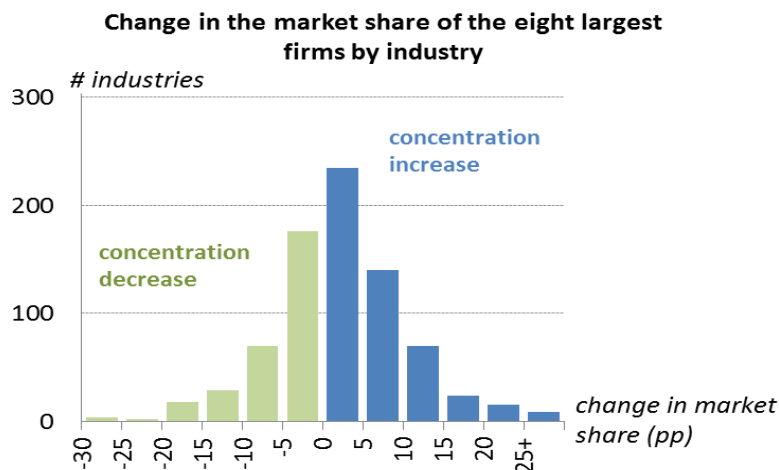


Are monopolies a danger to the United States?

By [Sophie Guilloux-Nefussi](#)

Google, Apple, Facebook and Amazon are giant companies that reflect the more general phenomenon of concentration which is intensifying in most sectors in the United States. This trend is contributing to an increase in the share of profits and to a decrease in the share of labour in domestic income, as well as to a deepening of inequalities. It is also associated with a decline in the creation rate of new firms and jobs, which could in the longer term weigh on US growth.

Chart 1: Change in the concentration ratio between 2002 and 2012



Source: Banque de France based on Census Bureau data compiled by the OECD

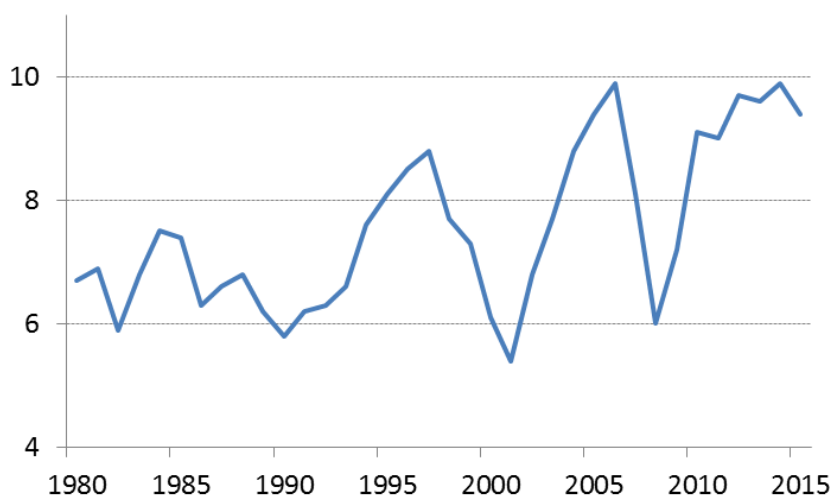
Note: the histograms represent the number of sectors for which the market share of the eight largest companies rose (in blue) or fell (in green) between 2002 and 2012. For example, in over 200 sectors (out of a total of 719), the market share of the eight largest companies recorded an increase in the range of 0 to 5 percentage points between 2002 and 2012.

The concentration of production has risen over the past 20 years in most industries of the US economy. A simple measure of the degree of concentration is the share of total value of shipments accounted for by the largest firms in an industry. In over 60% of the US industries, the cumulative market share of the eight largest firms rose between 2002 and 2012 (Chart 1). This figure reaches almost 70% if we consider the market share of the 50 largest firms. Should US consumers welcome this development which reflects the dynamism of the superstar firms? Or should they be concerned about a possible elimination of competition?

More market power and therefore greater profits for the superstar firms

The concentration of production among superstar firms with large market shares and high profits has resulted in a sharp rise in aggregate profits. From 1980 to 2015, the share of profits in domestic income increased from 6% to almost 10%.

Chart 2: Share of corporate profits in gross domestic income (%)



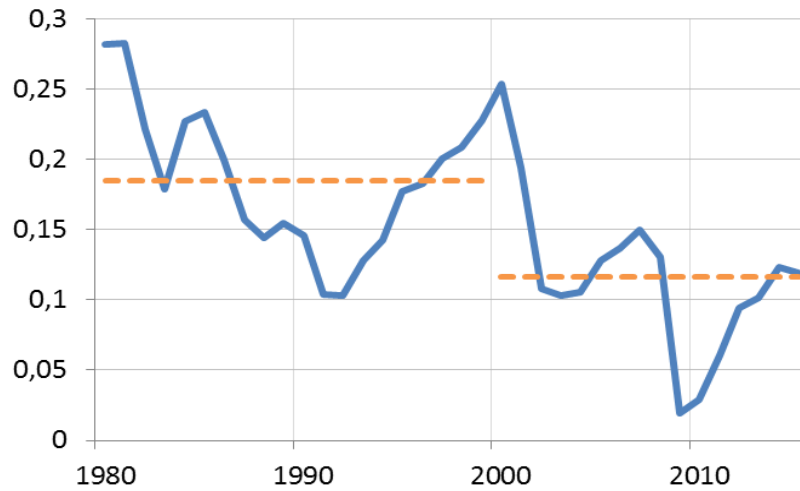
Source: Banque de France based on data from the FRED database (St. Louis Fed)

Note: Gross domestic income (GDI) is conceptually equivalent to GDP but it is measured as the sum of incomes, whereas GDP is the sum of final expenditures. In practice, GDP and GDI may differ slightly because they are constructed using different sources of information, but the orders of magnitude are similar.

This rise in aggregate profits can mainly be attributed to the jump in the profits of the largest firms. A report by the Council of Economic Advisers ([Furman and Orszag, 2015](#)) shows that 10% of the most profitable non-financial publicly traded firms have returns on invested capital, measured by the profit to capital ratio, of over 100%, or five times higher than those of the median firm (20%). This ratio has doubled in 20 years for the top 10% whereas it has remained relatively unchanged for the median firm.

If these firms hold a dominant position in their market, they enjoy monopoly rents and have little incentive to invest in order to increase their productive capacities. This behaviour could explain the weakness of investment in recent years, despite the high rates of return on capital. Net investment to net operating profit ratio of non-financial business declined from 19% on average over the 1980-2000 period to 12% since 2000 (Chart 3). [Gutiérrez and Philippon \(2017\)](#) show that this fall can primarily be explained by the behaviour of industry leaders (i.e. those with the highest market value).

Chart 3: Net investment to net operating profit ratio

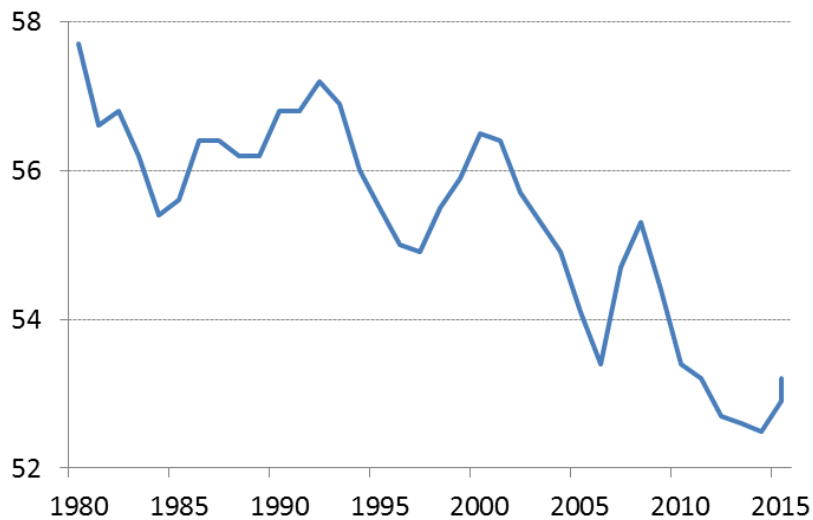


Source: Banque de France based on data from the FRED database (St. Louis Fed)

Note: the dotted line represents the average before and after 2000.

Greater inequalities for workers

Chart 4: Compensation of employees in gross domestic income (%)



Source: Banque de France based on data from the FRED database (St. Louis Fed)

Note: see Chart 2 for the definition of gross domestic income.

In contrast to the increase in the share of profits in domestic income, the share of employee compensation declined significantly over the same period. At the sector level, the best performing

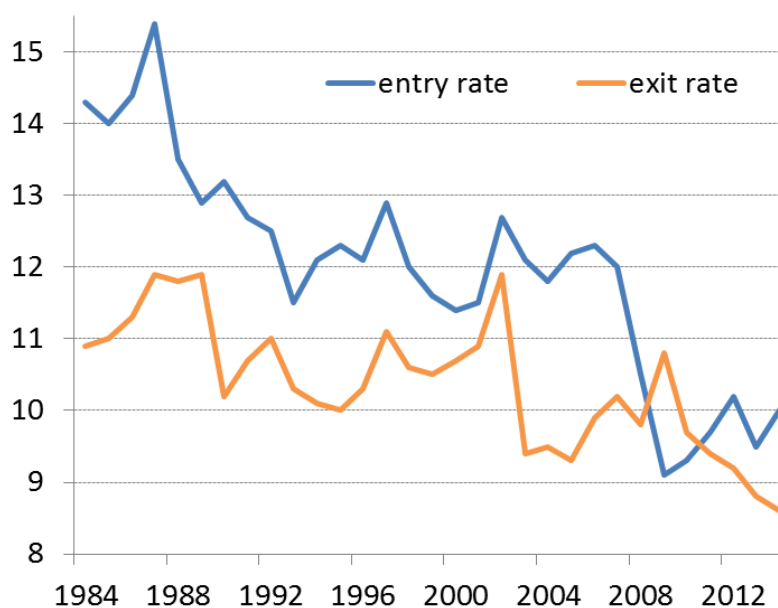
companies are also generally the least labour intensive. The concentration of output among a few large firms may therefore explain the decline of wages in GDP (see [Autor et al., 2016](#)).

Workers' share in total domestic income fell, and their wage differentials increased. [Song et al. \(2016\)](#) find that two-thirds of wage inequality growth over the past 20 years in the United States can be ascribed to a rising dispersion in between-firm earnings, while only one-third is due to the within-firm dispersion.

The causes of this concentration are unsettled

Some believe that this concentration can be attributed to the technology transformation which favours industry leaders, often presented as a winner-takes-all effect. For example, productivity gains from digital technology could raise large firms' relative efficiency. Nevertheless, these gains appear to have slowed down since 2005 ([Cette, Fernald and Mojon, 2016](#)). Others point to network effects in particular. Globalisation could also promote the selection of the most productive firms via the destruction of the weakest through heightened competition (see [Guilloux-Nefussi, 2016](#)).

Chart 5: Entry and exit rates of US firms (%)



Source: Banque de France based on Census Bureau data

But other studies favour a more pessimistic scenario and attribute this increase in concentration to greater barriers to entry. The rise in profits and decline in investment seem to corroborate this latter assumption. [Grullon et al. \(2016\)](#) stress the lax enforcement of antitrust regulations by government agencies in recent years. The decline in the entry rate of new firms (see Chart 5), which is much more marked than the fall in the exit rate, also seem to indicate a lower market contestability. This trend is accompanied by a fall in the new job creation rate over the same period (from 20% to 14%). In this context, concentration could weigh on US growth in the long term.

Monopoly rents: good or bad for the US economy?

In theory, a firm can only dominate a market temporarily before its position is challenged by a new competitor. Enjoying a monopoly rent thanks to the creation of a new product is a fair compensation for past investment (in R&D for example). In this Schumpeterian framework, temporary monopoly rents are essential for innovation and long-term growth.

However, [Zingales \(2017\)](#) argues that investment can be misused to create barriers to entry, by using these resources to finance lobbying for example. The fact that the most profitable firms invest relatively little may corroborate this theory. Buying emerging startups to reduce competition is another example of the misuse of productive investment to maintain monopoly rents.

In order to measure the impact of these monopolies on the US economy, we need to better understand the causes of this concentration and the degree of contestability that these superstar firms really face.