Hall’s Discussion of Gutiérrez-Philippon

![Graph showing net investment/capital over time](image)
Labor share, from Fernald
Total factor productivity, from Fernald
Labor-force participation rates, 25 to 54 years, BLS

[Graph showing labor-force participation rates for men and women from 1967 to 2012.]
Cyclically Corrected Deficit of Consolidated Government, as a Percent of GDP, NIPAs
Ratio of corporate net investment to capital, Fixed Asset Accounts, BEA
Tobin’s first-order condition for investment adjustment

Net investment/capital

1967
1999
2000
2016
Figure 4: Net Investment vs. Q

Net investment (actual and predicted with Q)

3.1 A Secular Trend since 1980

Figure 1 presents the weighted average markup, across the economy, over time where weights are based on firm-level sales. Average markups have gone up since the 1980s. In the beginning of the sample period markups were stable and slightly decreasing from 1.27 in the 1960 to 1.18 in 1980. Since 1980 there has been a steady increase to 1.67. In 2014, the average firm charges 67% over marginal cost, compared to 18% in 1980. In Appendix B.5 we report some individual firms' markups.

It is well known that the Compustat data is a selected sample and we therefore compare our result to aggregate data from the IRS, and further compare it to the aggregated version of our data (Compustat). The figures in the Appendix B.4 confirm that these same pattern holds, at the aggregate level, although there is a more modest increase in market power for aggregate data. The patterns, however, across the (aggregate) Compustat dataset and the economy-wide private sector (using IRS) are very similar. This highlights the importance of using micro-level data and that industry-level data cannot fully capture the increase in market power. We turn to the micro dimension next.

3.2 Decomposition: Markups and Firm Size

The construction of our measure of markup uses weights given by the sales share of the firm in the economy.
Figure 4: Average Concentration Across Four Digit Industries by Major Sector

Panel A: Manufacturing

Panel B: Finance

Panel C: Services

Panel D: Utilities and Transportation

Notes: This figure plots the average concentration ratio in six major sectors of the U.S. economy. Industry concentration is calculated for each time-consistent four-digit industry code, and then averaged across all industries within each of the six sectors. The solid blue line (circles), plotted on the left axis, shows the average fraction of total industry sales that is accounted for by the largest four firms in that industry, and the solid red line (triangles), also plotted on the left axis, shows the average fraction of industry employment utilized in the four largest firms in the industry. Similarly, the dashed green line (circles), plotted on the right axis, shows the average fraction of total industry sales that is accounted for by the largest 20 firms in that industry, and the dashed orange line (triangles), also plotted on the right axis, shows the average fraction of industry employment utilized in the 20 largest firms in the industry.
question at this point is, why not look at the behavior of private investment? Figure 3 shows the time series on private domestic nonresidential investment. Consistent with the pattern of the real return on productive capital, private domestic nonresidential investment has been steadily increasing since the end of the recent recession. The insert in the figure shows the deviations from trend and that private nonresidential investment is now more than 5 percent above trend. Private nonresidential investment is also 14.5 percent higher than its pre-recession peak in the fourth quarter of 2007.

A similar pattern holds for all investment, a measure that includes both residential and nonresidential investment (see Figure 4). Consistent with the rising return on capital, the real return on all investment, a measure that includes both residential and nonresidential investment, has been steadily increasing since the end of the recent recession. The insert in the figure shows the deviations from trend and that the real return on all investment is now more than 10 percent above trend. All investment is also 25 percent higher than its pre-recession peak in the fourth quarter of 2007.