Published on *Adam Smith Institute* (http://www.adamsmith.org)

That falling labour share of income: it's really not because the profit share is rising you know [1]

Written by **Tim Worstall** [2] | Sunday 24 February 2013

The more terminally geeky of readers here might recall that I started shouting at the TUC back here [3]. They were telling us that the labour share of income was falling, thus the profit share must be rising, ergo tax the rich! I pointed out that while the labour share was indeed falling the profit share wasn't rising: the actual change was happening as a result of an increase in taxes and subsidies to production. That is, the labour share would improve if we lowered that.

And now for something from my favourite Kurdo-Swedish economist. He's found that exactly the same thing is true of the Swedish economy. Yes, people there are complaining that the labour share has fallen. Which indeed it has. But not because the profit share has risen. Nope, because [4]:

> What is happening is that the share of income allocated to the category ?Taxes on Production and Imports - Subsidies? have risen sharply in Sweden. In 1980 this was 10.6% of GDP, and in 2011 it was 19.2% of GDP. This includes Moms, the Swedish VAT, which has risen significantly. Obviously net wages going down because the government is taking in more taxes is not the same thing as capital taking a bigger share of the pie. Tax revenue is mostly spent on workers.

Quite.

Now, what is so lovely about this is that the EU insists that all member states must present their GDP statistics in the same format. For example, when we measure it using the income approach we do indeed get the labour share, capital share, taxes on consumption and so on laid out in exactly the same manner. Which leads, in a rather narrow and very geektastic sense of course, to the possibility of doing something interesting here. If there's a technically competent economist out there with time on her hands, do get in touch. For there's a paper to be written. We've had a number of VAT changes across the EU 27 over the past few decades. And we've got the stats for how labour, capital etc shares have changed over those years. It should be possible to thoroughly explore how those shares have changed. And I would be willing to make a reasonably large bet that the change in the labour share is correlated to the change in the VAT rate rather than the capital share. Which would be an interesting result, wouldn't it?

blog comments powered by Disqus [6]

Source URL: http://www.adamsmith.org/blog/economics/that-falling-labour-share-of-income-its-really-not-because-the-profit-share-is-rising

Links:
[1] http://www.adamsmith.org/blog/economics/that-falling-labour-share-of-income-its-really-not-because-the-profit-share-is-rising
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.adamsmith.org/blog/economics/note-to-the-tuc-your-own-opinions-fine-but-youre-not-allowed-your-own-facts

[4] http://super-economy.blogspot.cz/2013/02/looking-closely-has-labor-share-of.html
[5] http://disqus.com/?ref_noscript
[6] http://disqus.com