

## Taking Account...

### BEA study looks at gross versus net labor shares

After a long period of stability, labor's share of national income began falling in the 1970s. Labor share has been of great interest to economists all the way back to the early days of national accounting, and properly measuring labor share touches nearly every area of macroeconomics.

Recently, the decline in labor share has sparked discussion about the extent to which the trend is related to increasing inequality, as capital ownership tends to be concentrated. The issue is thus of paramount interest to policymakers.

Benjamin Bridgman, an economist at the Bureau of Economic Analysis, recently explored this issue in a recent study, taking a look at the role of depreciation and production taxes.

He finds that the U.S. labor share has not fallen as much if depreciation and production taxes are netted out of national income. Recent net labor share remains within its historical range, while gross share is at its lowest level. This effect holds for other large economies. In some cases, labor share actually rises. Overall, the picture is no longer one of unprecedented, globally declining labor share.

Depreciation and production taxes accrue to neither labor nor capital but are counted as part of output. If depreciation rates and taxes are constant, using gross and net shares would tell the

same story. However, there is reason to believe that has not been the case recently.

Bridgman shows that increases in production taxes reduce gross labor share. In addition, lower equipment prices can lead to higher depreciation and lower gross labor share. Bridgman shows how lower prices lead firms to buy more equipment, which depreciates faster than other capital. This shift increases both capital and depreciation shares of output. While net labor share falls, it falls by less than gross share. Movements in gross share overstate how much more income accrues to capital.

Taking an empirical look at the labor share of national income net of depreciation and production taxes, Bridgman finds that the adjusted U.S. labor share falls much less than the gross labor share. From 1975 to 2011, gross labor share fell 9 percent while net share only fell 6 percent.

This time series suggests a different view of history. While gross labor share is at its lowest recorded level, net labor share was at its 1975 level as recently as 2008.

This observation holds for a set of other advanced countries selected for the size of their economies or their large declines in gross labor share, mainly countries such as France, the United Kingdom, Canada and other countries in the G7.

In some cases, notably Japan,

the direction of the movements in share is reversed: net labor share increases, while gross share declines. Even when the decline holds up, movements in net share are generally muted.

Bridgman also examines whether changes in net labor share and inequality are related, finding little correlation. While the time series movements of inequality and labor share coincide, the timing and magnitude of labor share changes do not match the movements of inequality well. The evidence suggests that labor share is not a good summary indicator of inequality.

In his analysis, Bridgman does not find much evidence that the level of labor share and inequality are correlated. Inequality in the United States exceeds the rest of the country sample, though it is in the middle of the pack for labor share.

The U.S. labor share is similar to that of France, which ranks high in terms of inequality. Further, the spread in inequality across the sample increases sharply in the 1980s. This pattern is not similarly shown in the labor shares.

A time series analysis provides a roughly similar conclusion. U.S. inequality strongly increased in the 1980s without much movement in labor share. Also, the movements in inequality are large relative to the modest changes in labor share.

[Bridgman's study](#) is available on the BEA Web site.