Rising Markups or Changing Technology

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Date:2022-09-01

Keyword:NA

Url:[click here](https://www.nber.org/papers/w30491)

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From:NEBR-working\_paper

Recent evidence suggests the U.S. business environment is changing, with rising market concentration and markups. The most prominent and extensive evidence backs out firm-level markups from the first-order conditions for variable factors. The markup is identified as the ratio of the variable factor’s output elasticity to its cost share of revenue. Our analysis starts from this indirect approach, but we exploit a long panel of manufacturing establishments to permit output elasticities to vary to a much greater extent - relative to the existing literature - across establishments within the same industry over time. With our more detailed estimates of output elasticities, the measured increase in markups is substantially dampened, if not eliminated, for U.S. manufacturing. As supporting evidence, we relate differences in the markups’ patterns to observable changes in technology (e.g., computer investment per worker, capital intensity, diversification to non-manufacturing), and we find patterns in support of changing technology as the driver of those differences.