



The Great Polarization  
Economics, Institutions and Policies in the Age of Inequality

*A conference sponsored by the Department of Economics at the University of Utah*

## **Sectoral dynamics of income distribution in the US economy**

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### Abstract

We explore sectoral effects on the functional distribution of income in the US economy using a Divisia index decomposition over the 1987-2016 period. The wage share is decomposed into contributions from changes in sectoral real wage, sectoral labor productivity, the structure of the economy as measured by employment shares, and the structure of markets as measured by terms-of-trade or relative prices. Preliminary results suggest that, as expected for a mature economy, changes in the aggregate wage share are mainly driven by changes in real wage and labor productivity within sectors. Once these aggregate components are decomposed across sectors a more nuanced story emerges: sectors that have contributed positively tend to have declining or stagnant labor productivity growth; shifts in employment from low wage share but relatively high productivity and high real wage sectors i.e. manufacturing, to high wage share but relatively low productivity and low real wage sectors has had a positive effect on the wage share but potentially a negative effect on productivity and real wage levels; contributions from changes in relative prices stand out for manufacturing, trade and information sectors as their price level has grown more slowly relative to the growth of the general price level leading to a positive contribution to the wage share.