

The Capital Share of Global Value Chains

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This paper will examine factor costs shares to further our knowledge about the evolution of the changes in factor shares, which according to a growing literature have increasingly been shifting in favour of capital since the 1980s. This is a well-documented development for the United States (e.g. Elsby et al, 2013; OECD, 2015; Autor et al, 2017; Koh et al., 2017), but also seems to hold globally (Karabarounis & Neiman 2014). A large literature has spawned around this topic, examining it from different angles and perspectives and using various tools. One of the driving factors of the shifting factor shares is suggested to be the offshoring of labour intensive stages of production to low-wage economies, most notably China (Elsby et al, 2013). This access to cheap foreign labour essentially removes the constraint of relatively costly domestic labour, now allowing the domestic capital share to rise unconstrained when capital and (foreign) labour are gross complements. Simply put, the increasing availability (and use) of cheap foreign labour has reduced the effective price of labour. This has, even with when factors are complements and in the face of declining capital prices, reduced the relative price of labour in GVCs of developed countries. The increasing importance of foreign labour therefore, suggests that the analysis of purely domestically based factor shares should be supplanted with an analysis based on GVCs.

To explore whether global integration through GVCs has indeed been instrumental in shaping factor cost share developments over the last decades, I will construct a new dataset of industry factor cost shares, reaching back to 1970. These shares will be based on (EU)KLEMS data. This period is ideally suited to explore the evolution of factor shares as the well-documented decline of the labour share reportedly commenced in the subsequent decade (i.e. Karabarounis & Neiman, 2014). This data will allow the evaluation of changes in the factor cost shares across a wide set of countries and industries. One of the tools that I will use is a shift-share analysis to examine the role of industry factor shares in country-level aggregates. This can yield additional insights about whether changes in aggregate factor shares are also common across all industries, or rather a phenomenon of a more limited set of industries.

Extending this, the industry data will then be linked to the new World Input Output Table (from WIOD, Timmer et al. 2015; Reijnders et al., 2016) that is currently under development at the University of Groningen. This data too will extend back to 1970 and therefore be ideally suited

to evaluate factor cost shares in global value chains (GVCs). This opens up the possibility to compare the changes in the industry level factor shares to the factor shares of its associated GVC. Furthermore, it allows me to examine the relation between the amount of foreign value added in GVCs and its associated factor shares, and the extent to which the domestic industry has seen shifts in its factor cost shares.

Sources:

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