Discussion of:

The Decline of the U.S. Labor Share

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Brookings Panel of Economic Activity Fall 2013
Paper Does 3 Key Things

1. Measurement of labor share
2. What is cause of U.S. labor share decline?
3. Why does non-constant labor share matter?
Measurement is Complicated: Decline may be 4pp, not 6pp

- Classic issue with labor share: How to allocate labor component of “mixed income” of sole proprietors

- Helpful and illuminating: BLS non-farm business index sometimes classifies 100% of proprietors’ income as for labor!

- My preferred strategy: look at the corporate sector, which excludes sole proprietors by definition

- Used in Karabarbounis-Neiman (KN, 2013) and others before us. For United States, we find a 5pp decline.
In Defense of the Corporate Sector Labor Share

- Advantages:
  - Plug and play: quarterly in the NIPA tables, annually in SNA
  - Allows for international comparisons (more below)

- Key Concern: excludes some of economy. Varying over time?:

![Graph showing Corporate GDP / Overall GDP from 1975 to 2015 for World and United States. The graph indicates fluctuations over time with a slight decrease in the ratio for both categories.]
What Caused the Decline in the U.S. Labor Share?

- EHS argue against explanations such as:
  - S/U growth with non-unitary elasticity
  - Worker bargaining power and unions
  - KN: Declining price of investment goods and K-L elasticity > 1

- EHS preferred explanation is that increase in import exposure / globalization led to decline.
What Caused the Decline in the U.S. Labor Share?

Analysis uses two strategies:

1. Compare inflection points in the U.S. time-series:
   - For example, they argue against KN story as smoothed K/L growth series stops accelerating around 2000
   - Not convincing to me. Adjustment costs, bus cycles, variable utilization, all make high frequency comparisons difficult/noisy
   - (Aside: Bad for “imports” story as trade collapsed in 2009.)

2. They use variation across U.S. industries:
   - I like approach, but leans on homogeneity in $\sigma$, $A_K$, markups.
   - (Aside: Here, sole-proprietor adjustments might matter!)
My preferred strategy: look at other countries too! KN shows corporate $s_L \downarrow$ in 70% of the 56 countries.

1. An international perspective is particularly important given authors’ preferred explanation is “import exposure”
Benefit of International Data: Other Side of Outsourcing

What is mechanism linking imports and labor share?:

- Outsourcing? If so, then where to?

Notes: Labor shares from Karabarbounis and Neiman (2013)
Great Britain, not shown, had labor share increase.
Benefit of International Data: Other Side of Outsourcing

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Labor-Abundant Countries

![Graph showing labor shares of China, India, and Mexico from 1990 to 2010.](image)

Notes: Labor shares from Karabarbounis and Neiman (2013).
Brazil, not shown, had labor share increase.
China plots scaled total labor share to smooth 2000 reclassification-jump.
In Defense of a Global Perspective of the Labor Share

What is mechanism linking imports and labor share?:

- Outsourcing? If so, then where to?
- Trade-induced reductions in relative investment good prices?
  - Investment goods more tradable than consumption goods
  - Potentially consistent with KN cross-country evidence
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• Changes in the distribution of profits/markups?

• Their evidence is interesting. If international trade is key, then should focus on testable predictions in the international data.
In Defense of a Global Perspective of the Labor Share

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1. An international perspective is particularly important given authors’ preferred explanation is “import exposure”

2. Can compare trends and can use industry dummies
Example. KN: Greater investment price ↓ associated with larger labor share ↓. EHS: Not true for U.S. industries.
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**Table:**

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<thead>
<tr>
<th>Change in Relative Price of Investment (%)</th>
<th>Scaled Change in Labor Share (pp/10 years)</th>
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<td>-.5</td>
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**Note:** Line plots coefficients on robust regression estimates in KLEMS industry data.
Benefit of International Data: Industry Fixed Effects

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Note: Line plots sectoral best-fit of KLEMS industry data
Benefit of International Data: Industry Fixed Effects

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Note: Lines plots coefficients on robust regression estimates in KLEMS industry data.
Why Does Non-Constant Labor Share Matter?

(1) **TFP** measurement unlikely to be significantly different.

- Authors make nice point. May be tempting to ignore $\Delta s_L$.

- But interpretation of TFP depends on cause of non-constant labor share (i.e. Non-CD+$A_K$ or markup variation)

- May imply that standard measures of TFP $\neq$ technology!
Why Does Non-Constant Labor Share Matter?

(2) Inequality. Authors point out that rising labor income of super-rich “propped up” the labor share

• Total income inequality can be written:

\[ CV(y) = s_L \rho \left( y^l, y \right) CV(y^l) + (1 - s_L) \rho \left( y^k, y \right) CV(y^k) \]

• Impact of \( \Delta s_L \) depends on whether \( CV(y^l) < ? > CV(y^k) \) and on how the shock simultaneously impacts all these terms

• Adams, Karabarbounis, and Neiman (in progress) combines an Aiyagari (1994) model with endogenous portfolio decisions with Krusell et al. (2000) model of capital-skill complementarity so all terms jointly respond to shocks.
In Sum…

• A clear documentation of U.S. labor share decline, with rich and insightful treatment of measurement issues.

• But I view this as global phenomenon and data are not consistent with the simplest outsourcing story.

• More broadly, greater exposure to imports may matter:
  • To be compelling, authors must: (i) articulate specific mechanism and (ii) use cross-country linkages to test