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Wage Labour

# The upward trend in the rate of exploitation

- IV Online magazine - 2008 - IV397 - February 2008 -

Publication date: Tuesday 5 February 2008

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**The main characteristic of globalised capitalism since the beginning of the 1980s has been the fall of the wages share, in other words of the share of GDP (Gross Domestic Product) which goes to employees. Such a tendency is equivalent, in Marxist terms, to a rise in the rate of exploitation. It amounts then to a solidly established result based on indisputable statistical data which applies to the majority of countries, in the North as in the South.**

### An irrefutable statistical note

The data drawn up by the official bodies show an overall movement affecting the advanced countries as a whole, the European Union and France. Despite the polemics that it arouses (see box 1), it is an established fact, both for the IMF and the European Commission. A recent document of the Bank for International Settlements (Ellis Smith 2007) confirms that the global upward trend in the profit share is a phenomenon of a structural order which cannot be reduced to conjunctural fluctuations. In all cases, the chronology is similar: the wages share is virtually stable until the crisis of the mid-1970s which makes it sharply increase. The reversal of tendency takes place in the first half of the 1980s: the wages share starts to fall, then tends to stabilise at a level which is historically very low.

The French case is no exception, as shown by the following table 1. According to the most recent series from the Insee, [the French National Institute for Statistics and Economic Studies] the wages share in value added of enterprises was 65.8% in 2006 against 74.2% in 1982, or a fall of 8.4 points. According to the European Commission, the wages share in the economy as a whole went from 66.5% in 1982 to 57.2% in 2006, or a fall of 9.3 points. This fallback is analogous to what can be observed for the European Union as a whole (8.6 points). On the other hand the fall seems less significant so far as the G7 is concerned, this difference essentially originating from the United States. Finally the same tendency is found in developing countries like China, Mexico or Thailand (table 1).

[<http://www.internationalviewpoint.org/local/cache-vignettes/L400xH286/diag1-409dc.jpg>]

### The case of the United States

The main exceptions to this tendency are the United States and the United Kingdom, where the wages share remains more or less constant in the long term. This observation seems counter-intuitive to the representation of these two countries the champions of neoliberal policies. Thus the increase of the average wage in the United Kingdom is higher than in Europe or than in France. But it is the example of the United States that allows us to draw a clearer picture of things. The maintenance of the wages share in this country constitutes a veritable paradox, to the extent that the purchasing power of the majority of the population has not increased, or in any case has increased much less than the productivity of labour. In these conditions, the wages share should fall more quickly than the fallback of 3.5 points observed between 1980 and 2005.

The mystery has been cleared up by two economists, Ian Dew-Becker and Robert Gordon, who asked "where did the productivity growth go?". Their response is simple: productivity gains have been to a major extent scooped up by a thin layer of beneficiaries of very high wages, so high that they should be considered as an income from surplus value, even if they formally conserve the character of a wage. We leave aside here income from capital, like the famous stock options. This phenomenon could be considered as marginal but it in fact attains considerable proportions. Thus the share of national income going to the 1% of highest wage earners went from 4.4% to 8% between 1980 and 2005, or a capture of 3.6% of GDP which rises to 5.3% if we consider the 5% of highest wage earners. If we discount these very high wages, we derive an evolution comparable to those of the European Union

(diagram 2).

[<http://www.internationalviewpoint.org/local/cache-vignettes/L400xH178/table1-dc4de.jpg>]

The reversal is to a great extent a mystery to neoliberals. In an interview in the Financial Times (Guha 2007), Alan Greenspan, former president of the Fed (the US Central Bank) also observes this strange characteristic of contemporary capitalism: "the share of worker compensation in national income in the US and some other developed countries is unusually low by historic standards". In the long term, "real compensation tends to parallel real productivity".. That is what can be observed "for generations, but not now". The real wage "has veered off course", for reasons which are not clear to Greenspan, who says he did and still does expect a normalisation of the breakdown between wages and profits while worrying that "if wages for the average US worker do not start to rise more quickly political support for free markets may be undermined".

An abundant literature seeks however account for this downward tendency of the wages share. Numerous explanations are mobilised; energy prices, interest rates, intensification of capital. But these explanations do not stand up.:

- [-] the increase in energy prices has not hit all countries in the same way and the oil counter-shock of 1986 did not reverse the trend;
- [-] the beginning of the tendency towards lowering of the wages share coincided with the explosion of interest rates which have effectively weighed on wage earners, but this factor does not account for the long term evolution, and this effect should cease when interest rates began to fall ;
- [-] the lowering of the wages share cannot either be explained by a more intensive recourse to capital in relation to labour because the rate of investment has not increased and a growing fraction of profits goes to financial incomes.

[<http://www.internationalviewpoint.org/local/cache-vignettes/L400xH279/diag2-71730.jpg>]

These explanations have the common fault of seeking a cause of a strictly economic order to an eminently social phenomenon. The general trend of the wages share is explained much more simply by the relationship of forces between social classes. It was relatively balanced during the « Golden Age » from the end of the Second World War to the crisis of the mid-1970s which brutally challenged this equilibrium.

Initially, the crisis led to an increase of the wages share because the increase in wages continued, whereas the productivity of labour fell sharply. The classic policies of reflation no longer worked, so the ruling classes decided to change their tack, abandoning Keynesian policies and adopting a resolutely neoliberal orientation. All levers have been used, notably the impact of raised interest rates and globalisation, but the essential tool has been the increased unemployment that the crisis brought about. The capitalist leaders have relied on this phenomenon to profoundly and sharply modify the rules of wage formation. Instead of a wage norm where wages increased with productivity, in such a way that the wage share remained basically constant, a new regime emerged where wages increased at a lesser rhythm than increase in productivity, which were themselves slowing up in relation to the years of growth. In these conditions, the benefits of productivity increases no longer fall to wage earners whose purchasing power is blocked, but to profits ; and the fall in the wages share began. A simple econometric globalisation allows us to support this interpretation (see annexes 1 and 2). It shows that the rise in the unemployment rate plays an essential rôle and that the dominant theory of the equilibrium unemployment rate only implicitly models this link between unemployment and the breakdown of incomes.

### Unemployment and financialisation

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The lowering of the wages share has led to a spectacular reestablishment of the average rate of profit from the mid-1980s onwards. But at the same time, the rate of accumulation began to fluctuate at a lower level than that of the pre-crisis period (diagram 3). In other words, the pressure on wages has not been used to invest more. The famous Schmidt theorem («the profits of today are the investment of tomorrow and the jobs of the day after tomorrow») has not worked.

Non-invested profits have mainly been distributed in the form of financial profits. The gap between the rate of profit reaped by enterprises and the share of these profits going to investment is then a good indicator of the rate of financialisation. We can then verify that the rise in unemployment and financialisation go hand in hand (diagram 4). There again, the reason is simple: finance has succeeded in capturing the major part of productivity gains to the detriment of wages whose share falls.

[[http://www.internationalviewpoint.org/local/cache-vignettes/L400xH258/diag\\_3-7399b.jpg](http://www.internationalviewpoint.org/local/cache-vignettes/L400xH258/diag_3-7399b.jpg)]

[<http://www.internationalviewpoint.org/local/cache-vignettes/L400xH298/ddiag4-e1b4b.jpg>]

The correlation observed between unemployment and financialisation cannot however legitimate the "financialist" reading of contemporary capitalism. Certainly, the relations between industrial capital and financial capital have been profoundly modified and affect the conditions of exploitation. But it is necessary to articulate correctly the analysis of the phenomena: one cannot separate an autonomous tendency to financialisation and the normal functioning of a "good" industrial capitalism. That would amount to artificially disassociating the role of finance and that of the class struggle in the sharing out of value added. From the moment when the rate of profit increases thanks to the fallback in wages without reproducing the opportunities for profitable accumulation, finance starts to play a functional rôle in reproduction in procuring alternative openings to wage-based demand.

This viewpoint that we have long defended (Husson 1997, 2006) is strengthened when globalisation is taken into account. From this viewpoint the main function of finance is to abolish, as much as it can, the delimitation of areas of valorisation: it contributes in this sense to the constitution of a global market. The great strength of financial capital is indeed to ignore geographical or sectoral frontiers because it equips itself with the means to pass very rapidly from one economic zone to another from one sector to another: the movements of capital can henceforth be deployed on a considerably enlarged scale. The function of finance is here to stiffen the laws of competition by fluidifying the displacements of capital. To paraphrase what Marx said about labour, one could argue that globalised finance is the process of concrete abstraction which subjects each individual capital to a law of value whose field of application has enlarged incessantly. The main characteristic of contemporary capitalism does not reside then in opposition between a financial capital and an industrial capital, but in the hyper-competition between capitals to which financialisation leads.

### Annex 1

#### Econometrics of distribution

The modeling employed here postulates that the degree of indexation of wages to productivity depends on the rate of unemployment. The increase in wages thus depends on that of productivity but this link is loosened when the unemployment rate increases. As the wages share depends itself on relative evolution and productivity, this modulation allows indirect measurement of the influence on the wages share of the relationship of forces on the labour market. The estimate obtained in the European Union as a whole is of good quality and allows us to account for the downward trend of the growth of real wages.

The model is written :  $sal = (a + b.tcho).prod + c$

with :

wa rate of growth of real wages

prod rate of growth of productivity

tcho rate of unemployment

The estimate for the whole of the European Union for the period 1961-2006 leads to the following estimate :

$$sal = (1.156 - 0.159 tcho).prod + 1.371$$

$$(12.0) \quad (6.8) \quad (4.4)$$

[<http://www.internationalviewpoint.org/local/cache-vignettes/L400xH263/diag5-da879.jpg>]

### Annex 2

#### Equilibrium unemployment and distribution

The dominant economics uses the negative link between unemployment and real wages to determine an "equilibrium unemployment rate", known as Nairu (Non Accelerating Inflation Rate of Unemployment). It is the rate of unemployment below which inflation accelerates. It is obtained by combining the wages and prices equations with a standard macro-econometric model.

The wages equation assumes that the growth of the nominal wage ( $w$ ) depends on three elements :

[-] an indexation, here unitary, to price increases ( $p$ ) ;

[-] an autonomous growth ( $a$ ) of purchasing power ;

[-] a sensitivity of the rate of unemployment ( $U$ ) which plays negatively on wages growth.

This wages equation is then written :

$$(1) w = p + a - bU$$

The prices equation describes the formation of prices, obtained by applying a marginal rate to the unitary wage cost (the wage per unit produced). Its evolution depends on three factors:

[-] the growth of the nominal wage ( $w$ ) ;

[-] the growth of productivity ( $?$ ) ;

[-] the evolution (and not the level) of the marginal rate ( $m$ ).

The price equation is then written :

$$(2) p = w - ? + m$$

These two equations constitute the "wage-price loop" celebrated by neoliberal theorists. The famous Nairu ( $U^*$ ) is deduced from this exercise and is calculated in the following manner :

$$(3) U^* = (m + a - ?)/b$$

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The reasoning is the following : if the unemployment rate falls too much (below the Nairu), the real wage tends to increase more quickly than productivity and enterprises are «obliged» to increase their prices to reestablish the marginal rate. They will do so until the increase in 'inflation has succeeded in lowering the increase in employment, in other words to bring about an increase in unemployment, which brings the rate of unemployment to the level of the Nairu. The latter represents then very much an "equilibrium rate" in the sense that it is vain to aspire to go below the restoring force that it represents.

But this reasoning implicitly supposes that the marginal rate is constant, if not an increase in wages does not lead automatically to an increase in prices and will be reflected by a lowering in the marginal rate. In other words the theory of equilibrium unemployment is also a theory of the equilibrium marginal rate. The Nairu also represents the "unemployment rate" not increasing the wages share, that below which the distribution of income could be challenged by increased wages. One could just as well speak of a theory of "equilibrium rate of exploitation", which is higher inasmuch as the unemployment rate and productivity gains are higher, on condition that the latter do not fully impact on wages.