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COLLAPSE OF LOW-SKILL WAGES CAUSED BY CHANGES IN LABOR MARKET INSTITUTIONS, NOT WORKPLACE TECHNOLOGY

Changes in Collective Bargaining and Shift to "Low-Road" Labor Management Strategies Play Larger Role Than Shrinking Demand for Low-Skill Workers

ANNANDALE-ON-HUDSON, N.Y.--While many argue that declining wages for low-skill jobs are caused by a technology-driven skills mismatch, with the supply of low-skill workers outstripping demand, a new study by Levy Institute Research Associate David Howell concludes that changes in labor practices, collective bargaining, and other wage-setting institutions play a far greater role in the wage collapse.

In the Levy Institute's new Public Policy Brief, ***Institutional Failure and the American Worker,*** *The Collapse of Low-Skill Wages,* Howell finds little evidence to support the popular theory that a skills- mismatch caused the decline in low-skill wages. "The shift of employment to higher-skill jobs observed in the 1970s slowed to a standstill in the mid-to-late 1980s, just when computer-based technological advances in the workplace began to take off," Howell says. "The timing of computer-based technological change is simply not consistent with the timing of shifts in the structure of employment."

Howell finds that although there was no substantial shift in demand away from low-skill workers after the recession of 1980-82, the wages for this group have continued to decline sharply since then, both in buying power and relative to higher skill jobs. "Within a simple supply and demand framework, it's hard to reconcile the wage collapse in the 1980s with the supply and demand numbers. The large decline in supply of low-skill workers--those with a high school degree or less--relative to demand should have raised low-skill wages in the 1980s relative to the 1970s," Howell observes.

A far more convincing explanation for the collapse in low-skill wages can found in the changes that took place in labor market practices and institutions in the 1980s, Howell says. He cites as key factors the weakening of collective bargaining, "low-road" management responses to increased international competition, and an overall shift toward market-based solutions to labor problems.

There is ample evidence of a fundamental shift toward a more confrontational management approach to labor and laissez-faire government policies since the late 1970s, a prime example being President Reagan's highly publicized attack on the air traffic controllers in 1981, Howell says. Management has responded to increasing international competitive pressures by adopting short-run, profit-maximizing strategies to cut labor costs, such as outsourcing, using more contingent workers, and moving plants to lower-cost locations.

Taking into consideration these institutional factors, it is clear that changes in wage distribution can take place independently of changes in skill distribution, Howell contends. "Although we sacrifice the elegant simplicity of the neoclassical skill-mismatch story, a 'political economy' explanation is necessary to understand what has caused the collapse in the economic well-being of low-skill workers since the late 1970s," he says.

"The most important policy conclusion is that the wage collapse cannot be reversed without addressing the changes in labor market institutions," Howell says. "The reality is that most jobs still do not require a college degree. Upgrading workers' skills will obviously have some desirable effects, but it will not by itself reverse the wage collapse for low-skill workers."

"We have come to rely too heavily on competition in labor markets to set wages and employment conditions," Howell says. "The wage-setting institutions that sheltered low-skill workers from the worst excesses of labor market competition and encouraged management-labor cooperation need to be reestablished, and new institutions that can more effectively serve these purposes should be explored."

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