The limitations of the structural dependence thesis: class, power, and distributive conflict in the UK since 1892

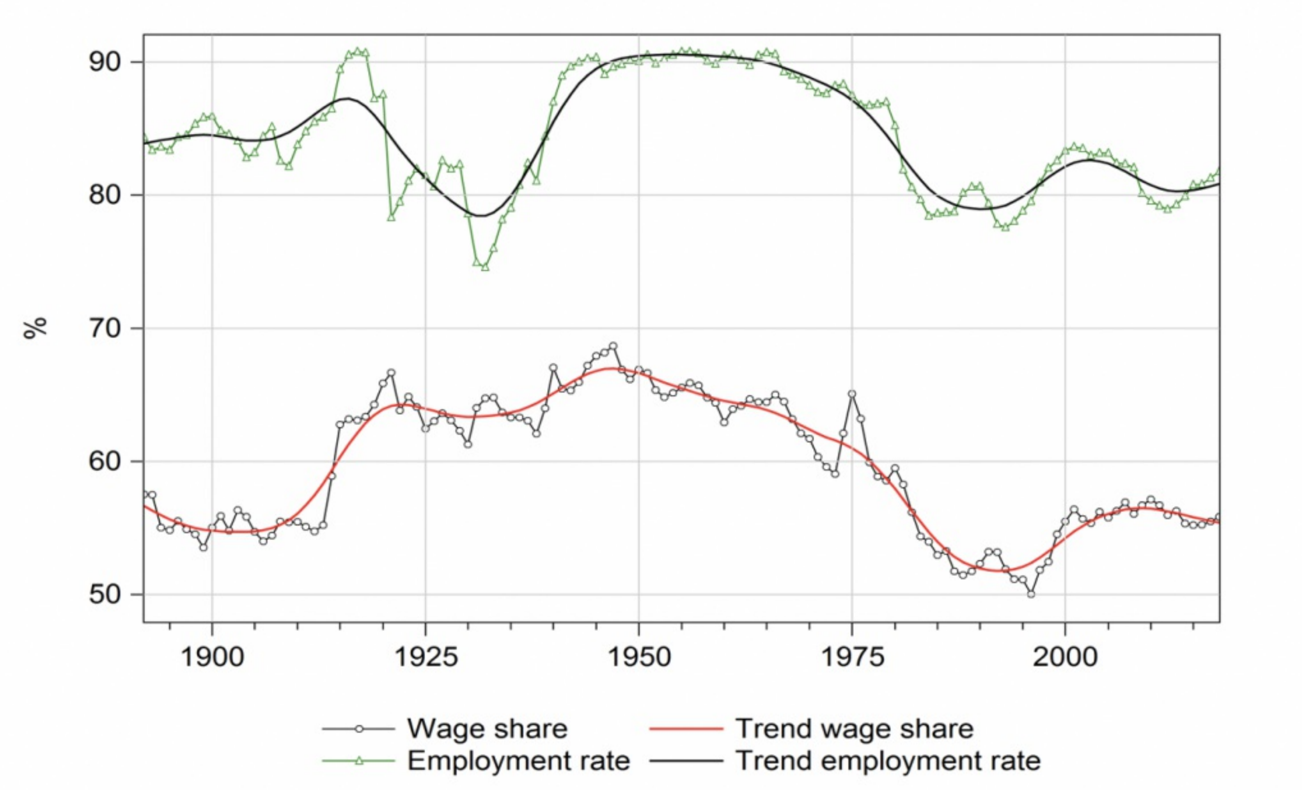
Can political parties, social movements, and governments shape the functioning of a capitalist economy? Is it possible for social democratic parties to promote a significant redistribution of income in favour of labour? According to proponents of the structural dependence thesis, the answer is negative, because the structural dependence of labour upon capital severely constrains feasible income distributions. ***Carlo V. Fiorio, Simon Mohun,*** *and* ***Roberto Veneziani*** *cast doubts on this thesis. Their historical analysis of the UK finds some evidence of a short-run profit-squeeze mechanism, but also that income shares are much more variable than the structural dependence argument suggests, and the power resources available to social classes are among the key determinants of distributive outcomes.*

Is there a future for redistributive social democracy? One influential approach argues negatively, on economic grounds. While the immediate interests of capital and labour are in conflict in the short run (because of the inverse relationship between wages and profits), in the long run the reinvestment of profits is the only source of higher living standards for labour. Both high levels of taxation and the promotion of working-class militancy are counterproductive, because each will generate a profit-squeeze mechanism: low profits lead to a reduction in investment, which implies lower employment today and lower production and wages in the future. No significant redistribution in favour of labour is possible, especially in the long run. We call this the "structural dependence thesis" (SDT).

The structural dependence thesis (SDT) is extremely influential in both academia and politics, but there is surprisingly little empirical evidence to support it. In recent research, we analyse the historical record of UK functional income distribution from 1892 to 2018 in order to test SDT. We focus on the wage share and the employment rate: in the wage-share-employment-rate space, SDT predicts that distributive conflict generates clockwise cycles. For an increase in the wage share implies a falling profit share which reduces investment, hence employment and hence the bargaining strength of the working class. This recreates the profitability conditions necessary for renewed accumulation, investment rises, and – if conflict persists – the cycle repeats. We call these "wser cycles". If SDT were right, the data should show either a stable equilibrium income distribution, or at most a stable wser cycle around the equilibrium.

But they don't. The historical record (Figure 1) shows no tightly determined income distribution.

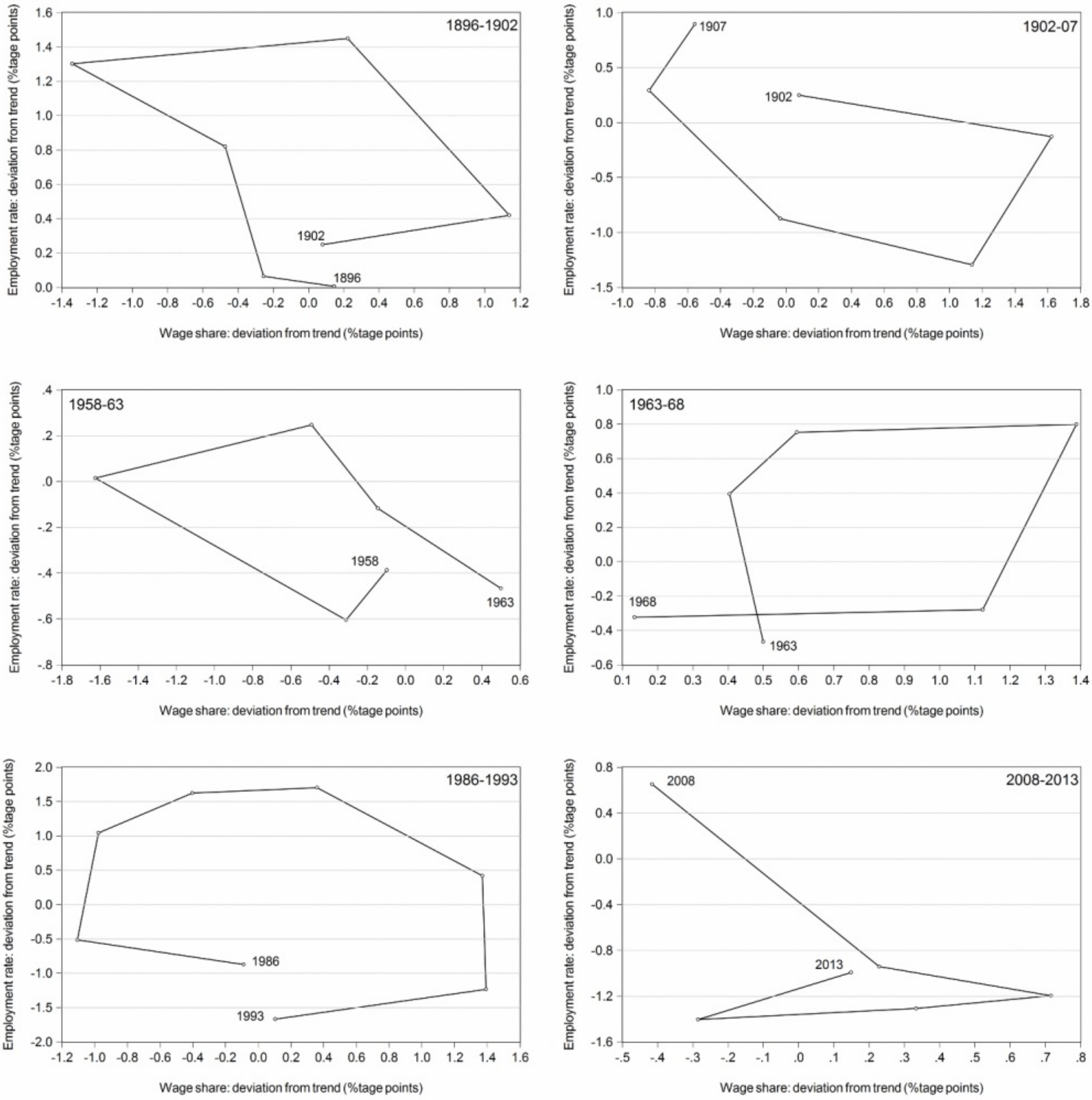
Figure 1: Wage share and employment rate in the UK, 1892–2018.



Perhaps SDT could be rescued by specifying a distinction between the long run and the short run. In the long run, the wage share and the employment rate vary because of long-run processes – such as technical change and institutional changes – that influence distribution. Then, wser cycles are the shorter-run cycles that appear around the long-run motion, and are subject to continual displacement. If SDT were valid, first, stable short-run wser cycles should be visible, and second, most of the variability in the data should derive from these short-run fluctuations, with (reasonably) constant long-run values of the two variables.

Some examples of short run cycles are presented in Figure 2.

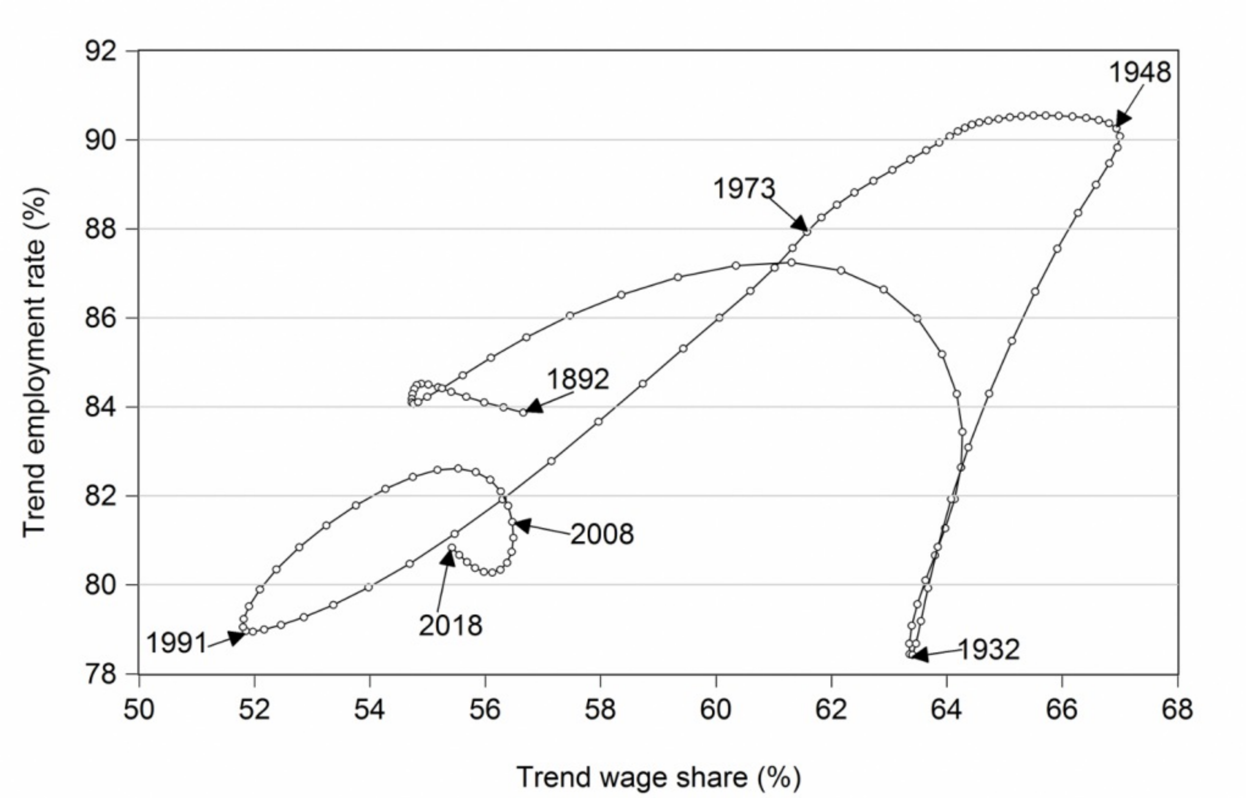
Figure 2: Examples of UK WSER cycles.



Visual inspection of these cycles suggests that for 87 of our 124 years, the data do indeed describe a (clockwise) cyclical process. Data of these 87 years are broadly in line with the basic intuitions of SDT: at any given time, an increase in the wage share triggers a profit squeeze, and after an increase in unemployment weakens workers' bargaining power, profitability is restored.

But this is only a partial picture of distributive conflict. First, about 30% of our data do not conform to the SDT cyclical process. Second, and more fundamentally, SDT is not just about short-run trade-offs; it is a theory of the constraints on feasible long-term equilibrium distributions. The short-run wser cycles shown in Figure 2 move along a long-run trend, and it is this trend that has to be interpreted by SDT. Visual inspection of a connected scatter of their trend values (Figure 3) shows that the set of attainable long-run values of the wage share and employment rate are much too variable to support SDT, even after all temporary and cyclical movements have been eliminated.

Figure 3: Trend employment rate against trend wage share, 1892–2018.



Rather than a single mechanism determining an equilibrium income distribution over the whole period, Figure 3 shows several periods reflecting significant changes in the political-economic dynamics of the UK economy. Can these long run changes be explained in a way that is consistent with SDT? We argue that they cannot.

Contrary to SDT, we suppose that the power resources available to social classes in the economic and political spheres are important determinants of distributive outcomes, and that different long-run values correspond to different configurations of the balance of power between the two classes. We suppose that increases in the power resources of one class have positive, long-lasting effects on the share of income that goes to that class, and consider trade union density as the primary empirical measure of the bargaining strength of the working class. In particular, and contrary to SDT, we expect union strength to be positively associated with the wage share.

We investigate econometrically the long-run dynamics of income distribution in the UK, and test whether there is interaction and a common dynamic between first the wage share and employment rate on their own, and second, wage share, employment rate, and trade union density. We find that in the long run there is no relationship between just the wage share and the employment rate, but that the dynamics of the wage share are significantly correlated with the dynamics of unionisation: an increase in the power resources of workers, proxied by the union density measure, is correlated with a long-run increase in the wage share.

This result points to a key conceptual limitation of SDT: the mechanism underlying SDT operates at a very high level of generality, and is based only on the most basic institutions of capitalism: the existence of private property and the control over investment decisions that this affords. In this sense, SDT operates in an institutional vacuum. Yet ownership comprises various rights, powers, claims, and immunities, not all of which must be vested in one agent. The exact allocation of these rights depends on political decisions, institutions, social norms, and so on, and it determines the degree of control that firms have over investment. Power relations and institutional rules affect the boundaries of feasible income distributions, and tend to change over time. Hence the structural features of class conflict – including the political, economic and institutional framework – are central determinants of distributive outcomes.

That an increase in the power resources of one class has a positive, long-lasting effect on the share of income that goes to that class does not imply that any income distribution is feasible at any moment of time. Nor does it imply that the prospects for an electoral socialism/social democracy pursuing redistributive class policies are good. It does suggest, however, that SDT does not explain the actual choices and trade-offs faced by the labour movement.

In summary, power resources matter, and therefore institutions and politics matter. They matter for their short-run effect on market distribution, but also – and perhaps more importantly – for their long-run effect on the conditions for market distribution. Therefore, going back to our opening question, the social democratic model is more undetermined than SDT suggests, especially from a long-run perspective. For political and class struggles are not just about choosing the optimal position in a given structure of trade-offs, but first and foremost about altering those trade-offs themselves. This should be the starting point for a renewal of the social democratic project.

Note: the above draws on the authors' published work in *Political Studies*.

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