The Great Polarization
Economics, Institutions and Policies in the Age of Inequality

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Wages and Inequality: How resetting rules of labor market generated wage stagnation and inequality

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Abstract

Conventional wisdom among economists has focused primarily on technology/automation and, sometimes, globalization to explain wage stagnation and wage inequality. These are factors which they contend we cannot nor should not affect, leaving the only remedy to be more skills/education for workers. In fact, the two stories told to explain how technology generates wage inequality—the education and occupation job polarization—are both prima facie implausible in the 2000s (and are not potent explainers of the 1980s or 1990s either). What has caused our wage problems are changes (acts of omission and commission) in the policies governing the employment relationship on behalf of the richest and most powerful people and corporations that systematically undercut the individual and collective bargaining power of the vast majority of workers. This is Management Disruption not Technological Disruption. It involves excessive unemployment, lowered labor standards, weaker unions and other structural shifts (deregulation, privatization, fissuring/outsourcing) along with globalization. Other policy changes enabled the top one percent to capture more income and wages. This explanation provides optimism because it is within our power to alter the policy regime to enable the vast majority to enjoy shared prosperity.