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**The Divergent Dynamics of Labor Market Power in Europe**

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**ABSTRACT:** We use firm-level data from 10 European countries to establish several new stylized facts about firms' labor market power. First, we find the pervasive presence of labor market power across countries and sectors, measured by average and median markdowns above unity. Second, focusing on the dynamics, we find that weighted average markdowns have increased 1.3 percent between 2000 and 2017. However, median and unweighted average markdowns have actually decreased over the same time period, suggesting the existence of divergent paths across the markdown distribution. Third, we show that high-markdown firms tend to have a large footprint in both their product and input (labor) markets, and are most commonly listed and found among services sectors. Finally, a Melitz-Polanec decomposition of the change in weighted average markdown finds that the increase has been driven by a reallocation of resources towards high-markdown incumbents and by the extensive margin via the net entry of high-markdown firms while, in contrast, there was a decline in within-firm markdowns. Our findings highlight the importance of using granular and broad-based data for a thorough analysis of firms' labor market power.

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Keywords:	Monopsony; labor market power; markdowns; secular trends
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# The Divergent Dynamics of Labor Market Power in Europe

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## Abstract

We use firm-level data from 10 European countries to establish several new stylized facts about firms' labor market power. First, we find the pervasive presence of labor market power across countries and sectors, measured by average and median markdowns above unity. Second, focusing on the dynamics, we find that weighted average markdowns have increased 1.3 percent between 2000 and 2017. However, median and unweighted average markdowns have actually *decreased* over the same time period, suggesting the existence of divergent paths across the markdown distribution. Third, we show that high-markdown firms tend to have a large footprint in both their product and input (labor) markets, and are most commonly listed and found among services sectors. Finally, a Melitz-Polanec decomposition of the change in weighted average markdown finds that the increase has been driven by a reallocation of resources towards high-markdown incumbents and by the extensive margin via the net entry of high-markdown firms while, in contrast, there was a decline in within-firm markdowns. Our findings highlight the importance of using granular and broad-based data for a thorough analysis of firms' labor market power.

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