

Corporate America's chokehold on wages

By Harold Meyerson, Published: July 19

If you're wondering why American consumers are still flat on their backs, rendering the economy similarly supine, the answer is both fundamental and simple: It's not just that so many of them are unemployed. The ones who are employed are also underpaid.

Don't take my word for it — take that of Michael Cembalest, the chief investment officer of J.P. Morgan Chase. He asserted in the July 11 edition of "Eye on the Market," the bank's regular report to its private banking clients, that "US labor compensation is now at a 50-year low relative to both company sales and US GDP."

The primary subject of Cembalest's report isn't wages. It's profits — specifically, the fact that profit margins (the share of a company's revenue that goes to profits) of the Standard & Poor's 500 companies are at their highest levels since the mid-1960s, despite the burdens of health-care costs, environmental compliance and other regulations that are presumably weighing down these large companies.

How can that be? To find the answer, Cembalest studied the rise in profit margins "from peak to peak" — that is, from their high point in 2000, just before the dot-com bust, to their high point in 2007, just before the financial crisis. In those seven years, profit margins rose from just under 11 percent of the S&P 500's revenue to just over 12 percent. (Today, they're near 13 percent.)

Why the increase? "There are a lot of moving parts in the margin equation," Cembalest writes, but "reductions in wages and benefits explain the majority of the net improvement in margins." This decline in wages and benefits, Cembalest calculates, is responsible for about 75 percent of the increase in our major corporations' profit margins.

Or, to state this more simply, profits are up because wages are down. That's not the only reason profits are up — innovation and offshoring factor in as well — but among the reasons, it's a doozy.

What's behind this drop in the share of revenue going to wages? After all, the workforce of the S&P 500 companies contains many more college graduates today than it did in earlier decades. Cembalest cites high unemployment and the addition of 2 billion Asians to the world's labor force since 1980 as the reasons for workers' declining ability to secure their former share of company revenue. He's right, of course, but his list is hardly exhaustive. Surely the fact that the great majority of American employers no longer have to sit down and hammer out collective bargaining contracts with their workers has contributed to the increase in profits at wages' expense. And many of those employers want to keep it that way.

On Monday and Tuesday, the National Labor Relations Board (NLRB) heard testimony from 61 witnesses at a hearing on a board proposal that would diminish management's ability to delay union elections. Opponents made

dire predictions that the rule would enable unions to run roughshod over employers, but the America they described — awash in union goons — bears no resemblance to the nation in which we actually live. In the real America, union elections have declined 80 percent since 1970, as employers have become adept at delaying and opposing — often by illegally threatening their workers with job loss — their employees' attempts to unionize. In the America of 2011, there are scarcely any union organizing campaigns. There are fewer union members: Just 7 percent of private-sector employees are unionized, down from 35 percent in the 1950s. And what was the last strike you recall? The strike as a bargaining tool for workers is now the province of professional athletes, the last American employees who have enough clout even to contemplate taking a walk.

Too bad Cembalest wasn't a witness at the NLRB hearing. The redistribution of wage income to profits during recent decades — something that higher levels of unionization might reverse — laid the foundation for our economic disasters: To bolster the otherwise sagging purchasing power of the American people, banks extended credit — on homes, cars, you name it — any which way they could. When home values stopped rising and the gap between debt and income grew too great, everything came tumbling down.

In Sunday's New York Times, Tom Friedman wrote that "there is a deep sense of theft" in both Greece and Egypt that their nation's capitalism was rigged to benefit only a connected few. In America, we don't do things that way. Here, we just look the other way as the power of workers to claim their share of the proceeds declines. It's not, strictly speaking, theft. But it has brought our economy down just the same.