COMPETITION AND CONCENTRATION: an unclear connection

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Concentration is a poor measure of competition, because large businesses can be better for consumers than small ones. And concentration isn’t even rising in the ways that would matter.

The Debate:

Concentration measures the size and number of businesses competing in a market, and is sometimes used as a barometer of competition. Measures of concentration nationally show that in many markets it has been rising, which some point to this as evidence of falling competition.

But... concentration has generally been falling in local markets, and inferring anticompetitive effects from market structure can be misleading. Large businesses with economies of scale can offer cheaper products and spread new technology more rapidly, for the benefit of consumers.

KEY TAKEAWAYS

AS CONCENTRATION HAS BEEN RISING NATIONALLY, IT HAS BEEN FALLING LOCALLY.

Competition usually takes place in local markets: it hardly matters to a shopper in Portland, OR, that there may be fewer grocery store chains nationally if she has more stores to choose from within a short walk or drive from her home.

THIS IS BEING DRIVEN BY FIRMS GROWING AT THE NATIONAL LEVEL TO COMPETE WITH EACH OTHER MORE INTENSELY AT THE LOCAL LEVEL.

More large chains are competing in towns that previously only had a handful of smaller retailers, for example. New technology is the driving factor here and has enabled large firms to expand production over a larger number of establishments in more places.

IN MARKETS WHERE CONCENTRATION HAS BEEN RISING, IT HAS USUALLY BEEN DRIVEN BY TECHNOLOGICAL FACTORS.

Digitization makes it more efficient for a smaller number of larger firms to operate than a large number of small firms, for example by allowing a productive firm to expand out of its home area thanks to better communication and advertising tools. These industries have seen more output and productivity growth and lower prices, the opposite of what would be expected if the problem was less competition.
EMPLOYMENT MARKETS ARE ALSO BECOMING LESS CONCENTRATED FOR MOST AMERICANS.

78 percent of American workers live in areas where local employment markets are becoming less concentrated.

RISING CONCENTRATION IS UNLIKELY TO BE THE CAUSE OF LABOR INCOME FALLING AS A SHARE OF TOTAL NATIONAL INCOME.

There is no relationship between the share of workers employed by a few concentrated employers and the profits made by those companies.

For a fuller explanation of these and related issues, see Geoffrey Manne’s recent submission to the U.S. House of Representatives Committee on the Judiciary, Subcommittee on Antitrust, Commercial, and Administrative Law, “Correcting Common Misperceptions About the State of Antitrust Law and Enforcement.”