To what extent do UK companies share their profits with employees? **Brian Bell, Pawel Bukowski** and **Stephen Machin** find that rent-sharing is on a much smaller scale today than during the 1980s and 1990s – and that the decline coincides with a rise in firms’ product market power alongside a fall in workers’ bargaining power.

Workers’ falling share of firms’ profits

**Stagnating real wages and falling labour shares across developed economies have stimulated a renewed interest in the question of how, and to what extent, corporate rents are shared with labour.** Nicholas Kaldor’s (1957) long-held stylised fact that the fraction of national income going to labour is fixed has been questioned – for example, by Karabarbounis and Neiman (2013), who show that the global labour share has dropped from 65% in 1980 to 59% today.

Over the same period, US labour productivity has grown by 90% but the median real wage only by a paltry 10%.

This has rekindled debates about whether growth benefits workers, which date from as far back as David Ricardo to the highly influential contemporary work of Thomas Piketty.

In response to these developments, researchers have again turned their attention to firms and their wage-setting processes. Building on the seminal work of Michal Kalecki (1938), CEP’s former director John Van Reenen and co-authors have recently reconnected the distribution of income with the behaviour of firms and their market power (Autor et al, 2017).

The question is: how does the power structure in product and labour markets translate into wage stagnation and a lower labour share? A classic argument says that workers lose bargaining power. This might affect ‘rent-sharing’ – that is, workers’ ability to claim a portion of firms’ profits.

Knowing how rent-sharing has evolved over time can therefore help us to understand changes in the position of workers within companies and shed light on the mechanisms behind the fall in the labour share. But the reality is that little is known about long-run changes in rent-sharing, in part owing to a lack of data.

Our new study aims to redress this by looking at the long-run evolution of rent-sharing among UK-domiciled companies.

Rent-sharing has fallen since the early 2000s in the EU and since the 1970s and 1980s in the United States.
companies. It features the compilation of a comprehensive and consistent panel of the top 300 companies (by market capitalisation) listed on the London Stock Exchange between 1983 and 2016.

The sample includes well-known UK companies, such as BP, British American Tobacco, G4S and Tesco, which have played an important role in the economy throughout the last few decades. It also covers all sectors of the economy, which is crucial given the dramatic shift from manufacturing to services in the UK since the 1980s.

The prime empirical focus of our study is to examine rent-sharing, and its variation over time, by estimating the elasticity of firm-level average wages with respect to firms’ profits per employee, after accounting for all time-invariant firm characteristics and outside-firm forces shaping wages (for example, the unemployment rate, industry-level wages and other common effects over time). The profit-pay link may work in both directions, for example, when companies use ‘efficiency wages’. We deal with the potential endogeneity by instrumenting firm-level profits with their lags or industry-average profits.

The first result to emerge is a positive and statistically significant rent-sharing parameter. Estimating over the whole sample, this rent-sharing elasticity is fairly modest in magnitude: a 1% increase in profits implies an increase of around 0.01% in wages.

The second, more novel result concerns the time series evolution of rent-sharing: there is a substantial fall in the long-run elasticity from 0.043% in the period 1983-2000 to 0.012% in the period 2001-16.

The finding of a significantly reduced rent-sharing parameter proves robust to various specification checks and alternative definitions of the sample. Moreover, the same result emerges for a panel of UK manufacturing companies, which provides data on domestic operations only.

In addition, industry-level data for the United States and for nine countries of the European Union (EU) show the same pattern. Consistent with the firm analysis, there is strongly falling rent-sharing for almost all countries: it dates from the early 2000s in the EU and from the 1970s and 1980s in the United States.

The elasticities might appear small, but one should keep in mind that profits can be extremely volatile, so even a small elasticity might have significant implications for wages.

To illustrate this, Figure 1 shows a rent-sharing-induced wage change

![Figure 1: The rent-sharing-induced wage change (%) caused by the rise of profits per employee by one standard deviation](image)

The fall in rent-sharing has been more pronounced among companies that enjoy monopolistic mark-ups.
A decline in rent-sharing implies growing income inequalities and may encourage calls for more redistributive policies.