The Decline of the Labor Share of Income after Banking Crises*

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Abstract

In this paper, I empirically identify that banking crises have a negative effect on the labor share of income by using cross-country data. Then, I construct a theoretical model which can account for this empirical finding. The decline of the labor share of income after banking crises can be explained by the mixture of the following two facts. (i) The effect of banking crises is bigger for small firms than large firms. (ii) Small firms are labor intensive compared to large firms.

Keywords: Banks, Factor Income, Credit Frictions
JEL Classification: E44, E25

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