How the Decline of American Unions Has Boosted Corporate Profits and Reduced Worker Compensation

Tali Kristal, University of Haifa

Most research on rising economic inequality focuses on growing wage gaps between different groups of workers. But of course that is only part of the story. Just as important is the division of the national economic pie between profits going to capitalists and the "labor share" that includes all of the wages and benefits earned by workers. It's a zero-sum game: the portion of the total national income that is not going to the workers goes to profits for capitalists.

In recent times, U.S. corporate profits have been going up at the expense of workers' wages and fringe benefits. From 1979 through 2007, labor's share of national income in the U.S. private sector decreased by six percentage points. What does that mean? Back in 1979, American workers claimed about 64% of national income, and if labor's share had stayed at this level, the 120 million American workers employed in the private sector in 2007 would have received as a group an additional $600 billion in compensation. That is more than $5,000 extra per worker!

Where did that huge amount of money go instead of into workers' wallets? It went to corporate profits, mostly benefiting very wealthy individuals. And things did not change with the recent economic recession. Although the big economic downturn of 2009 reduced corporate profits as a share of national income, the effect was short-lived. Since 2010, the golden age of swelling corporate profits has resumed.

Why Has Labor's Share of the U.S. Economic Pie Gotten Smaller?

Scholars debate the factors that may have spurred rising corporate profits at the expense of workers' compensation. Some argue that market forces have been primarily responsible. Pointing to technological changes, they maintain that the widespread introduction of computers into firms left workers less productive than machines and other equipment, which in turn prompted firms to reduce their hiring of additional workers or to curb wages and fringe benefits for their employees. On the other side of the argument are analysts who stress the role of political forces – especially the weakening of labor unions, which has left workers with less collective power to fight for their own interests.

Until now, there has been no statistical analysis that directly compares these approaches to explain labor's falling economic fortunes. My research does this, with two innovative moves:

- First, I use **decades-long data to track changes in many U.S. industries.** This enables me to probe in unprecedented detail how the adoption of computer technologies and the decline of unions affected labor's income share in each industry as well as across industries.

- Second, I do more than weigh the relative importance of major causes of rising inequality. I also look at how computerization and union decline affect one another. **Has computerization reduced labor's share indirectly by exacerbating union decline?**

What Industrial Trends Tell Us

When I compared the trends in labor's share in various U.S. industries, I found that total trends in the entire national economy masked diverse trends in various industrial sectors. The largest declines in the share of income going to labor compensation happened in industries where unions were once powerful – sectors such as manufacturing, transportation, and (to a lesser extent) construction. In other industries that never had much of a union presence – for example, in the sector that includes finance, insurance, and real estate, as well as in trade and private services – the share of economic gains going to workers either slightly increased or remained steady.

In other words, we see a large decline in labor's compensation and a hefty increase in corporate profits only in

sectors that used to have high rates of union membership. As my detailed statistical analysis shows, this suggests that falling rates of unionization – which led to disempowerment of workers when bargaining with employers – were the main factor allowing capitalists in those sectors to grab the lion's share of the fruits of economic growth.

Computerization and Union Decline

My finding about the contribution of computerization is also quite striking: computer technologies have been adopted in all industries in the past thirty to forty years. But **only in industries where unions significantly declined did investment in computer technology boost corporate profits and shrink workers' compensation.** In short, technological innovation is not, in and of itself, the cause of shrinking worker compensation. Much of the negative impact on wages and benefits happens when innovation accompanies or spurs union decline.

Researchers still have a lot to learn about how computerization has influenced the decline of unions. One obvious possibility is that various kinds of factory automation have rendered some unionized manufacturing jobs obsolete. It is also possible that, at times, computer technologies are introduced into workplaces in ways that undercut worker solidarity and thus make unionization harder to attain or sustain. Whatever the exact mechanisms may be, my research shows that computerization has accompanied and contributed to the erosion of the leverage workers once enjoyed via the "countervailing power" of labor unions. Unions gave workers the ability to raise wages and benefits and improve working standards for members and non-members alike. But such collective power for American workers is now very much on the wane.

Since the late 1970s, technological changes and the decline of labor unions have, in combination with each other and with other factors, helped to reduce the share of the national economic pie claimed by U.S. workers – and my research pins down that the decline of labor unions has been the main factor at work. Union decline has not only increased wage disparities among workers; it has also allowed U.S. capitalists to grab a growing slice of economic gains at the expense of all of their employees. Employers were able to do this, not because of the inexorable impact of abstract market forces or impersonal technologies, but because they have been able to deploy new technologies in ways that spurred the decline of unions and reduced the collective capacity of workers to sustain or boost their wages and benefits.

Read more in Tali Kristal, "The Capitalist Machine: Computerization, Workers' Power, and the Decline in Labor's Share with U.S. Industries." *American Sociological Review* 78, no. 3 (2013): 361-389.