“Global Labor Market Power” by Francesco Amodio, Emanuele Brancati, Peter Brummund, Nicolás de Roux, and Michele Di Maio

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NEUDC

Summary

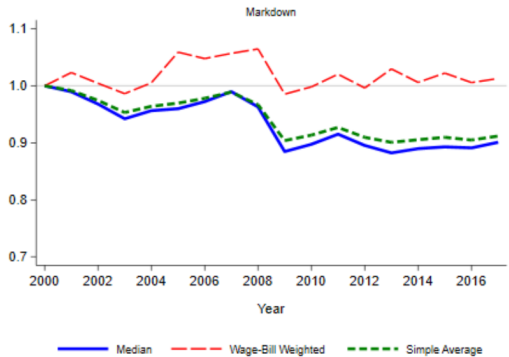
- Summary of the paper ⏩ Detail
- I enjoyed reading the paper
- Markdown estimates, markdown-country characteristic relationship, and theory

Main Comment 1: Additional Robustness of Markdown Estimates

- Measuring markdown is central in this paper
- Is the "global" markdown estimate robust across different methods of estimating wage markdowns, such as
  - Yeh et al. (2022): $\text{Markdown}_{it} = \frac{\text{Output elasticity of labor}_{it}}{\text{Labor share in revenue}_{it}} \times \text{Markup}_{it}^{-1}$
  - Brooks et al. (2021a,b): Additional restriction (small firms have no labor market power)
  - Gandhi et al. (2020): Nonparametric approach

Main Comment 2: Markdown Trend

- For example, Díez et al. (2022) shows the markdown trends for 10 European countries



- It'd be interesting if you can show the "global" trends
- Or it is not comparable over time b/c country coverage are different in a given year?

Idea

Main Comment 3: Consistency of Methods across Countries

- The "proxy variable" methods, i.e., OP/LP/ACF methods assume that (Ackerberg et al., 2015)

> ASSUMPTION 2—First Order Markov: *Productivity shocks evolve according to the distribution*
>
> $$p(\omega_{it+1} \mid I_{it}) = p(\omega_{it+1} \mid \omega_{it}).$$
>
> *This distribution is known to firms and stochastically increasing in* ω_{it}.

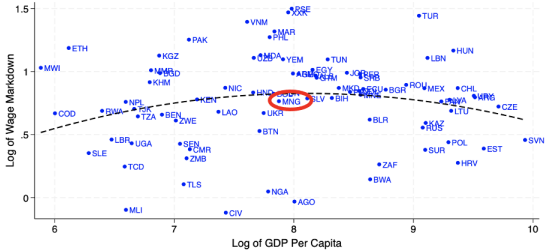
- Gaps between WBES waves vary across countries $\Longrightarrow$ Is the method strictly consistent across countries?

Detail

Main Comment 4: Markdown-Development Relationship

- X-axis: Make the periods consistent, like Armangue-Jubert et al. (forthcoming)

Figure 2: Labor Market Power and GDP Per Capita Across Countries



Notes. The figure plots the log of median wage markdown against the log of GDP per capita in 2010 across countries together with a quadratic fit.

Country	Waves	Firms	Obs.
Lithuania	09-13-19	51	95
Malawi	09-14	64	81
Mali	07-10-16	120	255
Mexico	06-10	160	310
Moldova	09-13-19	86	158
Mongolia	09-13-19	80	161
Montenegro	09-13-19	45	92
Morocco	13-19	71	116
Myanmar	14-16	178	327
Nepal	09-13	106	211
Nicaragua	06-10-16	154	275
Niger	09-17	30	46
Nigeria	07-14	177	317
North Macedonia	09-13-19	102	200

- Y-axis: How about aggregating plant-level markdowns using some aggregation methods, say a weighted average like in Yeh et al. (2022)

Main Comment 5: Markdown and Self-Employment Relationship

- What year the self-employment is expressed at in Figure 3? ⏩ Detail
- A hump shape is due to UI $\Longrightarrow$ Controlling for UI would make the square term zero?

Table 2: Labor Market Power and Country Characteristics

	Log of Wage Markdown							
					Unempl. Protection		No Unempl. Protection	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log of GDP p.c.	1.037*		-0.111					
	(0.602)		(0.563)					
Log of GDP p.c. Sq.	-0.064*		-0.002					
	(0.038)		(0.036)					
Self-Employment Share		2.022***	1.531**	2.076***	1.071***	1.118***	-0.700***	-0.933***
		(0.602)	(0.688)	(0.587)	(0.341)	(0.318)	(0.223)	(0.257)
Self-Employment Share Sq.		-2.442***	-2.417***	-2.658***				
		(0.605)	(0.658)	(0.597)				
Unemployment Rate				-1.651**		-1.906**		-2.002*
				(0.754)		(0.906)		(1.165)
Observations	82	73	73	73	24	24	46	46
R^2	0.041	0.240	0.302	0.289	0.310	0.430	0.183	0.235

Notes. * p-value< 0.1; ** p-value<0.05; *** p-value<0.01. The unit of observation is a country. The dependent variable is the log of median wage markdown in each country. The sample in columns 5 and 6 consists of countries with unemployment protection. The sample in columns 7 and 8 consists of countries without unemployment protection.

⏩ Robustness: Informality & Measures of LM institutions other than UI

Main Comment 6: Relationship between Theory and Empirics

- What are the conditions that make Eq. (14) negative? Clearly state those. Is it the high labor market friction or low q?

$$\frac{\partial \epsilon(w)}{\partial n^s} = -\epsilon(w)\frac{\partial \Phi^{-1}(1-n^s)}{\partial n^s}\left(c_p + \lambda(c_p) + 1 - \frac{e^{\Phi^{-1}(1-n^s)+\mu}}{e^{\Phi^{-1}(1-n^s)+\mu} - b}\right) \tag{14}$$

- If so, where do we see the role of q in the empirical relationship, say in Figure 3?

Details

Appendix

Minor Comments

- If you run the Table 2 regressions on country-year data and include country and year FEs for countries with three WBES waves, would the relationship hold?
- Studies tend to include the variable of interest in the markdown/markup/production function estimation. For example, Brandt et al. (2017, AER) included Chinese trade exposure in their PF estimation. So, I wonder if you should include development measures, self-employment, and UI measure in your estimation of production function estimation
- Clarify the controls included in the markdown estimation. For example, Country$\times$Year FE, LLM$\times$Year FE, Country$\times$Industry$\times$Year FE, LLM$\times$Industry$\times$Year FE, etc.

Minor Comments

- Local labor markets are commonly defined by region$\times$industry combination. Can you try defining LLM as this way? Otherwise, it might be better to call it as LLM region.
  - Given 932 LLMs and 82 countries, average # of LLMs per country is $\sim$11, so it seems like quite large areas to be considered as LLM region, these areas are large more like states/regions/provinces...

- How accurate is the title? Is the “global” accurate? How about something like ”Labor Market Power in the Developing World”? Also, I feel like the self-employment (and unemployment protection) is an important part of the paper, so perhaps bring those in the title?

- What if you add LLM$\times$Year FE, at least Country$\times$Year, or Industry$\times$Year in Equation (4)? Otherwise, β in (4) might pick up relationships with other aggregate-level factors, rather than only with the firm’s idiosyncratic characteristics (Table 1).

Minor Comments

- Adding TFP-markdown relationship in Table 1 would be more direct way to make points about the firm productivity-markdown relationship; Firm age-markdown relationship might be also interesting to be added if data allows.
- Keeping the sample constant in Table 2, with total of 70 countries, might make the specifications more comparable.
- Why CD structural value added ACF provides super large markdowns, particularly mean, in the top panel of Table A.1? Some outliers? How are you treating the outliers in general? Dropping top and bottom 1%, for example?
- What is the reason you don't have (Translog, LP) in Tables A.1 and A.3?

Minor Comments

- What if you add more granular FEs in your regressions such in Table A.3, like those mentioned above, to make sure that you're exploiting variation within firms over time?
- Can you plot Figure A.1 for other country groupings, like income groups by the World Bank classification here
- Grouping countries in Table A.2 by continents or any other interesting group might add some interesting message without taking up space
  - It also helps to see which countries/groups are driving the results?
- Since using the same data (WBES), how about comparing your markdown estimates against LS elasticities across countries by Armangue-Jubert et al. (forthcoming, AER-Insights) if they post their estimates

Summary of the Paper

- Provide comparable estimates on labor market power across 82 LMICs
  - Workers in a median firm receive 43% of their marginal contribution to the firm
- Study the relationship between labor market power and self-employment
  - Cross-country relationship shows a hump-shaped relationship between markdown and self-employment
  - The presence of UI explains the shape, consistent with the proposed theory

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Main Comment 2: Markdown Trend

1. Perhaps you can plot markdown trend for countries with the same year/wave coverage. For example, $\sim$19 countries with waves for 09-13-19. But the trend will be only a line between 2013-2019.

2. Also, if you consider the countries covered in a given year are representative of the LMICs, perhaps you can still draw the trend even though the country coverages are different across years

- You may also compare the patterns in items 1 and 2 here between 2013-2019 to validate item 2

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Main Comment 3: Consistency of Methods across Countries

- Varying gaps between waves across countries: Given different gaps between waves across countries, the underlying assumptions seem to be different across countries? Can you show or discuss that the results are still comparable across countries even when we have different waves/years across countries?

- The method sounds consistent across countries in a sense that the lagged values are used as instrument in PF estimation. However, the underlying assumptions might be different across countries because the lags are different across countries.

- So I wonder if the methodology is strictly consistent across countries.

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Main Comment 5: Markdown and Self-Employment Relationship

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- What year the self-employment is expressed at? Same comments as for Figure 2.

Figure 3: Labor Market Power and Self-Employment Across Countries

Notes. The figure plots the log of median wage markdown against the share of self-employed workers across countries in our sample together with a quadratic fit. It also highlights countries depending on the availability of unemployment protection after one year of job tenure according to national employment regulations.

Main Comment 5: Markdown and Self-Employment Relationship

- I wonder if the markdown-self employment-UI relationship holds conditional on informality, which is also a potential outside option for wage workers
  - ILO data on the informal economy/employment: `https://ilostat.ilo.org/topics/informality/`
- Can you try other proxy measures of labor market institutions (other than UI) to confirm that labor market institutions explain the hump shaped relationship between markdown and self-employment?

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Main Comment 6: Relationship between Theory and Empirics

- The interpretation of Equation (14), which shows ambiguous relationship between $\epsilon(w)$ and n^s, is short and not clear.
- What are the conditions that make Eq. (14) negative? Clearly state those. Is it the high labor market friction or low q?
- If so, where do we see the role of q in the empirical relationship, say in Figure 3? Are you suggesting that those countries in **red** have high labor market friction? If so, can you show that using some proxies?
- If the labor market friction makes the markdown-self employment relationship upward-sloping for those countries in **red**, we'd expect the positive relationship to disappear conditional on labor market frictions. Can you check on this? Basically, I am thinking about the connection between the theory and the empirics. I.e., whether the sufficient conditions that make the Eq. (14) negative are observed in the data.

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References

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