Discussion of:

Capital Share Dynamics When Firms Insure Managers

by Hartman-Glaser, Lustig, Zhang

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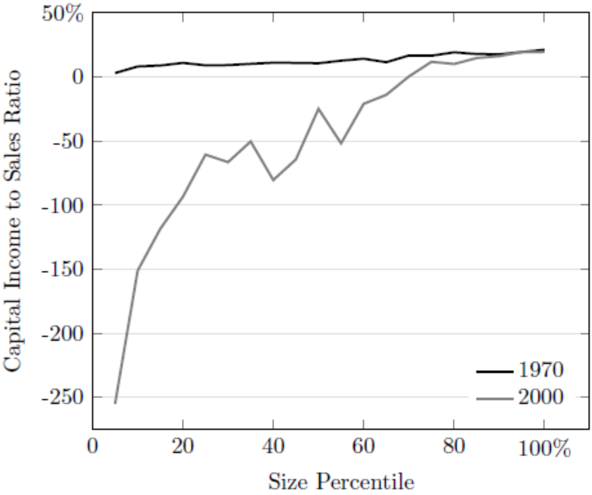
EFG Spring Meeting 2017

Agenda

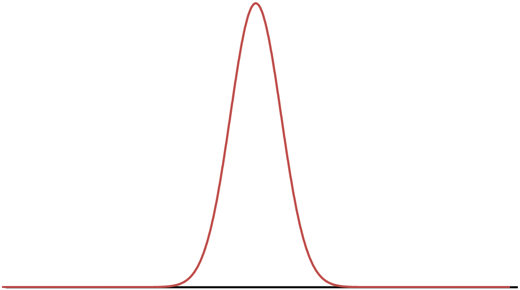
- Recap of Their Fact and Story
- The Only Mechanism?
- Measurement
- Organizing the Literature

Their Fact



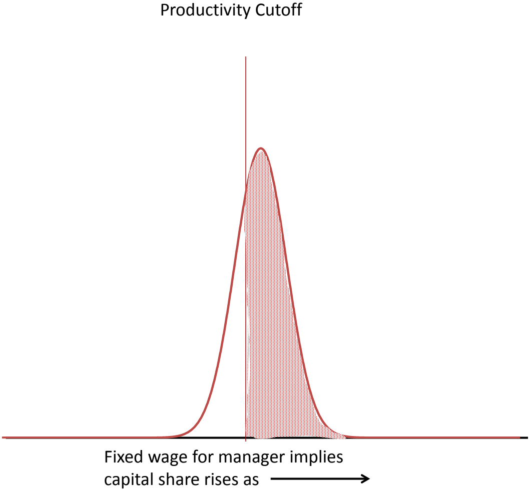
- Emergence of strong link between s_K $(= 1 - s_L)$ and size
- Implies divergence between average and aggregate labor share

Their Story



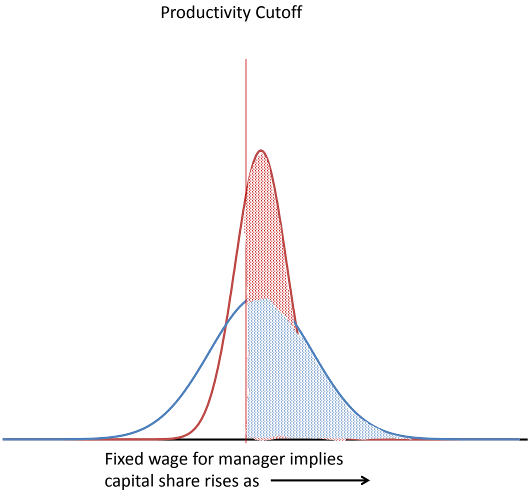
- Stationary productivity distribution
- Owners match with manager to run firm

Their Story



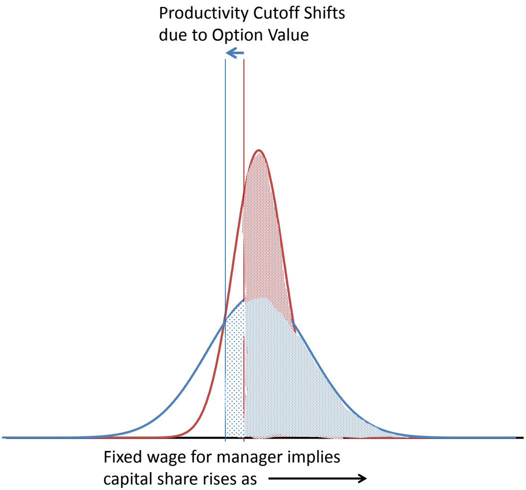
- Owners have reservation value to start firm (P)
- Managers get fixed wage as they are risk averse
- Manager/Owner split is equal ex-ante, but not ex-post

Their Story



- Increase in firm-level volatility widens support of distribution
- Implies fat-tail on the right, with greater s_K dispersion

Their Story



- Additional effect is increases incentive to “wait and see”
- Implies larger mass of tiny firms with negative s_K

Their Story

- Summary: More mass on large firms with low s_L, gap between aggregate and (unweighted) average firm's experience
- Very creative and interesting idea, also nicely capture seemingly larger mass of tiny firms with losses
- Connects well with empirics on rise of idiosyncratic risk
- "As far as we know, [KN hypothesis about factor substitution] does not predict a divergence between the average and aggregate labor share that we document..."

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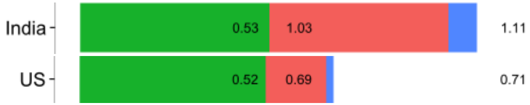
- Average s_K is constant but aggregate s_K changes

The Only Mechanism?

- Preceding story was simplified version of Oberfield and Raval (2014, and Houthakker and Sato before them).
- With CES production and heterogeneous A_K and A_N, average and aggregate factor shares can easily diverge:



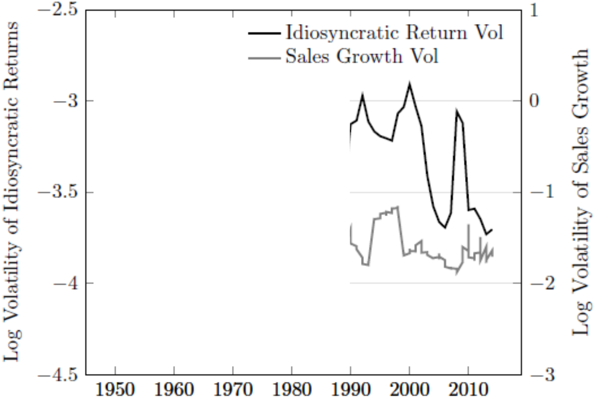
- Plausible that Charles Schwab or Walmart grew as they leaned more heavily on technology, which got a lot cheaper
- Not proof of course, but KN story is about aggregates, so increasing shares of low s_L firms isn't obviously inconsistent

The Only Mechanism?

- Nice points about behavior of small/exiting firms, but might do more on testable implications of their story for aggregate
- Should it hold for private firms or sole proprietorships?
- Sectors/firms where options/bonuses/π-sharing prevalent?
- CEO compensation?
- Other countries?
- True for any concentration shock plus fixed-cost or market-share dependent markup (such as nested CES)?

The Only Mechanism?

- Why did volatility increase? Orthogonal to other stores?
- Timing?



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Micro and Macro

- Supportive of integrating micro and macro data, but mismatch of basic levels gives some pause

- For instance, do we really think the labor share is in the high 30s? At least worth addressing...

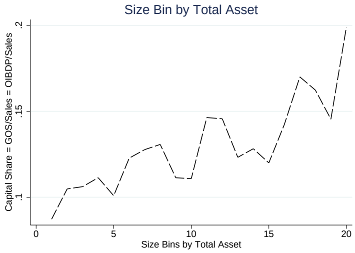
- And why measure size with Assets as in Figure 2? In above example with firms A and B, if $p_A Y_A = p_B Y_B$ we'd have:

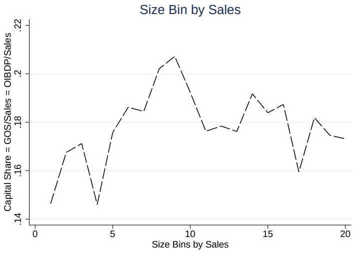
$$K_A > K_B \text{ and } \alpha > \beta$$

- The difference appears to matter empirically...

Micro and Macro

- "The Global Rise in Corporate Saving" by Chen, Karabarbounis, and Neiman (2017)
- Similar dataset, but filter out firms with $|GS/GVA| > 1$, which greatly impacts negative among small firms.
- Replicate (for 2000) positive relationship between s_K and assets, but do not between s_K and sales (GVA is in between):





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If s_L Declined, then Π, K, or R Rose

- Π : Increasing markups in KN (2014), Rognlie (2014), Gutierrez and Philippon (2016), Barkai (2017), and this paper.
- K : Automation, Rise of Intangibles (potential mismeasurement of K), and related issues in KN (2014), Alexander and Eberly (2016), and Koh et al. (2016).
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Conclusion

- Nice Paper!
- Very interesting and creative. Focused on issues quite different from vast literature I've been seeing.
- Lots of evidence their story is possible, but still unclear if it's first-order driver. Paper would be strengthened by:
  - More evidence consistent with their mechanism and not others
  - Link discussion of why idiosyncratic shocks increased
  - Defend empirical choices from micro data that don't accord well with macro data