

Corporate Dynamism:
Competition, Winner-Takes-All,
and Intangible Capital

Thomas Philippon

NYU

Mapping the Controversy

Concepts

Competition in the market

- Search/trade costs
- Regulations
- Antitrust

Competition for the market

- Barriers to entry
- Financial frictions
- Network effects
- Returns to scale

Empirical Proxies

Income

- Price / variable cost
- Profits
- Market value

Demography

- Concentration
- Entry, Exit, Growth
- Turnover

Investment

- Tangible
- Intangible

Mapping the Controversy

Concepts

Competition in the market

- Search/trade costs ?
- Regulations ?
- Antitrust ?

Competition for the market

- Barriers to entry ??
- Financial frictions
- Network effects ?
- Returns to scale ?

Empirical Proxies

Income

- ~~Price / variable cost~~
- Profits
- Market value

Demography

- Concentration
- Entry, Exit, Growth
- Turnover

Investment

- Tangible
- Intangible ?

Key Equations

- Optimal pricing

$$\textit{Markup} = F(\textit{Dem. Elas.} , \# \textit{Compet} , \textit{Pot. Entry} , \\ \textit{Adj. Costs} , \textit{Strategic})$$

- Entry condition

$$\textit{Entry Cost} \geq \textit{NPV}(\textit{Profits} \mid \textit{Entry})$$

- Fundamental ambiguity of concentration

– If *Entry Cost* ↑ , *Concentration* ↑ , *Competition* ↓

– But if *Dem Elas* ↑ , *Competition* & *Concentration* both ↑

Prediction of Key Theories

All these theories are consistent with concentration

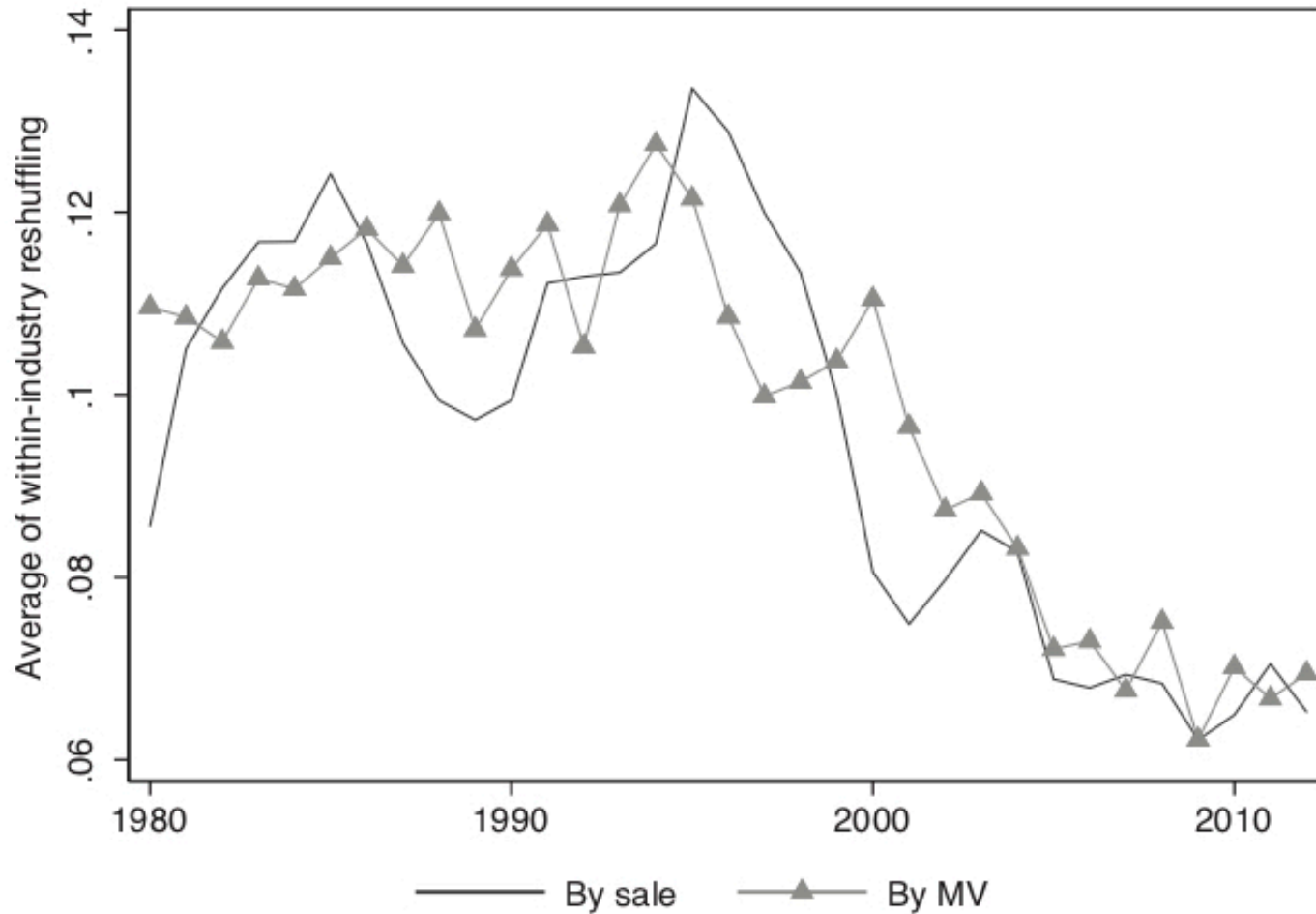
Theory	Size	Gap	Growth	Realloc	
IRS due to INTAN	+	+?	+	?	Crouzet & Eberly, Aghion & al., DeRidder, Bessen
Regul. & Antitrust	+?	?	-	-	Gutierrez & Philippon
Demand elas.	+	+	+	+	Autor & al.
Declining Diffusion	?	+	-	-	Criscuolo & al., Akcigit & Ates, Haltiwanger et al.
DATA	?	0 top	-	?	

Changes in Policy Regulation & Antitrust

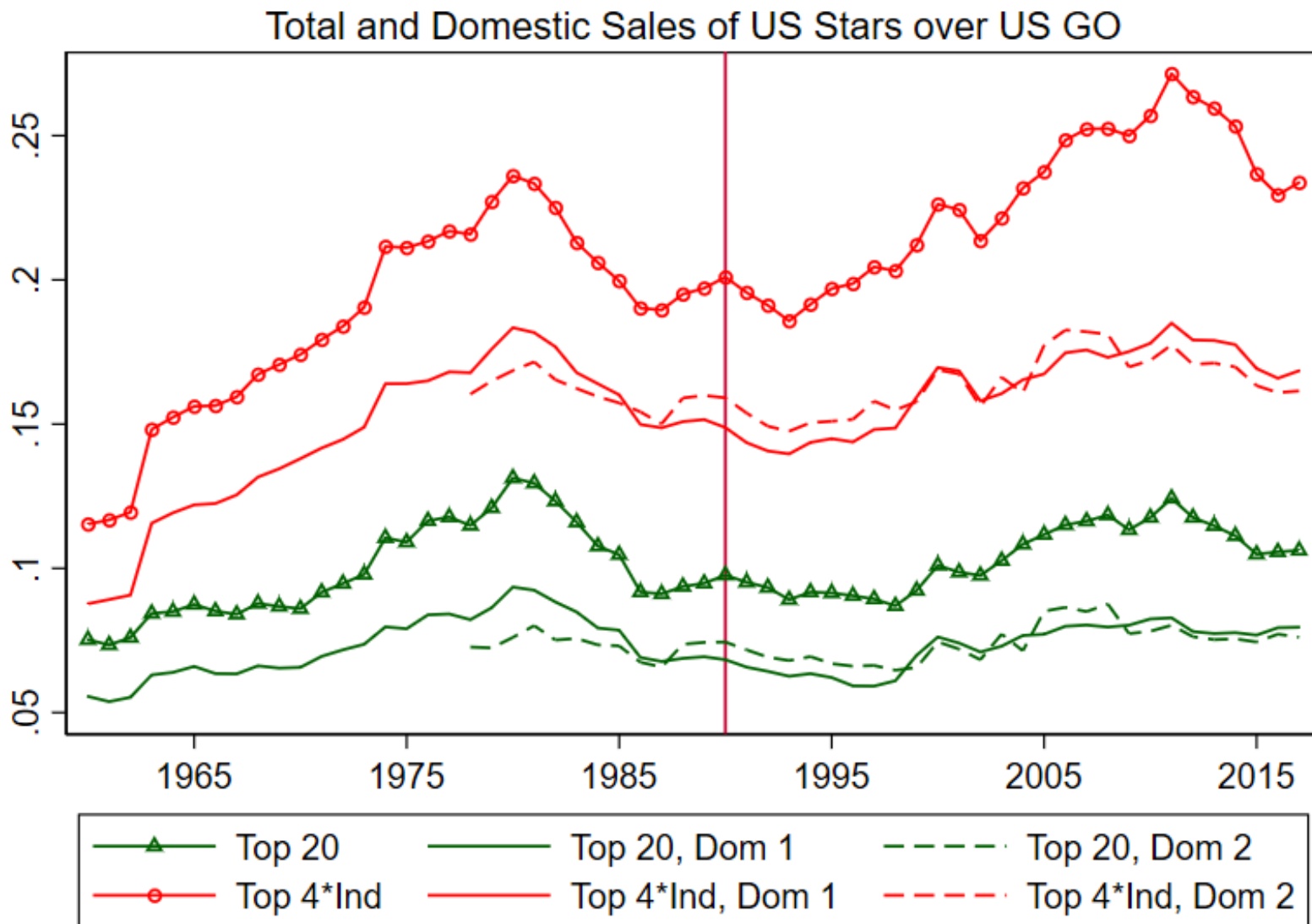
Cost of Broadband Internet Access, 2018

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

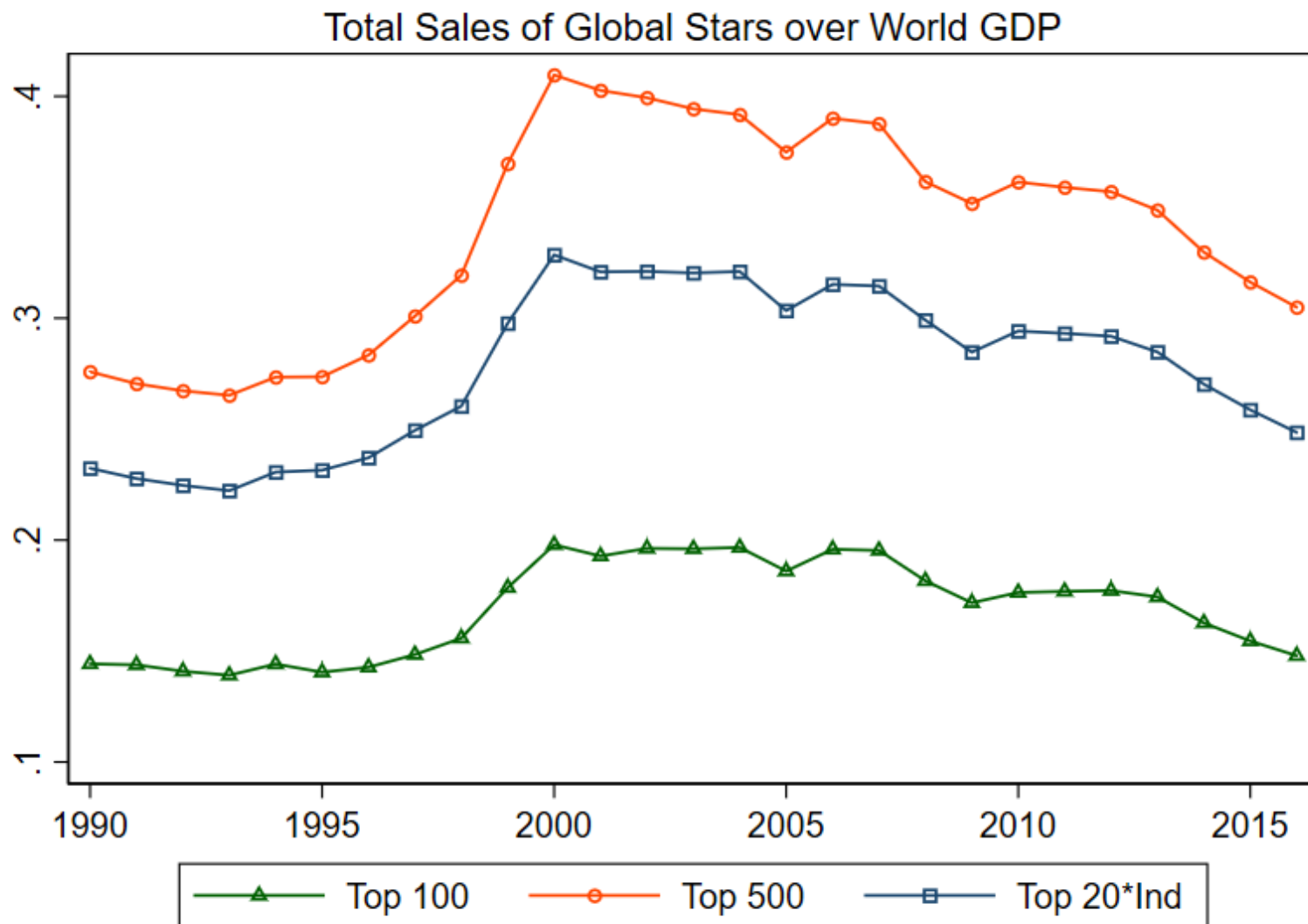
Challenge for Dem. Elas. : Turnover has declined — (Haltiwanger, Bessen, Bennett)



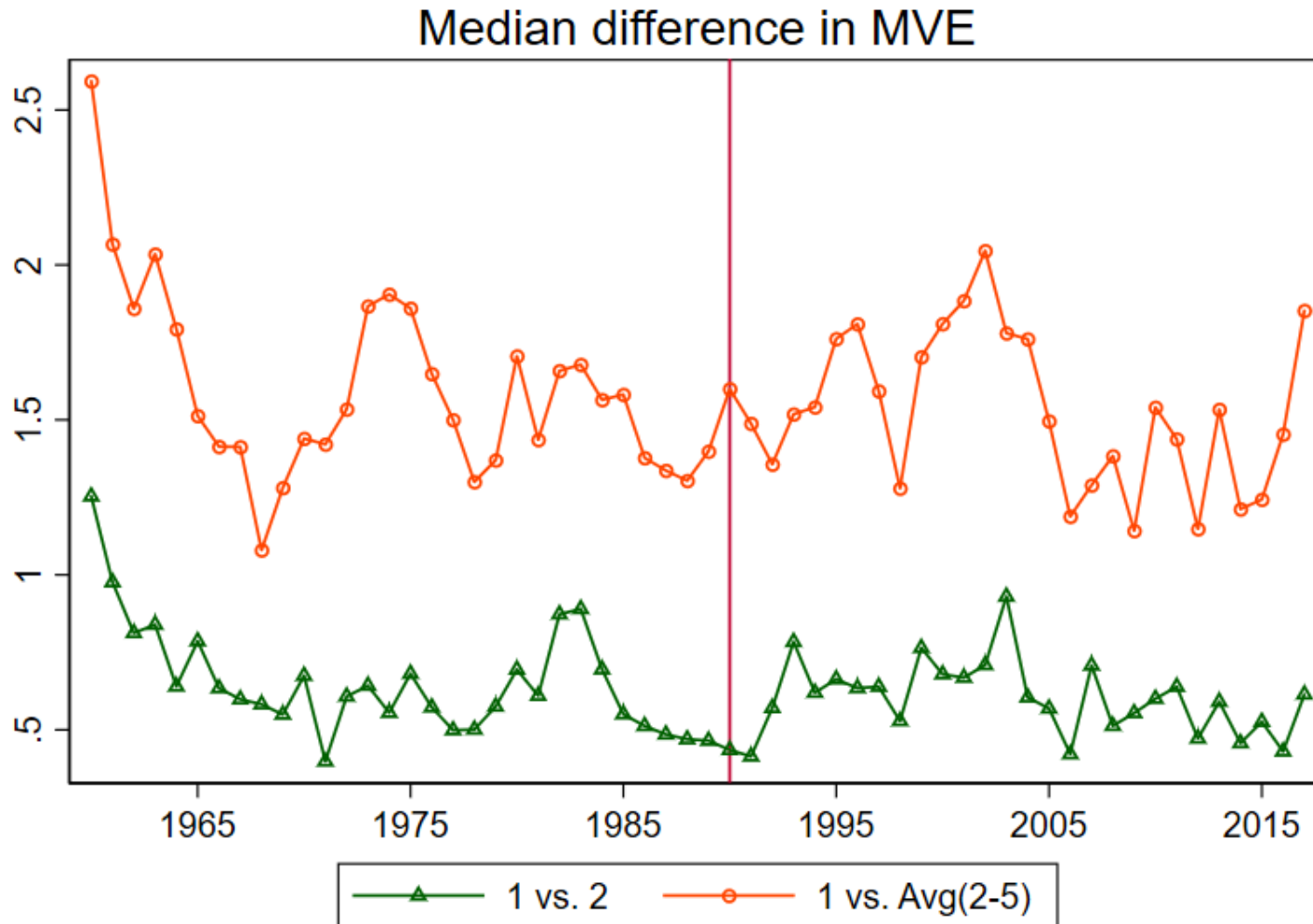
Challenge for IRS / INTAN: Growth of large firms is all because of trade



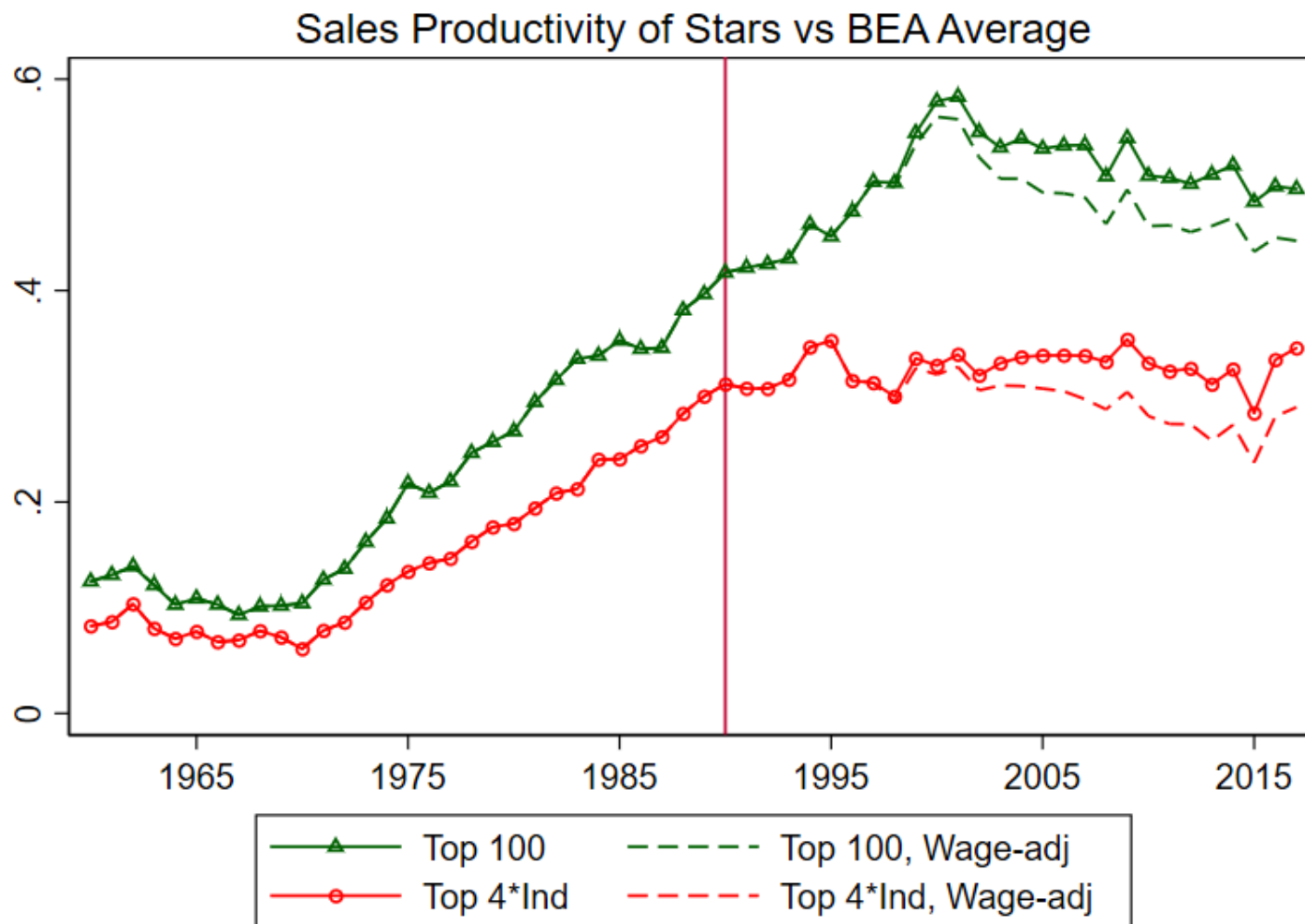
Challenge for IRS / INTAN: Growth of large firms is all because of trade



Challenge for Diffusion: GAP has not increased at the top



Challenge for INTAN: Productivity has not increased at the top



My View

- Regulatory capture / political economy
 - Positive evolution in EU
 - Negative evolution in US
- INTAN as inferior form of capital
 - Baumol disease in K. Gordon's skepticism
 - Comp. advantage of large incumbents (Bajgar- Criscuolo-Timmis)
 - INTAN also creates barriers to entry and diffusion (Bessen) + key talent (labor adj cost)

Extra: Post COVID

- In *The Great Reversal*, I show that since the 1970s, the top 5 firms have accounted for about 10% of the total market value of US corporations
- IBM, GE, Walmart, Exxon...
- Post-COVID, however the dominance of MAAAF has increased sharply to levels not seen in many decades

