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Growth Welfare Innovation Productivity

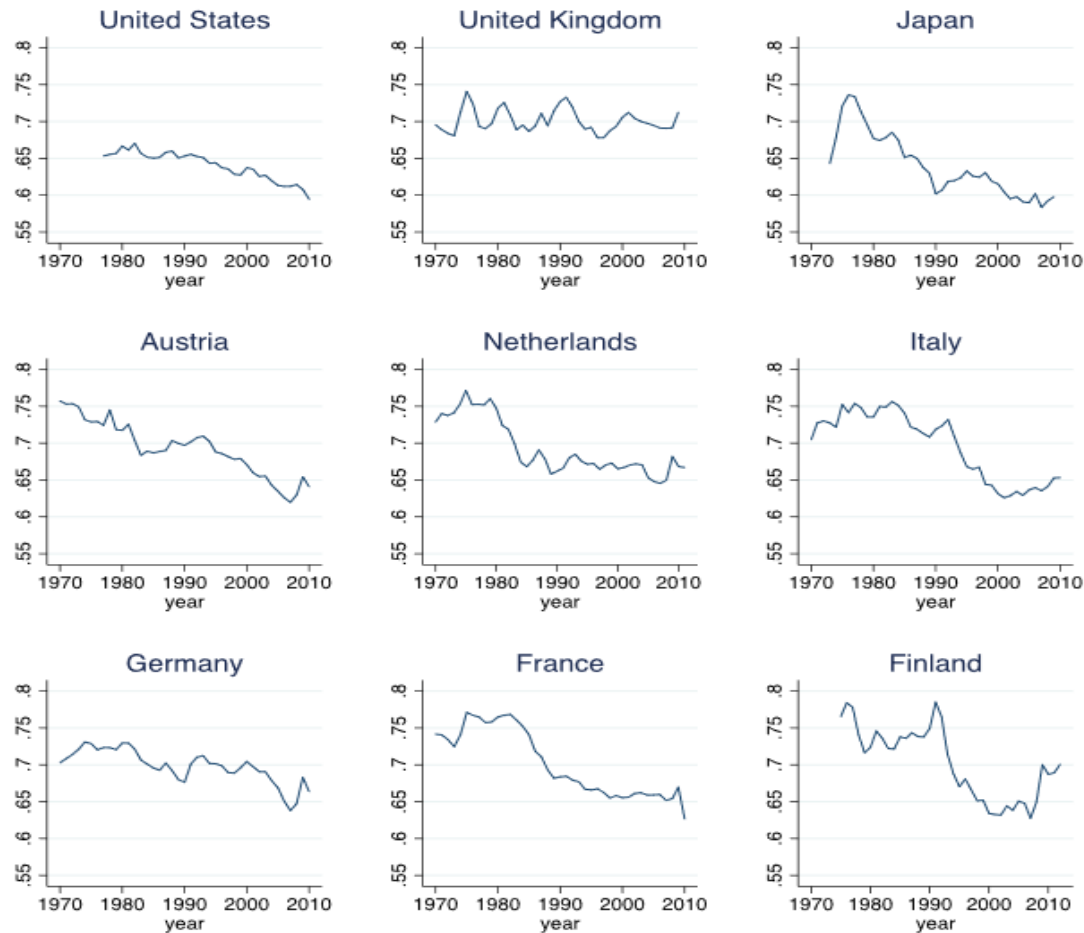# The Impact of Superstar Firms on the Labor Share: Evidence from Belgium

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Motivation: International evidence

Source: *Autor et al., 2020 (QJE)*

Literature review

o **Consensus** on the **fall** of the labor share.

o **Debate** about the **magnitude,** as well as the **causes**.

- Globalization of trade & capital (Dao et al., 2017)
- Technology (Dao et al., 2017; Karabarbounis & Neiman, 2014)

o Recent focus on **granular drivers**

- Kehrig & Vincent (2018): Hyperproductive plants
- Autor et al. (2020): Superstar firms

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"Superstar firm" mechanism

- **Superstar firms (Autor et al., 2020)**
  - <u>Low</u> firm-specific <u>labor share</u>
  - <u>Expanding market</u> share in <u>its industry:</u> Winner-takes-most
- Four testable predictions
  - (I)   Sectoral **labor share** and **market concentration** are respectively decreasing and increasing.
  - (II)   Industries with **largest increase** in market concentration experience **largest decrease** in their labor share.
  - **(III) Reallocation component** drives the fall of the labor share.
  - (IV) Industries with **largest increase** in market concentration experience **largest decrease** in their reallocation component
- **RQ:** Do these results generalize outside the US?
  - Confirm in <u>Belgian</u> Manufacturing and Wholesale & Retail.

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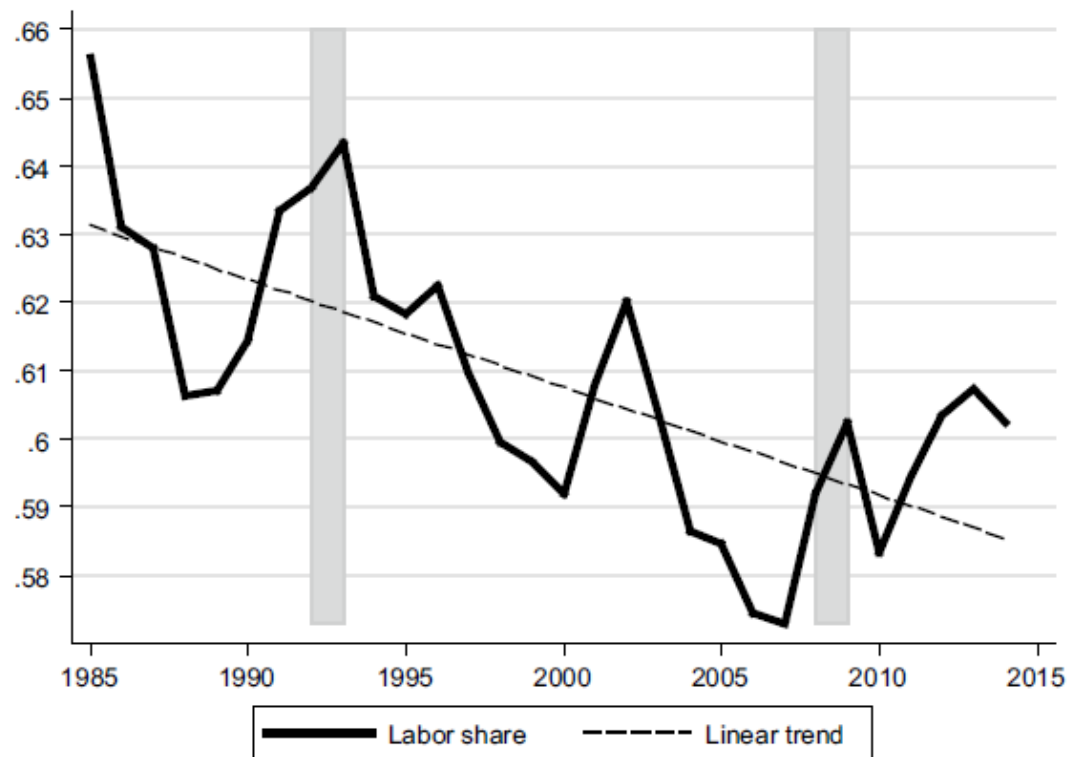
Belgium: Descriptive evidence

Fig. 1 Decline of the Belgian labor share. *Notes*: This figure plots the evolution of the Belgian labor share (1985–2014). The firm-specific labor share is weighted by its value added in order to calculate the weighted aggregate labor share
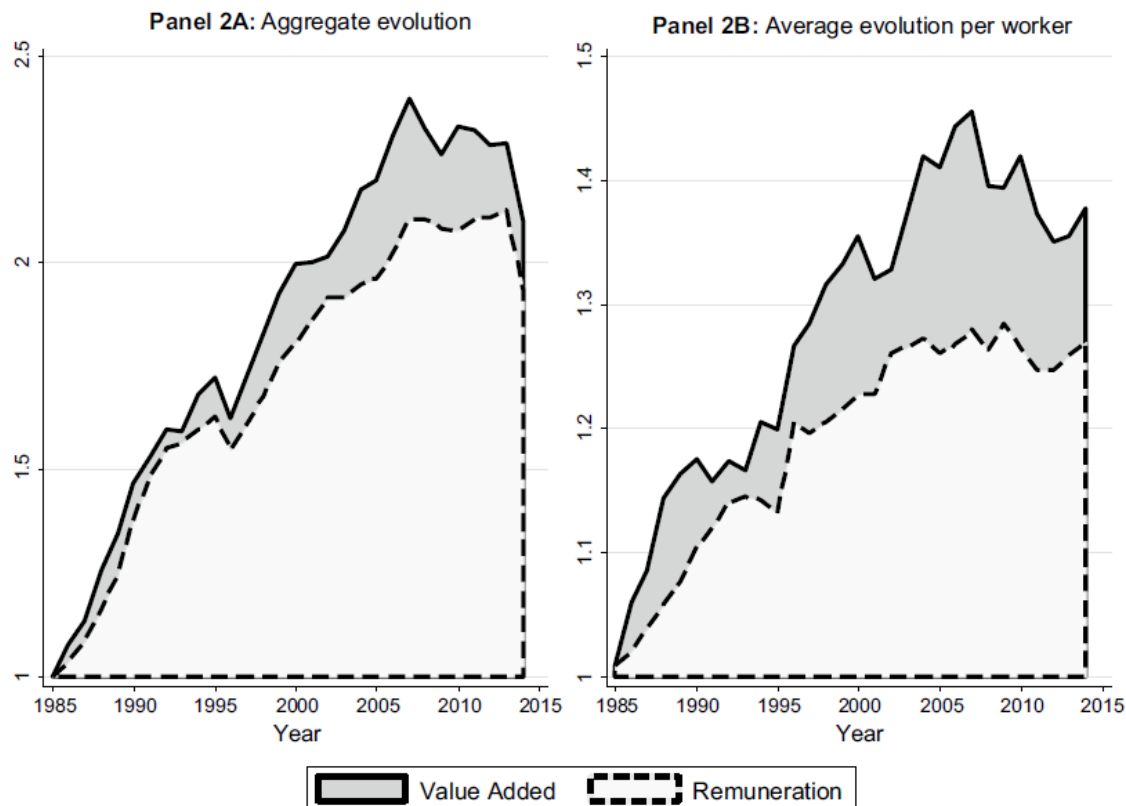
Belgium: Descriptive evidence

Fig. 2 Evolution of remuneration and value added. *Notes*: All observations for remuneration and value added are divided by their corresponding value in 1985. Hence, the value observed in 1985 serves as a reference level. Observations are inflation-adjusted
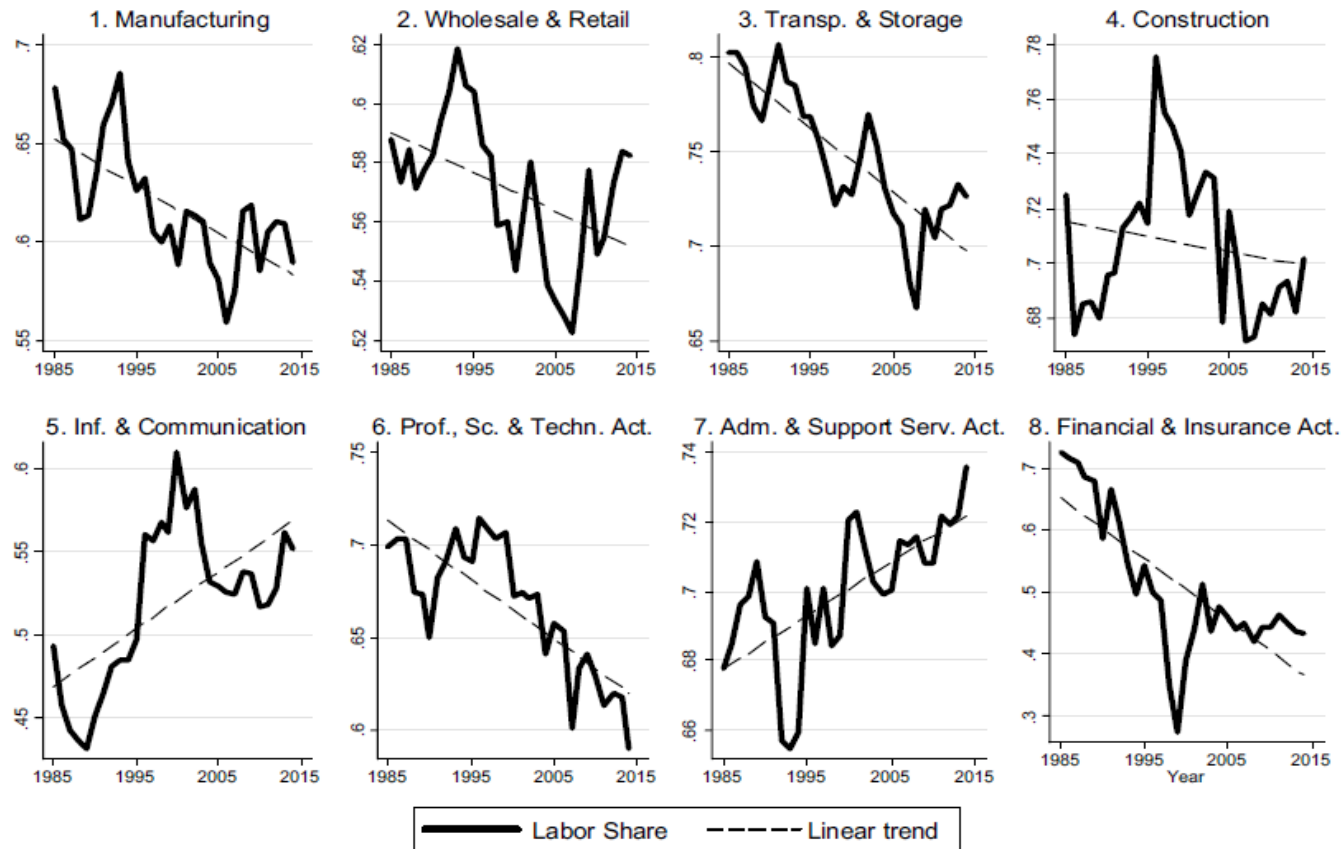
(Ia) Sectoral labor share

Fig. 3 Evolution of sectoral labor share. *Notes*: Each panel plots the evolution of the labor share for a specific sector with its trend. Panels are shown in descending order of sectoral value added in 85 s. The sectoral labor share is weighted by value added within a sector-year combination

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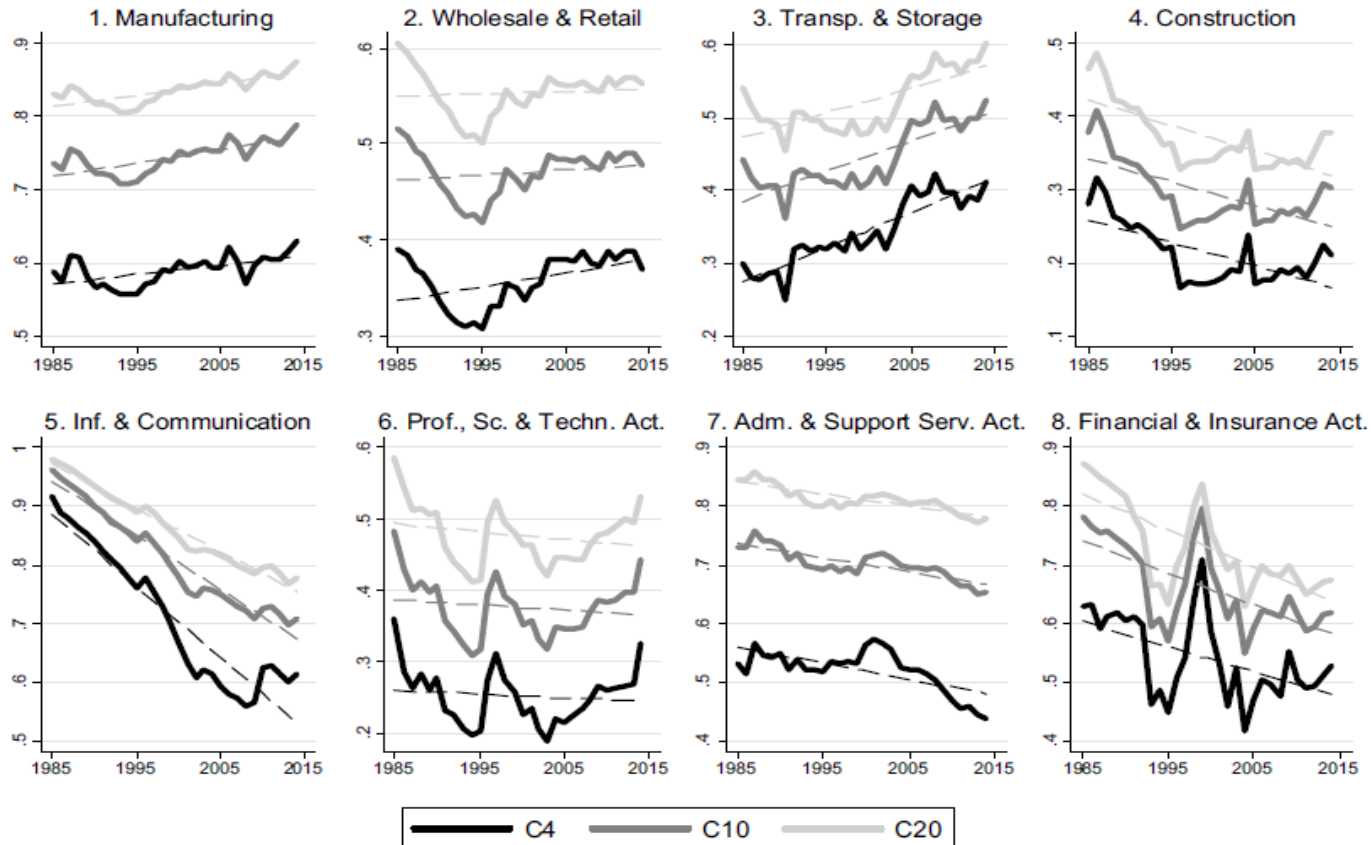
(Ib) Sectoral market share

Fig. 4 Evolution of sectoral market concentration. *Notes*: Each panel plots the evolution of C4. This represents the share of value added generated by the four largest firms within an industry. We then aggregate this into a sectoral concentration ratio

(II) Negative conditional correlation

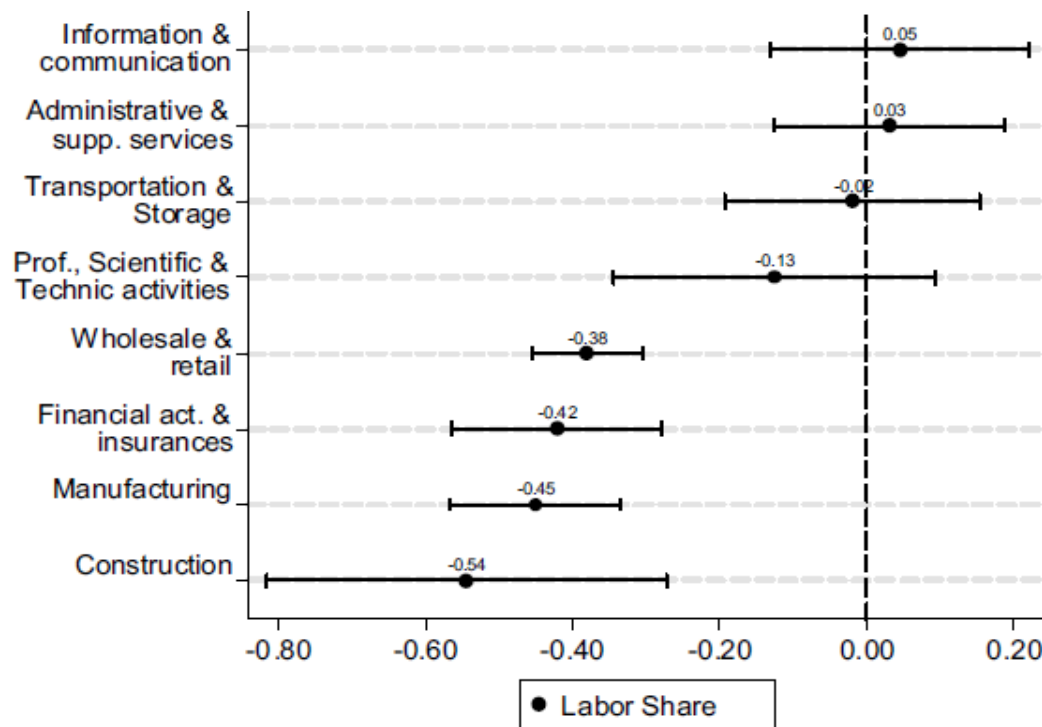$$\Delta LS_{jst} = \beta_s * \Delta CONC_{jst} + \gamma_{st} + \varepsilon_{jst} \ [w = VA_{jst}]$$

Fig. 5 The link between market concentration (C4) and the labor share. Notes: This figure plots the regression coefficients from Eq. (2). Each coefficient follows from a separate regression. Robust standard errors are used to calculate the 95% confidence interval and shown around the point estimate in the figure
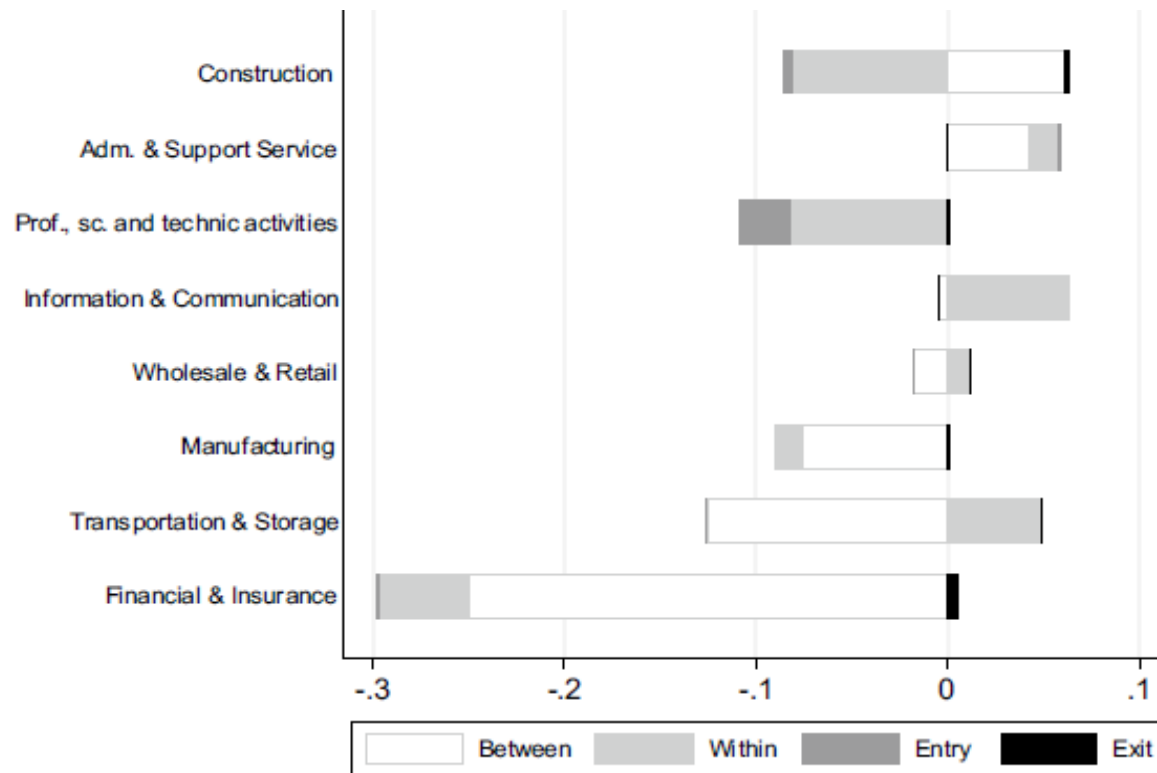
(III) Reallocation dominates

Fig. 6 Melitz-Polanec decomposition of the change in the labor share. *Notes*: Each bar shows the cumulated sum over 30 years for each labor share component of the Melitz-Polanec decomposition. Results are ranked from the largest between-firm component to the lowest between-firm component

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(IV) Negative conditional correlation

$$\Delta BETWEEN_{jst} = \beta_s * \Delta CONC_{jst} + \gamma_{st} + \varepsilon_{jst} \; [w = VA_{jst}]$$
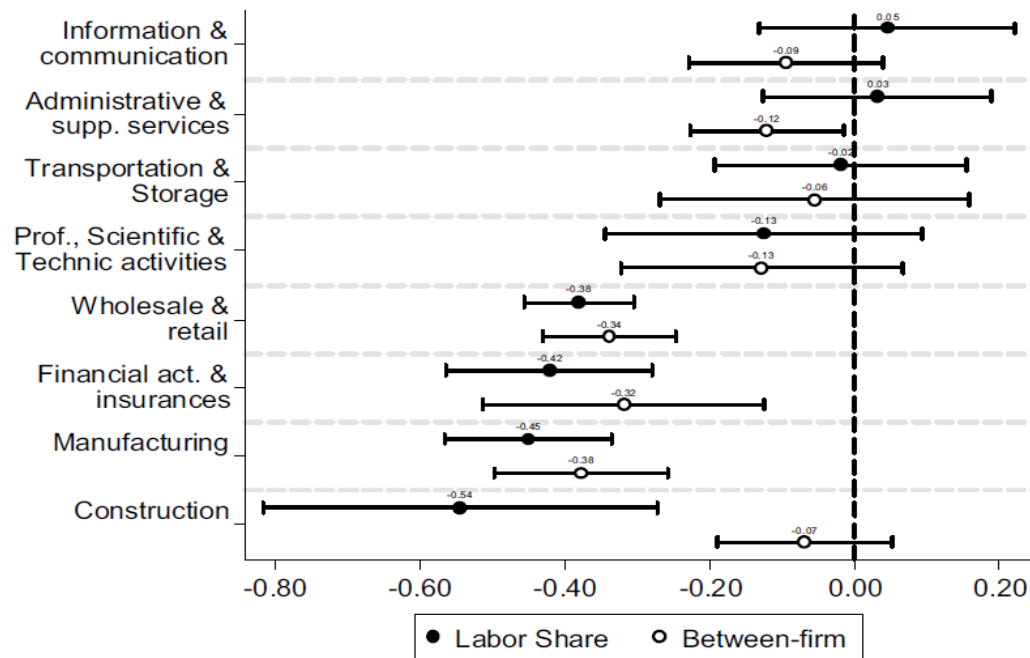

Fig. 7 The link between market concentration (C4) and the between-firm component. *Notes*: This figure plots the regression coefficients from Eq. (2) and (6). Each coefficient follows from a separate regression. Robust standard errors are used to calculate the 95% confidence interval and shown around the point estimate in the figure
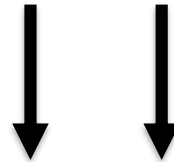
Conclusion

Table 2 Summary table

	Man.	W&R	T&S	Constr.	I&C	PS&T	A&S	F&I
Average sector share (1985–2014)	33%	20%	9%	7%	6%	5%	5%	4%
Labor share is falling	**YES**	YES	YES	YES	NO	YES	NO	YES
P1: Concentration is rising.	**YES**	YES	**YES**	NO	NO	NO	NO	NO
P2: ΔConcentration $\Rightarrow$ ΔLS	**YES**	YES	NO	**YES**	NO	NO	NO	**YES**
P3: Reallocation effect drives the fall of the labor share	**YES**	YES	**YES**	NO	NO	NO	NO	**YES**
P4: ΔConcentration $\Rightarrow$ ΔBetween-firm component	**YES**	YES	NO	NO	NO	NO	**YES**	**YES**
Conclusion: superstar firm hypothesis?	**YES**	**YES**	NO	NO	NO	NO	NO	NO

This Table summarizes the four predictions. The second row shows the average sectoral market share in terms of value added between 1985 and 2014

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