

The distribution of income: a slow decline in the labour share

The latest *Monthly Report* tackles a controversial issue which the euro area's long economic crisis has brought to the fore and which has serious political implications: the continuing tendency for income from wages to decrease compared with income from capital. The Dossier articles confirm the extent of this phenomenon, identify its cyclical and underlying components and explore the most plausible explanations in the light of data and economic theory.

Their analysis shows that we are dealing with a significant phenomenon that is not a consequence of the great recession but fundamentally due to long-term determining factors. Two of these stand out: technological change, particularly the incorporation of information and communication technologies (ICTs) in productive processes; and the latest wave of globalisation which has helped to fragment value chains worldwide, often placing workers in emerging countries in direct competition with their peers in developed countries. This latest globalisation is new partly and precisely because it takes advantage of ICTs. In any case, both trends are reducing the labour share in advanced economies, affecting not only manual workers associated with manufacturing but also the workers who make up the middle classes, associated with more or less simple services that are now liable to offshoring.

This phenomenon has serious implications for society and, in conjunction with other trends such as migratory flows and prolonged cyclical crises such as those we have been experiencing, is capable of overturning the economic-political system unless the right economic policy responses are found. A detailed analysis of the root of the problem throws some light both on what kind of policies must be adopted and, no less importantly, which policies must be avoided at all cost.

Let's first take a look at the negative recommendations. The first, obvious but worth remembering, is that, although technological progress and globalisation lie at the root of the problem, this does not mean that economic policy should be used to combat these trends. Even if this were possible, and it is unlikely in the open economies that form part of the European Union, it would be extremely ill-advised as they are globally positive phenomena for our economies and citizens as a whole. The challenge is to manage their potentially adverse effects for some groups in society. Another inappropriate economic policy is to implement purely palliative measures to support the affected groups that fail to provide citizens with the right incentives to tackle the situation, adapt to it and, if possible, reverse it. In the case of the labour market, this is the difference between passive and active policies and, in more general terms, policies aimed at boosting people's mobility, flexibility and employability.

In fact, if anything is demonstrated by the study of the phenomenon in question, it is the fact that its impact on the economic and social fabric is closely related to levels of education and training. The international experience of advanced countries suggests that the higher a population's education standards, the easier it is for new technologies to reinforce the labour factor rather than replace it, improving their productivity and, as a consequence, their income. In other words, the labour factor can withstand the challenge of globalisation much more successfully if it has an advanced level of education and technology. If this is the case, the challenge becomes an opportunity and a source of direct gains from globalisation. Technologically advanced workers benefit from globalisation as consumers but also as producers because they can access much larger markets.

In short, the trends in technology and global economic integration represent an inexorable reality. If western societies do not react quickly and decisively, the gap in income between the classic factors, labour and capital, could widen. To ensure the labour factor does not lose out, with the social problems this would entail, human capital accumulation is essential, as is the quality of educational systems. Educational policy and, more generally, economic policy must urgently stimulate this accumulation process.

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