

International expert group meeting “Placing equality at the centre of the 2030 Agenda”



Functional distribution of Income in Latin America. A methodological perspective

Soledad Villafañe
ECLAC Office in Buenos Aires.
27-28 June 2018

ORGANIZATION

- × Motivation and Objectives
- × Methodology and sources
- × Results
 - + Inter country analysis
 - + Dynamics analysis
- × Final remarks

MOTIVATION AND OBJECTIVE

- × In a context of wage share decline trend in developed countries, the interest on functional income distribution was recovered...
- × Several analysis focuses on causes: employment, labor institution, declining of unionization, financialization, globalization, offshoring of the labor-intensive component
- × Also, methodological discussions analyzing composition effects
 - + Importance of consider self employment income
 - + Sectoral composition of wage share and production.
- × Objective: to analyze the importance of productive structure on level and evolution of wage share in Latin America selected countries.

METHODOLOGY

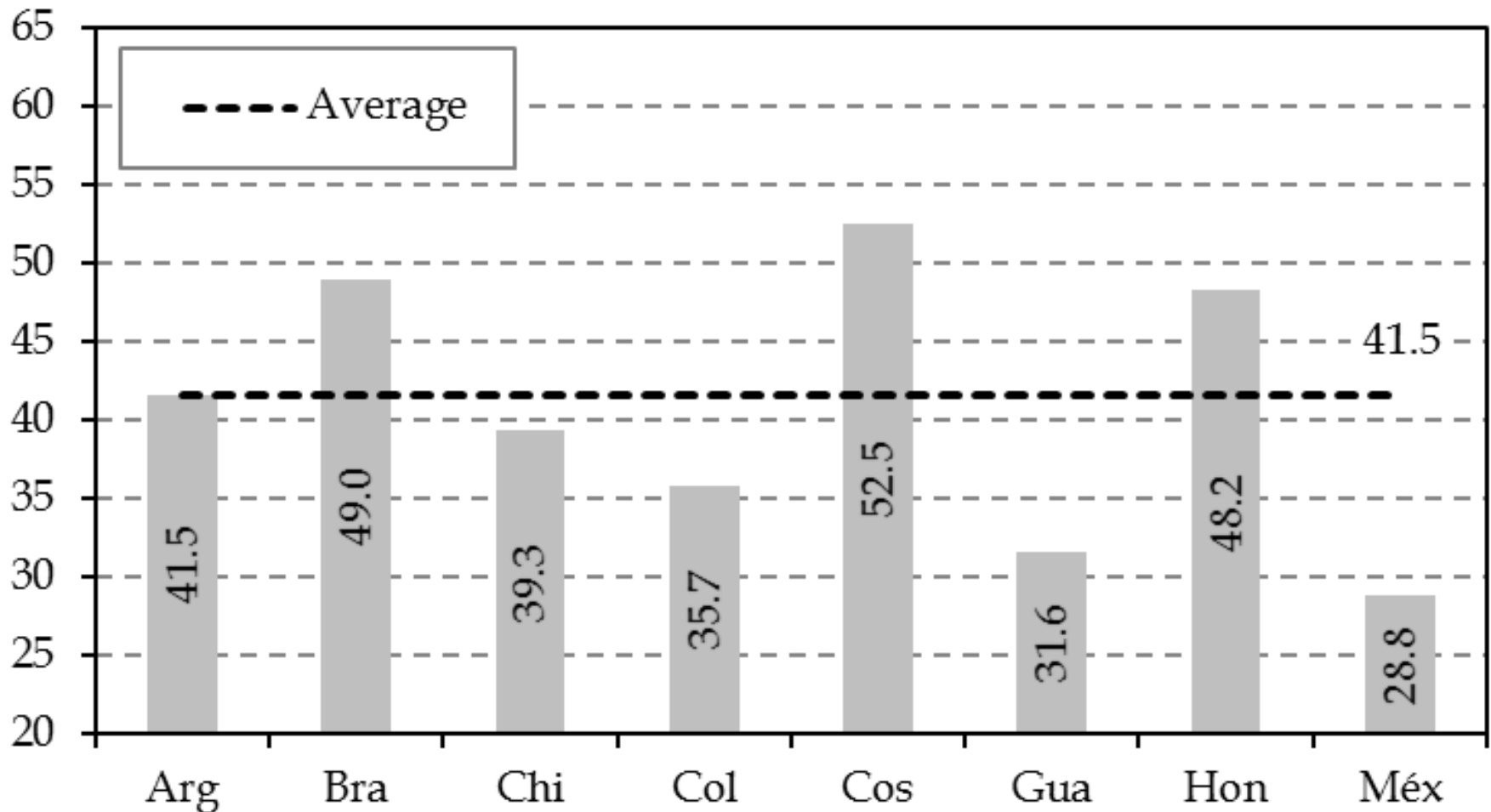
- × Sources.
 - + National Accounts: Argentina, Brasil, Chile (2003), Colombia, Costa Rica, Guatemala (2001), Honduras, y México (2003). 2000-2010.
- × Methodology: “shift-share” analysis of the change in the aggregate wage share.
 - + The “shift” component summarizes the contributions of changes in within sector wage shares
 - + The “share” component reports the contributions of changes in sectoral composition

$$w = \frac{W}{Y} = \frac{\sum_{i=1}^N W_i}{\sum_{i=1}^N Y_i} = \sum_{i=1}^N \left(\frac{W_i}{Y_i} \cdot \frac{Y_i}{\sum_{i=1}^N Y_i} \right) = \sum_{i=1}^N w_i \cdot \omega_i$$

$$\Delta W = w_t - w_{t-1} = \underbrace{\sum_{i=1}^N \Delta w_i \cdot \omega_{i,t-1}}_{\text{Shift}} + \underbrace{\sum_{i=1}^N w_{i,t-1} \cdot \Delta \omega_i}_{\text{Share}} + \underbrace{\sum_{i=1}^N \Delta w_i \cdot \Delta \omega_i}_{\text{Interaction}}$$

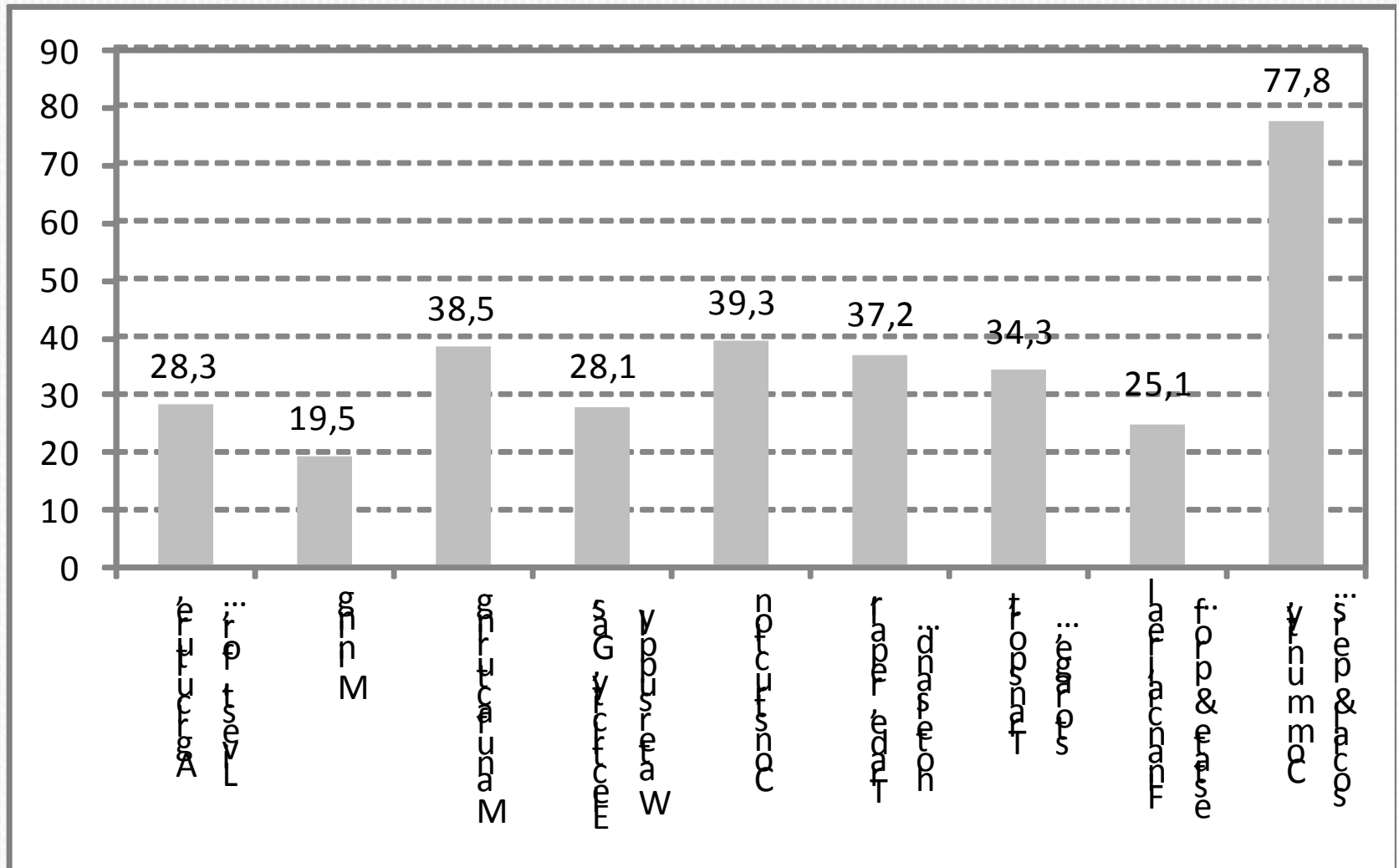
WAGE SHARE - COUNTRIES DIFFERENCES

Latin America selected countries. Percentages. 2010



WAGE SHARE – SECTORAL HETEROGENEITY

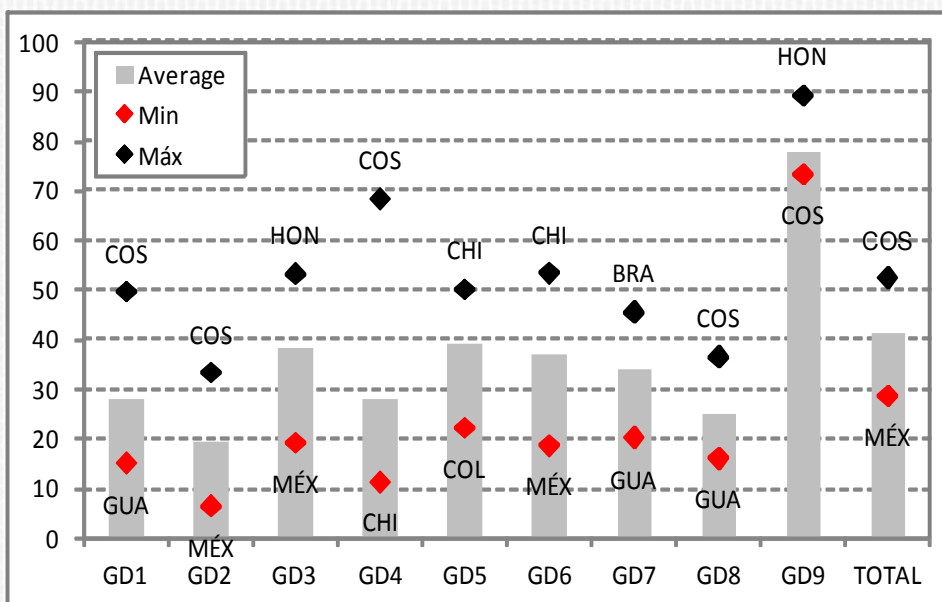
Latin America selected countries. Percentages. 2010



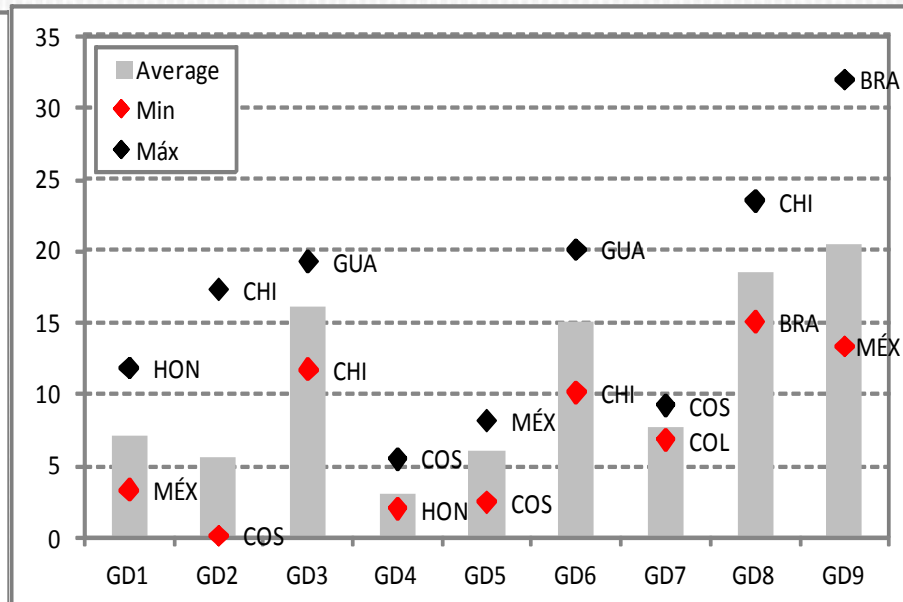
BETWEEN COUNTRIES ANALYSIS

Wage share and sectoral composition of Value Added.
Percentage. Selected countries. 2010.

A. Wage share by sector



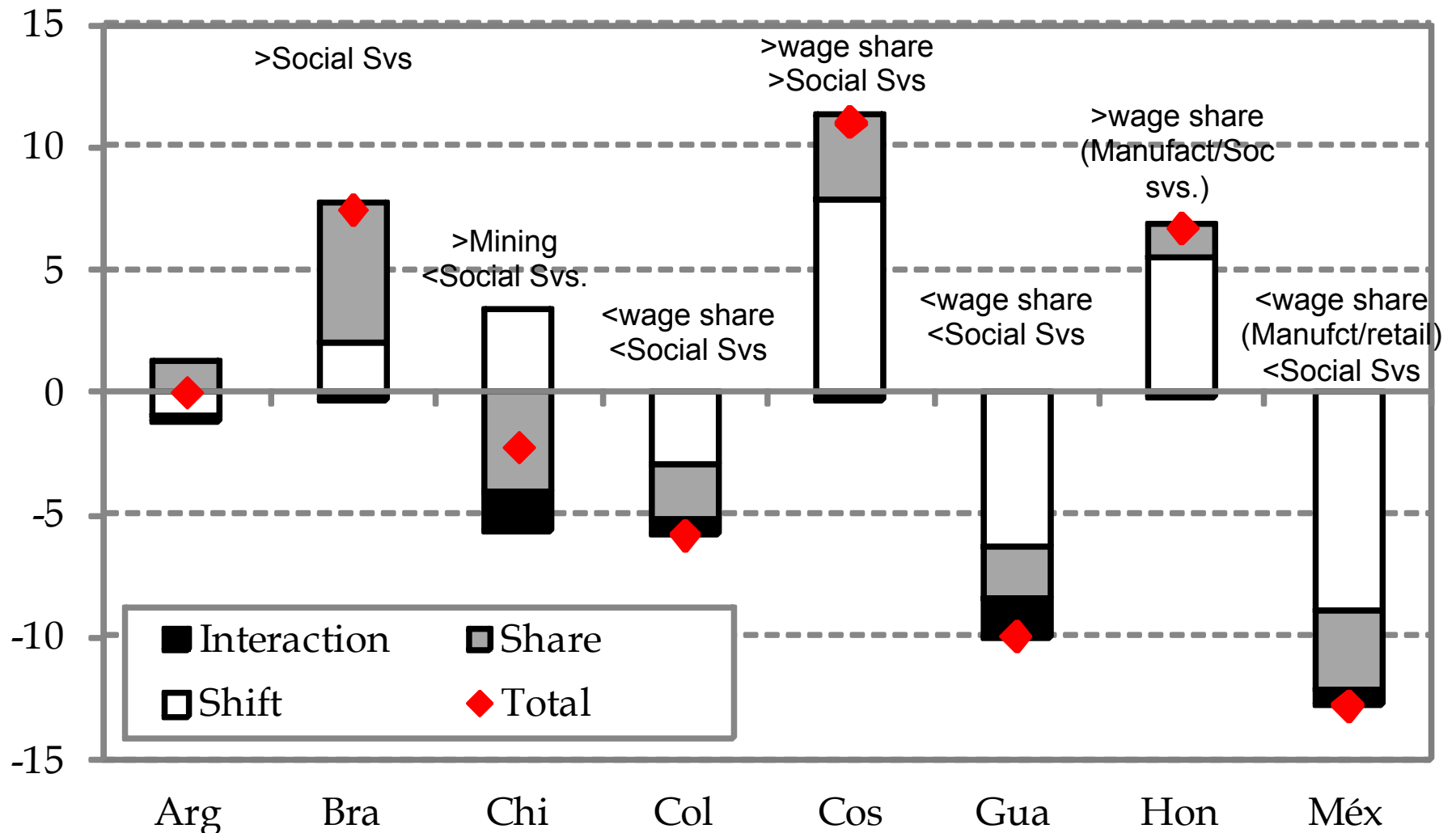
B. Sectoral composition of Value Added



GD1: Agriculture (Agriculture proper & Livestock), Forestry & Logging, Fishing and related activities. GD2: Mining; **GD3. Manufacturing**; GD4: Electricity, Gas, Water supply; GD5: Construction; GD6: Trade, repair, hotels and restaurants; GD7: Transport, storage & communication; GD8: Financial, real estate & prof servs; GD9: Community, social & pers. Services.

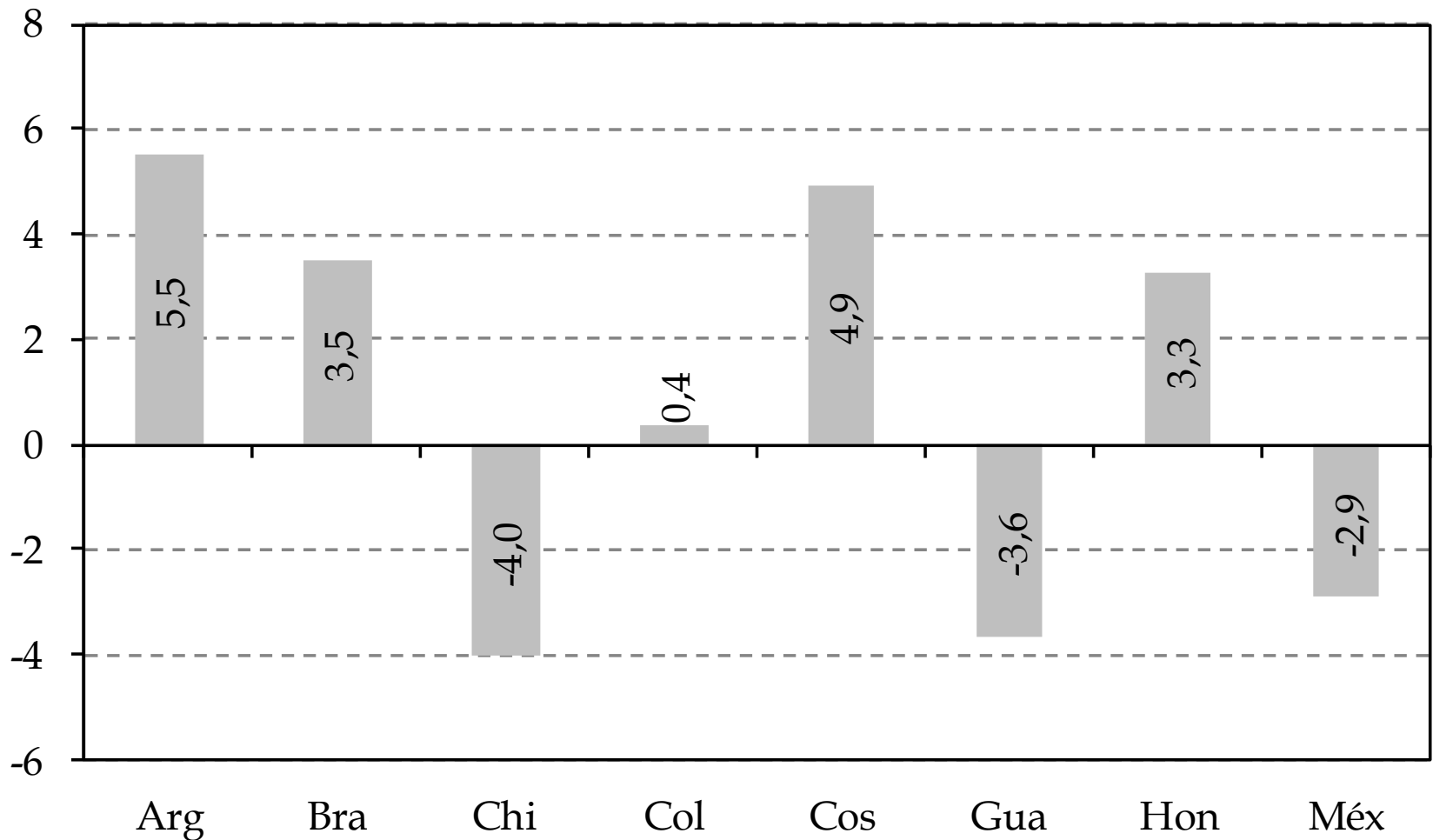
CROSS-COUNTRY ANALYSIS

Shift-share analysis (related to an “average economy”).
Percentage point. Selected countries. 2010.



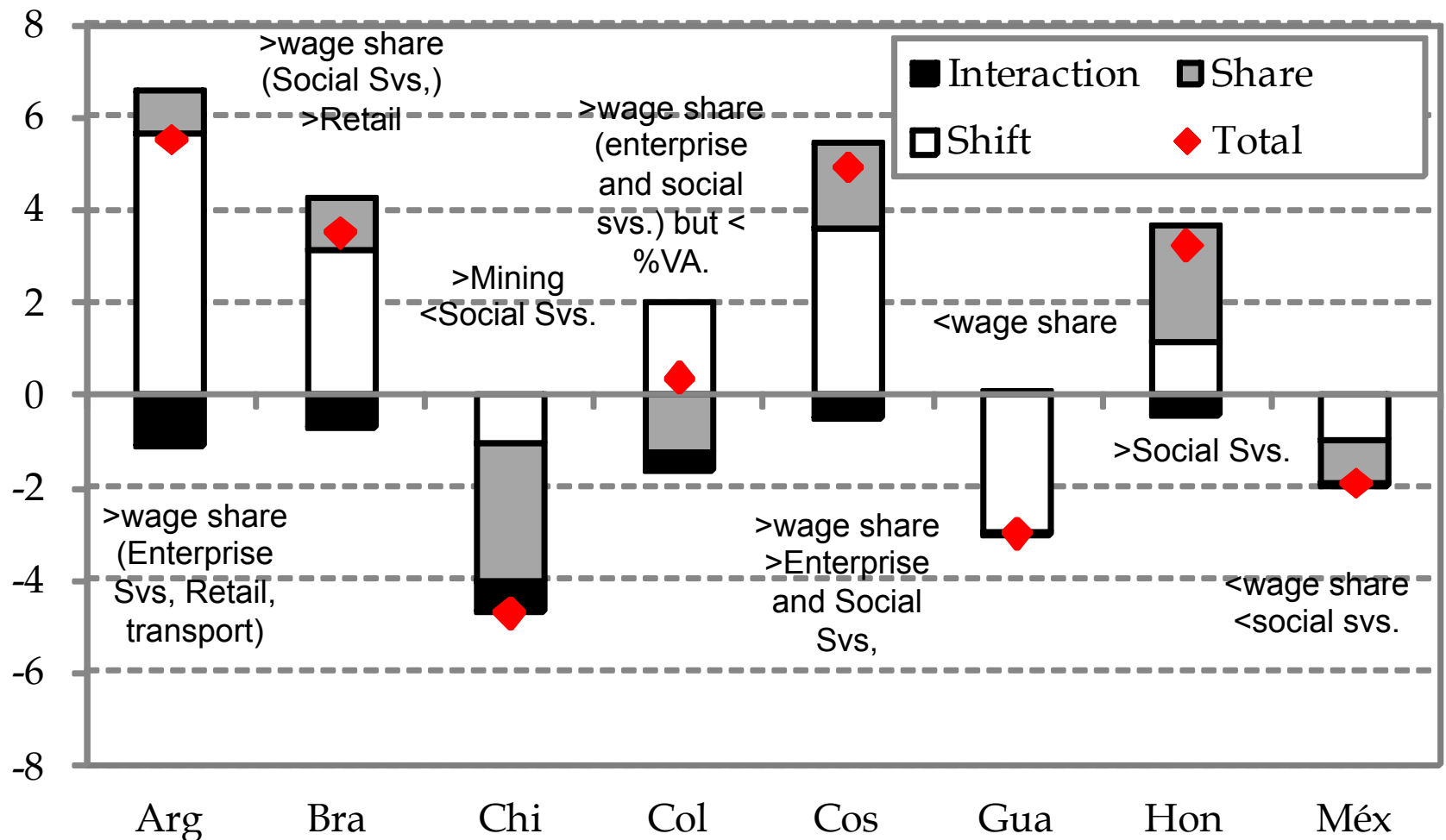
DYNAMICS ANALYSIS

Wage share variation by country.
Percentage point. Selected countries. 2000-2010*.



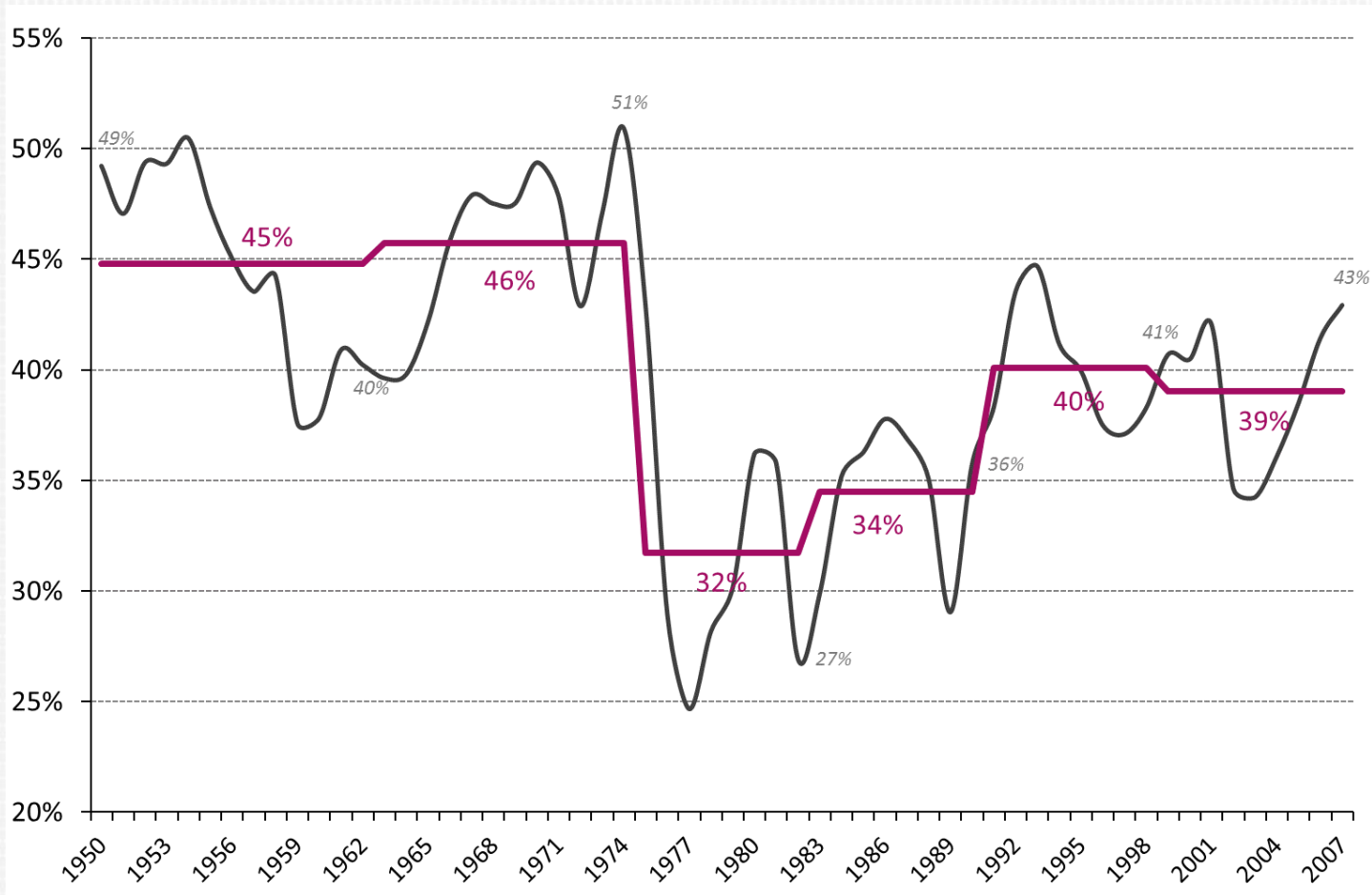
DYNAMICS ANALYSIS

Shift-share decomposition.
 Percentage point. Selected countries. 2000-2010*.



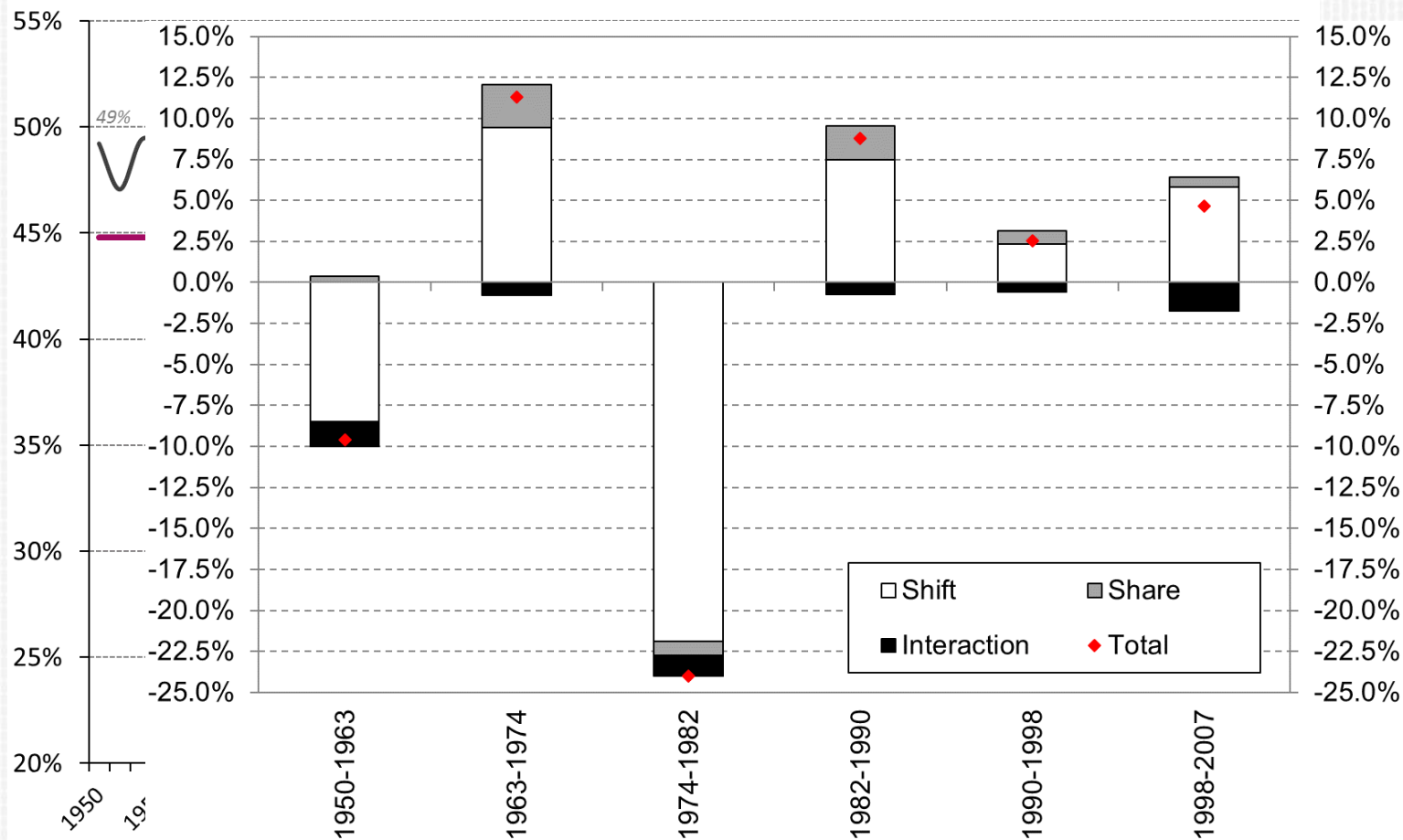
LONG TERM ANALYSIS

Wage Share and shift-share analysis. Argentina. 1950-2007



LONG TERM ANALYSIS

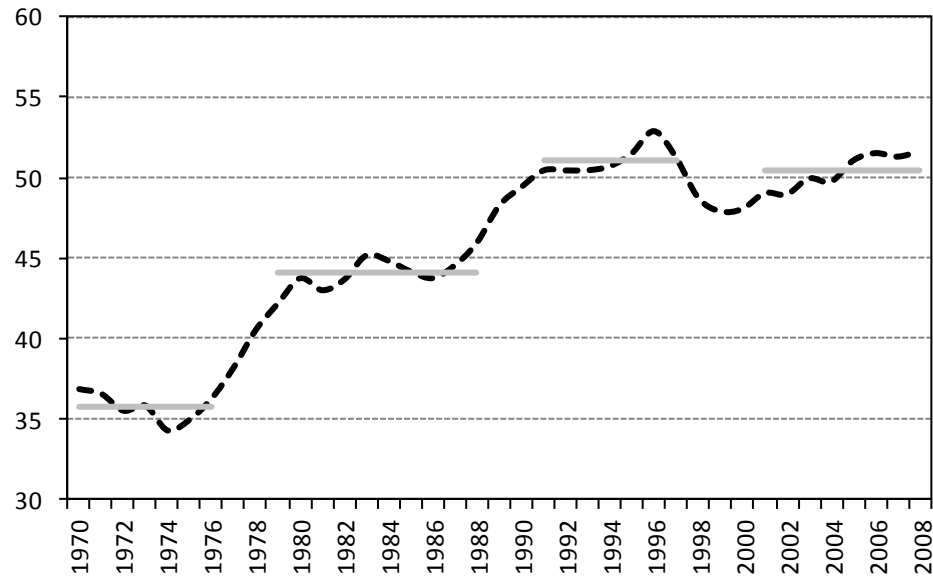
Wage Share and shift-share analysis. Argentina. 1970-2008.



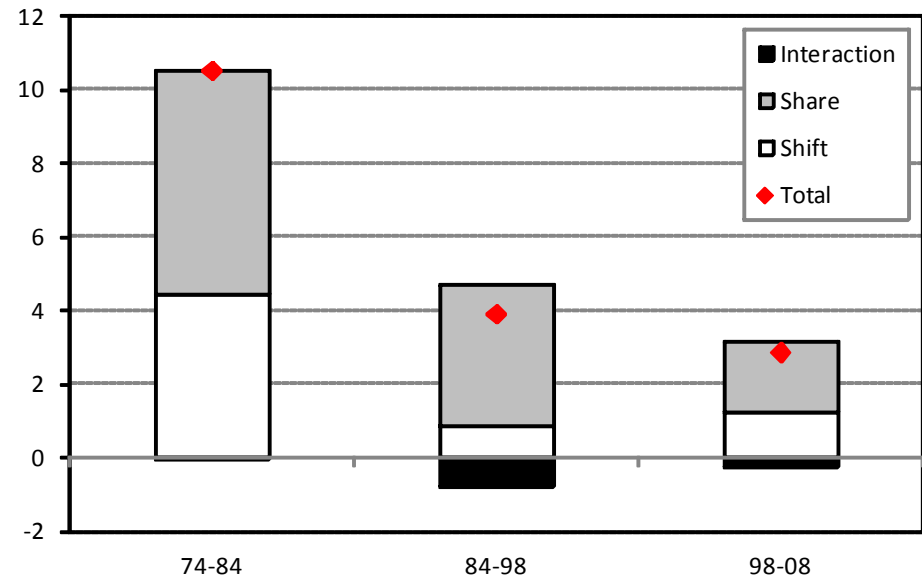
LONG TERM ANALYSIS

Wage Share and shift-share analysis. Korea. 1970-2008.

Wage Share



Shift-share Decomposition



FINAL REMARKS

- × Importance to recover traditional analysis on functional income distribution, but improving sources of information
- × In developing countries we need to include self employment income and to incorporate movements in labor shares within industries into our analysis.

From our analysis

- × Heterogeneity in wage share among countries in LA is associated with differences in labor share by sectors (shift component) . Structural differences in terms of importance of each sector in total value added (share component) are less important.
- × Labor share dynamics has been very heterogeneous among countries analyzed, but also is more associated to changes in labor share than changes in the productive structure
- × Differences in labor share within sector was driven by institutions, technological, labor organization, unionizing power and capital intensity

MUCHAS GRACIAS!
