Most product markets are local. This is because the transportation of goods and people is costly, so firms set up production plants, distribution centers, and stores close to customers. A coffee shop or restaurant in Manhattan does not compete with similar establishments in Seattle, and probably not even in Brooklyn. The wedge in prices or costs created by the inconvenience of buying a product far away from the desired consumption point shields companies in different locations from direct competition. Of course, the size of these costs, and therefore the geographic extent of the market, varies by product. Markets are also product-specific. Producers of a particular product are shielded from competition by producers of distinct but related goods and services to the degree that their consumption requires households to move away from their ideal variety.

Much has been written recently about the increase in national market concentration observed over the last two decades and the role that large national firms have played in driving this trend. The evidence for the rise in concentration is uncontroversial; the share of the largest firms and the Herfindahl-Hirschman Index, among other measures of concentration, have increased consistently in most sectors since 1990. A narrative has emerged whereby this increase in national concentration is perceived as the cause of lower product-market competition. This fall in competition is then viewed as the culprit of other apparent trends, such as rising markups and market power, the increasing profits of large firms, declining labor market dynamism and firm entry, and a declining labor share. All these trends—and particularly those related to concentration, markups, and profits—point to the notion that market power has been increasing. While the empirical robustness and validity of some of these trends have been contested in recent work, the rise in national market concentration remains their main empirical foundation.

We document four main facts regarding national and local product-market concentration in the U.S. economy between
Our findings challenge the view that product-market concentration is increasing in the United States. They do so not by challenging the evidence that national concentration has increased—we actually provide additional evidence for that effect across many industries—but by observing that this national trend does not imply a positive local trend in concentration. In fact, we show that it implies the opposite in most industries: a declining trend in concentration. Consistent with this national trend does not imply a positive local trend in concentration. Consistent with this national trend does not imply a positive local trend in concentration. Consistent with this national trend does not imply a positive local trend in concentration.

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of industries, concentration is likely more relevant to firm pricing and other strategic behavior at the local level. Our findings are also consistent with the mixed evidence found in recent literature regarding secular changes in markups across individual industries. If local competition matters, we should not see increases in markups or profits in the markets where local competition is increasing. The measurement of markups in local markets associated with particular industries depends on important assumptions and requires very detailed data. The NETS data does not allow us to calculate these local statistics, but there exists evidence of flat markups over time in specific industries with declining concentration and in the aggregate.

The facts we document are directly relevant to the design of antitrust policy and other policies that can prevent successful firms from growing at the national level. We document heterogenous trends across industries, and in some industries, concentration is clearly rising both at the national and local level. However, our results should provide pause for policymakers who worry about increases in market power. In most industries, large firms are lowering local concentration, and therefore most likely increasing product market competition. Carl Shapiro, a former deputy assistant attorney general at the Antitrust Division of the Department of Justice and member of the Council of Economic Advisers under Barack Obama, makes a similar argument. Discussing evidence of the positive trend in national market concentration, he observes: “So, while these data do reflect the fact that large, national firms have captured an increasing share of overall revenue during the past 20 years in many of these 893 ‘industries,’ they do not, in and of themselves, indicate that the relevant local markets have become more concentrated.”

We provide empirical evidence supporting the notion that, in the face of rising national concentration, local markets have indeed become, on average, significantly less concentrated.

NOTE: