

IMF: Routinization Intensity is Biggest Factor in Erosion of Labor's Share of Income

By Don Sutherland

Back on May 22, I noted that a report published by American Student Assistance (ASA) revealed that the following are among employers' most in-demand skills (cited by 70% or more of the surveyed employers):

- Ability to work in a team: 78.0%
- Problem-solving skills: 77.3%
- Communication skills (written): 75.0%
- Strong work ethic: 72.0%
- Communication skills (verbal): 70.5%

All of those are skills that cannot readily be automated. Therefore, potential employees who possess such skills are in high demand. Such demand can potentially provide employees who have such skills with greater career security and improved income growth potential.

A newly published [IMF Working Paper](#) has confirmed that "routinization intensity" or the ability to substitute technology for labor "is the dominant factor underlying the downward trend" in the share of income captured by labor since 2001. The Working Paper stated that routinization intensity explained 44%-57% of the observed decline in labor's share of income within sectors and states in the United States. Offshoring of intermediate products (21%-33%) and competition from imports (16%-21%) were the next largest variables.

Higher education may well be crucial to helping prospective employees pursue occupations and careers with reduced routinization intensity and, therefore, better income prospects. The Working Paper states, "Encouraging systems for continuous retooling and skill upgrading appears an important policy area." The paper then raises a series of questions that would need to be answered prior to policies that promote expanded educational opportunities:

Regarding education, for example, why does the growing skills premia itself not encourage enough people to accumulate more education? Is it the availability of a particular type of education, and hence the need to rethink either secondary or tertiary systems? Or, is it barriers to borrowing to smooth out costs, in which case the focus would be on access and financing...? How much more schooling could the U.S. population absorb and what would be the cost? Is the issue more schooling or better quality schooling?