LAbor Share and market Power

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Measurement

- Labor share:

\[ LS = \frac{WL}{PQ} \]

1. (Im)perfect competition: technology versus market power.

(Im)Perfect Competition

• Perfect competition implies:

\[
\frac{WL}{PQ} = \theta^L
\]

• Change in labor share indicates technological change: substitution, outsourcing, off-shoring, etc. Focus on skill-biased technological change.

• Imperfect competition introduces markup-wedge:

\[
\mu \frac{WL}{PQ} = \theta^L
\]
Heterogeneity

- Equality holds by firm:
  \[ \frac{WL_{it}}{PQ_{it}} = \theta_{it} \]

- Using aggregate:
  \[ \frac{\sum_i (WL)_{it}}{\sum_i (PQ)_{it}} \]

- What can we learn from this aggregate series about underlying mechanism is firms are different, and increasingly so (Jensen’s inequality)
1. Double marginalization: \( W = \mu^Z cZ \) and \( \mu = \theta \frac{PQ}{WL} \).
2. Monopsony: exploit lack of outside option.
4. GE labor market with concentrated product markets (DLE): more.
Consider merger 2 to 1.

- Q down, P up, Labor demand down, wages down, real wages down.
- Natural link through GE labor market (indep. labor supply)
Comments on Mertens: Sample

- Germany: how about SMEs ($L > 20$)
- Manufacturing sector – labor market link
Comments on Mertens: Framework

• No technological change: translog sneaks it in through input growth. Main regressions relates labor to labor. Why?

\[ \theta_{it}^L = \beta_l + \beta_{ll} l_{it} \]

• Wedge on labor FOC captures bargaining, hiring/firing costs, adjust. costs, quasi-fixed input.
• More direct approach: input demand and instrument needed for wages!