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# Labor Shares in Some Advanced Economies

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**Working paper n°727.** We study the joint impact of three measurement issues in the empirical literature on the labor share: (i) start and end periods for the empirical analysis; (ii) accounting for self-employment; and (iii) accounting for residential real estate income. When we correct for these three potential biases, we do not find a general decline in the labor share in our sample of advanced economies. In that respect the behavior of the US labor share after 2000 presents a puzzle.

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The evolution of the labor share plays a central role in economics. Following Kaldor (1957), economists have viewed the relative long-term stability of the labor share as an important stylized fact. In recent years, however, the stability of the labor share has been challenged. The common wisdom is that there has been a global and gradual decline in the labor share over the past 30 or 40 years. For instance, Grossman *et al.*

(2017) motivate their recent paper by writing that “*unlike several of the other explanations for the decline in the labor share, ours does not rely on considerations that are specific to the United States. The shift in aggregate factor shares has been seen in the data for many countries, especially among the advanced countries.*”

We emphasize three important biases that have plagued the existing literature: (i) start and end periods for the empirical analysis; (ii) accounting for self-employment; and (iii) accounting for residential real estate income. Being a type of capital income, real estate income has important redistributive effects and we must include it to analyse income inequalities. But it seems to us appropriate to exclude it to analyse how value added is shared between labor compensation and profits. Usual explanations of labor share trends (technology, trade, market power, unionization...) have nothing to do with real estate income. And as shown in this paper, to remove real estate income changes markedly the diagnosis concerning the labor share trends...

When the three potential biases are set aside, the orientation of the labor share in the business sector appears not to be a general downward or upward one. With real estate services included in the value added, it is a clear downward one in the EA and in seven countries, a clear upward one in two countries and a quasi-stability in the last country. When real estate services are removed from the value added, it becomes a clear downward one in five countries, a clear upward one in three countries and a quasi-stability in the EA and in two countries.

We conclude that there has not been a global decline in the labor share. These results are consistent with those of Rognlie (2015) on the G7 economies and of Gutiérrez (2017). They are also consistent with OECD (2018) when we consider the same set of countries, but this OECD study analyses the labor share on different

scopes than us: total economy and business sector excluding real estate income and also other activities as agriculture, mining and quarrying, education, health and social activities... The share in the business sector of these excluded activities changes over time and differs between countries. For this reason, OECD (2018) results are not directly comparable to ours.

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