General Discussion of 'Decoupling of Wages from Productivity'

Participants commenced their discussion by debating whether policymakers should be concerned about the decline in the labour share if it results from net entry to the technological frontier, as the paper had found. One participant suggested that this finding ran counter to the conventional wisdom that the decline in the labour share reflected large incumbent firms becoming even bigger and stifling entry. Another participant suggested decomposing the data into gross entry and gross exit rates to ascertain whether the firms that are falling out of the technological frontier have high labour shares.

The role of globalisation and technology in explaining the decline in the labour share was explored. It was suggested that disentangling the effects of globalisation and technology would be useful. This could inform policy formulation on (re-)education and training so that it would be geared toward skills that complement trends in globalisation and technology. The presenter pointed to additional findings that suggested individuals classified as low skill and in high routine jobs were the most vulnerable to being displaced by technology. But these effects were not as strong for high-skill individuals, even if they worked in high routine jobs. This implies that high-skill labour is more able to reallocate to other jobs when displaced by technology. It was agreed that policy should aim to increase the skills of individuals, but it is difficult to answer the question on how to increase skills.

One participant cautioned against employment protection legislation as a prescription to the falling labour share and decreased labour market dynamism. They argued that increasing firing costs leads to less labour market churn and can change bargaining power in unexpected ways. It was highlighted that one should not mistake rigidity in the labour market as being the same as low bargaining power. The participant pointed to some research that has found high labour market protection has actually reduced the labour share.

The paper found that real wages growth had been higher in countries where the labour share had declined than in countries where the labour share had increased. The question was posed as to what world individuals would rather live in: one with a low labour share but high wages growth, or one with a high labour share but low wages growth. A discussion then ensued on the trade-off between equity and growth. One participant remarked that inequality is corrosive, and that it leads to a variety of poor social outcomes such as poor health and limited intergenerational mobility. Another participant argued that policymakers should not draw conclusions about the prevalence of inequality by looking at disparities in market incomes, since income is redistributed through the social welfare system. The participant highlighted that what should matter is not inequality of market incomes but rather inequality of consumption possibilities.

Another pointed out that it was actually not possible to conclude from the presented material that inequality was higher in countries where the labour share had declined. What the presentation showed was that profits were higher, but it is unclear how those profits are distributed. The speaker suggested that it would be reasonable to conclude that countries with higher capital shares will have income that is more unevenly distributed since capital ownership is highly concentrated across most countries. It was also suggested that policy should consider both real income and income inequality. However, the relative weights placed on each is unclear.

One participant questioned the implication of the paper that the elasticity of substitution between capital and labour is above one, when most previous work have found it to be less than one. The speaker explained that much of this literature uses data from the 1960s and 1970s, and therefore predates the decline in the price of information technology. Papers that have disaggregated the elasticity of substitution between capital and labour have found that this elasticity is much higher for certain industries, such as information technology.