Labor share and market power

Jan De Loecker
KU Leuven, NBER and CEPR

CompNet et al.
March 19, 2019

Measurement

- Labor share:

$$LS = \frac{WL}{PQ}$$

1. (Im)perfect competition: technology versus market power.
2. Firm heterogeneity: aggregation.

(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:

$$\frac{WL_{it}}{PQ_{it}} = \theta_{it}^{L}$$

- 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)

Link product and factor (labor) markets

1. Double marginalization: $W = \mu^Z cZ$ and $\mu = \theta \frac{PQ}{WL}$.
2. Monopsony: exploit lack of outside option.
3. Bargaining over surplus.
4. GE labor market with concentrated product markets (DLE): more.

Link market power and wages: DLE

- 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)
- No monopsony needed. Just GE labor market effects – De Loecker, Eeckhout and Mongey (2018).

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?

$$\theta_{it}^{L} = \beta_I + \beta_{II} I_{it}$$

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