VoxEU: Declining worker power versus rising monopoly power: Explaining recent macro trends

Since the early 80s, the labour share has been declining in the US while measures of corporate valuations and markups have increased. This article argues that the decline in worker power is a more compelling explanation for recent macro trends than a broad-based rise in monopoly power in the US economy, **writes Anna Stansbury, Lawrence H. Summers for VoxEU**

The labour share has been falling in the US since the early 80s

Since the early 1980s, the US has seen a falling labour share and slow wage growth for typical workers. Measures of corporate valuations like Tobin's Q have risen, and measured markups have increased. And – until the current crisis – unemployment had fallen to record lows, even as inflation stayed low, suggesting a decline in the non-accelerating inflation rate of unemployment (NAIRU).

Globalisation or technological change have often been posited as causes for the falling labour share (e.g. Elsby et al. 2013, Karabarbounis and Neiman 2014, Abdih and Danninger 2017, Autor et al. 2020). But the decline in the labour share has been much more pronounced in the US than in other industrialised economies which are arguably similarly exposed to globalisation and technological change (Gutiérrez and Piton 2019). And the increases in corporate valuations and markups – as well as rising profit rates, even as the safe interest rate declines – appear to suggest that rents to capital have increased. This makes the recent evolution of the US economy difficult to explain in a perfectly competitive framework (particularly since one might have expected globalisation to have led to increased competition for US firms, and reduced profitability). These observations have rightly led many researchers to focus on country-specific, non-competitive explanations for these phenomena.

More recently, therefore, a number of papers have argued that increasing monopoly or monopsony power can explain trends in the labour share, corporate valuations, profitability, and markups (e.g. Barkai 2017, De Loecker et al. 2020, Eggertsson et al. 2019, Farhi and Gourio 2018, Gutiérrez and Philippon 2017, Philippon 2020). But while these factors have no doubt played some role, a different factor provides a more compelling explanation: the broad-based decline in worker power in the US economy.

In our recent paper, we argue that the decline in worker power – as private sector unionisation and union power fell, the real value of the minimum wage declined, shareholder activism increased, and 'ruthless' management tactics became widespread – redistributed income from workers to capital owners, leading to a fall in the labour share, rising corporate valuations and measured markups, and a decline in the NAIRU (Stansbury and Summers 2020).

A key quote from the article:

Was the decline in worker power big enough to explain these trends in practice? We attempt to quantify the decline in labour rents over 1982-2016, using estimates of the wage premia earned by unionised workers, workers at large firms, and workers in highly paid industries. On our metric, labour rents have declined substantially: from 12% of net value added in the U.S. nonfinancial corporate sector in the early 1980s to 6% in the 2010s (Figure 1). This decline in labour rents is big enough to explain the entire decline in the labour share in the nonfinancial corporate sector (Figure 2).2,3 And this in turn can explain much of the increase in corporate valuations: Greenwald et al. (2020) find that 43% of the increase in equity values over 1989-2017 can be explained by a reallocation of rewards from workers to shareholders as the labour share declined. Industry-level evidence also supports the declining worker power hypothesis. Industries with bigger declines in labour rents saw bigger declines in their labour share and bigger increases in Q and corporate profitability. In horserace regressions, declining labour rents have substantially more explanatory power than rising product market concentration. And, much of the decline in the U.S. labour share occurred in manufacturing, which (given increasing globalization) is not an industry where a large rise in monopoly power seems likely to have occurred.

Figure 1 - The decline in labour rents, US nonfinancial corporate sector, 1982-2016

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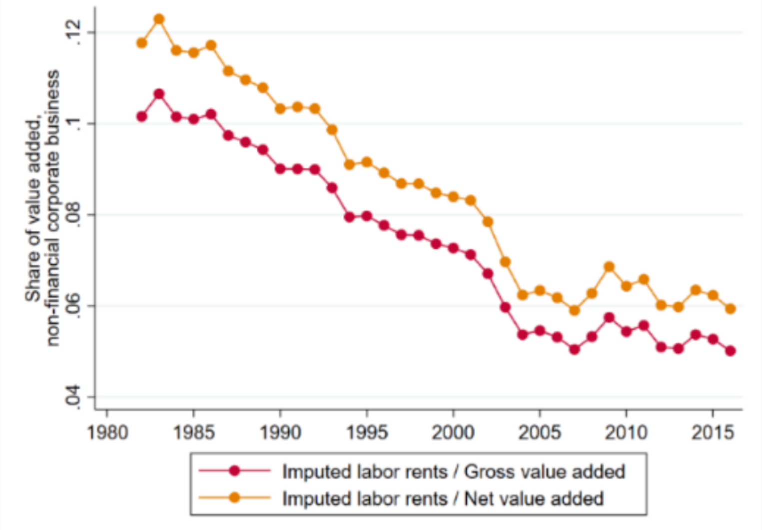

Source: Source: Stansbury A., Summers L. (2020)

The full original article first appeared on VoxEU here on 02 June 2020.