Financialization, the New Economy, and Wage Inequality in the United States

Ryan Finnigan
Unit on Inequality and Social Policy
WZB Berlin Social Science Center
The New Economy

- Insecure employment conditions
- High-skill and knowledge-based industries
- Financialization
Research Question

• How has the transition to the ‘new economy’ affected wage inequalities between White, Black, Latino, and Asian workers across local labor markets in the U.S.?
The New Economy and Inequality

- Stratifying Hypothesis: racial/ethnic wage inequalities increase in the transition to the new economy
Financialization and Inequality

- Financialization separates worker productivity from corporate profits
- Decreases workers’ bargaining power
- Decreased power may be particularly profound for already socially disadvantaged groups
Methods: Data

- Decennial Census 1990-2000, and 2006-2011 American Community Survey (IPUMS)

- White, Black, Latino, and Asian male and female non-FIRE workers, ages 25-54 (4,270,464 males; 3,849,810 females)

Methods: Wages

Dependent Variable:

- Logged Real Hourly Wages
Methods: Wages

White-Minority Wage Gaps, Men

White-Minority Wage Gaps, Women

White-Black

White-Latino

White-Asian
Methods: Financialization

• Share of total earnings in the local labor market by workers in FIRE industry

• Captures degree of financialization better than employment share

• Captures relevance for the labor market better than corporate profits
Methods: Financialization

% Local Earnings in FIRE Sector

Year

1989 1999 2007 2010

Charlotte

Chicago

Milwaukee

Modesto

Oklahoma City
Methods: Financialization and Wage Gaps

Latina-White Hourly Wage Gap among Female Workers

Year

1989 1999 2007 2010

Chicago
Charlotte
Milwaukee
Modesto
Oklahoma City
Methods: Key Independent Variables

Other New Economy Variables:
- College/Non-College Wage Ratio
- Creative Class
- % Casualized Employment
- Union Rate
- In(% Foreign Born)
Methods: Control Variables

Individual:
- Age
- Marital Status
- HH Composition
- Immigration
- Education Categories
- Occupation
- Industry
- Part Time
- Public Employment

Metropolitan:
- Unemployment
- Public Employment
- Population
- % Black
- % Latino
- % Asian
Methods: Regression Approach

Fixed-Effects Linear Regression

• Changes in new economy and wage gaps within areas over time

\[
\ln(Wage_{ijt}) = \beta_{\text{White}} + \beta_{\text{Race}} \text{Race}_{ijt} \\
+ \beta_{\text{Econ,White}} \text{Econ}_{jt} \\
+ \beta_{\text{Econ,Race}} \text{Econ}_{jt} \times \text{Race}_{ijt} \\
+ \beta_{X} X_{ijt} + \beta_{W} W_{jt} \\
+ \beta_{\text{MSA}} \text{MSA}_{j} + \beta_{\text{Year}} \text{Year}_{t} + e_{ijt}
\]
Results: White Workers’ Hourly Wages

Male Workers

Female Workers

In(% FIRE Earn.)

Coll. Wage Ratio

Creative Class

Casualization

Deunionization

In(% Foreign Born)

% Change in Whites' Hourly Wages

% Change in Whites' Hourly Wages
Results: White-Black Wage Gap

Male Workers

- ln(% FIRE Earn.)
- Coll. Wage Ratio
- Creative Class
- Casualization
- Deunionization
- ln(% Foreign Born)

% Change in White-Black Wage Gap

Female Workers

- ln(% FIRE Earn.)
- Coll. Wage Ratio
- Creative Class
- Casualization
- Deunionization
- ln(% Foreign Born)

% Change in White-Black Wage Gap

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Results: White-Latino Wage Gap

- ln(% FIRE Earn.)
- Coll. Wage Ratio
- Creative Class
- Casualization
- Deunionization
- ln(% Foreign Born)

% Change in White-Latino Wage Gap

Male Workers

Female Workers

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Results: White-Asian Wage Gap

Male Workers

- ln(% FIRE Earn.)
- Coll. Wage Ratio
- Creative Class
- Casualization
- Deunionization
- ln(% Foreign Born)

% Change in White-Asian Wage Gap

Female Workers

- ln(% FIRE Earn.)
- Coll. Wage Ratio
- Creative Class
- Casualization
- Deunionization
- ln(% Foreign Born)

% Change in White-Asian Wage Gap
Summary: White-Minority Wage Gaps

• Growth in FIRE earnings significantly increases all gaps
• Growth in college wage ratio has strongest effect on White-Black and White-Latino Gaps
• Immigration has strong relationships to White-Latino and White-Asian wage differences
Results: Counterfactual Wage Trends

White-Minority Wage Gaps, Men

Average Hourly Wage Gap (2010 Dollars)

Year

1989 1999 2007 2010

White-Black
White-Latino
White-Asian

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Results: Counterfactual Wage Trends

White-Minority Wage Gaps, Men

Average Hourly Wage Gap (2010 Dollars)

Year

1989 1999 2007 2010

White-Black

White-Latino

White-Asian

White-Minority Wage Gaps, Men

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Results: Counterfactual Wage Trends

White-Minority Wage Gaps, Women

Average Hourly Wage Gap (2010 Dollars)

Year

1989 1999 2007 2010

White-Black  White-Latino  White-Asian

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Results: Counterfactual Wage Trends

White-Minority Wage Gaps, Women

Average Hourly Wage Gap (2010 Dollars)

Year

1989
1999
2007
2010

White-Black
White-Latino
White-Asian

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Conclusion

• Wages higher for White and Asian workers in the new economy
• White-black and White-Latino wage gaps larger by $1-$2 per hour in 2010
• Results strongly favor the Stratifying Hypothesis
Thanks!

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Methods: Financialization

MSA-Level Distribution of FIRE Earnings, 1989

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Methods: Financialization

MSA-Level Distribution of FIRE Earnings, 2007

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Methods: Financialization

MSA-Level Distribution of FIRE Earnings, 2010
Transition to the New Economy

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Results II: Interpretation of Effects

![Graph showing the trend of Coll/Non-Coll Ratio from 1989 to 2010. The ratio starts at 1.7 in 1989 and increases to 2.0 in 2010. The graph includes a dashed line representing the average trend.]

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Results II: Interpretation of Effects

- **Diagram Description:**
  - The diagram shows the Coll/Non-Coll. Ratio from 1989 to 2010.
  - The y-axis represents the Coll/Non-Coll. Ratio ranging from 1.7 to 2.
  - The x-axis represents the years from 1989 to 2010.
  - Two lines are plotted:
    - A solid black line labeled "Average".
    - A dashed red line labeled "San Diego".

- **Key Observations:**
  - The Coll/Non-Coll. Ratio for San Diego is consistently higher than the average across the years.
  - There is a noticeable increase in the ratio from 1989 to 2010 for both average and San Diego.

- **Author:** Ryan Finnigan
Results II: Interpretation of Effects

Percent change in wages, in areas with increases in $X$ one standard deviation greater than the average increase.

$$\%\Delta Y = 100 \times \beta_X \times (\mu_{\Delta X} + s.d.\Delta X)$$
### Fixed-Effects Regression Results

Table 1: Regression Results for Logged Hourly Wages on the New Economy Variables among Male Workers, 1989–2010.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Coll./Non-Coll. Ratio</td>
<td>0.164***</td>
<td>-0.206***</td>
<td>-0.251***</td>
<td>-0.017</td>
</tr>
<tr>
<td></td>
<td>(7.55)</td>
<td>(-10.82)</td>
<td>(-10.07)</td>
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</tr>
<tr>
<td>ln(% FIRE Earnings)</td>
<td>-0.058***</td>
<td>-0.040***</td>
<td>-0.069***</td>
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<td>(-4.45)</td>
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</tr>
<tr>
<td>Creative Class</td>
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<td>(5.23)</td>
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<td>0.002+</td>
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<tr>
<td>Union Rate</td>
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<td>(4.72)</td>
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<tr>
<td>ln(% Foreign Born)</td>
<td>0.047***</td>
<td>-0.010**</td>
<td>-0.040***</td>
<td>-0.075***</td>
</tr>
<tr>
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<td>(4.80)</td>
<td>(-3.07)</td>
<td>(-6.49)</td>
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<td>MSA-Years</td>
<td>620</td>
<td>MSAs</td>
<td>155</td>
<td></td>
</tr>
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<td>N</td>
<td>4,270,464</td>
<td>R²</td>
<td>0.313</td>
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**Note**: Robust t-statistics in parentheses. Model includes, but do not display, all individual- and metropolitan-level control variables.

*** p<0.001, ** p<0.01, * p<0.05, + p<0.10

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- MSA-Years: 620 MSAs
- N: 3,849,810
- R²: 0.313

**Note:** Robust t-statistics in parentheses. Model includes, but do not display, all individual- and metropolitan-level control variables.

*** p<0.001, ** p<0.01, * p<0.05, + p<0.10

#### Table 2: Regression Results for Logged Hourly Wages on the New Economy Variables among Female Workers, 1989–2010.

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<th>White-Latino</th>
<th>White-Asian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coll./Non-Coll. Ratio</td>
<td>0.115***</td>
<td>-0.172***</td>
<td>-0.202***</td>
<td>-0.017</td>
</tr>
<tr>
<td></td>
<td>(5.89)</td>
<td>(-9.14)</td>
<td>(-9.94)</td>
<td>(-0.64)</td>
</tr>
<tr>
<td>ln(% FIRE Earnings)</td>
<td>-0.023+</td>
<td>-0.050***</td>
<td>-0.068***</td>
<td>-0.053***</td>
</tr>
<tr>
<td></td>
<td>(-1.85)</td>
<td>(-5.67)</td>
<td>(-6.67)</td>
<td>(-5.73)</td>
</tr>
<tr>
<td>Creative Class</td>
<td>0.007***</td>
<td>0.004***</td>
<td>0.002*</td>
<td>-0.002+</td>
</tr>
<tr>
<td></td>
<td>(4.68)</td>
<td>(3.92)</td>
<td>(1.98)</td>
<td>(-1.95)</td>
</tr>
<tr>
<td>Casualization</td>
<td>-0.008***</td>
<td>-0.003***</td>
<td>0.003***</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>(-6.64)</td>
<td>(-3.73)</td>
<td>(3.42)</td>
<td>(0.47)</td>
</tr>
<tr>
<td>Union Rate</td>
<td>0.001*</td>
<td>0.003***</td>
<td>-0.000</td>
<td>-0.001*</td>
</tr>
<tr>
<td></td>
<td>(2.12)</td>
<td>(10.82)</td>
<td>(-0.72)</td>
<td>(-1.98)</td>
</tr>
<tr>
<td>ln(% Foreign Born)</td>
<td>0.050***</td>
<td>-0.011**</td>
<td>-0.038***</td>
<td>-0.037***</td>
</tr>
<tr>
<td></td>
<td>(5.28)</td>
<td>(-3.30)</td>
<td>(-7.22)</td>
<td>(-4.66)</td>
</tr>
</tbody>
</table>

- MSA-Years: 155 MSAs
- N: 3,849,810
- R²: 0.278

**Note:** Robust t-statistics in parentheses. Model includes, but do not display, all individual- and metropolitan-level control variables.

*** p<0.001, ** p<0.01, * p<0.05, + p<0.10