



NEW REPORT: The Share of Labor Income is Declining Globally Leading to Greater Inequality

A new [IZA World of Labor report](#) publishing today finds the global decline in the share of labor income affecting mainly low-skilled workers. Policies are needed that promote skill deepening for medium- and low-skilled workers.

Until recently, the share of national income going to labor has been seen to be constant. However, in recent years, a large body of research has documented a global decline in the labor income share. An analysis of 50 countries finds that 29 showed a decrease in labor share of GDP between 1994 and 2014. At the sectoral level, labor income shares have declined in seven out of ten major industries worldwide, with the largest decline in the tradable sectors such as manufacturing, transportation, and communication.

But this decline doesn't affect all workers. According to the economist Saumik Paul of Newcastle University, the labor income share has decreased for low-skilled workers but increased for high-skilled workers thereby aggravating income inequality. Politicians must understand the drivers behind this phenomenon to act accordingly. Globalization and an increasing complementarity between capital and skill through the advancement of technology seem to explain the polarization of labor income shares across the skill spectrum.

Since the early 1980s, the labor income share for skilled workers in the US for example has shown an upward trend, which suggests that the documented decline in the aggregate labor income share is entirely driven by the falling labor income share for unskilled workers. Studies confirm this. They show a rising skill premium driving the results for high-skilled workers while participation in global value chains remains the dominant factor behind the decreasing labor income share for middle- and low-skilled workers. Higher exposure to routinization of tasks (i.e. the automation of tasks where labor can be substituted by capital to the highest degree) has also played a key role in the polarization of wages and skill premium along the skill spectrum.

To stop the growing inequality of incomes politicians need to act. Paul suggests: *“Policies aimed at skill enhancement and creating jobs for low- skilled workers in this transitioning phase alongside medium- to long-term redistributive measures [could help to] prevent welfare loss from further decline in low- skilled workers’ share of income.”*

Please credit IZA World of Labor should you refer to or cite from the report.

Media Contact:

Please contact Anna von Hahn if would like more information or would like to speak to the author: anna@smallspaceagency.com or +44 7852 882 770



BLOOMSBURY PUBLISHING
LONDON · NEW DELHI · NEW YORK · SYDNEY

I Z A
World of Labor
Evidence-based policy making

Notes for editors:

IZA World of Labor (<http://wol.iza.org>) is a global, freely available online resource that provides policy makers, academics, journalists, and researchers, with clear, concise and evidence-based knowledge on labor economics issues worldwide.

The site offers relevant and succinct information on topics including diversity, migration, minimum wage, youth unemployment, employment protection, development, education, gender balance, labor mobility and flexibility among others.

Established in 1998, the Institute of Labor Economics (www.iza.org) is an independent economic research institute focused on the analysis of global labor markets. Based in Bonn, it operates an international network of about 1,500 economists and researchers spanning more than 45 countries.