

Has the Labour Share Declined? It Depends

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Summary

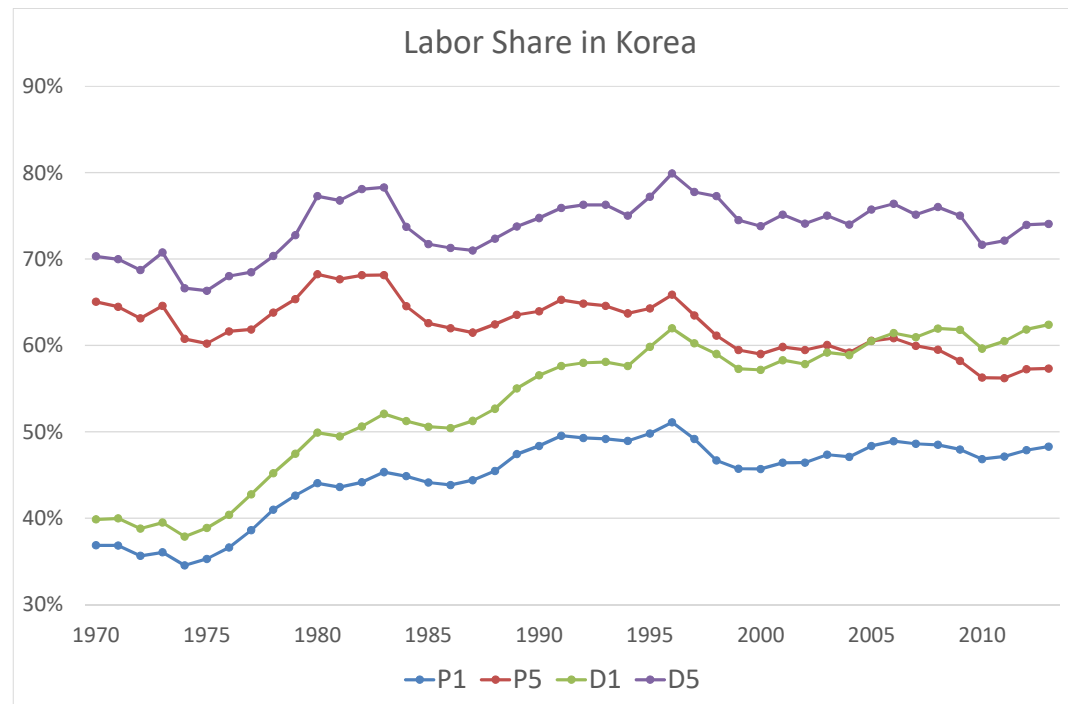
- Summary
 - Measure both production and income based labor shares for OECD countries during the last two decades
 - Small (and significant) declines in production-based labor shares while not significant declines in income-based labor shares
 - A different trend between production and income based labor shares is mainly attributed to the depreciation effect associated with a shift toward short-lived asset

Summary

- Karabarounis and Neiman (2014)
 - A decreasing trend in (production-based) labor shares in the sample of 59 countries since 1975
 - **Labor-capital substitution:** A shift away from labor toward capital due to a faster fall in the cost of capital relative to the cost of labor, which is often attributed to a fall in information technology (IT) asset prices
- THIS PAPER: **Substitution between capitals**
 - IT capital has a rapid price decline and is also a short-lived asset (due to a high economic depreciation)
 - Many intangibles such as R&D have high depreciation rates, but the prices do not rapidly decrease
 - Composition of intangibles matters for distinguishing the two papers

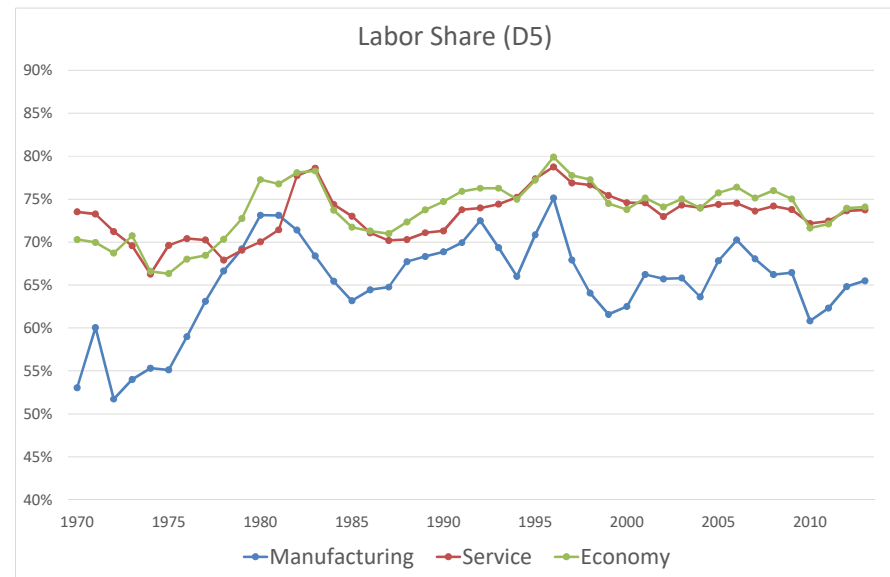
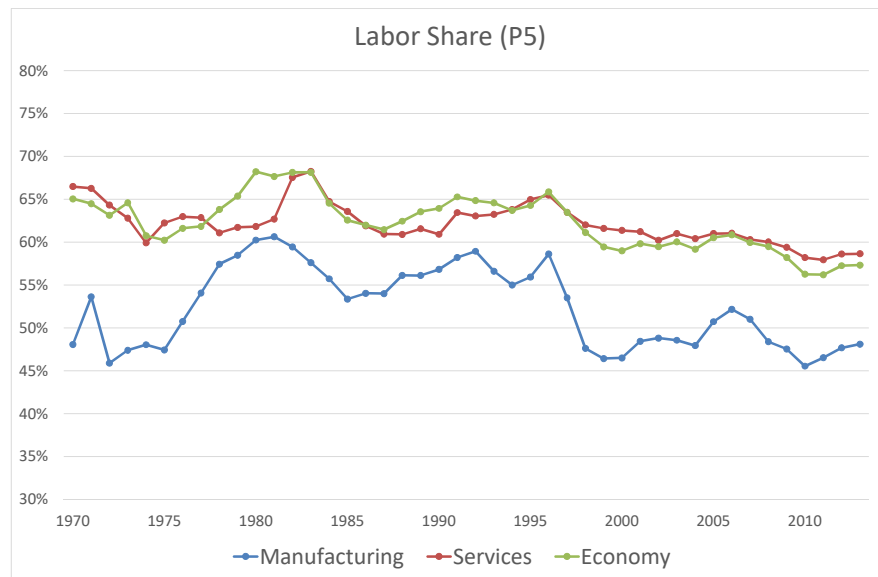
Looking at Labor Share in Korea

- Mixed income matters: Unadjusted (P1, D1) labor shares increased before the mid-1990s because employees increased faster than self-employment, while adjusted shares (P5, D5) did not increase much
- Depreciation matters: Production-based adjusted labor share (P5) has steadily declined after 1995 while income-based adjusted labor share (D5) has not



Looking at Labor Share in Korea

- Sectoral difference in trend of between production and income based adjusted labor share (P5, D5)
 - For manufacturing, a declining trend in both production and income based labor shares since the 1990s
 - For service, a declining trend in production-based labor share, but not significant declining trend in income-based labor share



Suggestions for Future Work

- Sectoral composition
 - As in Karabarbounis and Neiman (2014), it is worthwhile to decompose a aggregate labor share change into the contributions of within-industry and between-industry changes
 - Decomposing the depreciation effect into within-industry and between-industry ones
 - Faster expansion of “intangible-intensive industries” rather than uniform increases in intangible use across industries

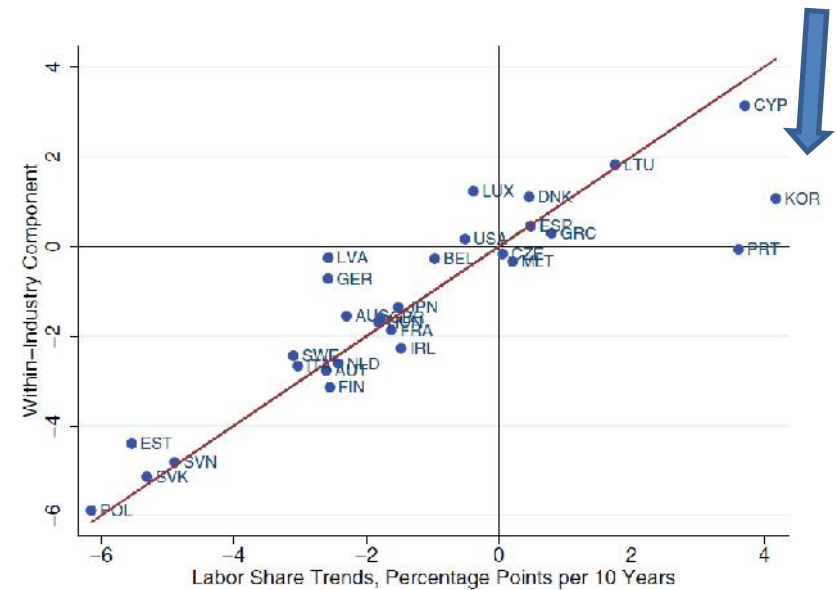


FIGURE VI

Within Component and Total Trends in Country Labor Shares

The figure plots the trend in the labor share against the within-industry component as defined in equation (2) using the KLEMS data.

Source: Karabarbounis and Neiman (2014)

Suggestions for Future Work

- Firm-level composition: Autor et al. (2017)
 - Unweighted average of firm-level labor shares has not declined
 - Focusing on firm-level heterogeneity in labor share
 - A superstar firm with a lower labor share gains a very large share of market (winner-take-most)
 - Concentrated industries have a faster decline in labor share
- Changes in the labor share: Substitution versus reallocation
 - Karabarbounis and Neiman (2014) and THIS PAPER: **Substitution** between labor and capital or between capitals
 - Autor et al. (2017): **Reallocation** among firms