Discussion of:

The Decline of the U.S. Labor Share

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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?:
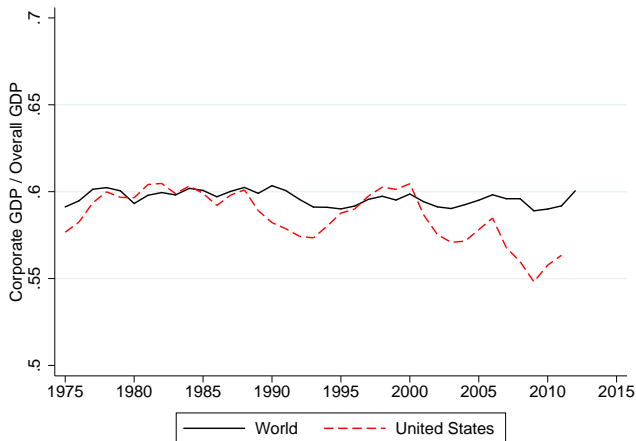
What Caused the Decline in the U.S. Labor Share?

- 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 σ, A_K, markups. (Aside: Here, sole-proprietor adjustments might matter!)

In Defense of a Global Perspective of the Labor Share

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?:
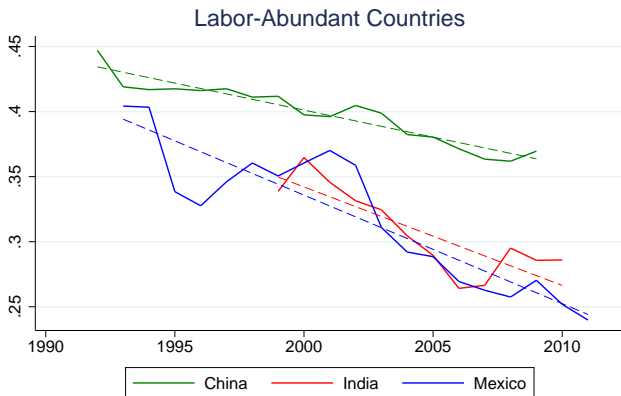
- Outsourcing? If so, then where to?

Capital-Abundant Countries
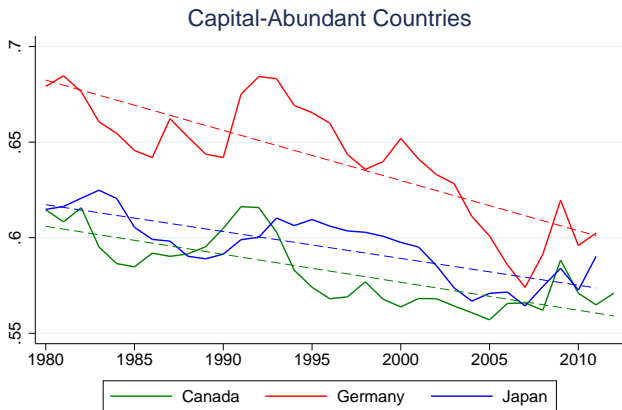
Notes: Labor shares from Karabarbounis and Neiman (2013)
Great Britain, not shown, had labor share increase.

Benefit of International Data: Other Side of Outsourcing

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Labor-Abundant Countries

Notes: Labor shares from Karabarbounis and Neiman (2013).
Brazil, not shown, had labor share increase.
China plots scaled total labor share to smooth 2000 reclasification-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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- Their evidence is interesting. If international trade is key, then should focus on testable predictions in the international data.

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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*

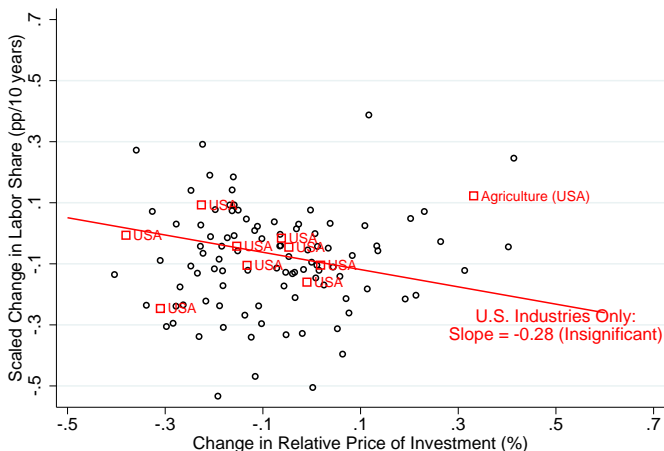# Benefit of International Data: Industry Fixed Effects

- **Example.** KN: Greater investment price ↓ associated with larger labor share ↓. EHS: Not true for U.S. industries.
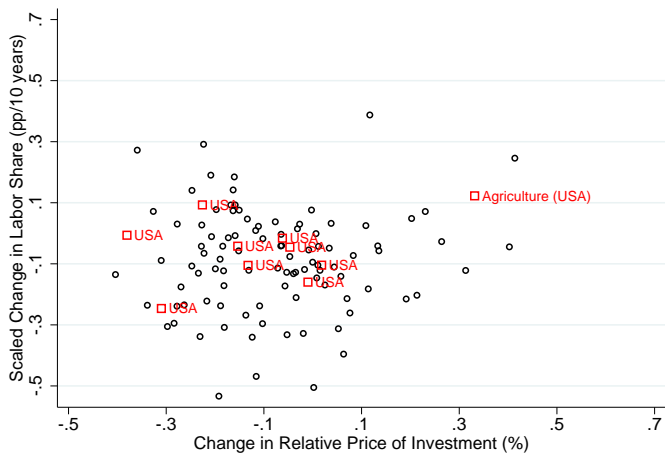
Note: KLEMS industry data
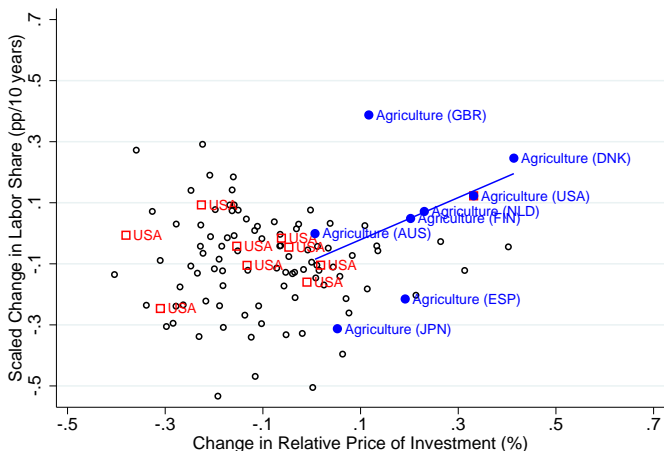
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Note: Line plots coefficients on robust regression estimates in KLEMS industry data.

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Note: Line plots sectoral best-fit of KLEMS industry data

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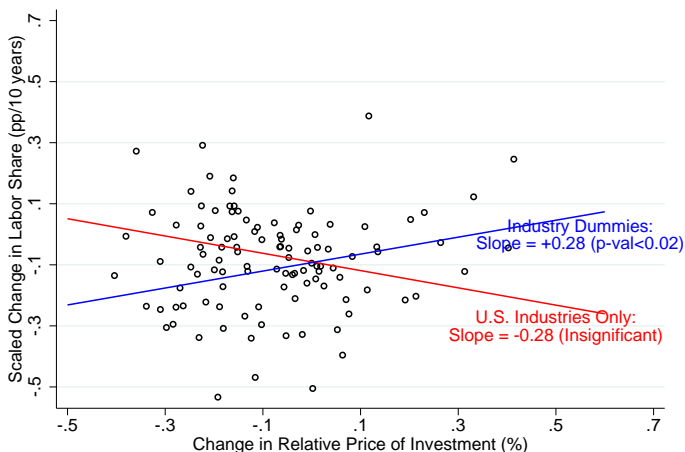
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Why Does Non-Constant Labor Share Matter?

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

- Authors make nice point. May be tempting to ignore Δs_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:

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

- Impact of Δs_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:

  - Very appealing and plausible. Timing broadly right. Global shock. Potentially consistent with KN relative price story.

  - To be compelling, authors must: (i) articulate specific mechanism and (ii) use cross-country linkages to test