Entry, Exit and Concentration

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Analytical Framework

- The distribution of firms in an industry depends on
 - entry
 - exit
 - growth of existing firms
- · Each of these three margins is affected by
 - technology
 - regulations
 - strategic behavior

Analytical Framework

Entry condition

$E[V \mid entry] > \kappa$

- entry cost κ
 - upfront investment, licensing, regulatory costs, etc.
 - National or subnational: Schiffbauer et al. (2022)
- network effects
 - *E*[*V* | *entry*] may be low if starting from small network; customer acquisition costs.
- post-entry game
 - predatory behavior: *E*[*V* | *entry*] is low if incumbents build reputation for fighting potential entrant. does it work? Syverson (2023)

Analytical Framework

Entry condition

 $E[V \mid entry] > \kappa$

- entry can disrupt collusion: Starc and Wollmann (2022), but easier when κ small
- entry is facilitated by
 - geographic expansion of national firms: Hsieh and Rossi-Hansberg (2019)
 - international trade

Analytical Framework

Exit

- technological obsolescence
- entry of competitors (trade, national firms), competitive selection
- mergers
 - acquisition to prevent entry: Cunningham et al. (2019)
 - synergies, shake out, markups: Igami and Uetake (2020)
 - pre-merger notifications and stealth consolidation: Wollmann (2019)

Concentration : Good or Bad?

Concentration

- entry + exit + continuing firms dynamics
- Good concentration
 - low prices, high productivity, intangible investment
 - e.g, US retail & wholesale trade
- Bad concentration
 - high prices and low productivity
 - e.g., US telecoms, airlines, healthcare

An Example of Good Concentration: Walmart



An Example of Bad Concentration: Telecom



Cost of Internet Access, 2018

Rank	Country	Broadband Cost
40	France	\$ 31
43	South Korea	\$ 32
53	Germany	\$ 37
119	US	\$ 68

The Rise in US Concentration



Source: U.S. Economic Census for all Businesses. Dashed lines because of changes in industry classification from SIC to NAICS.

High Import Manufacturing Industries



China Shock



Decreasing Turnover (1/2)



Decreasing Turnover (2/2)



Philippon (2019)

Failure of Free Entry



Elasticity of Number of Firms to *Q* Across U.S. Industries. Gutiérrez and Philippon (2019)

Technology or Policy

Europe?

Product Market Reforms in Europe



Source: Duval et al. (2018).

Impact of Entry: Telecom Prices in FR vs US



Gutiérrez and Philippon (2018)



About Europe

- · Concentration may be up, but less than in the US
- Interpretation
 - Single Market Integration
 - Bighelli et al. (2021)

About the Stars

How Do Current Stars Compare to those of the Past?

Footprint of Global Stars



Gutiérrez and Philippon (2020)

Fading Stars



Winner Takes All?



Gutiérrez and Philippon (2020)

Thoughts for the Future

- AI and Energy: two industries likely to shape the future of competition and growth
- AI & Chat GPT
 - upside? the next big thing?
 - avoid repeating mistakes made with internet platforms in 2010s



Thoughts for the Future

- AI and Energy: two industries likely to shape the future of competition and growth
- Energy
 - Downside?
 - green transition & supply disruptions
 - Fabra (2022): regulation of EU electricity market



The End

US VS EU Concentration

Figure 9. Concentration for Manufacturing vs Services in Europe & North America



Source: OECD. Bajgar et al. (2019)

Regulation: US vs EU



Source: OECD PMR.

Markups EU vs US



Philippon (2019)

The Missing Trillion Dollar

- Monthly savings per households: \$300
- Nationwide annual household direct savings: \$600 billion
- General equilibrium impact of returning to competitive markets
 - GDP: \$1 trillion
 - Labor Income: \$1.25 trillion
 - Profits: -\$250 billion

Footprint of US Stars



Gutiérrez and Philippon (2020)

Productivity?



Notes: Excludes Oil industries

Gutiérrez and Philippon (2020)

Additive Growth



Source: Philippon (2022)

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