Could politics trump economics as reason for growing income inequality?

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Most research examining growing income inequality in the United States has focused on economic causes, for seemingly obvious reasons.

But a new study suggests that a different cause – the politically induced decline in the strength of worker unions – may play a much more pivotal role than previously understood.

In fact, the role that union decline has played in growing income inequality may actually be larger than many of the favorite explanations offered by economists, such as the education gap in the United States.

Among their contributions to income equality: unions reduce pay differences within companies and use their influence to lobby on behalf of the working and middle classes, the researchers say. "The effect that unions used to have on protecting the incomes of middle class and working Americans has been underestimated," said David Jacobs, co-author of the study and professor of sociology at The Ohio State University.

Jacobs conducted the study with Lindsey Myers, a doctoral student in sociology at Ohio State.Their results appear online in the journal *American Sociological Review* and are scheduled to appear in the August print edition.

The researchers used a wide variety of data sources for the study, including the Gini Index, a measure of income inequality, calculated by the U.S. Census Bureau. They used statistical modeling techniques to examine changes in family income differences over 60 years in search of factors that have important independent effects on income inequality.

Although the decline in union memberships began in the early 1950s, this decline accelerated after the election of President Ronald Reagan,whose policies and appointments to the National Labor Relations Board severely weakened unions, Jacobs said.

Since then, Republican presidents and one Democratic president (Bill Clinton) have followed policies that continued to weaken unions.

According to Jacobs, the effects on inequality have been considerable.

In the 12 years before Reagan's presidency, from 1970 to 1981, income inequality grew by 4.53 percent. But it expanded by 11.2 percent in the 12 Reagan-Bush years from 1981 to 1992, or by 2.5 times as much.

Inequality grew as much during the Clinton administration, which also implemented policies that hurt unions, Jacobs said.

Of course, a lot happened during this period that may conceivably affect income inequality. But Jacobs and Myers controlled for more than 20 other factors that economists andothers connect to growing inequality. Still, the decline in union strength remained the most important explanation for the increasing income gap.

For example, the researchers took into account changes in the percentage of manufacturing jobs, the percentage of employees in service occupations, levels of international trade, and a variety of demographic factors, including the percentage of female-headed households and the percentage of people under age 16 or over age 64. They also took into account other political factors such as the percentage of Republicans in

Congress.

And they considered the factor most often blamed by economists as the main cause of growing inequality: the growing education gapbetween the haves and have-nots.

"We controlled for all of the major factors generally cited by researchers as contributing to inequality. Still, union decline and the presence of Republican presidents remained the most important explanations for income inequality," Jacobs said. "Even education wasn't nearly as important as union decline."

According to Jacobs, Reagan's policies and those of Republican presidents who followed Reagan along with Clinton were a key reason for the decline of union strength and the resulting growth in inequality.

Reagan broke a strike by the Professional Air Traffic Controllers Organization, which ended with the union being decertified. Reagan also named three conservative members to the National Labor Relations Board who held anti-union views.

The result was a sharp decline in the number of workplace union recognition elections and victories during the Reagan administration, which continued under Presidents Bush and Clinton.

The one other factor in the study that played a role in growing inequality was the "financialization" of the American economy and the growth of financial profits, particularly in firms that had not engaged in these activities before.

"Financialization meant that the incomes of the high earners grew rapidly during this period, while union decline led to stagnating incomes for the less affluent.The end result was growing inequality," Jacobs said.

Jacobs and Myers used a variety of complex models to predict what would have happened if presidents during the 1980s and later had pursued more pro-union policies.

They concluded that unions likely would have lost members inthe 1980s even if there had been presidents supportive of their cause, but the losses would have been less severe.

"After the Reagan turning point, unions no longer had the influence to help contain the acceleration in inequality," Jacobs said.

How did unions help control inequality?

According to Jacobs, other research has shown that firms with unionized employees have diminished differences in pay – such that the gap in the earnings of the highest-paid worker and the lowest-paid workers was reduced in firms organized by unions.

"Unions were also the most effective political advocates forthe less affluent before Congress, the president and other elected officials,"Jacobs said. "They ended up helping less prosperous families even if they weren't union members."

Provided by The Ohio State University

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