

What the Apple wage collusion case says about Silicon Valley's labor economy

By [Brian Fung](#)



(Steve Jobs and Intel's then-chief executive Paul Otellini in 2007. Jobs and Otellini, among others, were allegedly involved in a scheme to suppress worker wages. ([acaben](#)))

Tens of thousands of software engineers are currently suing Apple, Google and a host of other companies for a shot at reclaiming wages they say the tech firms stole from them.

How? The engineers say Apple's Steve Jobs, Google's Eric Schmidt and other top Silicon Valley executives secretly agreed not to hire away valuable employees from each other. The resulting industry-wide moratorium on talent poaching allegedly resulted in suppressed wages as people who would've been offered higher salaries to work elsewhere never got the opportunity.

The particulars of the case are [rather well-trodden](#) at this point, but a settlement is said to be near; going to trial would mean the tech companies could face as much as a \$9 billion penalty.

It's interesting to think about Apple and its rivals secretly colluding to keep the price of labor down. But the case is also taking place against the backdrop of several other economic trends. And in some respects, this class-action suit over wage theft actually cuts against the grain.

Inequality. Silicon Valley is beset by a reputation — earned or otherwise — for egotism, a growing wealth gap and a lack of self-awareness that the [rest of the country mistrusts](#). Census data show that wealthy people with incomes over \$100,000 a year are twice as common in Silicon Valley than in the rest of the United States. On a recent tour of the area, Hillary Clinton [challenged the rise in housing prices](#) that makes it impossible for people who "make the trains run on time" to actually live there.

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(U.S. Census via [Silicon Valley Index](#))

As alarming as this problem is, it might actually be worse if it weren't for Apple's efforts to suppress tech wages, says James Rebitzer, a labor economist at Boston University.

"I don't know if that's a feature or a bug," said Rebitzer. "When employers collude so that a competitor refrains against bidding for talented workers, the workers aren't getting a lot of outside offers, which means it's hard for you to go to your employer and ask for a raise."

There's a natural tension here between establishing fairness within an industry and promoting fairness across industries. Looking purely at the class-action suit, it's hard not to sympathize with the software engineers who say they were robbed. But more broadly, these folks tend to be extremely well-compensated — particularly the highest performers — compared to the rest of us.

Driving their wages up even higher would likely have made places such as San Francisco even less livable.

Youth. Silicon Valley has an obsession with youthfulness. This is partly driven by necessity — startups, where a lot of new ideas begin, don't have a lot of money to throw around on more experienced engineers who command higher salaries. But the fascination with youth is also somewhat cultural. Thanks to Facebook and Google — two of what might be dozens of tech companies with compelling coming-of-age stories — we now find it normal, if not desirable, that college kids build the next great economic empire with a few lines of code.

These days, investors are even skipping over university students and have begun actively courting teenagers who'd [rather design apps](#) than apply to college at all. It makes sense, in a way. The constant

demand for "new" and for ever larger forms of creative "disruption" of anything old inevitably pushes the search for precociousness down the age ladder. For aging engineers, the choice is stark, according to Vivek Wadhwa, a researcher at the University of California – Berkeley (who's also written for the Washington Post on occasion).

"Engineering is an 'up or out' profession: you either move up the ladder [into management] or face unemployment," Wadhwa [recently wrote](#), citing public employment data that show most engineers in the semiconductor business reach their peak earning potential in their 30s. By their 50s, those engineers' salaries were actually lower compared to their younger peers.



A bloggers' lounge at SXSW 2012 in Austin, Tex. ([shelbyskye](#))

But baked into these statistics are the effects of Silicon Valley's alleged wage collusion scheme. Suppose the most experienced, talented engineers were allowed to make more by being hired away by competitors — or using their offers to extract raises from their employer. What would their earning potential look like then? Probably a lot more balanced over time. It might also have the effect of raising wages for talented younger engineers as well, as companies began to poach them too.

So as Steve Jobs and other executives allegedly colluded to prevent the poaching of engineers from each other, they may have simultaneously contributed to Silicon Valley's preoccupation with precociousness. Finding new, less expensive talent among the young, after all, was the most viable alternative.

Immigration. The fact that wages among top engineers may have been kept low by Apple and others meanwhile cuts against the dominant narrative in immigration, which is that U.S. restrictions on high-skilled immigration has created a shortage of workers in science, technology, math and engineering, or STEM. What the class-action suggests is that there may be plenty of people who *could* fill the STEM jobs companies say they can't fill if only tech companies were willing to pay a premium for them; it's just that this informal agreement not to poach each other's workers artificially restricts the labor pool and "forces" companies to look elsewhere for talent.

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This roughly corresponds to the argument that some Silicon Valley skeptics have advanced. In contrast to the popular belief that tech companies have a slew of openings that only immigrants can fill, scholars at the left-leaning Economic Policy Institute say that about half of Americans who graduate from STEM institutions often have a hard time finding work in STEM fields. If there really were a STEM deficit, wouldn't we expect those students to be snapped up quickly?

As my colleague Jia Lynn Yang [reported last year](#):

Basic dynamics of supply and demand would dictate that if there were a domestic labor shortage, wages should have risen. Instead, researchers found, they've been flat, with many Americans holding STEM degrees unable to enter the field and a sharply higher share of foreign workers taking jobs in the information technology industry.

If the allegations about tech companies suppressing worker wages is true, that could partly explain why EPI found that wages haven't risen — and why the industry relies so heavily on less expensive foreign labor to fill a perceived need.

The Apple wage collusion case is fascinating in itself. But I suspect it also has something more to tell us about the region's labor economics in a way that twists or even challenges the stories we've been telling ourselves about how Silicon Valley works.

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