Don't believe the 'monopoly' hype

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Public policy debates too often are driven by groupthink. An appealing idea surfaces, and – through intellectual contagion – it rapidly goes viral until it hardens into conventional wisdom, even if it's wrong. Case in point: the current panic around the supposed growth of "monopolies" in the U.S. economy, which will be the focus of both a Senate Judiciary subcommittee hearing next week and a House Judiciary antitrust subcommittee hearing next week.

The seed of this monopoly panic first took root thanks to the efforts of a few activist scholars in places like the New America Foundation's Open Markets program. It then went viral, most notably in the summer of 2016 when Sen. Elizabeth Warren (D-Mass.) addressed the group, asserting, "Today, in America, competition is dying. Consolidation and concentration are on the rise in sector after sector."

Fast forward to the past few weeks: New York Times columnist David Leonhardt writes that we live in an era of "corporate behemoths" and their rise has been "bad for almost everyone." The Economist says monopolization has gotten so bad that "A revolution is indeed needed — one that unleashes competition." And Columbia Professor Tim Wu, in his new book *The Curse of Bigness*, argues not only that monopolization has grown, but that it is threatening democracy itself.

But it would be good for everyone to take a deep breath and consider the empirical evidence, because it shows that this panic is vastly overstated.

Start with the core measures of industrial concentration that economists call "C4" and "C8" ratios, meaning the share of output in a particular industry that is held by the top four or eight firms. On the face of it, the trend lines make it appear that we have a problem. Between 2002 and 2012 (the last year for which data are available from the Census Bureau), there were C4 increases in 59 percent of the 792 industries that the government tracks.

On closer inspection, though, it becomes clear that the lion's share of those industries saw only modest increases — and most from very low levels of concentration to slightly higher, but still low levels. For example, the C4 ratio in the beer, wine, and liquor industry increased by 22 percent, which sounds like a lot, but it was because the top four firms went from accounting for 8.3 percent of sales to 10.1 percent, hardly cause for alarm.

Likewise, the C4 ratio for the custom computer programming industry went up a whopping 187 percent in the same period — but that was from a paltry 4.1 percent to a still-modest 11.8 percent. In fact, fewer than 18 percent of industries with C4 increases in those years had ratios higher than 50 percent as of 2012. (In other words, each firm had an average of just 12.5 percent of the market.) And many of those industries have either small markets or natural economies of scale that preclude atomized industry structures. Think: armored car services, guided missiles, truck-trailer manufacturing, and wet corn milling.

Moreover, most markets are local, so national concentration measures obscure more important trends toward healthy competition where it really matters. In fact, a recent study by economists from Princeton and the Federal Reserve Bank found that while market concentration increased nationally between 1990 and 2014, local market concentration actually declined. That's because when a leading

national firm like Target, Starbucks, or Chipotle opens a local store, local competition benefiting consumers usually increases.

The study's authors write that their findings could help reconcile the fact that concentration has been increasing at the national level while the evidence on price markups and corporate profits — the traditional signs of monopoly — has been decidedly mixed. Indeed, the average U.S. corporate profit rate was higher in 1966 than it was from 2015 through the third quarter of 2016 (13.6 percent versus 13.3 percent, respectively).

But what about the industries like airlines and Internet services, which everyone agrees have gotten more concentrated. Hasn't this hurt consumers? No. In fact, thanks to airline mergers, the industry's productivity increased almost four times faster between 1997 and 2014 than the rest of the economy — and that's why airline prices increased only about half as fast as inflation in about the same period.

As for Internet services like search, social media, and email, most consumers enjoy them for free, because the companies make their money on advertising — a market where Google and Facebook together hold only a 25 percent share.

As the anti-monopoly idea virus has spread, some policymakers and opinion leaders have called for the big stick of antitrust enforcement. But breaking up big firms would lower the quality of jobs in the economy and cause a host of other harms. As Michael Lind and I show in our book *Big Is Beautiful: Rebutting the Myth of Small Business*, large firms outperform small firms on virtually every economic and social indicator: They pay their workers more, and provide more and better benefits. They injure and lay off their workers less frequently and invest more to train them. Large companies are more diverse, employing higher shares of women, minorities, and veterans than small companies. And in contrast to the prevailing narrative that small companies are the engines of job creation in America, big companies actually create more net new jobs than small companies do, because small companies are more likely to go out of business.

None of this is to say that competition authorities should not be vigilant against anticompetitive conduct. But that is very different from aggressively attacking and breaking up big companies whose only sin has been to get big by providing consumers with goods and services they want at competitive prices.

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