

A Structural Decomposition Analysis of the evolution of the Wage Share in Developed and Developing Economies

Topic: Input-Output Analysis: Income Distribution Policies - I

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The decline of the Wage Share and increased inequality since the 1980's has drawn significant attention in both academic and policy circles, with the literature pointing to a variety of causes such as technical change, loss of bargaining power by workers in a globalised economy. This papers seek to contribute to this literature by analysing the key structural drivers of the evolution of the Wage Share by means of an additive Structural Decomposition Analysis (SDA) of the Wage Share, building on the multiplicative SDA developed by Dietzenbacher (2004). The changes in the wage share is decomposed into five main contributing factors: (i) changes in real wage; (ii) changes in value added per worker; (iii) changes in the direct labour input coefficients; (iv) changes in the intermediate input coefficients; (v) changes in the final demand. While the first two factors represent income distribution dynamics within sectors (shift-effects), the other three factors relate to changes in the economic structure (share-effects), which reflect technological changes in the productive structure and in final demand composition. Analysis is developed for G7 economies and six developing countries (China, India, Indonesia, Brazil, Mexico and Turkey) between 2000-2014, using the WIOD database.

The evolution of the Wage Share across developed and developing economies has differed considerably. However, the results from the SDA reveal some interesting patterns. In developed countries the main driving factors in the change in wages shares is the distributive conflict occurring within sectors, with real wages increasing slower than value added per worker in countries such as USA, Germany and Japan, However, in countries like Italy, France and Canada real wages have increased faster than value added per worker, on average. In developing economies changes in the productive structure of the economy, such as the changes in composition of intermediate and final demand, have pushed the aggregate wage share downwards, specially in China and India; while real wages have increased faster than value added per worker contributing to an increase in the overall Wage Share, with the notable exception of Mexico.