Discussion of "*Declining Worker Power and American Economic Performance*" by Anna Stansbury and Lawrence H. Summers

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Brief Overview of Paper

- Several trends have defined the macroeconomy in the last several decades:
  - Fall in the labor share
  - Rise in Tobin's Q
  - Rise in measured markups
  - Weak investment relative to profits
  - Fall in steady-state unemployment
- *This paper:* A fall in worker bargaining power is the major structural change responsible for these phenomena
  - Measure a decline in labor rents large enough to explain many of these facts

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    - *Big firms have higher rents so may dispropostionately benefit from falling worker power*

How they measure labor rents

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- *Estimation strategy:* jointly estimate industry, union and firm size fixed effects

$$\log(w_{it}) = \underbrace{\beta X'}_{Individual} + \underbrace{\gamma_{ind} + \gamma_{union} + \gamma_{size}}_{job} + \epsilon_{it}$$

- *Basic intuition:* rents are differences in worker earnings that are not explained by demographics and occupation ($\beta X'$) but are explained by job characteristics

Relationship to firm fixed effects

- Variance of **firm fixed-effects** should also inform rent sharing trends by similar logic

$$\log w_{ijt} = \underbrace{\beta X' + \gamma_i}_{Individual} + \underbrace{\gamma_j}_{\text{job}} + \epsilon_{it}$$

Song, Price, Guvenen, Bloom and Von Wachter (2019), Table 3

	Total Variance	$Var(\gamma_j)$	$Var(\gamma_i)$	$Cov(\gamma_j, \gamma_i)$
1980-1986	0.708	0.084	0.33	0.033
2007-2013	0.924	0.081	0.476	0.108
Change	0.216	-0.003	0.146	0.075

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Reallocation of labor reconciles industry and firm estimates

- What reconciles fall in $Var(\gamma_{ind})$ with relatively stable $Var(\gamma_j)$?
- Simple relationship between firm and industry effects

$$\gamma_{ind} = \sum_j \frac{E_j}{E_{ind}} \gamma_j$$

- Suggests role for reallocation: maybe more workers are at firms with lower γ_j
- Similar to the importance of reallocation in explaining the fall in the labor share and rise in measured markups (De Locker et al (2020), Autor et al 2020))

Literature provides a lot of evidence that labor rents are reallocated between workers

- Large estimated role for $cov(\gamma_i, \gamma_j)$ suggests reallocation was non-random (Song et al 2019)
- Within the firm, rent-sharing is concentrated in top half of earnings distribution (Kline et al 2019)
- Fall in large-firm wage premium largest for low-education workers (Bloom et al 2018)
- Rise in outsourcing concentrated in low-wage occupations (Goldschmidt and Schmieder 2017, Dorn, Schmieder, and Spletzer 2018)

My takeaway: A potential mechanism behind the fall in labor rents is lower-skill workers concentrating in lower-rent firms

Why is the reallocation of labor rents important?

1. Extends analysis to directly link fall in labor rents to rising income inequality
   - Current analysis highlights rise in inequality stemming from differences between labor and capital
   - Large component of the rise in income inequality is within labor (Song et al 2019, Smith et al 2019)
2. Strengthens connection between reallocated rents and macro labor market trends that are strongest for low-skill workers
   - Decline in trend unemployment: likely largest for low-education workers (Crump et al 2019)

Why is the reallocation of labor rents important?

3 Suggests some candidates for *why* labor rents have fallen

- The authors posit three broad shifts behind the decline in worker power:
  - Institutional changes (right to work, fall in the real minimum wage)
  - Changes within firms (shareholder activism, workplace fissuring)
  - Economic conditions (technology, import competition)
- A fall in labor rents driven by a fall in the share of workers at high-rent sharing firms suggests some are more likely:
  - The simple fall in rent sharing parameter within the firm may be incomplete
  - Could be the *consequence* of technological factors that change the nature of production

Conclusion

- Thought-provoking paper that highlights important feature of the economy
- Compelling and comprehensive analysis that convinced me of the importance of falling labor rents for the macroeconomy
- Suggests many important directions for future research