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Evidence increasing of link between globalization and declining labor income share

The global trend to more open trade and migration has benefited the global economy, but the share of income taken by labor has been declining at the same time.

As protectionism and anti-migration policies grow in some countries, the role of globalization in the declining share of labor income has become a focus. That labor is seeing a decline in its share of income in many countries has been shown in a number of studies. The question is, why?

A recent working paper for the Asian Development Bank Institute looked at whether a direct line could be drawn between trade liberalization and that declining labor income share.

The recent protectionist trade policies of some industrialized countries have provoked a debate on the impact of globalization on income inequality within countries. The neoclassical trade theory predicts that trade will benefit all countries, but this does not mean that individual income always increases. There could be both winners and losers from trade.

Under generally accepted theories, trade liberalization should cause some shift of work as countries adjust to more open borders. If the owners of capital can shift production to where they will make the most money, they will. Some countries will be better at some things than other countries and production will move accordingly. In general, production that uses lower-skilled labor will move to less developed countries while higher-skilled jobs will do better in developed countries.

If countries allow more migration, the owners of capital have even more leverage on wages and can keep the share of income low for labor as new workers compete for jobs.

To see how all this is working out in the real world, the researchers looked at two data sets that covered 108 countries, as well as a case study on Japan.

One data set covered national income while the other looked at changes in income within sectors in the economy.

Outcomes at the country level suggest that trade liberalization seemed to have a negative impact on the labor income share. Moreover, over the course of liberalization, the negative effects of opening to trade would have emerged in the period following several years after the liberalization.

Overall, while the support for a negative correlation between trade openness and sectoral labor income share is somewhat robust, the evidence on the relationship between the process of structural transformation and labor income share is at best mixed.

The links appear to be there between a declining share of income for labor and trade liberalization. But whether trade liberalization is actually causing the decline in labor's share of income isn't clear.

The authors conducted a case study of Japan to see the effects that trade liberalization there had on labor income. For that country, they found evidence of declining labor income in services, even as employment in some areas was rising quickly. But the trend there reflected changes in the way workers were employed, and who was employed, rather than the direct effect of lower trade barriers.

Two sectors showed these trends clearly. In both employment in eating and drinking places and in private medical services, employment rose but the share of labor income fell. The main reasons for this was an increase in part-time employees and an increase in female workers.

Taken together, if one can argue that if part-timers get paid less per hour and female employees face gender discrimination in wages, then a fall in labor income share in these sectors despite a growth in employment is conceivable. To conclude, a drop in the labor income share in eating and drinking places could be driven by a significant increase in part-time workers whereas a drop in the labor income share in private medical services could be

due to a combination of the growth in part-time workers and an increase in the female labor force participation rate.

When trade becomes more open, the share of income earned by labor falls. Whether trade is directly responsible for that has yet to be proven.

This podcast was based on [Globalization, Structural Transformation, and the Labor Income Share](#), a working paper for the Asian Development Bank Institute by Ken Suzuki, a researcher in the Embassy of Japan in Jordan, Yoko Oishi, a research associate at the Asian Development Bank Institute (ADBI), and Saumik Paul, a research economist at ADBI.

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