

Decoupling refers to a situation where **labour productivity increases faster than workers' real wages (labour income)**. In theory, when productivity rises—meaning workers produce more value per hour—their wages should also rise, because firms can afford to pay more.

However, in many OECD countries since the **mid-1990s**, this link has weakened: **productivity keeps growing but workers' average real pay does not increase at the same pace.**

When this happens, the **labour share of income declines**, meaning a **smaller proportion of total economic value goes to workers and a larger share goes to capital (profits, returns to investment).**

Main reasons for decoupling according to the OECD report (2024)

Decoupling happens when **economic output per worker rises but workers' pay does not rise proportionally**, mainly due to **technology, globalization, weaker labour institutions, capital replacing labour, and labour market conditions**. Specifically:

1. Technological change

New technologies often **replace low-skilled labour while increasing demand for high-skilled workers and capital.**

This can **reduce wages for lower-skilled workers**, and the gains for highly skilled workers are not enough to offset this at the aggregate level.

2. Falling price of investment goods

Cheaper machines, computers, and other capital goods encourage firms to **invest more in capital instead of labour.**

If capital can substitute for labour easily, firms may **shift income toward capital**, lowering the labour share.

3. Weak labour market conditions

High unemployment or labour market slack weakens workers' bargaining power. When workers have less negotiating power, **wages grow more slowly than productivity.**

4. Decline of collective bargaining

The **erosion of unions and collective bargaining systems** reduces workers' ability to negotiate wage increases linked to productivity gains.

5. Globalisation and offshoring

Firms can **relocate production or outsource tasks to lower-wage countries**, which puts **downward pressure on wages** in higher-income economies.

6. Changes in labour market and product market institutions

Policies, regulations, and labour market structures can affect **how productivity gains are distributed between wages and profits.**

7. Structural changes in the economy

Shifts in **industry composition** (for example, growth of sectors with lower labour shares) can also reduce the overall labour share.