

Robots and robber barons

By Paul Krugman

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The American economy is still, by most measures, deeply depressed. But corporate profits are at a record high. How is that possible? It's simple: profits have surged as a share of national income, while wages and other labor compensation are down. The pie isn't growing the way it should — but capital is doing fine by grabbing an ever-larger slice, at labor's expense.

Wait — are we really back to talking about capital versus labor? Isn't that an old-fashioned, almost Marxist sort of discussion, out of date in our modern information economy? Well, that's what many people thought; for the past generation discussions of inequality have focused overwhelmingly not on capital versus labor but on distributional issues between workers, either on the gap between more- and less-educated workers or on the soaring incomes of a handful of superstars in finance and other fields. But that may be yesterday's story.

More specifically, while it's true that the finance guys are still making out like bandits — in part because, as we now know, some of them actually are bandits — the wage gap between workers with a college education and those without, which grew a lot in the 1980s and early 1990s, hasn't changed much since then. Indeed, recent college graduates had stagnant incomes even before the financial crisis struck. Increasingly, profits have been rising at the expense of workers in general, including workers with the skills that were supposed to lead to success in today's economy.

Why is this happening? As best as I can tell, there are two plausible explanations, both of which could be true to some extent. One is that technology has taken a turn that places labor at a disadvantage; the other is that we're

looking at the effects of a sharp increase in monopoly power. Think of these two stories as emphasizing robots on one side, robber barons on the other.

About the robots: there's no question that in some high-profile industries, technology is displacing workers of all, or almost all, kinds. For example, one of the reasons some high-technology manufacturing has lately been moving back to the United States is that these days the most valuable piece of a computer, the motherboard, is basically made by robots, so cheap Asian labor is no longer a reason to produce them abroad.

In a recent book, "Race Against the Machine," M.I.T.'s Erik Brynjolfsson and Andrew McAfee argue that similar stories are playing out in many fields, including services like translation and legal research. What's striking about their examples is that many of the jobs being displaced are high-skill and high-wage; the downside of technology isn't limited to menial workers.

Still, can innovation and progress really hurt large numbers of workers, maybe even workers in general? I often encounter assertions that this can't happen. But the truth is that it can, and serious economists have been aware of this possibility for almost two centuries. The early-19th-century economist David Ricardo is best known for the theory of comparative advantage, which makes the case for free trade; but the same 1817 book in which he presented that theory also included a chapter on how the new, capital-intensive technologies of the Industrial Revolution could actually make workers worse off, at least for a while — which modern scholarship suggests may indeed have happened for several decades.

What about robber barons? We don't talk much about monopoly power these days; anti-trust enforcement largely collapsed during the Reagan years and has never really recovered. Yet Barry Lynn and Phillip Longman of the New America Foundation argue, persuasively in my view, that increasing business concentration could be an important factor in stagnating demand for labor, as corporations use their growing monopoly power to raise prices without passing the gains on to their employees.

I don't know how much of the devaluation of labor either technology or monopoly explains, in part because there has been so little discussion of what's going on. I think it's fair to say that the shift of income from labor to capital has not yet made it into our national discourse.

Yet that shift is happening — and it has major implications. For example, there is a big, lavishly financed push to reduce corporate tax rates; is this really what we want to be doing at a time when profits are surging at workers' expense? Or what about the push to reduce or eliminate inheritance taxes; if we're moving back to a world in which financial capital, not skill or education, determines income, do we really want to make it even easier to inherit wealth?

As I said, this is a discussion that has barely begun — but it's time to get started, before the robots and the robber barons turn our society into something unrecognizable.