

# **Wages and Inequality:**

## **How resetting rules of labor market generated wage stagnation and inequality**

The Great Polarization

University of Utah

September 2018

**Larry Mishel**

Distinguished Fellow, Economic Policy Institute

[@larrymishel](https://twitter.com/larrymishel)

# Key Wage Gaps to Explain

1. Large growth in Top 1% (**149%**) vs. top 90<sup>th</sup>-95<sup>th</sup> (up **44%**);
2. 90<sup>th</sup> (up **40%**) vs. middle (up **9%**);  
and
3. Middle (up **9%**) vs. bottom (up **5%**), except 1979-89, 10<sup>th</sup> fell **15%**,  
median **flat**

# The Productivity-Pay Gap

Stagnant Compensation (wages & benefits) not due to failure of economy to expand productivity. There was lots of income and wealth produced.

\*1973-2016: Net Productivity up **74%**,  
Median Hourly Compensation, **12%**;

Why? Gap primarily due to rising **inequality**, especially in 2000s, equally due to:

- a. Rising inequality of compensation
- b. Decline of labor's share

# The Cause?

**Conventional Wisdom says:**

1. Globalization;
2. ~~Technology/Skills Deficits;~~
3. Lately, employer power via literal monopsony

# Two Failing Stories

- 1. Education:** need for college graduates  
—driven by technology/computers
- 2. Occupations:** job polarization  
computers erode *middle*, expand  
relative demand for non-routine,  
cognitive skills expands at *top* and do  
not affect routine, manual work at  
*bottom*

# Summers on SBTC

“And I am concerned that if we allow the idea to take hold that all we need to do is there are all these jobs with skills and if we just can train people a bit then they will be able to get into them and the whole problem will go away. I think that **is fundamentally an evasion of a profound social challenge.**”(2014)

# Why the 'Skills Deficit' Explanations Fails

1. Prima facie implausible:  
the 2000's Do Not Fit the  
Stories;
2. Never address top 1%

## The college wage premium cannot explain growing wage inequality since 2000

Average annual percentage-point changes in wage gaps, 1979–2000 and 2000–2017



**Notes:** Sample based on all workers ages 18–64. The college wage premium is the percent by which hourly wages of four-year college graduates exceed those of otherwise equivalent high school graduates. The regression-based gap is based on average wages and controls for gender, race and ethnicity, education, age, and geographic division. The log of the hourly wage is the dependent variable. The 95/50 wage ratio is a representation of the level of inequality within the hourly wage distribution. It is logged for comparability with the college wage premium.



# What about Occupations?

1. No story for top 1%
2. No evidence of job polarization in 2000s
3. No evidence that occupational employment shifts have corresponding impact on occupational relative wages and therefore on wage inequality

# What about Monopsony?

- Terrific that economists are exploring rising employer power in labor market to explain wage stagnation and inequality
- Gravitate to one model: Monopsony or Monopoly
- Be careful, though, as monopsony:
  - a. Can affect wages and **motivate antitrust action**
  - b. But has not been shown to affect wages over time due to rising monopsony or greater impact of given level of monopsony: **does not drive wage stagnation**

# Be Aware

“The majority of US labor markets are highly concentrated”: 54% markets highly concentrated

**Not =**

“Majority of workers face high concentration”:  
17% of workers face high concentration

# Missing Pieces

**Policy choices, on behalf of those with most wealth and power,** that have undercut wage growth of a typical worker:

1. Excessive unemployment;
2. Globalization policy choices
3. Weakened labor standards;
4. Eroded institutions: collective bargaining
5. Top 1.0% wage/income growth

# Macroeconomic Failure

- **Excessively high unemployment, much of 1979-2017 period**
- **Depresses wage growth, drives up wage inequality**

# Impact of excessive unemployment

- \* Excess unemployment, average=6.1, NAIRU=5.5  
implies median wage loss=7.8%
- \* If unemployment averaged 5%, median wage  
15-16% higher

# Globalization

## Impact:

Both Bivens (2013) and Autor, Dorn, Hanson (2013) find:

- 5.6% wage loss, or
- \$2,000 annually for median worker

## Policy:

- Currency misalignment/manipulation;
- Trade agreements
- Failure to 'compensate' or lift wages

# Labor Standards

## Weakened

1. Minimum wage
2. Misclassification/wage theft/enforcement
3. Undocumented workers/guest-workers
4. Overtime for salaried workers
5. Day One Inequality:
  - a. Anti-poaching; b. Non-competes;
  - c. Forced individual, not class, arbitration of disputes; and d. Transparency



# Minimum wage

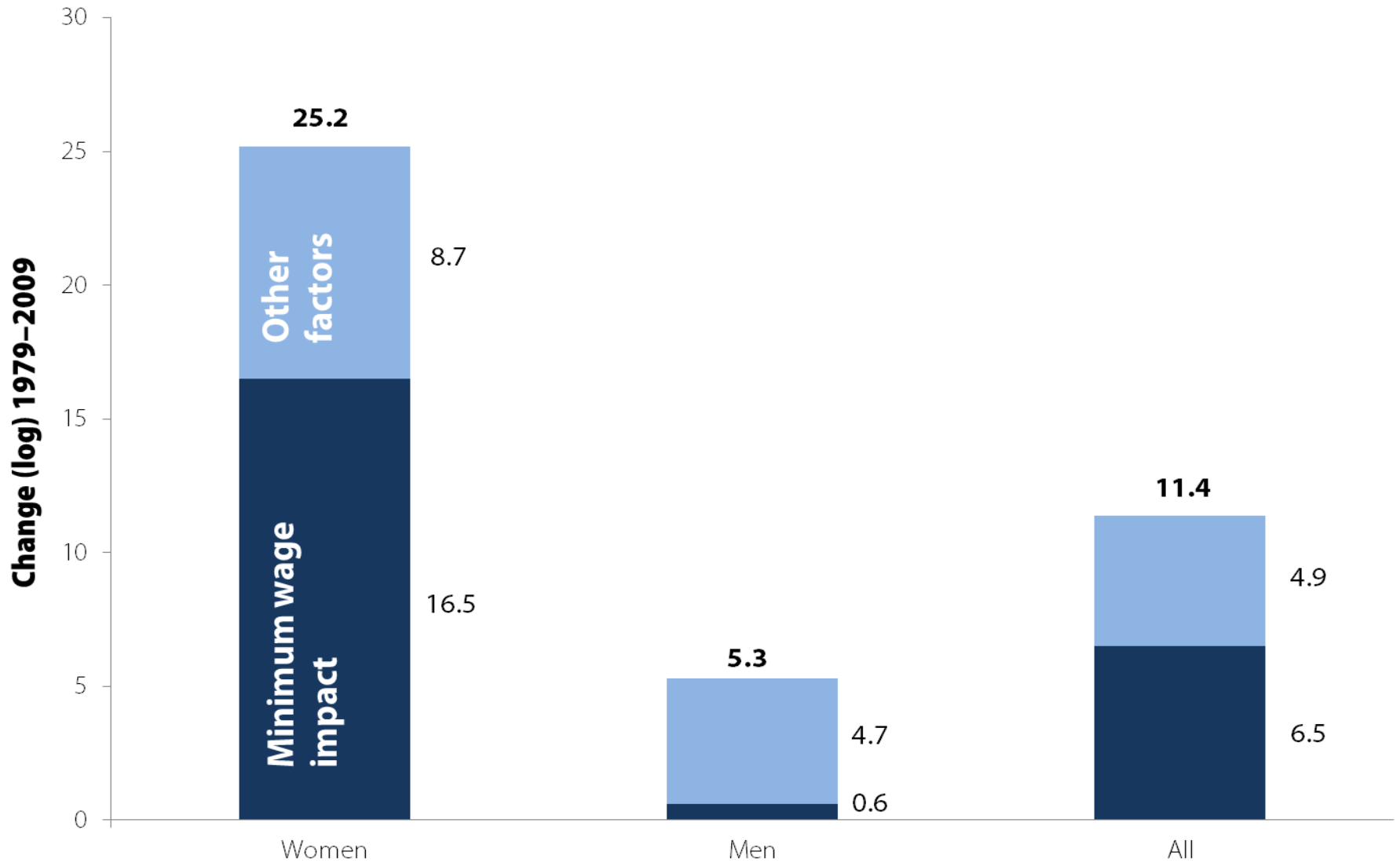
## Erosion of minimum wage

- By 2016, fell 10% since 2009, 25% since high point in 1968;
- Despite productivity up 93%, low wage workers older and far more educated;

## Policy of \$15 in 2024

- A 71.9% increase, but just 29% higher than 1968.  
Productivity up 119%
- Affects 30% of wage earners, directly & indirectly
- Reverses all decline in 50/10 ratio, 60% of median FT/FY wage (45.9% in 1979/35.0% in 2016)

# Impact of the minimum wage on the 50/10 wage gap, 1979–2009



Source: Authors' analysis of Autor, Manning and Smith (2010, Table 5)

# Labor Market Institutions/Structures

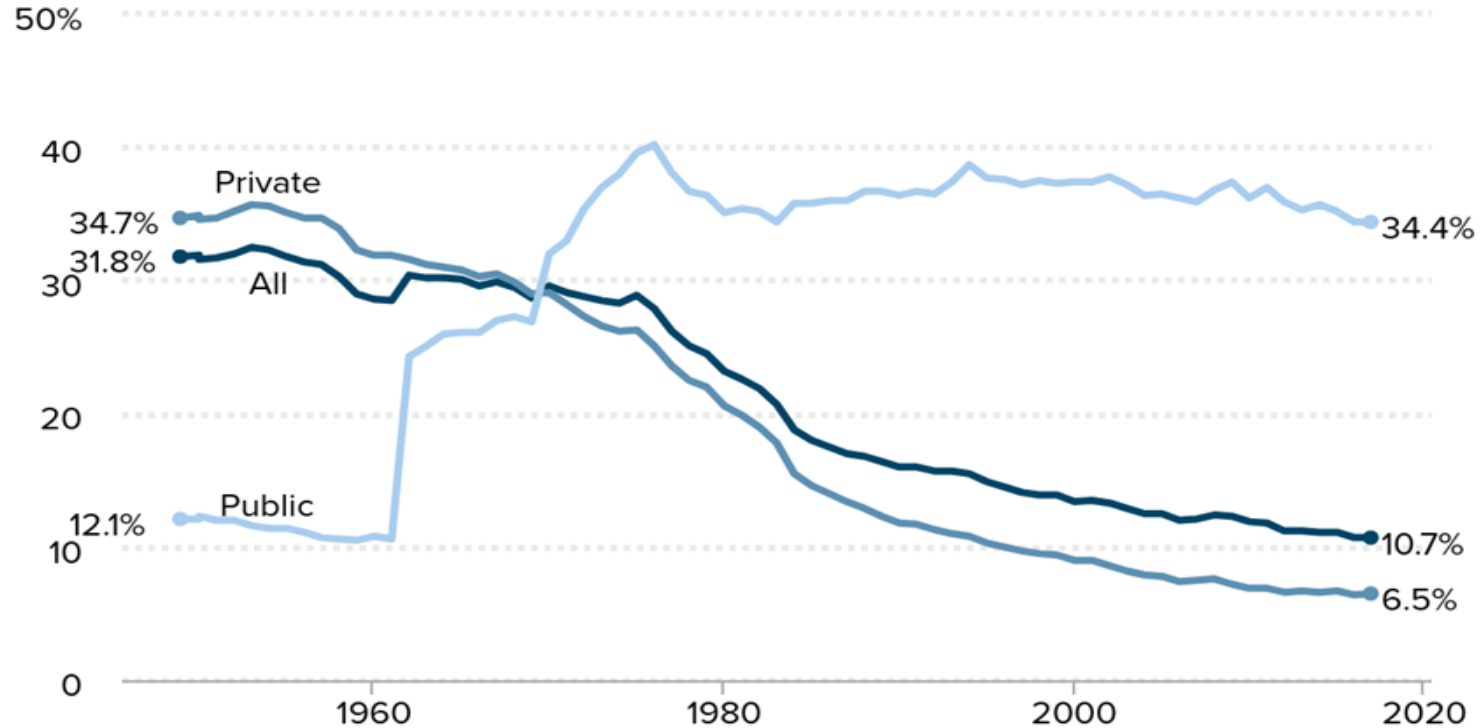
## Weakened

1. Collective bargaining: direct and spillover;
2. Fissuring: franchising/subcontracting
3. Buyer power, such as Wal-Mart
4. Deregulation
5. Political voice

.....Not simply endogenous

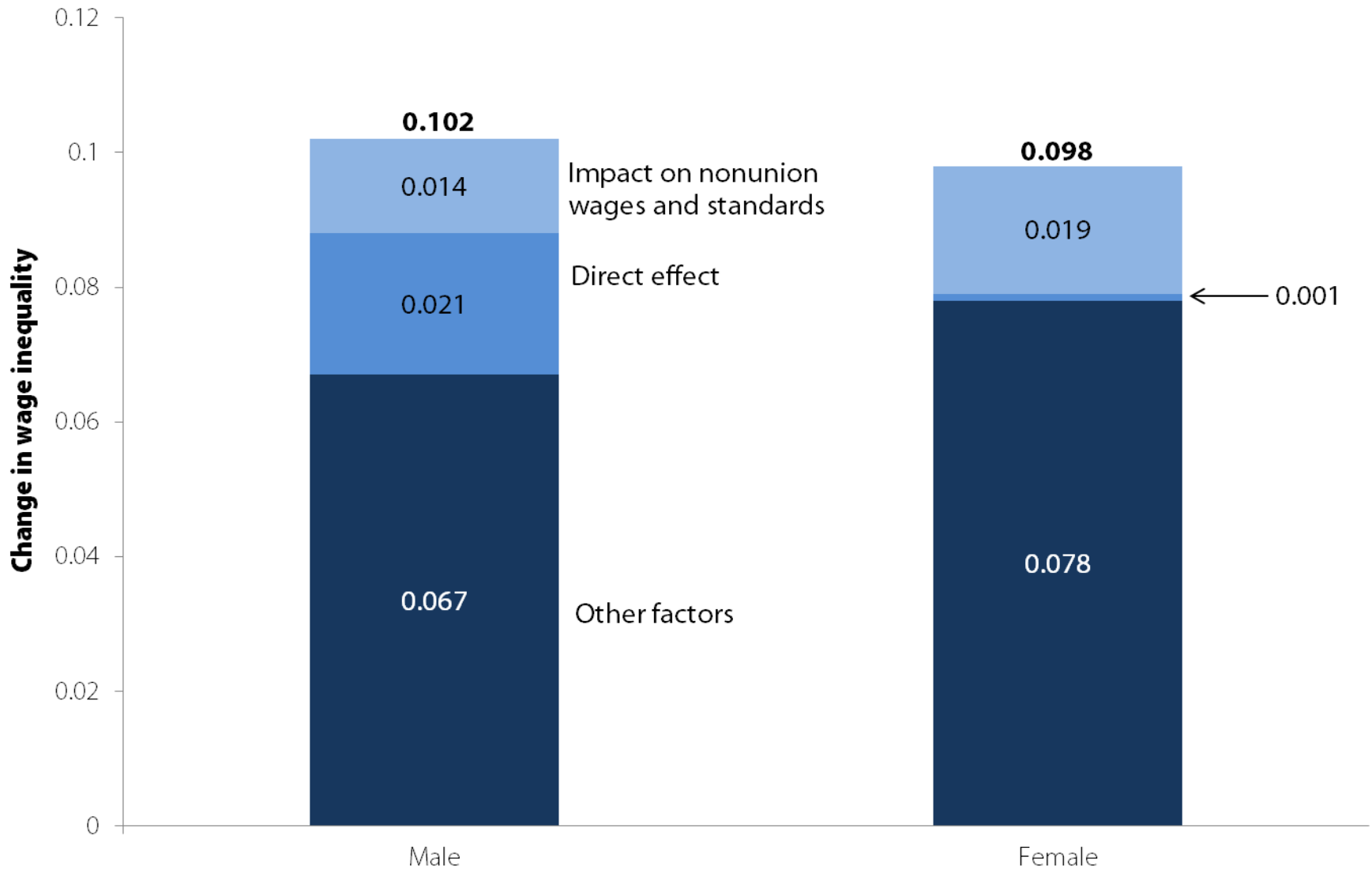
# Erosion of Collective Bargaining

Percentage of workforce that is a member of a union, by sector, 1949–2017



Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata and Labor

## Impact of deunionization on wage inequality, 1973–2007



Note: Wage inequality measured by change in variance of log wages.

Source: Authors' analysis of Western and Rosenfeld (2011, Table 2)

# Unions and Nonunion Wages

If union density remained at its 1979 levels:

- nonunion private-sector men without a bachelor's degree or more education (non-college graduates), weekly wages would be an estimated **8 percent** (\$58) higher in 2013. For a year-round worker, this translates to an **annual wage loss of \$3,016.**

Source: Rosenfeld, Denice, and Laird, "Union decline lowers wages of nonunion workers", EPI (2016)

# Quantitative Change leads to Qualitative shifts

## These policy shifts have impacts by:

1. *Spillover effects* on those not directly affected, e.g., undocumented workers, lower union density; and
2. *Changes Norms*: revising standards in the marketplace; and
3. *Factor shares*: Loss of labor's share of income

**End**