

The recent compression: tightness, turbulence, and power-biased policy

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Punchlines

- Power-biased economic policy was the crucial factor behind the compression, not expansionary policy and a tight labor market
- Broader issues:
 - Limitations and dangers of tightness-induced wage increases

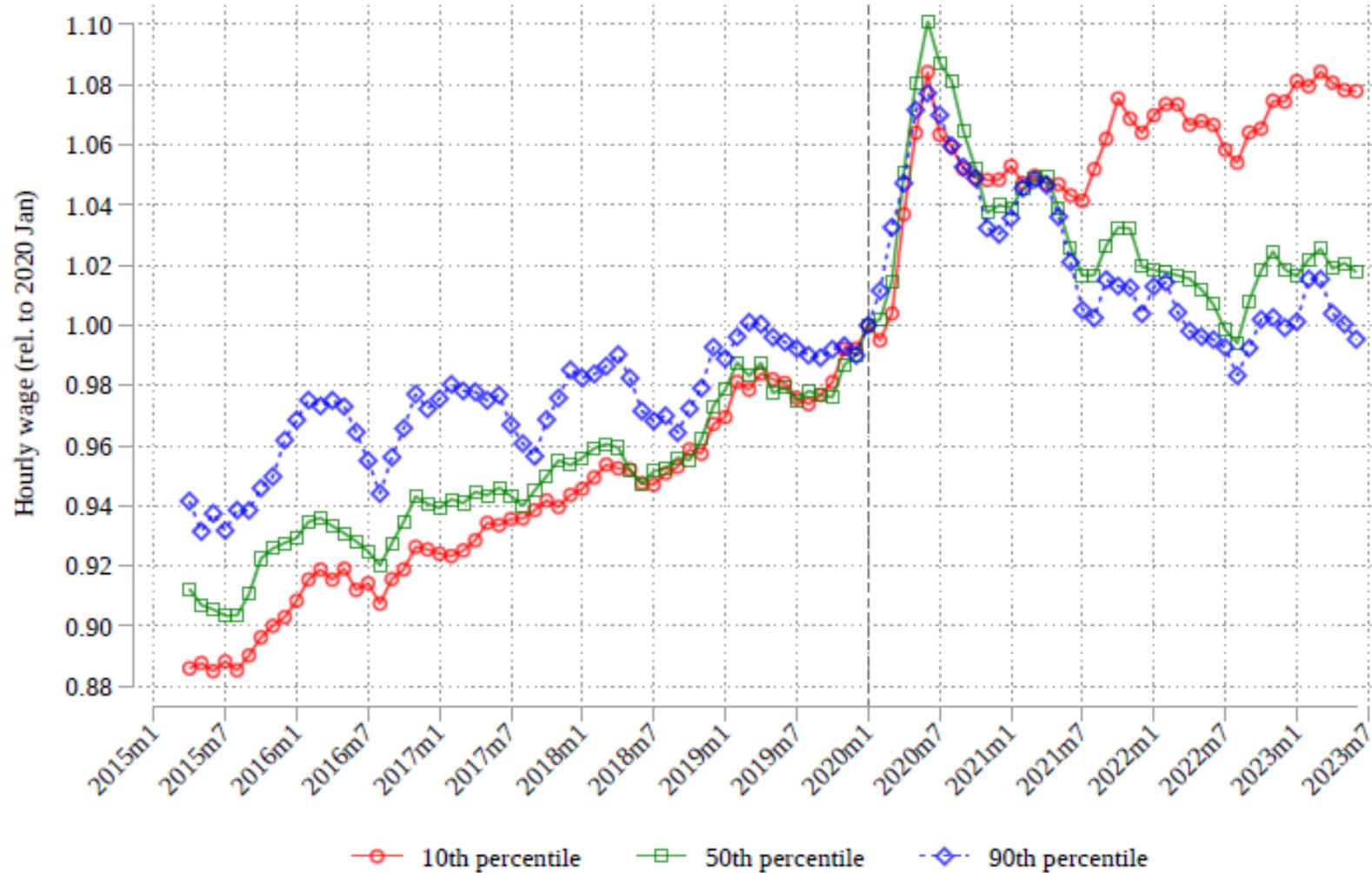
Labor-market tightness and the recent wage compression

Puzzles and inconsistencies

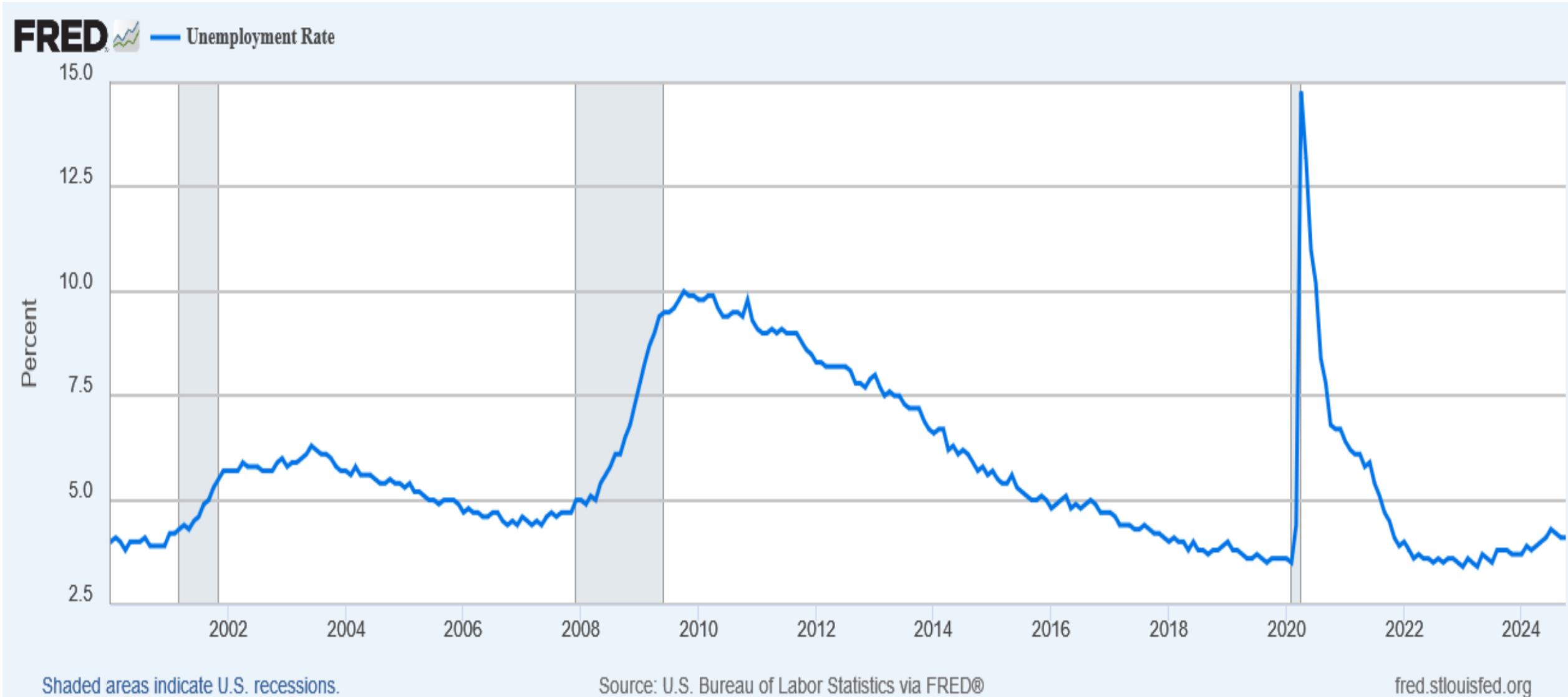
- The 90/10 ratio declined between January 2020 and July 2021, with a very high pace of compression during the first half of 2021
- Yet, all tightness measures were below their 2019 levels during this period

- The pace of compression slowed down from the end of 2021 through 2023
- Yet, the tightness measures stayed at or above their 2019 level during this period

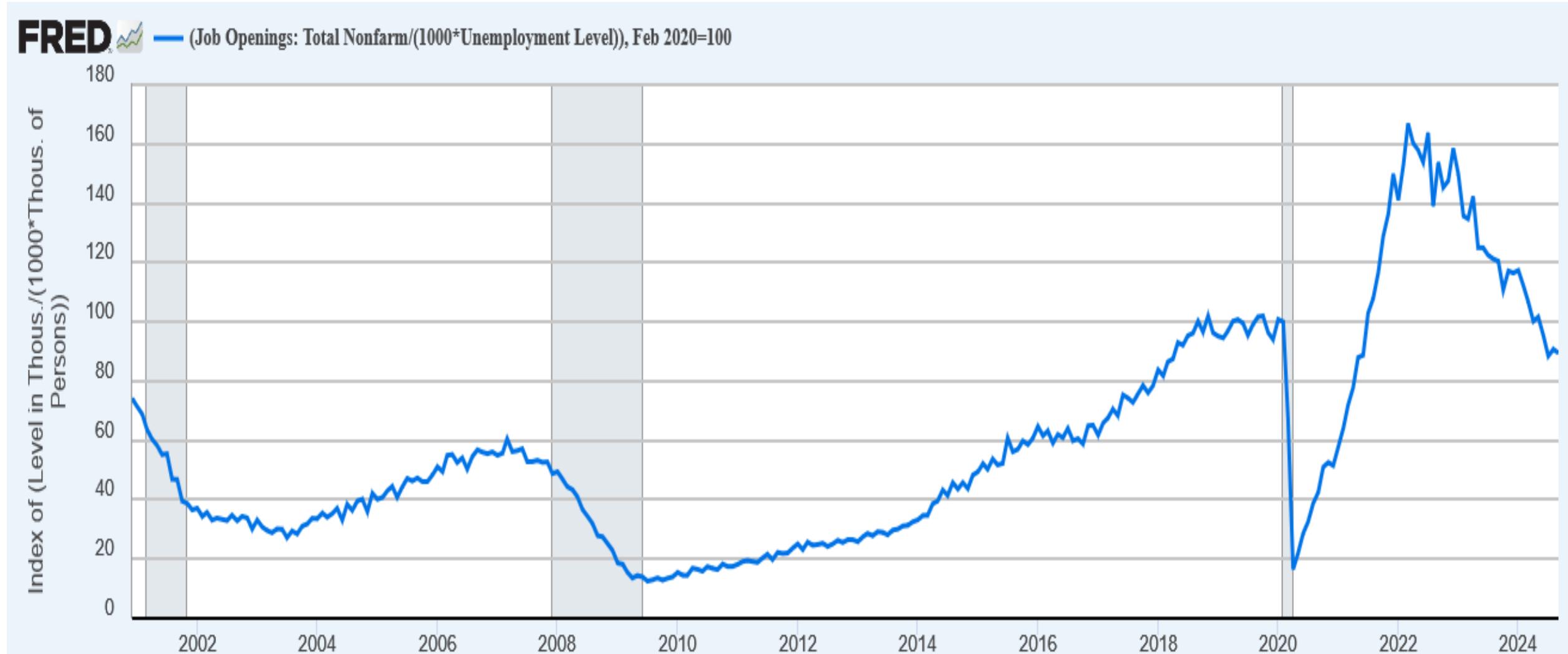
Hourly Wages by quantile (Autor et al. 2024, figure 1a)



Unemployment rate



Vacancy-unemployment ratio



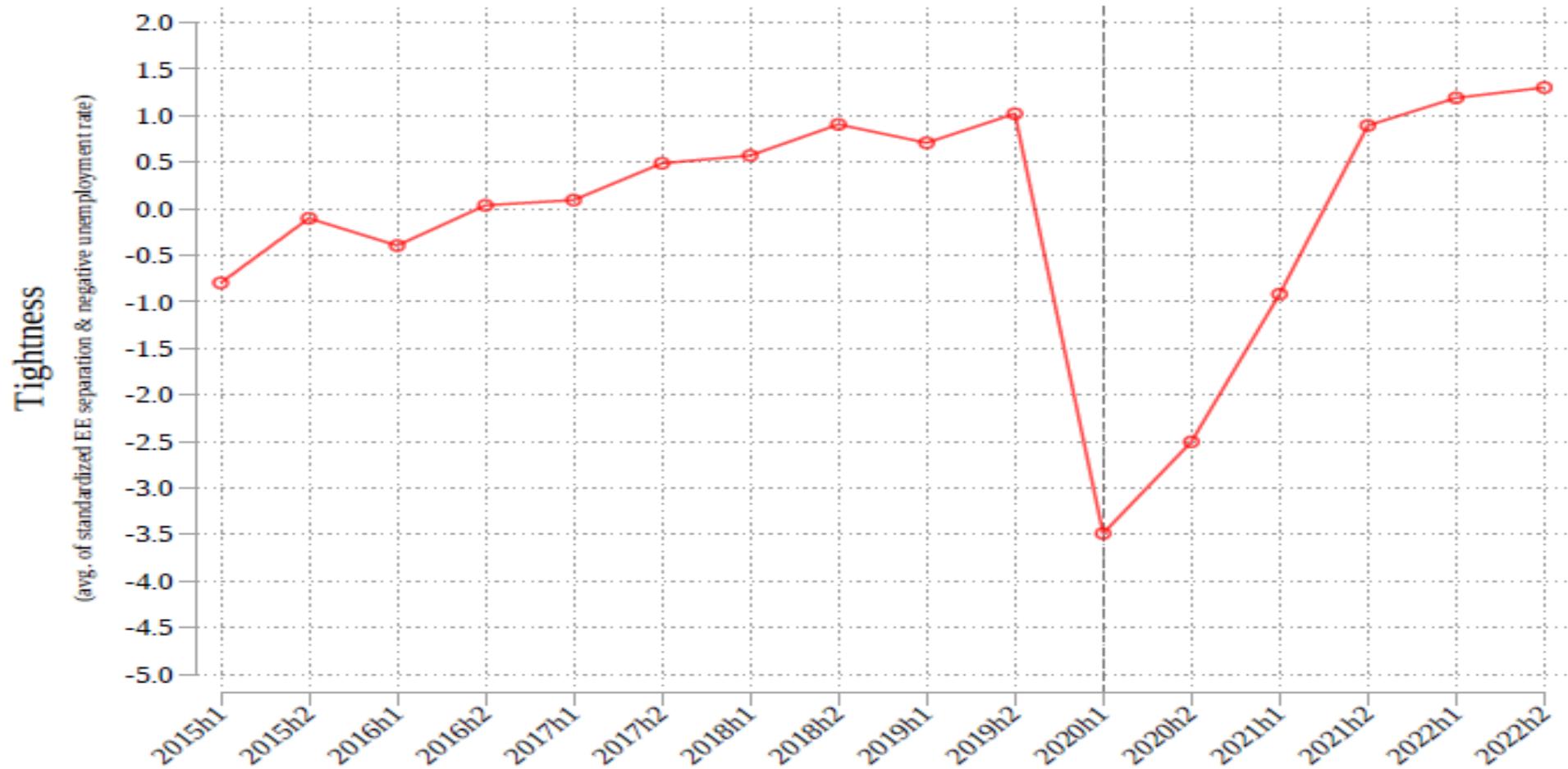
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics via FRED®

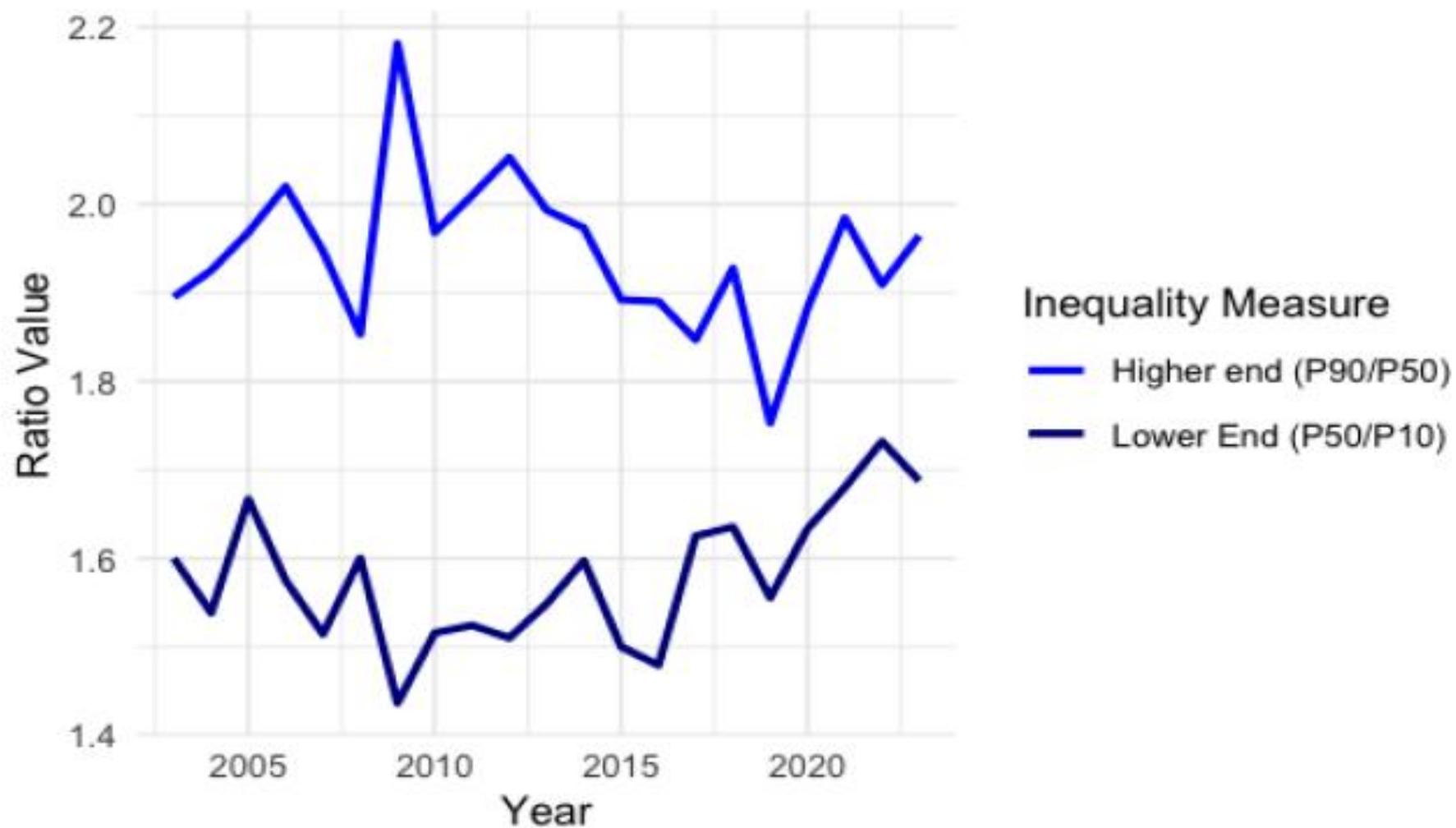
fred.stlouisfed.org

Autor et al. (2024) measure of tightness

A. Tightness



- General tightness argument based on models of search&matching / cyclical job ladders
- But
 - No evidence of within-group compression
 - Compression between groups



Alternative measures of wage dispersion among full-time working age employees, with less than Bachelor's, in leisure and hospitality.

Figure 12: Wage inequality within leisure and hospitality

FRED  — Average Hourly Earnings of All Employees, Leisure and Hospitality/Average Hourly Earnings of All Employees, Total Private



Source: U.S. Bureau of Labor Statistics via FRED®
Shaded areas indicate U.S. recessions.

Power-biased policy packages

Unemployment benefits

- Supplementary federal unemployment benefits (about \$700 billion)
 - End of March – end of July 2020: \$600 a week
 - (FEMA ‘lost wages’ Aug – Dec 2020: \$400 a week)
 - Jan 2021-September 2021: \$300 a week
- Federal minimum wage: \$7.25 ~ \$290 a week

- Median replacement rates (Ganong et al. 2021)

- \$600 supplementary benefits: 145%
- \$300 supplementary benefits: 95%

Stimulus checks

- Stimulus checks, tax relief and expanded child tax credits (about \$950 billion)
- Family of four received more than \$13,000 between March 2020 and April 2021
- Effects on saving rate and households' balance sheets

Implications

- Fallback position for employed workers improved
- Effects on fairness norms, workers' aspirations, and 'militancy'

'Hero workers'

Don't essential hero workers deserve a fair wage?



WORKERS WANTED

..., pizzerias and online businesses are hiring new workers to keep up with demand. Companies' recently announced openings include:

WALMART 150,000
AMAZON 100,000

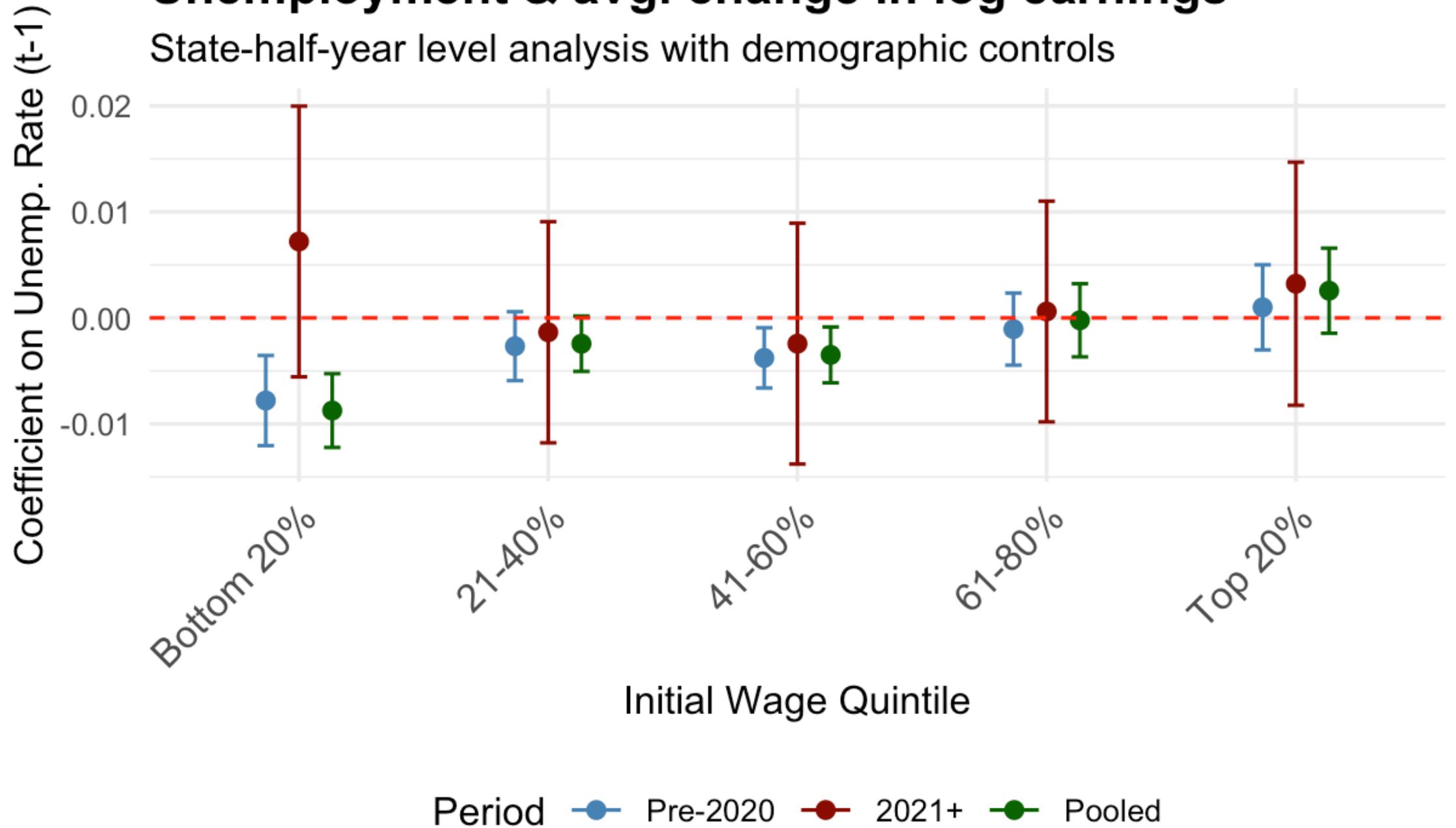


Be a household hero delivering to people in need

Wage Phillips curve

Unemployment & avg. change in log earnings

State-half-year level analysis with demographic controls



Summary and discussion

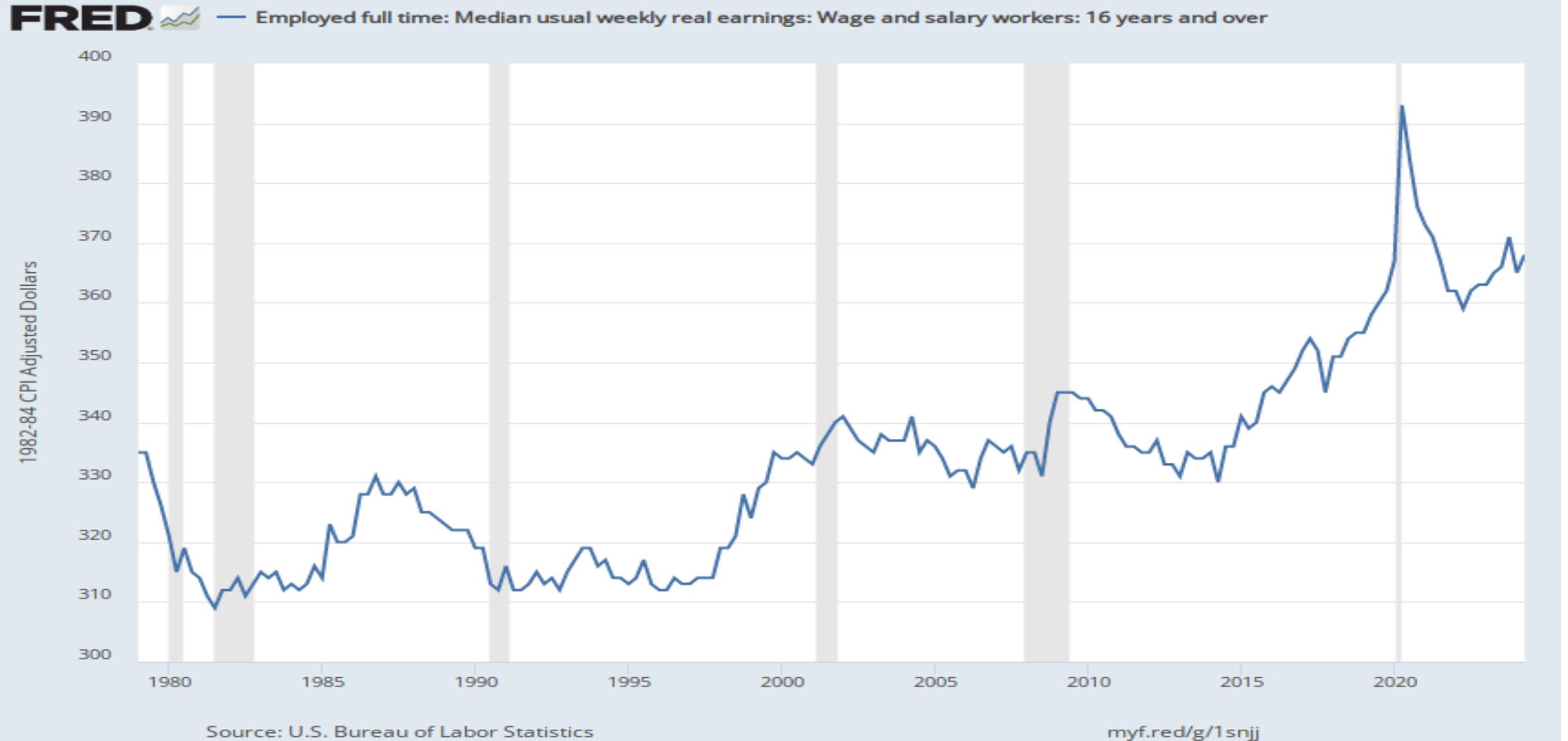
Main lesson

- The dramatic post-pandemic compression of wage inequality was not the result of a tight general labor market
- The recent experience demonstrates the crucial importance of interventions that affect the power balances

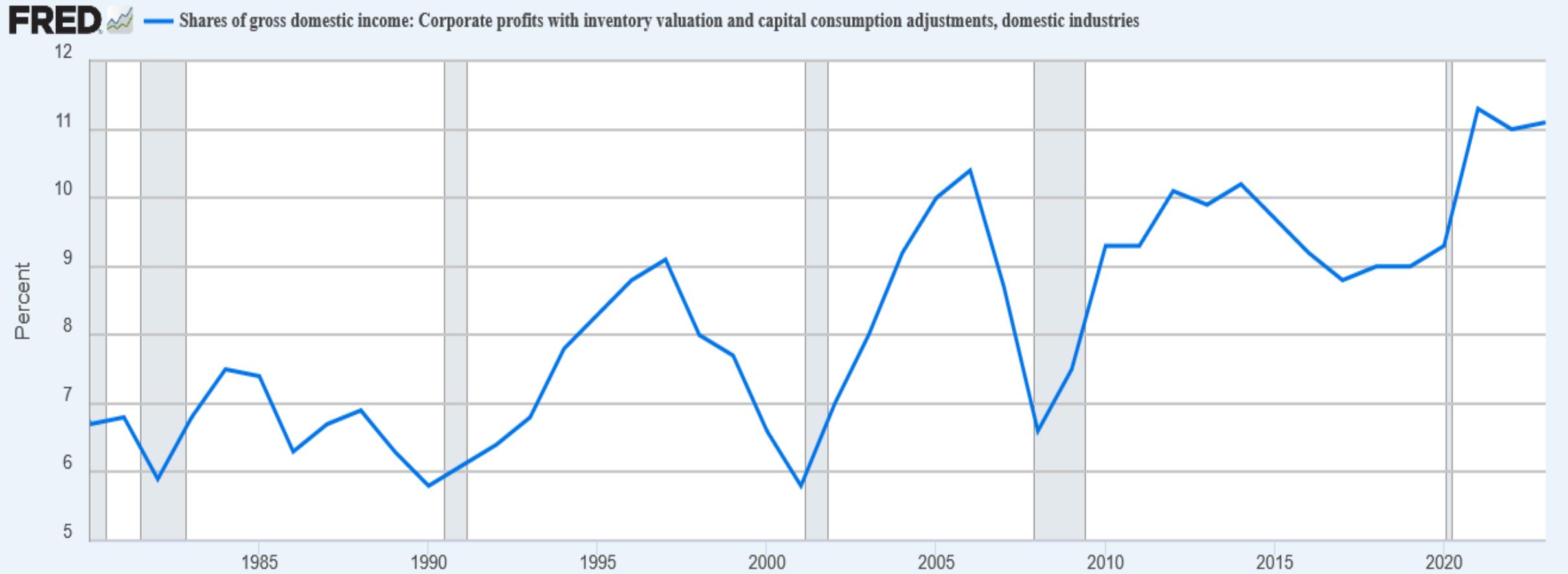
Limitations of aggregate-demand induced wage increases

- Nominal vs real wages
 - Wage setting doesn't control *real* wages
 - Post-pandemic fall in median real wage, rise in profit share and increased income inequality

Median usual weekly real wage



Wage compression but higher profit share



Source: U.S. Bureau of Economic Analysis via FRED®
Shaded areas indicate U.S. recessions.

Wage compression but higher income inequality

Income inequality, USA, 1989-2023



Graph provided by www.wid.world

Dangers of aggregate-demand induced wage increases

- Inflation
 - Is deeply unpopular
 - Has often generated support for anti-union and contractionary policies – think Thatcher, Reagan, Mitterand, Allende, Trump ...
- Implications for the economic policy and strategies of the labor movement

Thanks!