

Labour pains

Economist

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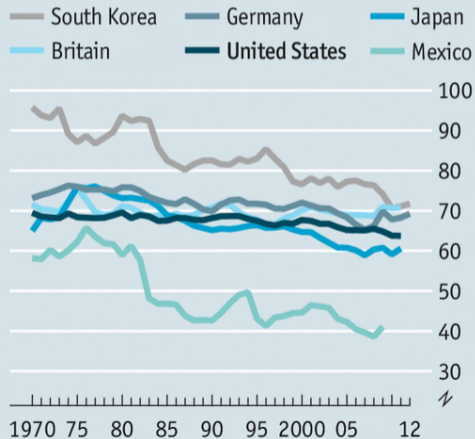
- All around the world, labour is losing out to capital

A shared threat

- In America Foxconn has become a symbol of the economic threat posed by cheap foreign labour
- Yet workers in China and America alike, it turns out, face a shared threat: they have captured ever less of the gains from economic growth in recent decades.

Unrewarding work

Labour costs as % of nominal GDP



- Nicholas Kaldor (1957): one of six “stylized facts” about economic growth: Roughly **constant share** of income flowing to labor
- Many in the profession now wonder whether it still belongs there

- OECD: In 2000s labour share was 62%, down from 66% in the 1990s
- A falling labour share implies that productivity gains no longer translate into broad rises in pay. Instead, an ever larger share of the benefits of growth accrues to owners of capital.
- What happens?

Whom to blame

- Workers in America tend to blame cheap labour in poorer places for this trend
- Elsbey et al. studies **different industries** in America, and find that a greater reliance on imports is associated with a bigger decline in labour's take.
- Of the 3.9% fall in the labour share in America over the past 25 years, 3.3% can be pinned on the likes of Foxconn.

- Yet trade cannot account for all labour's woes
- Many developing countries have also struggled to seize the benefits of growth over the past two decades.
- The likeliest culprit: **technology**
- OECD estimates: technology accounts for roughly 80% of the drop in the labour share

Cost of investment goods

- Karabarbounis and Neiman:
The cost of investment goods, relative to consumption goods, has dropped 25% over the past 35 years.
- Firms swap labour for software whenever possible
- In places and industries where the cost of investment goods fell by more, the drop in the labour share was correspondingly larger

Autor, Dorn, and Hanson:

- In recent decades jobs requiring middling skills have declined sharply as a share of total employment, while employment in high- and low-skill occupations has increased
- Computerisation and automation laid waste mid-level jobs in the 1990s.
- Trade only became an important cause of the growing disparity in wages in the 2000s.