Corporatism and the Labour Income Share

by Mario Holzner

The Vienna Institute for International Economic Studies (wiiw), holzner@wiiw.ac.at

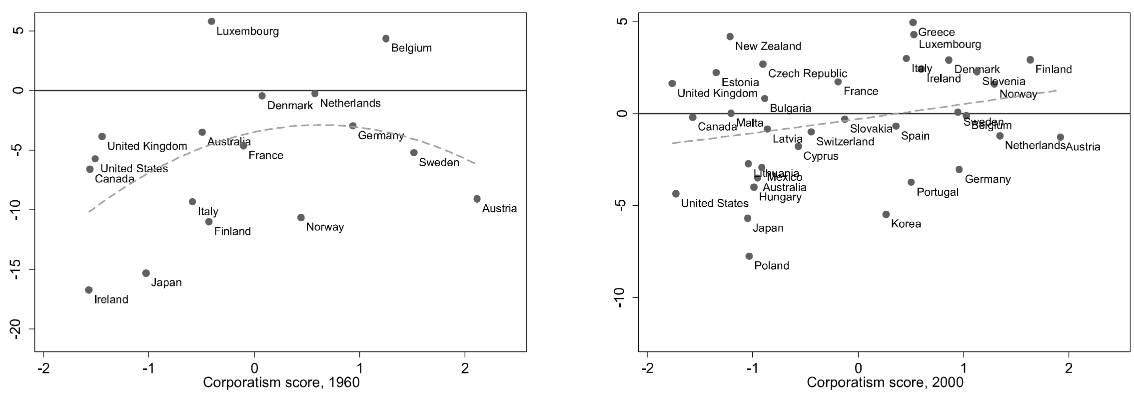
April 2016

Track #3 (alternatively Track #4)

Abstract:

Over the long run the labour share in aggregate income in developed economies has been on a dramatic decline. The literature tries to explain this phenomenon inter alia with the dynamics in technological change, globalisation and various institutional developments. Though potentially of high importance in this respect, the impact of corporatist arrangements has not been analysed extensively so far. One reason might be that time-variant corporatism indexes are out of date or cover only a small sample of countries. However, most recently Jahn (2016) has developed a new corporatism index for 42 industrialised countries on an annual basis from 1960 to 2010. In his definition of corporatism the respective agreements in industrial relations and economic policy (especially wage bargaining) are classified by structure (degree of hierarchical centralisation), function (degree of concertation with the state) and scope (degree to which agreements encompass broader segments of society).

Figure 1: Corporatism and the labour share in the long run



Source: AMECO, Jahn (2016), own calculations.

The left panel of Figure 1 shows the long run 1960-2010 relationship between the change in the adjusted wage share for a set of (mostly European) countries as provided by the AMECO database and the initial year's corporatism score. While countries lacking institutions of centralised wage bargaining have performed worst, also the traditional corporatist societies such as Austria and Sweden have lost substantial shares of labour income in total national income. Economies in the higher intermediate ranks, such as the Benelux countries, have performed best in stabilising or even expanding the labour share. Interestingly, this relationship flattens out when observing the latest period of the 2000s (Figure 1, right panel). The regression line is now linear and upward sloping. To evaluate the changing impact of the corporatist arrangement over time and across industrialised economies on the development of the labour share is hence the aim of this paper.

Occasionally the development of the labour share is being analysed in flagship reports of international organisations, such as the International Monetary Fund (IMF, 2007), the Organisation for Economic Co-operation and Development (OECD, 2012) or the European Commission (EC, 2007). The observed secular decline of the labour share in aggregate income in advanced economies is being explained inter alia by rapid technological change and globalisation. Publications by the International Labour Organization (ILO), such as for instance Dünhaupt (2013a), have a stronger focus on alternative explanations including widespread liberalisation, financialisation and a reduction in workers' bargaining power. An extensive overview about theoretical issues, empirical studies and measurement of the labour share is provided in a series of papers by Giovannoni (2014 a, b, c). Another, briefer review of theory and evidence is given by Schneider (2011a). Seminal papers that have dealt with the proper measurement of the labour income share include Krueger (1999) and Gollin (2002).

The causes of the declining labour share have been analysed empirically at different levels of aggregation. Some authors have employed firm level data (see Hutchinson and Persyn, 2012 or Böckerman and Maliranta, 2012) and stress again mostly globalisation and technological change as prime causes. Another strand of literature uses industry level data (e.g. Bentolila and Saint-Paul, 2003; Karabarbounis and Neiman, 2014; Rodriguez and Jayadev, 2010) and confirms technological change as an important determinant of falling labour shares. In this group Bassanini and Manfredi (2012) and Azmat et al. (2012) as well as Maarek and Orgiazzi (2013) are exceptions as they stress additional factors such as privatisation in the first two cases and currency crises in the latter case.

Also the majority of the macro level studies identify technological change and globalisation as the main drivers of declining labour shares in national income (see Jaumotte and Tytell, 2007; Guscina, 2006; Estrada and Valdeolivas, 2012; Harrison, 2005; Hogrefe and Kappler, 2013). The study conducted by Guerriero and Sen (2012) makes a notable exception. They find that trade openness and technological innovation have a positive and significant effect on the labour share (however, Foreign Direct Investments and mechanisation appear as negative drivers). Only a few papers focus on other issues such as capital account openness (Jayadev, 2007) and financialisation (Dünhaupt, 2013b) and find that both have a negative effect on the labour share.

However, a number of studies focuses on the impact of labour market institutions on the labour income share. It is mostly the impact of the union density that is being analysed – in time series (Fichtenbaum, 2009; Judzik and Sala, 2013), in industry panels (Young and Zuleta, 2015), in country-industry panels (Schneider, 2011b) as well as in a macro level cross sectional/time series panel data setting (Bengtsson, 2014; Kristal, 2010). Generally there seems to be a positive relationship between bargaining power as proxied by the union density and the labour share. However, these results are not in all cases highly robust. A few studies in this strand of the literature have a slightly different emphasis. For instance Damiani et al. (2012) have analysed the impact of the changes in the employment protection legislation on the labour share. Apparently, extensive use of temporary contracts has led to a decrease of the overall labour share. Hancke (2013) has been employing information on the coordination and the coverage of the wage bargaining process and concludes that the fall in the wage share in countries with strong trade unions is related to the interaction between conservative central banks and coordinated wage bargaining systems. And more recently, Stockhammer (2015) has found strong negative effects of welfare state retrenchment as proxied by the government consumption share in GDP (i.e. mostly public sector wages) on the private sector adjusted wage share.

Evaluating more than a dozen of the above mentioned studies that are trying to explain the secular decline in the labour income share at the macro level shows that the single most employed explanatory variable is trade openness, followed by GDP per capita (or per worker), union density and government activity. These are also the prime indicators of the most important explanatory variable groups. Most of the more than 50 explanatory variables used in these studies represent the globalisation of trade, productivity and technological change, labour market institutions and government influence. Additional types of explanatory variables include the globalisation of capital and the employment structure. The most commonly used estimators include pooled OLS, FE regressions and IV methods on annual as well as 5-year averages data. Others include also GMM and ECM regressions.

In our own analysis we will draw on the results of previous studies and at the same time develop a research strategy tailor made for the purpose of analysing the changing impact of corporatist arrangements over time and across industrialised economies on the development of the labour share. In this respect we will inter alia employ data from AMECO, the Penn World Tables 8.1, the World Development Indicators, the Chinn-Ito Financial Openness Index update 2013 as well as the corporatism score from Jahn (2016). This should help us to better understand the distributional impact of different types of industrial power relations and hence to develop relevant policy recommendations. Excursions on the impact of corporatism on economic growth and unemployment will add to the analysis.

References

Azmat, G., A. Manning and J. Van Reenen (2012), 'Privatization and the Decline of Labour's Share: International Evidence from Network Industries', *Economica*, Vol. 79, pp. 470–492.

Bassanini, A. and T. Manfredi (2012), 'Capital's Grabbing Hand? A Cross-Country/Cross-Industry Analysis of the Decline of the Labour Share', OECD Social, Employment and Migration Working Papers, No. 133.

Bengtsson, E. (2014), 'Do unions redistribute income from capital to labour? Union density and wage shares since 1960', *Industrial Relations Journal*, Vol. 45, No. 5, pp. 389–408.

Bentolila S. and G. Saint-Paul (2003), 'Explaining Movements in the Labor Share', *Contributions to Macroeconomics*, Vol. 3, No. 1, Article 9.

Böckerman, P. and M. Maliranta (2012), 'Globalization, creative destruction, and labour share change: evidence on the determinants and mechanisms from longitudinal plant-level data', *Oxford Economic Papers*, Vol. 64, pp. 259–280.

Damiani, M., Pompei, F. and A. Ricci (2012), 'Labour share and employment protection in European economies', MPRA Paper, No. 43058.

Dünhaupt, P. (2013a), 'Determinants of functional income distribution – Theory and empirical evidence', ILO GLU Working Paper, No. 18.

Dünhaupt, P. (2013b), 'The effect of financialization on labor's share of income', Institute for International Political Economy Berlin, Working Paper, No. 17/2013.

EC (2007), 'The Labour Income Share in the European Union', Employment in Europe, Chapter 5, pp. 237-272.

Estrada A. and E. Valdeolivas (2012), 'The Fall of the Labour Income Share in Advanced Economies', Banco de Espana Documentos Ocasionales, No. 1209.

Fichtenbaum, R. (2009), 'The Impact of Unions on Labor's Share of Income: A Time-Series Analysis', Review of Political Economy, Vol. 21, No. 4, pp. 567–588.

Giovannoni, O. (2014a), 'What Do We Know About the Labor Share and the Profit Share? Part I: Theories', Levy Economics Institute Working Paper, No. 803.

Giovannoni, O. (2014b), 'What Do We Know About the Labor Share and the Profit Share? Part II: Empirical Studies', Levy Economics Institute Working Paper, No. 804.

Giovannoni, O. (2014c), 'What Do We Know About the Labor Share and the Profit Share? Part III: Measures and Structural Factors', Levy Economics Institute Working Paper, No. 805.

Gollin, D. (2002), 'Getting Income Shares Right', *Journal of Political Economy*, Vol. 110, No. 2, pp. 458-474.

Guerriero M. and K. Sen (2012), 'What Determines the Share of Labour in National Income? A Cross-Country Analysis', IZA Discussion Paper, No. 6643.

Guscina, A. (2006), 'Effects of Globalization on Labor's Share in National Income', IMF Working Paper, 06/294.

Hancke, B. (2013), 'Where Have All the Wage Shares Gone? Trade Unions, Central Banks and Wage Setting in the OECD', CEACS Working Paper, No. 2013/276.

Harrison, A.E. (2005), 'Has Globalization Eroded Labor's Share? Some Cross-Country Evidence', MPRA Paper, No. 39649.

Hogrefe J. and M. Kappler (2013), 'The labour share of income: heterogeneous causes for parallel movements?', *Journal of Economic Inequality*, Vol. 11, pp. 303–319.

Hutchinson, J. and D. Persyn (2012), 'Globalisation, concentration and footloose firms: in search of the main cause of the declining labour share', *Review of World Economics*, Vol. 148, pp. 17–44.

IMF (2007), 'The Globalization of Labor', IMF World Economic Outlook, April, Chapter 5, pp. 161-192.

Jahn, D. (2016), 'Changing of the guard: trends in corporatist arrangements in 42 highly industrialized societies from 1960 to 2010', *Socio-Economic Review*, Vol. 14, No. 1, pp. 47–71.

Jaumotte, F. and I. Tytell (2007), 'How Has The Globalization of Labor Affected the Labor Income Share in Advanced Countries?', IMF Working Paper, No. 07/298.

Jayadev, A. (2007), 'Capital account openness and the labour share of income', *Cambridge Journal of Economics*, Vol. 31, No. 3, pp. 423-443.

Judzik D. and H. Sala (2013), 'Productivity, deunionization and trade: Wage effects and labour share implications', *International Labour Review*, Vol. 152, No. 2, pp. 205-236.

Karabarbounis L. and B. Neiman (2014), 'The Global Decline of the Labour Share', *The Quarterly Journal of Economics*, Vol. 129, No.1, pp. 61–103.

Kristal, T. (2010), 'Good Times, Bad Times: Postwar Labor's Share of National Income in Capitalist Democracies', *American Sociological Review*, Vol. 75, No. 5, pp. 729–763.

Krueger, A.B. (1999), 'Measuring Labor's Share', *AEA Papers and Proceedings*, Vol. 89, No. 2, pp. 45-51.

Maarek P. and E. Orgiazzi (2013), 'Currency Crises and the Labour Share', *Economica*, Vol. 80, pp. 566–588.

OECD (2012), 'Labour Losing to Capital: What Explains the Declining Labour Share?', OECD Employment Outlook, Chapter 3, pp. 109-161.

Rodriguez F. and A. Jayadev (2010), 'The Declining Labor Share of Income', UNDP HDR Research Paper, No. 2010/36.

Schneider, D. (2011a), 'The Labor Share: A Review of Theory and Evidence', SFB 649 Discussion Paper, No. 2011-069.

Schneider, D. (2011b), 'Bargaining, Openness, and the Labor Share', SFB 649 Discussion Paper, No. 2011-068.

Stockhammer, E. (2015), 'Determinants of theWage Share: A Panel Analysis of Advanced and Developing Economies', *British Journal of Industrial Relations*, early view.

Young A.T. and H. Zuleta (2015), 'Do Unions Increase Labor Shares? Evidence from US Industry-Level Data', mimeo available at SSRN.