Income Distribution, Bargaining Power, and Structural Change in Developed Economies

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Introduction

Unemployment rates have risen in wealthy economies over the past few decades, and the working poor now constitute a large portion of the working class (Katz and Krueger 2019). The increase in social vulnerability was accompanied by a decoupling of wage growth and labor productivity, causing a fall in the labor share of income and greater inequality among wage earners (ILO 2019).

These trends sparked two major political developments over the course of the 2010s: growing political support for nationalist right-wing parties among unemployed and underemployed workers, and an explosion of social riots. These violent protests are a form of "collective bargaining by riots", as Eric Hobsbawm (1952) referred to the predominant form of class conflict of the 17th and 18th centuries in Europe. As unemployment and declining union membership reduce the importance of strikes and collective bargaining, riots re-emerge as an important form of class struggle in developed countries. COVID-19 halted this trend temporarily, but mass protests have resurfaced, and the deep recession following the onset of the pandemic exacerbated problems related to inequality and job insecurity.

Using classical political economy and insights from the labor power resources approach (Schmalz et. al. 2018), we argue these trends are primarily a result of the decline in workers' bargaining power that has taken place in recent decades. The paper is divided into five sections, in addition to this introduction. The first discusses a few central aspects of workers' power during the postwar "golden age" between 1950 and 1975. The second reviews some of the major political, macroeconomic, and institutional changes taking place in wealthy countries after 1980. The third and fourth sections analyze the impact of technical progress and globalization on workers' bargaining power. The final section concludes the paper.

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Unions and Labor Markets in the Golden Age

The achievements of the working class in the US and Europe after 1930 were considerable and rested on three main factors: the growth of a conscious labor movement, the fear of socialism, and high employment levels (Hobsbawm 2011). In all developed countries, big business accepted the compromise imposed on it by organized labor and a broader social and geopolitical context favoring job security and low unemployment (Cavalieri et. al. 2004).

High output growth, combined with technological advances in scale-intensive industries, increased demand for the skilled manual laborers forming "the core of the trade union movement in the industrialized capitalist countries" (Frey and Osborne 2013, p. 11). Labor unions came to be recognized as "legitimate forces" in wage negotiations as well as national politics, "influencing the development of social policies in the state" (Cox 1987, p. 358).

The violent labor conflicts arising in the mass production industries of the late 19th and early 20th centuries fostered the rise of "segmented" labor markets differentiated by skills, race, nationality and other attributes (Reich, Gordon, and Edwards 1973). This reflected a business strategy of divide and conquer, and it generated inequalities between those employed in "primary" labor markets, offering higher wages and more job stability, and low-wage workers stuck in "secondary" markets. Unions counteracted this tendency by pushing for standardized wage rates and the creation of broad occupational categories—grouping workers of different skill levels in the same category—used for setting wages and assigning work (Freeman 1980). These union policies enhanced workforce cohesion and reduced the discretionary power of supervisors and foreman, permitting relatively skilled laborers to transmit their greater bargaining power to less skilled workers (Rubery and Piasna 2016).

High unionization rates dissuaded employers from violating labor laws and regulations, and put pressure on non-unionized firms to match the policies and wage levels of unionized ones. The end result was a higher labor share of income and lower wage dispersion between skilled and unskilled workers (Freeman 1980). Unionization also reduced wage dispersion along racial and ethnic lines. In the US, unionization of Black workers increased rapidly in the 1960s, and wage differences between Black and

white workers fell sharply in subsequent years. Deunionization after 1980 helped put an abrupt end to these trends.

Business Strategy and Structural Change after 1980

Labor's institutional power came under attack in the 1970s[3]. In the US, firms began relocating headquarters and factories abroad as well as to the Southern states, where segregation, "right-to-work" clauses and other labor law exemptions had maintained unionization rates very low. Employers, previously reluctant to appear anti-union, began exploiting weaknesses in labor legislation to combat union drives and threaten organizers with reprisals and plant closures. These developments, restricted at first to the US and the UK, influenced business strategy in other wealthy countries.

The offensive against organized labor was accompanied by declining workforce cohesion, driven in part by tension between unionized and non-union segments of the workforce amidst rising prices and unemployment (Crouch 2017). Increased capital mobility widened the economic and ideological gulf between workers unaffected by greater imports and capital outflows and those losing their jobs as a result of these developments.

Rising income inequality and a slowdown in public consumption and investment spending across the OECD reduced aggregate demand growth (Paternesi Meloni and Stirati 2020). As a result, though labor productivity growth slowed down considerably after 1970, GDP growth has fallen even more, weakening the demand for labor. At the same time, labor productivity growth in manufacturing, though well below pre-1970 levels, has outpaced labor productivity in services. This combination of low output growth with more rapid manufacturing productivity relative to services has contributed to two well-known trends in the OECD: an increase in average unemployment rates, and a sharp decline in the manufacturing share of employment (Benanav 2020, p. 48-62).

Underestimation of the role of the growth slowdown in these trends has led many authors to overestimate the effects of technology and automation (Brynjolfsson and McAfee 2011). Decades ago, Andre Gorz (1982) claimed the working class in wealthy countries was undergoing a process of extinction due to automation. More recently, Guy

[3] By this time, business's fear of socialism had subsided. The decline of socialism's prestige within the European left, a turning point for the triumph of neoliberalism, intensified with the disappearance of the Soviet Union.

Standing (2011) argued digitalization and the proliferation of information and communications technologies (ICT) has led to a decline in wage employment, rendering minimum wage laws and other Fordist-era labor regulations irrelevant.

Gorz's predictions turned out to be grossly inaccurate, and the share of wage employment in total employment in the OECD has not fallen since 1980, let alone disappeared (Benanav 2020, p. 65-6). What has disappeared, in relative terms, is the kind of regular, full-time employment typical of the postwar era.

Weak labor demand, rather than technical progress itself, is the key factor behind the rise in average unemployment rates and other measures of labor market slack[4]. Greater labor market slack, in turn, strengthened the bargaining position of employers and helped sever the postwar link between wage growth and the growth of labor productivity (Paternesi Meloni and Stirati 2020).

The post-1980 redistribution of income toward capital and salaried executives, however, would not have been possible without the political offensive against organized labor. Output growth declined throughout the OECD after 1975, but rising inequality was initially restricted to the US and the UK, where changing social norms regarding work and labor compensation first took effect.

In other wealthy countries, wage dispersion increased only in the 1990s and 2000s after labor market reforms stimulated expansion of various forms of non-standard employment. Important examples were the Biagi laws in Italy in 2003 and the Hartz IV reforms in Germany in 2004. Despite substantial cross-country variation, the general trend has been one of "institutional convergence" towards neoliberalism (Baccaro and Howell 2011, p. 523).

Rising wage and income inequality is closely correlated with declines in union membership in the OECD (Pontusson 2013). The US and the UK, where union decline after 1980 was particularly sharp, saw the largest increases in income inequality (OECD 2015). Though unionization rates fell throughout continental Europe, the share of workers covered by collective bargaining agreements in this region has not fallen significantly, and remains above 90% in France and Austria, two countries where income inequality

[4] Such as employment growth and the average duration of unemployment for out-of-work laborers.

increased mildly since 1980 (Schmitt and Mitukiewicz 2011). Similar observations apply to Sweden, Denmark, Norway, and Finland.

This suggests that although globalization and technical progress have changed labor markets, they are not incompatible with unions and collective bargaining rights. Furthermore, though globalization and technical change have contributed to declining manufacturing employment shares in the OECD, this decline was not the main cause of the overall fall in unionization rates. Like manufacturing workers, a relatively large percentage of American workers in construction, utilities, transportation, communications and other services were unionized in 1970. Huge declines in union membership took place in these sectors after 1980, none of which were as susceptible to imports and offshoring as manufacturing (Mishel et. al. 2020).

Nevertheless, technical progress and increased cross-border trade and investment played important roles in the erosion of workers' bargaining power in wealthy countries. We turn to a brief analysis of these two processes.

Technological Progress: Polarization and Skilled Labor

Neoclassical economists have long argued rising inequalities are a consequence of the "skills-bias" of modern technology. Wage inequality, from this perspective, is a kind of unintended consequence of modern science and industrial progress, which has increased the relative productivity of highly skilled workers. A more recent version of this theory argues computers and automation have increased relative demand for both the highly skilled (professional, technical, and managerial) as well as low-wage service laborers, causing "job polarization" and greater wage dispersion as blue-collar professions disappear (Acemoglu and Autor 2012).

This approach does not provide a plausible explanation for several well-known post-1980 trends, such as the explosive wage growth for those in the top 1% and 0.1% of the wage distribution. Several important categories, furthermore, such as truck drivers in the United States, experienced major declines in wages and job stability already in the early 1980s, with virtually no change in the nature of their work or the relative demand for their skills.

The occupational trends highlighted by mainstream authors, furthermore, are not unique to the post-1980 era. Structural change in the early postwar years also eliminated many well-paid manual occupations in aircraft and automobile factories, machine shops,

and other industries. Between 1947 and 1966, the heart of the postwar golden age, the employment share of blue-collar workers in the United States, employed mainly in manufacturing, construction, mining, and transportation, fell relative to the occupational shares of both service workers and technical, professional, and managerial employees (BLS 1968). Yet real wage growth accompanied labor productivity growth throughout this period.

What sets the neoliberal era apart from earlier periods is not "job polarization" itself—defined as the more rapid growth of technical, managerial, and service occupations relative to conventionally-defined "blue-collar" professions—but the greater ability of managers and shareholders in this era to use technical progress in ways that segment the workforce, lower skill requirements, and keep labor costs down.

Analyzing the early postwar period, Harry Braverman (1974) emphasized that control over the workforce is a key variable in the capitalist division of labor. Managers, from plantation overseers to modern CEOs, tend to use new technologies in ways that strip knowledge and decision-making power away from production workers, facilitating the concentration of power—and profits—within management. Modern robotics and digital technologies have been deployed with just such an understanding in mind.

The giant factories of 19th and 20th century mass production systems generated scale economies and permitted great control over workers and production, but they were also the cradle of militant labor activism. Improved information and communications technologies allowed corporations to maintain this hierarchical control without having to manage hundreds or thousands of workers under one roof. This has made it easier to divide the workforce into well-paid employees and low-wage workers with few rights or legal connection to their employers. The impact of this segmentation on working class ideology and cohesion was a major triumph for capital in the neoliberal era.

Digital technologies have facilitated labor market "fissuring": firms hire employees as independent contractors, subcontract them through cheap intermediaries, or engage in franchising, licensing trademarks and products to independent parties while centralizing control over production through integrated digital platforms. These arrangements create a barrier between workers and their *de facto* employers, allowing core firms with great market power to avoid sharing rents with workers. Labor rents, Stansbury and Summers

(2020) argue, were an important feature of functional income distribution in the postwar era that has largely disappeared.

Where employees are directly employed by core firms, such as in Amazon warehouses, robots and computer software are used to restrict bathroom breaks and reward or fire workers based on criteria of productivity and obedience. Automation and digital technologies are used to control workers' movements and decision-making ability, enabling firms to reduce skill requirements and wages, even for highly-skilled workers such as airline pilots. Stockholders and executives get huge payoffs and generous salaries, while workers with little bargaining power are monitored and controlled at a distance. This is what modern polarization looks like.

Globalization: employment and wage effects

Offshoring and trade liberalization have had a significant impact on wages and the composition of employment in the OECD (Felipe, Mehta, and Rhee 2014). China's rise as a manufacturing powerhouse reconfigured supply networks and exerting downward pressure on wages as Chinese labor costs became a benchmark for unskilled tradable activities. Between 2000 and 2015, the decline in the labor share of income in US manufacturing was twice as sharp as the overall decline (Charles et. al. 2018).

Reductions in the manufacturing share of employment accelerated sharply after Chinese accession to the WTO. In the US, manufacturing job loss attributable to globalization was the result of increased imports, offshore investment, and firms exiting the manufacturing sector to specialize in research, design, business services, and other non-manufacturing activities (Bloom et. al. 2019). Job loss due to imports and offshoring took place mostly in poorer regions of the US, where unemployment rates increased and labor force participation decreased.

In wealthier regions, mainly coastal cities and metropolitan areas, job creation more than compensated for manufacturing job loss (Bloom, et. al., 2019). Bloom et. al. (2016) reach similar conclusions with regard to twelve European countries. Since most people in wealthy countries live in and around large cities, this might suggest that globalization, on average, made people better off. This conclusion needs qualification. We focus on the US.

First, wage and income inequality grew in all regions of the country since 2000, but most of all in metropolitan areas (Holmes and Berube 2016). Thus, even where globalization led to net job gains, most workers in these areas experienced the same decoupling of wages from productivity witnessed in the country as a whole. Second, workers in poorer regions where plant closures took place were not temporary victims of economic restructuring. Their livelihoods and communities were permanently destroyed. Charles et. al. (2018) point to the close correlation, on a local level, between manufacturing job loss and suicides and deaths by overdose, a concern echoed by Case and Deaton (2017), who blame underemployment and weak wage growth for deteriorating social and health conditions in the 2010s[5].

There is no necessary correlation, however, between economic restructuring and deterioration of the social fabric. Continental Western Europe was also exposed to globalization, as well as technology-induced structural change, yet the social impact of these developments was much milder than in the US and the UK. The difference lies in the greater bargaining power of the former region's working class, attributable, in large part, to greater union coverage and collective bargaining rights (Stansbury and Summers 2020, p. 4).

Conclusion

This paper has discussed connections between structural change and income distribution in developed countries, focusing on the declining bargaining power of the working class. The main factors bolstering the political power of workers during the postwar golden age have disappeared. Political and institutional reforms, combined with low output growth and the diffusion of new technologies, have broken the union power of blue-collar workers. Segmented labor markets emerged in mass production industries as a business strategy to divide and conquer the workforce, but unions combatted this through their efforts to democratize the workplace and spread wage gains broadly among workers of various skill categories. Labor market deregulation and the decline in union power has isolated well-paid jobs from low-paid jobs and weakened the transmission mechanisms pushing up median wages.

[5] Life expectancy, it is worth recalling, declined in the US in all three years between 2015 and 2017, largely due to an increase in what have become known as "deaths of despair".

Despite strong national differentiation that still distinguish countries such as Norway and Austria from ones where market forces are less regulated, structural changes took place across the OECD that reduced working-class identity and bargaining power. Contractionary economic policies and institutional changes favoring labor flexibility and exclusive pay-systems have taken place in a context of growing automation in manufacturing and services. These changes brought about a huge contraction of blue-collar labor in manufacturing, and a surge in temporary and non-standard employment. The subsequent erosion of labor power resources has directly contributed to the fall in the labor share and growing wage inequality in OECD countries.

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