

Beyond the Great Reversal

Superstars, Unions, and the Euro

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Outline

- 1 Motivation
- 2 Argument & Hypotheses
- 3 Empirical Strategy & Variables
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- 5 Conclusions

Competition in Europe

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Assumption: openness and market forces lead to more competition (e.g., Helpman and Krugman 1989, Blackhurst 1991, Neven and Seabright 1997, Besley et al. 2021)

So, what about the **Euro**?

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- Euro vs. Non-Euro countries.

- Tradable vs. Non-Tradable industries.

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Product Market Competition : several studies find stable and decreasing markups (e.g. Christopoulou and Vermeulen 2008, Altomonte and Nicolini 2012, Cavalleri et al. 2019)

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Yet, significant country, industry, and firm heterogeneity (Weyerstrass and Jaenicke 2011, Battisti et al. 2021, Drivas et al. 2020).

Market power can derive from other sources such as labor market (e.g., Tortarolo and Zarate 2018).

Evolution of Market Power, 2000-2018

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Not the "traditional" indicator :

$$mp = \overline{md}$$

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Superstar firms (i.e., highly productive firms) expand at the expense of low-productivity enterprises.

Consequently, market power increases in the long run.

Theoretical Framework: Superstars & the Labor Market

High-market power firms have low labor shares of output (Autor et al 2020).

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However, this effect assumes an adversarial relationship between labor and capital.

Theoretical Framework: Superstar & the Labor Market/2

Cooperative labor market institutions can lead to "pacts" between labor and capital (Hicks and Kenworthy 1998, Jäger et al. 2022).

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Increase in competitiveness allowing firms to acquire larger market shares and increase market power.

Predictions: a Story of European Superstar Firms

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P1b: The effect of the Euro on firm-level market power should work predominantly for highly productive firms.

P2 Market Power and Cooperative Institutions : In countries with institutions favoring cooperation between workers and firms, unions should increase the market power of firms operating in tradable industries. By contrast, when these institutions are weak, unions should decrease market power.

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Staggered Differences-in-Difference methodology.

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Firm (a_j) and year (or industry-year) effects (α).

P1: Euro and Market Power

P1a: Euro & Tradable Industries

Testing P1b: Euro & Productive Firms

Testing P2b: Market Power and Cooperative Institutions

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Open questions:

Trade imbalances?

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Open questions:

- Trade imbalances?

- Should we worry?

- Should antitrust law account for labor market imperfections?

Appendix

Regression P1 & P1a

$$\log m_{jict} = \text{euro}_{ct} + X_{jict} + \alpha_j + \beta_t + \gamma_{it}$$

$$\log m_{jict} = \alpha_j + \beta_t + \gamma_{it} + \text{euro}_{ct} + X_{jict}$$

Regression P1b

$$\log m_{pjct} = P_t^5 \text{ euro}_{ct} + X_{jict} + \beta_j + \beta_t + \beta_{it}$$

$$\log m_{pjct} = \sum_{v=1}^4 Q_t^v \text{ euro}_{ct} + X_{jict} + \beta_j + \beta_t + \beta_{it}$$

$$\log m_{pjct} = M_t \text{ euro}_{ct} + X_{jict} + \beta_j + \beta_t + \beta_{it}$$

Parallel Trends and Long-Run Effects

$$\log mp_{jict} = \sum_{v=1}^V D_v \text{euro}_{ct} + X_{jict} + \alpha_j + \alpha_t + \alpha_{it}$$

Regression P2

$$\log mp_{jict} = \text{power}_c \text{ coverage}_{ct} + X_{jict} + j + t + it$$

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Only Euro Zone countries (after their entrance) are considered.

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Only Euro Zone countries (after their entrance) are considered.

Only tradable industries.

Firstly, all enterprises then focus on large firms (i.e., revenues in the top decile of the country-industry-year distribution).

$$\log mp_{jict} = \sum_{v=1}^4 \alpha_v C_t^v \text{ euro}_{ct} + X_{jict} + j + t + it$$

Firm Sample Distribution

COUNTRY	FIRMS	PERCENTAGE
AUSTRIA	1,958	0.03%
BELGIUM	45,626	0.71%
BULGARIA	111,946	1.74%
CROATIA	206,724	3.22%
CZECH REPUBLIC	160,429	2.50%
DENMARK	46,149	0.72%
ESTONIA	78,925	1.23%
FINLAND	138,776	2.16%
FRANCE	845,708	13.15%
GERMANY	38,813	0.60%
GREECE	97,589	1.52%
HUNGARY	16,618	0.26%
IRELAND	9,486	0.15%
ITALY	1,037,531	16.14%
LATVIA	4,191	0.07%
LITHUANIA	14,131	0.22%
NETHERLANDS	1,218	0.02%
POLAND	56,915	0.89%
PORTUGAL	439,339	6.83%
ROMANIA	706,714	10.99%
SLOVAK REPUBLIC	114,930	1.79%
SLOVENIA	94,598	1.47%
SPAIN	1,358,413	21.13%
SWEDEN	378,036	5.88%
UNITED KINGDOM	424,506	6.60%
TOTAL	6,429,269	100%

Labor Institutions Variables

COUNTRY	POWER	COVERAGE	COOPERATION
AUSTRIA	0.43	0.98	0.80
BELGIUM	0.43	0.96	0.80
BULGARIA	0.43	0.30	0.20
CROATIA	0.57	0.56	0.80
CZECH REPUBLIC	0.43	0.36	0.56
DENMARK	0.71	0.84	0.80
ESTONIA	NA	0.13	0.52
FINLAND	0.43	0.89	0.80
FRANCE	0.67	0.97	0.80
GERMANY	0.71	0.60	0.80
GREECE	0.43	0.81	0.27
HUNGARY	0.71	0.26	0.74
IRELAND	0.43	0.39	0.43
ITALY	0.43	1.00	0.80
LATVIA	0.52	0.30	0.40
LITHUANIA	0.29	0.10	0.35
NETHERLANDS	0.43	0.83	0.56
POLAND	0.71	0.19	0.40
PORTUGAL	0.71	0.77	0.53
ROMANIA	0.57	0.81	0.66
SLOVAK REPUBLIC	0.57	0.33	0.47
SLOVENIA	0.43	0.76	0.60
SPAIN	0.71	0.82	0.60
SWEDEN	0.62	0.88	0.60
UNITED KINGDOM	0.00	0.33	0.20
AVERAGE	0.52	0.61	0.58

