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Endogenous Labor Share Cycles: Theory and Evidence*

Jakub Growiec† Peter McAdam‡ Jakub Mućk†

Abstract

Based on long US time series we document a range of empirical properties of the labor's share of national income. We identify its substantial medium-to-long run, pro-cylical swings and show that most of its variance lies beyond business-cycle frequencies. We explore the extent to which these empirical regularities can be explained by a calibrated micro-founded, nonlinear growth model with normalized CES technology and endogenous labor- and capital augmenting technical change driven by purposeful directed R&D investments. We demonstrate that dynamic macroeconomic trade-offs created by arrivals of both types of new technologies can lead to prolonged swings in the labor share (and other model variables) due to oscillatory convergence to the balanced growth path as well as emergence of limit cycles via Hopf bifurcations. Both predictions are consistent with the empirical evidence.

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