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Labor union decline, not computerization, main cause of rising corporate profits

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A new study suggests that the decline of labor unions, partly as an outcome of computerization, is the main reason why U.S. corporate profits have surged as a share of national income while workers' wages and other compensation have declined.

The study, "The Capitalist Machine: Computerization, Workers' Power, and the Decline in Labor's Share within U.S. Industries," which appears in the June issue of the *American Sociological Review*, explores an important dimension of economic inequality that has been largely overlooked in research and the national discourse.

"Most of the research on growing economic inequality focuses on rising earnings inequality among workers, including the growing income share of the top 1 or 10 percent," said study author Tali Kristal, an assistant professor of sociology at the University of Haifa in Israel. "But this is only part of the overall picture on rising economic inequality, or as Nobel Prize-winning economist and New York Times columnist Paul Krugman writes, this 'may be yesterday's story.' The other part is the distribution of national income, the total economic pie, between workers' compensation ('labor's share') and corporate profits. It's a zero sum game: whatever is not going to the workers goes to the corporations."

Kristal found that from 1979 through 2007, labor's share of national income in the U.S. private sector decreased by six percentage points. This means that if labor's share had stayed at its 1979 level (about 64 percent of national income), the 120 million American workers employed in the private sector in 2007 would have received as a group an additional $600 billion, or an average of more than $5,000 per worker, Kristal said.

"However, this huge amount of money did not go to the workers," Kristal said. "Instead, it went to corporate profits, mostly benefiting very wealthy individuals."

The question is: why did this happen?

"Some economists contend that computerization is the primary cause and that it has increased the productivity of machines and skilled workers, prompting firms to reduce their overall demand for labor, which resulted in the rise of corporate profits at the expense of workers' compensation," Kristal said. "But, if that were the case, and computerization was the principal cause for the decline in labor's share of national income, then labor's share should have declined in all economic sectors, reflecting the fact that computerization has occurred across the board in the past 30 to 40 years."

This is not the case, however, as Kristal showed in her study, in which she considered data on 43 non-agricultural private industries and 451 manufacturing industries from 1969 through 2007.

"It was highly unionized industries—construction, manufacturing, and transportation—that saw a large decline in labor's share of income," Kristal said. "By contrast, in the lightly unionized industries of trade, finance, and services, workers' share stayed relatively constant or even increased. So, what we have is a large decrease in labor's share of income and a significant increase in capitalists' share in industries where unionization declined, and hardly any change in industries where unions never had much of a presence. This suggests that waning unionization, which led to the erosion of rank-and file workers' bargaining power, was the main force behind the decline in labor's share of national income."

In addition to the erosion of labor unions, Kristal found that rising unemployment as well as increasing imports from less-developed countries contributed to the decline in labor's share.

"All of these factors placed U.S. workers in a disadvantageous bargaining position versus their employers," said Kristal, who also demonstrated that while employers gained most of the benefits from computerization, much of computer technology's effect on the decline in labor's share of national income was indirect, and channeled through its role in reducing unionization. The direct effect of computerization on the decline in labor's share was relatively modest, Kristal said.

"In short, my study shows that capitalists have rarely had it as good as they did from 1979 through 2007," said Kristal. "The empirical analysis of this study ends at 2007, but updated data reveal that although the great economic recession reduced corporate profits as a share of national income, it was only a short-run effect (of about 2 years) and the golden age of corporate profits has continued well into 2010 and beyond."

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