Labor's Share of Income

1. As motivation, we discussed surveys showing very low levels of economic optimism. These included a Gallop poll and the University of Michigan's consumer sentiment survey.

2. These surveys are at odds with most of the aggregate data which paint a better picture: unemployment is fairly low, GDP growth has been solid, asset prices are high and, while hiher than we would like, inflation is well below 2022 levels and way below the levels seen in the 1970s and 1980s. Widespread pessimism may thus be seen as a puzzle.

3. We then discussed the concepts of national income while breaking down its distribution between labor and capital. The former includes wages, salaries, benefits, etc. The latter includes business income including both large corporations and small firms.

4. After referencing El Pocho's on Lisbon Street as an example of a small firm, the instructor started to crave their tacos. The next few minutes are sort of a blur.

5. Labor's share on income is simply the income paid to labor divided by total national income. This is reported each month in the Bureau of Labor Statistic's employment summary. Prior to 2000, labor's share was well above 60%, rising during recessions and falling during expansions.

6. Around 2000, labor's share began a significant decline. This is mostly due to technological factors such as automation and the rise of the internet.

7. Recently, labor;s share has begun an even steeper decline with it falling to 53.7%, almost surely the lowest in U.S. history. We speculated that AI could be involved, although the evidence is far from definitive on this point.

8. Could this decline explain widespread pessimism? Historically, young people have obtained most of their income through labor and used that to acquire capital. As they do so, more of their income comes from capital, especially after retirement A declining share from labor could short-circuit this process. It could represent concerns about reduced economic opportunity. Will it be as easy for me to buy a house and afford kids as it was for my parents?