IMF documents labour's declining share of global income

Nick Beams
12 April 2017

In recent weeks, as part of the intensifying war drive against Russia, various US politicians have put forward the proposition that Vladimir Putin and his government's campaign of "disinformation" are responsible for rising social discontent in the US and other major economies.

In US Senate hearings at the end of last month, Florida Republican Senator Marco Rubio claimed Putin was engaged in "informational warfare," seeking to exploit social protests in order to portray America as a disaster.

Mark Warner, the ranking Democrat on the Intelligence Committee, claimed that Russia was using disinformation to "undermine America's strength and leadership," while Republican Susan Collins said the Russians were "trying to disrupt society" and "cast doubt on Western democracies."

Senator Chris Coons, a Democrat, joined this chorus, claiming that the regime of Vladimir Putin was alienating people in the West from their governments and undermining trust in "our institutions."

In other words, the growth of social opposition in the US, Europe and the major economies is the product of a Russian plot.

A report issued by the International Monetary Fund this week, Chapter 3 of its *World Economic Outlook*, prepared for its spring meeting later this month, exposes the farcical character of the attempts by the increasingly desperate ruling classes in the US and elsewhere to revive the propaganda of the Cold War.

Titled "Understanding the Downward Trend in Labor Income Shares," it details the massive transfer of wealth from labour to capital over the past four decades, one of the main drivers of ever rising social discontent.

According to the IMF analysis: "In the advanced economies, labour income shares began trending down in the 1980s. They reached their lowest level of the past half-century just prior to the global financial crisis of 2008, and have not recovered materially since. Labour income shares are now almost 4 percentage points lower than they were in 1970."

With advanced economies accounting for around half of global income, which is between $75 trillion and $80 trillion a year, workers are receiving some $1.5 trillion less in annual wages income than they would have had the share that existed in 1970 continued.

The research also found, despite more limited data, that labour shares in emerging market and developing economies had also declined since the early 1990s, especially for larger economies in the group. In China, for example, over the past two decades the labour share of national income has fallen by almost 3 percentage points.

The analysis found that the falling labour share has contributed directly to rising social inequality. Within the workforce, the brunt of the fall has been borne by lower-skilled workers "amid evidence of persistent declines in middle-skill occupations for middle-skilled workers in advanced economies." Over the period 1995–2009, the combined income share for this group was reduced by more than 7 percentage points.

The other side of falling labour share is a rise in the return to capital. With capital ownership concentrated in the upper-income groups, this has led to rising inequality.

The IMF report found that between 1991 and 2014, the labour share declined in 29 of the 50 largest economies, with the 29 where it declined making up about two thirds of global gross domestic product. Labour incomes declined in 7 of the 10 major industry groups, with the sharpest falls occurring in the most tradeable sectors, such as manufacturing, transport and communications.

The most significant factor in the advanced economies has been technological advancement, with empirical analysis suggesting that "about half the total decline in labour shares can be traced to the impact of technology." The decline has been particularly sharp for middle-skilled labour, with routine-based technology "taking over many of the tasks" performed by that segment of the workforce.

One of the most striking phenomena of the past two decades has been the establishment of what are known as global value chains, in which segments of the production process are outsourced across the planet to take advantage of cheaper labour.

The IMF analysis noted that according to traditional theories, trade integration of labour-abundant emerging market economies should raise the labour share in those countries. However, "the actual evolution of labour shares in this group of countries… is at odds with this prediction."

It pointed out that that rising inequality can fuel social tensions and also harm economic growth, and that low productivity growth, a characteristic feature of the major economies, "leaves little room for expectations of future wage growth."

Together with subpar growth in the world economy, this had led to "an increasing recognition that the gains from growth often have not been broadly shared." This has led to a "backlash against economic integration and bolstered support for inward-looking policies"—the phenomenon that US politicians are attributing to "Russian interference" and "disinformation."

The authors are at a complete loss to explain the "forces behind the apparently widespread decline in labour income shares," acknowledging that the experiences of different countries "are not well understood."

In fact, they have been known for a long time, this being the 150th anniversary of the publication of Marx's *Capital* in 1867.

Marx's analysis revealed how under the capitalist mode of production, based on wage labour, the material forces of production take the form of capital, that is, self-expanding value. The basis of this self-expansion is the surplus value extracted from the labour of the working class in the production process.

Hence, every development in science and technology, leading to an increase in the material forces of production and thereby providing the basis for increasing social wealth for the mass of humanity, is pressed into the service of capital and becomes a means for extracting additional surplus value from the working class.

Consequently, Marx explained, the inherent logic of capital is the accumulation of wealth at one pole and poverty at the other.

During the post-war economic boom, bourgeois economists of all stripes and some self-professed Marxists who had come under their influence maintained that his analysis had been refuted by events.

But the course of economic history since the end of the boom, and particularly of the past two decades, conforms to the essential logic Marx revealed. This history has been characterised by the unprecedented growth of social inequality and the accumulation of vast wealth at the heights of society, to the point where eight billionaires own as much wealth as the bottom half of the world's population.

All of this remains a closed book to the economists at the IMF. But their analysis is not without value because their data reveals the essential trend in both advanced and so-called emerging economies alike.

The analysis is a refutation, in facts and figures, of the assertions by right-wing populist and nationalist demagogues that workers in China and elsewhere are "stealing" the jobs and wages of workers in the advanced countries, demonstrating that all workers face a common struggle against the depredations of capital.