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)

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

\[ Q = \frac{\text{Market value of installed capital}}{\text{Replacement cost of capital}} \]

Puzzle 2: Should be 1 in long run in neoclassical model
-- should see cross country differences depending on rise in markups
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 borrowing 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?