IS LABOUR REALLY LOSING TO CAPITAL IN THE BUSINESS SECTOR? Only in the US, if you properly account for housing income and self-employment

A common narrative argues that technological change and globalisation have led to a smaller and smaller piece of the economic pie going to labour. This narrative is largely grounded on a long body of research documenting a global decline in the corporate labour share (that is, a decline in the share of corporate output going to wages).

But according to a recent working paper, previous work fails properly to exclude housing income and self-employment from the corporate sector. Correcting for these challenges, the *business* sector labour share has been relatively stable since 1970 for all major economies except the United States, where the *business* labour share declined sharply, particularly in manufacturing.

The study by **Germán Gutiérrez** and **Sophie Piton** will be presented at the annual congress of the European Economic Association in Manchester in August 2019

Why focus on the corporate and not the total economy labour share? Because the former – in theory – (i) excludes housing income (actual and imputed rental) to isolate business income and (ii) excludes the income of the self-employed, which is a notoriously difficult object to estimate.

Put differently, the corporate labour share is often viewed as the single best measure of how *business* output is split between workers and owners. This is an important, and often-cited object.

So, when economists documented a global decline in the corporate labour share, policy-makers and the broader public caught notice. The IMF, for example, documents the decline, links it to rising inequality, and argues that it is explained by a mixture of automation, offshoring and import competition.

But the new study shows that corporate labour shares are less reliable than one may think. Housing and self-employment are excluded from the corporate sector only in the United States. Elsewhere – and particularly in Europe – the corporate sector includes substantial shares of both.

For example, 30% of the fixed assets in the French corporate sector is housing, and 15% of hours worked in the Italian corporate sector are by self-employed workers. In other words, the corporate labour share is **not** as good a proxy of how *business* output is split between owners and workers as we thought – which has important implications for policy.

The study proposes two methods to obtain labour shares series exclusively for business activities. And the results are striking: contrary to common wisdom, *business* sector labour shares have remained stable across all major economies except the United States, where the labour share still falls by 6% since 1980. In fact, the estimated *business* labour share is higher today than in 1970 in the UK, Italy, Germany and Japan.

These results cast doubt on most technological explanations for falling labour share trends – or at least point to widely divergent effects across advanced economies;

perhaps due to differences in institutions and regulations, either on the labour or product market. The US specificity is also important: it may point to US-specific explanations such as a decline in competition that leads to higher profits and lower labour shares.

While this is good news for workers outside the United States, it is not all that matters. Technological change did shift the composition of labour income towards high-earners, leaving fewer opportunities for unskilled workers. But it does suggest that workers and owners overall, are still sharing the gains from productivity growth.

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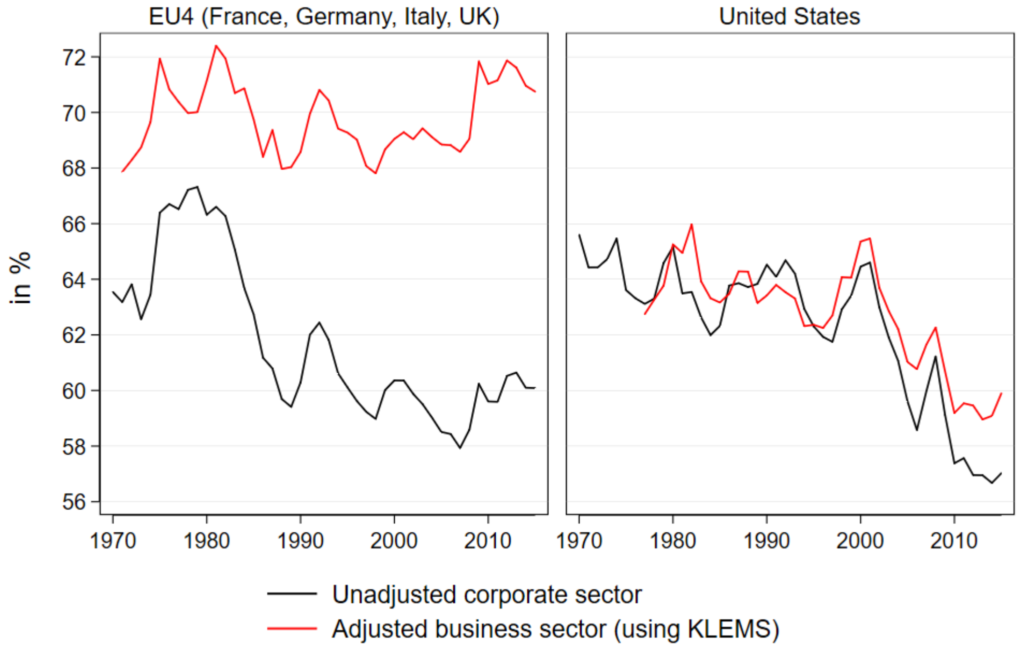
Figure: Global gross domestic labour share, 1950-2015, in %



Source: Gutiérrez & Piton (2019).

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