

Understanding the global decline in the labor income share

Why did labor's share of income decline among low-skilled workers but increase among the high-skilled?

Keywords: labor income share, skills, technology, globalization

ELEVATOR PITCH

Globally, the share of income going to labor (the “labor income share”) is declining. However, this aggregate decline hides more than it reveals. While the labor income share has decreased for low-skilled workers, this has been concurrent with an increase for high-skilled workers. Globalization leading to a growing skill premium and an increasing complementarity between capital and skill through the advancement of technology explains the polarization of labor income shares across the skill spectrum.

KEY FINDINGS

Pros

- + A decline in the labor income share suggests growing disparity in personal incomes.
- + An increasing capital-labor ratio lowers the labor income share when capital and labor are substitutes.
- + The labor income share for high-skilled workers has increased over the past few decades.
- + Globalization can improve the labor income share.

Cons

- The unequal distribution of personal income from non-labor sources could undermine the relationship between labor income shares and personal income.
- Most studies show capital and labor as complements, which suggests an increase in the labor income share with increasing capital-labor ratio.
- The labor income share for low-skilled workers has declined over the past few decades.
- Shifts in income shares between industries and increased product market concentration caused by globalization can decrease the labor income share.

AUTHOR'S MAIN MESSAGE

A large body of recent research has documented a global decline in the labor income share. Growing concern over this trend in general, coupled with the fact that a disproportionate share of this decline is found among low-skilled workers, has encouraged debate about fair distribution of personal incomes. The widening gap in the labor income share by skills suggests that globalization and technological progress may be driving forces. Policies aimed at skill enhancement and job creation for low-skilled workers could minimize welfare loss stemming from the declining share of labor income.

