

ECONOMIC FINDING

The Industrial Revolution in Services

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Many large firms are able to expand geographically and increase their market share, but only within sectors as measured by employment, and not within the aggregate economy. These firms are getting larger, but only relative to other firms in their sector.

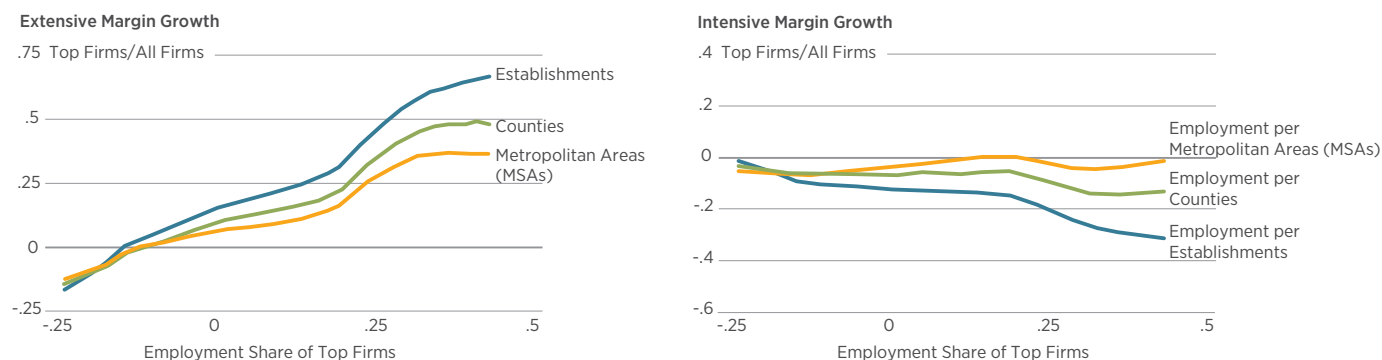
In recent decades, spurred in part by developments in information and communication technologies (ICT), along with important advances in management practices, the efficiencies long present in typical manufacturing sectors have emerged within wholesale, retail, and service (or non-traded) industries. This phenomenon has driven the development of efficiencies across many nontraded sectors. Firms have incorporated new methods that have allowed them to deliver similar products across space. However, as this research reveals, while some of these firms have grown to dominate particular sectors in terms of employment, their share of employment in the overall economy has remained stable.

The authors reveal the five following facts:

- Rising concentration within sectors is only evident among top firms in three industries: services, wholesale, and retail, where employment share among the top 14 percent of firms increased from 67% to 73% between 1977 and 2013, and not in such sectors as manufacturing, where concentration has actually decreased.
- Concentration is driven by expansion into new local markets, and leads to decreasing employment per establishment among top firms.
- While employment per establishment may fall, total employment rises substantially in industries with rising concentration, even among smaller firms. Technological and managerial advances, in other words, are not preventing competition but are rather intensifying its effects.
- This new industrial revolution has driven increasing specialization among the top firms in non-traded sectors, meaning that while these firms are focusing on certain industries, they are also leaving others.
- Finally, while the growth of such firms is increasing concentration in terms of employment within sectors, it is not resulting in similar concentration across the aggregate economy.

This last fact is key, especially given the recent focus and concern about the rise of so-called “superstar” firms. Many fear that these firms, which have achieved relative dominance in certain sectors, also have an outsized influence on the total economy. However, this work rebuts that view. Essentially, while this growth has led to increased concentration within certain sectors, there is no change in concentration among the broader economy’s top firms.

Figure 1 • Extensive vs. Intensive Margin Growth of Top Firms (1977-2013)



Notes: The left panel shows non-parametric regression of $\Delta \log \#$ of MSAs, Counties or Establishments of top 10% firms relative to all firms on $\Delta \log$ employment share of top 10% firms, both from 1977-2013. The thin solid line is a 45° line. The right panel shows non-parametric regression of $\Delta \log$ employment per MSA, County or Establishment of top 10% firms relative to all firms on $\Delta \log$ employment share of top 10% firms, both from 1977-2013.