

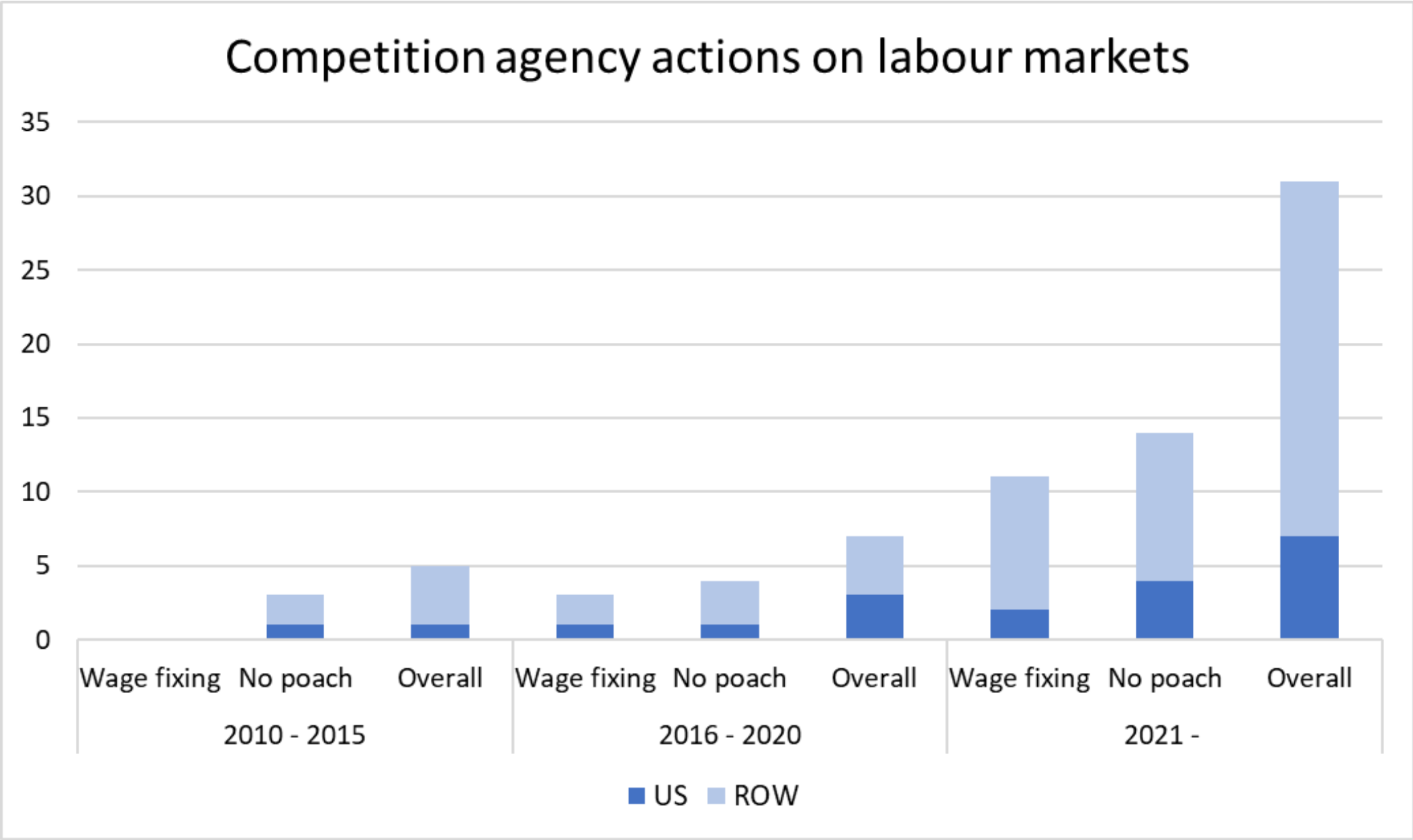
# Market power in supply chains: What we know, and what we need to know

Jakob Schneebacher, CMA Microeconomics Unit

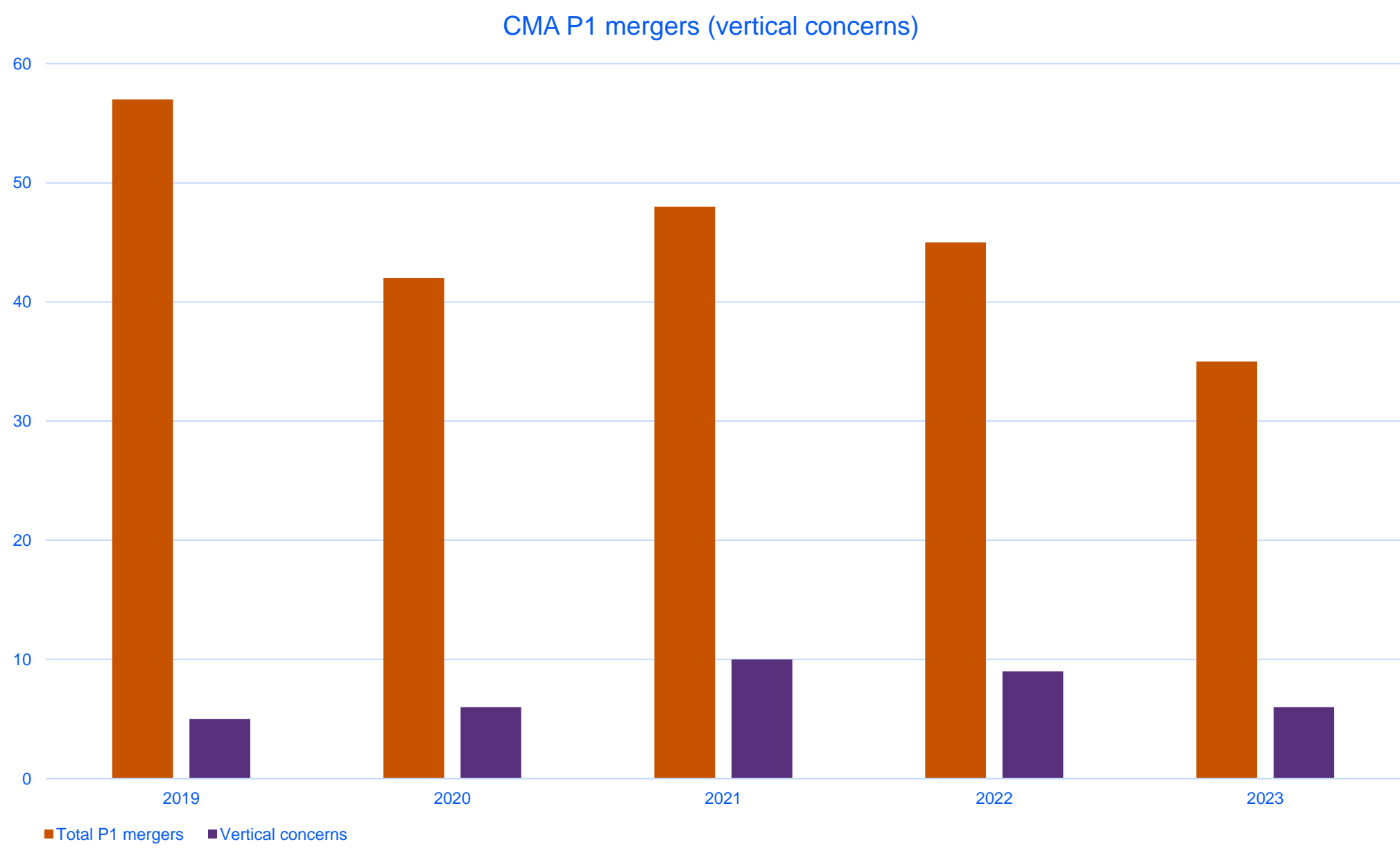
UKRI-CMA workshop

14 February 2025

# Input market power as a policy concern



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## The rationale for an industrial strategy

The government's growth mission will lead the way in delivering growth for all. Reforms are already underway to address planning barriers to growth, channel finance towards growth priorities, and accelerate the transition to net zero.

These will be supported by a modern industrial strategy which will implement targeted policy interventions [\[footnote 42\]](#), to drive growth where the UK has, or could develop, a comparative advantage, or to unlock barriers essential for delivering long-term, sustainable, inclusive, and resilient growth.

There is a strong case for governments to more actively direct the structure of the economy, which is gaining traction across the world in the wake of things such as:

- major shocks and long-term trends, such as COVID-19
- re-orientated global **supply chains**
- the global productivity slowdown
- digital transformation
- climate change

The historic debate on industrial strategies has been characterised by advocates of extensive state planning on the one hand, and equally vehement supporters of the private market on the other.

While governments pursuing both approaches can point to some successes, through the experiences of countries around the world, a new perspective on industrial strategies has emerged in recent years that takes a more practical and pragmatic view.

# Roadmap

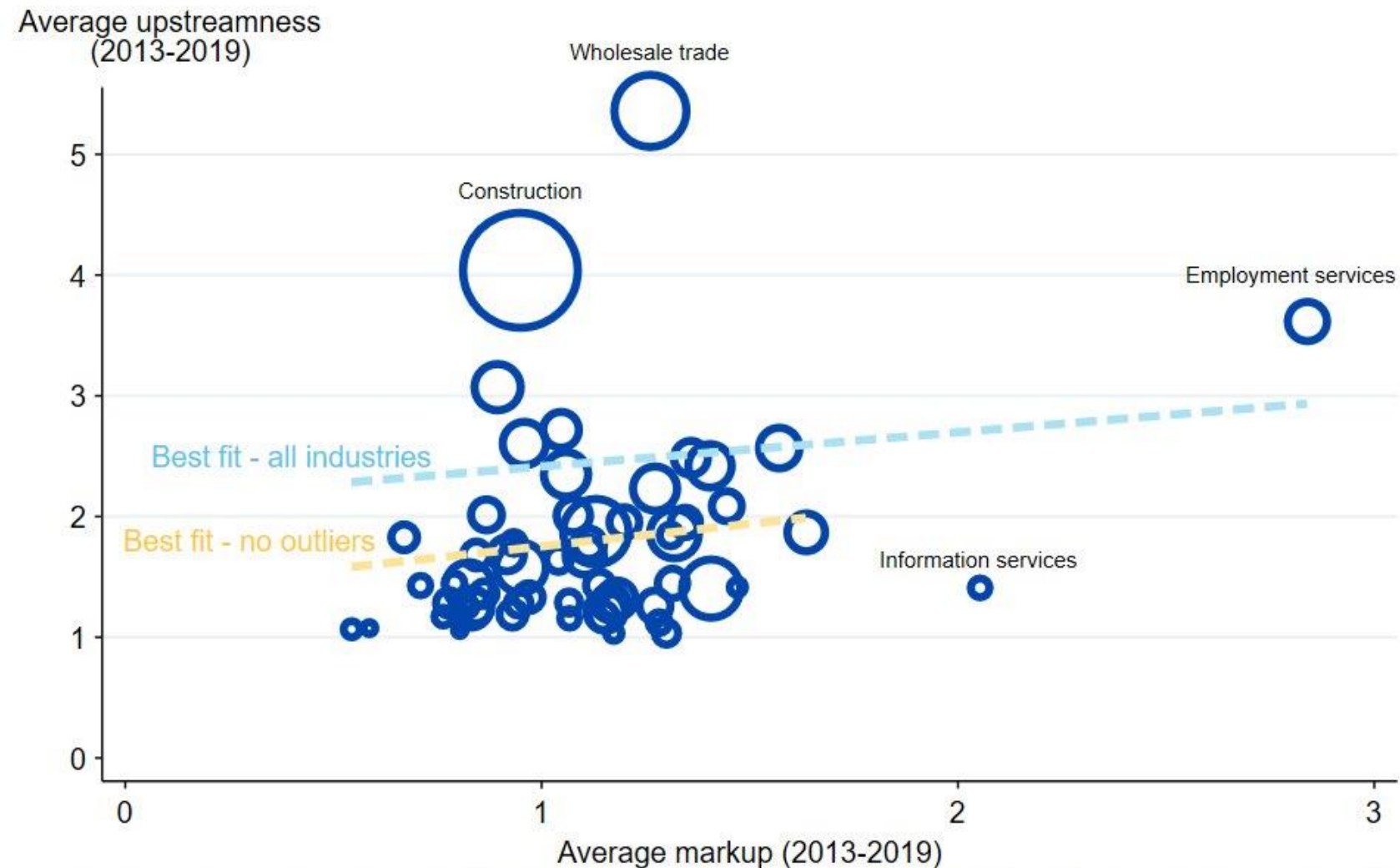
1. What have we learned from our own research?
2. Where are the evidence gaps for policymakers?
3. Some ways forward.

# What have we learned from our own research?

1. Supply chains and policy design.
2. Understanding the bargaining process.
3. Supply chains and the boundaries of the firm.

# Supply chains and policy outcomes

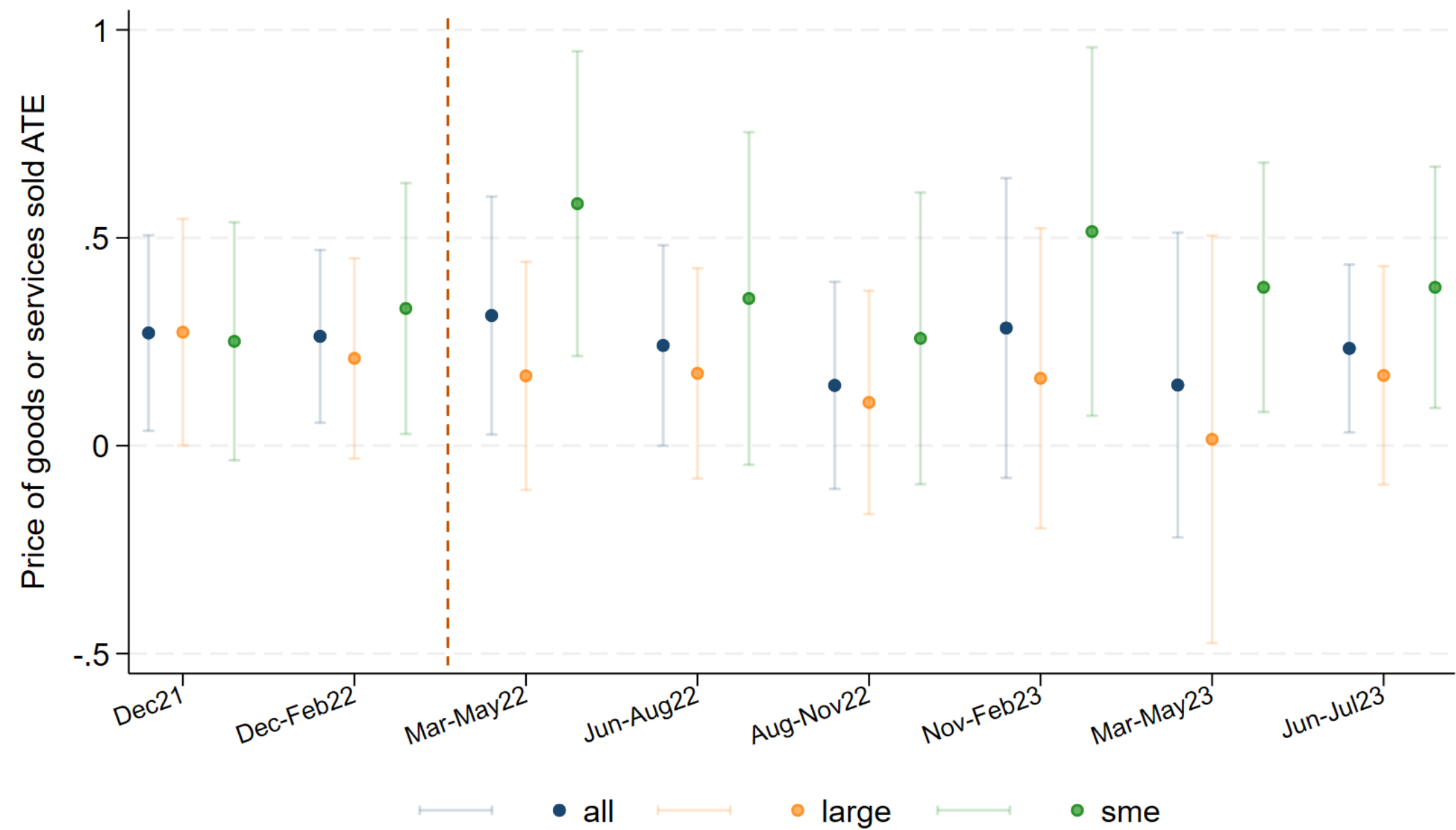
# Supply chains and policy design



Each data point represents a single (or collection of) 2-digit Standard Industrial Classification (SIC) sector averaged over the period 2013 to 2019, size represents average sectoral share. Linear fits weighted by sectoral share, not statistically significant at the 5% level (as represented by the dashed lines). Markups are calculated following our baseline approach described in the report. Calculations exclude Standard Industrial Classification (SIC) sectors: A, B, D, E, K, L, O, P, Q, T, U. Data from the *Annual Respondents Database X* (1997 - 2020) and *Annual Business Survey* (2021). Upstreamness measures the number of production stages from final use. Data from *input-output tables* (2013 - 2019).



# Supply chains and policy design

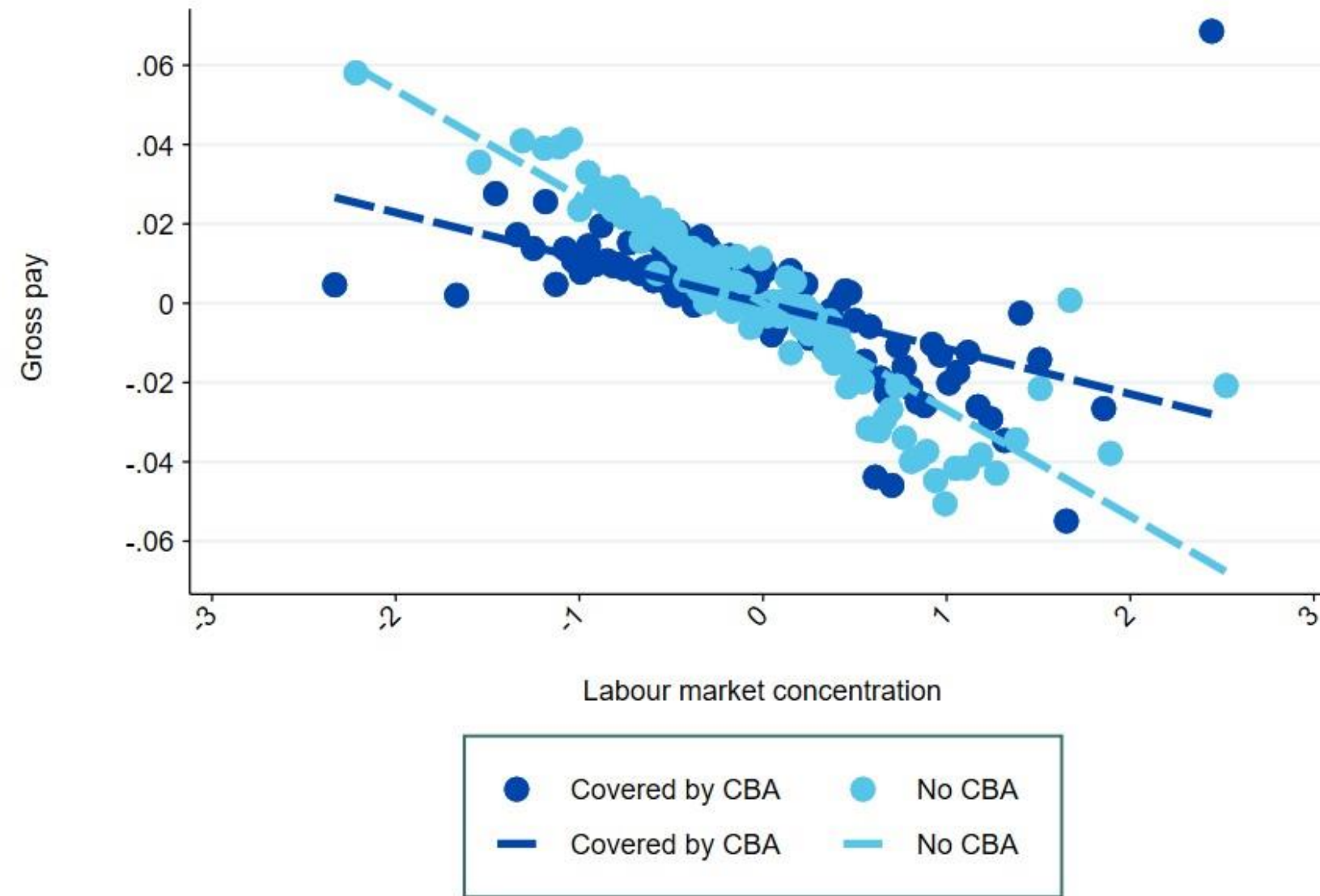


# Supply chains and policy design

[Supply chain charts for key sectors]

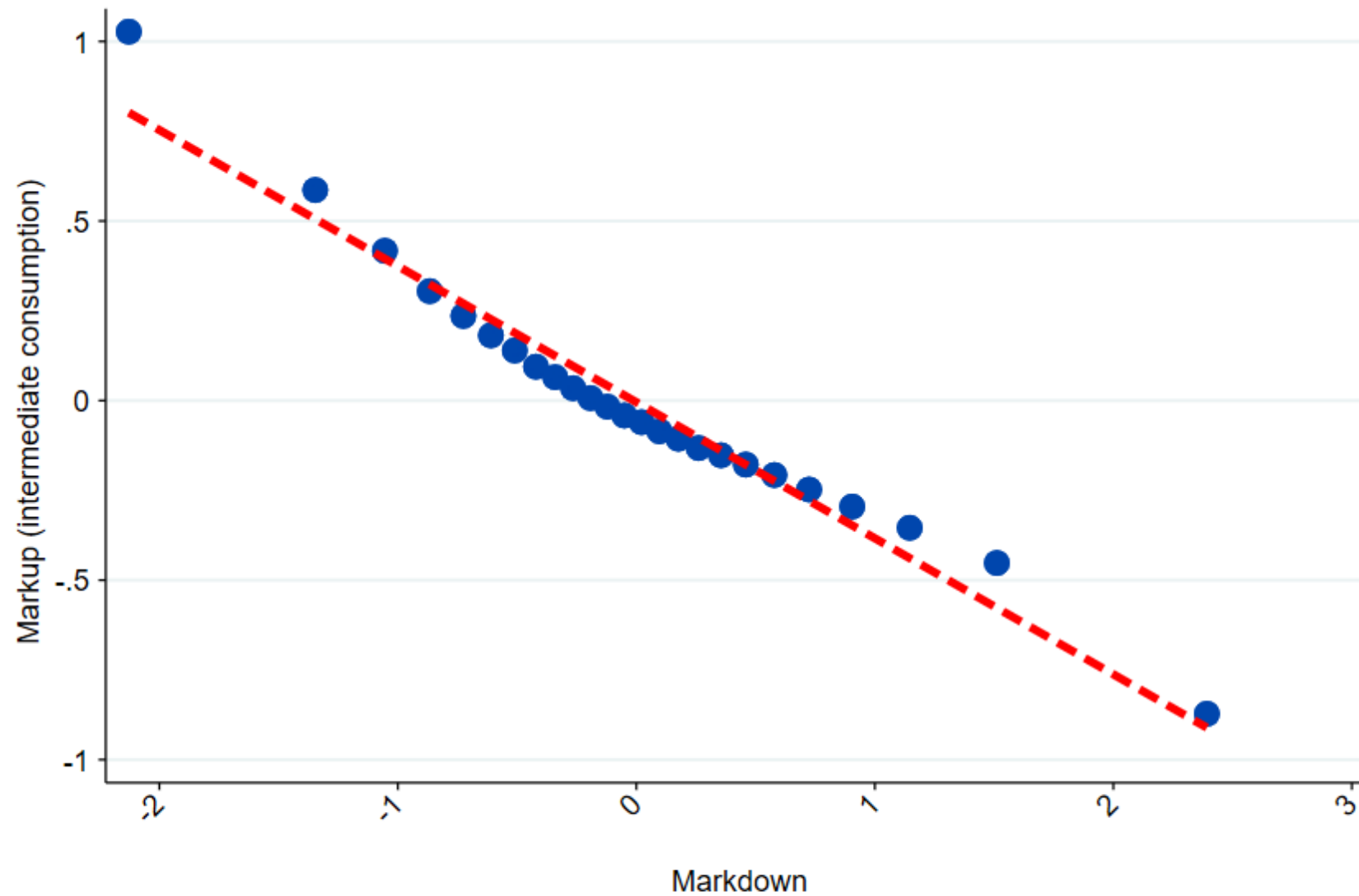
# Understanding the bargaining process

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Data from ASHE & BSD, 2002 - 2021.

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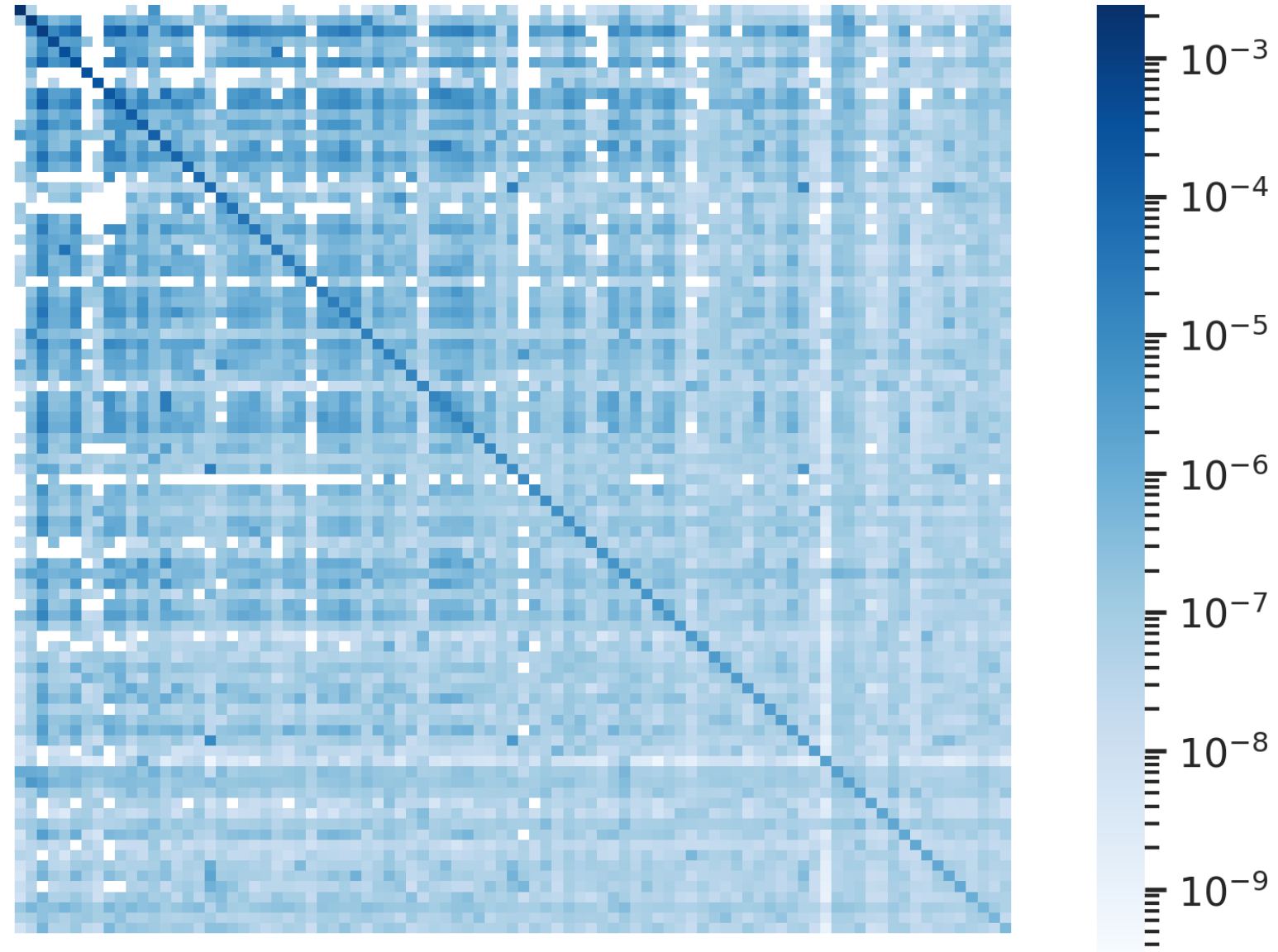


Markups and markdowns estimated with Ordinary Least Squares (OLS) and a translog (TL) production function.  
Markups are estimated with intermediate consumption as the flexible input.  
Data from ABS, 2008 - 2021.

# Supply chains and the boundary of the firm

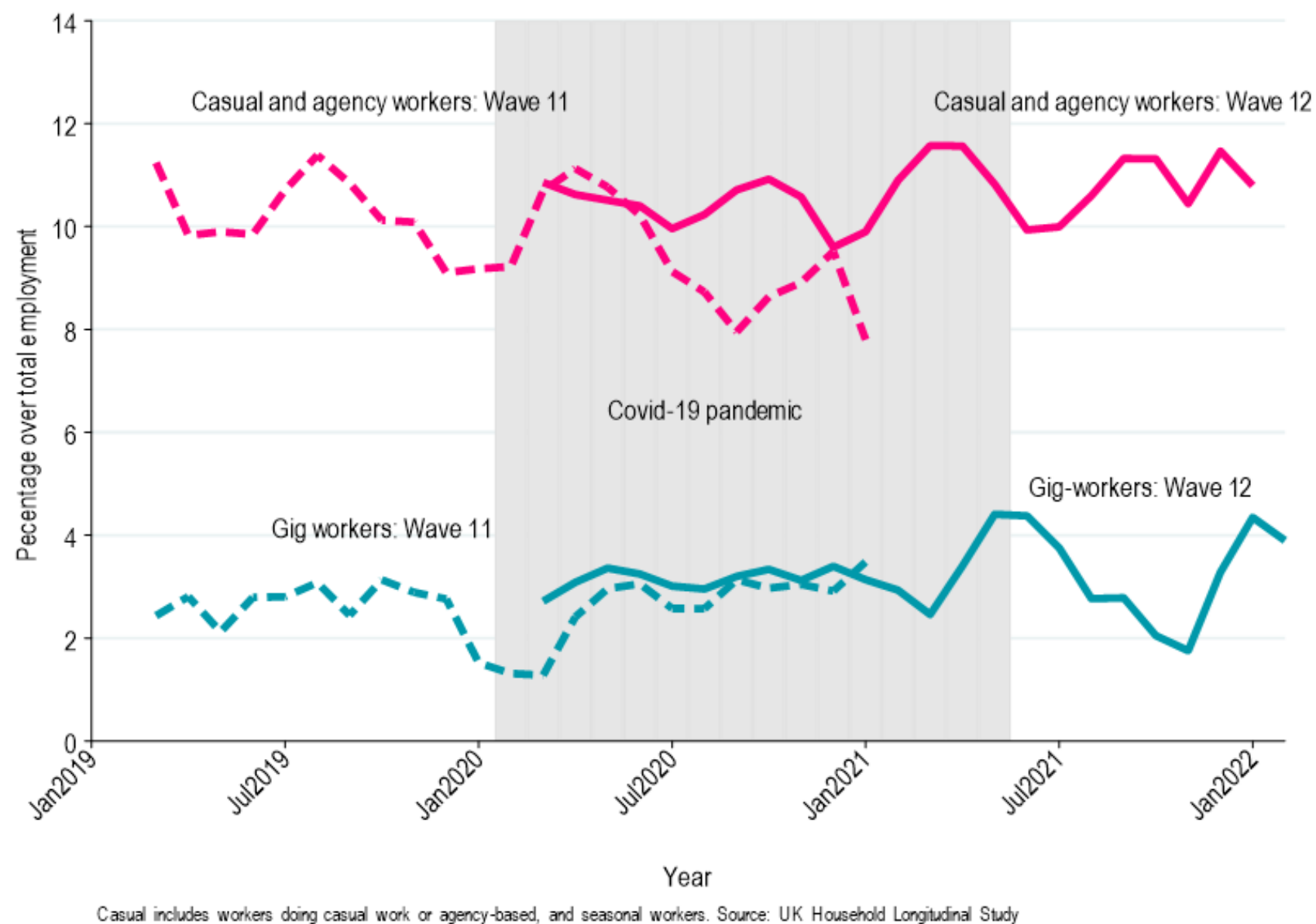
# Supply chains and the boundary of the firm

**Industry 2**



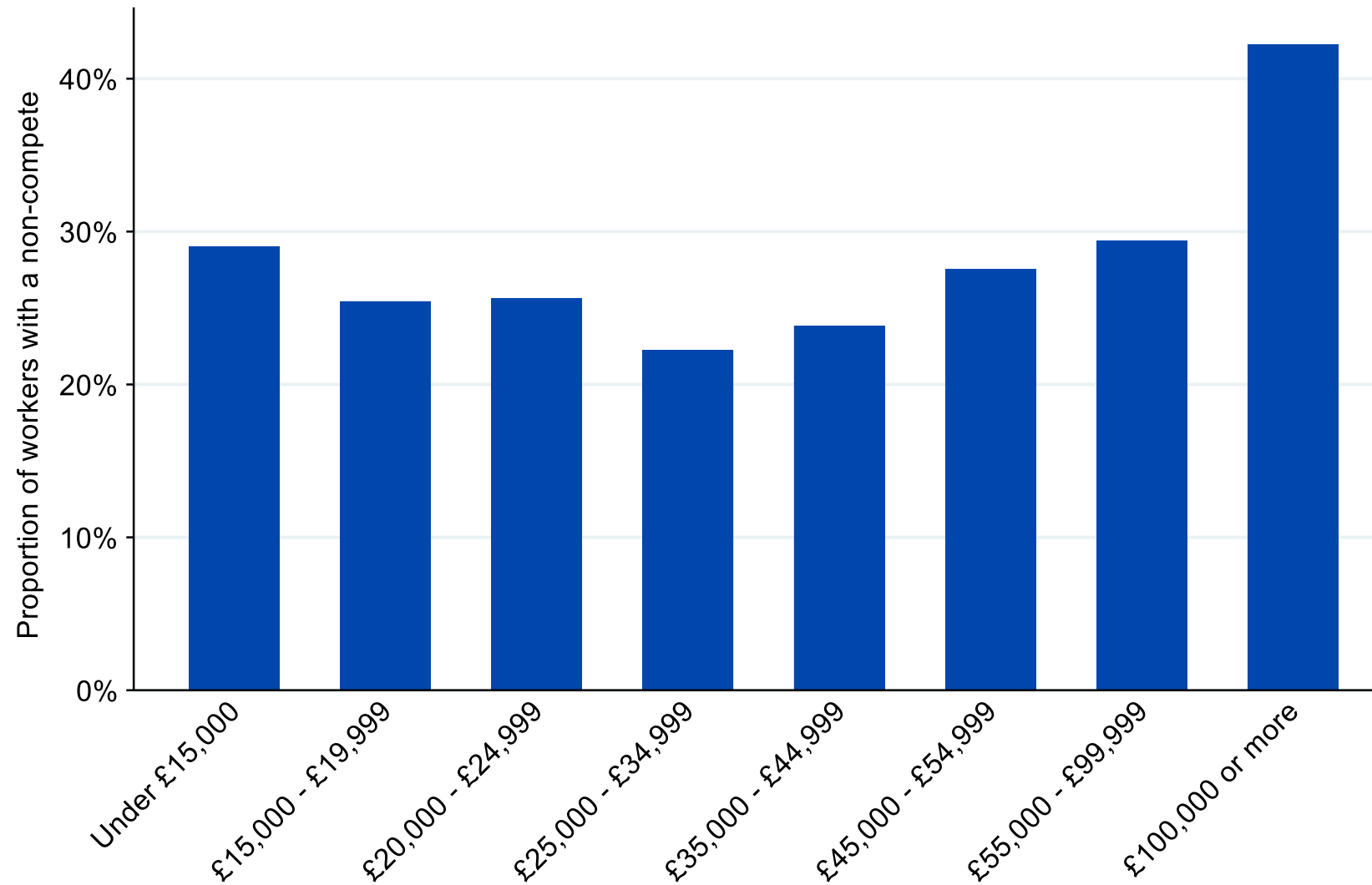
**Industry 1**

# Supply chains and the boundary of the firm





# Supply chains and the boundary of the firm



Source: CMA-LSE Capstone Survey

Where are the evidence gaps for policymakers?

# What are the evidence gaps for policymakers?

## 1. Measurement

- Both industry case studies and better whole-economy data
- Novel data sources: text data, transactions data, partnerships with firms
- Services, platforms and new pricing models

## 2. Bridging the divides

- Organisational economics vs. industrial organisation vs. macro/trade

## 3. Complications

- Input substitution
- Dynamics: innovation, network formation

## 4. Theories of harm

- What does this mean for consumers and workers?
- General equilibrium perspective needed?
- Expected outcomes right framework?

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# The analysis “supply chain”

Research expands the policy opportunity space.

Thanks for participating in this workshop and engaging with the Microeconomics Unit.