Monthly Labor Review

April 2017

“Superstar” companies to blame for workers’ falling share of income

Eleni X. Karageorge

U.S. workers have been getting a smaller share of the American economic pie, and economists have been baffled by the decline in the U.S. labor’s share of income. What’s behind the decline? In “Concentrating on the fall of the labor share” (National Bureau of Economic Research, working paper no. 23108, January 2017), authors David Autor, David Dorn, Lawrence F. Katz, Christina Patterson, and John Van Reenen find that one factor is the rise of “superstar” companies—a few select firms with a relatively small workforce that gain larger shares of sales in a particular industry. These firms dominate their market sectors and don’t need a lot of workers to generate profits.

The authors say that there are more of these superstar companies now than in the past. One reason is “competitive platforms,” such as the ability to compare prices on the Internet, that make it easier for these more successful, less-labor-intensive companies to set themselves apart. Many of these so-called superstar firms have been able to dominate their sectors by using the Internet as a means to deliver products and services at lower costs than their brick-and-mortar competitors.

Using U.S. Economic Census data from nearly 700 industries in 6 major sectors (manufacturing, finance, retail trade, wholesale trade, services, and utilities and transportation), the authors find that the share of revenue controlled by the top four companies in an industry rose, on average, from 38 percent in 1982 to 43 percent in 2012 in the manufacturing sector, from 24 percent to 35 percent over the same period in finance, and from 15 percent to 30 percent in retail trade. Concentration also rose, albeit to a lesser extent, in the other three major sectors.

The economists show that the labor share fell the most in the industries with the greatest increases in concentration. The increasing concentration seems to be an indicator of business success. The industries in which concentration increased the most were the ones that had the strongest growth in workers’ productivity, and this growth led to better quality goods, lower costs, or both.

Competition within these industries is shifting income towards the more successful, less-labor-intensive firms, and these tend to be superstar firms. Industries are moving toward a winner-take-most situation where the big, successful companies invest more in capital and less in labor. The more concentrated an industry becomes, the larger the decline in labor’s share.