

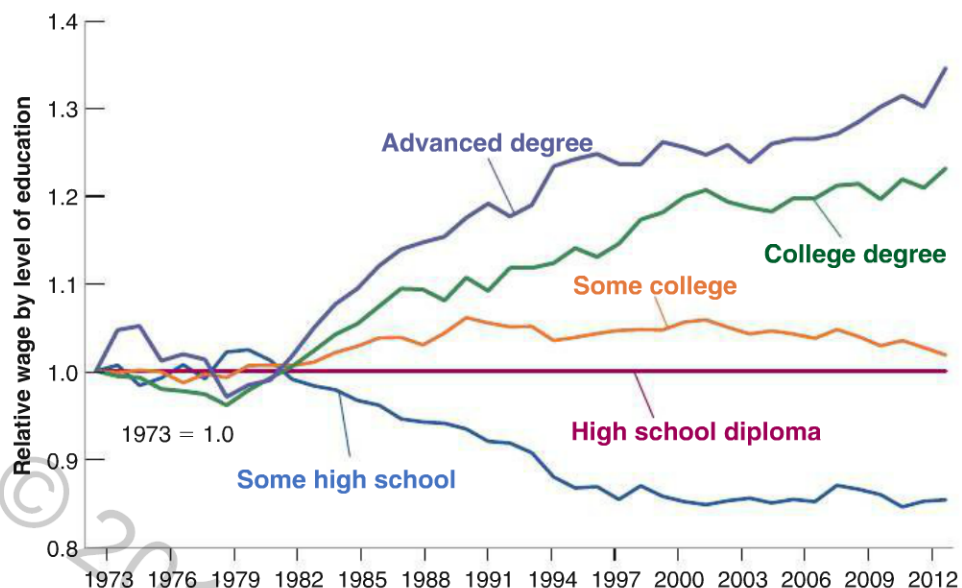
Figure 13-6

Evolution of Relative Wages by Education Level, 1973–2012

Since the early 1980s, the relative wages of workers with a low education level have fallen; the relative wages of workers with a high education level have risen.

Source: Economic Policy Institute Data Zone. www.epi.org/types/data-zone/.

MyEconLab Real-time data



job, a period of unemployment, and possibly much lower wages. The last 25 years in the United States have seen a large increase in wage inequality. Most economists believe that one of the main culprits behind this increase is technological change.

Figure 13-6 shows the evolution of relative wages for various groups of workers, by education level, from 1973 to 2012. The figure is based on information about individual workers from the Current Population Survey. Each of the lines in the figure shows the evolution of the wage of workers with a given level of education—“some high school,” “high school diploma,” “some college,” “college degree,” “advanced degree”—relative to the wage of workers who only have high school diplomas. All relative wages are further divided by their value in 1973, so the resulting wage series are all equal to one in 1973. The figure yields a striking conclusion:

Starting around the early 1980s, workers with low levels of education have seen their relative wage fall steadily over time, whereas workers with high levels of education have seen their relative wage rise steadily. At the bottom end of the education ladder, the relative wage of workers who have not completed high school has declined by 15% since the early 1980s. This implies that, in many cases, these workers have seen a drop not only in their relative wage, but in their absolute real wages as well. At the top end of the education ladder, the relative wage of those with an advanced degree has increased by 34%. In short, wage inequality has increased a lot in the United States over the last 30 years.

The Causes of Increased Wage Inequality

What are the causes of this increase in wage inequality? There is general agreement that the main factor behind the increase in the wage of high-skill relative to the wage of low-skill workers is a steady increase in the demand for high-skill workers relative to the demand for low-skill workers. This trend in relative demand is not new, but it appears to have increased. Also, until the 1980s it was largely offset by a steady increase in the relative supply of high-skill workers. A steadily larger proportion of children finished high school, went to college, finished college, and so on. Since the early 1980s however, relative supply has continued to increase, but not fast enough to match the continuing increase in relative demand. The result has been a steady increase in the relative wage of high-skill workers versus low-skill workers. The Focus Box “The Long View: Technology, Education, and Inequality” shows how not only the demand but also