

[Joint research]

Empirical Analysis of the Causes and Effects of the Decline in the Labor Share: Introduction

Joint investigators

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A vast literature of evidence on decline of labor share across several developed countries presented during the recent decades (Karabarbounis and Neiman (2014), Elsby et al. (2013), and Autor et al. (2020)). However, studies on evolution of labor share in Japan have been limited in number compared to the European and American countries. This special issue of *Kiyou* of Research Institute of Economic Science, College of Economics, Nihon University attempts to fill this gap.

The first and second papers address issues on the linkage between labor share and corporate saving. Kwon shows that an increase in corporate saving has considerably lower labor share using firm-level panel data from DBJ Database from 1995-2018. Ijiri finds that the retained earnings steadily have increased since the 2000s, while the labor share decreased. This paper points out the possibility that Japanese companies overestimate the risks of globalization, especially offshoring, and thus increase internal reserves. The two papers look at how important corporate saving is as an explanation of the labor share decline.

The third paper focuses on the role of globalization and technological progress in labor share decline for Japan. Haneda does not find any evidence that globalization reduced labor share, in contrast to previous studies. On the other hand, he shows that the labor share declined in industries with higher industrial robot installations. The non-regularization of employment is also a factor that lowers the labor share. These results suggest that to increase the labor share of Japanese companies, it is necessary to develop new technologies such as industrial robots, and artificial intelligence and encourage the transition from non-regular to regular employment.

The fourth paper examines the decline of labor share in the context of global value chain (GVC). Using World Input-Output Tables data, Suganuma examines the relationship between labor share and location in the global value chain. He finds that the relationship between upstreamness(or downstreamness) and labor share is not necessarily strong, although a slight inverted U shape is observed.

The fifth paper provides a comprehensive analysis of the decline in labor share in Japan using industry-level data. Ogishima finds that the decline in the labor share in Japan is mainly due to the small increase in wage relative to the increase in labor productivity. Furthermore, most of the decline in the labor share is due to a decline within firms. On the other hand, the differences in the labor share across industries can be explained by the share of non-regular employees, but not by a decrease in the price of capital goods or an increase in imports, factors that were identified in previous studies on other countries.

References

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