The Great Separation: Inequality, Segregation, and the Role of Finance

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Introduction

The sharing of a pie is a common metaphor used when approaching inequality. Some get the lion's share; others get the mice's share. But this metaphor could be extended. Sharing a pie usually implies that people sit together at the same table, see the sharing of the pie, and eventually interact over it. They can approve, disapprove, legitimize, delegitimize, contest, challenge, and sometimes modify the sharing of the pie. However, instead of sharing the pie among people sitting at the same table, you could share it between people sitting at different tables. This separation would reduce interactions related to the sharing to nothing.

This presentation is a first step in the exploration of these two dimensions of sharing: the size of shares and interactions about sharing. It was produced within the framework of the COIN (Comparative Organizational International Network) research group (Tomaskovic-Devey et al. 2017) which puts together quasi-exhaustive administrative datasets on wages in a dozen countries. Here we will use fresh computations from six countries: Canada, Denmark, France, Japan, Norway, and Sweden. Estimates for the Czech Republic, Germany, Hungary, South Korea, and Slovenia are forthcoming.[1]

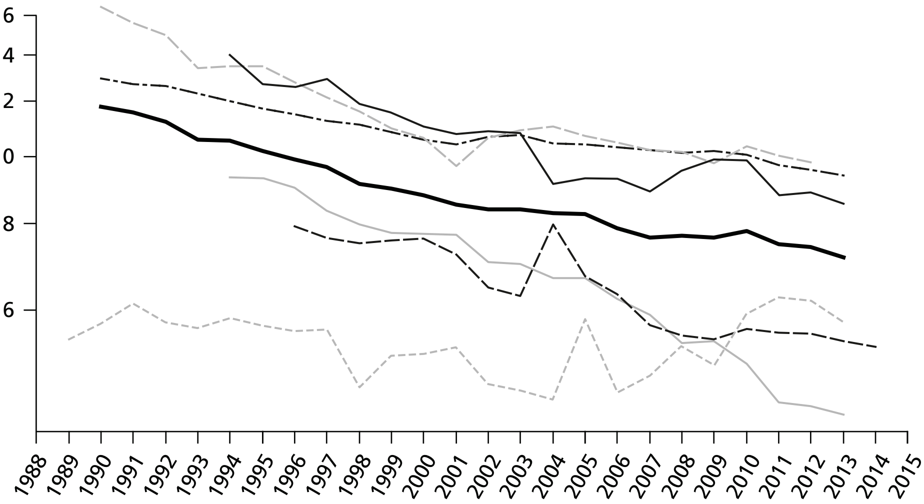
Results on the first dimension of sharing confirm a global "Pikettian" trend towards more inequality, with the top 1 percent increasing its wage share between 1993 and 2007 at a 2.3 percent annual growth rate. It also shows a contrasting picture with some countries presenting strong increases in inequality, such as Canada and Norway, and other, more moderate ones, such as Japan.

1 Feng Hou provided the data for Canada, Lasse Henriksen for Denmark, Olivier Godechot for France, Naomi Kodama for Japan, Are Hermansen for Norway, and Martin Hallsten and Max Thaning for Sweden.

Figure 1 Workplace exposures of top 1 percent and bottom quartile to one another

1a Top 1 percent establishment exposure to bottom 25 percent

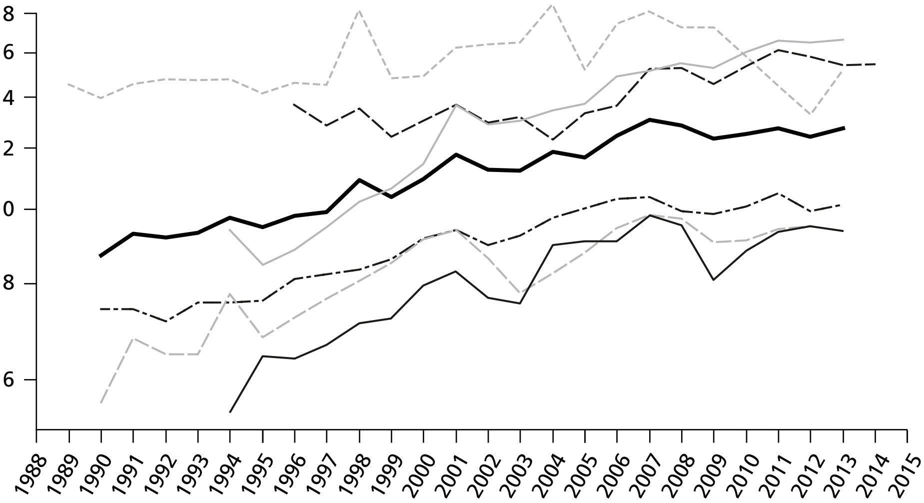
Exposure (percent)



Six countries, 1993: 10.6 percent; 2007: 7.6 percent; yearly growth rate: –2.5 percent.

1b Top 1 percent establishment exposure to top 1 percent

Exposure (percent)

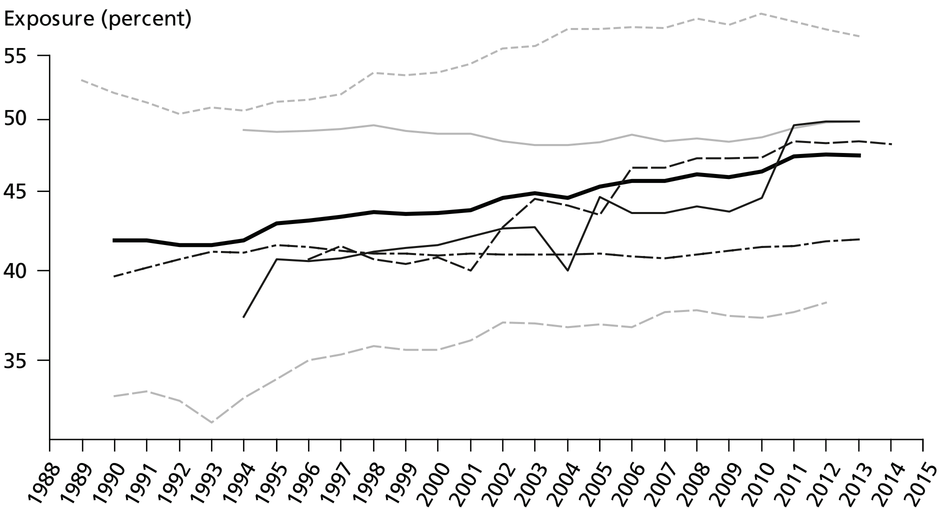


Six countries, 1993: 9.3 percent; 2007: 13.1 percent; yearly growth rate: 2.8 percent.

1c Bottom 25 percent establishment exposure to top 1 percent

Six countries, 1993: 0.4 percent; 2007: 0.3 percent; yearly growth rate: –2.7 percent.

1d Bottom 25 percent establishment exposure to bottom 25 percent



Six countries, 1993: 41.5 percent; 2007: 45.7 percent; yearly growth rate: 1.2 percent.

Note: The top 1 percent and the bottom quartile are wage groups defined at the national level. The workplace is the establishment, except for Canada, where information on the establishment was not available. We used instead the intersection of firms and Canadian Provinces. The larger size of size of units in Canada could attenuate the estimated level and the evolution of segregation. Japanese data are based on a 1 million workers sample which does not cover executives. This restriction might attenuate evolutions.

The second dimension of sharing is less studied. In order to approach potential interaction over the sharing of the wage bill, we estimate the evolution of segregation at work between diverse groups; not only the classical groups for which segregation is usually monitored – such as migrants/non-migrants, females/males – but also occupations, educational levels, age groups, and, more crucially, wage groups. Are employees increasingly working in the same establishment (that is, the same geographical unit of a firm) with people who are similar to them?

Figure 1 shows remarkable trends for wage groups. The top 1 percent of earners in almost all countries are separating more and more from employees at the bottom of the earnings hierarchy. This evolution is particularly striking for France. In 1993, France's top 1 percent worked in establishments in which 10 percent of their coworkers belonged to the lowest national wage quartile. By 2013, only 4 percent of their coworkers belonged to the bottom wage quartile. The top 1 percent's exposure to the bottom quartile – and reciprocally, the latter's exposure to the former – both decreased at a -4.5 percent annual rate. At the same time, the top 1 percent's isolation (exposure to itself) doubled. These trends in the workplace towards an airtight separation of the most affluent workers from the bottom of the wage hierarchy are less dramatic in others countries, but nevertheless remain quite pronounced.

While one may think that underlying these separation trends are mechanisms of assortative matching of workers by levels of productivity (Kremer 1993), these preliminary results show that wage-assortative matching is extremely powerful at the very top of the wage distribution, while less pronounced or even reversed at the bottom. Moreover, not all categorical status boundaries follow this trend towards more segregation that we see among wage groups. Relative isolation of migrants at work increased by a factor of 1.4 in France and 1.2 in Sweden, but decreased by a factor of 1.5 in Canada. Women's relative isolation at work remains stable overall in all three countries.

The role of finance and global cities

Many factors may account for growing inequality and the separation of the top 1 percent. Biased technological progress and assortative matching by levels of productivity are generally put forward by economists to account for job polarization (Verdugo 2017). Outsourcing, dediversification, and reduction in the size of a firm might also produce more occupational homogeneity. The global financial crisis also suggests that one should scrutinize not only abstract market mechanisms but also the concrete structures of rents in a market society. Indeed, the financial industry wage premium has reached an unprecedented level in recent decades (Philippon and Reshef 2012) and may credibly be accused of boosting national inequality and jeopardizing social cohesion. Similarly, global cities (Sassen 2001), which are generally first and foremost major financial centers, manage global and standardized activities worldwide by concentrating within their area unstandardized idiosyncratic coordination functions. As such, they also contribute to inequality and the fracturing of society.

Results show that finance and financial centers are major drivers of the increase in inequality, especially in France, Sweden, and Denmark. Hence, finance contributed 40 to 50 percent of the increase in the top 1 percent's share and global cities 80 to 100 percent of it. They nourish, at least in these three countries – although to a lesser extent – the isolation of the top 1 percent at work.

It seems that in those more unionized and coordinated societies, finance and global cities serve as a disruptive force challenging the somehow more equalitarian norms in pay. In contrast, in Canada and the United States, while finance and global cities still play a role in making of inequality, their norms have now spread out in many other sectors and urban areas.

Social consequences of growing separatism

Finally, another aim of these workplace segregation analyses is to focus on the consequences of this decline in top-to-bottom interactions at work. The clustering of high profile activities in specific establishments located in a limited set of urban areas, or in special districts of those urban areas, also impacts the probability of interaction in neighborhoods. Indeed, we also find – as shown previously for the United States (Reardon and Bischoff 2011) and France (Godechot 2013) – increasing economic residential segregation. The residential isolation (captured at the municipality level) of the top 1 percent has increased by a factor of 1.4 in France, 1.3 in Sweden, and 1.2 in Canada. In contrast to the literature on urban segregation, which implicitly blames the rich for deliberately avoiding the poor for schooling, status, and security purposes, we propose that the increasing residential isolation of the rich has a great deal to do with a powerful increase in workplace segregation. This helps us to bring macro socioeconomic factors into our understanding of the rich's growing isolation.

A decline in objective probabilities of interaction between the rich and the poor might also have an impact on the way the two groups view each other, and finally, how they view themselves.

On one hand, the rich, working and living in a world of wealth, do not have to think about poor workers as relevant human beings whose economic and moral claims – especially direct claims on the way the firm's value added should be shared among workers – must be taken into account. The disappearance of the poor from their interactional sphere might remove the rich from any moral constraints on wage setting, enhance status competition among them, and in return increase wage inequality at the top.

On the other hand, poor workers have less and less access to a world in which they could have some interactions with the elites, whether these interactions involve conflict and class struggle or are rather of a docile and paternalistic nature. Increasingly, the poor may be aware of the rich's existence only from the media, which celebrates their style and lifestyle and easily reinforces the poor's impression that they are invisible and left behind. This increase in segregation processes could therefore help us understand some recent trends in Western democracies, such as the decline of political trust and the rise of populism.

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