adherence to antitrust practices.** Educate and frequently remind members about what they cannot say and do. If antitrust enforcement increases, associations that are not vigilant expose themselves to legal actions that could destroy their organizations.

- **Open standard-setting processes up to multiple stakeholders.** Major companies are more willing to devote experts and time to lengthy and complicated standard-setting processes. As corporate leaders consolidate, their interests could be magnified. To offset this influence, standard-setting organizations may need to recruit additional stakeholders, including user and public representatives.

Keyword Search

To continue researching this change driver, use these search terms:
neoliberalism, neoliberal, crony capitalism, winner-take-all economy, industry consolidation, frontier firms, FIRE economy, rentier capitalism, market concentration, HHI index, mergers

Who Will Be Affected

This is a mature driver of change for trade associations, particularly in industries experiencing extensive mergers and acquisitions. Professional associations with individual members will experience the downstream effects as major companies become the dominant employers and exert their influence in education, advocacy, and other association services. Associations and nonprofits also experience changes in who their corporate partners and donors are.

About ASAE ForesightWorks

ASAE ForesightWorks is a deliberate, evidence-based research program and emerging line of products to provide association professionals with a continual stream of intelligence about the changes facing the association industry, including:

- regularly updated action briefs;
- tools for applying insights from the research in your association;
- guidance in performing environmental scans; and
- opportunities to engage with peers around the research.

Ultimately, the program's mission is to empower association leaders to create a culture of foresight.

Check **asaecenter.org/ForesightWorks** and follow **@ASAEfdn** on Twitter for updates on new findings and events.

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