

## WAGE-SHARE CONSTANCY HYPOTHESIS— A REGIONAL EXPERIENCE

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THERE has been much controversy about the theory of constancy in wage-share. To some, this constancy appears just like the velocity of light. Keynes<sup>1</sup> called it a bit of miracle. What is more significant is the fact that although it is interrupted by minor and major shifts, the wage-share stays at the new level as it did before, although some would prefer to call it inertia rather than stability.<sup>2</sup>

According to Solow<sup>3</sup> like most other miracles, this is an optical illusion. He has shown that for one internally consistent definition of relative stability, the wage-share in the United States for the period 1929-1954, has not been relatively stable.

Kravis<sup>4</sup>, after a study of wage-share in the United States, concluded that U.S. data for the past half century showed that the notion of long-run constancy in relative shares is false — at least for the U.S., and during the period covered. According to him, there has actually been a shift in the distribution of national income from property to labor and it is this which has to be explained.

Recently, my friend Mr. Hotson<sup>5</sup> in a study dealing with the constancy of the wage-share in Canadian economy, concludes that the wage cost mark-up in Canada is "practically constant", the mark-up fluctuates so little that it will bear the weight of Weintraub's<sup>6</sup> law of the price level without the "whole structure collapsing in an embarrassing heap of exceptions".

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<sup>1</sup> Keynes, J.M., 'Relative Movements of Real Wages and Output,' *Economic Journal*, Mar. 1939, 49, pp. 34-39.

<sup>2</sup> Phelps-Brown, E.H., 'The Long-Term Movement of Real Wages,' *Theory of Wage Determination*, Edited by J. T. Dunlap, London, Macmillan 1957.

<sup>3</sup> Solow, R.M., 'A Skeptical Note on the Constancy of Relative Shares,' *American Economic Review*, Vol. XLVIII (Sept. 1958), pp. 618-631.

<sup>4</sup> Kravis, I.B., 'Relative Income Shares in Fact and Theory,' *American Economic Review*, Vol. XLIX, (Dec. 1959), pp. 917-949.

<sup>5</sup> Hotson, J., 'The Constancy of the Wage-Share: The Canadian Experience,' *The Review of Economics and Statistics*, Vol. XLV, Feb. 1963; Johnson, D.G., 'The Functional Distribution of Income in the United States, 1850-1952,' *The Review of Economics and Statistics*, Vol. XXXVI (May 1954), 175-182.

<sup>6</sup> Weintraub, S., *A General Theory of the Price Level, Output, Income Distribution and Economic Growth*, (Philadelphia, 1959). *An Approach to the Theory of Income Distribution* (Philadelphia, 1958).