Has the Labour Share Declined? It Depends

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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

- Karabarbounis 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
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

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