Abstract

A recent series of academic studies, think-tank reports, and news articles have brought widespread attention to rising industrial concentration and market power in the U.S. economy. In this paper, we focus on concentration in the U.S. nonfinancial corporate sector to make three contributions to this literature. First, we trace the theoretical origins of the debate on industrial concentration, and show that there is a certain degree of ambiguity surrounding the expected consequences of concentration and monopolization for nonfinancial firms. Second, we use industry-level concentration data to describe recent trends in average concentration. We show that, while concentration increases across the majority of U.S. industries after the late 1990s, the retail and information-services sectors are particularly key for understanding recent trends in average industrial concentration. Third, we link our industry-level analysis with firm-level data to describe the relationship between industrial concentration and nonfinancial corporations' profitability, markups, and investment. Consistent with the ambiguities in the theoretical literature, we find that these relationships are not uniform: while some highly-concentrated industries confirm standard expectations with high markups, high profitability, and low investment rates, other highly-concentrated industries earn lower-than-average markups and profits, suggesting that – in some industries – increased concentration and intensified competition may go hand in hand.