

Who Controls What in the U.S. Economy?

*By Timothy Hannan**

In recent months, three giant companies—DuPont, Seagram, and Mobil—engaged in a much publicized bidding war for control of Conoco, Inc., the nation's ninth largest oil concern. The action got so fast and furious at one point that a prominent banker dubbed it a "feeding frenzy." While the fierce bidding battle for Conoco made most of the headlines, other large corporations also appeared to be zeroing in on still other acquisition targets. Understandably, this new urge to merge has caused thoughtful people to reflect on the meaning of it all and to make one more attempt at sorting out the implications for the future.

Will a few large corporations eventually control most of the economic activity in the United States? This question is not a new

one. It has preoccupied economists and social critics since the days of Marx, and concern over the issue has continued to this day.

Some studies have presented data which seem to show aggregate concentration—the percentage of some national economic measure controlled by the leading companies in the nation—increasing rapidly over time. Such findings are alarming to the public and to policymakers, and understandably so. In the late 1970s, for example, when the economy appeared to be experiencing an earlier wave of mergers among large companies, the resulting concern over aggregate concentration may well have occasioned the legislation that was introduced then to limit large conglomerate mergers.

How solid are the findings upon which such concerns are based? The most recent evidence suggests that the dire predictions may be misleading. Many of these predictions are based on data that pertain to only a small portion of the economy, and

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many studies either employ data which make things appear worse than they really are or use perfectly sound data in questionable ways. Although fragmentary, the best evidence available suggests that aggregate concentration has not been increasing in recent years and even may have declined somewhat.

SOUNDING THE ALARM

Many Americans prefer to think of their economy as a system characterized mainly by competition. In competitive markets, prospective buyers and sellers are able to come together and agree on terms for transferring goods and services. Most people agree that an economic system in which markets are truly competitive is the most efficient system and provides the greatest possible economic benefit to all participants.

Markets can become noncompetitive, however, if the number of buyers and sellers is restricted. One source of this noncompetitiveness (there are others) is the tendency of firms that are in the same business to merge. Noncompetitiveness results if a few big firms in an industry, or in the extreme case a single firm, can be influential enough in the market to set prices above competitive levels. Concentration of an industry along these lines can localize economic power in a very small part of the market.

Above and beyond concentration within industries, however, concentration across industries conceivably could carry with it enormous political power as well as economic clout. The issue here is not merely the drift toward monopoly that can produce misallocation of resources, serious as that might be. When control of several large or key industries is concentrated in a few firms, the people who direct them may be able to play a dominant political role in the national society, operating in a dimension wholly different from that of the single-industry monopolist. Some observers believe that the U.S. already has begun to head down the road toward such aggregate economic concentration and

the narrow distribution of political power that goes with it.

One of the first to warn of the dire consequences of aggregate concentration was Gardner Means. In his now classic study, Means estimated that the 100 largest manufacturing corporations in the U.S. controlled about 40 percent of manufacturing assets in 1929, 44 percent in 1933, and 49 percent in 1962.¹ Means did not continue his study for later years, but references in the popular press sometimes suggest that the trend he reported is continuing unabated.

A study that would seem to support the picture of progressive concentration in more recent years was conducted recently by W. M. Leonard. He reports that the 200 largest manufacturing firms in the U.S. had 39.5 percent of total manufacturing employment in 1955, 48.4 percent in 1965, and 60.7 percent in 1974—a disturbing trend indeed.²

No wonder, then, that policymakers and public alike have become concerned about aggregate concentration and that economists have taken greater pains to measure it.

AGGREGATE CONCENTRATION: OF WHAT AND FOR WHICH SECTORS?

Basic to measuring aggregate concentration is deciding what to measure, but this is not as simple a matter as it might seem. Any of a number of different indicators of economic activity could be considered. And once one is chosen, a decision still must be made about where to apply it. A study has to be based on appropriate choices of measures and sectors if it's going to yield reliable results.

Choosing a Measure. 'Aggregate concen-

¹Testimony in U.S. Senate, Committee on the Judiciary, Subcommittee on Antitrust and Monopoly, Hearings, Economic Concentration, Part I, Washington, U.S. Government Printing Office, 1964, pp. 15-19, pp. 281-324.

²W. M. Leonard, "Mergers, Industrial Concentration, and Antitrust Policy," *Journal of Economic Issues* 10 (June 1976), pp. 354-382.

tration' refers to the share of economic activity controlled by the nation's largest firms. There are several different ways to measure this share. One alternative is to look at the percentage of the workforce employed by these firms. Another is to count up the assets these firms command. Sales, profits, and value added—the value of goods completed minus the cost of materials purchased from others—are still other measures that might be examined.

Picking one measure rather than another may influence significantly the findings that a study reports. Consider, for example, how the results of focusing on share of employment at large firms will differ from those of a share-of-assets approach. Since large firms tend to exhibit higher levels of capital per employee than do smaller firms, the share of total assets controlled by, say, the top 100 firms in the economy will be much larger than those firms' share of total employment. While the use of asset data could produce an overestimate of the economic power of large firms, use of employment data could make for an underestimate. These measures may present equally distorted pictures of where power lies at a given time or where it is trending over time.

Which is most appropriate to use in tracing aggregate concentration over time? When people speak of aggregate concentration, they usually are concerned with the concentration of political and social power in the hands of a small group. So at least conceptually, the measure of economic activity which is most indicative of political or social power is the one that ought to be used. While there's very little evidence to indicate what measure of economic activity is aligned most closely with political or social power, firm value added appears to be the best candidate for such a measure, since it incorporates the contributions of both labor and capital. Studies based on other measures of economic activity probably stand on somewhat more shaky ground.

What Should Be Measured? Once the choice of a measure is made, using it would seem to be a fairly straightforward exercise. In fact, though, it doesn't work out that way, because the U.S. economy is made up of a host of sectors and industries, each with its own peculiarities. Some are larger than others. Data are available for some but not for others, and what data are available in one area may not be comparable to data available elsewhere. The recent increase in international transactions by U.S. firms raises issues of its own. Thus there are pitfalls to avoid even after a measure of economic activity has been chosen.

Suppose, for example, that over time the largest manufacturing firms increase their share of the manufacturing sector, while the largest firms in the service sector experience a relative decline. A study of aggregate concentration which includes the manufacturing sector and excludes the service sector may find an alarming increase in the share of the economy controlled by the largest firms, while a study which includes only the service sector may end with a much more soothing conclusion. Since the omission of important sectors of the economy can yield a rather distorted picture, it seems reasonable to include all sectors of the economy in a measure of aggregate concentration, not just one or a few. The economy as a whole almost surely is more important than any one sector in its bearing on social and political power.

Another decision to be made concerns the business that firms do in foreign countries. Since on average large firms do a larger percentage of their business in international markets than do small firms, a study which includes foreign operations will find a higher level of aggregate concentration than a study which does not, and the observed trend in aggregate concentration may be similarly affected.

But whether or not international operations should be included in a measure of aggregate

concentration at all is a tough one to call. Since most people probably are concerned about domestic political influence when they speak of aggregate concentration and since domestic political influence probably is related most closely to direct control of domestic resources, the most reasonable choice seems to be that of excluding foreign operations in measuring aggregate concentration, although the issue isn't clear cut.

Thus certain basic working decisions have to be made about how to assess concentra-

tion. If the aim is to get a useful picture of where economic power lies, it seems most appropriate to focus on a broad-based measure such as value added and to cast the net as widely as possible over the domestic economy.

THE EVIDENCE FROM SOME PAST STUDIES

Many past studies violate one or the other of these principles, especially the mandate to examine the whole economy. Most of

FIGURE 1 THE MANUFACTURING SECTOR SHOWS OF STABILITY IN CONCENTRATION

Aggregate Concentration in the Manufacturing

	1947	1950	1954	1955	1958	1960	1963	1965	1967	1968	1969	1970
Census of Manufactures Data												
Percent share of value added												
Largest 50	17	—	23	—	23	—	25	—	25	—	—	—
Largest 100	23	—	30	—	30	—	33	—	33	—	—	—
Largest 200	30	—	37	—	38	—	41	—	42	—	—	—
Percent share of employment												
Largest 50	—	—	—	—	—	—	19	—	20	—	—	—
Largest 100	—	—	—	—	—	—	25	—	26	—	—	—
Largest 200	—	—	—	—	—	—	32	—	34	—	—	—
Federal Trade Commission Data*												
Percent share of assets												
Largest 100	—	37.7	—	44.3	—	46.4	—	46.5	48.2	49.1	48.2	48.2
Largest 200	—	42.7	—	53.1	—	56.3	—	56.7	59.4	60.8	60.1	60.1

*Data before 1973 include foreign operations.

Sources: U.S. Bureau of the Census, *Census of Manufactures*; U.S. Department of Commerce, *Statistic "Aggregate Concentration in the United States," Journal of Industrial Economics* 29 (March 1981), pp

these studies focus exclusively on the manufacturing sector—a sector which makes up only about a fourth of the entire economy and, at least in percentage terms, is shrinking all the time. But even they can provide useful evidence on concentration trends.

Data on the manufacturing sector are collected by the U.S. Bureau of the Census and the Federal Trade Commission. The Census Bureau's *Census of Manufactures* presents information on concentration both by share of value added and by share of employment.

Comparing these two methods of presentation with the FTC's share-of-assets approach makes it clear that how economic activity is measured can make a lot of difference in how important the largest firms appear. Using value added or employment makes large firms appear relatively unimportant, while using assets assigns them a much bigger role (Figure 1).

The trend in aggregate concentration rather than the level, however, is of interest to most people, and here it doesn't appear to make much difference which set of data is used. They all seem to suggest that while the importance of the largest firms did indeed increase up until the early 1980s, aggregate concentration has remained relatively stable since then.

Of the three kinds of data, the data from the *Census of Manufactures* probably are the most appropriate, because of the greater reliability of value added as a measure of economic activity. Also, the Federal Trade Commission data include foreign operations for the years before 1973, and foreign operations may not be as germane as domestic activity if the issue is domestic political or social influence. Since the two sets of data seem to tell the same story in terms of the trend over time, however, these distinctions turn out not to be too crucial in the case of the manufacturing sector.

A special feature of using international numbers for certain industries or sectors is the requirement that they be presented in relation to activity in the economy as a whole. So, for example, when viewed in isolation, international business appears to have become more and more concentrated in the 200 largest U.S. manufacturing firms over the last several decades whether measured by share of sales, assets, after-tax income, or employment. This alarming-looking trend results from the inclusion of international economic activity in the numerators but not in the denominators of the ratios used to calculate percentage shares, so that the

TWO DECADES RATIOS

Sector

	1971	1972	1973	1974	1975	1976	1977
	—	25	—	—	—	24	—
	—	33	—	—	—	34	—
	—	43	—	—	—	44	—
	—	17	—	—	—	18	—
	—	23	—	—	—	24	—
	—	31	—	—	—	32	—
	48.9	47.6	44.7	44.4	45.0	45.5	45.7
	61.0	60.0	56.9	56.7	57.5	58.0	58.4

Abstract. Both cited from Lawrence White, 423-430.

importance of the largest firms is overstated. When the denominators are adjusted upward to reflect increased U.S. business in other countries, concentration falls back to the range of the Census and FTC numbers.

Thus the manufacturing sector shows comparatively little growth in aggregate concentration over the past two decades whether measured by value added, employment, or assets.

SOME NEW EVIDENCE

What is really desired, of course, is information on the importance of large firms in the economy as a whole, not just in the manufacturing sector. Unfortunately, value added data are not available for most firms outside the manufacturing sector, so data for such firms generally are not as good as for the manufacturing sector. Nonetheless some recent attempts have been made to try to find

FIGURE 2
THE NONMANUFACTURING SECTORS
SHOW NO CONSISTENT TREND TOWARD

Aggregate Concentration Ratios in Nonmanufacturing Sectors

	1955	1960	1965	1966	1967	1968	1969	1970
Banking: Largest 50								
Percent share of assets	—	39.1	39.4	—	—	—	—	34.3
Percent share of deposits	—	38.5	38.4	—	—	—	—	32.2
Life Insurance: Largest 50								
Percent share of assets	—	87.7	85.5	84.8	84.4	83.9	83.4	82.9
Percent share of insurance in force	—	83.1	77.4	72.2	75.5	74.7	74.3	73.5
Electric and Gas Utilities: Largest 40								
Percent share of assets	—	—	—	57.4	58.1	58.7	59.4	60.3
Percent share of net income after taxes	—	—	—	53.8	54.0	54.6	53.9	54.6
Retail Trade: Largest 50								
Percent share of sales revenues	13.9	16.3	17.2	—	18.8	—	—	19.8
Percent share of employment	—	—	17.1	—	18.4	—	—	21.4
Transportation: Largest 50								
Percent share of sales revenues	—	53.2	55.5	—	59.7	—	—	58.1
Percent share of employment	—	—	—	—	35.0	—	—	35.3

SOURCES: U.S. Federal Deposit Insurance Corporation, *Assets and Liabilities: Commercial and Mutual Banks*, various years; American Council of Life Insurance, *Life Insurance Fact Book*, various years; *Fortune*: Statistician's Association, *Historical Statistics of the Gas Utility Industry, 1965-1975* (Arlington, 1977). See White, "Ag

out what firms in the rest of the economy are up to.

Lawrence White recently reported concentration data for five different nonmanufacturing sectors. The data that White used to trace the trend in aggregate concentration in these sectors come from various sources, including business publications, industry groups, and government.³ For most of these sectors, economic activity pertaining to foreign

operations is excluded. In the case of public utilities and the retail sector, the leading firms are almost entirely domestically oriented, so there are no complications associated with overseas operations. Also, White carefully selected the financial sector data so that only domestic operations were included. Only the transportation sector, with its international air carriers, includes some overseas operations.

White's results are rather mixed (Figure 2). They show that aggregate concentration in the banking and life insurance sectors decreased during the 1960s. Through the 1970s this trend appears to have continued in the life insurance area, while aggregate concentration in banking appeared to level off. The 1960s saw an increase in aggregate concentration in the electric and gas utility sector, but this sector then stabilized in the 1970s and concentration even declined somewhat. The trend for retail trade was toward higher levels of aggregate concentration in the 1950s and 1960s but then leveled off in the 1970s. The growth of the airlines and mergers among railroads brought steady increases in aggregate concentration in the transportation sector as measured by sales, but concentration measured by employment has remained steady. White claims that the temporary increases in 1975 were the result of that year's sluggish growth in the trucking business, which happens to be populated by predominantly small firms.

Overall, some nonmanufacturing sectors experienced increases while others experienced decreases in aggregate concentration. But for the 1970s, most sectors experienced either stability in aggregate concentration or slight decreases.

White also did some calculations for the

³Much of the following discussion of aggregate concentration borrows from evidence presented in Lawrence White, "Aggregate Concentration in the United States," *Journal of Industrial Economics* 29 (March 1981), pp. 423-430.

INDUSTRIAL SECTORS CONCENTRATION

Banking Sectors

1971	1972	1973	1974	1975	1976	1977
—	—	—	37.3	35.7	35.3	35.5
—	—	—	35.4	33.5	32.0	31.9
82.4	81.9	81.1	80.7	80.3	79.9	79.1
72.8	72.2	71.7	70.8	70.9	71.0	71.0
—	61.2	—	—	60.4	60.1	59.8
—	54.7	—	—	52.9	52.2	53.4
19.6	20.0	20.0	20.9	21.0	20.6	20.5
20.9	21.0	21.8	21.6	21.0	20.8	20.1
57.1	56.7	58.4	60.2	66.0	61.6	—
—	33.3	33.6	33.1	37.2	35.9	35.0

Savings Banks and Annual Report, various years. American Gas Association, *Annual Abstract*, various years. American Gas Association, "Aggregate Concentration in the United States."

entire private sector of the economy (Figure 3). These calculations cover a fairly short period (1972 through 1977), and the measures of economic activity that he was forced to use fall far short of what is desirable. But there is no reason to believe that the results are misleading, and they show a slight decline in aggregate concentration over the years covered.

In fact, White's findings are reinforced by another set of data compiled recently by the Federal Trade Commission's Bureau of Economics. The FTC series uses assets as the measure of economic activity and excludes the financial sector of the economy, and so it too leaves much to wish for in getting a good picture of aggregate concentration. But it does cover a longer period than White's series, and it's one of the few sources of data available for examining the importance of

big firms in both manufacturing and non-manufacturing sectors. These data also report a slight decline in aggregate concentration (Figure 4). It appears that once people allow for the fact that there's more to an economy than the manufacturing sector, the largest firms are not in general increasing their share of economic activity. Indeed, their share may be declining slightly.

CONCLUSION

It has been claimed that the percentage of economic activity controlled by the largest firms in the U.S. economy has been growing at a rapid rate. If greater concentration of economic activity in the hands of a few implies greater concentration of political and social power, then such findings are alarming indeed. They suggest a rather disturbing future unless strong actions are taken

FIGURE 3
DATA FOR PRIVATE SECTOR
SHOW DECLINES IN CONCENTRATION

**Aggregate Concentration Ratios
in the Entire Private Sector**

	1972	1973	1974	1975	1976	1977
Percent share of nonagricultural private sector employment						
Largest 100	18.2	—	—	—	—	17.3
Largest 200	23.9	—	—	—	—	22.7
Largest 1,300	37.3	37.4	37.2	36.1	36.1	35.5
Percent share of corporate net income after taxes						
Largest 100	46.8	—	—	—	—	45.8
Largest 200	59.8	—	—	—	—	57.8
Largest 1,300	82.7	74.7	84.3	82.6	82.1	82.2

SOURCE: *Fortune*, various years; U.S. Department of Commerce, *Survey of Current Business*, various years; U.S. Department of Labor, *Employment and Earnings*, various years. See White, "Aggregate Concentration in the United States."

FIGURE 4
FTC DATA FOR NONFINANCIALS
SHOW SLIGHT DECLINE
IN CONCENTRATION

Aggregate Concentration Ratios
for Largest 200 Nonfinancial Corporations, Assets

	1958	1963	1967	1972	1975
Largest 50	24.4	24.4	24.5	23.4	23.3
Largest 100	32.1	31.7	32.0	30.7	30.6
Largest 150	37.4	36.7	37.0	35.9	35.6
Largest 200	41.1	40.5	41.2	39.9	39.5

SOURCE: U.S. Federal Trade Commission data.

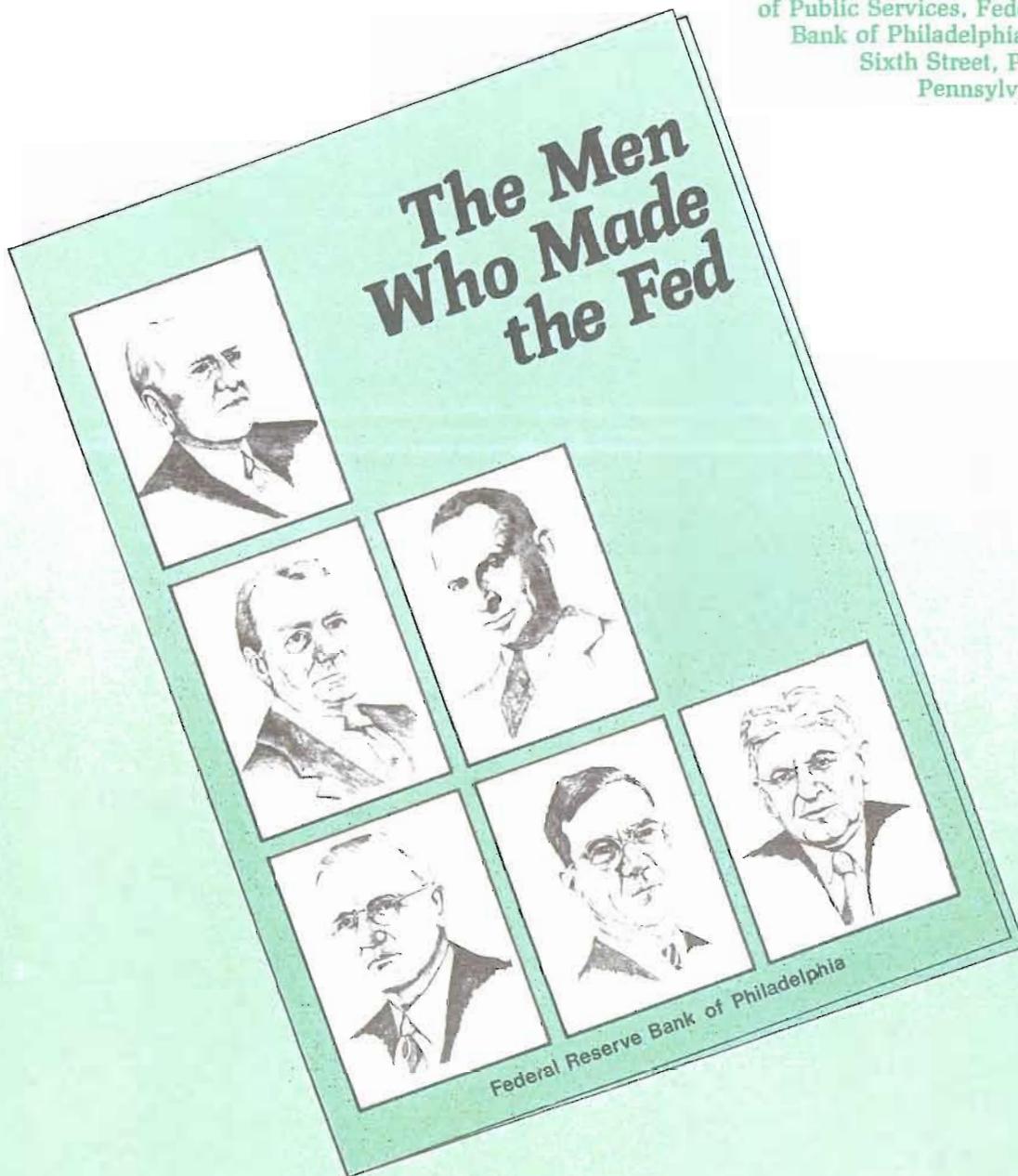
in the policy arena. A ban on otherwise beneficial conglomerate mergers is a frequently mentioned policy option.

Recent evidence suggests, however, that these dire predictions rest on shaky foundations. They usually are based on data that pertain to only a small portion of the economy and use measures of economic activity that make things appear worse than they really are. Attempts to correct for these deficiencies

by including more than the manufacturing sector and by using more defensible measures of economic activity in calculating aggregate concentration show a trend over time which is decidedly less alarming. While undue concentration of economic power merits close attention, the best evidence suggests that aggregate concentration has not increased in the last ten to twenty years and even may have declined somewhat.

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