

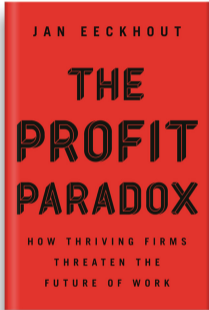
DOMINANT FIRMS IN THE DIGITAL AGE

JAN EECKHOUT

UPF Barcelona

Copenhagen

1 December, 2022

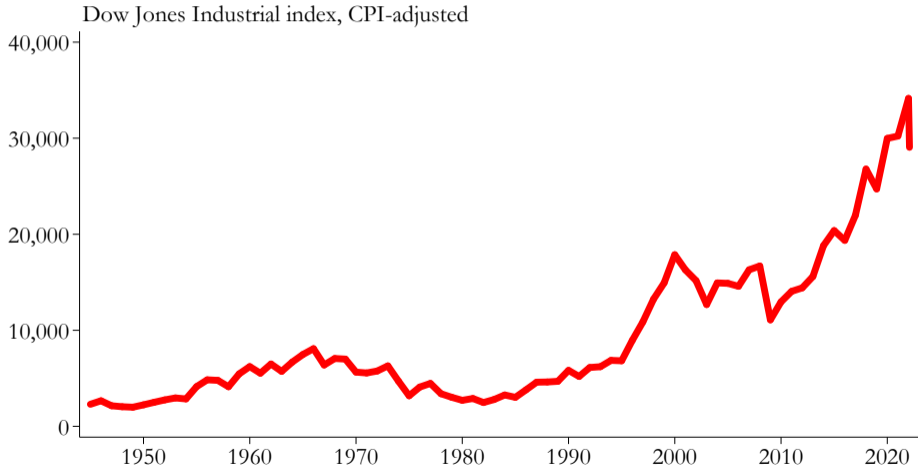
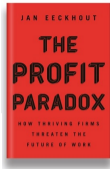


THE PROFIT PARADOX

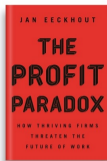
How Thriving Firms
Threaten the Future
of Work

BY JAN EECKHOUT

Dow Jones



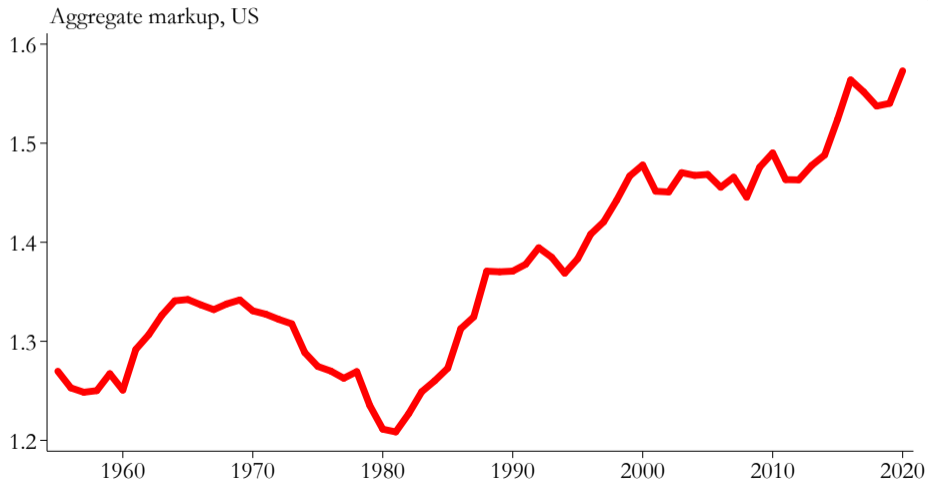
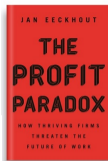
RISE IN ECONOMY-WIDE MARKET POWER



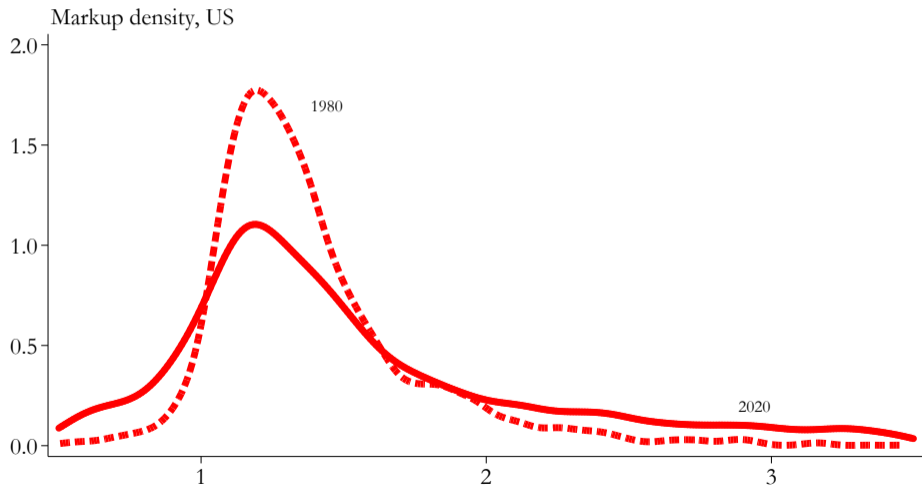
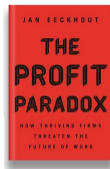
Economy-wide market power...

- Stock market valuations: p.a. growth $< 1\% \rightarrow 7\%$
 - Markups: $1.2 \rightarrow 1.6$
 - Profit rates: $1\% \rightarrow 8\%$
- For a few dominant firms: distribution and reallocation

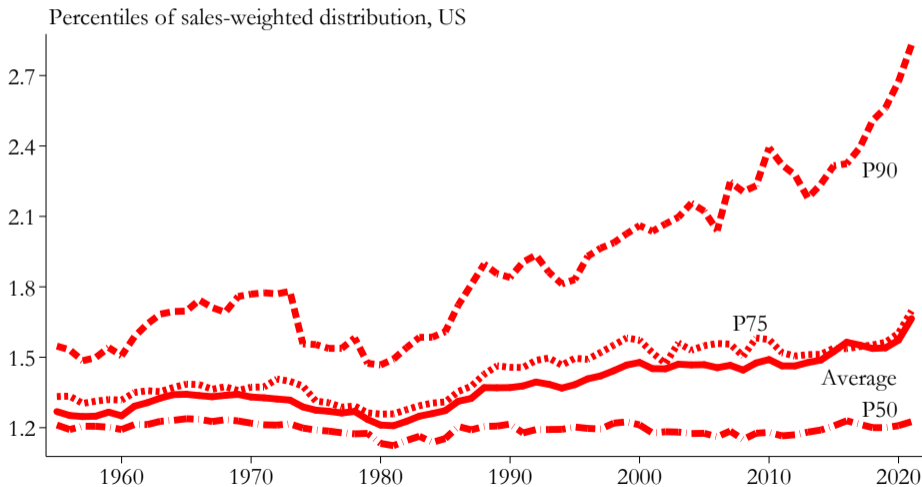
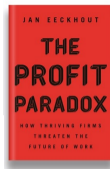
Aggregate Markup



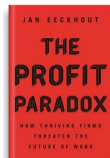
Markup Distribution



Markup Distribution: weighted percentiles

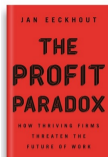


Markup Distribution

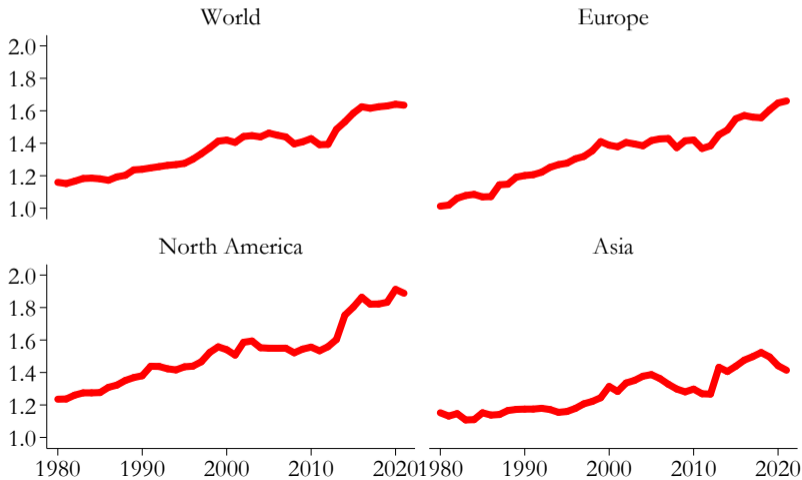


- Decomposition: within-sector, not between sectors
- Large reallocation to productive firms: Autor-Dorn-Katz-Patterson-Van Reenen (2020)
- In all sectors, from Tech to Textiles
- But, tech plays a role, Teulings-Van 't Klooster (2021)

A Global Phenomenon

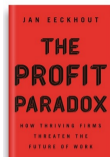


Aggregate markups

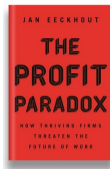


MACROECONOMIC IMPLICATIONS

Economy-wide market power ... has an **economy-wide** impact



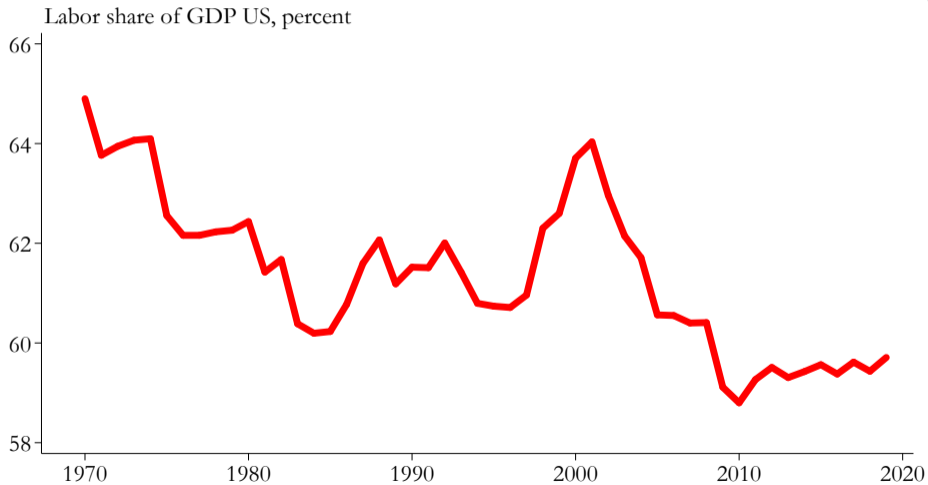
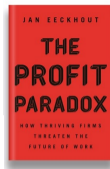
MACROECONOMIC IMPLICATIONS



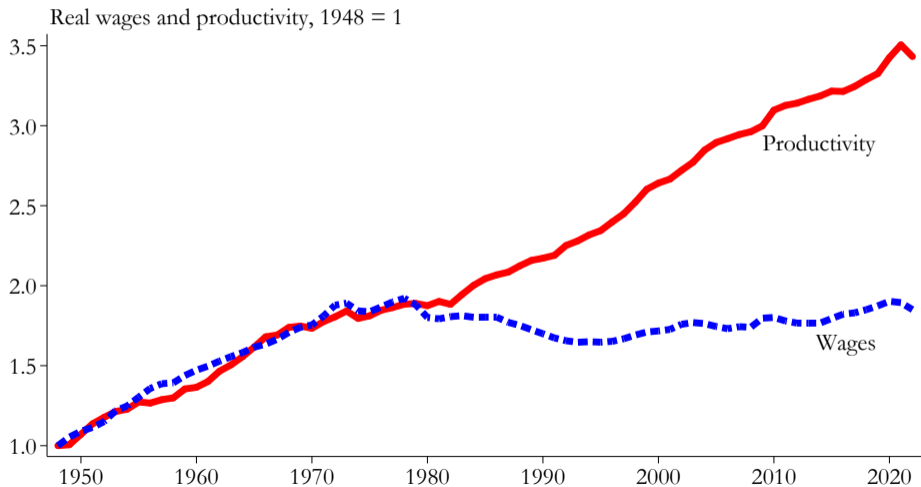
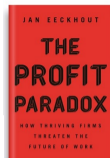
Economy-wide market power ... has an **economy-wide** impact

- Declining labor share
 - Wage stagnation (wedge productivity–wages)
 - Falling labor force participation
- Declining business dynamism
 - Labor reallocation
 - Startup rate
- Rising Wage Inequality

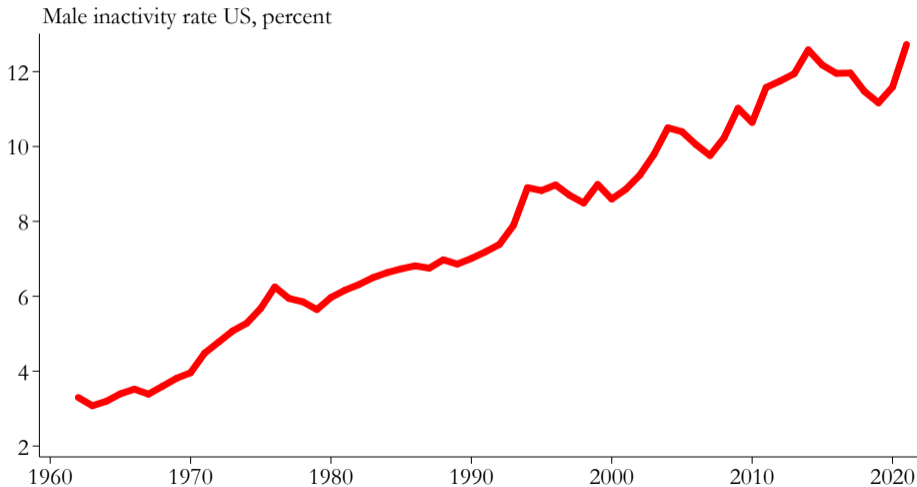
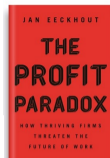
Labor Share



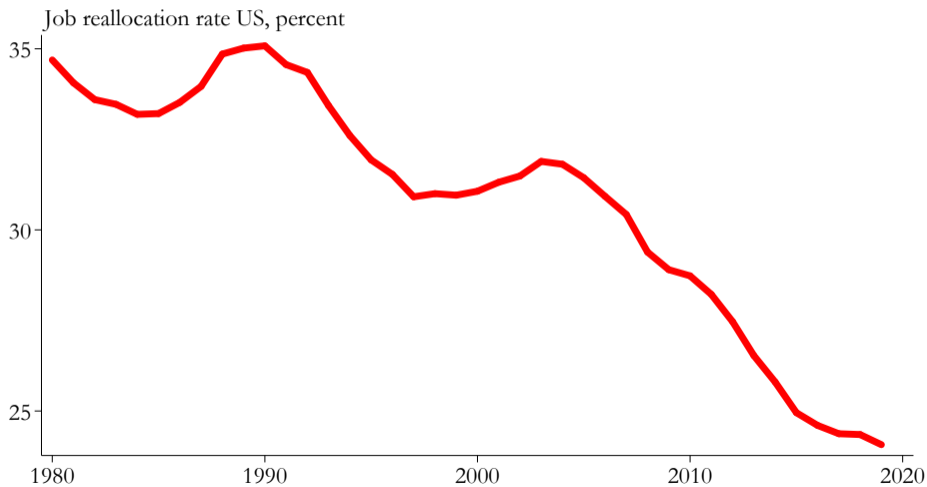
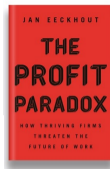
Labor Share: Wage Stagnation



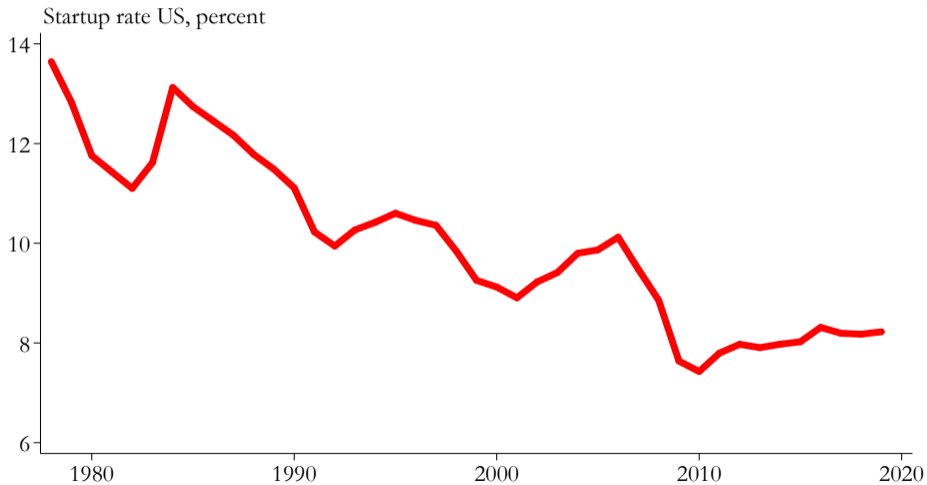
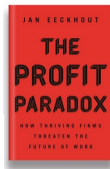
Labor Share: Labor Force Participation



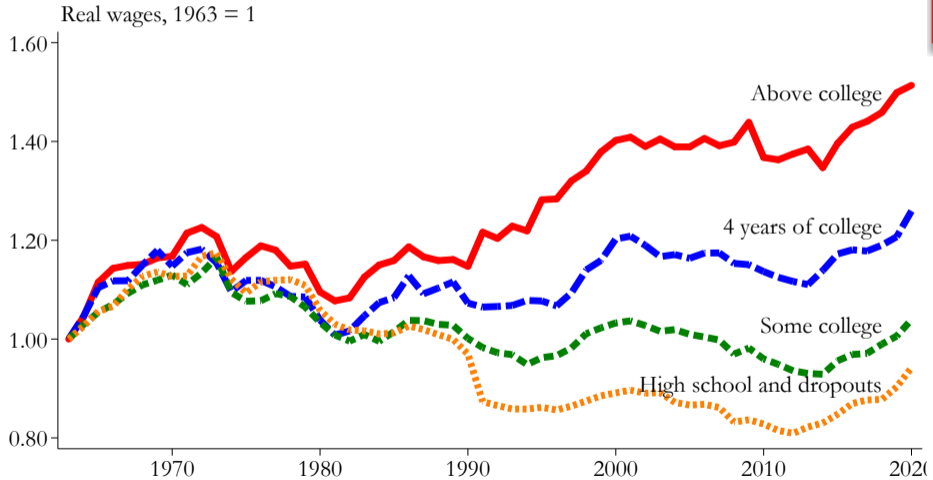
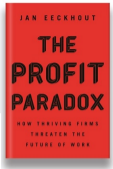
Business Dynamism: Job Reallocation



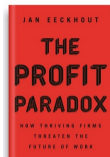
Business Dynamism: Startups



Wage Inequality



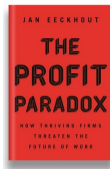
Wage Inequality



The role of Market Power

- Between-firm inequality: increases due to market power (> 50%)
- Wage stagnation: wage decline even without **technological regress**

Wage Inequality

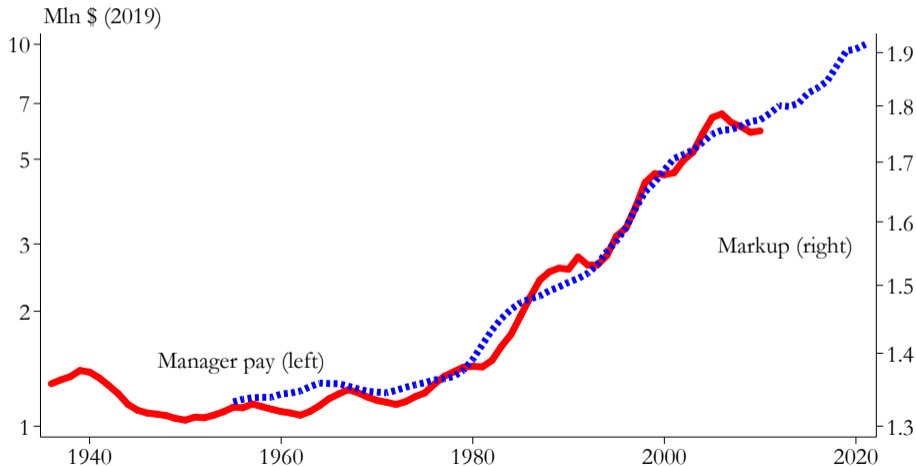
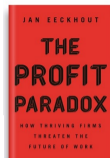


The role of Market Power

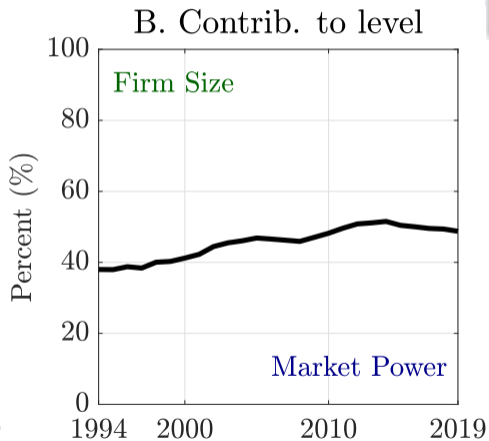
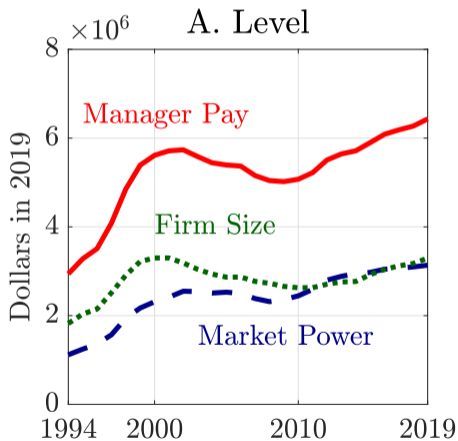
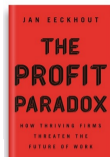
- Between-firm inequality: increases due to market power ($> 50\%$)
- Wage stagnation: wage decline even without **technological regress**

Monopsony vs. Monopoly: 25 vs. 75%, economy-wide effect

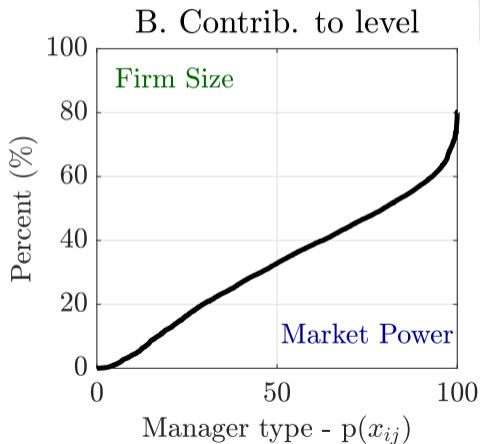
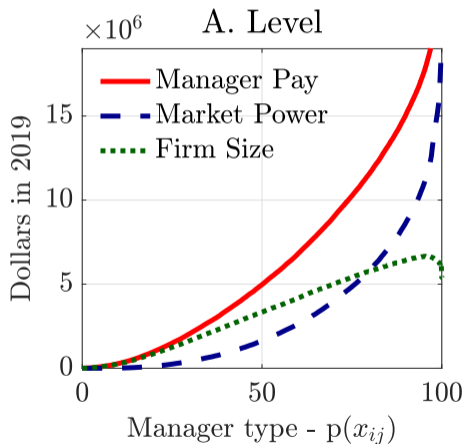
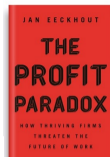
Wage Inequality: Superstar Pay



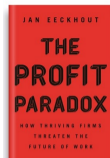
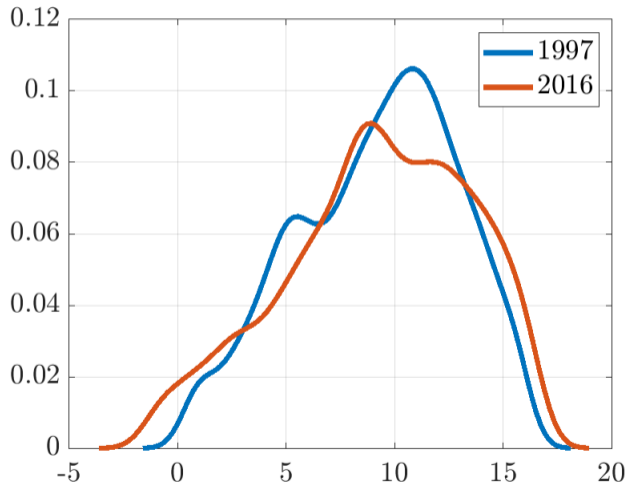
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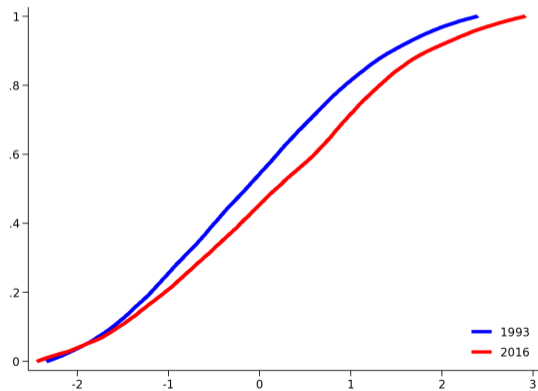
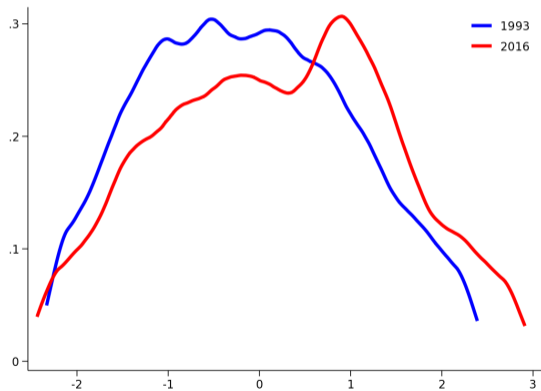
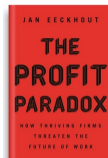
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Productivity

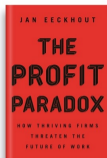


Productivity-by-skill ratio $\ln \frac{A_{Hinj}}{A_{Linj}}$





ECONOMIC MECHANISMS

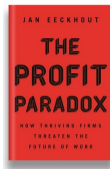


Research objective: uncover economic mechanisms (General Equilibrium effects)

Causes

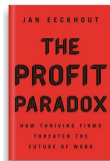
1. Lax antitrust enforcement – 'Bork doctrine' starts in early 1980s
2. Fast technological change
 - Scale economies: Fixed cost + 40%; Returns to scale: from 1 to 1.05
 - Rising dispersion in productivities: $\sigma = .03 \rightarrow .07$
3. Globalization

WELFARE COST



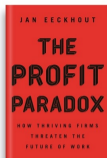
- Output (and welfare) loss: 8% of GDP – De Loecker e.a. (2022), Edmonds e.a. (2022)
 - Large reallocation towards most productive firms
 - Even larger decline due to rent-extraction (deadweight loss)
- Efficiency gain + market power:
 - price p ↘
 - cost c ↘ ↘
 - markup $\frac{p}{c}$ ↗

POLICY



- Taxation: can redistribute, but cannot get rid of inefficiency
- Only reducing economy-wide market power will reduce inefficiency:

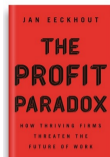
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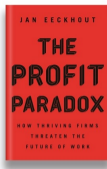
- Taxation: can redistribute, but cannot get rid of inefficiency
- Only reducing economy-wide market power will reduce inefficiency:
- But, current antitrust/regulation
 - focuses on direct harm to consumers and workers
 - has limited tools to deal with (pecuniary) externalities from economy-wide market power

Policy

- More competition
 - Split up firms? Maybe
 - Regulation: **interoperability** – separate network from operators (pro-competitive)
 - Antitrust policy: merger review, Ex ante regulation, market investigations,...
 - Regulate dominant firms as utilities



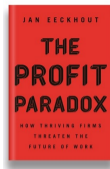
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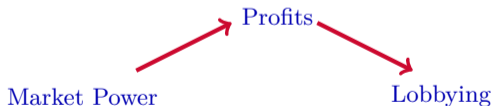
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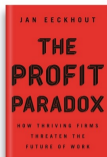
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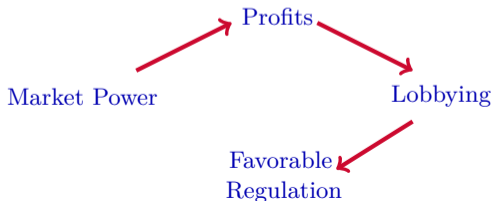
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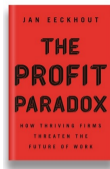
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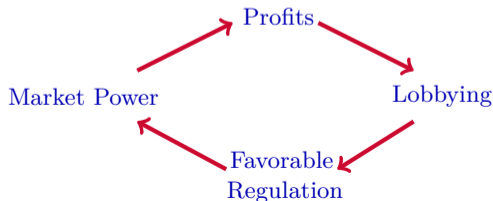
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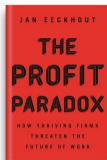
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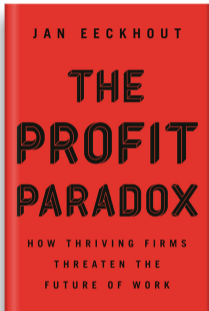
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DOMINANT FIRMS IN THE DIGITAL AGE



- Fast technological change → market power → economy-wide implications
- Large welfare cost (8% of GDP); future?
- Not first time:
 - 1900, electricity, telegraph, railways → now all are regulated utilities
 - But... it took 2 wars and the great depression to undo market power



THE PROFIT PARADOX

How Thriving Firms
Threaten the Future
of Work

BY JAN EECKHOUT



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