Revisiting the Global Decline of the (Non-Housing) Labor Share

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Much has been written on the global decline of the corporate labour share (defined as the share of corporate value added going to wages, salaries and benefits). The IMF and OECD worry about this trend, linking it to decreasing wages and rising inequality. And economists are hard at work looking for an explanation: prominent hypotheses range from automation and 'superstar' firms to offshoring.

But is there really a global decline in the non-housing/business labour share? This paper shows that cross-country comparisons of corporate labour shares are affected by differences in the delineation of corporate sectors. While the US excludes all self-employed and most dwellings from the corporate sector, other countries include large amounts of both.

We propose two methods to control for these differences and obtain 'harmonized' non-housing labour share series. The first method uses industry accounts to exclude all real estate activities from both wages and value added. This method covers the entire business sector and fully controls for housing, but it has two limitations: (i) it 'over-controls' by excluding commercial in addition to residential real estate and (ii) it relies on imputed wages for the self-employed, which are difficult to estimate. Our second method mitigates these limitations by focusing on the corporate sector. The corporate sector excludes self-employment in some but not all countries. We use data from national accounts to estimate the contribution of housing to corporate value added and – where possible and relevant – estimate wages for the self-employed. Data limitations restrict the sample for the second measure but where available, it behaves similar to the labour share excluding real estate.

Contrary to common wisdom, the harmonized series remain stable across all major economies except the US, where the labor share still declines, primarily due to manufacturing. These results cast doubt on most technological explanations for falling labor share trends that, at least as emphasized so far, should have similar effects across countries and industries.