Suppression of wages in US at centre of widening social inequality

By Nick Beams
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A new book by Lance Taylor, professor emeritus of economics at the New School for Social Research in New York, details the suppression of wages in the US, which has been one of the key driving forces of the growth of social inequality over the past five decades.

An outline of the conclusions of the research, conducted with the assistance of Özlem Ömer, presented in the book *Macroeconomic Inequality from Reagan to Trump*, together with an interview with Taylor, has been published on the website New Economic Thinking.

The researchers concluded that the growth of inequality could not be put down simply to the expansion of big tech companies or the operation of market forces alone, but arose from profound changes in class relations.

"For the most part," Taylor told New Economic Thinking interviewer Lynn Parramore, "American workers have been working more productively, but they haven't been getting paid for it due to forces that aren't natural and inevitable. Wage repression just doesn't happen.

"It is apparent that something other than the market is at work here—like power relations, ideology about unemployment levels, and many innovations in business strategy such as subcontracting. These are all feeding on and reinforcing processes with national political institutions that are more and more reflective only of business interests and concerns."

The research found that across business cycles, the share of profits in national income began to increase after 1970 at the rate of 0.4 percent per year. As Taylor noted: "Four-tenths of a percent growth does not look very impressive, but it increased the profit share by a factor of 1.2 or eight percentage points over 50 years."

While Taylor does not make the point, the reduction in the labour share of national income by 8 percentage points means that, with gross domestic product in the US now at over $20 trillion, workers would be receiving some $1.12 trillion more in income had the previous distribution between wages and profits applied.

Taylor points to a significant structural change in the US economy. The traditional pattern of development in so-called economic "success stories" has involved the movement of labour from low productivity areas to higher wages areas, with sustained productivity growth.

But in the US, the "striking feature over at least the past quarter-century is that this development pattern has been run in reverse. On the whole, labour moved from the high productivity sector toward low-end jobs. Meanwhile, profits rose in response to productivity growth in manufacturing, information and a few other sectors."

This means that a "dual" economic structure has emerged. Jobs have been destroyed in manufacturing and other areas where higher wages were combined with rising profits and productivity.

More and more labour has shifted to low-end occupations. Between 1990 and 2016, one-seventh of total employment moved into education and health, business services, food and accommodation and other low-paying sectors.

The result of this "dual" economy—job destruction in the previously higher wage areas coupled with increased employment in lower wage sectors—is that "business models adjusted to take advantage of ever growing masses of workers with no prospects for good jobs."

The most commonly used measure of inequality is the Gini coefficient. But according to Taylor, it is not sensitive to changes in the extremes. He says the Palma

Ratio, which shows the relations between the top 1 percent, the bottom 60 percent and a middle class in between is more revealing. It shows that beginning in the middle 1980s, the changes in these ratios were of the order of 3 percent per year, which he describes as "an astonishingly high number for any macroeconomic ratio over such a long period."

The increase in the profit share of the national economy is being channelled to the upper echelons of society, whose members own financial assets. They are benefiting both from wage suppression and the low interest rate regime of the Fed, which provides the wealthy with an extra boost because of the inflation of asset prices.

"Through various channels, including capital gains, more than 100 percent of business profits are being transferred to households predominantly in the top 1 percent," Taylor writes.

At present, they hold about 40 percent of total wealth. But Taylor says that according his simulation model, "their wealth share might tend in the long run toward 60–70 percent—that's far higher than it was even during the Gilded Age."

Like virtually all economists who provide valuable information on the ever greater rise of inequality, Taylor's political perspective is one of social reform. But as is the case with all such projects, he runs up against the hard facts of the capitalist economy.

As he explains in the interview: "I've experimented with mathematical models of the economy in which I test out the effects of various policies that might help reduce inequality. The results are pretty sobering: even if the government enacted fairly aggressive policies to put money in people's pocket, it would probably take decades to get things back to what we had in the US in the 1970s."

He maintains that the rise of social inequality is not simply the result of the growth of monopoly in one or two sectors of the economy, or the rise of big tech. "If labour mostly loses while rising profits are directed toward the top of the size distribution, the process has to be supported by institutions and financial policy pandering to the upper classes."

That is certainly true, but the analysis does not go nearly far enough. The political economy of the present situation cannot be grasped outside an examination of the role of the Democratic Party and the trade unions.

The upward redistribution of income has taken place undisturbed across Republican and Democratic administrations. In fact, the Clinton administration played the central role in removing what remained of the regulations imposed on finance capital during the 1930s, while the Obama administration provided hundreds of billions to the banks and corporations in response to the financial crisis of 2008.

Moreover, in collaboration with the trade unions, Obama carried out a further restructuring of US industry leading to two-tier wage systems and the expansion of part-time and casual working.

Taylor notes that employers use divide-and-rule tactics to fissure the labour market and pit "regular full-time employees against contractors or gig economy workers." But such methods did not emerge out of a clear blue sky.

They have been made possible only because of the transformation of the trade unions from the 1980s onwards into mechanisms for the enforcement of the dictates of the employers, often, as in the case of the auto industry, developing the very methods now widely used by employers across the board.

Taylor concludes his interview by posing the question, what can be done? "Confronting the power requires bolder thinking than what you hear generally discussed in the political arena," he says.

Such thinking, however, must go far beyond the limited, and, as his own "modelling" confirms, completely ineffective tax measures he advocates. The "outsized power of US capital" can be confronted and defeated only by a greater social force—that is, the development of a socialist political movement of the working class consciously directed to its overthrow.

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