

Labor share of income in Asia: findings, drivers, and policy implications

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Presentation at G24 Special Workshop on Growth and Reducing Inequality
5–6 September 2017, ILO Headquarters, Geneva

Outline

- Labor share of income: some conceptual issues
- Selected empirical studies
- Labor share of income in selected Asian countries
- Labor share of income in Chinese industrial enterprises
- Policy implications

Labor share of income: some conceptual issues

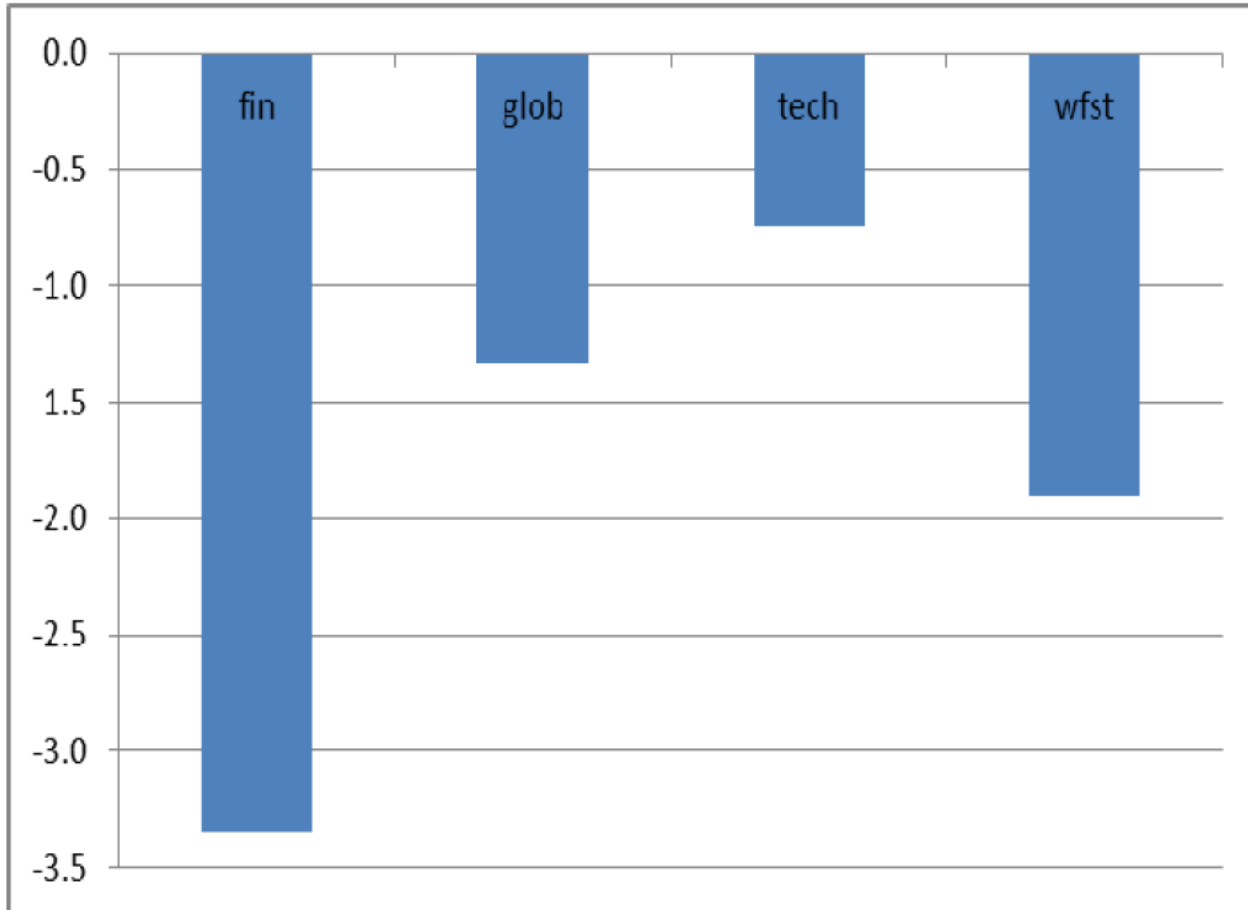
- In neoclassical models, factor income shares are determined by the technology embodied in the production function
- In heterodox models (e.g., Kalecki, Kaldor), the labor share of income depends on many factors, e.g., bargaining, class struggle
- Recent studies have highlighted a number of drivers of declining labor share of income:
 - Technological change
 - Globalization
 - Financialization
 - Changes in labor market institutions and policies

Selected studies: Stockhammer-ILO study (2013)

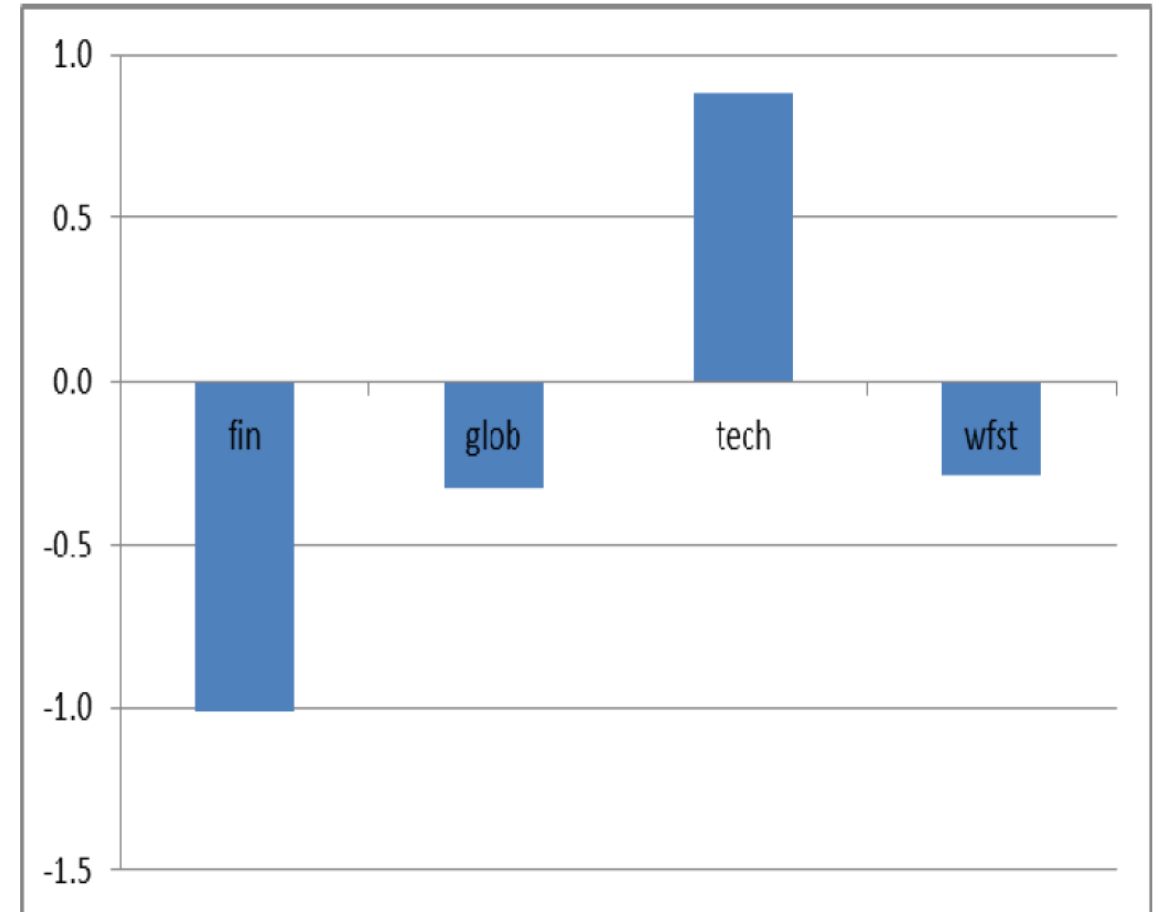
- The study looked at the importance of technological change, financialization, globalization, and welfare-state retrenchment in explaining declining labor share of income
- It found strong negative effects of **financialization, welfare state retrenchment, and globalization**
- Advanced economies:
 - Technological change had a modest negative impact on labor income shares
 - Financialization, welfare state retrenchment, and globalization had a robust negative effect
- Developing economies:
 - Technical progress had a positive impact on wage shares
 - Financialization had a robust negative, and globalization and change in labor market policies had a modest negative effect

Contributions to the change in wage shares, 1990/94 to 2000/04

Advanced economies



Developing economies

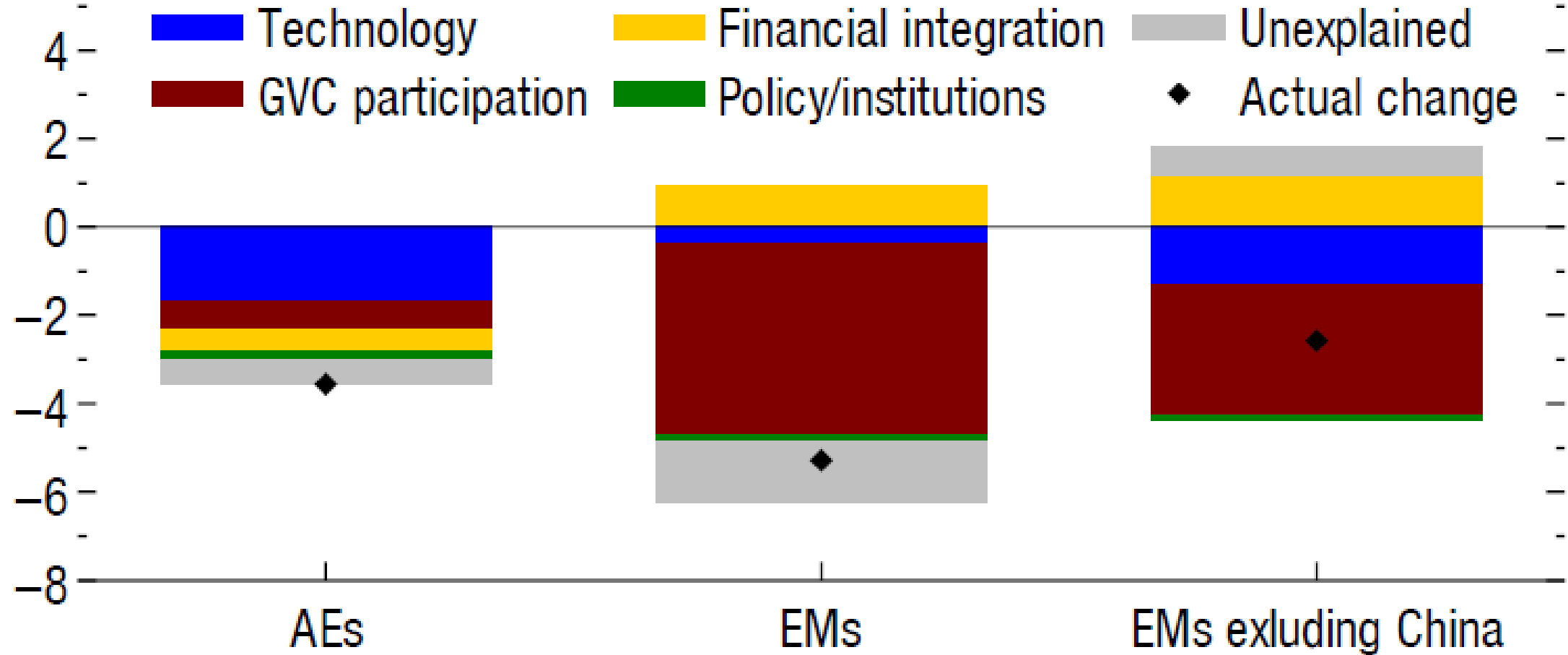


Source: Stockhammer-ILO study, 2013.

Selected studies: IMF study (2017)

- The most important drivers of the decline in labor income shares have been **technical progress and global integration**, together explaining 75% of the total
- For advanced economies:
 - About half of the decline has been due to technological progress (in particular rapid progress in IT) and a high share of occupations that can be easily automated
 - Global trade and financial integration (e.g., trade, participation in GVCs and offshoring of labor-intensive tasks, FDI) also played an important role, explaining about a quarter of the total decline
- For developing economies:
 - Participation in GVC has been the key driver of the decline in labor income shares, while financial integration has a robust positive impact
 - Technological progress has had a much smaller role including China; excluding China, technology also has a robust negative impact
- For both developed and developing economies:
 - The impact of changes in policies and institutions has been relatively small

2. Contributions to Aggregate Labor Share Changes, 1993–2014 (Deviation from regression constant)



Source: IMF study (2017)

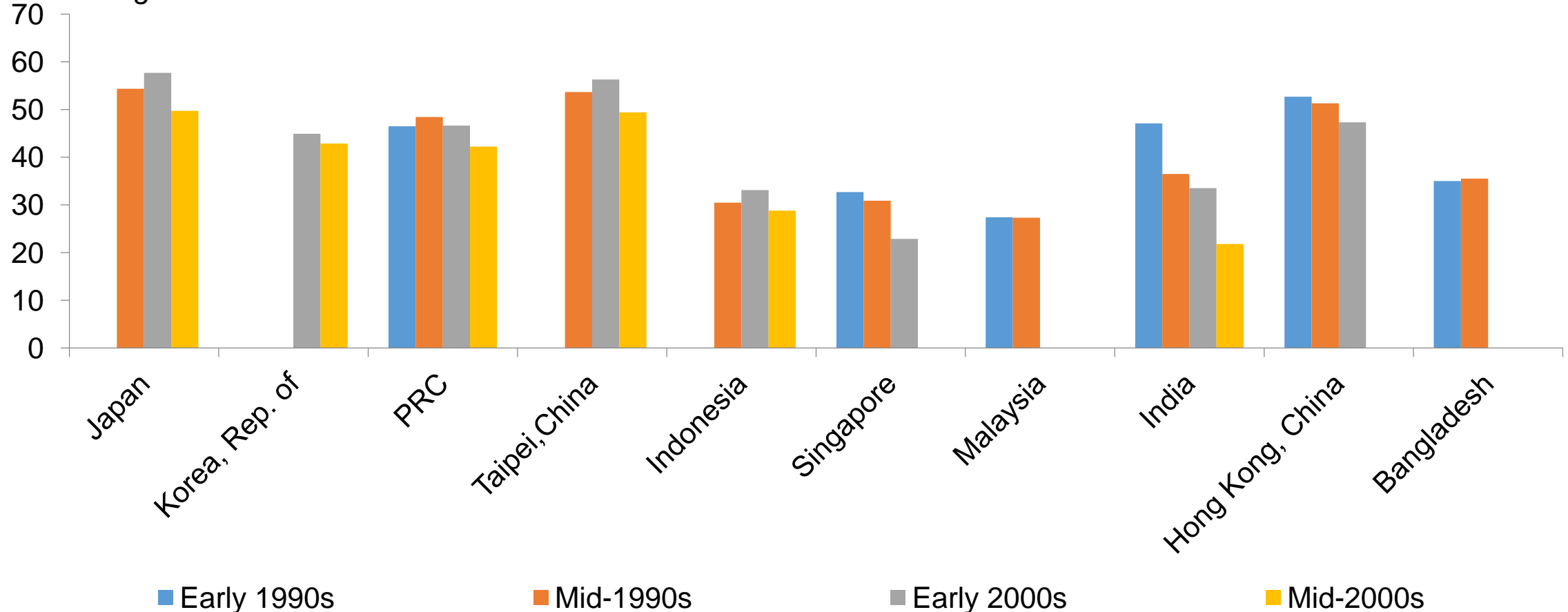
Selected studies: ADB study (2012)

- Declining labor share of income in the formal sector contributed to rising income inequality in many Asian economies since 1990s
- Labor-saving technological progress led to declining wage-employment elasticity of growth – referred to as “jobless growth”, with real wage growth lagging behind labor productivity growth when globalization and market deregulation generate rapid economic growth
- The pool of surplus labor in rural areas also weakens the bargaining power of labor and depresses wage growth in some economies, especially when labor market institutions are weak

Labor share of manufacturing value added declined in several Asian economies between early-1990s and mid-2000s

Labor Income Share

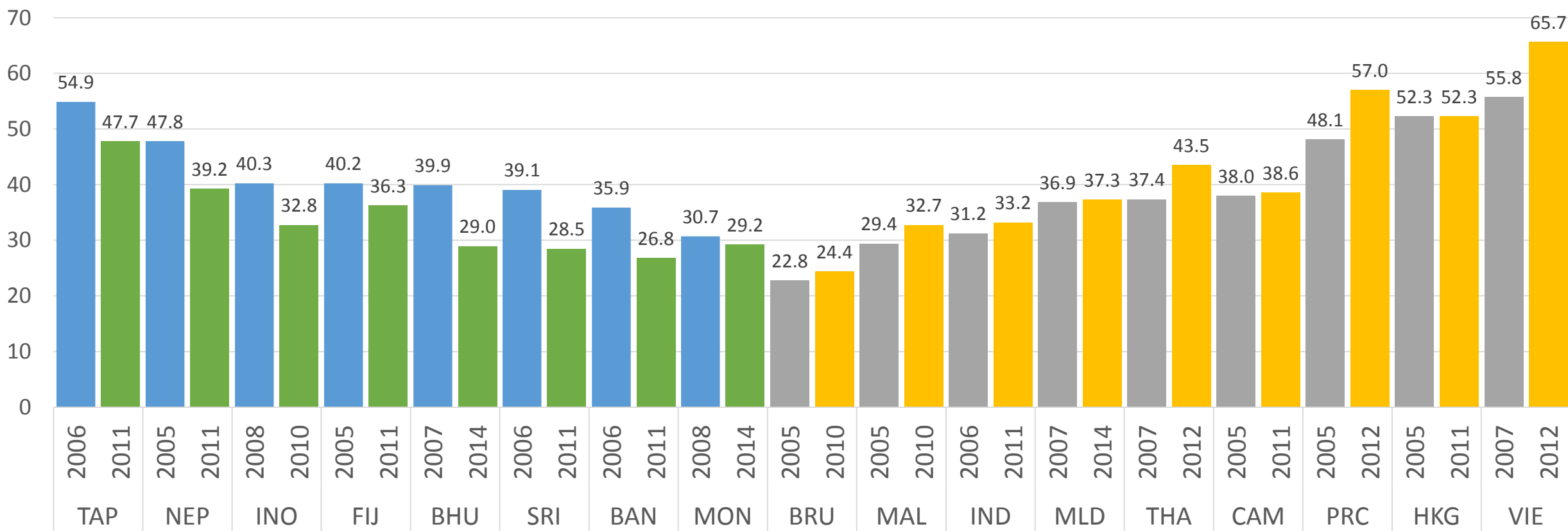
Manufacturing



Source: Asian Development Outlook 2012. ADB

However, in Asia, more recent data provide a mixed picture on labor share of income, increasing in some countries while declining in others

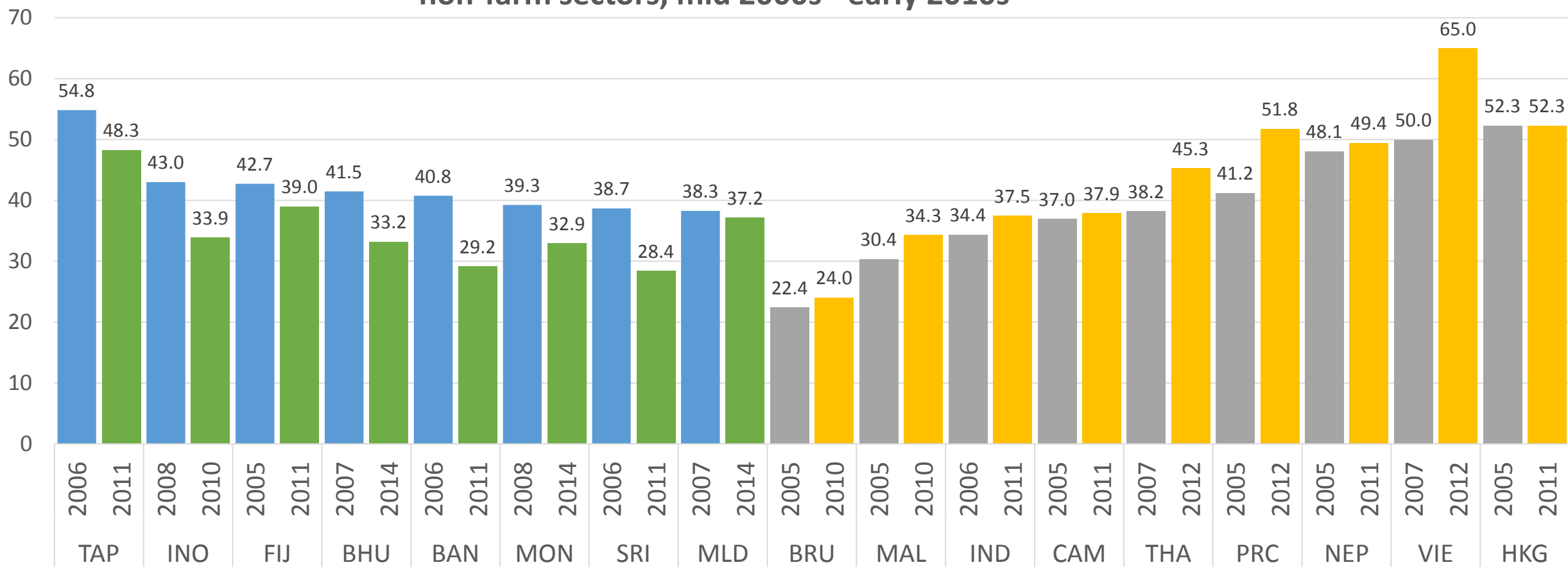
**% of employee compensation in value added (net of indirect taxes),
all sectors, mid 2000s - early 2010s**



Source: Country Supply and Use Tables, ADB

However, in Asia, more recent data provide a mixed picture on labor share of income, increasing in some countries while declining in others

**% of employee compensation in value added (net of indirect taxes),
non-farm sectors, mid 2000s - early 2010s**



Source: Country Supply and Use Tables, ADB.

Most sectors experienced increase in labor share of income in recent years, due to the increase in China

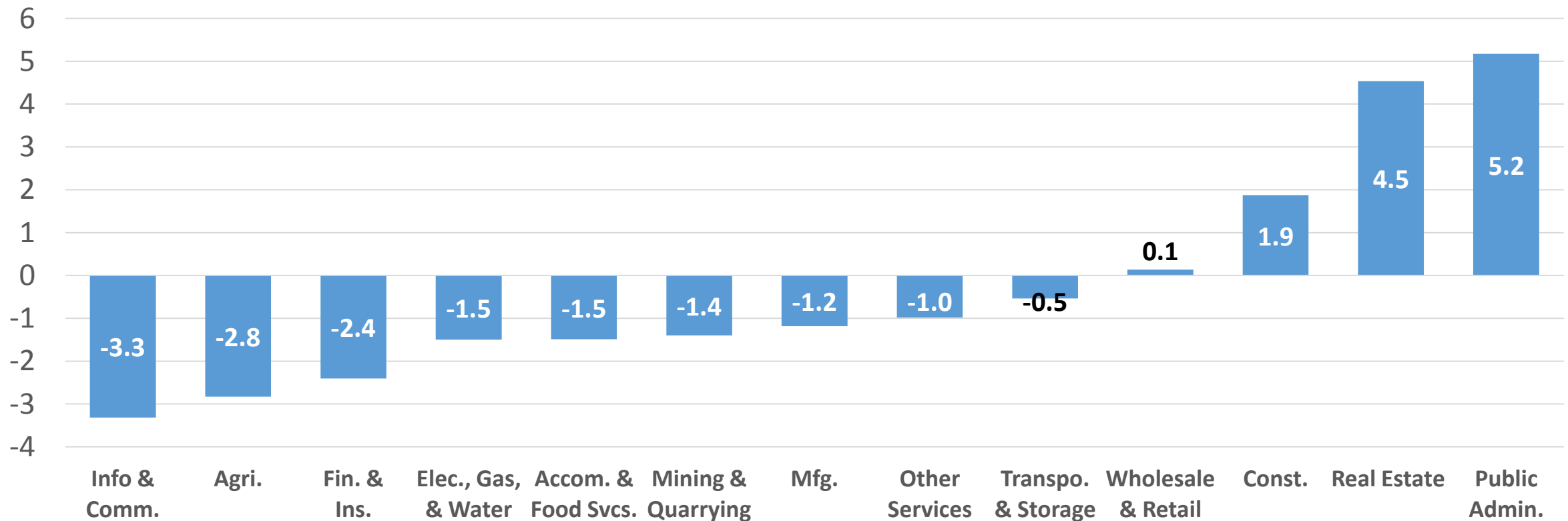
Percentage point change in the labor share of income (net of indirect taxes),
mid-2000s – early 2010s



Source: Supply and Use Tables for 17 Asian economies (BAN, BHU, BRU, CAM, PRC, FIJ, HKG, IND, INO, MAL, MLD, MON, NEP, SRI, TAP, THA, VIE), ADB.

Without China, most sectors on average experienced declines in labor share of income in recent years

Percentage point change in the labor share of income (net of indirect taxes),
mid-2000s – early 2010s



Source: Supply and Use Tables for 16 Asian economies (BAN, BHU, BRU, CAM, FIJ, HKG, IND, INO, MAL, MLD, MON, NEP, SRI, TAP, THA, VIE), ADB.

Labor share of income in Chinese industrial sector: evidence from enterprise surveys

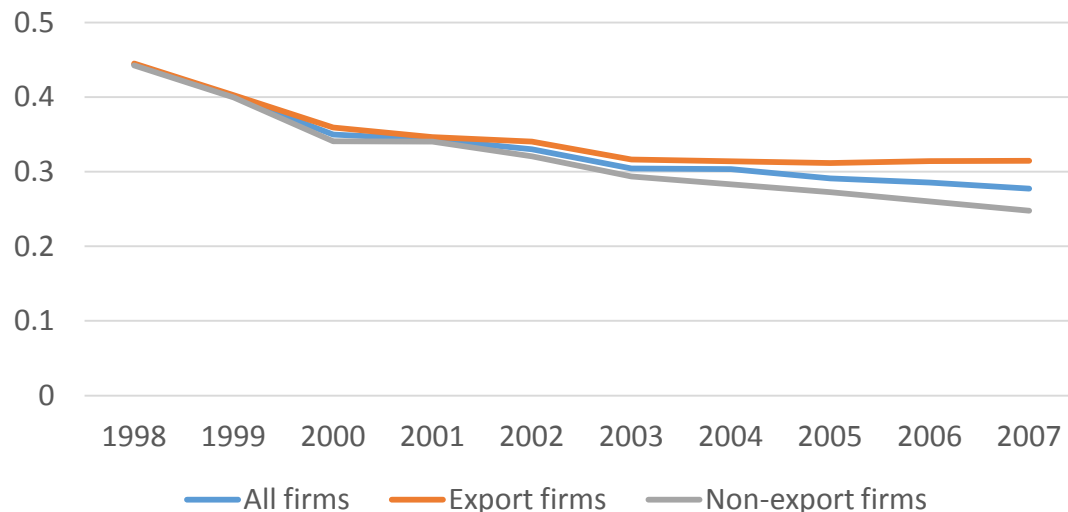
- About the data
 - ✓ Annual surveys of industrial firms from 1998 through 2007 by China's National Statistical Bureau
 - ✓ Covering all of China's non-state-owned firms with the 'above designated size' (about \$600,000) and all state-owned firms
 - ✓ Consisting of over 165,000 firms in 1998 and growing to over 330,000 in 2007
 - ✓ Containing 80–140 variables (varying from year to year) covering firm characteristics such as ownership and location, capital assets, labor and wages, outputs and sales, inputs and costs, and financial performance indicators
 - ✓ Widely used in research on Chinese enterprises

Overall, the (weighted) average labor share of income in Chinese industrial firms declined from 44.3% in 1998 to 27.7% in 2007

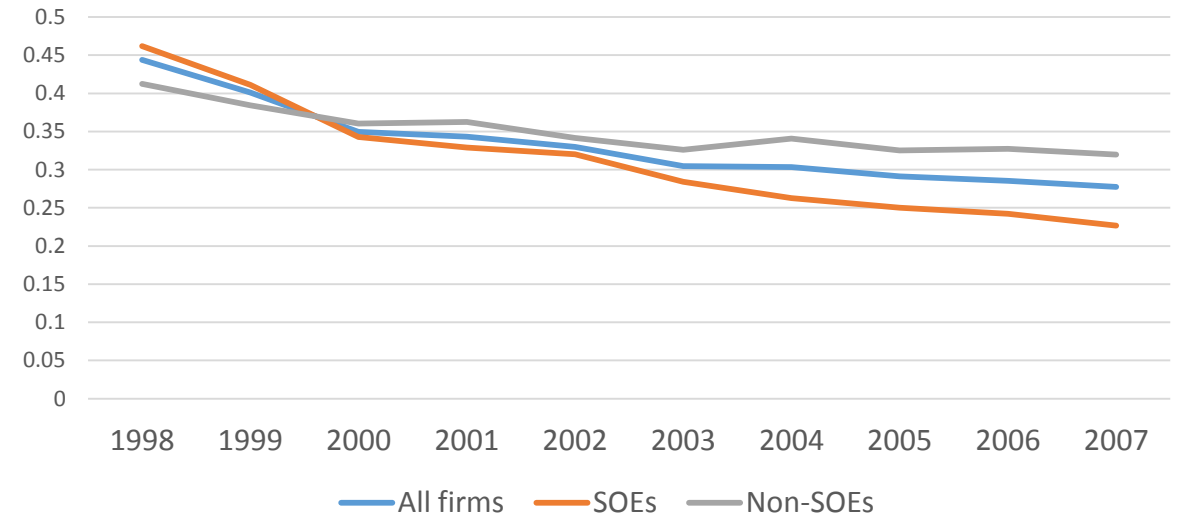
The decline differed among different types of firms:

- SOEs experienced greater decline than non-SOEs
- Non-exporting firms experienced greater decline than exporting firms
- Large firms experienced greater decline than smaller firms

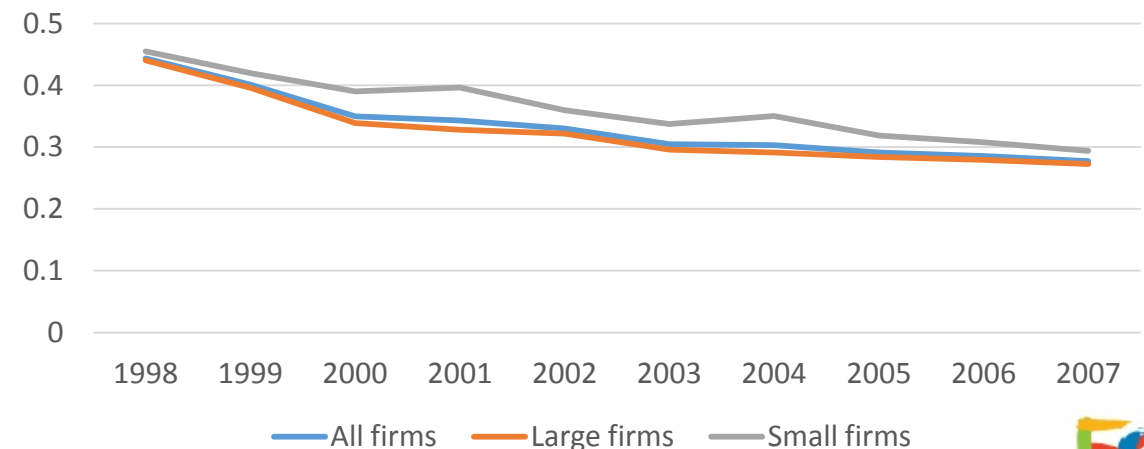
By exporting vs. non-exporting



By ownership

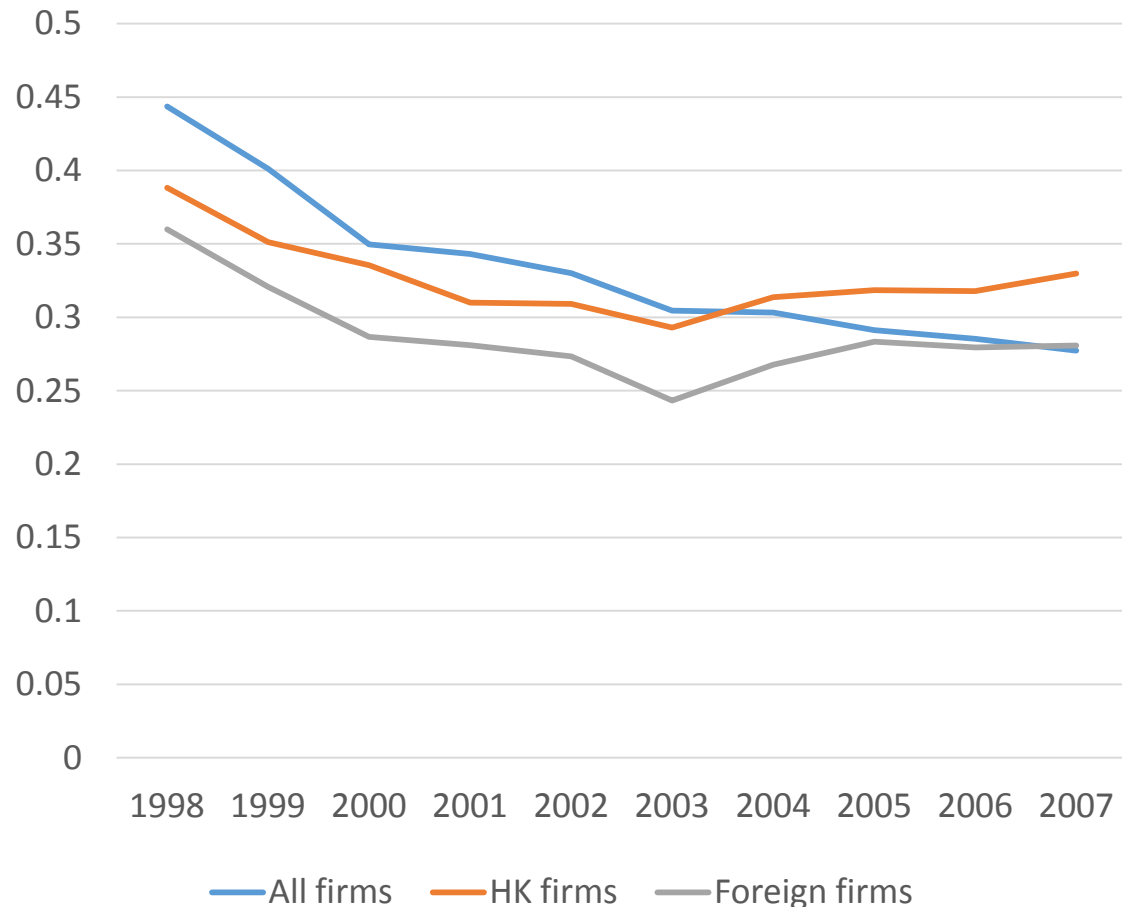


By firm size

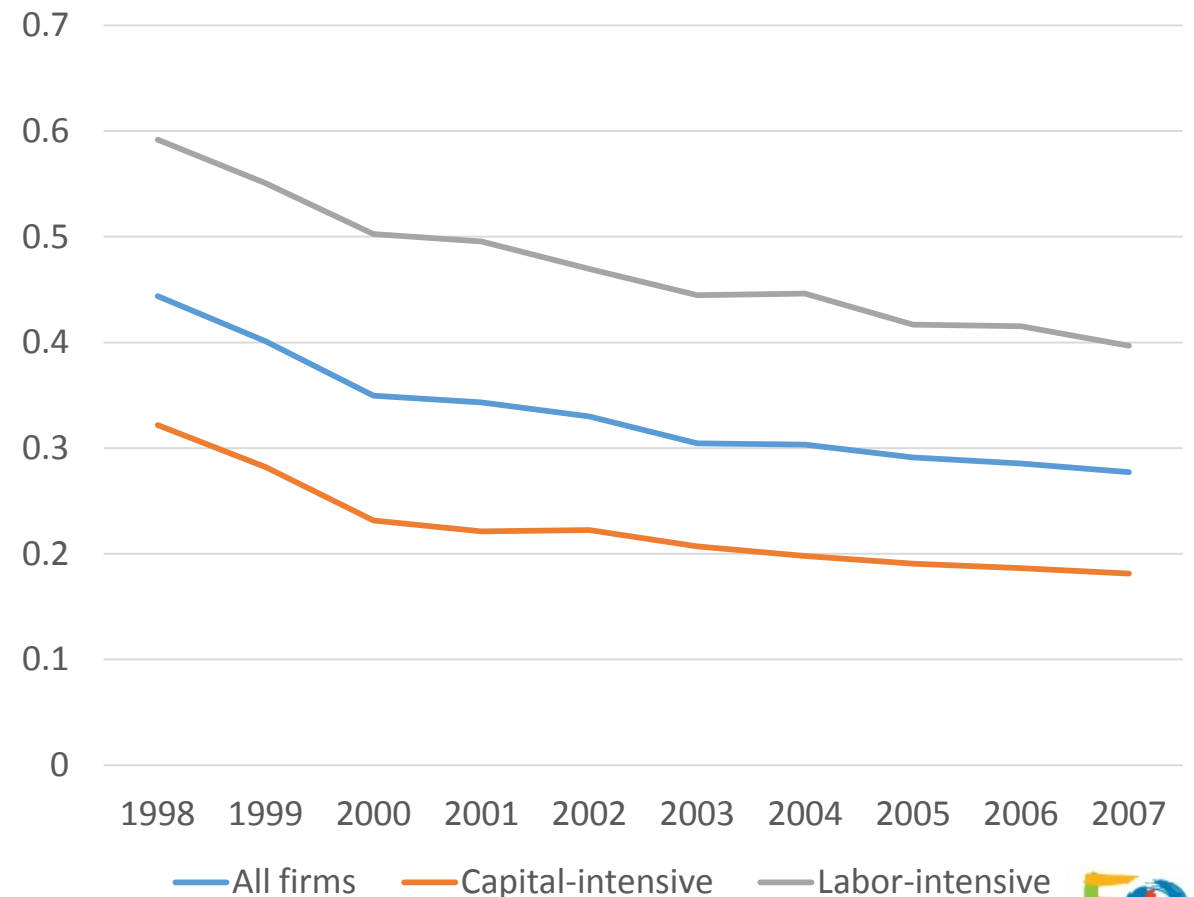


Capital-intensive firms had much lower labor share of income than labor-intensive firms, and foreign firms experienced less decline in labor income share

By domestic vs. foreign firms



By technology



The existence of union appears to have positive impact on labor share of income

Labor share of income in firms with union vs. without union, 2004

	Labor share	Profit share	Deprecation share	VAT share	Total
With union	0.38122	0.30322	0.16115	0.15441	1
Without union	0.32189	0.34313	0.15718	0.17780	1

OLS regression of labor share of income on union dummy

Parameter Estimates					
Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	0.73706	0.04819	15.30	<.0001
HK-MA-TW dummy	1	0.07951	0.05379	1.48	0.1393
Capital intensity	1	-0.07676	0.01267	-6.06	<.0001
Union dummy	1	0.05251	0.03558	1.48	0.1400

Number of firms with union = 123190; number of firms without union = 146005. The sample excludes SOEs.

Policy implications

- Even though technological progress and globalization have contributed to declining labor share of income, these should not be stopped
- Policy actions are needed to address declining labor share of income and rising inequality:
 - Making growth more employment-friendly
 - Investing in human capital and skills development
 - Strengthening labor market institutions including minimum wages, employment protection and collective bargaining, but without imposing excessive costs for businesses
 - Strengthening social protection to help workers better cope with transitory livelihood shocks due to unemployment and economic disruptions
 - Efficient fiscal policy for greater income redistribution
 - The exact policy actions needed depend on country-specific circumstances

Thank you!

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