Funding the Future

There's a world out there, and it's not as economists k...

Published: January 14, 2026, 2:59 pm

I was most amused by the concluding comments in a talk by Andy Haldane, chief economists of the Bank of England, this week. So much so, in fact, that I share them in full:

The link between the competitive structure of product markets, the macro-economy and the setting of monetary policy is a relatively under-researched area. This paper has only scratched the surface of this important topic. But trends in concentration and market power have clear potential to impact on the macro-economy and monetary policy, justifying ongoing research on the topic. To that end, we conclude with a few reflections on potentially fruitful future research avenues.

First, the framework used here to understand the macro-economic implications of increased market power assumes a particular competitive structure — monopolistic competition. This has limitations, assuming as it does that no one firm is sufficiently large to have a significant bearing on others' behaviour. In practice, strategic interactions between firms are likely to be important in many markets, especially network markets (for example, BramoullÃ©, Kranton and D'Amours (2014)), with potentially important implications for pricing and the Phillips curve.

Second, the framework developed here also sidesteps questions about the competitive structure of the market for inputs, especially labour inputs. Dominant firms may exercise monopsonistic power over workers, in ways which have implications for profit and labour shares. Consistent with that, there is some empirical evidence linking market concentration to a lower labour share (Autor et al (2017)). How monopsony power influences wage growth and the slope of the Phillips curve are important areas to consider further.

Third, there is further work to be done in understanding the balance sheets and decision incentives of so-called "superstar" firms. This includes their choice of debt versus equity, distributing versus reinvesting profits and intangible versus tangible sources of capital. These choices might imply quite different incentives and behaviours — for example, about the level of investment and its interest elasticity. These are yet to *be fully explored, at a micro and macro level.*

Fourth, the emergence of a set of firms with significant degrees of market power clearly raises big questions about the appropriate stance of competition policy (GutiÃ©rrez and Philippon (2018)). These policy issues are clearly outside of the remit of central banks. Nonetheless, how these anti-trust issues are tackled could have implications for the structure and dynamics of the economy and hence for the setting of monetary policy. This, too, is an area ripe for further research.

Finally, the apparent puzzle between the secular rise in mark-ups at the firm level on the one hand, and relatively low and stable aggregate inflation on the other hand, could usefully be reconciled. Current estimates of mark-ups using firm-level data may suffer from mismeasurement. Or other macro-economic factors may have more than offset their impact in order to keep inflation stable. How the evidence is reconciled could have important implications for inflation dynamics and the setting of monetary policy.

What to say. First, I like a man who numbers his observations.

Second, this comes as close as I think Haldane dares go to admitting that macro is choosing the wrong frameworks.

Third, that means it may not understand inflation and its drivers, at all.

Fourth, economics does not, then, explain the modern firm, nor does it embrace it in its thinking.

Lastly, the modern economy is about rent extraction by squeezing the labour share, but economics does not want to admit it.

That's not how Haldane put it. But I think that's what he meant, even if he was not sure himself.