Dominant Firms and the Economy

Thomas Philippon

NYU, NBER, CEPR

November 2020
Motivation

- Large firms have played important role in the economy, at least since 19th century.
- Are they becoming relatively more important today?
- In which industries?
- Why?
- What are the welfare implications?
The Rise in US Concentration

Panel A. Cumulative Change in CR8 (%)

Source: U.S. Economic Census for all Businesses. Dashed lines because of changes in industry classification from SIC to NAICS.
Concentration: Good or Bad?

- **Good concentration**
  - low prices, high productivity, intangible investment
  - e.g., retail & wholesale trade

- **Bad concentration**
  - high prices and low productivity
  - e.g., telecoms, airlines, healthcare
An Example of Good Concentration: Walmart
An Example of Bad Concentration: Telecom

Panel A: Telecom

Mark-up and CR8 over years 1990 to 2010.
## Cost of Internet Access, 2018

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Broadband Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>France</td>
<td>$ 31</td>
</tr>
<tr>
<td>43</td>
<td>South Korea</td>
<td>$ 32</td>
</tr>
<tr>
<td>53</td>
<td>Germany</td>
<td>$ 37</td>
</tr>
<tr>
<td></td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>119</td>
<td>US</td>
<td>$ 68</td>
</tr>
</tbody>
</table>
Good Concentration / Bad Concentration

Average scores for PC1 and PC2

Covarrubias et al. (2019)
Technology or Policy

Europe?
Product Market Reforms in Europe

Source: Duval et al. (2018).
Comparison of Telecom Prices in FR vs US

Relative Price of Communication in France

Gutiérrez and Philippon (2018)
Regulation: US vs EU

Source: OECD PMR.
Figure 9. Concentration for Manufacturing vs Services in Europe & North America

Source: OECD. Bajgar et al. (2019)
Markups EU vs US

Change in Mark-ups since 2001

Philippon (2019)
The Missing Trillion Dollar

- Monthly savings per households: $300
- Nationwide annual household direct savings: $600 billion
- General equilibrium impact of returning to competitive markets
  - GDP: $1 trillion
  - Labor Income: $1.25 trillion
  - Profits: -$250 billion
About the Stars

How Do Current Stars Compare to those of the Past?
Footprint of US Stars

Gutiérrez and Philippon (2020)
Footprint of Global Stars

Total Sales of Global Stars over World GDP

Gutiérrez and Philippon (2020)
Winner Takes All?

Median difference in MVE

Gutiérrez and Philippon (2020)
Productivity?

Notes: Excludes Oil industries

Gutiérrez and Philippon (2020)
Fading Stars

Contribution of Top 100 Stars to Labor Productivity Growth

- Hulten
- Realloc
- Total
After Covid

Concentration Post Covid19?
Big Tech at the Top

Top 5 Equity Market Share

- 20.0%
- 15.0%
- 10.0%
- 5.0%
- 0.0%

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1995</th>
<th>2005</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>15.0%</td>
<td>20.0%</td>
</tr>
</tbody>
</table>
Recent Developments

- Beyond Cournot, Bertrand and monopolistic competition. Cavenaile et al. (2020)
- Dynamic M&A. Mermelstein et al. (2020)
- Big data. Farboodi et al. (2019)
- Labor market. Babina et al. (2020)
Barriers to Diffusion and Geographic Polarization

Babina et al. (2020)
Conclusion

The End


Gutiérrez, G. and T. Philippon (2020). Some facts about dominant firms. NBER WP.
