Labor’s Share of Income: Problems

1. In class, we discussed a Gallop survey as the University of Michigan’s consumer sentiment survey. There are many other examples. Just one example is the Conference Board’s consumer confidence survey, which is low but much better then consumer sentiment.

2. Total income is \$5 million. Labor’s income includes both wages and benefits and is \$3 million. Labor’s share is thus 3/5=60%.

3. It depends. Suppose that wages fell to just \$1.5 million. Labor’s share is then 50% and workers are worse off. Suppose, however, that wages grow by \$1 million (so that they now equal \$3.5 million while business income doubles from \$2 million to \$4 million. Labor’s share then is 50%. As long as this wage growth is real (not the result of inflation), workers are better off.

4. Mostly false. AI cannot explain teh decline that began around 2000 because it was yet to exist. It may, however, help explain the most recent declines. This remains a topic of debate.