Macroeconomics and the Rise of Market Power

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Two papers

- Diez, Fan and Villegas-Sanches: Global Competition

➢ Firm level-dataset covering 300 million private and publicly listed companies from 28 countries.

➢ Use the method proposed by Hall (1986) and De Locker and Warzynski (2012) and De Locker and Eeckhout (2018) using cost minimization to establish five stylized facts

F1: Competition down, markups up by 6% 2000-2015

F2: Driven by superstar firms

F3: Most evident in developed countries

F4: U shape of markups in the size of firms

F5: Driven by incumbents and reallocation to high markups firms

Two papers

- Salas, San Juan, Valles

- ➢ Look at data from France, Germany, Italy, Spain from 1995-2016
- ➢ Evaluate markups by looking at *profits share* and *inverse of labor share*. Find
  - Markups rising in US and Germany
  - Little evidence of this for France, Italy, Spain

Key Questions

- There have been some trends in broad economic aggregates that do call for some explanation.
- The rise in markups in one such explanations.
- If markups are not the explanation, what is?

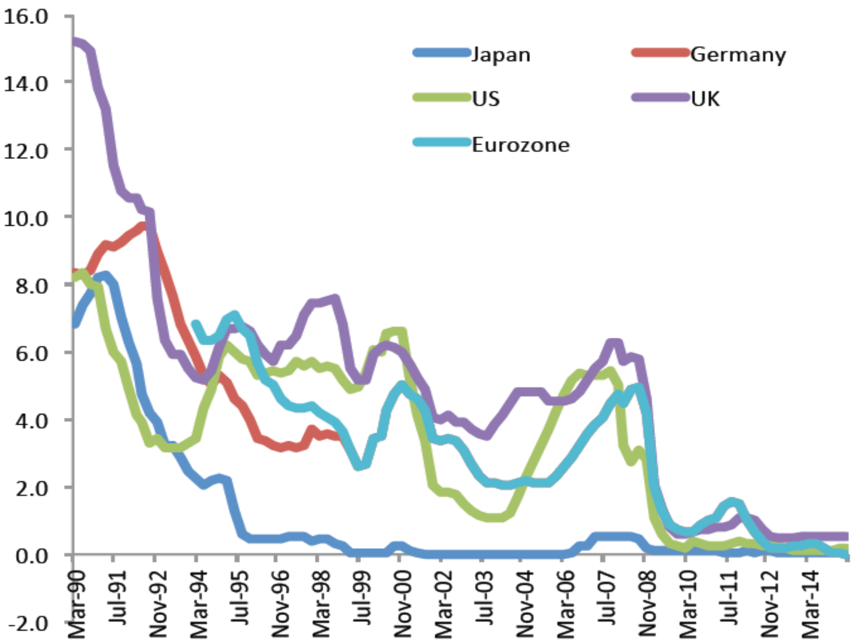
Eggertsson, Robbins, Wold (2018)

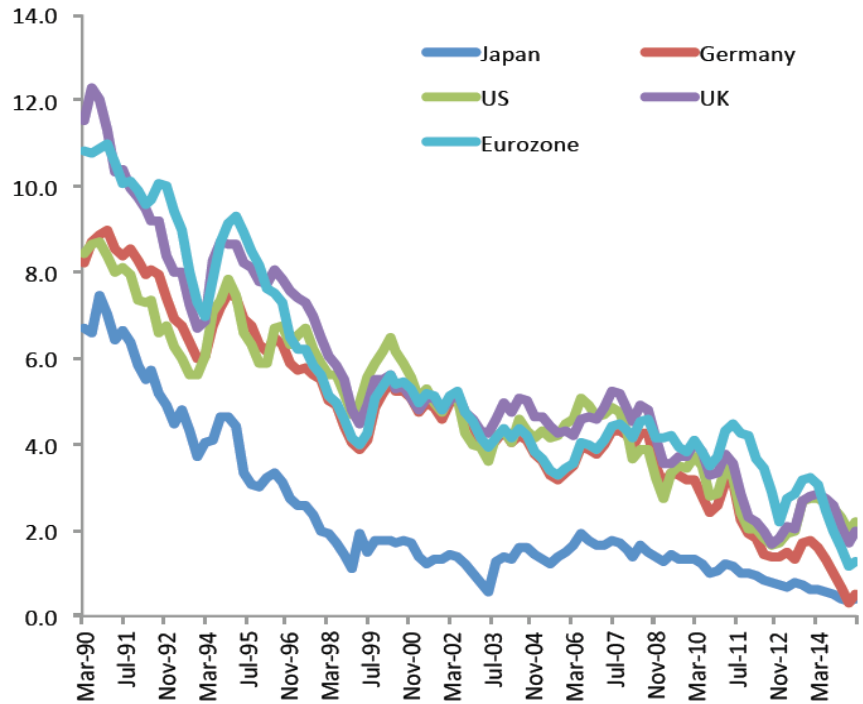
“Kaldor and Piketty’s Facts: The Rise of Monopoly Power in the United States”

Five puzzles from perspective of neoclassical model

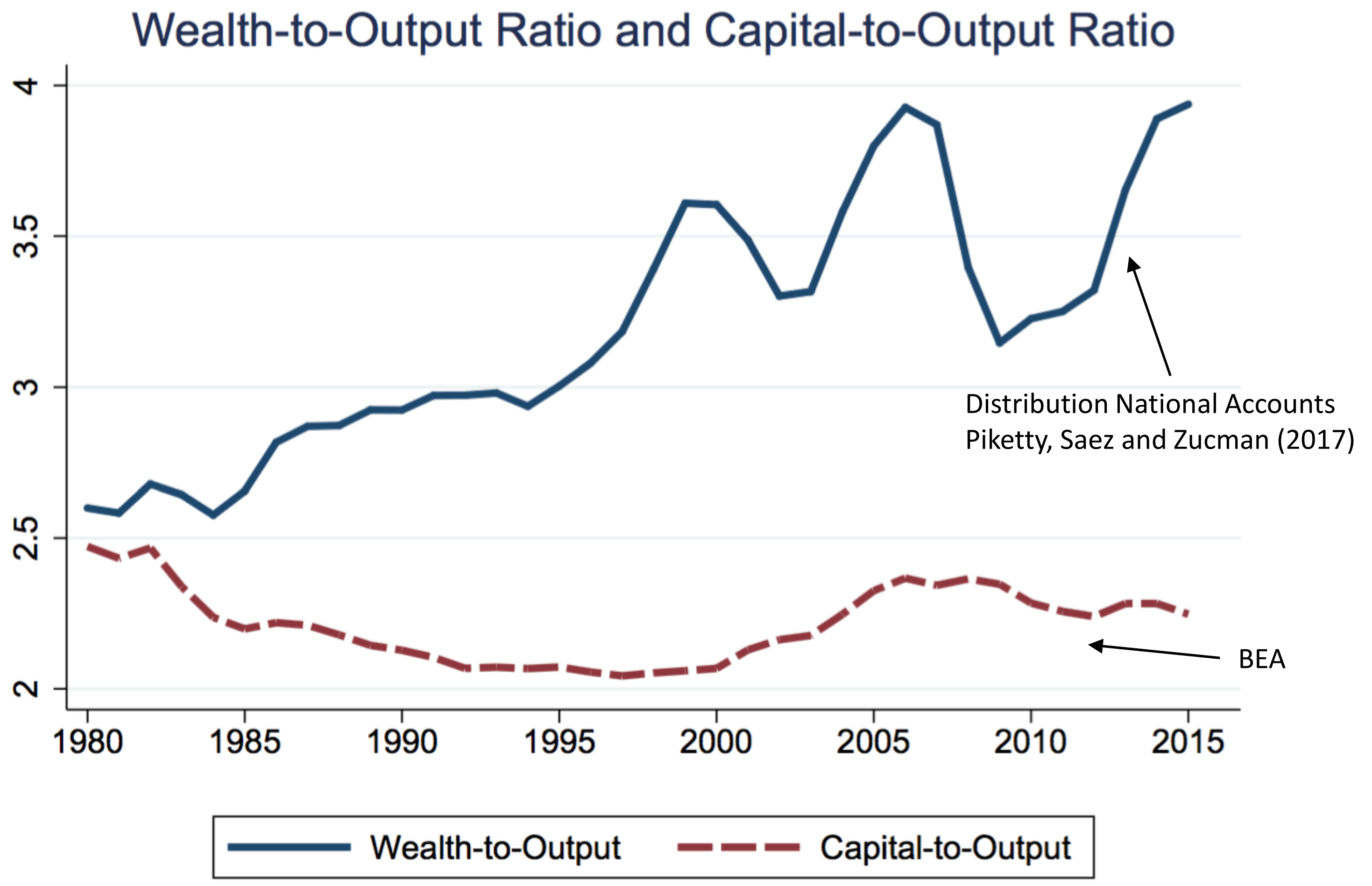
Low Global Interest Rates

Nominal short-term and long-term rates, 1990-2015





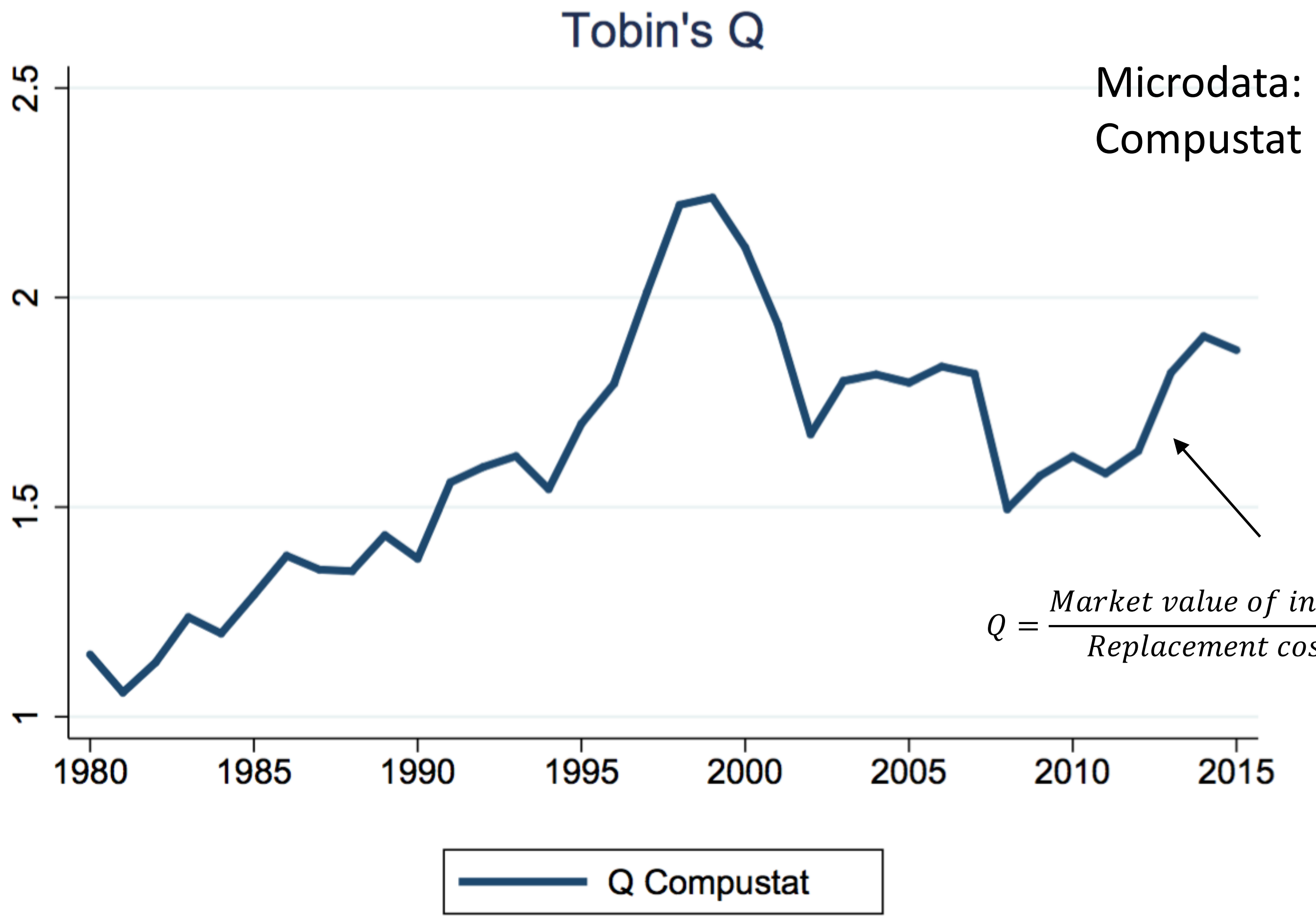
(P1) “Wealth is back”



Puzzle 1: Should be same in neoclassical model

-- should see cross-country differences depending on rise in markups

(P2) Tobin's Q

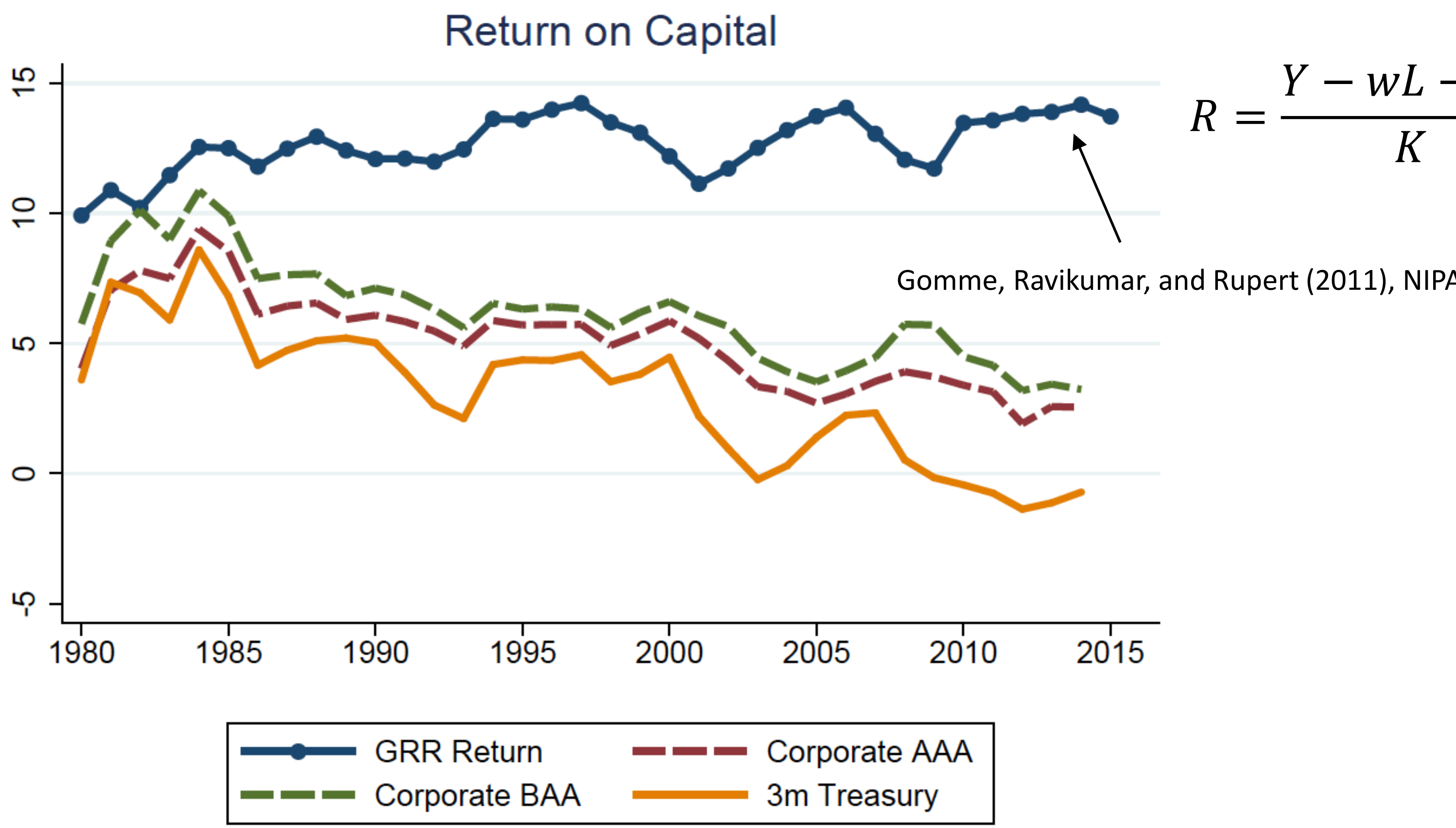


$$Q = \frac{Market\ value\ of\ installed\ capital}{Replacement\ cost\ of\ capital}$$

Puzzle 2: Should be 1 in long run in neoclassical model

-- should see cross country differences depending on rise in markups

P3) Decrease in real interest rate while measured return on capital constant

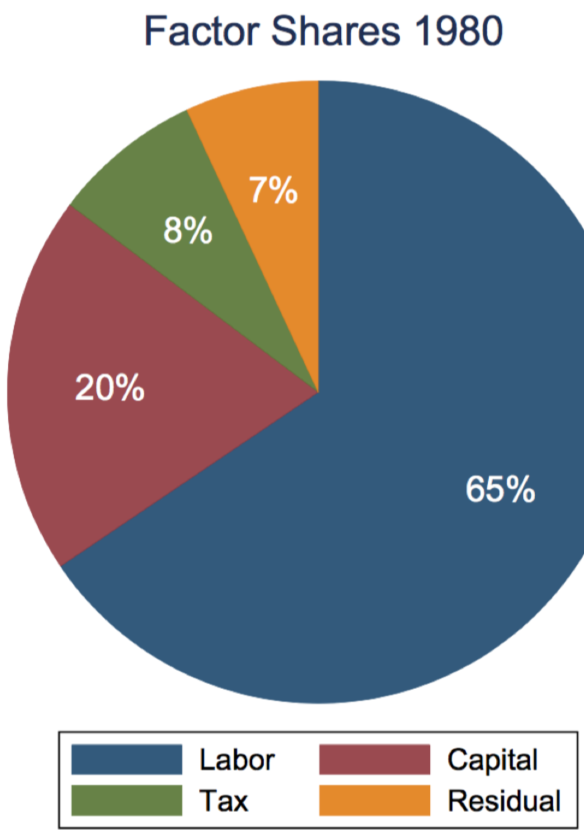


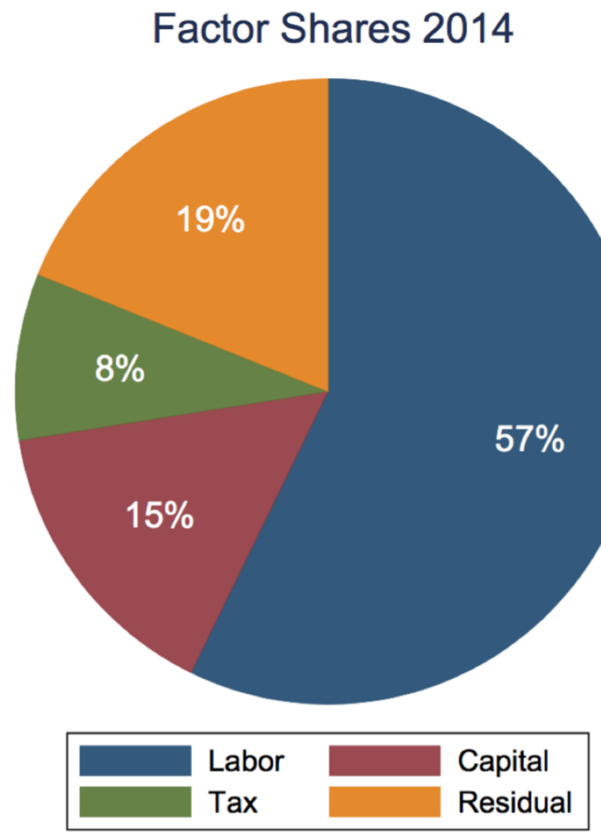
$$R = \frac{Y - wL - \delta K}{K}$$

Puzzle 3: GRR and r should be same in neoclassical model
AND stable – one of Kaldor's stylized facts

-- are average returns systematically different cross countries?

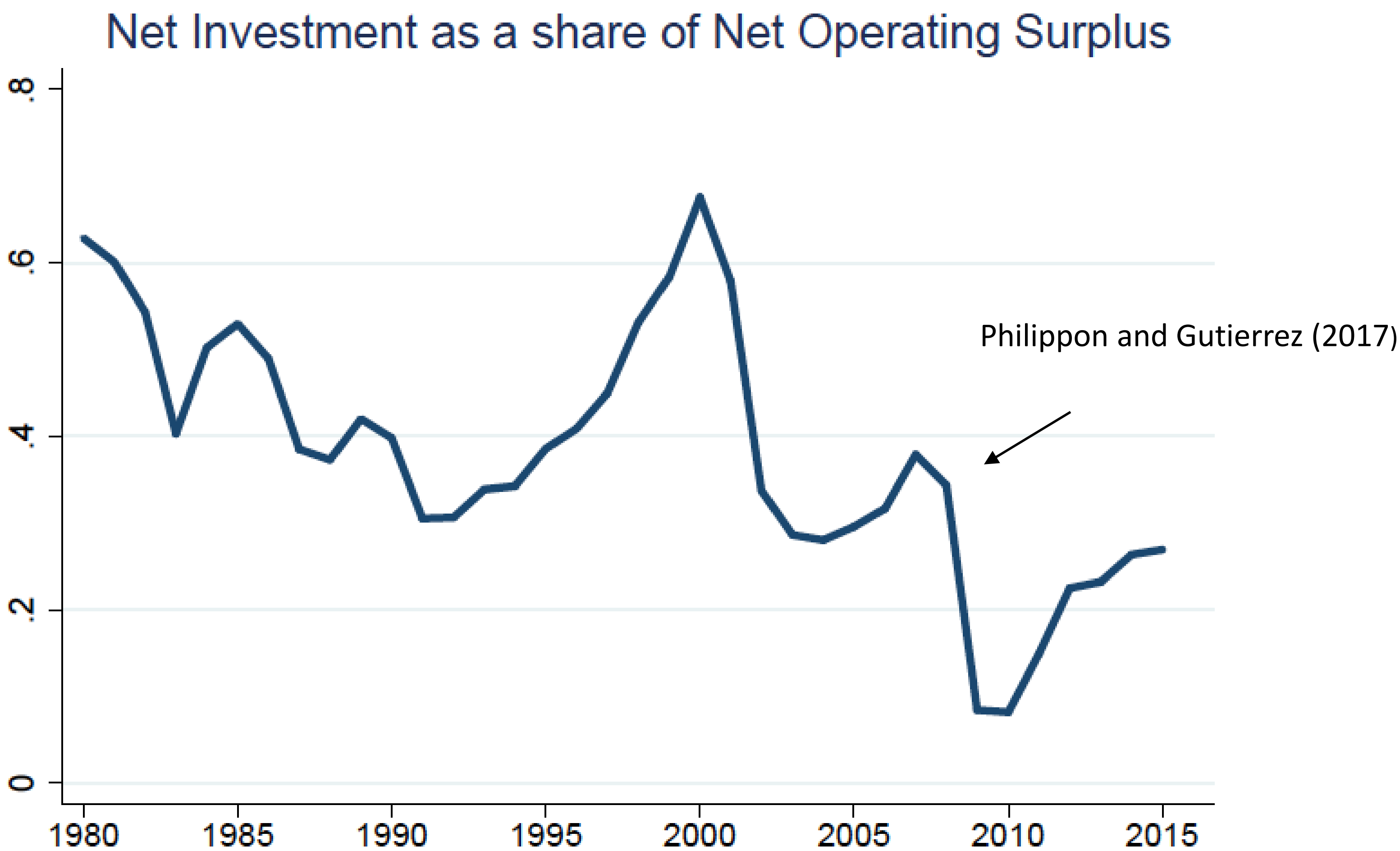
(P4) A persistent decrease in labor and capital share….





Puzzle 4: Should be constant in neoclassical model – one of Kaldor's stylized facts

(5) Decrease in investment-to-output ratio, even given low borriwng costs and high Tobin‘s Q



Puzzle 5: Should by ***rising*** given P2 and P3

Summing up

(P1) W/Y>> despite low S and low K/Y.

(P2) High Tobin's Q >> 1.

(P3) A decrease in r while measured return on capital constant.

(P4) A decrease in both the *labor share* and the *capital share*.

(P5) A decrease in I/Y despite low r and a high Q.

A natural explanation for P(1)-P(5) in the United States is a rise in markups, taking *the fall in interest rate as given*

Question -- Conclusion

- If the micro evidence for rising markup ***does not*** co-operate outside of Europe raises other question
- Do P1-P5 not arise in Europe?
- Clearly interest rate falling, yet no investment boom!
- Need an explanation that is ***increasing*** over time
  - Rise in "labor wedge" in S-Europe?
    - Tied to competitiveness (need to account for monetary factors)
  - Rise in risk premia?
  - Increasing financial frictions?
  - Unmeasured capital?