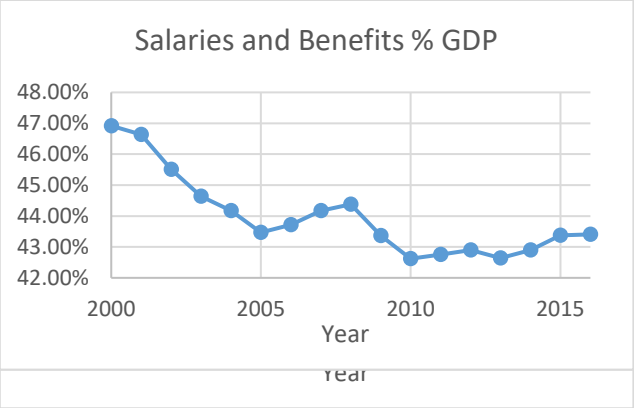
LABOR'S SHARE OF INCOME

Labor policy and labor economics are a frequent thought of mine, but not one on which I've written previously. I was forwarded this article, but it's taken several weeks for me to figure out what I want to say.

According to so much reporting, Americans "feel" like they've fallen behind. I tend to be skeptical of such feelings, as well as such reporting. in this case, it is borne out by the data. Axios, relying on data from the Bureau of Economic Analysis, show that the share of U.S. GDP going to wages and salaries has decreased by 3.5% over the last 18 years.



This is definitely not noise; it is a significant change. In addition, the share of this income going to the top 1% of earners has increased by an additional 3%, further decreasing the slice available to those not in the upper class. If the amount of national income going to this group reverted to pre-2000 levels, it would be akin to giving everybody an 11% raise. Whether they know the statistics or not, people thinking about the nature of the United States' economy 20 years ago are right to think that some money is "missing" from their paychecks.

We have a pretty good idea where this money is going. The decline of labor income aligns almost perfectly with increased corporate profits.

It is, of course, more difficult to determine why income is moving from labor to capital. There are many opinions on this topic, and they can be roughly divided between things that can be controlled at a national policy level, and things that can't. Today, I'm going to discuss the latter.

A major cause of labor's decline is undoubtedly technological innovation. When 100 skilled workers on an assembly line can be replaced by robots, it lowers the market value of said skills. The decline in coal employment is only partially caused by competition from other sources, and hardly at all from regulations; mining today is a highly automated business. This trend is likely to continue. I have little doubt that self-driving cars will make up the majority of vehicles on the road within my lifetime. What will happen to 3.5 million truck drivers, as well as hundreds of thousands of taxi drivers and bus drivers? These good jobs will disappear, or at least see similar value erosion.

Now, this type of technological innovation is a good thing for society; efficiency gains are the only long-

term means of economic growth per capita. But it will also cause massive displacement for those working in the industries involved.

An area over which we have some, but not total, control is international trade. Similar to automation, if production for an item is moved to a lower-cost labor pool offshore, that will erode the market value of people who previously produced it. When things are produced for less, this is an efficiency gain similar to automation. When two countries each produce more of what they are best at, and trade the surplus, both of them come out ahead. But, as before, the labor force in industries thus disrupted will have serious problems.

Even if we wanted to prevent offshoring of jobs, we haven't yet shown the political will to do so. Giving tax benefits to companies that remain in the United States have proven exceptionally inefficient and easily exploited. Donald Trump famously prevented some jobs at a Carrier plant in Indiana from being moved to Mexico. He accomplished this by having the state write a big, fat check; after this was cashed, most of the jobs left anyway. To bring a Foxconn plant to Wisconsin, Governor Scott Walker was force to give out at least $4 billion in subsidies. The types of deals being made aren't helping taxpayers, they look far more like corporate welfare for corporations that don't need it. Plans to penalize companies that offshore through the tax code have also come to nothing; we don't know exactly what will happen, but the recent tax bill perversely encourages the movement of productive capacity offshore.

Both of these effects, technology and trade, would clearly affect labor's share of income, but don't necessarily explain why the excess gains would go to corporate profits. If companies are able to produce their products for less, we would normally expect this is be largely offset by lower prices, leaving only a small effect on profitability. It explains some of the increased income inequality, but far from all. Radiologists and derivatives traders are ripe for offshoring, along with assembly line workers. For me, the link come through policy that we can control – but I'll have to leave that question for another day.