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Industrial Concentration in the United States: 2002-2017

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Insight in Economics™

Rising Industrial Concentration Has Become a Focus of Public Policy

- President Biden: *Executive Order on Promoting Competition in the American Economy*
- FTC/DOJ have launched a joint public inquiry into revising the merger guidelines citing rising industrial concentration
- The empirical basis for concerns about rising industrial concentration comes from three main sources:
  - Academia: Peltzman, "Industrial Concentration under the Rule of Reason" (2014)
  - Media: The Economist, "Too Much of a Good thing" (March 2016)
  - Policy: CEA, "Benefits of Competition and Indicators of Market Power" (May 2016)

Study Overview

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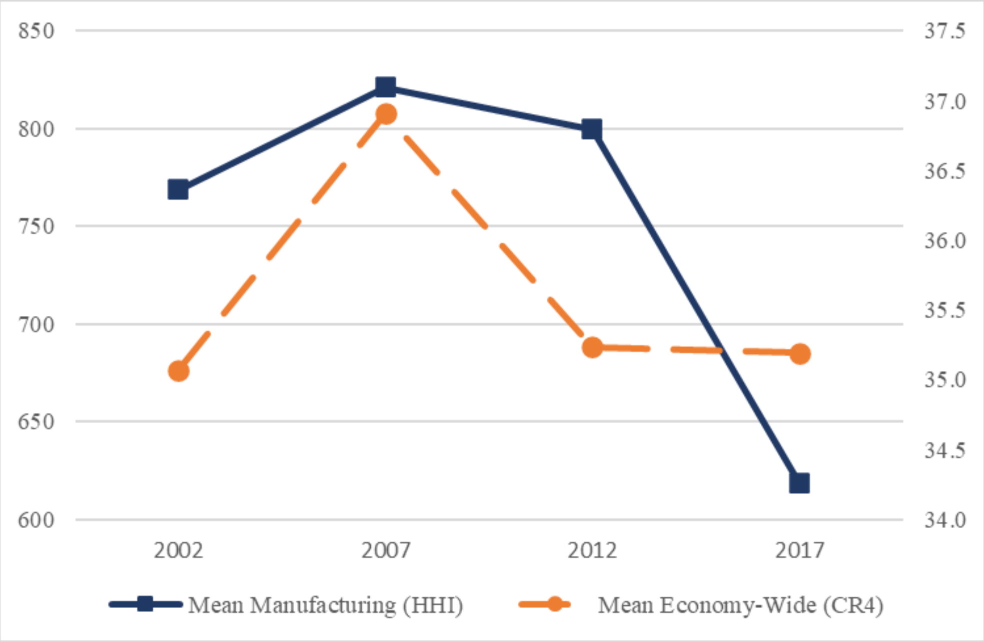
- Industrial concentration ≠ market concentration (see e.g., Werden and Froeb 2018)
- Concerns about rising industrial concentration in the United States rely on three assumptions
  - Industrial concentration is rising
  - industrial concentration is persistent
  - Industrial concentration is economically harmful
- Our research examines each of these hypotheses using Economic Census Data from 2002 to 2017
  - Inclusion of recently released 2017 Economic Census data
  - Evaluation of concentration distributions in addition to measures of central tendency
  - Detailed findings in paper to be released Spring 2022

Is Industrial Concentration Rising? (1/2)

Mean Concentration in Manufacturing (HHI) and Economy-Wide (CR4), 2002-2017



- Concentration has been declining since peak in 2007
- Manufacturing HHI has been declining since 2002
  - Decrease in HHI of 150 from 769 to 619
- Economy-wide CR4 has been declining since 2007
  - Decrease in CR4 of 1.7 pp from 36.9% to 35.2%
  - 2017 CR4 ≈ 2002 CR4

IS INDUSTRIAL CONCENTRATION RISING? (2/2)

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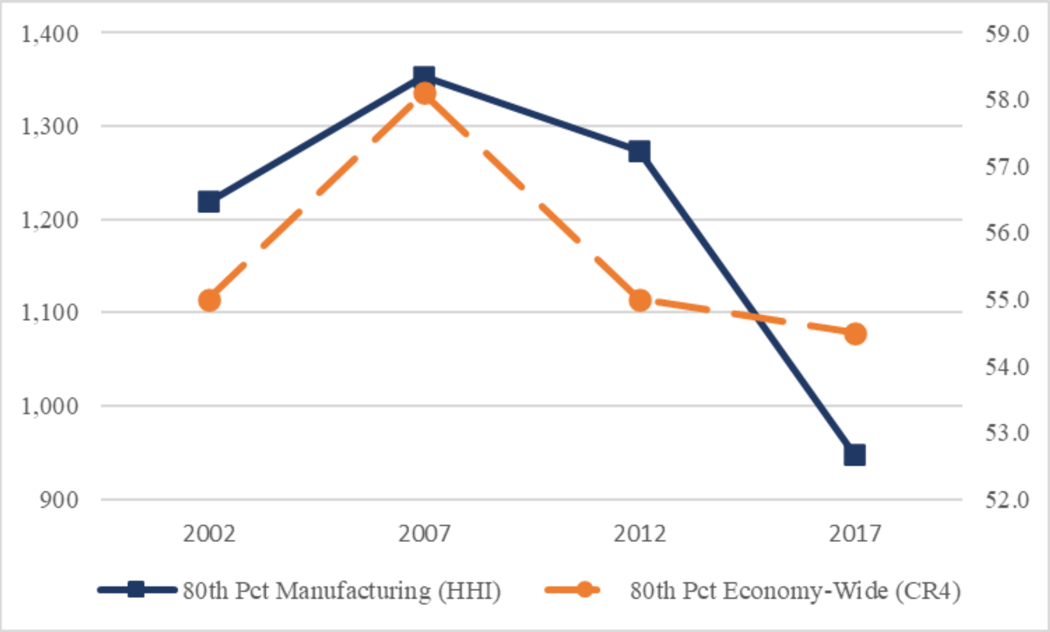
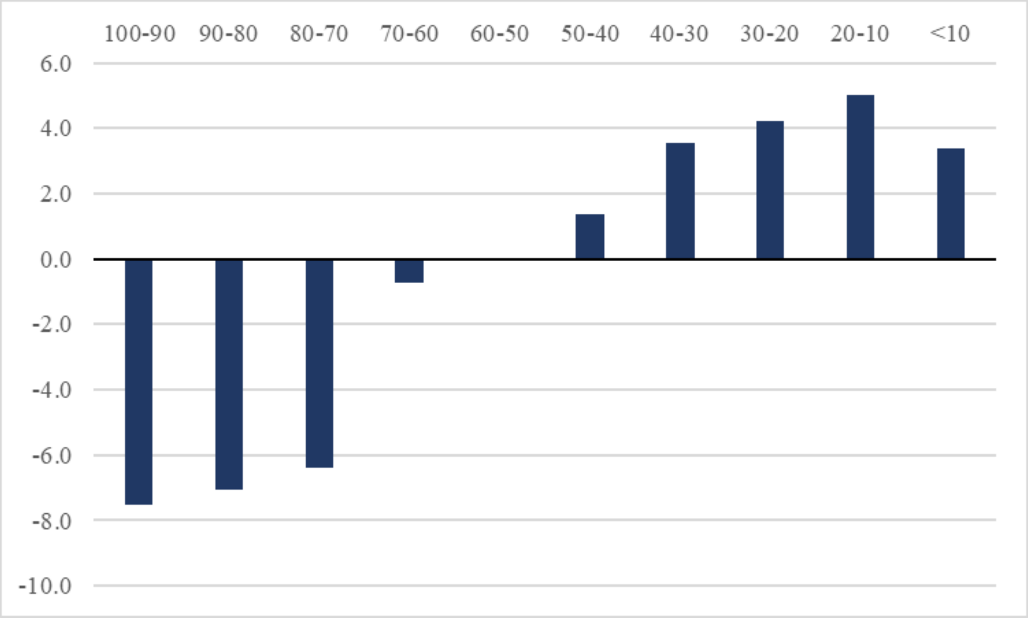
80th Percentile Concentration in Manufacturing (HHI) and Economy-Wide (CR4), 2002-2017



- Decreasing concentration is driven by declines in higher-concentration industries

Is Industrial Concentration Persistent?

Change in Mean Concentration by 2002 CR4 Level for Comparable Industries, 2002 v. 2017



- Concentration trends depend on initial levels
- Concentration falls in higher-concentration industries over time
- Concentration rises in lower-concentration industries over time

Is Industrial Concentration Harmful?

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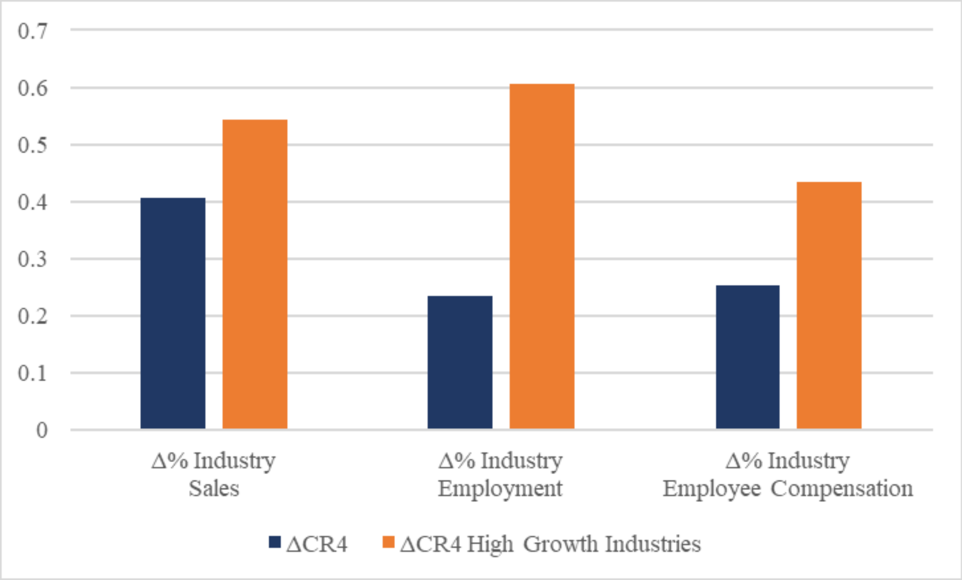
Change in CR4 versus Economic Growth for Comparable Industries, 2002 v. 2017



- Increased concentration is correlated with increased output/employment/employee compensation growth
- Correlations are strongest for “high growth industries” – i.e., industries with growth ≥90th percentile

INDUSTRY SNAPSHOT: RETAIL (1/2)

Change in CR4 Retail v. Non-Retail, 2002-2017

Year	Retail Average	Non-Retail Average	Retail Median	Non-Retail Median
2002	30.9	35.4	23.4	31.9
2007	34.7	37.1	30.9	33.1
2012	34.8	35.3	31.1	31.1
2017	35.5	35.2	31.4	31.7
'02 v. '17	4.6	-0.2	8.1	-0.3
'07 v. '17	0.7	-1.9	0.5	-1.5

- Retail concentration has risen in contrast to the rest of the economy
- Retail concentration increased from lower initial levels
- Retail concentration is now essentially equal to the rest of the economy

Industry Snapshot: Retail (2/2)

- Retail industries selling specialized products have experienced rising industrial concentration due to market competition from generalized retail stores and e-commerce

Top 10 Increases in Concentration for Retail Industries Selling Specialized Products by Change in CR4, 2002-2017

Industry	NAICS	2002	2007	2012	2017	'02 v. '17
Luggage and Leather Goods Stores	448320	49.8	61.1	75.0	81.5	31.7
Sporting Goods Stores	451110	18.1	29.3	32.6	42.9	24.8
Automotive Parts and Accessories Stores	441310	30.7	34.8	45.1	48.9	18.2
Hardware Stores	444130	13.4	19.5	25.9	31.4	18.0
All Other Home Furnishings Stores	442299	39.1	48.8	59.8	56.8	17.7
Pharmacies and Drug Stores	446110	52.8	63.0	69.5	69.4	16.6
Nursery, Garden Center, and Farm Supply Stores	444220	12.1	14.5	21.6	27.8	15.7
Optical Goods Stores	446130	44.1	50.8	57.2	58.6	14.5
Furniture Stores	442110	8.1	13.7	17.3	21.5	13.4
Men's Clothing Stores	448110	27.6	33.0	42.4	40.7	13.1
Gift, Novelty, and Souvenir Stores	453220	12.3	12.4	18.8	25.1	12.8
Floor Covering Stores	442210	2.1	2.9	4.7	13.7	11.6
Food (Health) Supplement Stores	446191	31.1	38.2	45.0	42.1	11.0
Musical Instrument and Supplies Stores	451140	30.2	39.9	41.8	40.6	10.4
Pet and Pet Supplies Stores	453910	55.4	62.1	69.0	65.8	10.4

INDUSTRY SNAPSHOT: TAXI SERVICE

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- Large increases in concentration and output correspond to the entry and growth of online ride-hailing platforms
- Increase in industry concentration corresponds to the unraveling of local taxi monopolies
- Ride-hailing platforms have increased competition, economic efficiency, and consumer welfare (see e.g., Cramer and Krueger 2016; Cohen et al. 2016; Brodeur and Nield 2018)

Industry	NAICS		2002	2007	2012	2017
Taxi Service	485310	CR4	17.6	10.6	11.8	77.2
		Revenue (Billions)	$1.6	$1.8	$2.5	$10.5

CONCLUSIONS

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- There is no general trend towards increasing industrial concentration in the U.S. economy from 2002 to 2017
  - Industrial concentration has been declining since 2007
  - HHI has declined significantly in manufacturing since 2002
  - Economy-wide CR4 in 2017 was approximately the same as in 2002
- The evidence does not support claims that concentration is persistent or harmful
  - Higher-concentration industries tend to become less concentrated while lower-concentration industries tend to become more concentrated over time
  - Increases in industrial concentration are associated with economic growth and job creation particularly for high growth industries
  - Rising industrial concentration may be driven by increasing market competition