Markups and Macroeconomics

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Recent History of the Labor Share of National Income



Labor share in 1980: 0.62

Labor share in 2016: 0.59

Theories

Trade, Automation, MARKUPS

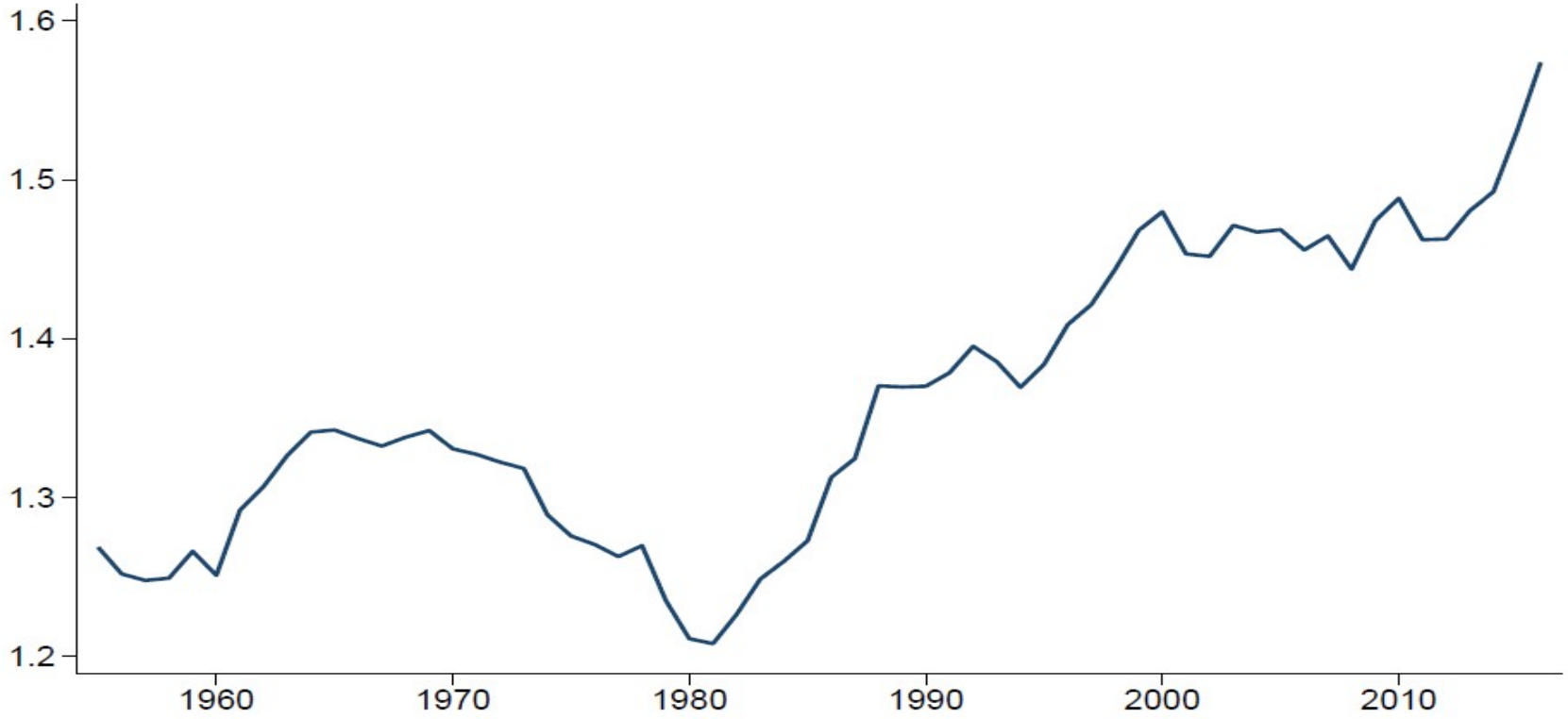
If $Y = AK^{1-\alpha}L^{\alpha}$, then

$$\frac{WL}{PY} = \frac{\alpha}{\mu}$$

where μ is the markup

Measurement

Replicate De Loecker, Eeckhout & Unger (2020):



Average markup in 1980: 1.21

Average markup in 2016: 1.57 (new version of Compustat?)

Issue 1: Explaining too much?

Between 1980 & 2016, the labor share fell 3 ppt or 5 percent

Over the same period, the average markup rose 30 percent

For a single firm with a stable α the two should be mirror images

Only suggestive: Should compute the implied path of *firm* labor shares due to changes in *firm* markups and then aggregate

Research question:

What is the implied path of the aggregate labor share computed from data sets that report firm labor payments (not Computstat)?

Issue 2: The Markup for Macroeconomics

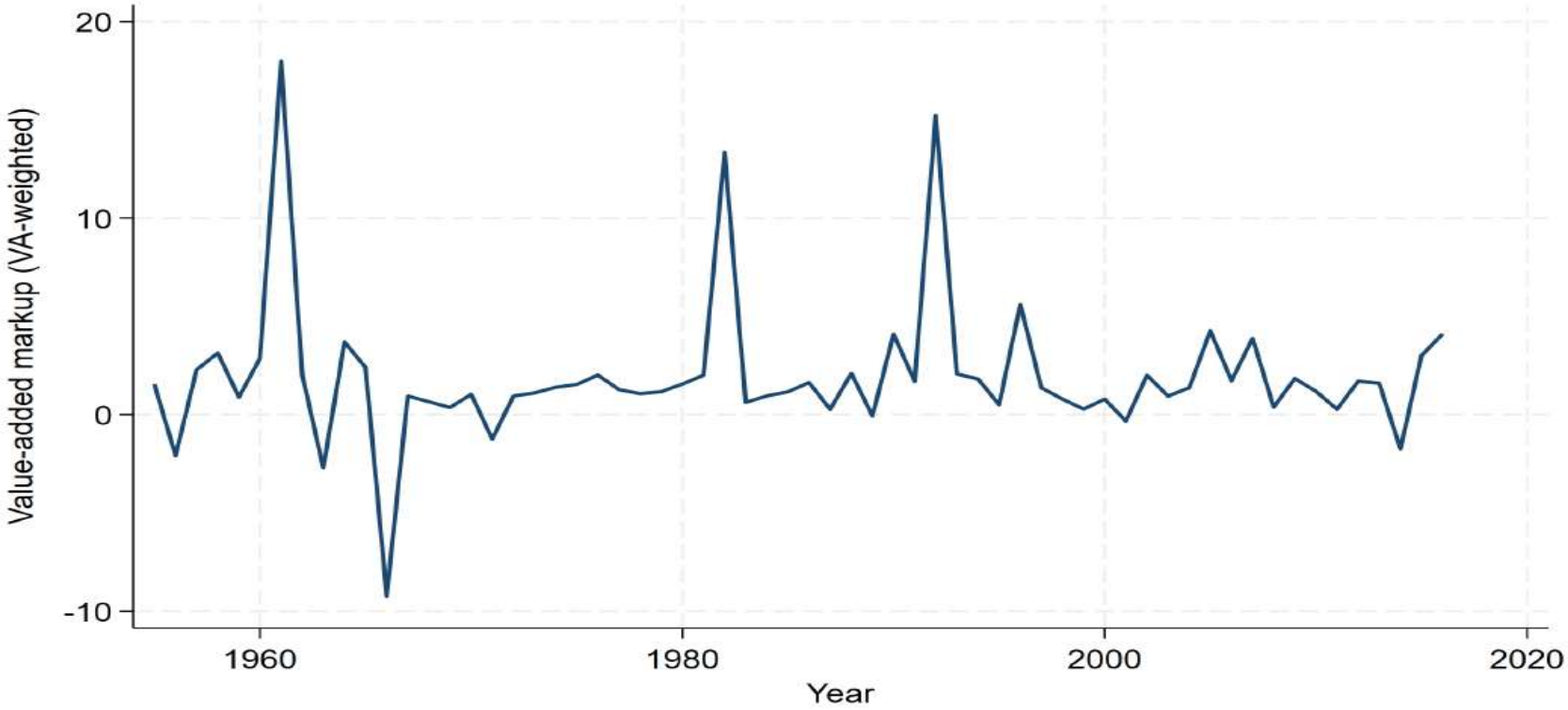
Macroeconomists study GDP and related issues
Such as labor's share in GDP

Most papers on markups use sales/gross output data: μ^{GO}

$$\mu = \mu^{GO} \frac{1 - s_M}{1 - \mu^{GO} s_M} > \mu^{GO} \text{ if } \mu^{GO} > 1$$

Since Compustat does not report intermediate input expenditures separately, match firms to 2-digit NAICS industries to get s_M

Combine with DEU (2020) replication to get average μ for GDP (aggregated using value-added shares)



Quite a few years with implausibly large or negative markups

Research questions:

What is the distribution of value-added markups in firm data?

How should we deal with estimation outliers when aggregating?

Issue 3: Are Scale Economies and Profit Rates Rising?

$$\mu \equiv \frac{P}{MC} = \frac{AC}{MC}\frac{P}{AC} = RTS\frac{1}{1-s_{\pi}}$$

Research questions:

Do the trends in RTS and s_{π} match the trend in μ quantitatively?

What are RTS in firm (not establishment) data for the US?

Conclusion: The Only Game in Town

For estimating markups at scale, there is no alternative to the cost-minimization-based method pioneered by Hall (1988, 1990) and extended by De Loecker and co-authors (2012, 2020)

It's up to us collectively to refine the estimation and aggregation methods to come up with sensible results for macroeconomics

Thoughtful discussion & ideas in Fernald et al. (*JEL* forthcoming)