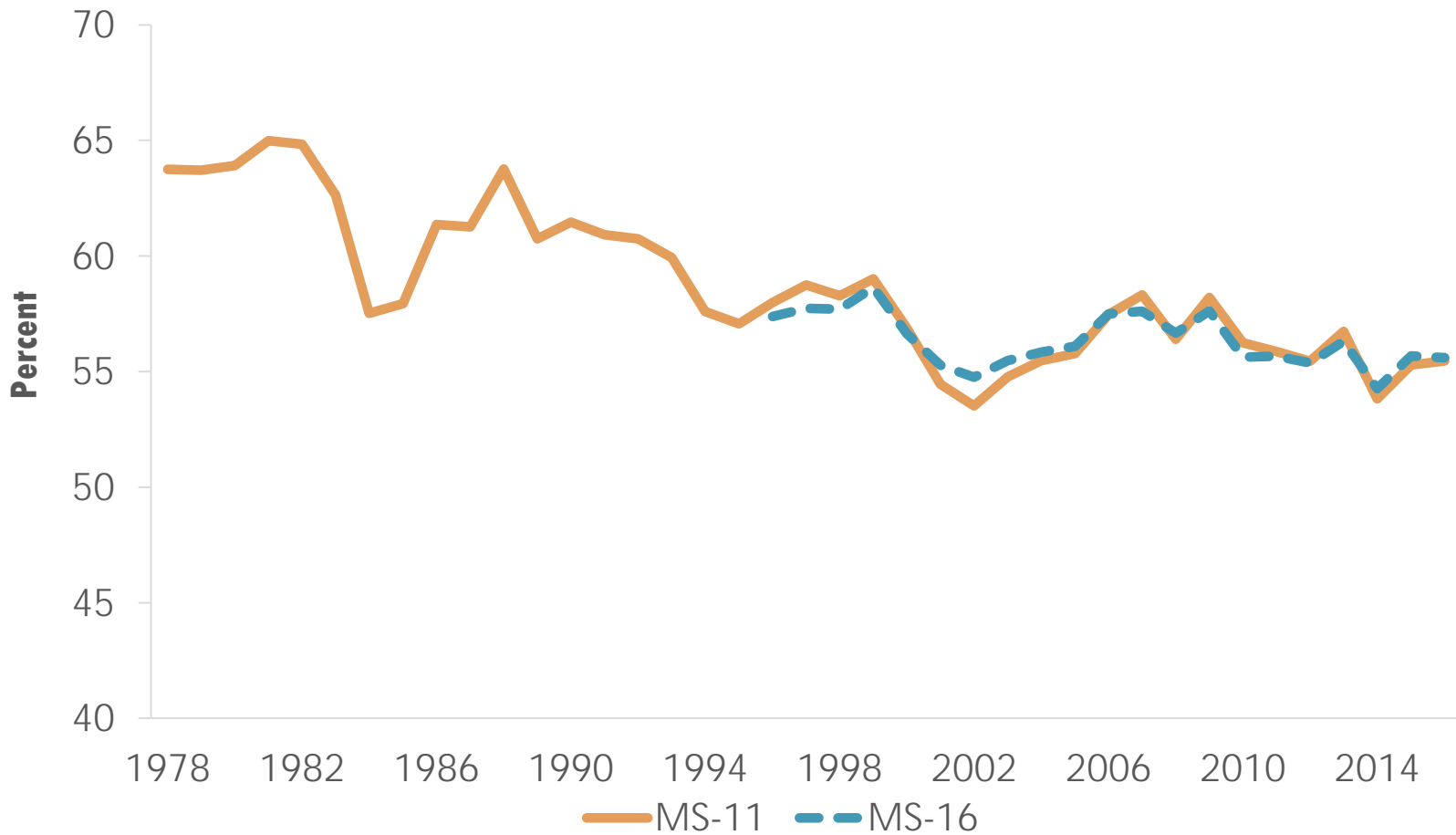


Labour Income Share

Huon Fraser

The Labour Income Share, 1978-2016



Why is the LIS important

- Inequality
- Productivity
- Relationship between labour and capital

Structure

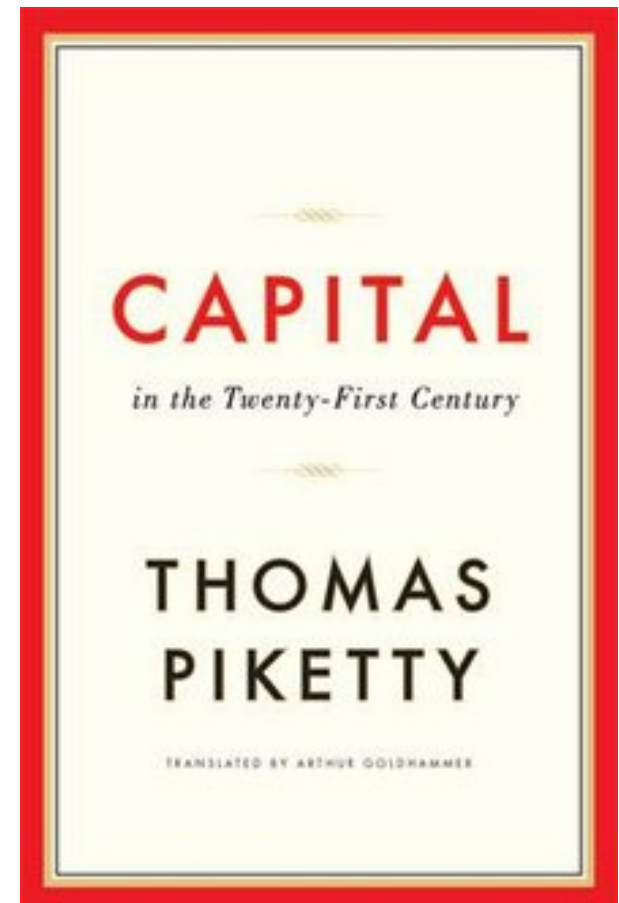
- Inequality
- Measurement
- Interpretation
- Productivity

Terminology

- **Inequality:** The distribution of income (or wealth) across society
- **Productivity:** The ratio of outputs to inputs, e.g., how much is produced per unit of labour.
- **Labour Income Share (LIS):** The slices of the nations “income pie” “eaten by” labour (wages, salaries, employee benefits, etc.
- **Elasticity of Substitution (between Labour and Capital):** The rate at which the relative prices of labour and capital change in response to increased inputs.

History of LIS research

- “*One of the most surprising, yet best-established facts in the whole range of economic statistics*”, John Maynard Keynes, regarding the LIS being flat.
- Piketty’s *Capital in the Twenty-First Century* released in 2014
- Bill Rosenberg (2010, 2017), NZ Productivity Commission (2015,2018)
- International interest from the OECD, IMF, ILO.



Inequality

- The labour income share looks at the distribution **between** labour and capital.
- How income is distributed **within** labour and capital is also important.
- What happens if kiwi saver returns increase? How about an increase in the incomes of the top 1%?

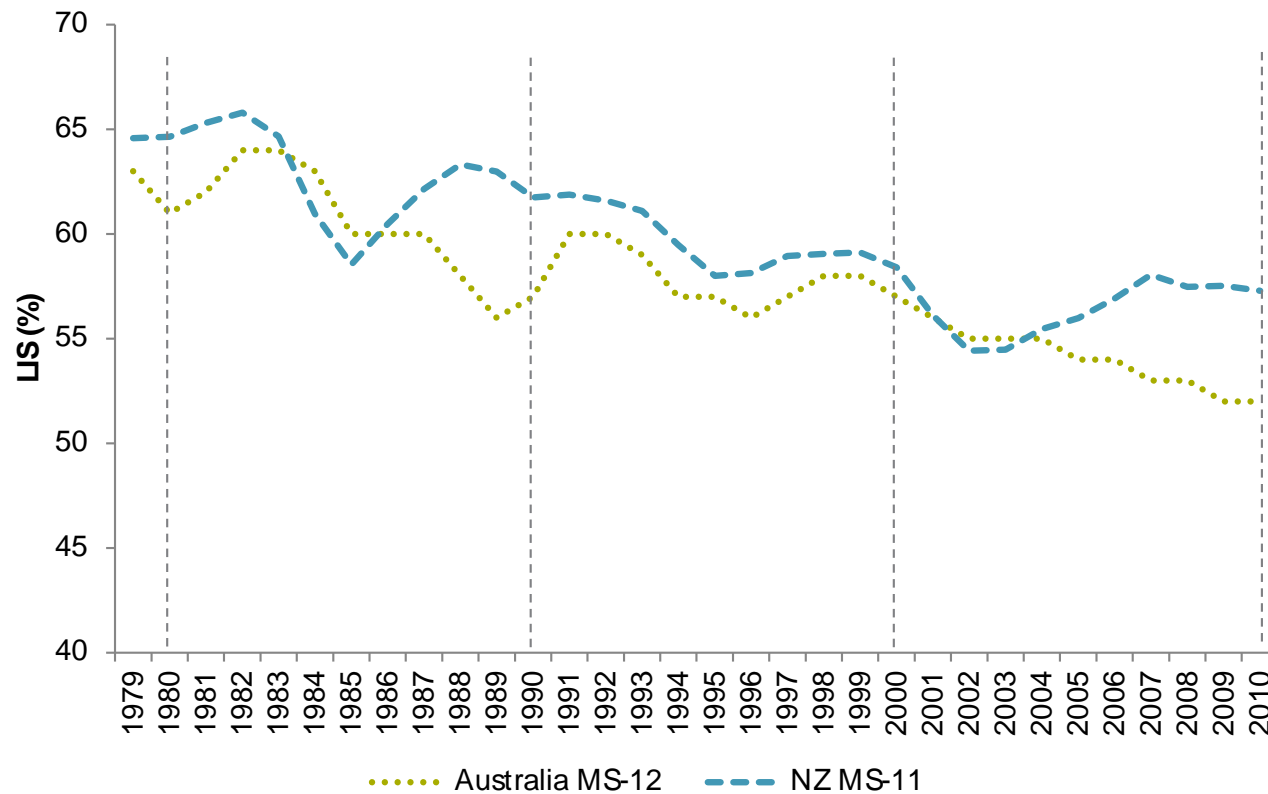
Labour and Capital Income

Labour Income	Capital Income
Wages	Gross Operation Surplus: Gross output minus spending on intermediate goods and services, minus compensation to employees (StatsNZ)
Salaries	
Employee benefits	
Labour component of self-employed income	Capital component of sole proprietors

Measurement

- Getting at inequality: Net vs Gross measures
 - Gross: the total amount before any deductions
 - Net: the amount remaining after adjustments
- What we measure and what we don't measure
 - This research limited to 77% of the economy
 - Excludes, Health, Education, and other government services.
- Estimates the capital-income split of self employed income (adjusted labour income share). Many studies exclude self employed income.

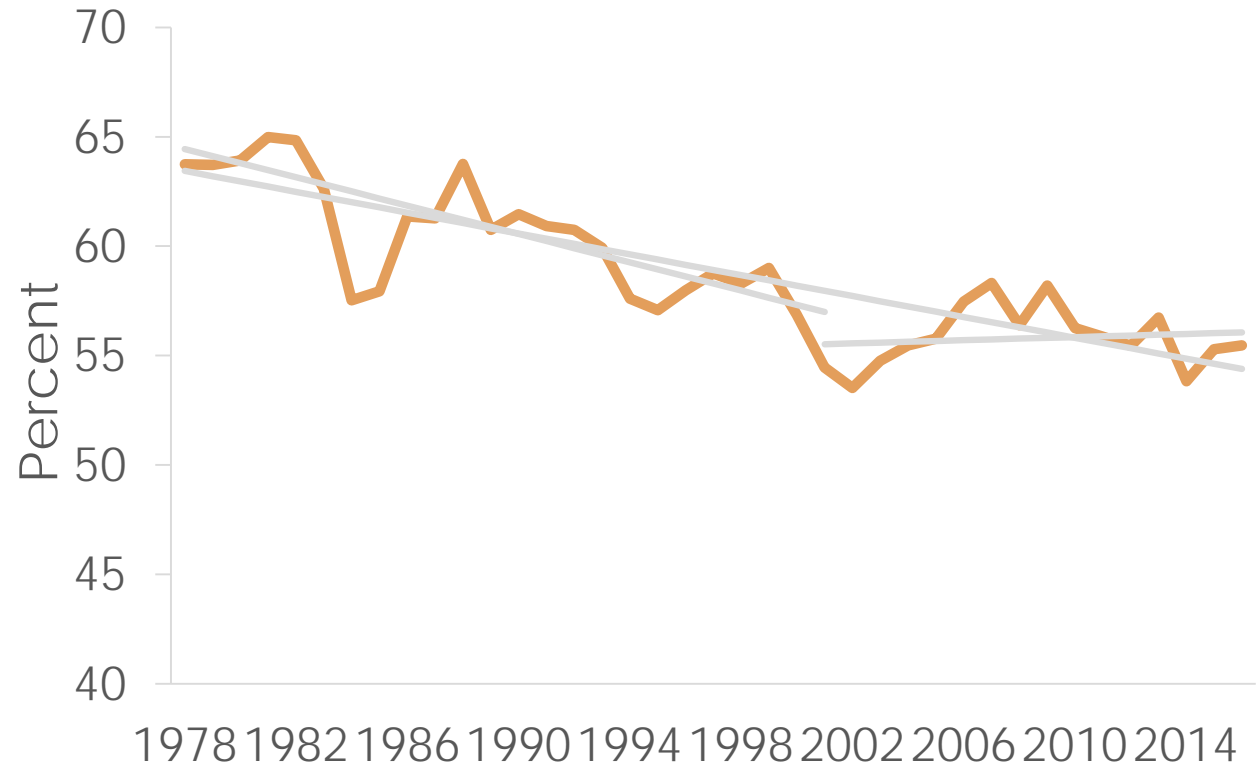
International Comparisons



Source: NZPC 2015

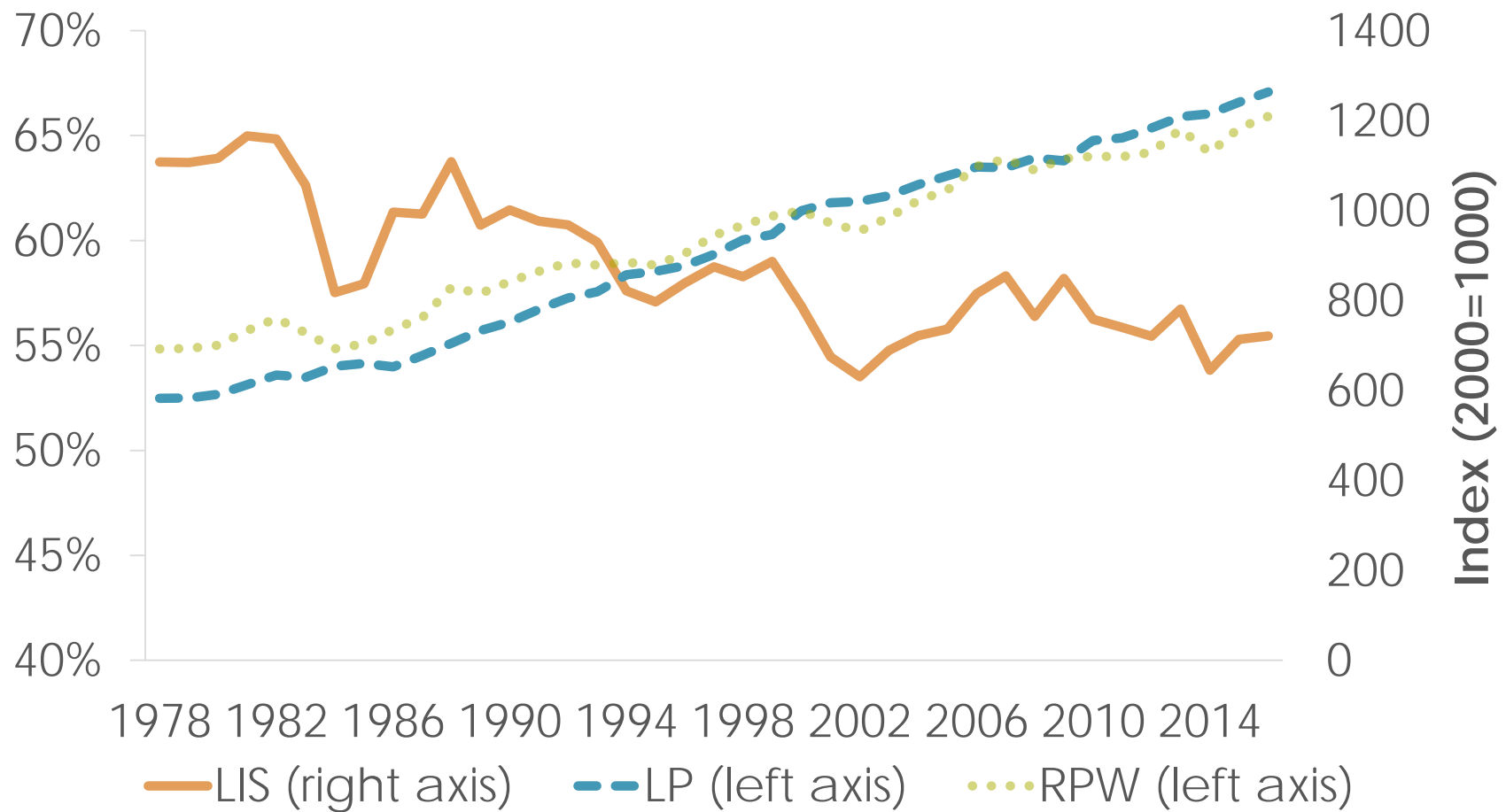
Results

- 64% in 1978
- 55% in 2016
- 53.5% in 2002



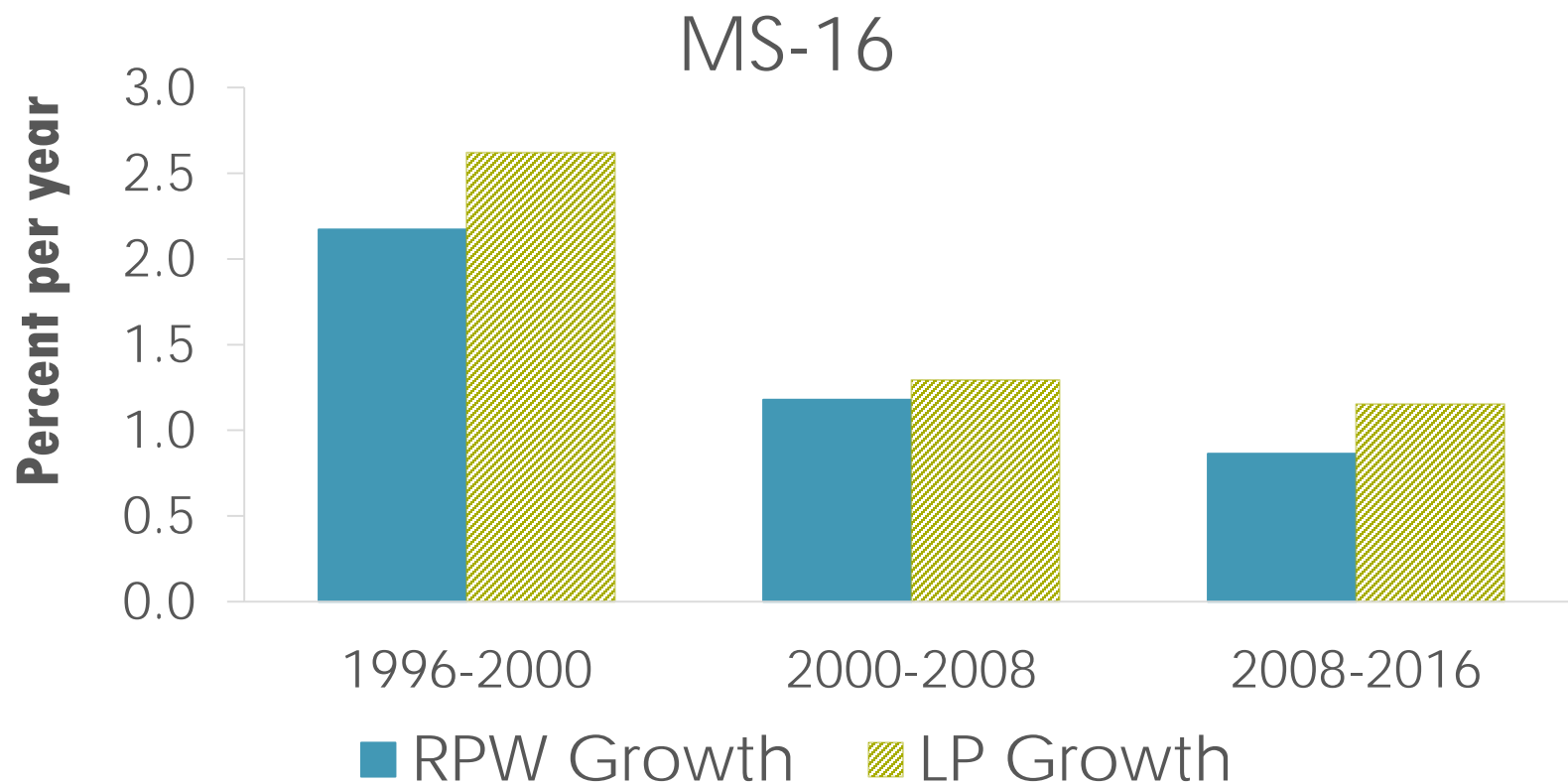
Source: NZPC, 2018

Explaining the 1999-2007 dip



Source: NZPC, 2018

Productivity



Source: NZPC, 2018

Causes

- Three key factors
 - Technology change and globalisation
 - Labour market policy
 - Capital Intensification
- Reasons are debated:

International Labour Organization, 2013

46% financialisation, 10% technology, 19% globalisation, 25% labour market

International Monetary Fund, 2017

“Technological progress, reflected in the steep decline in the relative price of investment goods, has been the key driver in advanced economies”

Summary

- The Labour Income Share has fallen 9% between 1978 and 2016, with the majority of this fall occurring throughout the 80s and 90s.
- Productivity isn't a zero sum game, wage growth is highly correlated with productivity growth.
- Relating the Labour Income Share to inequality requires accounting for tax, depreciation, and distributions of labour and capital income.
- There is debate around the reasons for the fall in the LIS, the impacts this fall has had, what the LIS should be, and what responses should be.