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Institutional Change and Wage Inequality

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Shortcomings for Demand Based Explanations

- ✓ Fortin and Lemieux -- U.S. experience of rapidly increasing wage inequality unique. (Not a universal conclusion)
- ✓ Darity and Myers --

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Why Institutions Matter?

✓ Unions

✓ Legislative Interventions

– Minimum Wage

– Antidiscrimination laws

✓ Govt. as employer and regulator

Unionization

✓ Controversy over what unions do to earnings inequality

✓ Assessments

- H. Gregg Lewis, 1963, *Unionism and Relative Wages in the United States*.
- Richard Freeman, 1980, “Unionism and the Dispersion of Wages,” *Industrial and Labor Relations Review*, Vol 34, pp. 3-23.
- H. Gregg Lewis, 1986, *Union Relative Wage Effects: A Survey*.

Empirical Findings

- ✓ Fall in union density contributed to 1980s increase in U.S. earnings inequality -- 20%% of increase in college premium attributable to deunionization (Freeman, 1993; Fortin and Lemieux. 1997)
- ✓ Fall in union density contributed to 1980's increase in within group earnings inequality --20% attributable to deunionization (Freeman, 1993)
- ✓ Dispersion of earning grew among organized workers
- ✓ Earnings inequality grew less in highly unionized countries than in less unionized countries

Union Density and Earnings Dispersion

Country	Density, 1979	Variance of Log Earnings (X100)
Sweden	89	13
Denmark	86	14
Finland	84	15
Belgium	77	24
Norway	60	25
Austria	59	27
Australia	58	24
U.K.	58	27
Italy	51	19
Ireland	49	21
New Zealand	46	21
Canada	36	25
Japan	32	26
U.S.	25	28

Source: Freeman, 1993

Minimum Wage

- ✓ Real value of minimum wage decreased in 80s
- ✓ Fortin and Lemieux estimate it increased earnings inequality by 24.2% for men; Other estimates are smaller. (Horrigan and Mincy, 1993)
- ✓ Ambiguity about effect on distribution of family incomes

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Government as Employer and Regulator?

✓ Deregulation

- Rate of return regulation
- Wage setting in regulated industries

✓ Shrinking public sector

✓ Antidiscrimination laws