The battle of the markups: Labour v capital in the post-lockdown economy

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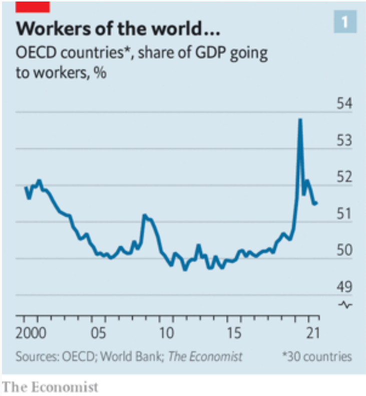
Who wins?

- As prices and wages rise, are workers or firms winning?
- Households say that price-gouging companies are jacking up prices, contributing to an inflation rate across the rich world of 6.6% year on year
- Companies complain that staff have become work-shy ingrates who demand ever-higher wages

Capital share and labor share

- Broadly speaking, economic output must flow either to owners of capital, in the form of profits, dividends and rents, or to labour, as wages, salaries and perks.
- Economists refer to this as the “capital” or “labour” share of gdp

Capital share and labor share



- Peak in 2020—helped by government-stimulus programmes

Peak in 2020

- In 2020 the aggregate labour share across this group soared
- This was largely because firms continued to pay people's wages—helped, in large part, by government-stimulus programmes—even as gdp collapsed
- Advantage, labour
- More recently, however, the battle seems to have shifted in favour of capital

Three groups

- Britain: Labour seems to be winning out at the expense of capital
- Most other rich countries outside America
- America

Second group

- Neither labour nor capital seems able to triumph
- After correcting for pandemic-related distortions Japan’s pay growth appears to be slowing to below 1% a year
- Wage growth in Australia, France and Germany remains well below where it was before the pandemic

Not over yet

- If wages do start to grow more quickly, the cycle of price rises and compensating wage demands might start up all over again
- Before long the post-lockdown economy could look like the ultimate compromise—where nobody is satisfied