

Causes of Increased Income Inequality Since 1970

1. Rapidly growing product demand for industries that require high skilled workers such as computer software development, business consulting, biotech, health care, advanced communications systems. Given the relatively small supply of skilled workers, the increased demand caused the wages of skilled workers to rise relative to the wages of unskilled workers.

2. Demographic changes—younger, less experienced workers earn less than older workers. Large numbers of young, inexperienced baby boom generation workers entered the labor force in the 1970s and 1980s. The large increase in labor supply of less experienced, low wage workers may have increased income inequality.

Large increase in the number of female headed households during the 1970s-1990s. This contributed to income inequality since such families lack a second wage earner and women receive lower wages than men.

3. International Trade—Competition from imports in the 1970s and 1980s reduced the employment of less skilled (but highly paid) union workers in the auto and steel industries. These workers increased the supply of workers in lower paying industries, putting further downward pressure on wages in these industries.

Transfer of jobs to low wage workers in developing countries put downward pressure on wages of less skilled workers in the U.S.

4. Immigration—An increase in immigration of unskilled workers has increased the number of low wage families in the U.S.

5. Decline of Labor Unions—Contributed to wage inequality since unions tend to equalize wages within firms and industries.