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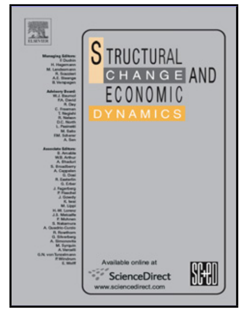

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Sectoral Mark-ups in U.S. Manufacturing

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Research highlights

- The aggregate mark-up on average costs moved pro-cyclically, especially in the period 1958-1980.
- We identified, among the twenty two-digit level industries in consideration, a high degree of common reaction to business cycles. This was reflected in the explanatory power of the 'pro-cyclical' principal components.
- Groups of industries presented strong similarity in their overall mark-up behavior and this does not seem to be determined by market structure
- The pattern of technical change in the sample is characterized by capital-using/labor-saving bias.

Abstract

This study investigates the mark-up on average costs in the U.S. manufacturing industry at the aggregate and two-digit industry levels. We first analyze the behavior of profit margins over seven business cycles between 1958 and 1996 and establish some stylized facts for the cyclical dynamics of mark-ups. Second, we look at the secular movements in margins of profits through a simple trend decomposition of the aggregate and two-digit mark-ups. We find that: (1) the aggregate and the majority of two-digit mark-ups behave pro-cyclically; and (2) the trend in margins of profits in the period is explained by a marked rise in the rate of surplus value and a fall in the composition of capital, indicating labor-saving/capital- using technical change.

Keywords: Mark-ups, Business Cycles, Distribution, U.S. Manufacturing
JEL Classification: D40, E12, E32, L11
Word Count: 10548 words

Introduction

The analysis of the cyclical and long-run behavior of the mark-up has occupied a substantial space in economic literature. In imperfect competition theory it appears as an expression of the power of the firm to set up target profit margins and thus is a crucial element of price theory. In the Classical and Marxian tradition, it is directly related to the behavior of the profit rate, trends in income distribution, technical change and capital accumulation.