The Rise in Markups: Causes

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Some generally (though not universally) accepted facts

- Aggregate Markups have risen since 1980
- Phenomenon is global (but extent varies across countries)
- Rise varies across industries – but it is not an industry-composition story
- Primarily a firm upper-tail phenomenon: p90 does the heavy lifting
- Primarily driven by reallocation → the market share of firms with initially high markups increases
  - But accounting decomposition is not the same as establishment of a causal effect

Causes
First, Two Observations

1) Markups are not Profits
   - Markups exclude fixed and overhead costs (incl. expenditures associated with sales, marketing, software, organizational capital, and other intangibles) → markups are not necessarily monopoly rents
   - Economic profit rates and stock-market valuations have increased → high markups not accounting artifact

2) Markups have two components: Price and Marginal Cost

   e.g., Lerner Index = (P-MC)/P
   - Markups can go up because:
     - P goes up
     - MC goes down (and the cost decrease is not passed through fully to prices)
     - Both of the above (P goes up and MC goes down).

Causes
Two Polar Views

1) Root cause: Lax enforcement of antitrust

2) Secular trends in technology and globalization
   - Globalization × technology created scalable business models
   - These models allowed intangible-rich firms to capture larger shares

On 1: Failure of Competition Policy?

- Main challenge for competition policy since the 1980s:
  → Hard to establish "harm to consumers"

- In most (but not all) sectors, rise in markups goes hand in hand with lower prices

- Extend the mandate of competition policy to address other concerns (e.g., inequality, declining labor share)? → highly controversial

On 2: Technology x Globalization

GLOBALIZATION

- Falling trade & logistics costs
- GVC sourcing and cheaper intermediates
- Much larger markets

TECHNOLOGY + INTANGIBLES

- Automation, IT, software, data
- Branding, marketing, R&D
- High fixed / low variable costs

→

SCALABILITY

- Spread fixed costs over global sales
- Most productive / intangible-rich firms pull away
- Minimum efficient scale rises

Costs ↓↓↓ Prices ↓↓ ⇒ Markups ↑ + concentration ↑

Incomplete pass-through means consumers can still see lower prices even as markups increase

The missing entrants matter: fixed costs, data/software, and network effects can turn scale economies into durable entry barriers.

Sources: De Loecker & Goldberg (2026); De Loecker & Eeckhout (2026); Goldberg (2023).

Trade and Markups

Trade is not mechanically pro-or anti-competitive. Two examples:

INDIA • 1991 LIBERALIZATION

Cheaper imported inputs raised margins

– 62 pp average tariffs

–31% marginal costs

–18% consumer prices

+13% markups

Cost reductions were only partly passed through. Firms captured some gains; product quality and variety also variety also improved.

U.S. • CHINA IMPORT PENETRATION

Final-goods competition can discipline margins

+1 pp China import penetration → **–1 to –2%** consumer prices

In the evidence summarized in my book, much of the price decline came from lower markups on U.S.-produced goods.

Import competition works through a different margin than access to low-cost inputs.

Net effect of globalization on markups = cost/scale channel ↔ final-goods competition channel

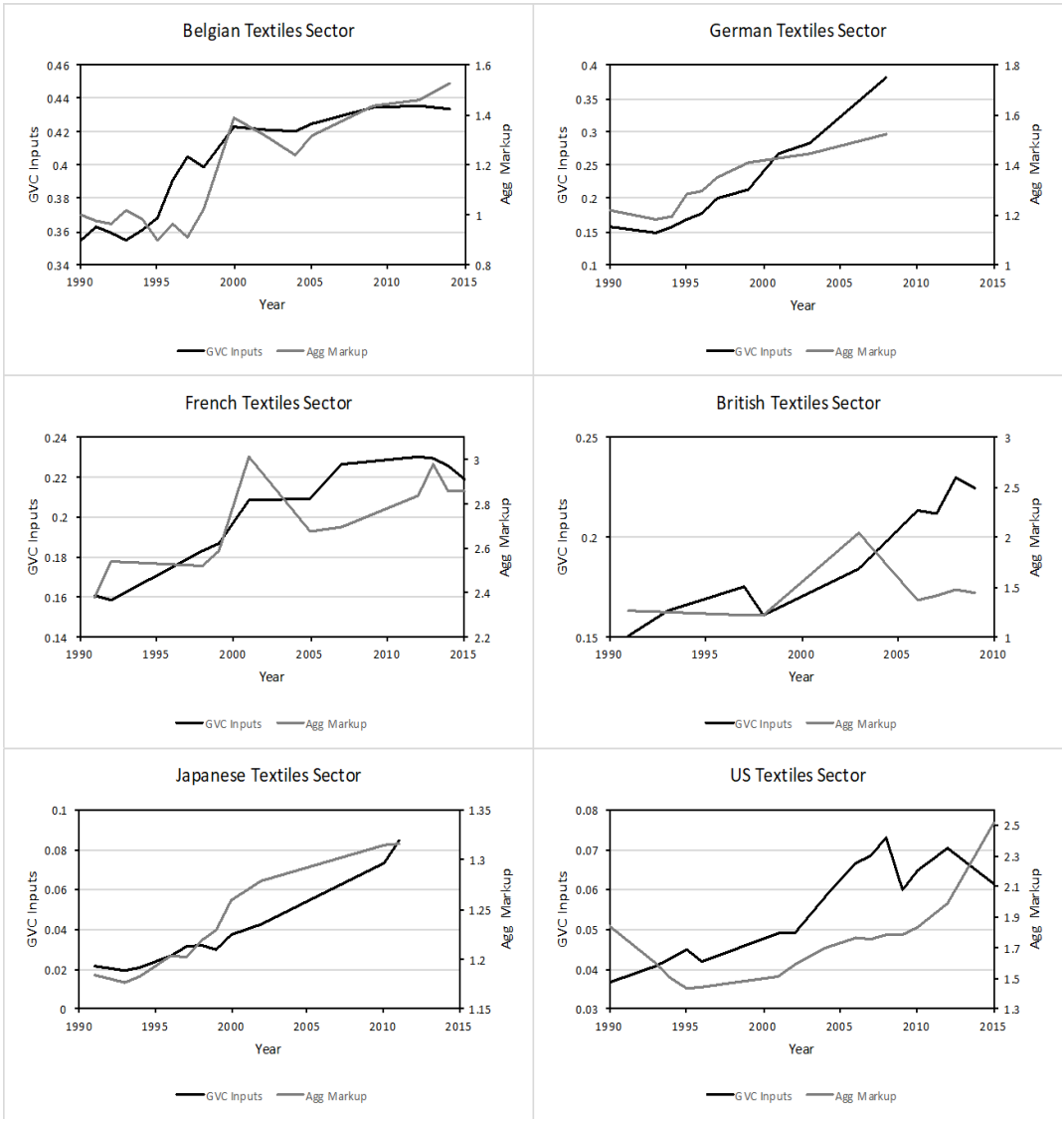
Sources: De Loecker, Goldberg, Khandelwal & Pavcnik (2016), as summarized in Goldberg (2023), §2.3.2; Jaravel & Sager evidence summarized there.

Other Examples

- Zara (and market power in input markets), Morlacco (2020).

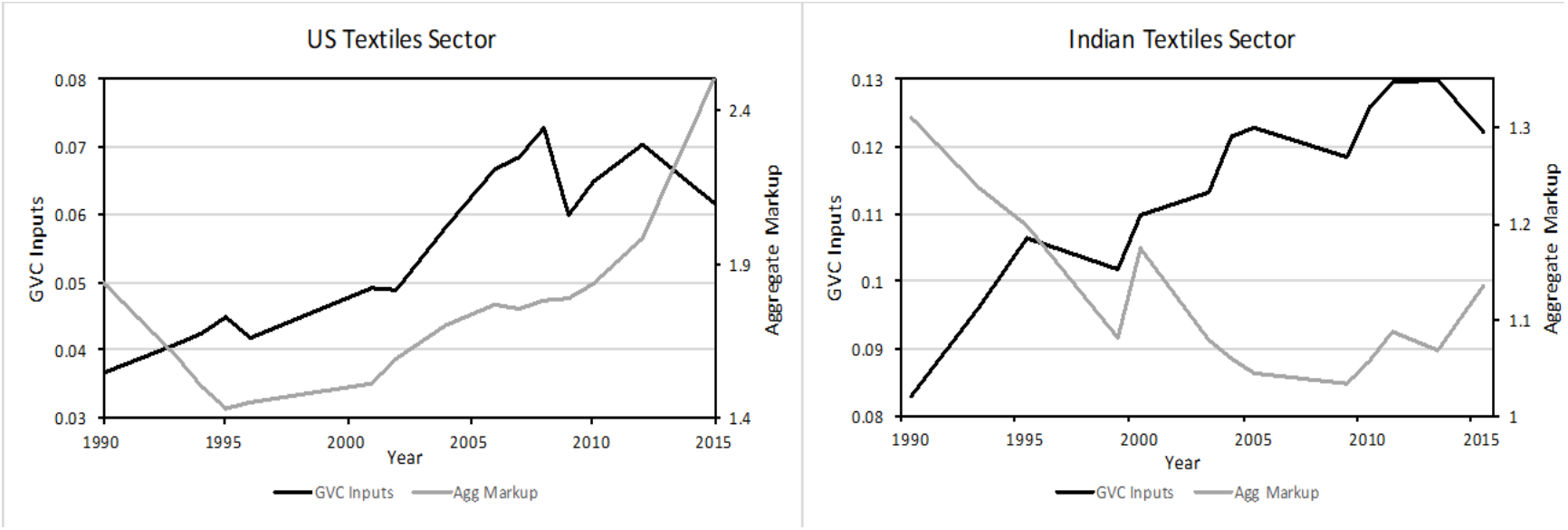
- GVC Trade and Markups
  - Relationship varies depending on whether we have forward or backward integration

GVC Inputs and Markups



Source: Goldberg (2023). Original data from Eora and Worldscope.
Note: The left y-axis measures the share of foreign value added in gross exports of each country's textile sector. The right y-axis measures the share-weighted average markup of listed companies in the textile sector. Markups are calculated following Jan De Loecker and Jan Eeckhout, "Global Market Power."

Forward vs. Backward Integration



Source: Goldberg (2023). Original Sources: World Bank, *World Development Report 2020*: 85, using data from Eora and Worldscope.
Note: The left y-axis in the left panel measures the share of foreign value added in gross exports of the US textile sector (backward GVC participation). The left y-axis in the right panel measures the share of domestic value added in India embodied in importing countries' exports to third countries (forward GVC participation). The right y-axis in both panels measures the share-weighted average markup of listed companies in the textile sector. Markups are calculated following Jan De Loecker and Jan Eeckhout, "Global Market Power." Similar results hold across countries and sectors.

Important Qualifications

- Even if you believe in the second explanation (technology x globalization), this does not mean there is no role for competition policy going forward

- Market power presents challenges even if it was the result of higher efficiency

- Some reasons for concern:
  - Entry and exit have declined
  - Stock market valuations allow incumbents to acquire (and subsequently shut down) technological startups
  - Focus on high-tech in the US may miss developments in other sectors

THANK YOU!

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