

Financialization, The Great Recession, and the Stratification of the US Labor Market



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One striking feature of the Great Recession has escaped most commentators: the gender and race stratification of the US labor market, in which the earnings of gender and racial groups follow a hierarchical pattern across occupations. This study analyzes the effects of the recession on gender and race stratification, and explores the possibility that at least some of these effects are the long-term result of the increasing weight of the financial sector in Western economies – the so-called financialization process.

Building on the stratification economics literature, Arestis, Charles, and Fontana argue that over the last three decades the financialization process has rewarded managerial and financial occupations with increasingly high earnings. Such earnings were in turn linked to the social status of the largest demographic group in the US labor force, namely white men. The study empirically assesses the validity of this theoretical proposition by testing the following two hypotheses:

1) the existence of a wage premium for individuals working in managerial and financial occupations, that is, the reality of a “finance wage premium”; and 2) the existence of an unequal distribution of the finance wage premium among different ethnic and gender groups. The data used is provided by the US Bureau of Labor Statistics of the Current Population Survey (2010). It covers the period from 1983 to 2009 and offers a breakdown of the annual averages of weekly earnings of full-time workers of the US labor force by occupations, ethnicity and gender.

The methodology employed to test the two

hypotheses is cointegration analysis. This empirical approach is based on the proposition that there is a long-run relationship describing the interdependence of the earnings among different demographic groups over the financialization process, along with the short-run dynamics describing the redistribution of earnings in the short-run necessary to reach the long-run relationship. Informed by the above theoretical proposition, and the empirical method just explained, the empirical results reveal the long-term relationships between earnings variables for each of the hypotheses stated above.

The results of the cointegration analysis are consistent with the theoretical hypotheses, namely that a finance wage premium exists for individuals working in managerial and financial occupations over the period from 1983 to 2009, and it is unequally distributed across ethnic and gender groups in the US labor market. For each ethnic group, excluding Asian Americans for lack of data before the 2000s, white and Hispanic men have taken an increasing share of the wage premium at the expense of black men, white women, and Hispanic women. More generally, white and Hispanic men have enjoyed a disproportionate share of a rising wage premium. Therefore, the theoretical and empirical analyses presented in this study suggest that financialization has been neither race nor gender neutral. It has in fact intensified gender and ethnic stratification in the US labor market. From this perspective, the gender and race stratification effects of the Great Recession are at least in part the long-run outcome of structural processes generated by the financialization process.

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www.tandfonline.com/doi/full/10.1080/13545701.2013.795654#.Uq8HWPRdX_M