Growing Productivity without Growing Wages: The Micro-Level Anatomy of the Aggregate Labor Share Decline*

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Abstract

The aggregate labor share in U.S. manufacturing declined dramatically over the last three decades: Since the mid-1980's, the compensation for labor declined from 63% to 42% of value added which is unseen in any other sector of the U.S. economy. The labor share of the typical U.S. manufacturing plants, in contrast, *rose* by 5%. We document that reallocation of production towards “hyper-productive plants” contributes two thirds of the decline while the remaining one third are caused by exit of high-labor share plants. Plants that account for the majority of production by the late 2000's arrive at a low labor share by gradually increasing value added by a factor of three while keeping employment and compensation unchanged. Other than this output response, these low-labor share plants look very similar to their peers along almost all other characteristics such as equipment investment, exposure to trade or whether they are located in right-to-work states. Labor share decline explanations that focus on the role of equipment-embodied technical change, unions or international trade only therefore seem limited. Based on novel empirical evidence, we consider alternative explanations.

Keywords: Labor Share, Labor Productivity, Organisation of Markets, Firm Size Distribution.
JEL classification: E2, L1, L2, L6, O4.

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