

## **Investigating Labor Share Differences in Europe**

In many developed countries, workers today receive a smaller share of the economic value they help create than they did in the past. This share—called the labor share—represents how much of a company’s output goes to its employees as wages, rather than to owners or shareholders. While this trend has triggered concerns about fairness, inequality, and stagnant wages, the reasons behind it are still debated.

This project explores an important puzzle: Why do some firms pay workers a smaller share of their output? Sometimes it’s because the firm is highly efficient or relies more on machines and technology than on people. But other times it may be because firms have the power to set wages lower than what workers actually contribute—especially if they dominate the local job market or if workers face obstacles to switching employers. These two very different explanations have very different consequences for economic policy.

In this project I will investigate firms over time. Just as people grow and change, so do companies. Using a large European dataset called Orbis, which includes financial and employment records for millions of firms, the project investigates how company behavior changes as firms age and expand. It asks: Do companies start off paying fair wages but become more powerful and less generous as they grow? Or do they rely on machines and technology from the very beginning, keeping labor costs low?

The research tests two key ideas. First, that low labor shares at the firm level are linked to two things: productivity (how much output a firm can produce) and wage-setting power (how much influence a firm has over how much it pays its workers). Second, that wage-setting power increases over the firm’s life cycle—especially among large and mature firms—which could help explain why older firms often pay relatively less to workers.

By combining economic theory with real-world data, the project will produce two research papers. The first will look at how productivity and wage-setting practices relate to labor shares across different firms and industries in Europe. The second will track how these relationships change as firms grow older. Together, the studies will offer new insights into how companies affect wage inequality—not just through technology, but through their ability to influence wages.

This research doesn’t just matter for economists. If it turns out that companies gain wage-setting power as they grow, this could have big implications for policies on minimum wages, union rights, job mobility, and corporate regulation. It also provides a better understanding of why some workers fall behind even when the economy as a whole is growing—and what we might do about it.