

Input and Output Market Power with Non-neutral Productivity: Livestock and Labor in U.S. Meatpacking*

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December 2022; This version: July 2025

Abstract

Identification of firm input and output market power requires unbiased estimation of production elasticities. We propose a method that is robust to biased technological change and apply it with panel data on plants in the highly concentrated U.S. meatpacking industry, which is often suspected of exploiting livestock farmers and immigrant workers. Inference can be checked by assessing how much each market contributes to gross profits. We reject the exercise of market power in the livestock market but find that some firms exploit their share of local employment to set wages with an important markdown, and exercise some product market power.

*Part of this research was performed at the Boston Federal Statistical Research Data Center under FSRDC Project Number 2585 (CBDRB-FY25-0125). The Census Bureau has reviewed this data product to ensure appropriate access, use, and disclosure avoidance protection of the confidential source data used to produce this product under clearance request #11975. Any views expressed are those of the authors and not those of the U.S. Census Bureau. We thank Sari Kerr and Shital Sharma of the BFSRDC, Guilherme Neves-Silveira and Luis Seoane for research assistance, and Nicole Levitsky for help. We thank Victor Aguirregabiria, Sabien Dobbelaere, Ulrich Doraszelski, Savannah Kochinke, Luwen Mai, James McDonald, Jacques Mairesse, Mark Roberts, Fiona Scott Morton, Daniel Treffer, Matthew Weinberg, and the participants of the NBER Conference “Competition in the U.S. Agricultural Sector,” Fall 2024, for comments. This work is supported by USDA National Institute of Food and Agriculture Project 2021-67023-33825.

1 Introduction

This paper proposes a method to estimate market power in several input markets of a firm, in addition to its product market power, while controlling for labor-augmenting productivity (henceforth LAP). Then, it applies the method to U.S. meatpacking firms. The meatpacking industry is often suspected of exercising monopsony power in the livestock and labor markets, and monopoly power in the product market. We also show that LAP has been an issue in the industry.

Market power can be present in a firm's product and input markets, allowing for supranormal profits to the detriment of social welfare. Economists seek to measure the degree of this market power in a simple and unequivocal way, and the production approach does so by using production data. There is no need to specify and estimate the demand for firm's products or the supply of their inputs, and assumptions about the specific game that firms play can be avoided. Our paper proceeds along these lines. The approach, at least as old as Bain's (1951) work on the product market, has been recently revived in an intense debate about the evolution of markups and how to measure them in practice.

Interest in the exercise of market power has recently focused more on firms' input markets (monopsony power), with the goal of assessing their ability to set input prices with positive markdowns or proportional differences between an input's marginal product and the price paid for the input. Some economists have even asserted that this kind of market power is prevalent, especially in the U.S.

With output and input market power, the first-order conditions (FOCs) that determine the optimal quantities of inputs, which is exactly where empirical measurements begin, differ from those under competition. To value physical marginal productivity under unspecified market power, the FOCs must use marginal cost instead of price and, under monopsony power, must reflect a wedge relative to the input price. This implies that output market power cannot be properly measured without accounting for input market power, if it exists. Conversely, input market power must be measured considering output market power, making a joint approach essential. Our work contributes to the simultaneous estimation of input and output market power.

Biased technological change becomes important here because it alters the marginal productivity of the affected input or inputs. A recent general recognition of the importance of LAP has raised serious concerns about how productivity and markups are usually measured. Under a production elasticity of substitution less than one, LAP determines the fall of the labor

share in costs (variable and total) and revenue. Ignoring LAP, the researcher can interpret the fall as an increase in revenue with respect to variable costs (i.e., an increase in prices with respect to costs). Alternatively, since monopsony power in the labor market also pushes down the share of labor costs in variable cost (and the use of labor relative to other variable factors), the researcher could mistakenly attribute the effects of LAP to monopsony power. To make consistent inferences, the production-based approach to measuring market power in both output and input markets must necessarily account for LAP.

1.1 Production elasticities

Measuring market power requires dealing with marginal cost, which is not directly observable. However, under cost minimization, marginal cost can be recovered from observed data using production elasticities. For example, De Loecker and Warzynski (2012) proposed a widely used approach to estimate the price-marginal cost ratio by dividing the elasticity of a variable input by its share in revenue. Similarly, this paper calculates marginal cost by dividing average variable cost by the short-run elasticity of scale (i.e., the sum of elasticities of variable inputs).

Estimating elasticities is typically done by estimating a production function. However, the problem is that the presence of input and output market power, as well as LAP, crucially impacts the conditions for consistent estimation of elasticities. Let us provide a brief summary of the main challenges.

The firms' FOCs are used to recover for unobserved Hicks-neutral productivity in production function estimators such as those proposed by Olley and Pakes (1996) and Levinsohn and Petrin (2003), typically implemented using the Akerberg, Caves and Frazer (2015) procedure. However, with product market power, the FOCs should use unobserved marginal cost, rather than price, to value physical marginal productivity. This introduces a difficult challenge, as marginal cost is needed to estimate the elasticities, which are in turn needed to recover marginal cost.

With monopsony power, the firm restricts the use of the affected variable input, causing the input elasticity to exhibit a disproportionate gap relative to the input share in variable cost. Estimated elasticities should reflect this gap, which suggests the need to explicitly account for it when estimating elasticities, in the spirit of Dobbelaere and Mairesse (2013, 2018). This makes the estimation challenging. Additionally, the control for unobserved Hicksian productivity, discussed in the previous paragraph, is complicated by the presence of an additional unobservable in the FOCs.

With LAP, the production elasticity of labor is the same whether mea-

sured in terms of efficient labor or the raw quantity of labor. However, omitting the efficiency term that augments the input in the production function introduces a correlated omitted variable in the regression, as it occurs in any input demand deduced from the FOCs. Additionally, greater productivity reduces the input elasticity of the input when the elasticity of substitution is less than one (a value with broad consensus among economists). Therefore, to estimate the production function consistently, the researcher faces two challenges: the need to specify elasticities that vary across productive units, and to account for evolving unobservable efficiency that modifies the quantity of labor relevant to estimating the production function.

1.2 Methodology

We propose a method that simultaneously addresses these difficulties. It is based on the semiparametric estimation of the elasticities. The elasticities of variable inputs can be expressed as a function of the short-run scale parameter, the markdowns, and the observed shares of the inputs in variable cost. Given this, for estimating the elasticities is enough to estimate the elasticity of scale and the markdowns. Naturally, productivity must be controlled for. However, Hicksian productivity does not pose particular difficulty, and LAP can be written as a function of the input prices and cost shares (i.e., express it in terms of observables).

A regression model is constructed to estimate the relevant parameters. It prominently uses the sample variation of the cost shares in addition to the level of the inputs. We plug the semiparametric elasticities into a first-order approximation to the unknown production function of each establishment. Using a sufficient number of valid sample moments, we identify the parameters by nonlinear GMM.

The estimated parameters implicitly define marginal cost, allowing the markup to be computed after estimation (up to an uncorrelated error). This allows for the decomposition of firm profitability into all its sources and components: technology (difference between marginal cost and average variable cost), product market power, and monopsony power in the market for each input.

In fact, this is a straightforward method that accounts for the relationships imposed by input and output market power, combined with LAP, on the semiparametric expressions for the elasticities of variable factors. As a result, it ensures the consistency in estimation, which is often lost when the elasticities are freely estimated in only partially specified models. It also provides the possibility of the theoretical decomposition of the results. And, as the reader will see, imposes a strong discipline on the estimation.

Hall (1988), to account for imperfect competition, wrote Solow’s (1957) shares approximation to elasticities in terms of the markup multiplied by the revenue shares. Klette (1999) used this specification to measure productivity and markups. De Loecker and Warzynski (2012) proposed using Hall’s identity to solve for the markup (note: sidestepping how elasticity is estimated). Nearly all work to date on markup estimation has been based on Hall’s approach. We deviate from this convention by instead modeling elasticities using the short-run elasticity of scale multiplied by the cost shares. Estimating the elasticity of scale directly is natural and has advantages over estimating under restrictions a presumably highly variable markup. Once the elasticity is estimated, we can estimate the markup.

1.3 The U.S. meatpacking industry

We apply the method to the U.S. meatpacking industry, which has been the subject of controversy and intensive research. Dominated by a small number of firms (currently four), the industry has been suspected of exercising market power in the product market and monopsony power in the market for its livestock input, as well as of imposing poor working conditions on its workforce.¹ The latter suggests the presence of monopsony power in the labor market.

We use an unbalanced panel of more than 500 plants of varying sizes, spanning the years from 1997 to 2020, to estimate the production function for meatpacking. We control for both neutral productivity and LAP, and assess potential markdowns in livestock and labor. We then decompose the firm profitability into its components. On average, gross profitability is about 20 percentage points, of which our model attributes 11 percentage points to technology, with the remainder due to a combination of product and labor market power. We reject the presence of monopsony power in the livestock market, but find evidence of monopsony power in the labor market and market power in the product market.

A streamlined version of the model, used in an earlier version of the paper with aggregate data prior to accessing the plant-level data, was notably able to detect the main traits of competition, though with much less accuracy.²

¹The effects of the COVID-19 pandemic raised concerns about working conditions. See Congress of the United States (2021).

²We summarize the aggregate model in Appendix D.

1.4 Literature review

We adopt the production approach to measure market power, which received a strong impulse following the markup measurement proposal by De Loecker and Warzynski (2012). An incomplete list of notable applications includes De Loecker, Goldberg, Khandelval, and Pavcnik (2016); Brandt, Van Biesebroeck, Wang, and Zhang (2017, 2019); De Loecker and Scott (2016); De Loecker, Eeckhout, and Unger, (2021); and Autor, Dorn, Katz, Patterson, and Van Reenen (2021). Recent debates have focused on issues related to data measurements (Traina, 2018; Basu, 2019; Syverson, 2019), methodology (Doraszelski and Jaumandreu, 2019, 2021; Raval, 2023; Demirer, 2025; Bond, Hashemi, Kaplan, and Zoch, 2021; Hashemi, Kirov, and Traina, 2022; Kusaka, Okazaki, Onishi, and Wakamori, 2024), and outcomes (Jaumandreu, 2022, 2025).

A production approach to the simultaneous measurement of monopsony power and product market power originated with Dobbelaere and Mairesse (2013, 2018), although similar exercises had previously been attempted using tightly specified models. The basic method compares the FOC of an input with market power to the FOC of another without it. Our paper follows this tradition. A series of papers have adapted to the De Loecker and Warzynski (2012) framework: Morlacco (2019), Brooks, Kaboski, Li, and Qian (2021) and, notably, Yeh, Macaluso, and Hershbein (2022), who estimate that the average markdown in wages in the U.S. manufacturing is 53% (while markups average 21%). Rubens (2023) considers the non-sstitutability of the relevant input and argues that it is necessary to adopt a model for supply (more on this later).

This literature coexists with more tightly specified micro-models, such as Lamadon, Mogstad, and Setzler (2022), and Berger, Herkenhoff, and Mongey (2022). Deb, Eekhout, Patel, and Warren (2024) even specify and estimate a general equilibrium model to explain wage inequality. Azar, Berry, and Marinescu (2022) take a different approach, estimating labor supply for firms with suitable microdata.

A paper that particularly stresses the need for simultaneous estimation and finds it relevant in the U.S. construction industry is Kroft, Luo, Mogstad, and Setzler (2022). In this paper, we estimate both product market power and input market power, and provide an analytical framework to analyze the profitability of market power.

We develop a framework compatible with the specification and estimation of LAP. Many recent papers have addressed the importance of this type of technological progress, including Doraszelski and Jaumandreu (2018, 2019), Zhang (2019), Raval (2019, 2023), Demirer (2025), Jaumandreu and Mullens

(2024), and Kusaka, Okazaki, Onishi, and Wakamori (2024). Yeh, Macaluso, and Hershbein (2022) note that this remains an unresolved issue, observing “..., our econometric methodology does not explicitly allow for factor-biased technological change. While there are estimation methods that do account for labor-augmenting technological change, they do not allow for a generalized production function ... and/or labor market power... We leave investigation of these themes for future research...” (p. 2132).

Also, as mentioned earlier, demand for any variable input subject to market power includes, in the presence of monopsony power or LAP, a new unobservable that violates the “scalar unobservable assumption” of the Olley and Pakes (1996)/Levinsohn and Petrin (2003) method for controlling productivity. This affects any Akerberg, Caves, and Frazer (2015) type of estimation. Rubens (2023) acknowledges this in the context of monopsony power.

In this context, a recent paper by Rubens, Wu and Xu (2025) tries to assess, with Monte Carlo experiments, the biases generated by ignoring monopsony in the labor market when technology is subject to non-neutral shocks. The results strongly support the need to address monopsony and non-neutrality simultaneously.

To fully address LAP, it is convenient to begin with its consequence of varying elasticities. When the elasticity of substitution is less than unity, the share of labor in variable costs is a decreasing function of LAP (Hicks, 1932). For the elasticity to decline, it is sufficient that the short-run elasticity to scale does not increase in LAP. In practice, labor shares have been documented to be falling almost everywhere. For evidence from the U.S. manufacturing plants, see Kehrig and Vincent (2021) or Jaumandreu and Mullens (2024). The elasticities estimated in this paper vary, and are interpreted according to the modeling of LAP.

Meatpacking is an industry with more than a century of questionable competitive practices. Huang (2024) studies price manipulation by firms acting as a monopsonist cartel at the beginning of the 20th century. However, literature reviews from around the 2000s, such as Azzam (1998) and Wohlgenant (2013), did not find strong evidence of market power exercise in either the product or livestock markets. More recently, persistent concentration, new forms of contracting and setting prices, complaints from farmers and ranchers, and concerns about labor practices, have again drawn attention to the sector competitiveness. Garrido, Kim, Miller, and Weinberg (2024) provide an account of recent research on pricing practices; Bolotova (2022) assesses suspicions of collusion; and MacDonald (2024) discusses recent developments.

1.5 Contributions

The paper makes six incremental contributions to the literature. First, it crafts a novel approach for the joint assessment of market power in the product and (possibly several) input markets within the production framework for market power measurement. That is, measurement without specifying the demand for the firm’s product or the supply for the inputs and placing no restriction on the nature of competition in these markets.

Second, the method constitutes an alternative to the classical approaches to measuring market power developed by Hall (1988), Klette (1999), and De Loecker and Warzynski (2012). It relies on estimating the short-run elasticity of scale to uncover the relationship between (unobserved) marginal cost and (observed) average variable cost.

Third, the method is designed for an environment where input-augmenting productivity (in our case LAP) is present, and perhaps prevalent. To our knowledge, this is the first procedure developed that is consistent with biased technological change.

Fourth, the paper demonstrates the separate identification of LAP and monopsony power, establishing how the corresponding unobservables map onto observed relative behaviors that enable identification.

Fifth, it derives an observable profitability bound for the combined contributions of market power to profits, in addition to the contribution of technology. This bound constraints estimation, is met by the estimates, and serves as a natural test for validating alternative market power measurements.

Sixth, the paper examines competition in the U.S. meatpacking industry, giving formal attention for the first time to the labor market and establishing that it is monopsonistic.

1.6 Organization of the paper

The rest of the paper is organized as follows. Section 2 presents the model and Section 3 discusses identification. Section 4 presents background on meatpacking and descriptive statistics. The empirical application and the assessment of market power are presented in Section 5. Section 6 compares our estimator to other estimators of market power in the product and labor markets. Section 7 concludes. Appendix A is dedicated to identification; Appendix B develops a model for the contracts that have tended to replace the spot market for livestock; Appendix C describes the construction of the sample and variables; and Appendix D briefly describes the aggregate model.

2 Model

2.1 Production function

Consider the establishment-level production function

$$Q^* = F(K, R, L^*, M) \exp(\omega_H), \quad (1)$$

with $L^* = \exp(\omega_L)L$, where Q^* is the quantity of meat, K , R , L and M , represent capital, livestock, labor, and materials, respectively, and ω_L and ω_H are persistent variables representing LAP and Hicks-neutral productivity. Denote by P_R , W , and P_M the observed prices of livestock, labor, and materials.

Assumption 1

There is a population of establishments endowed with production functions (1). Production functions are weakly separable in capital, which is given and has a constant output elasticity β_K . In the short-run, firms can freely vary the inputs R , L , and M . The variable inputs exhibit constant elasticity of scale (the sum of elasticities), denoted by ν , and an elasticity of substitution σ .

Assumption 2

Firms minimize short-run costs by optimally choosing the quantities of the variable inputs R , L , and M . The markets for livestock and labor may possibly be monopsonistic, so we allow for the potential presence of input market power represented by the proportional differences ρ and τ between the marginal product and the input price (markdowns).

Denoting marginal cost by MC , FOCs hence are

$$\begin{aligned} MC \frac{\partial Q^*}{\partial R} &= (1 + \rho)P_R, \\ MC \frac{\partial Q^*}{\partial L^*} \exp(\omega_L) &= (1 + \tau)W, \\ MC \frac{\partial Q^*}{\partial M} &= P_M. \end{aligned}$$

Assumption 3

The production function of each establishment can be approximated, at the input quantities that the establishment is using, by the expression in logs

$$q^* \simeq \beta + \beta_K k + \beta_R r + \beta_L l^* + \beta_M m + \omega_H, \quad (2)$$

where β is an establishment-specific constant, and β_R, β_L and β_M are establishment-specific elasticities computed as $\beta_X(K, R, L^*, M) = \frac{\partial \ln F(K, R, L^*, M)}{\partial \ln X}$ for $X = R, L, M$.

Proposition 1

Under assumptions 1,2 and 3, knowing the productivity unobservables ω_L and ω_H , parameters β_K, ν, ρ and τ (long-run and short-run scale and mark-downs) can be estimated from the production function nonlinear regression,

$$q = \beta_0 + \beta_K k + \nu^*(S_R r + S_L l^* + S_M m) + \nu^* \rho S_R r + \nu^* \tau S_L l^* + \omega_H + \varepsilon, \quad (3)$$

where β_0 is a constant, $\nu^* = \nu/(1 + S_R \rho + S_L \tau)$ is a corrected short-run elasticity of scale, and S_R, S_L and S_M are the shares of input cost in variable cost.³ The establishment-specific elasticities β_R, β_L and β_M turn out to be implicitly determined.

Proof

Multiplying each FOC by X/Q^* and re-arranging, they can be written as $\frac{X}{Q^*} \frac{\partial Q^*}{\partial X} = (1 + a_X) \frac{AVC}{MC} S_X$, with $a_X = \rho, \tau$ and 0, where $\frac{X}{Q^*} \frac{\partial Q^*}{\partial X} = \beta_X$, and S_X is the share of input X in variable cost. Adding these elasticities to obtain the short-run scale, we have $\nu = \beta_R + \beta_L + \beta_M = \frac{AVC}{MC} (1 + S_R \rho + S_L \tau)$, and we can write $\frac{AVC}{MC} = \nu/(1 + S_R \rho + S_L \tau) = \nu^*$. Cost minimization hence implies the following (nonlinear) expressions for the production elasticities

$$\begin{aligned} \beta_R &= \nu^*(1 + \rho)S_R, \\ \beta_L &= \nu^*(1 + \tau)S_L, \\ \beta_M &= \nu^*S_M. \end{aligned} \quad (4)$$

Plugging these expressions into (2), and defining $\varepsilon = \beta + \text{approximation error} - \beta_0$, with β_0 appropriately measured, we get regression (3) to estimate β_K, ν, ρ , and τ . From these parameters, and the observed cost shares, the variable elasticities can be backed out according to (4). We assume that ε has mean zero and is uncorrelated with any information.

³In the absence of monopsony power, our use of the FOCs would amount to writing the production function as

$$q = \beta_0 + \beta_K k + \nu(S_R r + S_L l^* + S_M m) + \omega_H + \varepsilon.$$

2.2 Profitability decomposition (and a bound to market power)

Proposition 2

Observable gross profitability, defined as $\ln \frac{R}{VC}$ (that is, readable as a percentage and Bain's (1951) measure), can be decomposed (up to an uncorrelated error) into parts due to technology and the firm's market power across the product and input markets:

$$\ln \frac{R}{VC} = -\ln \nu + \ln \mu + \ln(1 + S_R \rho + S_L \tau) + \varepsilon \simeq -\ln \nu + \ln \mu + S_R \rho + S_L \tau + \varepsilon, \quad (5)$$

where the second approximate equality splits the contributions of each input's market power. Under $\nu < 1$, averages of this equation set an upper bound to the sum of market power effects on profitability (markup and markdowns) for any group of firms.

Proof

Note that

$$\frac{R}{VC} = \frac{PQ}{AVCQ^*} = \frac{PQ}{\nu^* MCQ^*} = \frac{\mu}{\nu^*} \exp(\varepsilon),$$

where the second equality uses our definition of ν^* from above. Plugging the value of ν^* , expression (5) follows.

Note that all terms in the decomposition are likely to be positive, and the error ε tends to cancel out on average. The parameter ν represents the short-run elasticity of scale, which economic theory suggests should be less than one. The markup is generally expected to be non-negative, as pricing below marginal cost would only occur as a short-run dynamic optimizing solution under price adjustment costs. Monopsony power implies non-negative markdowns. Therefore, the value $\ln \frac{R}{VC}$ (plus the log of the elasticity of scale) sets an upper bound to the sum of market power profitability effects (markup and markdowns).

2.3 Discussion

Although we have implicitly focused on the cross-section case, the assumptions and propositions are equally valid with (small T) panel data. We can therefore additionally assume that, for each establishment, we observe the vector of data over an interval of time (not necessarily the same for all establishments).

Assumption 1 sets the type of production function used. While we employ an approximation to the true establishment-level production functions, this approximation imposes some restrictions. Given that the production functions are weakly separable in capital and that capital has a constant elasticity, they can be interpreted as nesting a constant elasticity of substitution (CES) function for the variable factors in a general Cobb-Douglas production function. This is consistent with the constancy of both ν and σ . A CES function has been used to model LAP by Doraszelski and Jaumandreu (2018), Raval (2019), and Zhang (2019).

However, the constancy of the parameters ν and/or σ may also be interpreted as the result of a local approximation, in which case more general parametric or nonparametric forms are permissible. For example, Assumption 1 is consistent with the homothetically-separable production function used by Demirer (2025), as well as with the translog, homogeneous in variable factors but allowing for a variable σ , used by Doraszelski and Jaumandreu (2019) and Jaumandreu and Mullens (2024).

Any of the constancy restrictions on β_K , ν and σ can be relaxed at the cost of some additional complexity.⁴ However, we believe there should be a strong economic motivation for incurring the complexity price.

Assumption 2 ensures that our specification is compatible with any behavior in the product market. Cost minimization is sufficient to implicitly determine marginal cost (which incorporates behavior in the input markets, as it depends on marginal input prices). This makes it possible to recover market power from profitability, once the parameters of the production function and input market power are estimated. Making markdowns explicit in the elasticities was the idea of Dobbelaere and Mairesse (2013), who laid the foundation for much of the subsequent work. The markdowns can be treated as simple parameters or modeled as functions of observables (as we will later do). For identification, at least one input market must be competitive, which we assume to be the case for materials.

Assumption 3 establishes that we can reasonably approximate the true production functions using a first order differential approximation or a first-order Taylor approximation (see Chambers, 1988). We take the derivatives in logs and particularize them for the inputs used, which ensures that the approximation is in terms of the establishment-specific elasticities of the observed quantities.

What is crucial for our exercise is having a consistent measure of the

⁴For example, the short-run elasticity of scale is, for a generic production function, a function of the inputs and the unobservable labor-augmenting productivity $\nu = \nu(k, r, \omega_L + l, m)$. It can be modelled as a varying function of observables.

true elasticities. Varying elasticities, with an implicit underlying elasticity of substitution, are what make the exercise reliable. Assumptions 2 and 3 together ensure that this condition is met. They also allow us to construct a regression model in terms of observables (except for productivities, which we explain how to control later) and the parameters to be estimated in order to recover the elasticities (Proposition 1).

The method we use to estimate the production function can be viewed as an alternative to the approach of Hall (1988) and Klette (1999). Those papers relied on the simplified equality $\beta_X = \mu S_X^R$, where $\mu = \frac{P}{MC}$ is the markup and S_X^R is the (observed) share of input cost in revenue. We could have used the expression $\beta_X = \mu(1 + a_X)S_X^R \exp(\varepsilon)$, but this introduces two problems: the need to incorporate the presumably highly variable unobservable markup μ into the production function, and the presence of the unobservable error ε in the expressions. Instead, we work with the short-run elasticity of scale parameter ν , which we assume can be safely taken as constant, and our expressions avoid error.

With the parameter estimates, we can decompose observed profitability for any group of firms large enough that the error terms ε tend to cancel out. The bound serves as a theoretical requirement for the validity of market power estimates. Note that this upholds the approach that Bain (1951) used to measure market power $((R - VC)/R)$, interpretable as a reduced form of market power across output and input markets. As we will show, it also introduces a valuable discipline into the estimation process.

2.4 The control for unobserved productivity

Of course, to apply equation (3) to the data, we need to determine how to control for unobserved productivity ω_L and ω_H . Doing this properly is likely to have a significant impact on the estimation of elasticities and, consequently, on all inferences about market power.

Hicksian productivity ω_H enters the equation additively and assuming it follows a linear Markov process, can be controlled for by applying pseudo-differences to the nonlinear model. This involves subtracting the lagged equation multiplied by the autoregressive parameter. In this method, the autoregressive parameter is estimated, and the resulting composite error includes the innovations of the Markov process, which capture all transitory productivity shocks. This type of estimation generalizes the approach commonly used in production functions estimation referred as dynamic panel method.⁵

⁵Dynamic panel is based on the tradition of the papers by Arellano and Bond (1991)

In previous estimations, labor-augmenting productivity ω_L has typically been replaced by expressions in terms of observables, based on the FOCs ratio for labor and a materials input. This method was applied by Doraszelski and Jaumandreu (2018) and later generalized by Demirer (2025). Given the unspecified form of the production function, the most appropriate approach appears to be the log-linear approximation derived in Doraszelski and Jaumandreu (2018) for any function that is separable in capital. For example, given our specification, we can use

$$r - l = cons - \sigma(p_R - w) + \sigma(\tau - \rho) + (1 - \sigma)\omega_L,$$

where σ is the elasticity of substitution implicit in the production function. From this expression we can get

$$\omega_L = c_0 + r - l - \frac{\sigma}{1 - \sigma} \ln \frac{S_L}{S_R},$$

where $c_0 = -\frac{cons}{1 - \sigma} - \frac{\sigma}{1 - \sigma}(\tau - \rho)$. We should keep the term ρ and τ in mind as a reference, in case either of the two parameters needs to be modeled as varying.

2.5 Empirical specification

We rewrite production function (3) to directly estimate the log-run parameter to scale $\lambda = \beta_K + \beta_R + \beta_L + \beta_M$.

In terms of sample notation, indexing establishments by j and time by t , model is

$$q_{jt} = \beta_0 + \lambda k_{jt} + \nu_{jt}^* SUM_{jt} + \nu_{jt}^* \rho S_{Rjt}(r_{jt} - k_{jt}) + \nu_{jt}^* \tau S_{Ljt}(l_{jt}^* - k_{jt}) + \omega_{Hjt} + \varepsilon_{jt}, \quad (6)$$

where

$$\begin{aligned} SUM_{jt} &= S_{Rjt}(r_{jt} - k_{jt}) + S_{Ljt}(l_{jt}^* - k_{jt}) + S_{Mjt}(m_{jt} - k_{jt}), \\ l_{jt}^* &\equiv \omega_{jt} + l_{jt} = c_0 + r_{jt} - \frac{\sigma}{(1 - \sigma)} \ln \frac{S_{Ljt}}{S_{Rjt}} \\ \nu_{jt}^* &= \nu / (1 + S_{Rjt}\rho + S_{Ljt}\tau). \\ \omega_{Hjt} &= \rho_{AR}\omega_{Hjt-1} + \xi_{jt} \end{aligned}$$

and Blundell and Bond (2000). Another method, in the approach of Olley and Pakes (1996) and Levinsohn and Petrin (2003), would replace ω_H with the inverted demand for an input. This seems more problematic in that it needs to yield a solution to the unobservability of marginal cost in the FOC or FOCs used to derive the input demand and, even more challenging, to the presence of the input market power unobservable or unobservables.

The parameters to be estimated (in addition to the constants β_0 and c_0) are ρ_{AR} , λ , ν , σ , ρ and τ . Recall, however, that we may still choose to make ρ and/or τ to vary. Once estimated, these parameters can be used to calculate μ_{jt} and perform the profitability decomposition.

3 Identification

The model in equation (6), even without the unobserved productivity terms ω_L and ω_H , is nonlinear in both parameters and variables. It must therefore be estimated using a procedure such as nonlinear GMM, which we implement later. We need enough valid moments to identify the six parameters, and it is not difficult to determine them. In this section, we first briefly discuss these moments. Then, we turn to two more subtle identification questions: how the absence of substitution of a relevant input can hinder identification, and how we can identify monopsony power separately from LAP.

3.1 Moments

After controlling for the productivity unobservables, only the transitory unobserved productivity shocks ξ_{jt} remain which can be correlated with the variable inputs. We must choose the moments carefully to avoid variables that may be correlated with these shocks. Capital, under the usual assumption that it results from investment made in past years, can be considered uncorrelated with the shocks. For livestock, labor, and materials, since we assume these variables are chosen every period, we can use their lagged values, which were determined when the shocks were not predictable. We will also consider the observed lagged values of wages and livestock prices, which are presumably exogenous with respect to future unpredictable transitory productivity shocks. If the (lagged) quantities and prices of the variable inputs are uncorrelated with the shocks, then (lagged) shares in variable cost can be used as instruments, as we will do.

In some cases, the nonlinearity of the model makes it convenient to use combinations of variables as instruments. Therefore, we will use moments based on the (lagged) composite variable SUM , and on a calculation for (lagged) l^* based on a guess for the value of parameter sigma.

We will complement these instruments with three additional external variables: the cattle cycle, the (lagged) employment in the plant as a proportion of total (lagged) employment in the county where the plant is located, and an indicator of state laws implying a “right to work.” In right to work states, employees are not required to join a union, which presumably weakens collec-

tive bargaining. We continue the discussion of instruments in more practical terms when we list them for estimation.

3.2 A non-substitutable input

In the production function approach, monopsony power over one input is identified because the firm substitutes other inputs for it. If the input is non-substitutable, that is, if it must be used in fixed proportions with the combination of other inputs, identification based on the gap between the input elasticity and cost share disappears. Rubens (2023) realizes this and warns: “...this class of models, which imposes only a model of production and input demand, fails to separately identify markups and markdowns as soon as a subset of inputs is non-substitutable” (p. 2383).

The problem is, in fact, similar to what happens if the relevant production function has only one input (and therefore substitution is not possible). Suppose that the production function is $Q = F(L)$, and hence $\beta_L = \frac{(1+\tau)}{MC} \frac{WL}{Q}$. It turns out that $\frac{R}{WL} = \frac{1}{\beta_L} \mu(1 + \tau)$ and, without more information output market power cannot be separated from market power in the input market as a source of total profitability.

In a multi-input market problem, however, we can still assess market power for the substitutable inputs (subject to the condition that one market does not exhibit monopsony power). However, without additional information, we will not be able to assess input market power for the non-substitutable input, nor will be able to separate, in our profitability decomposition, the relative contributions of product market power and power in the market for the non-substitutable input.

Livestock could be considered a non-substitutable input that enters the production of meat in fixed proportions. Researchers have contested this claim, and we argue later that livestock is in fact a substitutable input. However, suppose for a moment that this is not the case, and that the production function should instead be specified as

$$Q = \min\{\beta_R R, H(K, L^*, M)\},$$

where β_R is a fixed coefficient, and $H(\cdot)$ is the amount of the variable composite input made from the contribution of all other variable inputs (and fixed capital). $H(\cdot)$ constitutes a subfunction that is homogeneous of degree ν_H in the variable inputs, whose cost is minimized, and for which all the relationships described above hold. Since $MC = \frac{P_R}{\beta_R}(1 + \rho) + \frac{AVC_H}{\nu_H}(1 + S_L^H \tau)$, it is easy to see that

$$\ln \frac{R}{VC} \simeq S_H \left(\frac{1}{\nu_H} - 1 \right) + \ln \mu + S_R \rho + S_L \tau.$$

Since we cannot estimate ρ we cannot deduce μ , even if all the other variables are known. We are able to assess the roles of both technology profitability and the labor market, but we are not able to separate the contributions of market power in the product market from monopsony power in the livestock market.

3.3 Monopsony power and labor-augmenting productivity

An important question remains: Can we identify monopsony power separately from LAP? This issue arises because LAP introduces an unobservable into the FOC for labor in a manner similar to monopsony power. Even if we substitute an expression for the unobservable ω_L , separating it from the effects of the markdown τ , how can we be confident that these two effects can be clearly distinguished?

To address this question, in Appendix A we examine in detail the effect of an exogenous increase in LAP and an exogenous increase in monopsony power on our cost-minimizing firm. Without loss of generality, we assume that ω_L and τ increase from an initial value of zero to a positive value. *Ceteris paribus*, both changes provide an incentive for the cost-minimizing firm to reduce employment. To facilitate comparison, we assume that the increases in LAP and monopsony power are such that, in each case, the firm adopts the same new ratio of materials to labor.

The outcomes are as follows. An exogenous increase in LAP induces the cost-minimizing firm to reduce both labor and materials, but labor proportionally more. As a result, the share of labor in variable cost, S_L , decreases. In addition, the productivity improvement leads to a decrease in MC . By contrast, an exogenous increase in monopsony power causes the firm to reduce labor while expanding materials. If the firm adopts a materials-to-labor ratio that matches the case of the ω_L increase, the labor share in variable cost, S_L , diminishes, though more than with the ω_L increase. However, in this case MC increases. The contrasting behavior of MC implies that the firm has incentives to move further in opposite directions: expanding output in response to a productivity increase, and contracting output following an increase in monopsony power, by scaling both inputs up or down in the same newly adopted proportion.

4 The meatpacking industry

We apply the model to the U.S. meatpacking industry. In what follows, we provide background on the industry, discuss several current issues, and report descriptive statistics.

4.1 The U.S. meatpacking industry

The meatpacking industry encompasses the slaughtering, processing, packaging, and distribution of meat from animals such as cattle, pigs, sheep, and lambs (excluding poultry). These activities are carried out in plants of widely varying sizes, ranging from very large to very small. For example, according to the U.S. Department of Agriculture (USDA), in 2023, 267 beef packing plants slaughtered 1,000 or more head of cattle. Of these, 11 plants each slaughtered over one million head, collectively accounting for 46% of all cattle slaughtered. Similarly, there were 206 pork slaughter plants processing 1,000 or more head, of which 14 slaughtered over 4 million head each, accounting for 60% of hogs slaughtered. There were also 103 sheep and lamb plants slaughtering 1,000 or more head, with 13 of them processing more than 25,000 head each, accounting for 39% of all sheep slaughtered (USDA NASS 2024). This yields a total of 576 plants of significant size, which is very close to the total number of plants in our empirical analysis.

The industry is highly concentrated at the firm level, with a few companies operating several plants. According to the USDA, in 2019 four major producers -Tyson, Cargill, JBS, and National Beef- accounted for 85% of all cattle, 67% of hogs, and 53% of sheep and lambs slaughtered (USDA AMS 2020).

Concentration in the industry increased sharply between 1960 and 1990, as plant sizes grew. Facilities moved from the Midwest and Northern Great Plains to the Southern Great Plains. Since then, concentration grew more slowly. The four-firm concentration ratio (CR4) in beef processing rose from 41% in 1982 to 79% in 2006 and has remained relatively stable since. Similarly, the CR4 for pork processing increased from 36% to 63% over the same period. For a historical overview, see MacDonald and McBride (2009); and for a more recent account, see MacDonald (2024).

Packer conduct has traditionally been a source of concern in two input markets: labor and livestock. On the one hand, the industry has a long history of controversial labor practices. Increasingly located in rural areas, the sector employs a workforce composed of low-skill workers, including above-average proportions of immigrants, refugees, and people of color who have fewer employment options. Working conditions are famously known to be

very poor. Controversy over the industry’s labor practices intensified during the onset of the COVID-19 pandemic, when at least 59,000 meatpacking workers were infected and 269 died (Congress of the United States, 2021).

On the other hand, the high level of buyer concentration in the livestock market, complaints from livestock producers, and the consolidation of alternatives to the spot market (alternative market arrangements, or AMAs), have raised concerns about the market’s competitiveness.

The literature on competition is extensive. Azzam (1998) reviews the literature from the 1960s through the 1990s, while Wohlgenant (2013) covers research through the 2010s. The literature focuses almost exclusively on cattle pricing, with one recurring question being whether the oligopsony affects pricing.⁶ To the authors’ knowledge, there are no studies of oligopsony power in meatpacking labor markets. As summarized by Wohlgenant (2013), the consensus in the existing literature is that, despite varying empirical approaches, there is no evidence of significant market power exercised either in the market for “packed meat” or in the input market for livestock. On the contrary, Wohlgenant (2013) stresses the evidence of reduced processing and distribution costs stemming from reorganization, technical innovation, and increased plant size.

The quality of the product (meat) may, in fact, have improved over time, which can be seen as a consequence of technological progress. Initially, meatpackers shipped entire carcasses for further processing by wholesalers and retailers. At the time, processed products that were cut, prepared, and packed -known as “boxed beef”- accounted for only 10% of the shipments. By 2000, that share had risen to 50% (MacDonald and Ollinger, 2005).

Evidence suggests that livestock exhibits some degree of substitutability, and we accordingly assume that it does not enter the production function in fixed proportion. The idea is that, in principle, different combinations of capital and labor, as well as materials, can be used alongside varying amounts of liveweight livestock to produce the same quantity of (standardized) output. Wohlgenant (2013) makes the case for this, and there is substantial evidence on elasticities of substitution across different inputs and outputs (see, for example, MacDonald and Ollinger, 2001). Our current exercise strongly supports substitutability.

AMAs are long-term contracts under which a packer agrees to purchase a specified quantity of livestock over the course of a year. Prices can be tied

⁶An earlier study by Schroeter (1988) finds no evidence of serious price distortions in the beef packing industry. Azzam and Pagoulatos (1990) address oligopoly and oligopsony in meatpacking simultaneously, concluding with moderate evidence that market power was greater in the input market. Morrison (2001) finds evidence of cost economies but not of market power in beef packing.

to the cash market or to a forward variant based on the Chicago Mercantile Exchange. Currently, approximately 80% of livestock procurement is done through AMAs.

Many authors have raised concerns about the impact of these formula contracts on the erosion of the cash market, and their potential effects on competition. Studies such as Xia and Sexton (2004); Xia, Crespi, and Dhuyvetter (2018); Garrido, Kim, Miller, and Weinberg (2024); and Hummel (2023) include both some theoretical modeling and empirical analysis of the effects of AMAs. The theoretical work explores the potential for packers to increase the markdown on livestock. While the empirical analysis focuses on the widening of the spread (defined as the difference between the price received by the packer for the meat they sell and the price paid for the livestock). However, no clear link has yet been established between the spread expansion observed during 2015 to 2020 and the use of AMAs.

In Appendix B, we briefly develop a “neutral” model of AMAs, following the approach of Xia, Crespi, and Dhuyvetter (2018) and Garrido, Kim, Miller, and Weinberg (2024). While the model can explain increases in the spread, it can also explain the opposite, depending on unknown elasticities. What is important is that the model shows that pricing of livestock by packers with input market power across two markets (formula contracts and cash) is fully compatible with our modelling. We therefore take our evaluation as a first negative structural assessment of the effects of AMAs. Obviously, more research is needed; Garrido, Kim, Miller, and Weinberg, 2024, is research in progress.

4.2 Descriptive statistics

Here we briefly discuss the context of our exercise with industry data, which combines USDA information with the NBER-CES database for the industry NAICS 311611. Table 1 reports descriptive statistics for the period 1997-2018, which is the final year covered by the NBER-CES data. Our exercise using plant-level data extends through 2020.

Industry output, measured in pounds of meat, grew about 24% over the 22-years period. The livestock input, measured in pounds of liveweight, closely followed the evolution of output. Capital, reported by NBER-CES in real terms, outgrew the evolution of output and labor (measured in number of workers), while labor remained relatively stable. The evolution of the capital, livestock, and labor indices, detailed in Figure 1, suggests some substitution of capital and livestock for labor. This aligns with reported technological progress and is likely one of the sources of LAP.

The fifth line of Table 1 reports the industry’s hourly wage for production

workers. Although it lags behind wage growth in the rest of manufacturing, it doubles over the study period. This implies faster growth than the price of livestock and other materials (the index of the price of livestock appears on the sixth line). Despite this, the shares of all three variable inputs in total variable cost have remained notably stable. Comparing the evolution of relative prices and relative quantities, makes it clear that the elasticity of substitution must be below one. However, even with an elasticity of substitution smaller than unity, the changes in relative prices should have led to a significant increase in labor's share of variable costs. The fact that this did not occur strongly suggests that labor-augmenting productivity is driving this labor share down (or at least moderating its increase).

If one believes that investment should follow similar rules, at least in the long-run, and given that the user cost of capital remained relatively stable over the period, the evolution of capital relative to employment supports the view that the elasticity of substitution is below one and that LAP plays a non-negligible role.

5 Assessing market power in meatpacking

5.1 The sample of plants

Using the Longitudinal Business Data Base (LBD) as a framework (see Appendix C), we include all available information from the Censuses and the inter-Census Annual Survey of Manufactures, from 1997 to 2018, covering a span of 24 years. We drop plants with abnormal values and those with fewer than five workers. Then, we select all establishments with complete information for the variables used in the analysis. The final sample is an unbalanced panel consisting of 550 time sequences and 3,500 time observations. The time sequences correspond to a slightly smaller number of establishments or plants.

Table 2 summarizes the characteristics of the sample, with plants grouped into size bins based on their average size. Columns (4) and (5) detail the number of plants and observations corresponding to each bin.

There are many plants, but their sizes vary greatly. Column (2) shows that most employment is explained by a little more than one tenth of the total number of plants, each with a labor force of 1,000 workers or more. (There are plants with up to 5,000 workers.) We include plants of all sizes in the econometric analysis (as long as they have at least five workers), as we believe this helps the analysis of the effects of scale. However, the analysis

is largely driven by the observations for the largest plants, as reflected in column (6), which shows their greater presence in the sample over time.

An important dimension of the analysis is the local weight of the plant. To assess this, we construct a variable that computes, for each plant and point in time, the ratio of the plant employment to total county employment in manufacturing. Column (7) reports the average of this variable for each type of plant. Interestingly, there is little difference among smaller plants: even the smallest plants account for a significant 30% of local manufacturing employment. However, the largest plants are different. They are not only large, but also, on average, the primary source of manufacturing employment in their areas.

Concentration at the firm level, which is known to be important in slaughtering and sales, also affects employment, but it does not significantly impact the panorama of plants. No firm operates more than 30 plants at any moment, and no firm's plants are all very large. So, as a result, all size bins are populated by several firms. This fragmentation of production suggests that the plant level is the appropriate level for any production analysis.

5.2 Specification and estimation

We apply model (6), incorporating a few enlargements described below. According to the model, the dependent variable is (log) deflated sales, q . The explanatory variables are the (log of) capital, livestock, labor and materials, k, r, l , and m , with the nominal variables deflated, as well as the shares in variable cost of livestock, labor and materials, S_R, S_L , and S_M . Appendix C provides the exact definition of these variables. We estimate the six parameters $\rho_{AR}, \lambda, \nu, \sigma, \rho, \tau$, and two constants. From the beginning it is clear that the parameters ρ and τ will be the most challenging.

In a series of trials with different instruments and slightly different specifications, it becomes apparent that parameter τ is heterogeneous within the sample, while parameter ρ is consistently not statistically significant. With τ , the trials suggest adopting the modeling

$$\tau = \tau_0 + \tau_1 shce + \tau_2 l + \tau_3 (shce \times l),$$

where $shce = \log$ of the share of employment of the plant in meatpacking employment in the county, and where we include plant size as the log of the number of workers, l . We expect the final estimation to show that the mark-down increases with both the plant's impact on meatpacking employment and plant's size. Replacing county meatpacking employment with county manufacturing employment affects the estimation very little, so we keep the

first variable. We also attempt to assess whether this relationship varies with the presence of “right to work” laws in the state using the artificial variable RTW_{jt} , but results are inconclusive.

We finally specify the ratio of first order conditions (used to replace labor-augmenting productivity) in terms of the FOC for labor relative to the combination of both FOCs for other variable inputs: livestock and materials. This implies that, in (5), we finally use $l_{jt}^* \equiv \omega_{jt} + l_{jt} = cons - \frac{\sigma}{(1-\sigma)}(\tau - \rho) + r_{jt} + m_{jt} - \frac{\sigma}{(1-\sigma)} \ln \frac{S_{L_{jt}}}{(1-S_{L_{jt}})}$. Additionally, we estimate imposing the positivity of sigma.

We have expanded the equation by including the modeling for τ , so we must estimate eight parameters and three constants. We use moments based on the following variables: a vector of ones, a time trend, k_{jt} , and k_{jt} squared; w_{jt-1} , its square and cube, and p_{Rt-1} and its square; S_{Rt-1} , S_{Lt-1} , S_{Mt-1} and their squares; SUM_{jt-1} and its square; the approximation to l_{jt-1}^* is computed as $r_{jt-1} + m_{jt-1} - (0.6/0.4) \ln(S_{L_{jt-1}}/(1-S_{L_{jt-1}}))$; and the variables $cycle_t$, $shce_{jt}$, and $1 - RTW_{jt}$. In total, we use 21 moments, resulting in 10 overidentifying restrictions.

We use nonlinear optimization of a GMM quadratic form with the consistent weight $\left(N^{-1} \sum_j Z_j' Z_j\right)^{-1}$, where Z_j is the matrix of instruments for time sequence j . We compute analytical asymptotic standard errors and apply the delta method to approximate the standard errors of the elasticities, evaluated at the means of the observed variables.

5.3 Production function estimates

The results of estimating the production function are reported in Table 3. The control for unobserved productivity works well. The autoregressive process modeling Hicks-neutral productivity gives a parameter of about 0.8, which aligns with many production function estimates using panel data. The specification of labor-augmenting productivity yields surprisingly good results. The elasticity of substitution is about 0.5, a reasonable value estimated with high precision. The estimation of the production function allows for recovering both productivities for each plant and time period (as differences from the mean). This interesting piece of analysis is beyond the scope of this paper.

The long-run elasticity of scale is not statistically different from one. The components of this long-run elasticity are shown in the last rows of Table 3. The elasticity of capital is somewhat imprecisely estimated, but the point estimation is reasonable. The elasticities of the variable inputs are well estimated and precise. The virtual unit value of the long-run elasticity

indicates that incorporating the smaller plants in the sample is done with full success, allowing us to perfectly explain the production of any plant at any point in time based on its inputs. This is notable given the degree of asymmetry (see above), and, from the economic point of view, it suggests that meatpacking is fundamentally characterized by constant returns to scale.

The short-run elasticity of scale is estimated to be about 0.9. This implies that marginal cost is approximately 10 percentage points higher than the observed average variable cost. This seems reasonable and implies that the difference between short-run marginal cost and average variable cost will explain roughly this number of percentage points of profitability.

We were unable to make parameter ρ , which models market power in the livestock market, statistically significant. We attempted to let ρ vary with the level or concentration or the plant size, but the results indicated that it was not a problem of heterogeneity. In fact, whenever we found a greater or more significant coefficient, it was associated with a negative markup in profitability accounting. This led us to conclude that insisting on the presence of ρ was not the right modeling approach. This highlights an important and useful property of the decomposition of profitability: although it is not an imposed restriction, it introduces a sharp discipline in the modeling. The compatibility of a positive markup in the product market and a high markdown in the livestock market with a relatively modest profitability, could only be consistent with a short-run elasticity of scale above one (indicating short-run increasing returns to scale). However, there is no evidence of such a situation in the estimates for ν .

The schedule for the labor markdown exhibits substantial heterogeneity, and the plant's share in county employment, *shce*, it emerges as an important determinant of this heterogeneity. The interaction between share and the plant size is positive (the log of *shce* is negative), and the term in the share is clearly increasing. So, both share and the plant size play a role. However, we are unable to ensure that the entire schedule remains nonnegative without imposing a value on the imprecisely estimated τ_0 . All signs point to an identification problem related to the level of the markdown, which is quite understandable for two reasons. First, the model does not include a normalization of efficient labor. Second, the level of the markdown may be difficult to discern by itself.

A reasonable minimum value for the constant implies that no plant is paying a wage above marginal productivity (no plant is exploited by its workers). In fact, if we impose this restriction, the estimates barely change. Therefore, we adopt this assumption to reach specific numbers in the profitability decomposition exercise, which may imply that we are overly conservative on labor market power (and hence overstate the importance of product market

power).

5.4 Decomposition of profitability

The results are reported in Table 4. The numbers are computed under two restrictions. First, we set ρ to zero due to its lack of significance. Second, we impose a value for the constant τ_0 that ensures no negative τ for any plant.

The value of gross profitability is computed from the data for each plant. The value for technology is simply the negative of the log of the short-run estimated scale parameter. The value of the markup is estimated residually for each plant and includes the decomposition error, which we expect to average zero. We first report the average decomposition for the whole sample. Then, we order the sample according to the value of the market power in the labor market for each plant, averaged over all observations for the particular plant/sequence. We then consider the average for the plants above the third quartile (the upper 25% in labor market power). With a total of 550 sequences, this corresponds to an average of 137 plants.

The average decomposition shows that short-run or gross profitability is approximately 20%, with half of this value due to a marginal cost that exceeds average variable cost by 11%. The remaining 9% is split evenly between profitability from market power in the product market and market power in the labor market. Next, we examine this average from the perspective of plants with labor market power above the third quartile (the top 25%). These plants have somewhat higher gross profitability. They are not particularly large, as their average number of workers is close to the overall mean. They tend to extract profitability from the labor market, meaning their wages tend to be low relative to labor marginal productivity.

Data detailed by periods (not shown) reveals that profitability has tended to rise slightly over the years. The decomposition does not reveal a particular source for this increase, with both the markup and labor market power rising modestly.

The first version of this paper, written before we had access to plant data, developed a streamlined version of the model that we applied to aggregate data (49 years of the aggregate NBER-CES database). Although less precise, the estimation notably detected the main patterns that we now confirm (see Appendix D).

6 Relation to other measurements

A reader who has followed the derivations in Section 2 closely, might ask the following question: Would we draw the same conclusions if we applied the popular measurements of De Loecker and Warzynski (2012), henceforth DLW, and Yeh, Macaluso, and Hershbein (2022), henceforth YMH, for product and input market power, respectively, using the elasticities estimated in Table 3? The short answer is that, if applied, these measures would yield the same results we have obtained, so our findings fully agree with the DLW and YMH measures in their application to this particular market with these elasticities. However, this is not proof of the validity of these two measures, but rather an insight into their limitation: these measures can only produce the same result as ours if the production function is estimated as we have done. Otherwise, they may generate unreasonable measurements that are, generally, even incompatible with each other.

Start with the DLW measurement of market power, which consists of the estimate of the elasticity for a variable input divided by its revenue share $\hat{\beta}_X/S_X^R$.⁷ If you divide any of the elasticities estimated for the variable inputs by the input's revenue share (and by one plus the markdown, if there is monopsony power), you obtain an estimate of the markup that may differ from our estimate for average market power in column (4) of Table 3 only for rounding reasons. YMH propose measuring the markdown by dividing the ratio of estimated elasticities of an input with monopsony power to one without it, by the ratio of shares in cost, say, $\hat{\beta}_X/\hat{\beta}_Z/(S_X/S_Z)$.⁸ If we apply this measure to our average values for labor and materials, we would obtain a result very close to our average estimate for τ .

What is happening? Our estimation imposes the theoretical relationships on which DLW and YMH are based. In fact, we estimate the elasticities from these theoretical restrictions as embodied in the FOCs of the problem. What differs from the usual application of DLW and YMH is that their measures rely on estimating an unrestricted elasticity, that may be inconsistently estimated. Estimates based on a free specification of the elasticities often embody unrealistic degrees of rigidity that overlook the potential bias generated by technical change, and are unlikely to provide a realistic description of market power. This issue becomes even more serious when such estimates

⁷For simplicity, we set aside the correction of the observed output with the estimated error for the equation. This is likely to result in only minor differences here. See Doraszelski and Jaumandreu (2021) for a discussion of the broader issues involved in estimating this error.

⁸Since the denominator is a ratio, it does not matter if shares are in variable cost or revenue.

are used to assess the change in markups and markdowns.

To give a simple (aggregate) example, recent estimates of market power across all U.S. manufacturing, and even for the overall economy, appear to be far higher than what the data support. Suppose a standard short-run elasticity of scale $\nu = 0.95$ and labor share in variable cost $S_L = 0.25$. Take the average manufacturing markdown of 1.53 estimated by YMH, along with either the 1.21 YMH markup or the 1.61 markup from De Loecker, Eeckhout, and Unger (2021). The implied gross profitabilities are 36% and 65%, respectively. Both numbers are too large to be considered consistent with the existing firm-level profitability data. The accompanying trends over time are based on ignoring part of the evolution of elasticities over time and on aggregation biases (see Jaumandreu, 2025).

7 Concluding remarks

This paper provides a method to simultaneously measure product and input market power (potentially across multiple markets) that is robust to the presence of labor-augmenting unobserved productivity (or other biased variants of technological change). The approach does not rely on assumptions about product demand, competition in the product market, or competition among oligopsonists in input markets. It specifies a semiparametric approximation to each firm's production function, at each moment in time, fully exploiting the structure of the FOCs for cost minimization.

In practice, the method involves estimating the long and short-run elasticities of scale, along with the degree of input market power in each market of interest. The baseline version of the model assumes that scale elasticities and input market power are constant across firms and over time, but the model can be generalized. Scale elasticities may vary with the inputs, and input market power may be modeled according to observed determinants, as we do in this paper.

The estimated elasticities are robust to input market power and labor-augmenting productivity because they are estimated together with their gaps with respect to their cost shares. Additionally, these elasticities are allowed to vary with any technologically biased increase in productivity. For example, labor shares can decrease as predicted by Hicks's (1932), when the elasticity of substitution is less than unity. Estimation is carried out using nonlinear GMM, employing moments based on lagged quantities, prices, and input shares, possibly supplemented by some exogenous shifters.

Estimating market power across all markets, along with the short-run production elasticity, enables the decomposition of observed gross profitabil-

ity into its underlying sources. This introduces a precise tool to discipline the estimation and results, as well as a valuable element for analysis.

We apply the model to assess competition in the product and input markets of the U.S. meatpacking industry, which is often suspected of exploiting livestock farmers and the meatpacking labor force, as well as exercising product market power. Using an unbalanced panel of over 500 plants of varying sizes, we successfully estimate the production function while controlling for both neutral and labor-augmenting productivity. We find no evidence of market power exercise in the livestock market; however, some firms exploit their local employment share to set wages with a significant markdown. Firms above the third quartile of labor market power earn, on average, 10 percentage points of profitability from this practice. Other firms exhibit a combination of moderate labor market power and some product market power. Overall, gross profitability averages around 20 percentage points, with the model attributing 11 percentage points to technology and the remainder to a combination of product and labor market power. We also detect a modest recent upward trend in market power.

A streamlined version of the model, applied to 49 years of aggregate data from the NBER-CES database before we had access to the plant-level data, was able to detect the main traits involved, albeit with much less accuracy. This suggests that useful econometric analysis for competition policy purposes does not always require a long process with difficult-to-access data.

Compared to other methods of measuring market power, our approach provides unbiased estimates that are both theoretically and practically consistent. It also allows for a decomposition of observed gross profitability into technological and market power sources.

Appendix A: The effects of an exogenous increase of labor-augmenting productivity and labor market power

Let us examine in turn, with the help of Figure A1, what happens to the equilibrium of a short-run cost-minimizing firm that experiences: 1) an increase in its labor-augmenting productivity, and 2) an increase in its monopsony power in the labor market. (You may think of this as a rotation of the supply curve around the equilibrium wage: the relevant elasticity moves from infinity to a finite value.) Without loss of generality, we assume that ω_L and τ increase from an initial zero value to a positive value. Ceteris paribus, both effects give incentives to a cost-minimizing firm to reduce employment. To facilitate the comparison of results, we consider that the increase in labor-augmenting productivity and monopsony power is such that the firm adopts the same new ratio of materials to labor in each case.

Consider the production function of the model, dropping R to simplify the reasoning: $Q = F(K, \exp(\omega_L)L, M) \exp(\omega_H)$. Under standard regularity conditions we can invert it for effective labor

$$\exp(\omega_L)L = G(K, M, Q/\exp(\omega_H)),$$

and, for given K and ω_H , the slope of an isoquant in the plane (M, L) is

$$\frac{\partial L}{\partial M} = \frac{1}{\exp(\omega_L)} \frac{\partial G}{\partial M}.$$

The starting equilibrium A is the minimization of short-run cost $WL + P_M M$ for producing an output $\bar{Q}$, given input prices and subject to the technical feasibility condition given by the production function. As is well known, the condition for cost minimization to produce $\bar{Q}$ is the choice of the quantities of M and L , such that the ratio of their marginal productivities equals the ratio of input prices⁹

$$\frac{\partial Q/\partial M}{\partial Q/\partial L} = \frac{P_M}{W}$$

This implies that any of the prices divided by the marginal productivity of the input gives a unique value. Using the inverse function rule, it is easy to see

⁹Multiplying both sides of the equality, the condition can also be written as

$$\frac{\beta_M}{\beta_L} = \frac{1 - S_L}{S_L},$$

where S_L is the share of labor cost in variable cost.

that this ratio coincides with the definition of marginal cost (e.g. $W/\partial Q/\partial L = \partial(WL)/\partial Q = \partial VC/\partial Q = MC$).

An increase in ω_L is easily represented by a displacement of the isoquant corresponding to $\bar{Q}$ towards the M -axis. An increase in τ will be accommodated without any change in the isoquant. Let us compare the new minimization point under the two situations.

When labor-augmenting productivity increases, the new relevant isoquant shows a smaller slope in absolute value for each value of M . The firm realizes that it can now produce quantity $\bar{Q}$ with much less labor, but since prices have not changed and the slope of the isoquant is consistently lower in absolute value, the new equilibrium B also implies a reduction in materials. Both inputs are reduced and hence their marginal productivities increase. Note that greater marginal productivities with the same input prices imply a fall in MC .

The effects of this movement on the ratio M/L and the share S_L are related to the properties of the production function, as represented by the curvature of the isoquant. With the elasticity of substitution σ less than one, the ratio M/L rises and the share S_L falls.

With a positive τ , the relevant relative prices become $P_M/W'(1+\tau)$, and point A is no longer an equilibrium. Assume that the change in τ is such that the firm minimizes costs at point C , where the ratio $\frac{M}{L}$ is the same as in B . To achieve the new relationship between marginal productivities the firm must expand materials and decrease the use of labor along the isoquant. Point C is on the same ray as B and, if observed input prices were the same as in B , the observed labor share would have fallen by the same amount as in B . However, the new finite-slope supply curve implies that the observed wage falls and hence the fall in the share will be larger. With the same price, marginal productivity of materials is now lower, and it follows that MC increases.

Appendix B: Modeling the effects of AMAs

There are two markets to buy and sell cattle, formula contracts F, and cash C. Let the supplies of cattle for each market be $R_F = R_F(P_F, P_C)$ and $R_C = R_C(P_C, P_F)$, where P_F and P_C are the corresponding prices. These supplies represent the preferences of the ranchers and farmers, and supplies are likely to be unequal at the same price (the F market reduces risk). As long as the system is invertible, we can write $P_F = P_F(R_F, R_C)$ and $P_C = P_C(R_C, R_F)$, and in equilibrium we can also write $R_F = \sum_j R_{Fj}$ and $R_C = \sum_j R_{Cj}$ (supply equals demand of the packers).

Let us assume a given number N of packers that exploit their monopsony power, setting quantities behaving Nash towards each other. Packer j short-run profits are

$$\pi_j = P(Q)Q_j(K_j, L_j, R_{Fj} + R_{Cj}, M_j) - W L_j - P_F(R_F, R_C)R_{Fj} - P_C(R_C, R_F)R_{Cj} - P_M M_j,$$

where Q_j is the quantity of output produced, $Q = \sum_j Q_j$, and $P(Q)$ is the inverse of total demand for output. Note that the production Q_j uses capital, labor, cattle, and materials: $Q_j = Q_j(K_j, L_j, R_{Fj} + R_{Cj}, M_j)$.

The decision with respect to the F market can be characterized by means of the FOC

$$\frac{\partial \pi_j}{\partial R_{Fj}} = [P + Q_j \frac{\partial P}{\partial Q}] \frac{\partial Q_j}{\partial R_{Fj}} - P_F - R_{Fj} \frac{\partial P_F}{\partial R_F} - R_{Cj} \frac{\partial P_C}{\partial R_F} = 0,$$

where we may think of the quantity and the price in the cash market as expected. A simpler way to write the previous expression is

$$P(1 - S_j \varepsilon) \frac{\partial Q}{\partial R} - P_F(1 + S_j^F \varepsilon_F^F) - P_C S_j^C \varepsilon_F^C = 0,$$

and the equivalent for the cash market is

$$P(1 - S_j \varepsilon) \frac{\partial Q}{\partial R} - P_F S_j^F \varepsilon_C^F - P_C(1 + S_j^C \varepsilon_C^C) = 0.$$

Shares S_j , S_j^F and S_j^C are the shares of firm j in the output, formula contracts, and cash markets, respectively, and $\varepsilon = \frac{Q}{P} \frac{\partial P}{\partial Q}$ is the elasticity of the inverse demand for the output, while ε_F^F , ε_C^F , ε_C^C and ε_F^C are the elasticities of the inverse supplies in each of the F and C markets with respect to the own and cross quantities.

With the prices in the formula contracts and cash market set contractually equal, $P_F = P_C = P_R$ say, then

$$S_j^F(\varepsilon_F^F - \varepsilon_C^F) = S_j^C(\varepsilon_C^C - \varepsilon_F^C),$$

and it is clear that the different elasticities imply a different endogenous choice of quantity for each market. With equal firms, $S_j = S_j^F = S_j^C = \frac{1}{N}$, and we can also write.

$$\varepsilon_F^F + \varepsilon_F^C = \varepsilon_C^C + \varepsilon_C^F.$$

The FOC for formula contracts, for example, is then

$$P(1 - \frac{\varepsilon}{N})\frac{\partial Q}{\partial R} = P_R(1 + \frac{1}{N}(\varepsilon_F^F + \varepsilon_F^C)).$$

This provides a formula for the ratio price of meat/price paid for the cattle, which has been called the “price spread.”

$$\frac{P}{P_R} = \frac{(1 + \frac{1}{N}(\varepsilon_F^F + \varepsilon_F^C))}{(1 - \frac{\varepsilon}{N})\frac{\partial Q}{\partial R}}.$$

The formula shows how the spread can change with the level of concentration (which affects both the prices set and paid) and with the relative inverse elasticities in both markets.

What the model shows is that, since the firms are maximizing profits and $MR = P(1 - \frac{\varepsilon}{N}) = MC$, pricing through the AMAs is perfectly compatible with our model FOC

$$MC\frac{\partial Q}{\partial R} = (1 + \frac{1}{N}(\varepsilon_F^F + \varepsilon_F^C))P_R = (1 + \rho)P_R,$$

where a varying ρ can be used as a check for arbitrary variations of the elasticities in the formula and cash markets.

Appendix C: Data sources and management

Our sample of plants is derived from the Census of Manufactures (CMF), the Annual Survey of Manufactures (ASM), and the Longitudinal Business Database (LBD), which are U.S. Census-provided restricted data. The key for the construction of the panel is the use of the LBD database, which allows us to identify the entry and exit dates of the establishments, articulating the data from CMF and ASM. The work of the Census Bureau on the LBD database is summarized in Jarmin and Miranda (2002) and Chow, Fort, Goetz, Goldschlag, Lawrence, Perlman, Stinson, and White (2021). We select the plants whose activity is classified under NAICS 311611.

Using LBD as a framework, we include all available information from the Censuses (CMFs of 1997, 2002, 2007, 2012 and 2017) and the intermediate Annual Survey of Manufactures (ASMs of 1998-2001, 2003-2006, 2008-2011, 2013-2016 and 2018-2020). This yields a sample of 24 years. We drop abnormal values and plants with fewer than five workers. Then, we select all establishments that have complete information for the variables we use. As some establishments are lacking intermediate years' information, we split their history into two or more time sequences with continuous information (our econometric exercise requires the use of lags). Our final sample is an unbalanced panel with 550 time sequences and 3,500 time observations. The time sequences belong to a slightly smaller number of establishments or plants.

CMF and ASM have the same variables. We have complementarily used the additional data assembled in the NBER-CES database, mainly prices, documented in Becker, Gray and Marvakov (2021). We also use information from the USDA and BLS, as we detail below.

We use prices as follows. For deflating sales, we use the deflator of shipments (PSHIP) provided by NBER-CES. Wage is calculated plant to plant as the wage bill divided by the number of workers. We construct nine regional prices for livestock (based on the 10 regions defined by the USDA) using the detailed data on values and heads of cattle and hogs acquired, provided by the USDA.¹⁰ We deduce the price of other materials by disentangling the price of livestock from the price of materials.

The variables used in the exercise are the following. Deflated plant sales are the value of plant shipments deflated by the NBER-CES deflator. Capital is constructed using the perpetual inventory method, with the total expenses in capital reported by the plant lagged one period, and a depreciation rate of

¹⁰Due to their relative low volume of cattle and hogs and their geographic proximity, we merged the New England states with NY and NJ, resulting in nine regions. We construct Tornqvist price indexes for each region.

0.15. Livestock is computed from the reported plant value, as a component of materials, consisting of parts and pieces, deflated by the constructed deflator. Other material expenses are deflated using the appropriate deflator. Labor is measured by the total number of employees.

Using the expenses for livestock, labor, other materials, and energy, we construct a total of variable costs. With this total we compute the shares of livestock, labor, and materials in variable cost.

Using the Quarterly Census of Employment and Wages by the U.S. Bureau of Labor Statistics (2025), we count manufacturing employment at the county level for each year. We experiment with two possible measures of the impact of the plant’s employment: the share of plant employment in total county manufacturing and the share in county meatpacking employment. We also collect information on the existence of “right to work” laws in each state and enter it as a binary variable.

We construct a cattle cycle variable that equals 1 for the years when the cow inventory trends upward and zero otherwise. Data on the inventory was obtained from USDA NASS (2022, 2024). Details on the cycle can be found in Rosen, Murphy, and Schinkman (1994).

Appendix D: Aggregate model

The main data source is the CES-NBER Manufacturing Industry Database (available at <https://www.nber.org/research/data/nber-ces-manufacturing-industry-database>), which has been recently updated to 2018 (see Becker, Gray, and Marvakov, 2021). It aggregates the data from the Census of Manufactures and the Annual Survey of Manufactures. The data is available for the NAICS code 311611 or the SIC code 2011 (Meatpacking Plants), which includes cattle, hogs, and lambs, for 49 years (1970-2018). It includes price deflators for the value of shipments, materials, energy, and investment.

We compute output in million pounds of meat from USDA ERS (2022) and USDA NASS (2022) reports. We use the real capital variable (equipment plus plants) as provided by the CES-NBER database. Labor is measured as the hours of production workers, as given by the CES-NBER database as well. We separate materials into livestock and other (non-livestock) materials merging the energy input into materials. We use the cycle variable defined in Appendix C.

The instrumental variables include the ratio of wages of production workers to total pay, both variables as provided by CES-NBER, and the price of corn, obtained from USDA NASS.

The model is basically equation (3), where neutral productivity is suppressed after checking that modeled by a trend is not significant, and labor-augmenting productivity is modeled by increasing the observed labor by means of a trend that augments it yearly in “efficiency” terms by 2 percentage points. We estimate six parameters: constant, long and short-run elasticity of scale, the two markdowns, and the coefficient for the variable cycle. We use eight instruments: constant, time trend, lagged capital, lagged livestock, lagged share of labor, the lagged price of corn, cattle cycle, and the ratio of wages. The resulting estimation, is reported in column (3) of Table D1.

The results are reasonable. The short-run and long run parameters of scale are estimated to be 0.960 and 1.185, respectively. The parameter of monopsony power in the livestock market is evaluated virtually at zero, and the parameter of monopsony power in the labor market is significant with probability value of 6%. The markdown parameter value (0.666) implies that workers receive 60% of the labor marginal productivity. The mean elasticities for the inputs look perfectly reasonable and market power in the product market is evaluated as very low (average percentage markup is 2.4 percentage points). A Sargan test accepts the specification, giving a positive indication of the validity of the instruments.

Since monopsony power seems non-existent in the livestock market, we

reestimate the model imposing the restriction that the parameter of monopsony power of this market is zero, as reported in column (5). A Chi-square test strongly accepts the imposition of this restriction. If we similarly test the imposition of zero coefficient for the monopsony parameter in the labor market, we tend to obtain a significant rejection. Efficiency is slightly improved and the monopsony parameter estimate for the labor market now has a probability value of 4.6%.

Profitability decomposition is carried out in Table D2. Mean profitability throughout the whole period of almost 50 years is moderate, about 10%. An important part of this profitability comes from technology, more specifically from the fact that, in equilibrium, marginal cost lies about four percentage points above average variable cost. Market power in the product market adds very little to this, only 1.5 points, since the markup is very close to the unit value expected under perfect competition. The market power in the labor market adds a contribution as important as technology's to profitability. The fact that production workers are paid only 60% of the value of their marginal productivity implies a contribution to profitability of a little more than 4 percentage points, even though the share of labor in variable cost is relatively small (an average of 6%).

The results show some recent increase in product market power.

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Table 1: Descriptive statistics for the meatpacking industry

	1997	2018
Output (Index) ^a	1	1.236
Capital (Index) ^b	1	1.560
Livestock (Index) ^a	1	1.221
Labor (Index) ^c	1	1.043
Wage per hour (\$) ^d	9.518	19.710
Price of livestock (Index)	1	1.364
Input shares in cost ^e :		
Livestock	0.701	0.727
Labor	0.074	0.086
Materials	0.225	0.186

^a Pounds of meat, USDA

^b Real capital, NBER-CES

^c Total employees, NBER-CES

^d For production workers, NBER-CES

^e NBER-CES, using detail from USDA

Table 2: The Meatpacking plants sample 1998-2020

Average plant size intervals (workers) ^a	Total workers in 2020	Average size in 2020	No. of plants	No.of observations	More than 10 obs. (% plants)	Average proportion of county manufacturing employment ^b
(1)	(2)	(3)	(4)	(5)	(6)	(7)
5-99	1,400	50	300	700	4	0.28
100-499	16,500	300	150	1,100	31	0.30
500-999	18,500	750	40	500	55	0.32
>1000	118,000	2,200	60	1,200	93	0.66
All	154,000		550	3,500		

^a Plants are assigned to each interval by averaging their observations over the available years.

^b County manufacturing employment over the years as given by the Quarterly Census on Employment and Wages, BLS.

Source: FSRDC Project Number 2585 (CBDRB-FY25-0125). Clearance request #11975.

Table 3: The production function of meatpacking plants

Parameters and elasticities	Symbol	Estimated value	Standard deviation
(1)	(2)	(3)	(4)
Autoregressive	ρ_{AR}	0.795	0.046
Long-run scale	λ	1.014	0.063
Short-run scale	ν	0.894	0.113
Elasticity of substitution	σ	0.499	0.294
Markdown in livestock	ρ	0.097	0.251
Markdown in labor	τ_0	-0.014	0.202
	τ_1	0.448	0.029
	τ_2	-0.005	0.039
	τ_3	-0.023	0.013
Elasticity of capital	β_K	0.119	0.154
Elasticity of livestock	β_R	0.707	0.094
Elasticity of labor	β_L	0.139	0.023
Elasticity of materials	β_M	0.049	0.012

No. of observations: 3,500

Source: FSRDC Project Number 2585 (CBDRB-FY25-0125). Clearance request #11975.

Table 4: Decomposition of profitability 1997-2020

Sample	Average size (workers)	Gross profit $(\ln \frac{R}{VC})$	Technology $(-\ln \nu)$	Markup (μ)	Labor market power $(\ln(1 + S_L \tau))$
(1)	(2)	(3)	(4)	(5)	(6)
All plants	347	0.199	0.112	0.045	0.042
>75% ordered by LMP	331	0.238	0.112	0.016	0.110

No. of observations: 3,500

Source: FSRDC Project Number 2585 (CBDRB-FY25-0125). Clearance request #11975.

Table D1: The production function of meatpacking industry 1970-2018

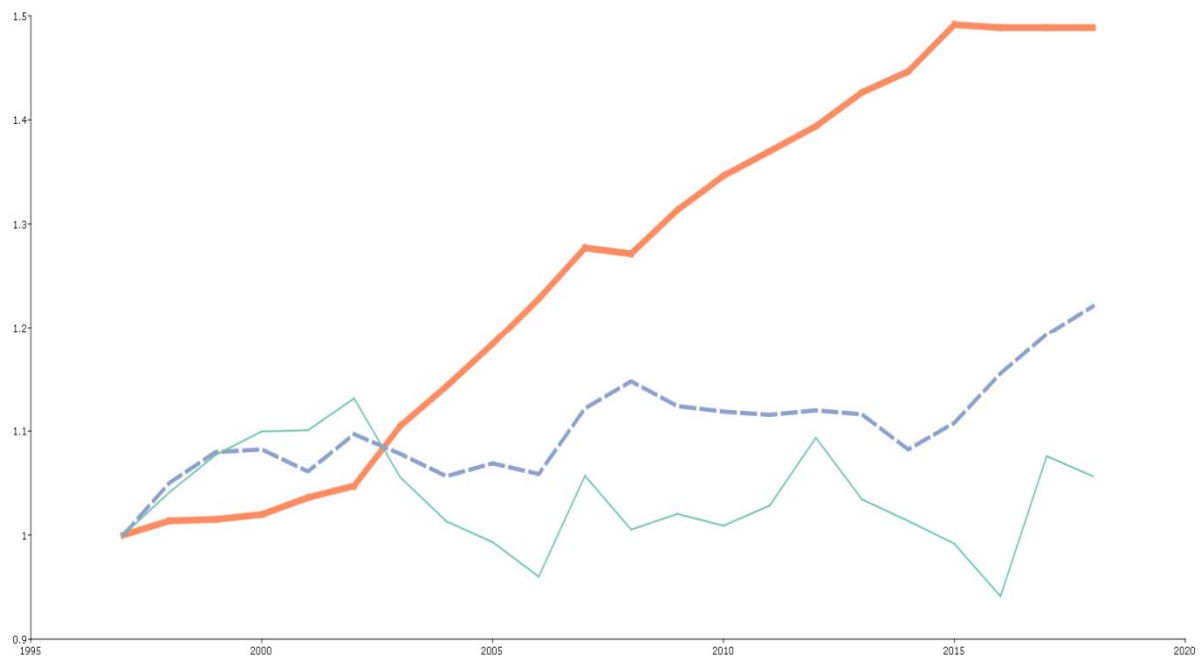
Parameters and elasticities	Symbol	Values	s.e./s.d.	Values	s.e./s.d.
(1)	(2)	(3)	(4)	(5)	(6)
Long-run scale	λ	1.185	0.100	1.183	0.071
Short-run scale	ν	0.960	0.097	0.960	0.093
Markdown in livestock	ρ	-0.012	0.460	-	-
Markdown in labor	τ	0.666	0.426	0.663	0.392
Markup	μ	1.024	0.029	1.016	0.029
Elasticity of capital	β_K	0.225	0.066	0.223	0.056
Elasticity of livestock	β_R	0.668	0.026	0.670	0.026
Elasticity of labor	β_L	0.102	0.015	0.101	0.015
Elasticity of materials	β_M	0.190	0.027	0.189	0.026
Test (P-value)		$\chi^2(2)=0.348$ (0.825)		$\chi^2(1)=0.068$ (0.794)	

No. of observations: 49

Table D2: Decomposition of profitability in the meatpacking industry

	1971-2018	1971-1989	1990-2007	2008-2018
Gross profit (%)	0.099	0.071	0.105	0.139
Technology	0.041	0.041	0.041	0.041
Product market power	0.015	-0.010	0.020	0.052
Labor market power	0.043	0.040	0.044	0.046

Figure 1: Evolution of three meatpacking inputs: capital, livestock and labor, 1997-2018

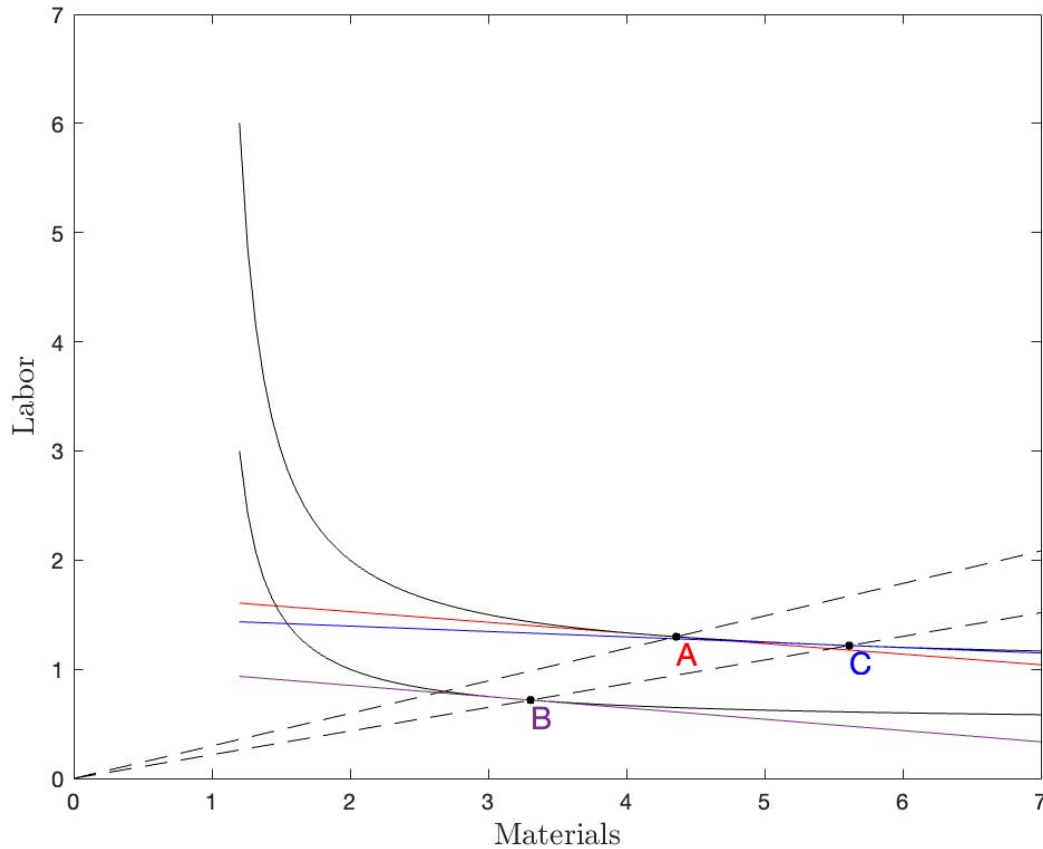


Thick solid line: Capital

Dashed line: Livestock

Thin solid line: Labor

Figure A1: The effects of an exogenous increase of labor-augmenting productivity and labor market power



Labor-augmenting productivity (A to B): The isoquant moves closer to the Materials axis and the firm chooses an equilibrium on the new isoquant given prices.

Input market power (A to C): On the unique original isoquant, the firm chooses an equilibrium in which the slope equates the new (absolute) price ratio $P_M / W'(1+\tau)$ flattened by the increase in monopsony power.