A Proposal to Limit the Anti-Competitive Power of Institutional Investors

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Discussion by Patrick Rey

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Very exciting paper

Fascinating topic: common ownership and competition

- Facts: very important trend
- Theory: common interest leads to less intense rivalry
- Empirics: burgeoning literature

→ intuitively, scope for concern, even if “degree” is still debated

→ certainly worth investigating

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Thought-provoking policy proposal

- Limit institutional investors’ stake (in each industry) to either one firm or one per cent of the market

- Simple: easy to
  - understand
  - implement
  - enforce

Patrick Rey – A proposal to limit the anti-competitive power of institutional investors
Interdependence of investors’ decisions

- One investor’s control or voice
  
  … depends on other investors’ stakes
  
  (and the extent to which their interests are aligned or not)

- Calls for a rule that is immune to such interdependency

→ the proposed rule passes this test
Issues

• (M)HHI: from screening device to normative instrument

  • Farrell – Shapiro 1990: comparative statics
    
    An increase in HHI corresponds to … higher welfare

  • Merger enforcement: screening device
    
    o Used to help decide whether to have a closer look
    
    o Not used to decide whether to clear or block the merger

  • Here: part of the argument for deciding to impose a rule
Issues

Strategic responses

- Firms: conglomerate mergers
  - Suppose that fund F holds a stake
    - In firm A1 in market A
    - In firm B2 in market B
  - By merging with firm B1 merge, firm A1
    - forces the fund to choose between merged entity and firm B2
    - may hope to “get rid” of the fund as a stakeholder
Strategic responses (cont’d)

- Funds: other type of “common ownership”

  - Rule does not prevent funds from investing in same firm

  - Suppose fund F holds stake in firm 1, and consider fund G’s choice of holding a stake in firm 1 or firm 2
    - if chooses firm 2: tough competition on governance
      → comparable quality, high costs
    - if chooses firm 1: free-riding
      → same quality, saves on costs
Issues

**Costs**

- Production / maintenance of a catalogue
  - list of “oligopolistic industries”
  - other uses?
- Index funds

**Alternative**

- “No voting” in more than one firm per industry?