Press Release

Industry Concentration and the Effect on Startups

PAULINA ENCK | JUNE 22, 2022

The idea that "big is bad" has staged a comeback. Big Oil, Big Tobacco, Big Pharma, and other "big" industries have all, at one time or another, been the target of antitrust regulators. Now, Big Tech is in the crosshairs. In new research, Competition Economics Analyst Fred Ashton examines whether there is any correlation between the percentage point change in the market concentration level and the percentage change in the number of startups entering the market between 2002–2017 to see if big firms are really snuffing out young competition.

Key points:

- While data from the U.S. Census Bureau's Business Dynamics Statistics showed that startups as a share of total firms steadily declined over a 32-year period (from 13.3 percent in 1978 to 7.3 percent in 2010), that deep-rooted, downward trend was reversed in the wake of the financial crisis as the share of startups rose in six of the subsequent nine years to 8.1 percent in 2019.
- Analysis of market concentration data from the Economic Census and data on startups from the Business Dynamics Statistics showed no correlation between the percentage point change in the concentration ratio of the four largest firms and the percentage change in the number of startups in 257 industries between 2002–2017; sectors classified as high-tech industries showed a similar pattern.
- Narrowing the focus to companies being targeted by new antitrust legislation (Amazon, Apple, Facebook, Google, and Microsoft), the data showed a positive correlation between the change in the concentration ratio and the change in startups; in other words, the percentage change in startups moves in the same direction as a percentage point change in the concentration ratio.
- There are likely several factors contributing to the slowdown in the share of startups over the past four decades, but absent any correlation between a percentage change in startups and a percentage point change in the concentration ratio, it is difficult to give credence to the idea that the presence of large firms is preventing new market entrants.

Read the analysis