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Earnings inequality and subnational political economy in the United States, 1970–2000 ☆

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Abstract

Previous studies of rising inequality in the United States have overlooked the potential role of subnational political economic variation as an institution that shapes earnings restructuring. This paper uses hierarchical linear models to examine how state right-to-work laws contribute to growth in inequality in 80 metropolitan labor markets from 1970 to 2000. Contrary to conventional expectations, labor markets in states with right-to-work laws experience relatively mild growth in earnings inequality, and are less unequal by 2000 than non-RTW labor markets. The trend cannot be fully explained by union density, job growth, uneven development or variation in racial inequality. The findings contribute to a distinctly sociological perspective on rising inequality that considers how social, institutional and economic factors interact at the local and state levels to shape earnings.

Keywords: Earnings; Inequality; Local labor markets; Economic development; Right-to-work laws

Scholars of comparative stratification often point to the importance of employment regimes for explaining national differences in earnings[1] and inequality (i.e., Freeman, 1996; Kalleberg, 1988), but they pay less attention to the consequences of political economic variation within nations. Since at least the 1940s, states and localities in the United States have attempted to fashion distinctive business climates to attract investment and create jobs (Cobb, 1993). Local economic differentiation accelerated in the 1970s and 1980s in response to the devolution of responsibility for economic development to the states (Eisinger, 1988; Jenkins, Leicht, & Wendt, 2006). This paper asks whether state business climates

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[1] I use the terms earnings and wages interchangeably to refer to individuals' wage and salary income from their primary job.

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shaped the path of inequality growth in metropolitan labor markets from 1970 to 2000.

I focus on one of the oldest and most enduring elements of state business climates, right-to-work (RTW) laws. Right-to-work laws limit union security, or the requirement that workers covered by collective bargaining agreements pay union dues (Baird, 1998). Right-to-work laws are an important feature of American political economy because they shape labor relations, promote a competitive model of economic development, and are meaningful in the business community as signals of a neoliberal orientation to growth (Cobb, 1993). Using multi-level growth curve analysis I find that metropolitan labor markets in RTW states are more unequal than non-RTW labor markets in 1970, but RTW labor markets experience milder inequality growth over the 30-year period of earnings restructuring. I use the existing literature on RTW laws to derive hypotheses of why metropolitan labor markets' levels of inequality in 1970, and growth in inequality from 1970 to 2000, vary across RTW contexts. The literature suggests that RTW laws may shape earnings inequality directly via effects on union density and employment growth, and indirectly due to the laws' correlation with levels of economic development and racial inequality. These conventional expectations explain the greater levels of inequality observed in RTW labor markets in 1970, but they are insufficient for understanding variation in inequality growth across RTW and non-RTW contexts from 1970 to 2000.

The robust negative relationship between RTW laws and inequality growth is puzzling from the perspective of comparative research that associates higher levels of inequality and sharper inequality growth with weak labor market institutions (e.g., DiPrete, Maurin, Goux, & Amelie, 2006; Kenworthy & Pontusson, 2005; Pontusson, Rueda, & Way, 2002). I theorize that the relationship between labor market institutions such as unions and inequality is curvilinear, with the greatest levels of inequality found in systems with labor market institutions that are stronger than those in adjacent areas, but too weak to prevent capital flight and institutional weakening (see Calmfors & Driffill, 1988). From this perspective, capital mobility and related elements of competitive development decrease the bargaining power of unions net of union density (Moore, 1998) and increase employment insecurity (Bourdieu, 2003; Bronfenbrenner, 2000), therefore altering the dynamics of earnings determination within firms and producing sharp inequality growth in non-RTW labor markets. By considering the relationship between local earnings restructuring and subnational political economy, and conceptualizing earnings determination as a multi-level phenomenon, this paper offers a fresh perspective on one of the most socially significant but sociologically understudied recent trends in the United States, the growth of economic inequality (Myles & Myers, 2007).

1. Sociological perspectives on rising inequality

It is well known that economic inequality in the United States increased dramatically in the final quarter of the twentieth century, with inequality in individual earnings driving the rise in personal and household income inequality (Kenworthy, 2007: 599). A large literature, primarily in the field of economics, documents this trend and debates the causes of increased earnings inequality (see Alderson & Nielsen, 2002; Levy & Murnane, 1992; Morris & Western, 1999 for reviews of this extensive literature). In this section I argue that understanding rising inequality in the United States requires integrating an understanding of shifting spatial inequalities—particularly the reasons why local labor markets vary in inequality levels and trajectories of growth from 1970 to 2000—with existing institutional, organizational and class-based perspectives.

The central debate in the literature on earnings inequality surrounds the relative importance of technological and institutional explanations, yet this literature's narrow focus on the declining value of the minimum wage (Card & DiNardo, 2002; Lee, 1999), unions (Card, 2001; DiNardo, Fortin, & Lemieux, 1996; Levy & Murnane, 1992; Morris & Western, 1999), and technology (Autor, Katz, & Kearney, 2008; Blau & Kahn, 1996; Card & DiNardo, 2002; DiPrete et al., 2006; Fernandez, 2001; Katz & Autor, 1999; Kenworthy & Pontusson, 2005) is insufficient for understanding recent trends. Existing research suggests that the exceptionally sharp increase in inequality observed in the United States over the last 30 years is due to a change in the dynamics of earnings determination, including the weakening of non-union labor market institutions (Blau & Kahn, 1996; DiPrete, 2007; Freeman, 1996; Kalleberg, 1988; Kenworthy, 2007; Kenworthy & Pontusson, 2005; Pontusson et al., 2002).

Although late to enter the debate, sociologists of stratification have recently developed class-based accounts of rising inequality that help clarify recent changes in earnings determination. Rents represent the gap between the earnings a worker would garner under perfect competition and the earnings actually received (Sørensen, 2000). Viewed through this lens earnings inequality has increased in the United States because the capacity to generate rents has declined among the working and lower