

# WZB

Social Science Research Center  
Berlin



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

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# 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

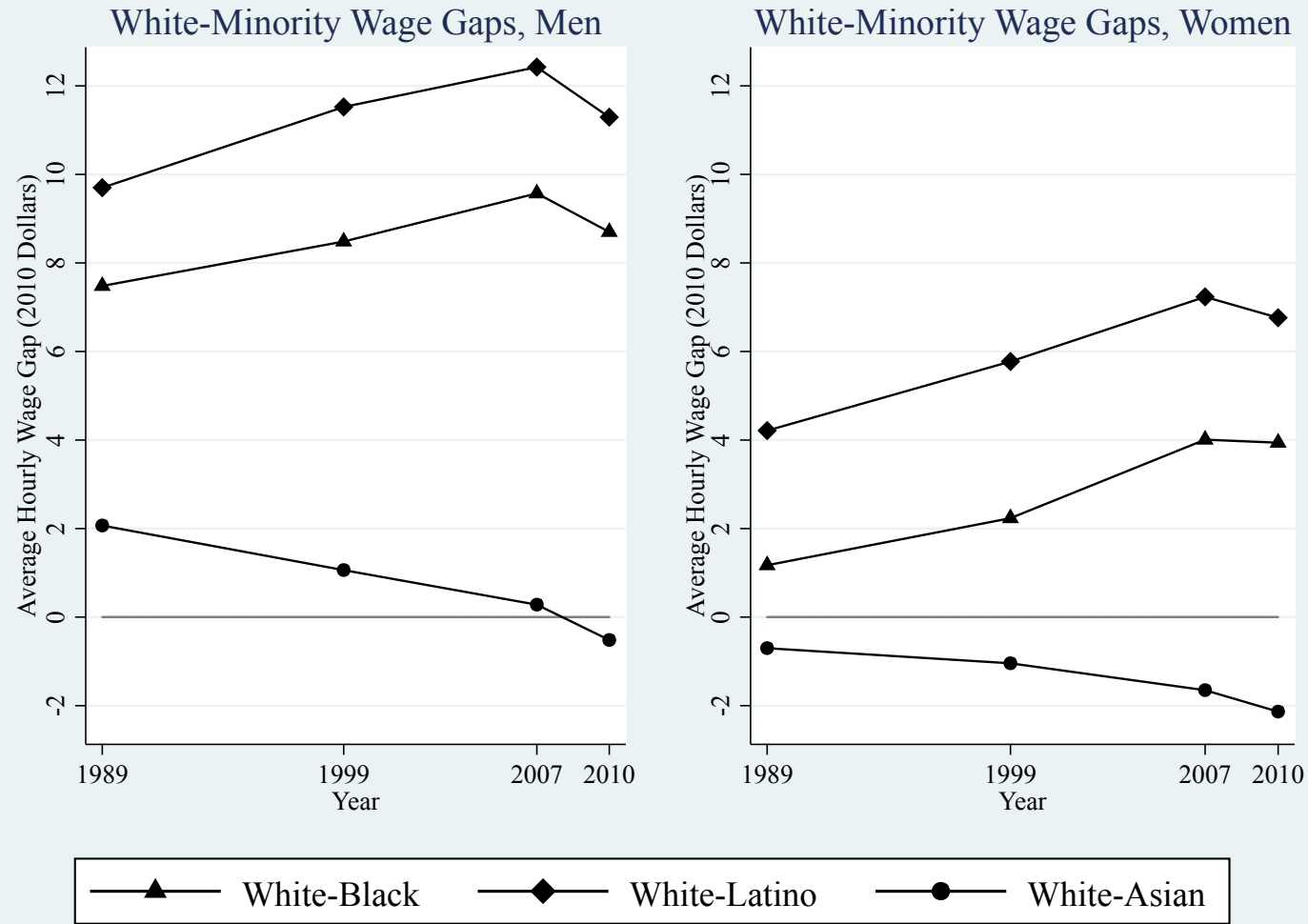
- Decennial Census 1990-2000, and 2006-2011 American Community Survey (IPUMS)
- White, Black, Latino, and Asian male and female non-FIRE workers, ages 25-54 (4,270,464 males; 3,849,810 females)
- Workers nested within a balanced panel of 155 MSAs (620 MSA-years): 1989, 1999, 2007, 2010

## Methods: Wages

Dependent Variable:

- Logged Real Hourly Wages

# Methods: Wages

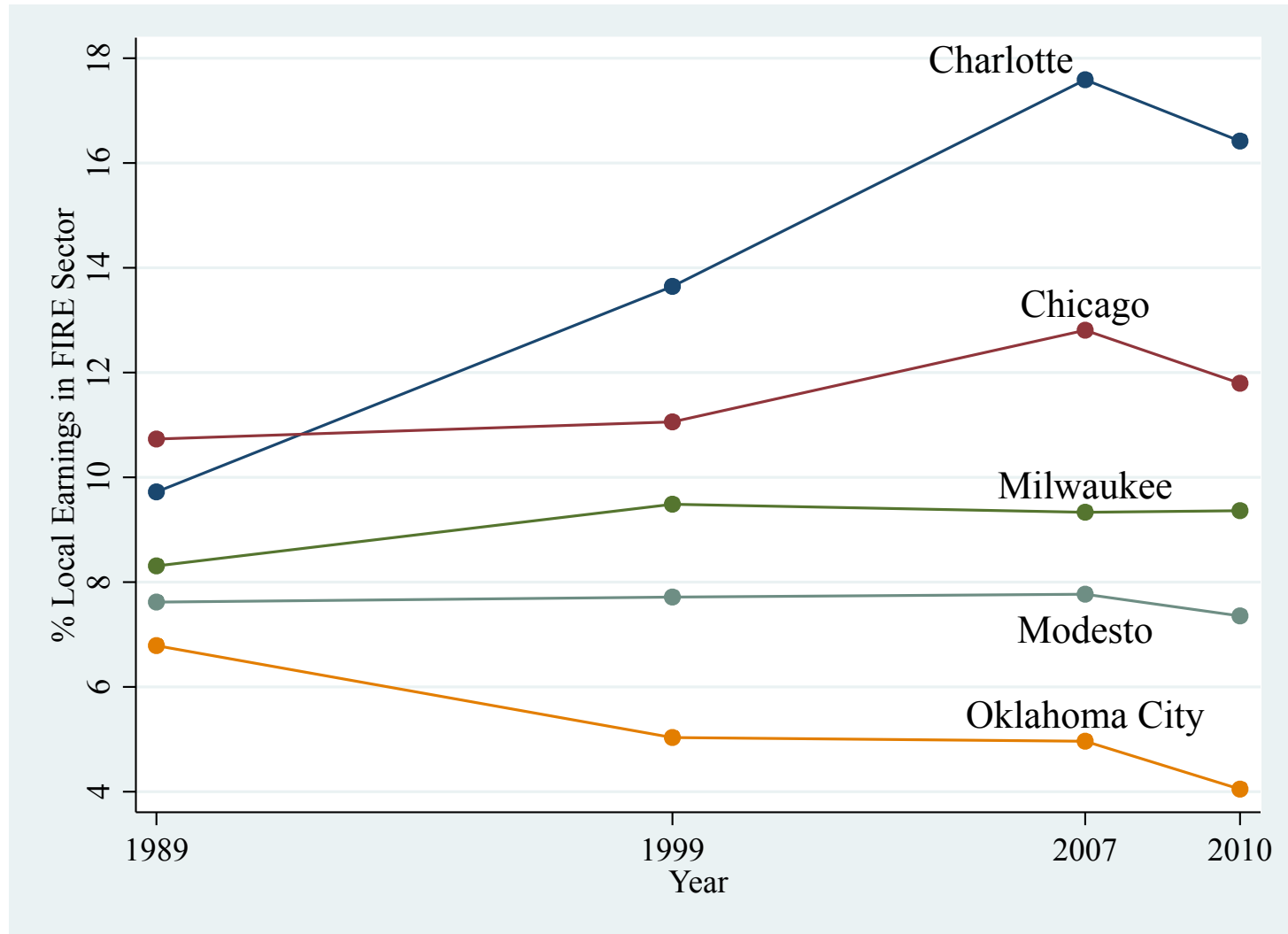




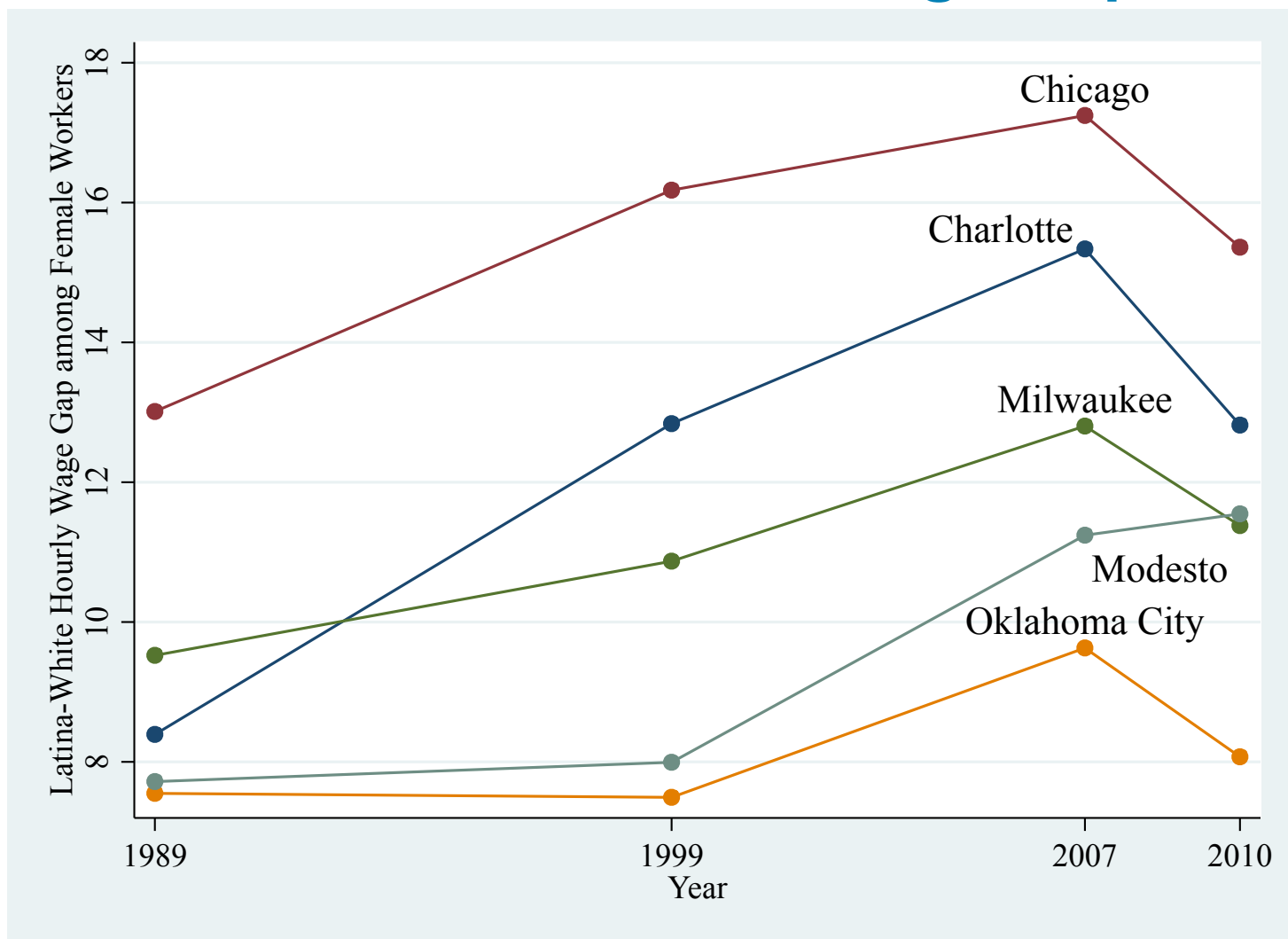
## Methods: Financialization

- 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



## Methods: Financialization and Wage Gaps



## Methods: Key Independent Variables

### Other New Economy Variables:

- College/Non-College Wage Ratio
- Creative Class
- % Casualized Employment
- Union Rate
- $\ln(\% \text{ Foreign Born})$

## 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

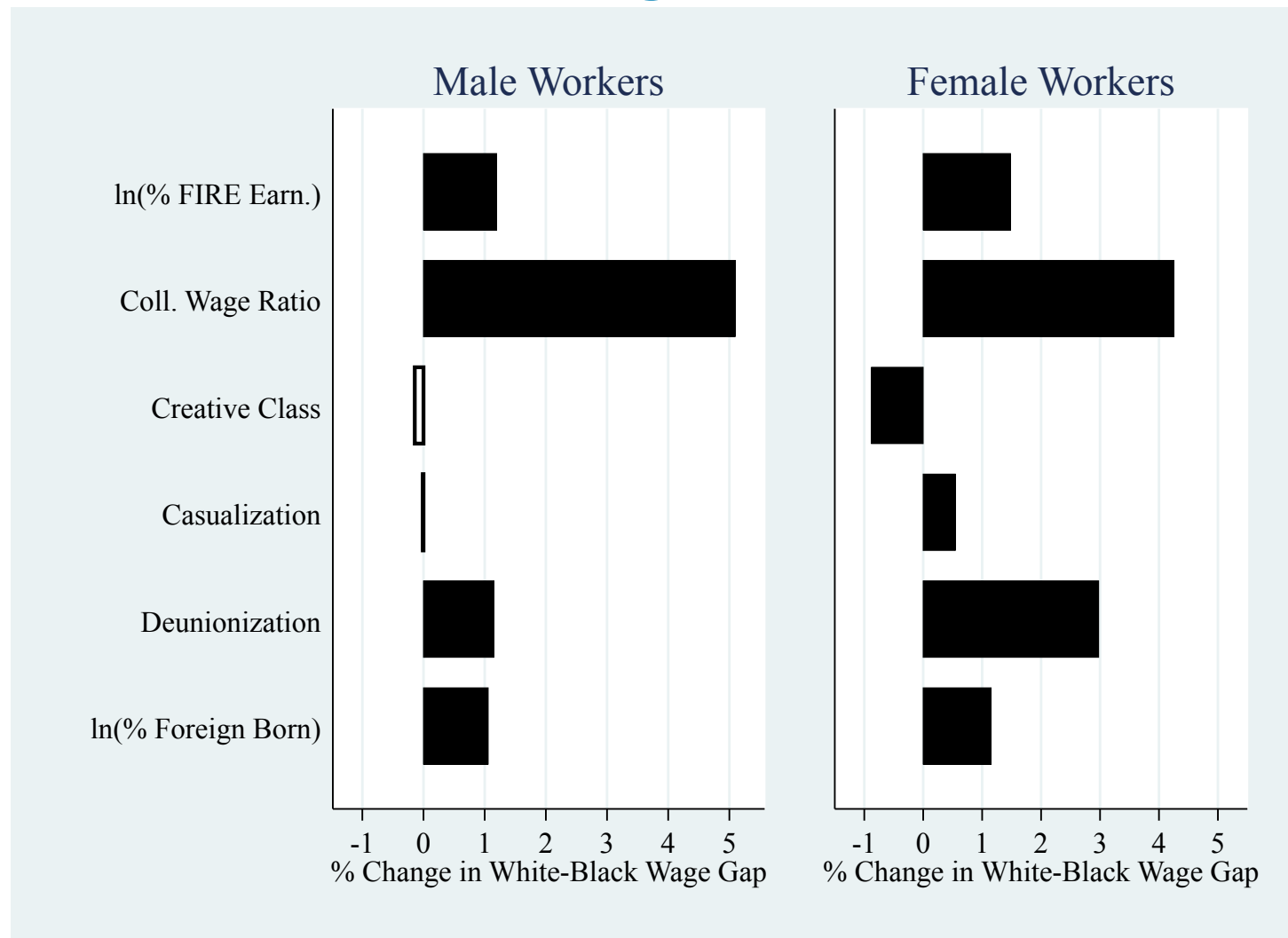
- Changes in new economy and wage gaps within areas over time

$$\begin{aligned} \ln(\text{Wage}_{ijt}) &= \beta_{\text{White}} + \beta_{\text{Race}} \text{Race}_{ijt} \\ &+ \beta_{\text{Econ,White}} \text{Econ}_{jt} \\ &+ \beta_{\text{Econ,Race}} \text{Econ}_{jt} \times \text{Race}_{ijt} \\ &+ \beta_X X_{ijt} + \beta_W W_{jt} \\ &+ \beta_{\text{MSA}} \text{MSA}_j + \beta_{\text{Year}} \text{Year}_t + e_{ijt} \end{aligned}$$

# Results: White Workers' Hourly Wages

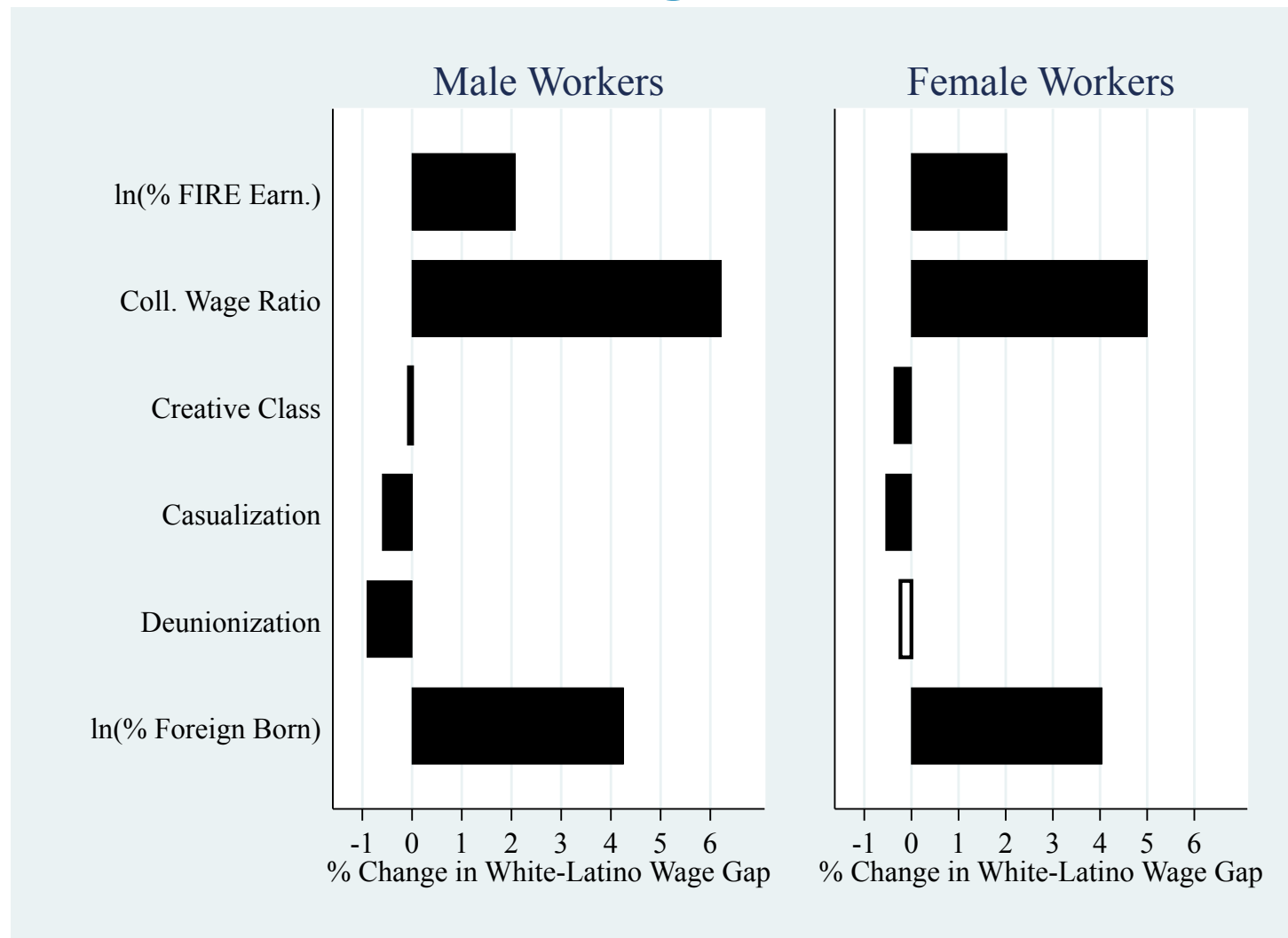


# Results: White-Black Wage Gap

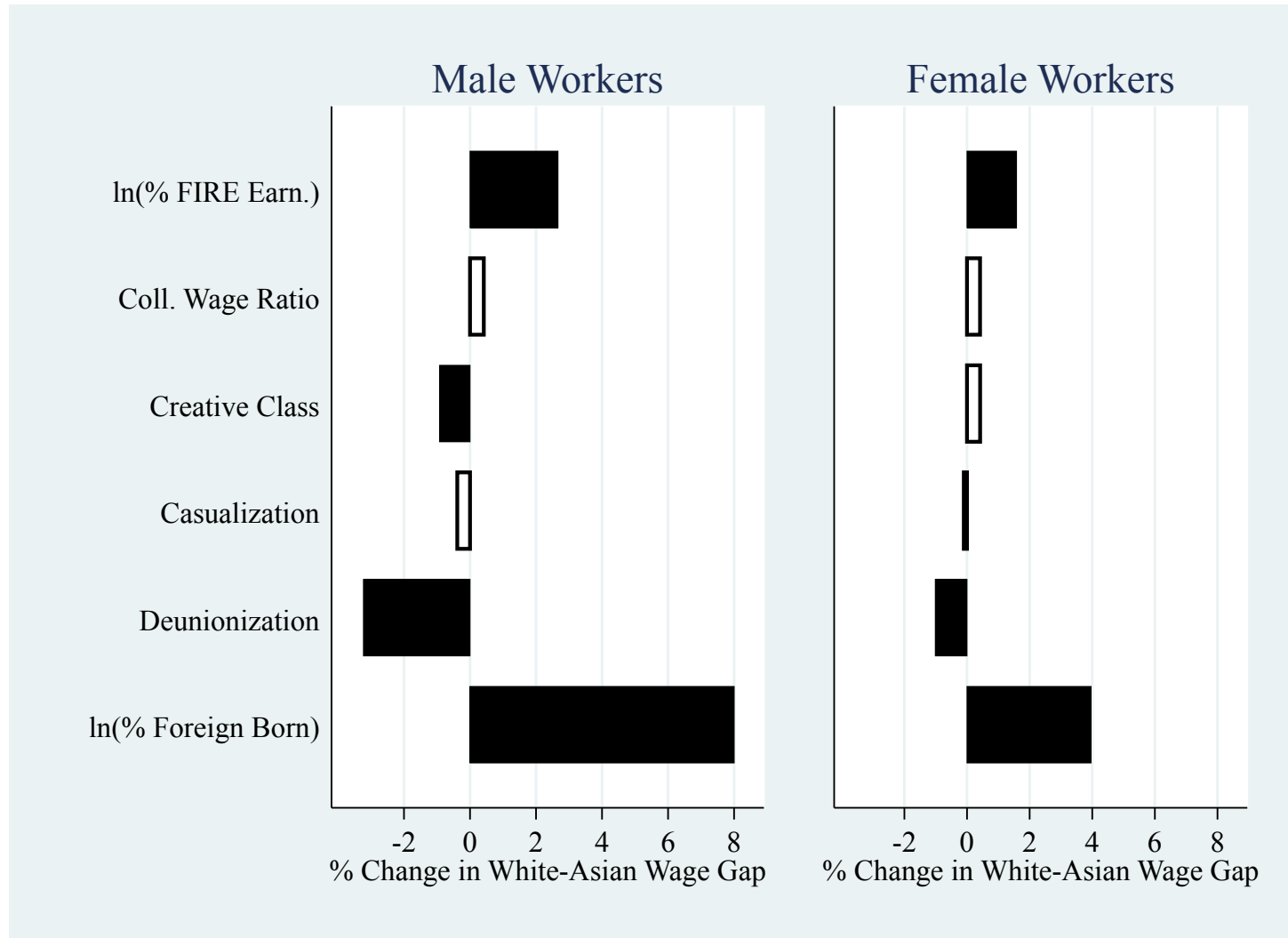




# Results: White-Latino Wage Gap



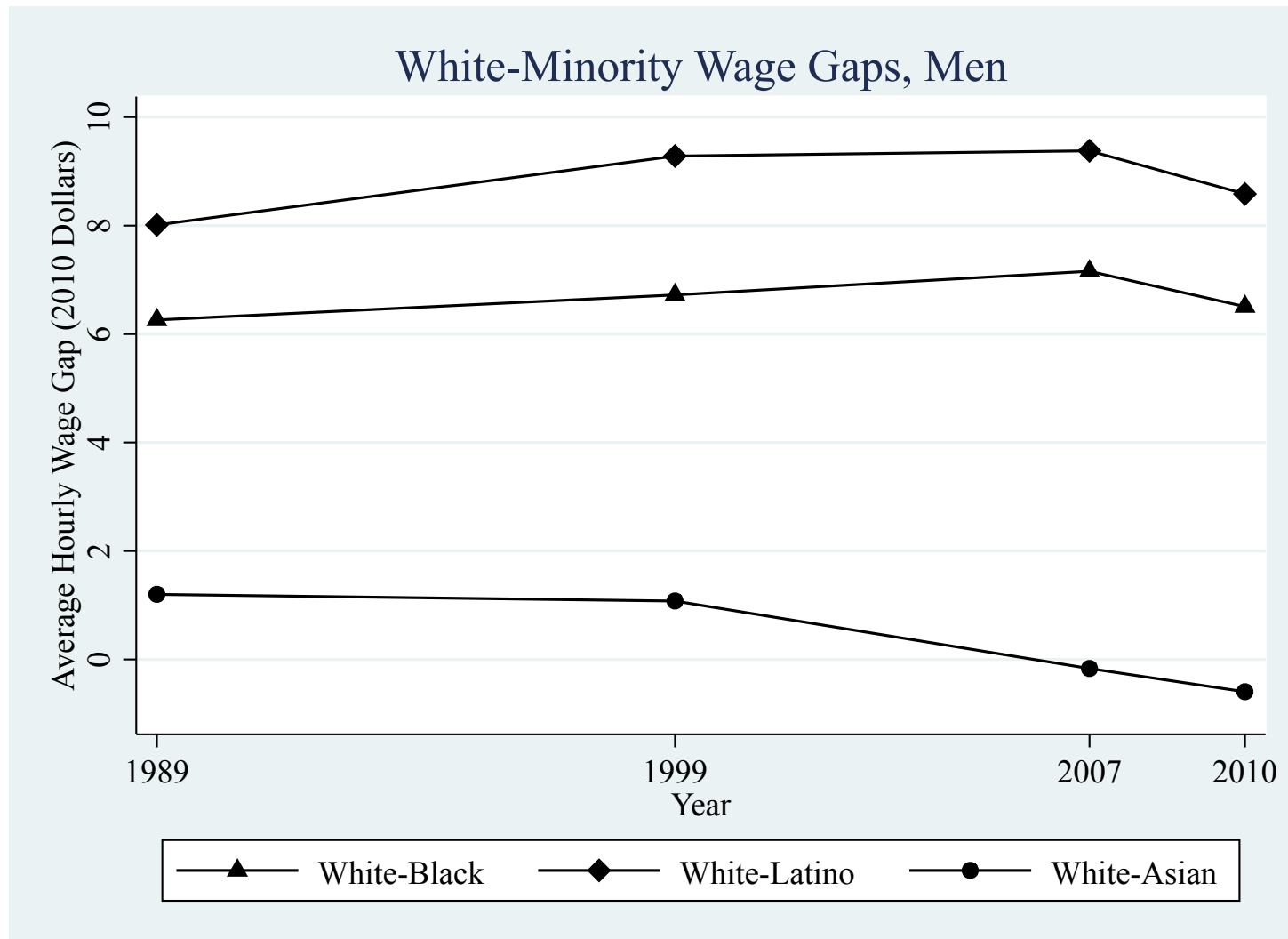
# Results: White-Asian Wage Gap



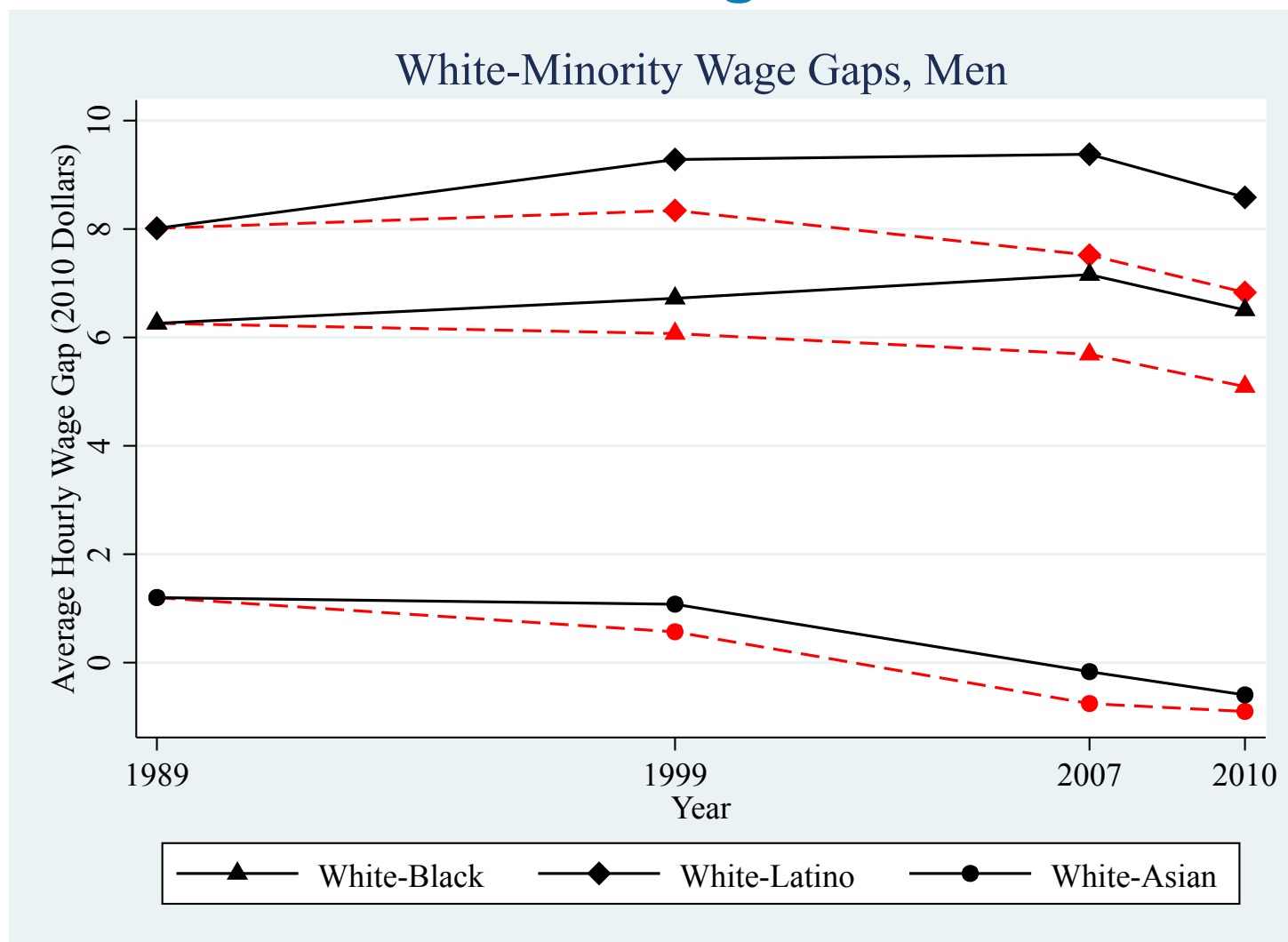
## Summary: White-Minority Wage Gaps

- 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

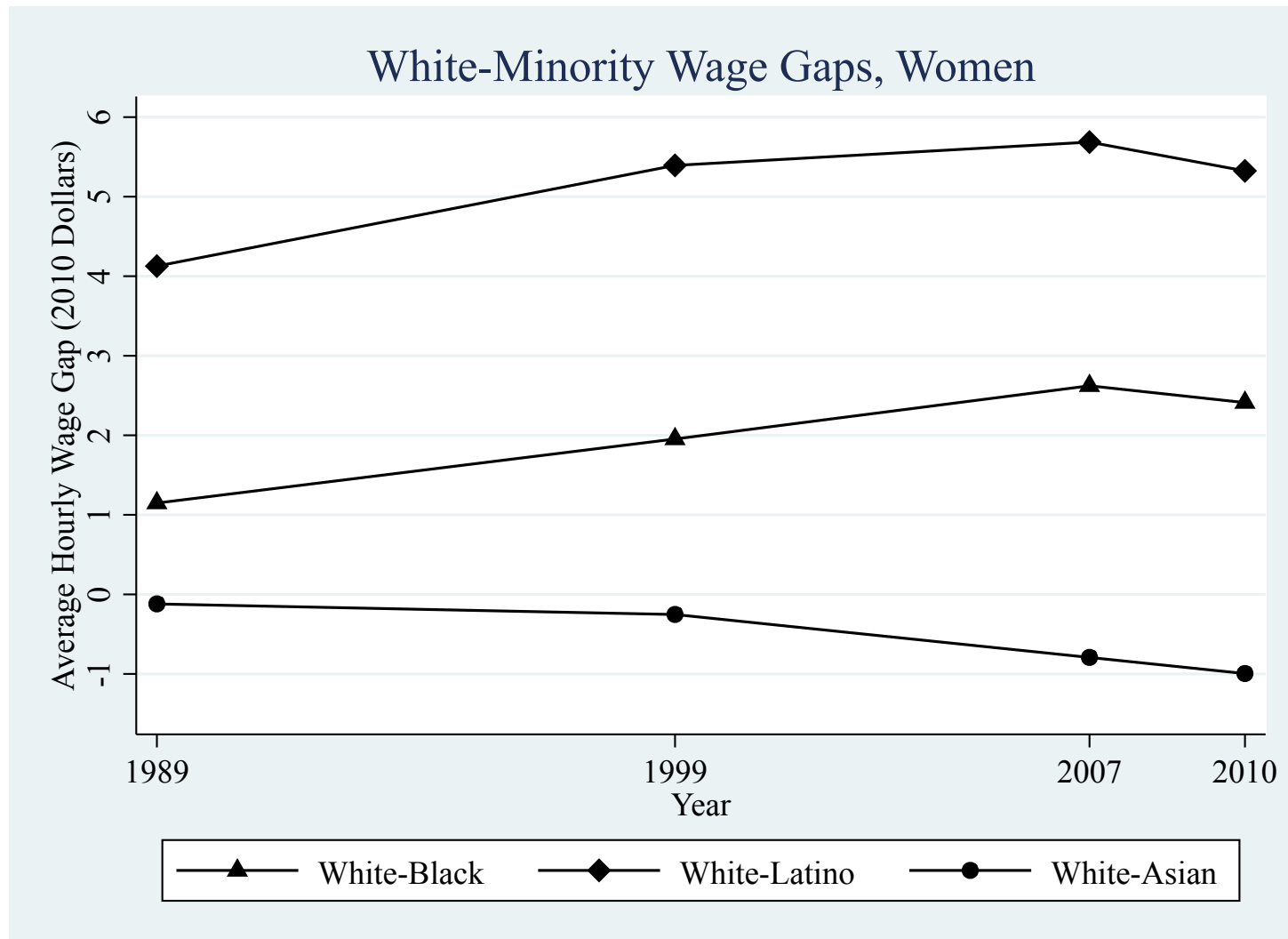
# Results: Counterfactual Wage Trends



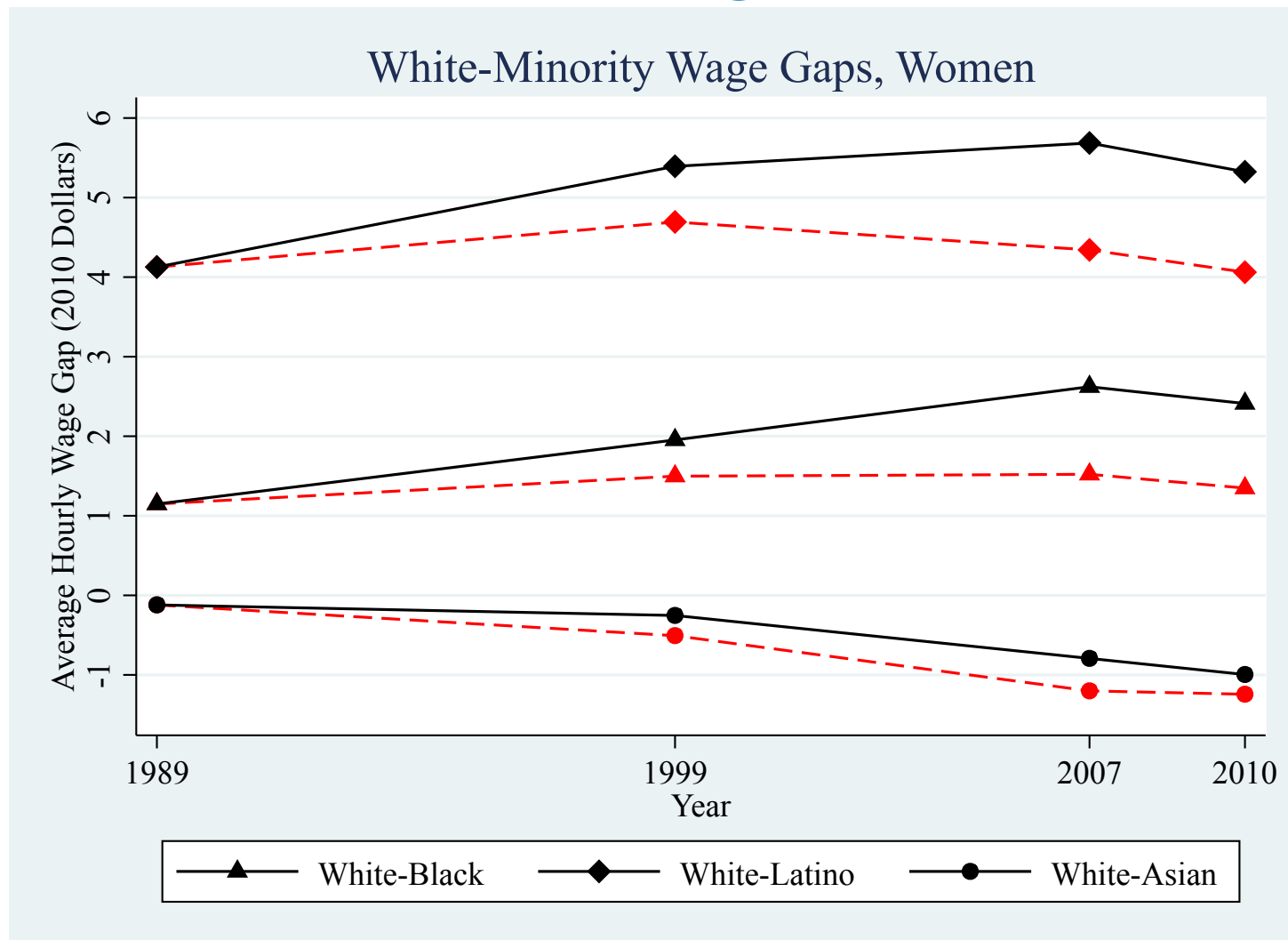
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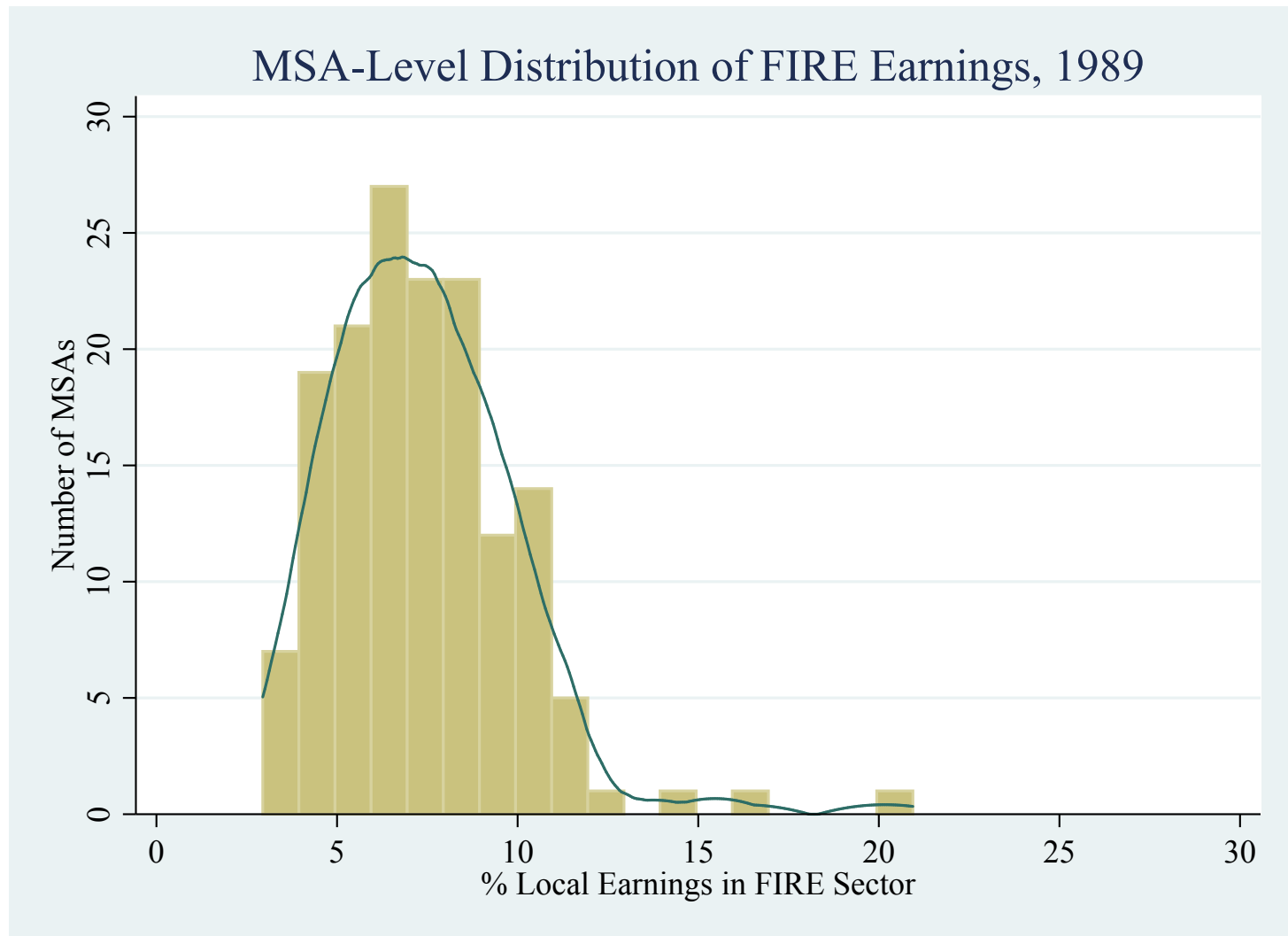
## Conclusion

- 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

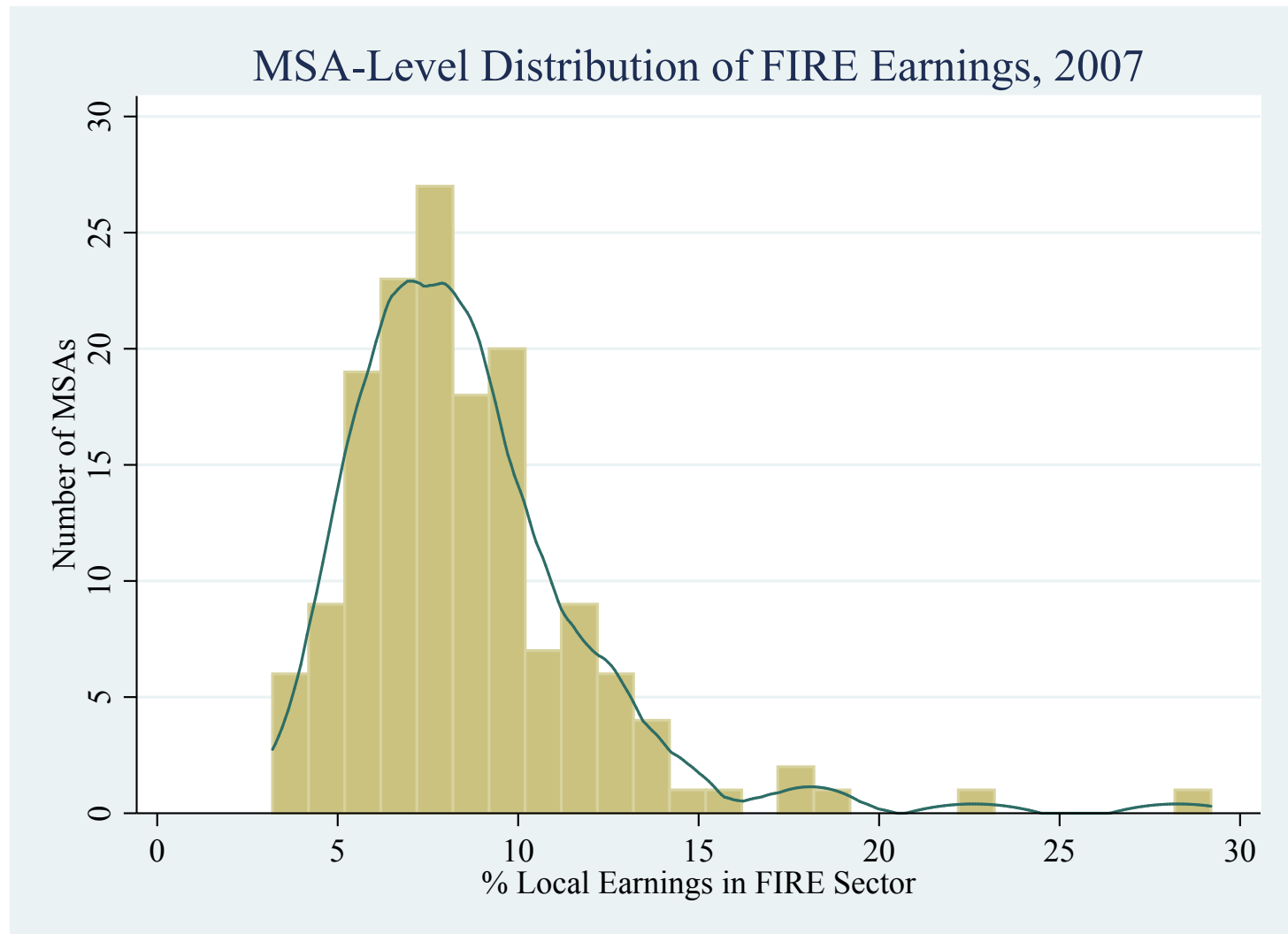


Thanks!

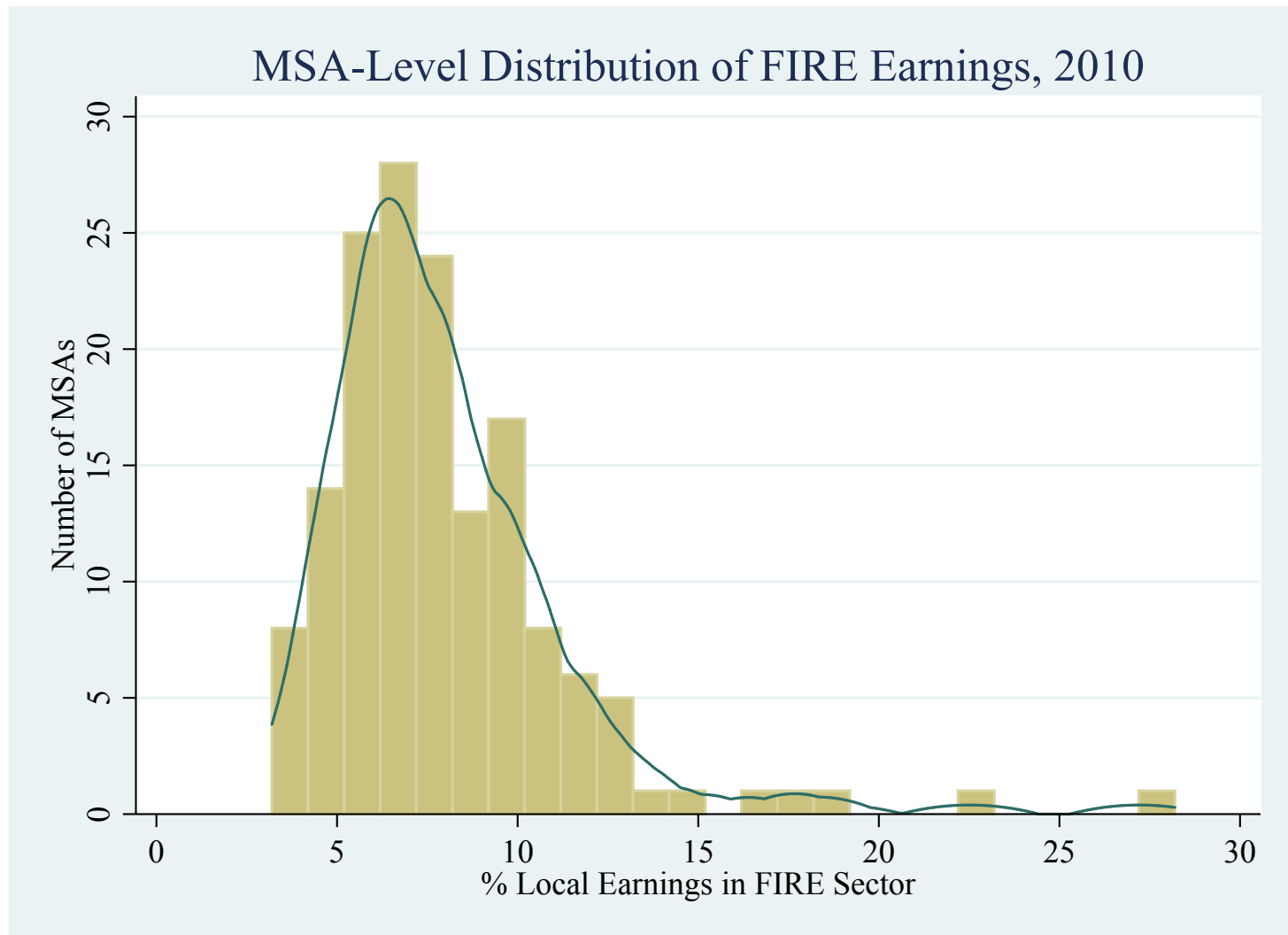
## Methods: Financialization



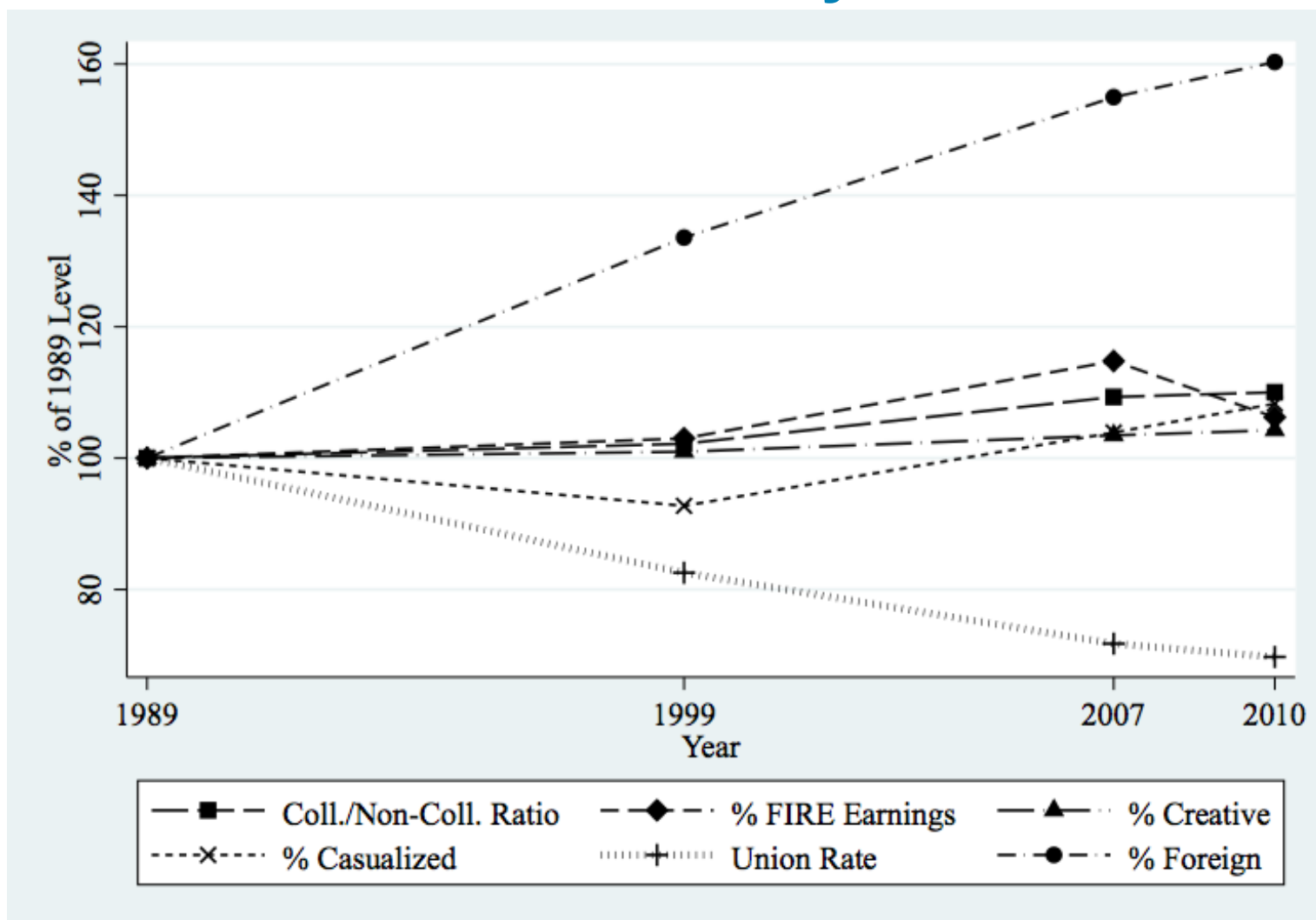
## Methods: Financialization



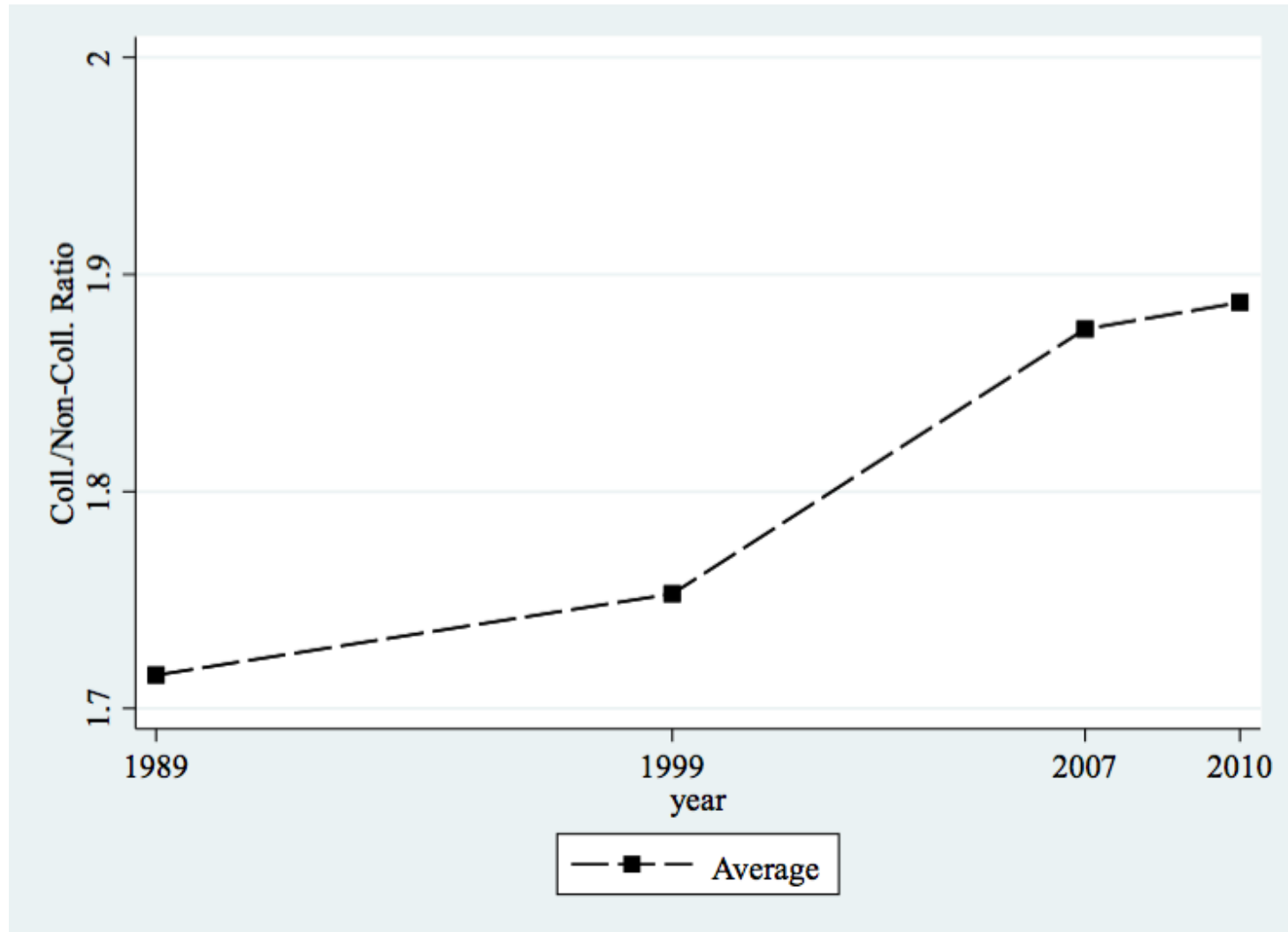
## Methods: Financialization



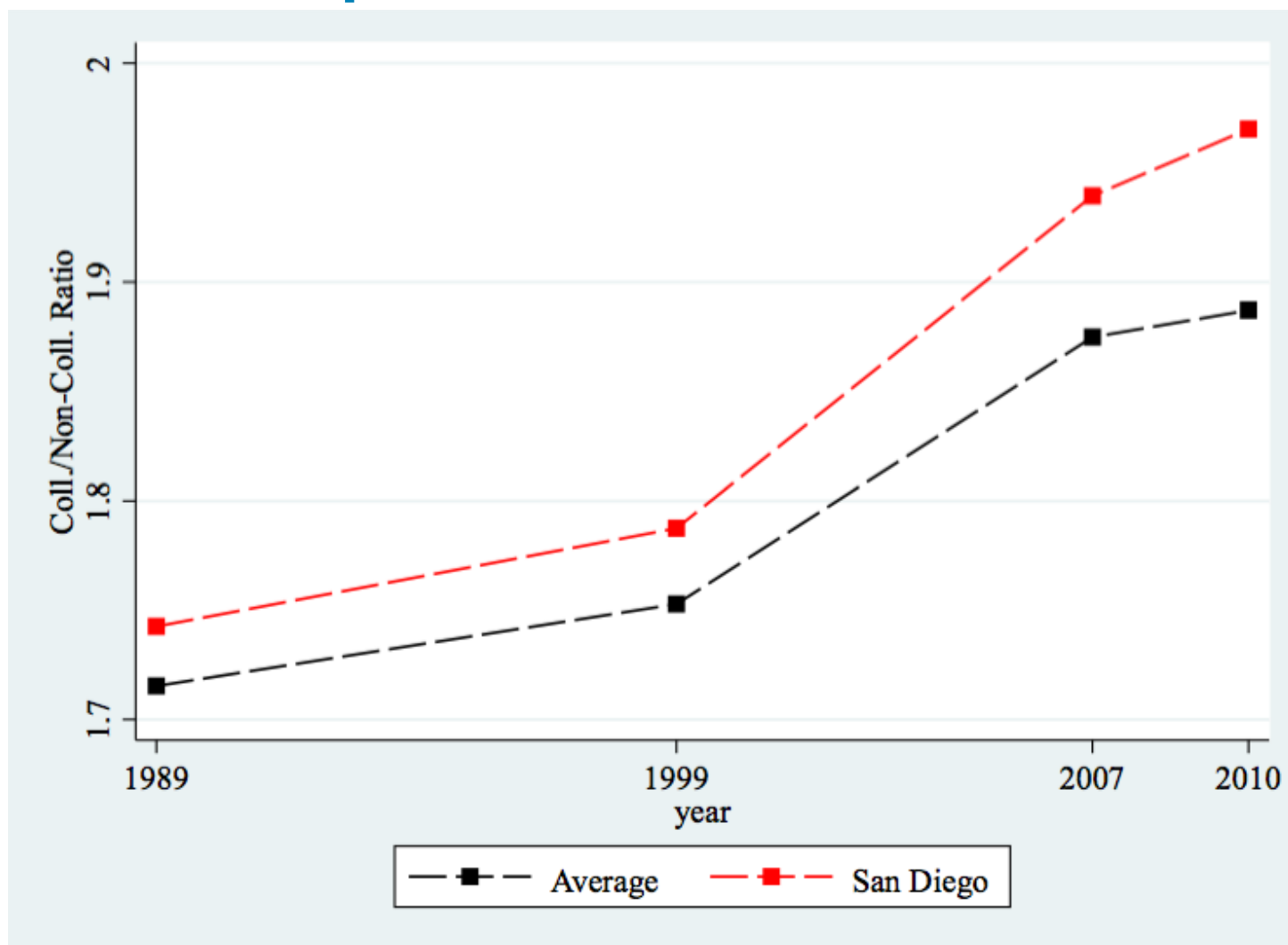
# Transition to the New Economy



## Results II: Interpretation of Effects



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

$$\% \Delta Y = 100 \times \beta_X \times (\mu_{\Delta X} + \text{s.d.}_{\Delta X})$$



# Fixed-Effects Regression Results

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

	White	White-Black	White-Latino	White-Asian
Coll./Non-Coll. Ratio	0.164*** (7.55)	-0.206*** (-10.82)	-0.251*** (-10.07)	-0.017 (-0.54)
ln(% FIRE Earnings)	-0.058*** (-4.45)	-0.040*** (-5.05)	-0.069*** (-7.24)	-0.089*** (-7.49)
Creative Class	0.009*** (5.23)	0.001 (0.68)	0.000 (0.28)	0.004*** (3.52)
Casualization	-0.010*** (-7.61)	0.000 (0.10)	0.004*** (3.32)	0.002+ (1.67)
Union Rate	0.002*** (4.72)	0.001*** (4.60)	-0.001* (-2.51)	-0.004*** (-4.98)
ln(% Foreign Born)	0.047*** (4.80)	-0.010** (-3.07)	-0.040*** (-6.49)	-0.075*** (-8.72)
MSA-Years	620		MSAs	155
N	4,270,464		R <sup>2</sup>	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

## Fixed-Effects Regression Results

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

	White	White-Black	White-Latino	White-Asian
Coll./Non-Coll. Ratio	0.115*** (5.89)	-0.172*** (-9.14)	-0.202*** (-9.94)	-0.017 (-0.64)
ln(% FIRE Earnings)	-0.023+ (-1.85)	-0.050*** (-5.67)	-0.068*** (-6.67)	-0.053*** (-5.73)
Creative Class	0.007*** (4.68)	0.004*** (3.92)	0.002* (1.98)	-0.002+ (-1.95)
Casualization	-0.008*** (-6.64)	-0.003*** (-3.73)	0.003*** (3.42)	0.001 (0.47)
Union Rate	0.001* (2.12)	0.003*** (10.82)	-0.000 (-0.72)	-0.001* (-1.98)
ln(% Foreign Born)	0.050*** (5.28)	-0.011** (-3.30)	-0.038*** (-7.22)	-0.037*** (-4.66)
MSA-Years	620		MSAs	155
N	3,849,810		R <sup>2</sup>	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