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OP-ED CONTRIBUTORS

A Monopoly Donald Trump Can Pop

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Among the mysteries about the incoming administration, Donald J. Trump's approach to antitrust laws stands out for its importance. Mr. Trump gained a lot of voter support because of the stagnation of working-class living standards in the face of record corporate profits.

Sensing this, he channeled populist anger against elite corporations by, for example, calling the proposed merger between AT&T and Time Warner "too much concentration of power in the hands of too few."

But the real challenge to competitive markets today does not come from mergers like this one. The great, but mostly unknown, antitrust story of our time is the astonishing rise of the institutional investor — a large company, like a mutual fund company, insurance company, pension fund or asset management firm, that buys stock in substantial quantities for the benefit of clients and customers — and the challenge that it poses to market competition.

In 1950, institutional investors owned about 7 percent of the United States stock market; today they own almost 70 percent. If you count them as a single investor, BlackRock, Vanguard and State Street are the largest owner of 88 percent of the companies in the Standard & Poor's 500. Control of the economy has not been this concentrated since the Gilded Age. This growing power has undercut middle-class living standards. But there is a way to stop it.

The problem is not just the size of the institutional investors, but the way they invest. Institutional investors often own stakes in all the competitors in concentrated industries. Vanguard alone, with more than $3.5 trillion in assets under management, owns the biggest or second-biggest stake in JPMorgan Chase, Bank of America, Citigroup, Wells Fargo, U.S. Bancorp and PNC Bank. BlackRock, with more than $5 trillion in assets under management, also owns one of the three largest stakes in all these banks.

The pattern recurs across the economy. Vanguard and BlackRock are the largest owners of Apple *and* Microsoft, and among the top three owners of CVS, Walgreens *and* Rite Aid. If you zoom down to, say, the market in cooking stoves, you will see that the largest owners of two of the three major competitors — GE, Whirlpool and Electrolux — are Vanguard, BlackRock and State Street. The same patterns appear in airlines, soft drinks, you name it.

Economic theory tells us that when a single investor owns large stakes in competing firms, the investor will want firms to keep prices high and wages low. Price and wage competition lowers profits and stock values.

Institutional investors, even if they “passively” hold the stocks in their portfolio, can achieve such a reduction in competition in many ways. They vote on compensation packages for chief executives, nominate board members and meet with management to express opinions on business strategy. As Vanguard states on its website, “We believe that our active engagement demonstrates that passive investors don’t need to be passive owners.”

The empirical impact of institutional investors was revealed in two blockbuster academic papers. One — written by José Azar, Martin C. Schmalz and Isabel Tecu — found that airline ticket prices increased as much as 10 percent because of common ownership. Another — by Mr. Azar, Mr. Schmalz and Sahil Raina — found large increases in bank fees and reductions in interest rates to savers from common ownership of banks.

Such ownership patterns are already illegal. Section 7 of the Clayton Antitrust Act makes firms that buy stock in other firms liable if “the effect of such an acquisition may be substantially to lessen competition, or to tend to create a monopoly.” In 1957 the Supreme Court noted that such prohibitions hold “even when the purchase is solely for investment.” Unfortunately, because the antitrust implications of institutional investment were not recognized until recently, legal action has not yet been taken.

However, indiscriminate application of these laws would disrupt an industry that many Americans rely on for (often) low-fee, diversified savings. To avoid such disruption, the government should enforce the Clayton Act against institutional investors while recognizing a safe harbor for those that either take a small stake in an oligopolistic industry (less than 1 percent of each company) or invest in no more than one company per industry. BlackRock could own a large stake in United *or* Delta *or* American *or* Southwest, but not all of them.

Large institutional investors could still provide cheap, diversified mutual funds to consumers under our proposal because the benefits of diversification *within* an industry are tiny compared with diversification *across* industries. A fund owning United Airlines can diversify with holdings in Walgreens; it does not need to own Delta as well. Small institutional investors can diversify in any way they like. Our proposal would restore competition to our increasingly cartelized economy with a minimum of disruption for existing business practices.

Will Mr. Trump fight for the interests of the working-class voters who brought him to power? Our approach would raise living standards while making American companies more competitive.

If the new administration’s antitrust enforcers ignore this chance to follow through on Mr. Trump’s promises, voters should hold him to account.

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