

# Pure profits and labour income in the U.S.

**Presentation**

**by**

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**to the Melbourne Economic Forum**

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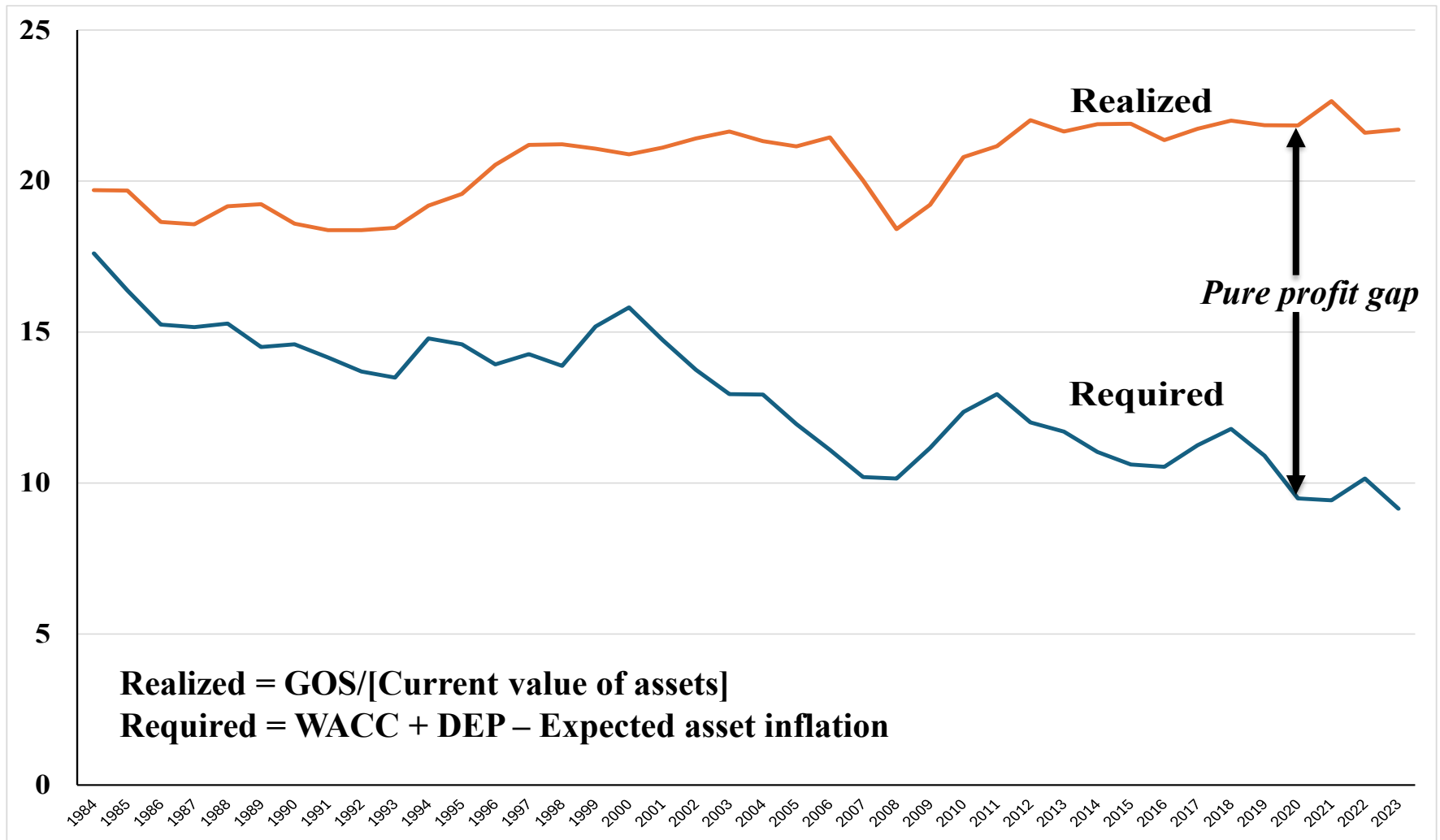
**based on**

**a CoPS project for the U.S. Department of Commerce**

**being undertaken by**

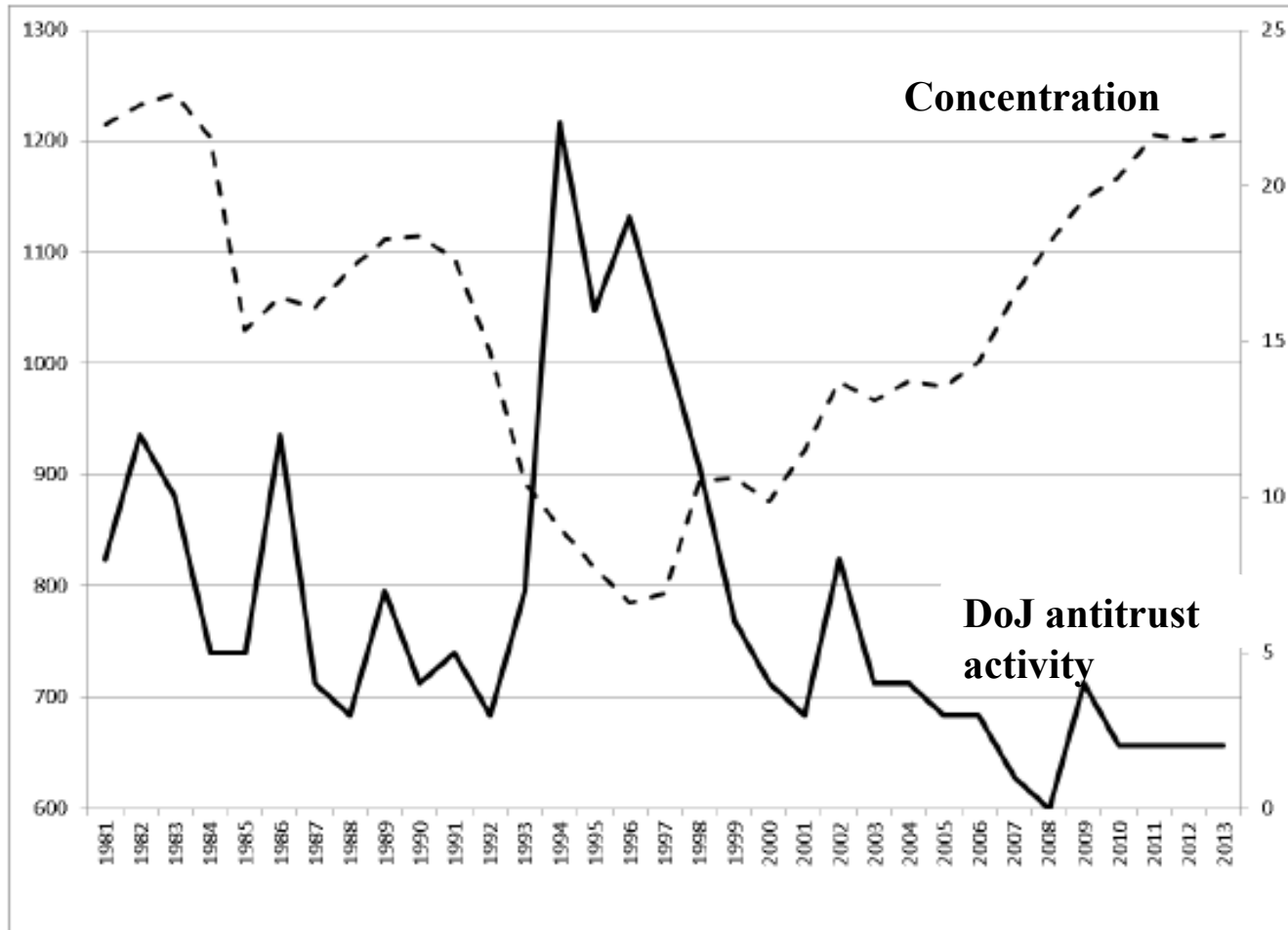
**Peter Dixon, Maureen Rimmer and Robert Waschik**

# Gross rates of return on assets in the U.S. private non-residential sector since 1984 CoPS



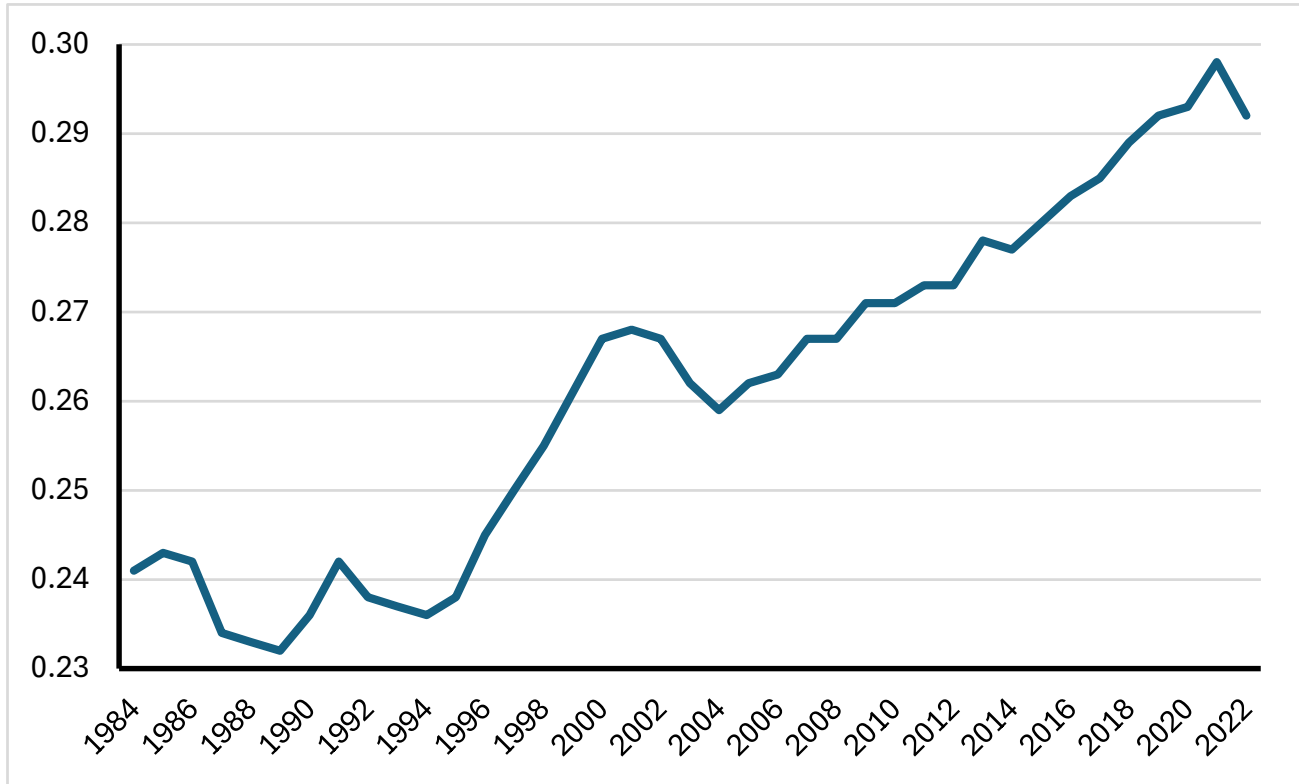
*Authors' calculations consistent with Barkai (2020)*

# Concentration levels in U.S. industries and antitrust enforcement



Source: Grullon et al. (2019)

# Share of U.S. employment in firms with 10,000+ employees



*Source: Grullon et al. (2019) updated by the authors*

# Simulating a reduction in competition in selected U.S. industries by an *upward shift in pure-profit/entry schedule* CoPS

(1)	Increases in pure profits as a per cent of GDP	3.71
(2)	Number of firms in selected industries (% change)	-7.03
(3)	Markup on marginal costs on firms in selected industries (% change)	2.56
(4)	Number of varieties produced in selected industries (% change)	2.79
(5)	Consumer price of a unit of commodity from the selected industries (%)	4.27

**↑ barriers to entry ⇒**

**(1) & (2)      ↑ pure profits & ↓ number of firms**

**(3)            ↑ markups**

**(4)            ↑ varieties**

**(5)            ↑ prices to consumers**

*Source: Dixon and Rimmer (2024)*

# Simulating a reduction in competition in selected U.S. industries by an *upward shift in pure-profit/entry schedule*

(6)	Real GDP (% change)	0.38
(7)	Real private consumption or welfare (% change)	0.39
(8)	Real post-tax wage rate: (% change)	-3.74

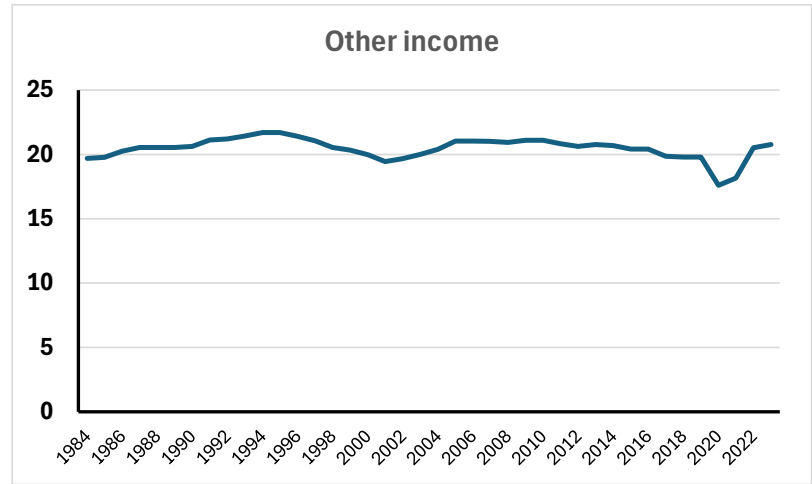
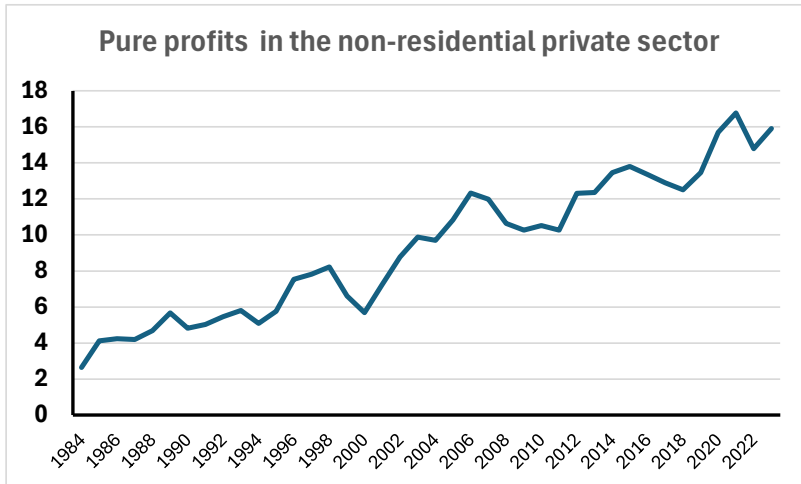
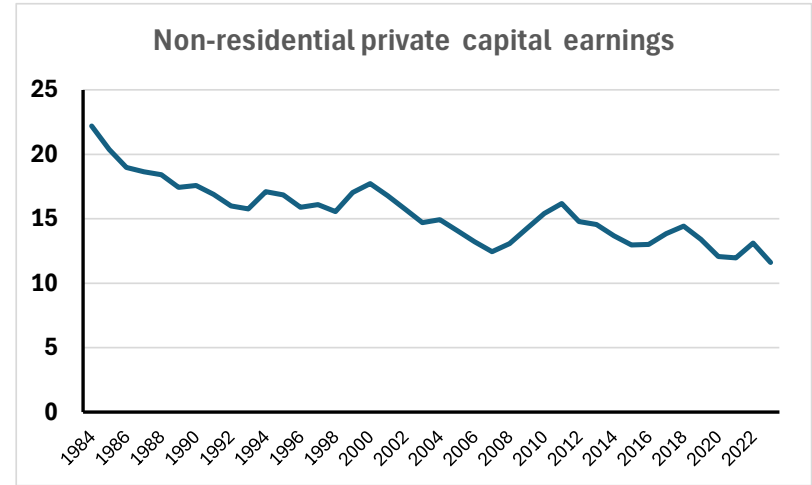
↑ **GDP: unit resource cost (but not price) of satisfying requirements for commodities from selected industries is reduced by bigger firms with increased economies of scale and increased variety**

↑ **Real consumption and welfare (utilitarian measure)**

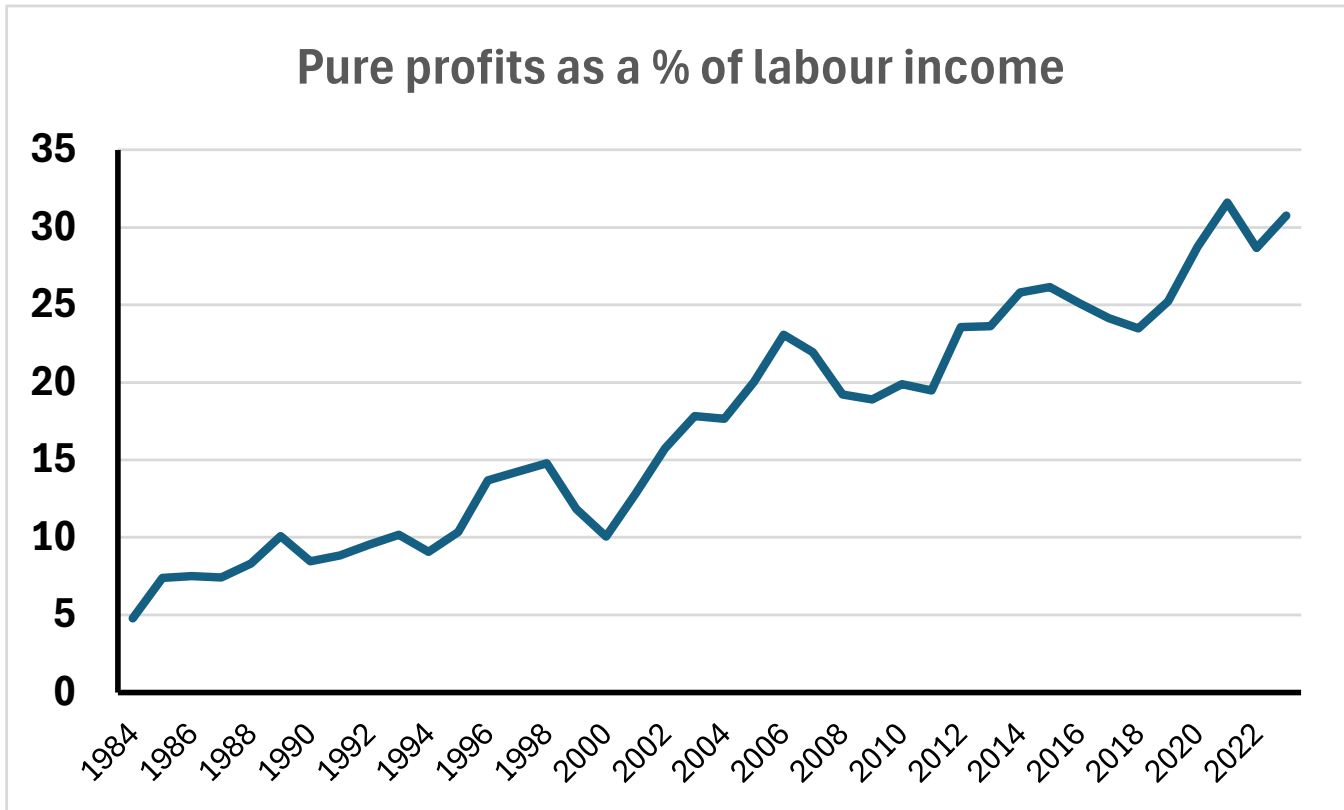
**So, what is there not to like about reduced competition and pure profits?**

↓ **Real wage rates**

# Percentage shares in U.S. GDP since 1984



# Percentage boost in labour income if pure profits were reallocated to wages





# Concluding Remarks

- **Reduced competition restrains wage growth below productivity growth and reduces the labour share of GDP**
- **Reduced competition can have profound implications for income distributions and may be a factor in explaining why so many people in the U.S. are unhappy with the economy despite reasonable GDP and consumption growth and close to full employment**