

# Comments on “The Fall of the Labor Share and the Rise of Superstar Firms”

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Comments

By

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# Overview

- Key Findings:

- Falling Labor Share and Rising Concentration

- Industries with rising concentration have declining labor share

- Rising concentration is due to between firm reallocation within industries

- Rising concentration and Productivity/Innovation

- Industries with rising productivity have greater rises in concentration

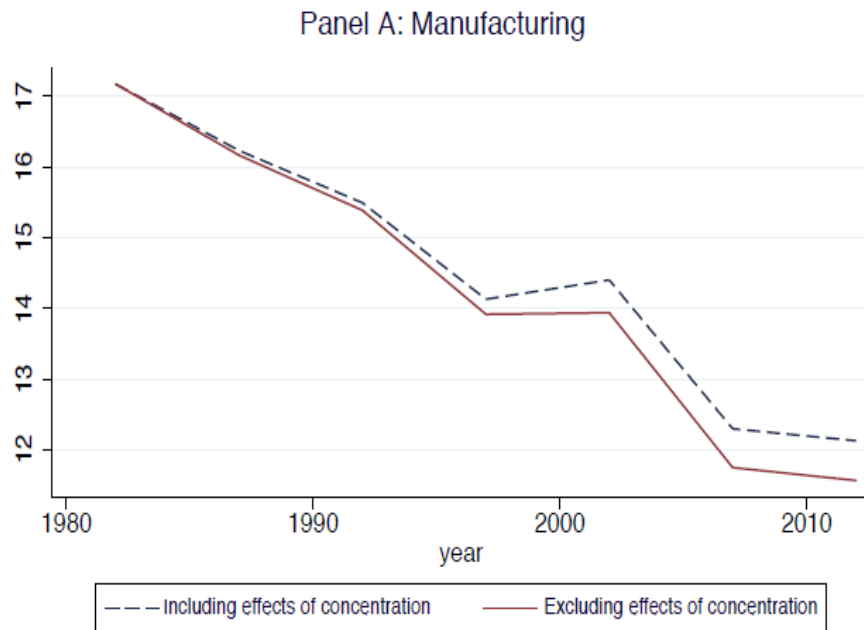
- Storyline:

- Rise of Superstar firms that have lower labor shares.

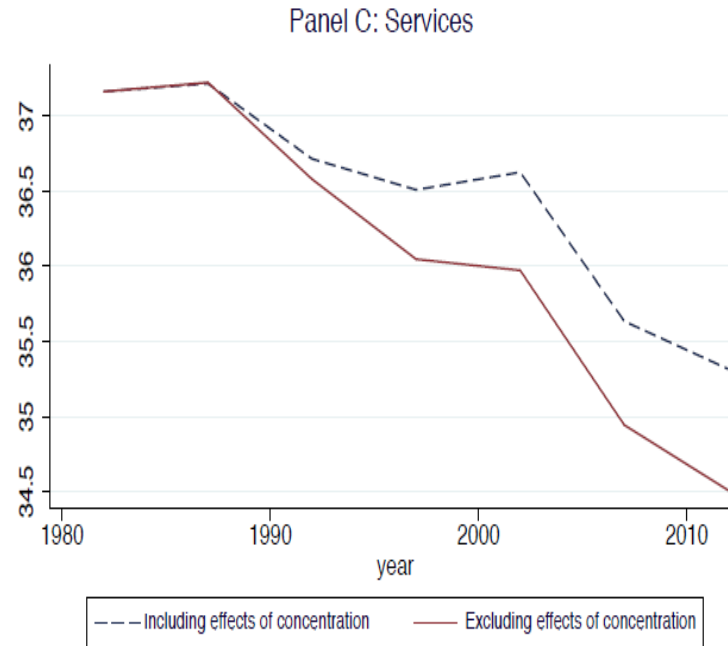
- Model: Increased competition (falling markup) implies more resources concentrated at most productive firms.

- Broader view: IT revolution has yielded more winner take all industries/markets.

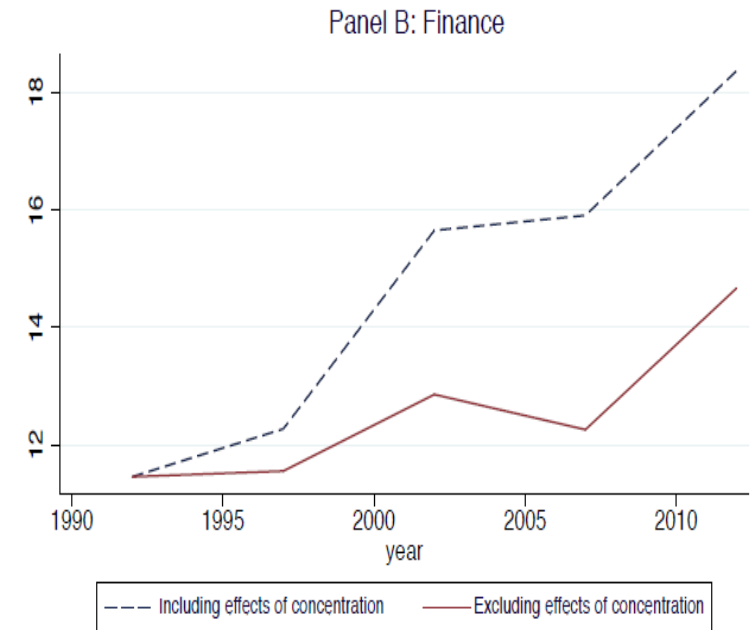
# Comment 1: Concentration only accounts for a small fraction of declining labor share



Rising concentration accounts for 10% of decline in Labor Share in Manufacturing (Best data for labor share and concentration)

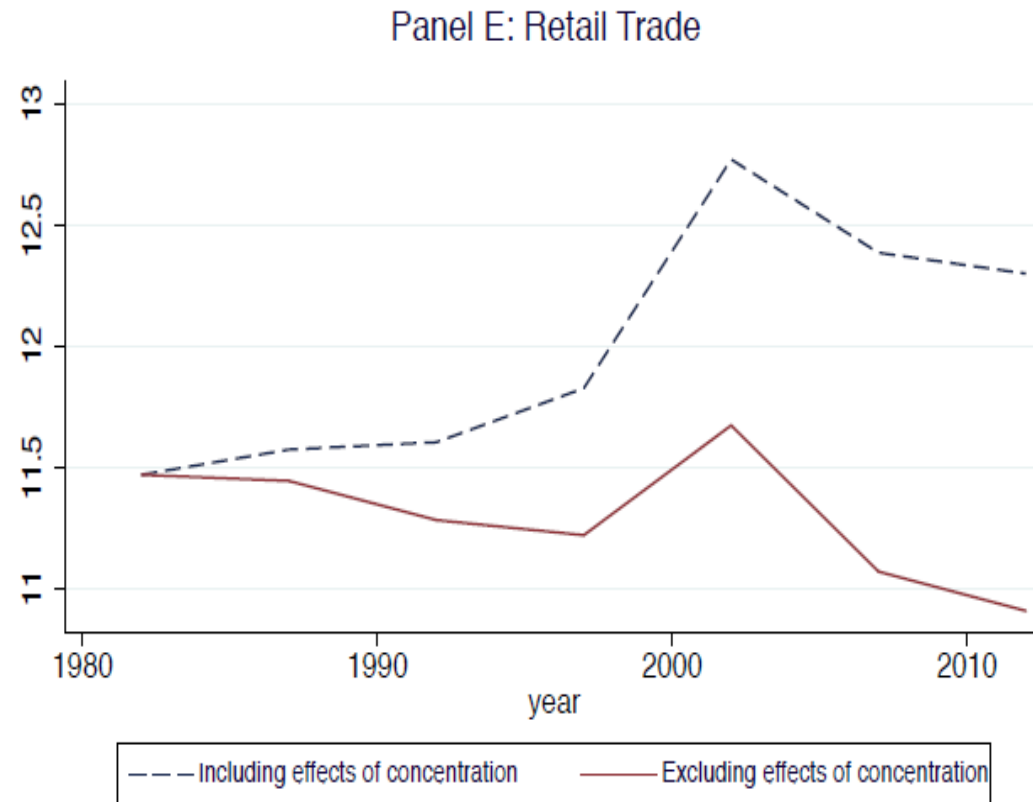


Rising concentration accounts for one third of decline in Services (but of a very small overall decline!)



Not clear what to make of Finance Industry – Sales Data not used in GDP NIPAs

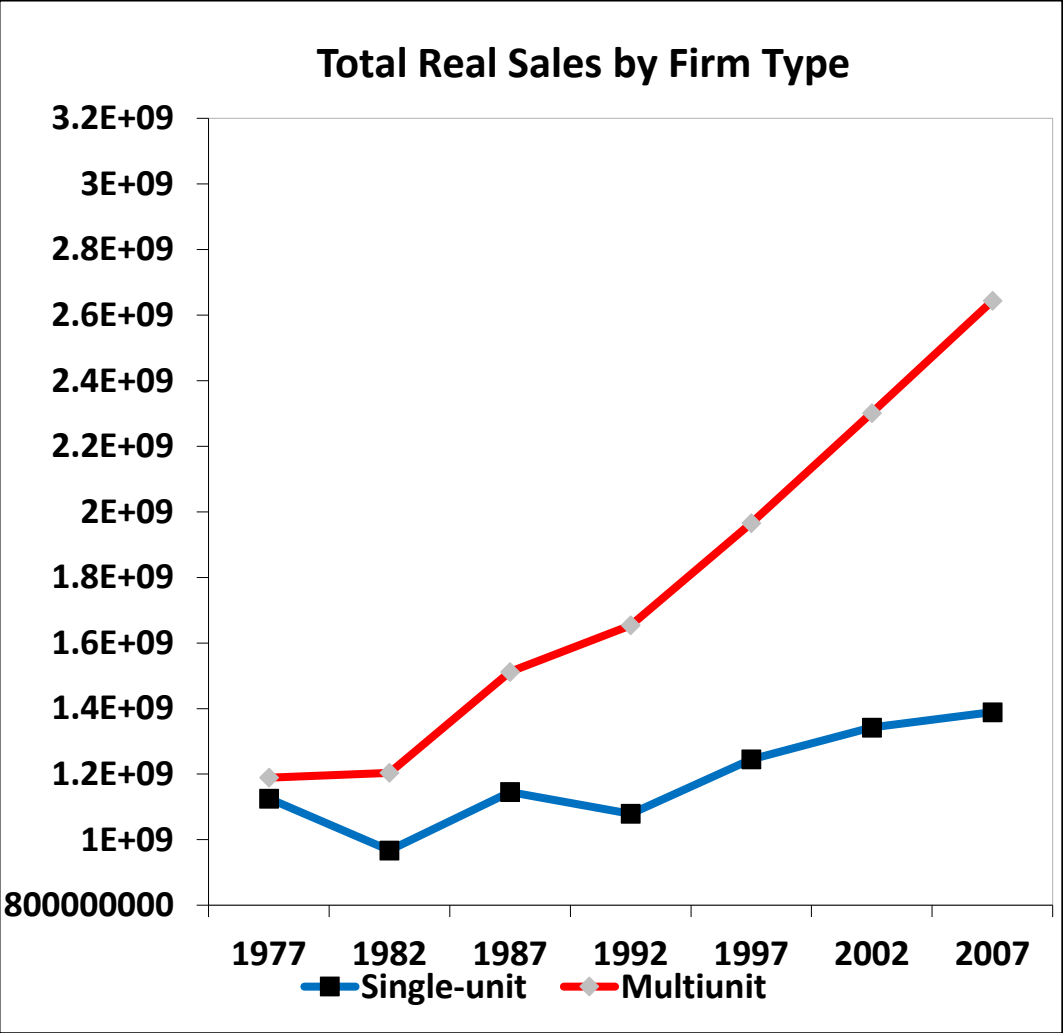
# Comment 2: Retail Trade ?



Rising concentration accounts for more than 100 percent of decline in labor share in Retail Trade.

1. Small decline in labor share – still striking large relative role of concentration.
1. Are the superstar mechanisms at work in Retail Trade

Comment 2: Retail Trade Increase in Concentration is associated with a well documented change in business model – yielding higher concentration, higher productivity, and lower entry rates



Source: Foster et. al. (2016)

Share of activity accounted for by Single Unit Establishment Firms (“Mom and Pop” Firms) has declined From 50 to 35 percent.

Almost all of the increase in Multi-Unit Share is from Large, National Chains

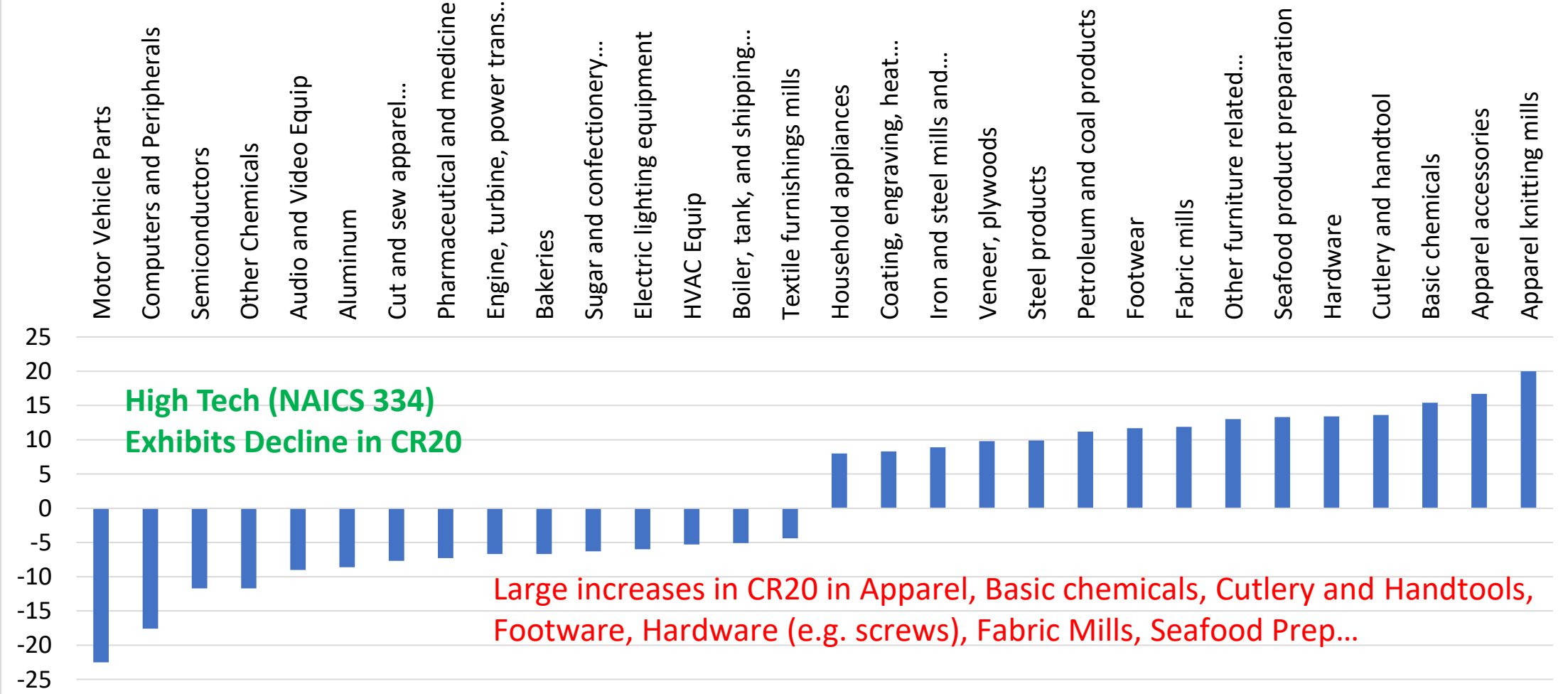
Productivity Gap between Single-Unit Establishment Firms and Large, National Chains is 30 log points.

Entry rate has fallen substantially over this period of time.

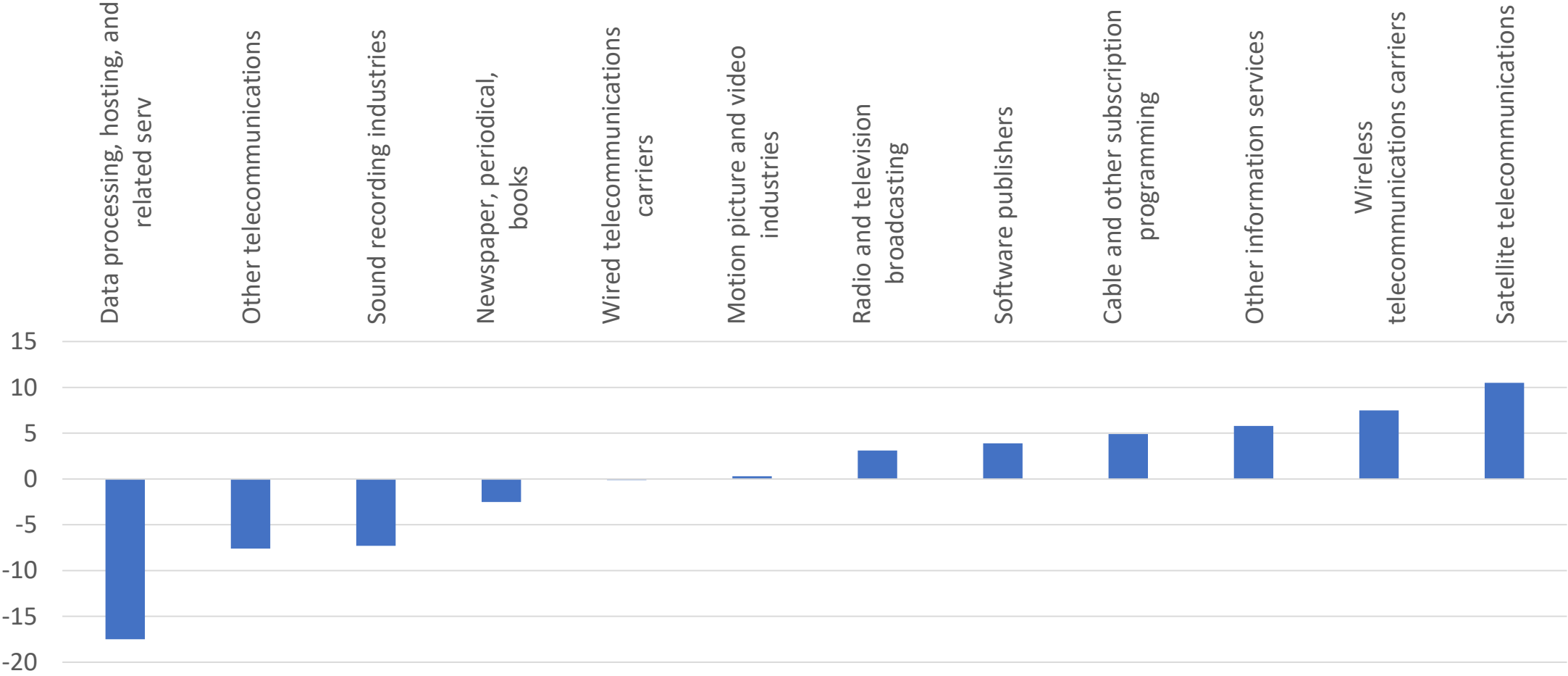
Is the Superstar firm mechanism at work?

Globalization and IT have favored the large, national and multi-national chains. Not simple model of rising competition and allocating more resources to more productive firms.

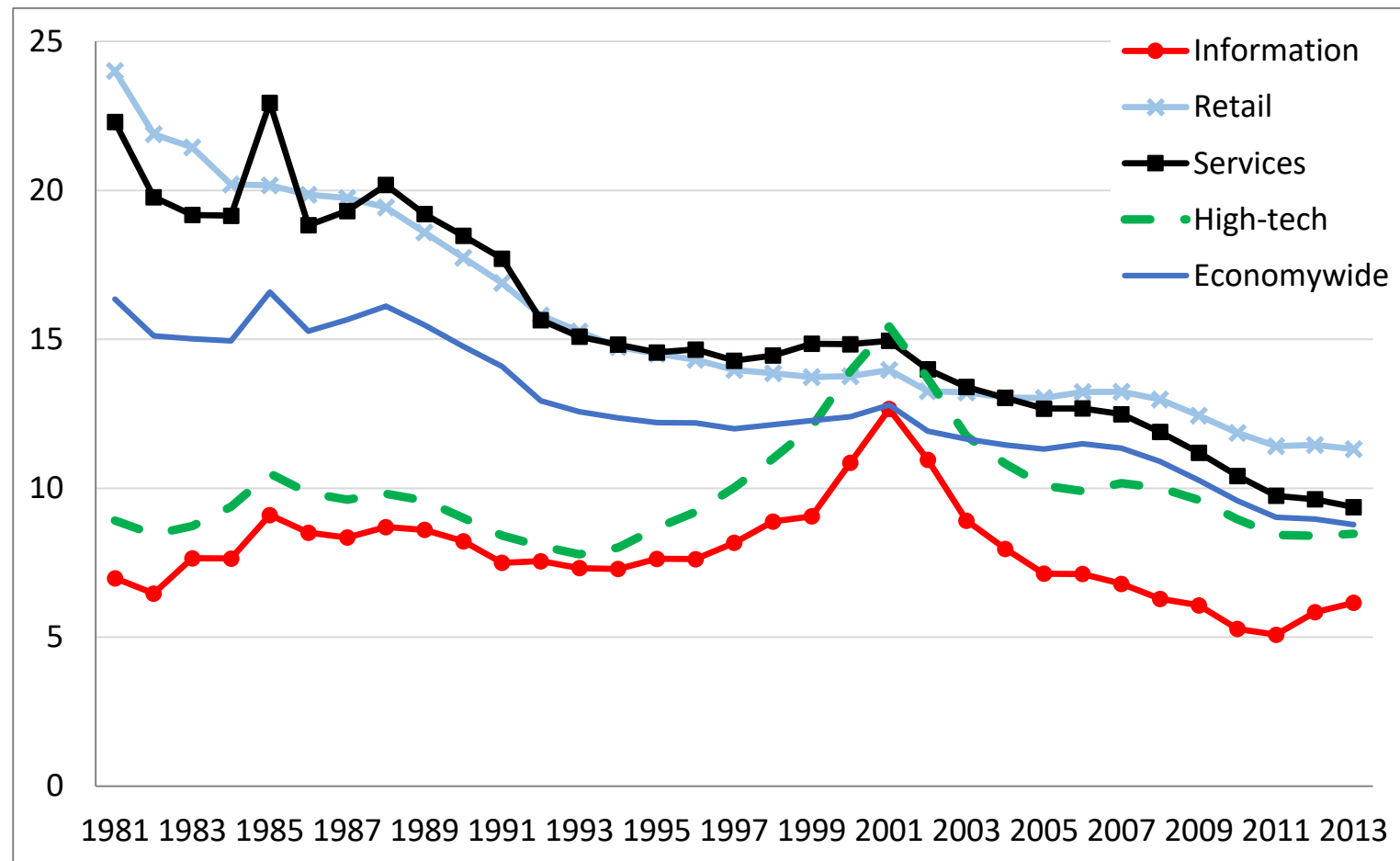
# Comment 3: Is there a High Tech Component to this Rise in Concentration? Bottom and top 15 Changes in CR20 for NAICS 4-digits in Manufacturing from 2002-2012



# Comment 3: Even in the Information Sector, Mixed Evidence (CR20 changes from 2002-12 for 4-digit NAICS 5111-5191)



# Comment 4: Rising concentration, falling entry? Depends what sector and time period

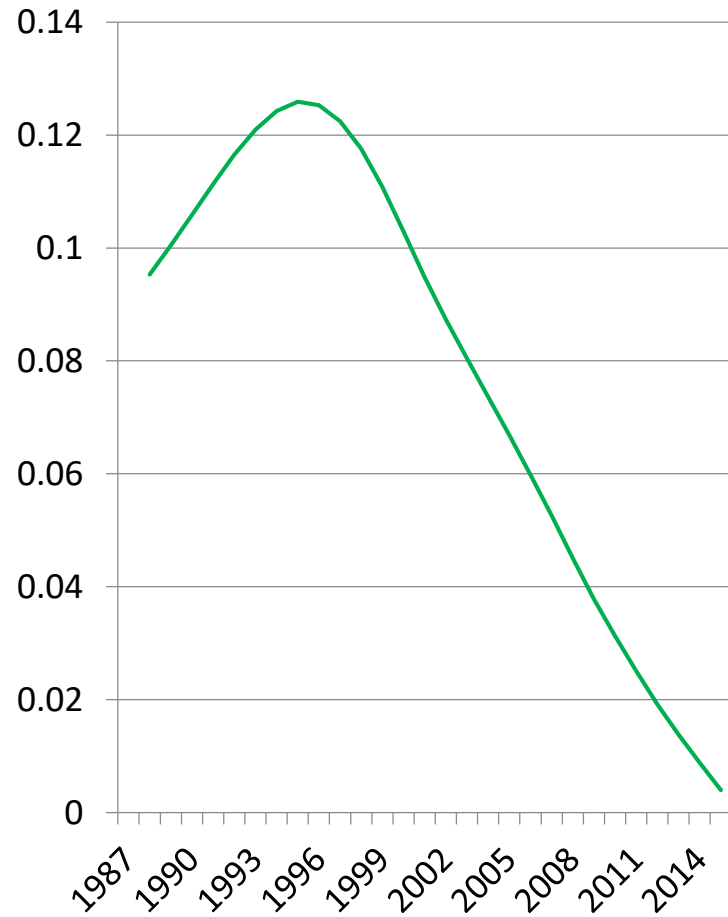


High Tech is ICT sectors + Bio Tech – mostly from Manufacturing and Information

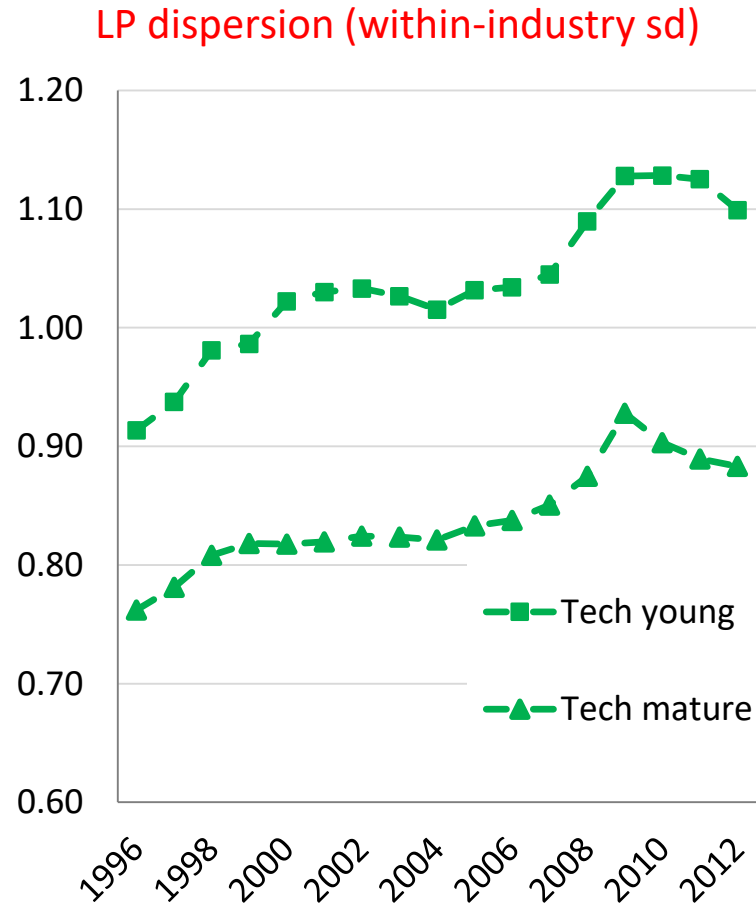


# Comment 5: High Tech Exhibits Declining Productivity Growth, Rising Productivity Dispersion and Falling Responsiveness in Post 2000 period – how does this fit rising superstar firm mechanisms?

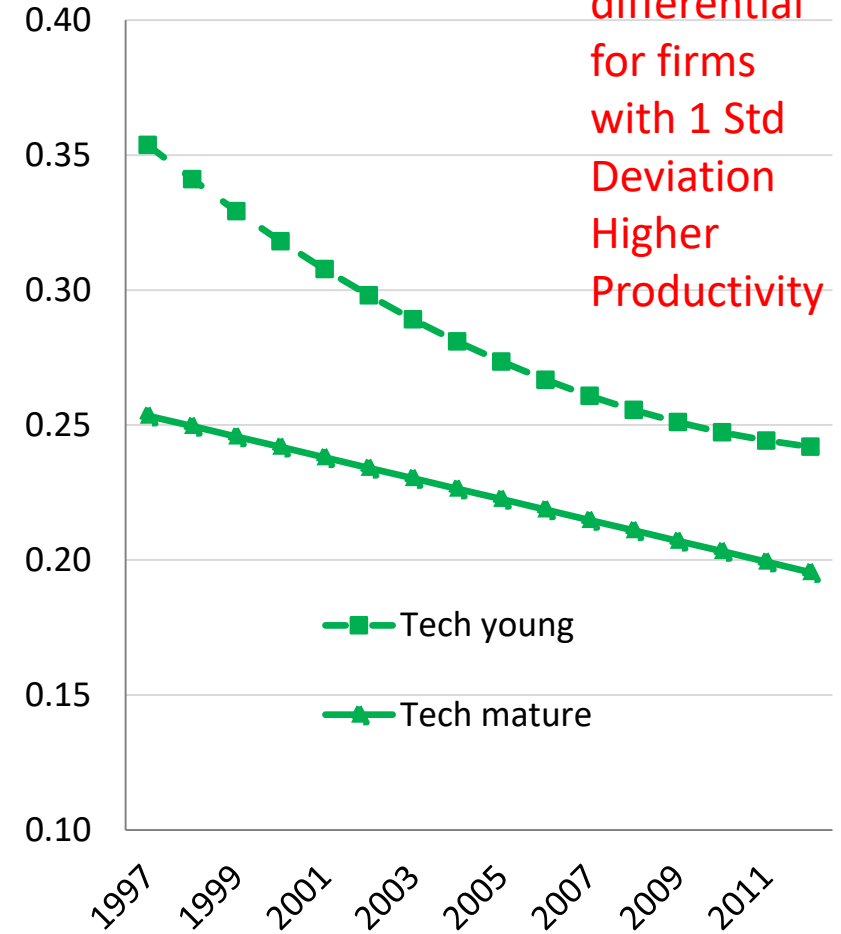
## *LP Growth (High Tech)*



## *Productivity Dispersion*



## *Responsiveness*



**Growth differential for firms with 1 Std Deviation Higher Productivity**

Tech young

Tech mature

# Comment 6: Causality?

- Negative correlation between concentration and labor share.
- Positive correlation between concentration and labor productivity
- Are these just flip sides of the same correlation?
  - Labor share =  $WL/PQ$
  - Labor productivity =  $PQ/L$  (or should it be  $PQ/WL$ ?)

Related missing piece:

Discussion and analysis of how wages are determined.