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Labor's Share

Michael R. Pakko

The relatively slow growth of employment has been a prominent feature of the current economic expansion. Now that employment is showing signs of picking up, however, attention has shifted to the growth of wages. Recent data from the Bureau of Labor Statistics show that real (inflation adjusted) hourly earnings have been declining for the past several months: From June 2003 through June of this year, earnings of production or nonsupervisory workers on private nonfarm payrolls have risen 1.7 percent in nominal terms; but, after adjusting for inflation, earnings have declined 1.5 percent. And yet, the economy has been exhibiting rapid growth, with real gross domestic product expanding at a rate of more than 4 percent in the past year.

Do these recent observations portend a change in the allocation of income in the U.S. economy? Some might speculate that this is so, but it is difficult to evaluate such a proposition based on only a few months of data. Considering the issue from a broader and longer-run perspective provides a more informative view of this economic landscape.

The allocation of national income between workers and the owners of capital is considered one of the more remarkably stable relationships in the U.S. economy. As a general rule of thumb, economists often cite labor's share of income to be about two-thirds of national income—although the exact figure is sensitive to the specific data used to calculate the ratio. Over time, this ratio has shown no clear tendency to rise or fall.

The figure provides a perspective on this issue. The dashed line shows wage and salary income as a fraction of national income. This measure clearly shows a declining trend in recent decades. Having reached a peak of 58 percent in 1970, wages and salaries have declined to only 52 percent of national income in 2003. However, if we consider total compensation—including employer social insurance contributions and benefits—labor's share has shown very little variation.[1] By this measure, labor's share of national income has averaged 70.5 percent over the past 50 years and has remained within a narrow range of that average.

Only time will tell if a significant shift in income allocations is underway. However, a long-run perspective suggests that it would indeed be unusual for labor's share to deviate far from its historic value. ■

[1] One complicating factor is the allocation of proprietors' income, which includes both labor and capital components. In the data for the figure, proprietors' income is assumed to be allocated in the same proportions as in the rest of the economy.

Shares of National Income