

Macro Roundup Article

Headline: Trends in Competition in the United States: What Does the Evidence Show?

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Tweet: .@CarlShapiro finds that empirical evidence does not show a widespread decline in US competition and that “observed changes are likely to reflect competition in action.” For example, rising corporate profits % of GDP result from rising foreign earnings.

Summary: Concentration metrics have no chance of being informative regarding product-market power. The ratio of price to marginal cost is a far more direct and meaningful measure of market power than market concentration. The left-hand panel of Figure 1 shows corporate accounting profits before tax as a share of GDP. Corporate profits averaged 9.0% of GDP during the 1970s, 7.7% during the 1980s, and 8.6% during the 1990s, then rose to 9.8% during the 2000s and 11.9% during the 2010s. A significant portion of the rise in corporate profits as a share of GDP is attributable to the foreign operations of U.S. firms, as shown in the right-hand panel of Figure 1. [If] U.S. antitrust policy was too lax over the past 40 years, one would expect to see a significant increase in domestic profits relative to GDP. But the time series of domestic profits over that time period is significantly flatter than the time series of total profits. The increase in the income/GDP earned on foreign operations by U.S. firms is likely driven by factors such as lower trade barriers, lower transportation costs, greater value abroad of the intellectual property owned by U.S. firms, and increased trade in services.

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Primary Topic: Cronyism

Topics: Academic paper, Cronyism, GDP, Growth, Weekly

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