Rent and the Evolution of Inequality in Late Industrial United States

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In this article, the authors present the rent destruction explanation for recent increases in inequality, which can be seen as one facet of a broader sociological explanation focused on class-biased structural change. A sociological depiction of the growth of earnings inequality since the early 1980s is presented using alternative partitions of the labor market, including the dominant sociological class schema that (surprisingly) has been used rarely to describe these trends. Thereafter, the authors attempt to strengthen the evidence for the rent destruction explanation by examining the increase in wealth inequality in the 1990s. After presenting these empirical findings, they discuss the extent to which rent destruction can account uniquely for these patterns, as well as other complementary sociological research on the growth of inequality.

Keywords: *class; inequality; wealth; stock; rent*

In contrast to classic Marxist forecasts of the polarization of the class structure, many scholars of industrialism argued in the 1950s and 1960s that labor market inequalities would decline in the long run as industrialism evolves. Economist Simon Kuznets (1955) famously hypothesized, "A long swing in the inequality characterizing the secular income structure: widening in the early phases of economic growth when the transition from the pre-industrial to the industrial civilization was most rapid; becoming stabilized for a while; and then narrowing in the later phases" (p. 18). In sociology, Gerhard Lenski (1966) stated, "The appearance of mature industrial societies marks the first significant reversal in the age-old evolutionary trend toward ever increasing inequality" (p. 308). And in an integrative and influential article on the contours of industrialization, Donald Treiman (1970) wrote, "The more industrialized a society, . . . the greater the equality of income" (p. 216). Most of these scholars saw

the United States as the vanguard nation of industrialism, and here the moderation of inequalities could be expected to appear first.

In spite of these futurist predictions, inequality has risen in the United States during the past three decades to levels more pronounced than at any time since World War II. In this article, we first summarize briefly one strand of the sociological literature that has attempted recently to explain the growth of inequality—the rent destruction and redistribution explanation suggested in sociology by Aage Sørensen (1996, 2000) and then as developed through evaluations that we have undertaken. We then offer a sociological depiction of the growth of inequality that is consistent with (although not uniquely predicted by) this argument, presenting original social class decompositions of trends in earnings inequality. Next, we offer new analysis of the growth of wealth inequality, which may give further support to the rent destruction explanation under a speculative but not unreasonable interpretation. In conclusion, we discuss alternative explanations available to sociologists, assessing their points of connection with the rent destruction conjecture that is our primary focus.

The Rent Destruction Explanation

One tradition of sociological research on inequality offers a potential unifying framework for explanations of growing inequality, grounded in workplace changes along with connections to more general political economy perspectives. This perspective has origins in the new structuralist labor market research of the 1970s and 1980s, and more recently, in the work of Aage Sørensen (1996, 2000). Following the structural tradition of labor market analysis that he helped to cultivate, Sørensen (1996) argued that labor market analysts should be interested in the distribution of three different quantities:

(Q1) Y^a,
(Q2) Y^c, and
(Q3) $r^c = Y^a - Y^c$,

where Q1 is actual wages paid in the labor market, Q2 is wages that would be paid under perfect competition, and Q3 is rent. Sørensen (2000) then argued that social class analysts should explain patterns of inequality by accounting for rights to rent-generating assets, conceptualized broadly (and some would argue too abstractly; see Wright, 2000) as structurally advantageous positions.

As part of this broad agenda, Sørensen (2000) asserted, without citing much evidence, that rent destruction is a plausible explanation for some of the recent increase in inequality in the United States:

> There is, however, substantial recent evidence that shows that capital has become very effective at eliminating the advantages of the working class in terms of rents obtained

in the labor market. Eliminating these advantages has contributed to the increase in inequality. (p. 1550)

Sørensen then noted the evidence from labor economics of increases in within-group inequality (specifically, for groups defined by both education and occupation) as well as greater returns on unmeasured skills. From these developments in the labor market, Sørensen concluded that "structural locations seemed less relevant for explaining the variation in earnings" (p. 1552).

In Morgan and McKerrow (2004) and Morgan and Tang (n.d.), the first author has investigated this rent destruction explanation for the growth of earnings inequality, testing for a relative convergence between 1982 and 2001 at the bottom of the class structure of (a) the wages of White and Black men working full-time and then (b) the wages of observationally equivalent full-time workers in alternative industries of employment. The first evaluation represents an attempt to determine whether members of the working class who had greater relative access to rent-advantaged positions—that is, White men in comparison to Black men—received less of an earnings advantage progressively throughout the 1980s and 1990s. The second evaluation represents a complementary attempt to determine whether one particular source of structural advantage—employment in a traditional high-wage rather than a low-wage industry—declined progressively throughout the 1980s and 1990s.

Taken together, the findings from these two studies indicate that (a) the relative earnings of the working class declined, (b) the wages of Black and White men converged relatively more within the working class than in other classes, and (c) the variance of net industry effects declined relatively more for those in the working class than for those in other classes. These results are consistent with the rent destruction conjecture in the sense that they support the contention that wages within the working class are declining while also converging on levels unrelated to the sorts of advantages that can be considered rents. Thus, individuals in the working class appear more likely than others (and more so at the turn of the century) to be working at or near wage levels that could plausibly be represented as the wages that would prevail under perfect competition.

In this article, we offer new empirical results relevant to a third implication of the rent destruction explanation of the growth of inequality. Recall that Sørensen (2000) argued that scholars of social inequality, and class differences in particular, should devote considerable energy to the analysis of the generation, distribution, and rewards associated with benefit rights to rent-generating assets. In the empirical analysis that follows, we show that individuals at the top of the class distribution benefited disproportionately from their ownership of shares of stock in profitable companies, including those for which they work. Because the value of such shares is thought to be a function of how cheaply production line work can be bought in the labor market of relatively unskilled workers, this growth of wealth in stocks for professional and upper-level managers may be regarded as a redistribution of the benefits that

used to accrue to those who occupied structurally advantageous positions in the working class to those who command benefit rights to the ownership of assets.

In the empirical analysis of the next section, we first offer a basic representation of the growth of earnings inequality to (a) demonstrate that social class differences in earnings trends are substantial and distinct from trends identified by educational attainment groups and (b) set up the subsequent new analysis of wealth levels by social class.

An Empirical Depiction of the Growth
of Earnings Inequality

A prima facie sociological depiction of changes in inequality would focus on the linkage between earnings levels and alternative occupational positions, the latter conceptualized at some appropriate level of aggregation as social class positions. Even so, it is clear from the extant literature on postindustrialism that many sociologists consider educational groups to be the decomposition of greatest interest. Accordingly, two basic categorizations of full-time workers between the ages of 18 to 64 are shown in the first panel of Table 1, for the Current Population Survey data that we analyze first.

To begin our analysis, we decompose earnings trends by levels of education and then by social class. For the latter decomposition, we use only one of the social class schemas that is available, the one generally known as the EGP class schema (after Erikson, Goldthorpe, & Portocarero, 1979; see also Goldthorpe, 2000; Goldthorpe, Llewellyn, & Payne, 1987). Defenses of the use of this class schema for analyzing earnings trends can be found in both Morgan and McKerrow (2004) and Morgan and Tang (n.d.). A supplementary appendix to this article, available on the Web site of the first author, provides extensive detail on the coding of the EGP class schema.

Table 2 presents a cross-tabulation that examines the distribution of educational groups within EGP classes, during the relatively full labor market conditions that prevailed during the last two economic expansions in the United States, 1985 through 1989 and 1996 through 2000. In both periods, it is clear that professional, nonmanual workers in Classes I and II are disproportionately likely to have high levels of educational attainment. Likewise, manual and service workers in Classes VI and VIIa and then in Classes IIIa and IIIb are much more likely to have only high school diplomas. A comparison of the two panels of Table 2 shows that the proportion of those obtaining college degrees or higher increased within each EGP class. But even so, changes during this time period in the education by class association appear modest.

Figures 1a and 1b present 5-year moving averages of log weekly earnings from 1983 to 2002 by educational group in inflation-adjusted 2000 U.S. dollars for all full-time workers in the Current Population Survey between the ages of 18 and 64 (see the supplementary appendix for details of the inflation adjustment, as well as

Table 1
Means and Standard Deviations of Variables From the Current Population
Survey, 1983 to 2002, and the Survey of Consumer Finances, 1989 to 2001

	M	*SD*
Current Population Survey, 1983 to 2002		
Natural logarithm of weekly earnings	6.307	0.594
Educational groups		
More than a bachelor's degree	0.102	
Bachelor's degree	0.375	
Some college	0.252	
High school graduate	0.174	
Some high school or less	0.097	
Social class, EGP coding		
I—Higher grade professionals, administrators, and officials; managers in industrial establishments	0.169	
II—Lower grade professionals, administrators, and officials; higher grade technicians; supervisors of nonmanual employees	0.214	
IIIa—Routine nonmanual employees, higher grade (administration and commerce)	0.165	
IIIb—Routine nonmanual employees, lower grade (sales and service)	0.048	
V—Supervisors of manual workers; lower grade technicians	0.052	
VI—Skilled manual workers	0.113	
VIIa—Semiskilled and unskilled manual workers (not in agriculture)	0.240	
Survey of Consumer Finances, 1989 to 2001		
Net worth	269,971	1,556,481
Value of wealth held in stock	16,689.5	377,849
Value of wealth held in any stock of the company for which one works	4,944.9	223,358.1
Own any stock of the company for which one works	.0899	.286

Note: The number of respondents for the Current Population Survey data is 2,694,935 and includes all individuals between the ages of 18 and 64 in the 1983 through 2002 merged outgoing rotation groups. For the Survey of Consumer Finances data, the number of respondents is 57,827 and includes individuals between the ages of 19 and 64. Both data sets are restricted to those who reported usual hours worked of 35 or more hours per week, average weekly earnings of $50 or more, and employment in one of the seven EGP classes listed in the table. EGP = Erikson, Goldthorpe, and Portocarero (1979).

the handling of top-coded earnings values). As shown in Figure 1a, the mean weekly earnings of those with more than a college degree increased by 37.7% (i.e., from a log value 6.70 to 7.02, which is equivalent to an increase from $812 to $1,118 per week). In a similar manner, the weekly earnings of college graduates increased by 27.1% (from a log value of 6.51 to 6.75, or from $672 to $854 per week). In contrast, the weekly earnings of those with only some college instruction increased by 10.5%, whereas the weekly earnings of high school graduates increased by a modest 8.3%. Finally, the earnings of those who did not complete high school decreased by 5.8% (i.e., from log values 5.98 to 5.92, or from $395 to $372 per week). For

Table 2
EGP Classes by Educational Groups, Full-Time Labor
**Force Participants, Aged 18 to 64**

Educational Group	EGP Classes From 1985 to 1989							EGP Classes From 1996 to 2000						
	I	II	IIIa	IIIb	V	VI	VIIa	I	II	IIIa	IIIb	V	VI	VIIa
More than college	31.70	19.91	3.41	2.38	3.96	0.70	0.74	27.89	15.21	2.44	1.55	2.08	0.48	0.56
College graduate	31.41	28.36	12.12	9.11	10.00	2.97	3.06	37.64	34.17	16.32	11.12	12.27	3.74	4.22
Some college	18.50	24.02	29.05	24.47	25.89	17.24	13.84	21.71	30.02	39.97	33.94	38.86	29.15	22.00
High school graduate	16.73	24.67	51.33	52.75	48.71	56.99	52.72	12.01	18.87	38.83	45.10	40.39	51.73	51.29
Some high school or less	1.66	3.04	4.09	11.29	11.44	22.10	29.64	0.75	1.73	2.44	8.30	6.40	14.90	21.93
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Note: Current Population Survey data, 1983 to 2002 (see note to Table 1). EGP = Erikson, Goldthorpe, and Portocarero (1979).

Figure 1
Five-Year Moving Average of Mean Log Weekly Earnings by Educational Group, 1983 to 2002 Current Population Survey, With More Than College Group Split Into Two Groups for the Later Years
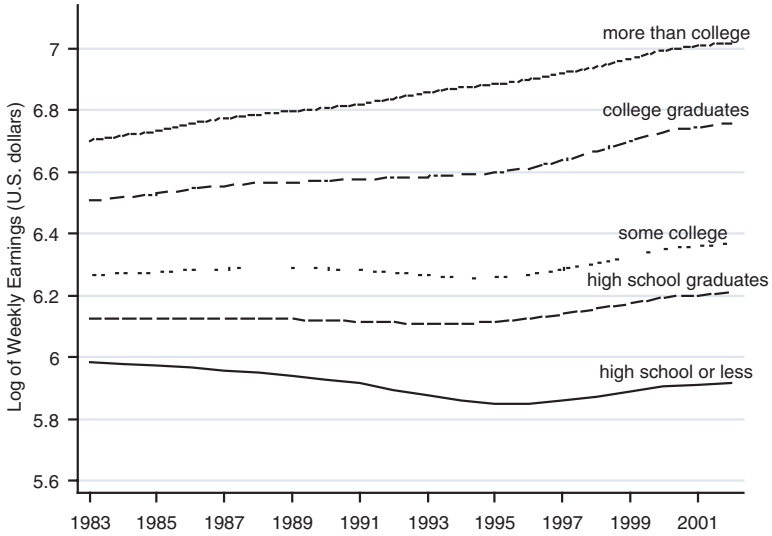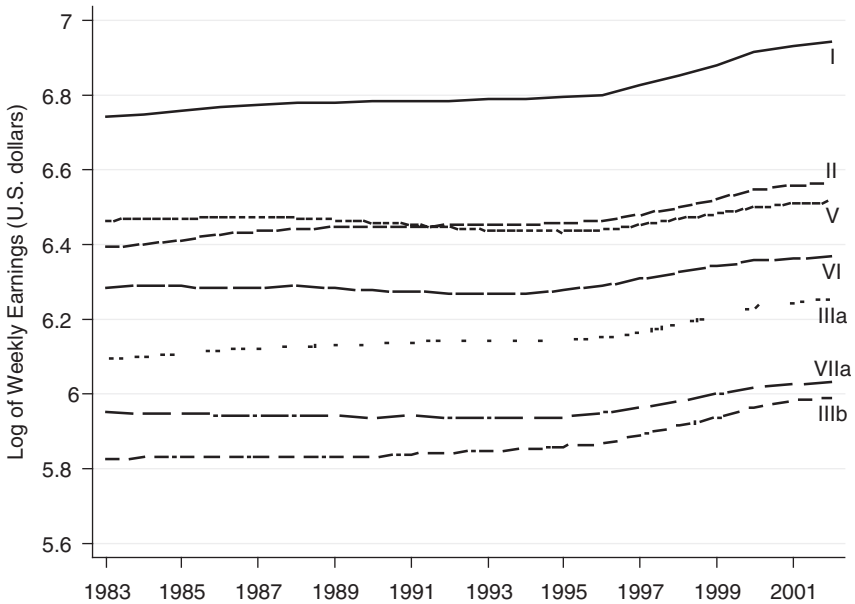

(a)
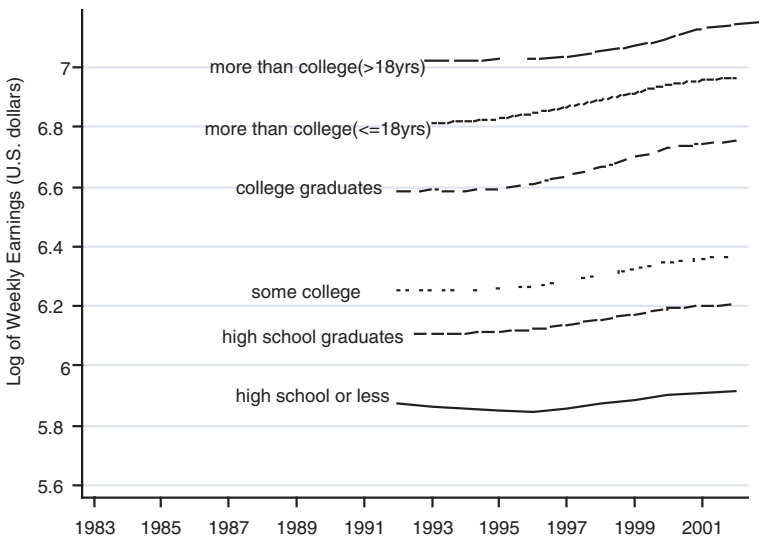
(b)

Figure 2
Five-Year Moving Average of Mean Log Weekly Earnings by EGP Social
Class, 1983 to 2002 Current Population Survey

Note: EGP = Erikson, Goldthorpe, and Portocarero (1979).

Figure 1b, we split the more than college group into two groups for the later years (1992 onward) in which this was possible. Individuals with master's degrees and those who obtained higher professional and academic degrees (e.g., MD, JD, PhD) had comparable relative increases in earnings in the 1990s.

Figure 2 presents 5-year moving averages of log weekly earnings by EGP class. Similar to the educational groups in Figures 1a and 1b, the EGP class schema reveals the growth of earnings inequality. The weekly earnings of professional and managerial workers in Classes I and II increased by 22.3% and 19.7%, respectively. The earnings of sales and service workers in Classes IIIa and IIIb increased almost as much, by 17.4% and 18.5%, respectively. In contrast, the manual workers in Classes VI and VIIa saw their wages increase by 8.3%, whereas the technicians and supervisors of manual workers in Class V saw their wages increase by only 4.1%.

Is there reason to favor educational groups over EGP classes as explanatory categories for the growth of inequality? Comparing Figures 1a and 2, it appears as if education more strongly reveals the growth of earnings inequality, as the spread of

the trend lines increases more dramatically. However, this relative between-category increase is mostly (though not exclusively) because EGP classes do a better job of revealing inequality at the beginning of the time period. More important, in our view, is that the EGP class schema reveals additional important trends, such as (a) the declining fortunes of manual workers (Classes VI and VIIa) relative to more traditional service-sector workers (Classes IIIa and IIIb) and (b) the decline in the wages of supervisors of manual workers in Class V relative to those in Class II. Workers in Class II saw their wages increase from $595 per week to $713 per week, whereas workers in Class V had initially higher average wages of $646 per week that grew to only $672 per week. Thus, although educational groups may appear to explain the growth of earnings inequality more comprehensively, the EGP class schema has its own explanatory advantages as well.

The Increase in Wealth Inequality

The recent scholarship on wealth inequality (e.g., Kennickell, 2003; Wolff, 1998) shows clearly that the growth of inequality is not confined to labor market earnings or even household income. A general increase in wealth inequality is evident from the 1980s onward, and there are important specific trends of note. The disproportionate growth of the wealth of White households relative to the wealth of non-White households has received substantial attention, as have decompositions that relate wealth accumulation to savings from increasingly unequal current income. Our interest, however, relates to the specific claim that the growth of wealth has been generated to some substantial degree by increases in investment returns on assets among those who own them.

Having shown in the previous section that both class-based and educational-based depictions of the growth of earnings inequality yield similar but distinct portrayals, we now analyze wealth differences between EGP social classes. For Figures 3, 4, 5a, 5b, and 5c, we present increases in wealth inequality by EGP class based on analyses of the 1989, 1992, 1995, 1998, and 2001 Survey of Consumer Finances. These samples are restricted to full-time workers between the ages of 19 and 64, and the household wealth variables have been converted to inflation-adjusted 2000 U.S. dollars. We describe our methods for calculating these wealth levels in the supplementary appendix, where we outline in detail how we obtained EGP class estimates of trends in wealth.

Figure 3 shows that all EGP classes experienced substantial average increases in wealth between 1989 and 2001. On average, the wealth holdings of those in Class I increased by a massive 76.7%, from an average of $387,230 to $684,246. In a similar manner, individuals in Class II had wealth increases of 34.2%, from $245,307 to $329,206. Although quite substantial in comparison to all other classes, Class II fell far behind Class I in wealth accumulation during this time period. Classes IIIa and

Figure 3
Mean of Net Worth by EGP Social Class, 1989 to 2001
Survey of Consumer Finances
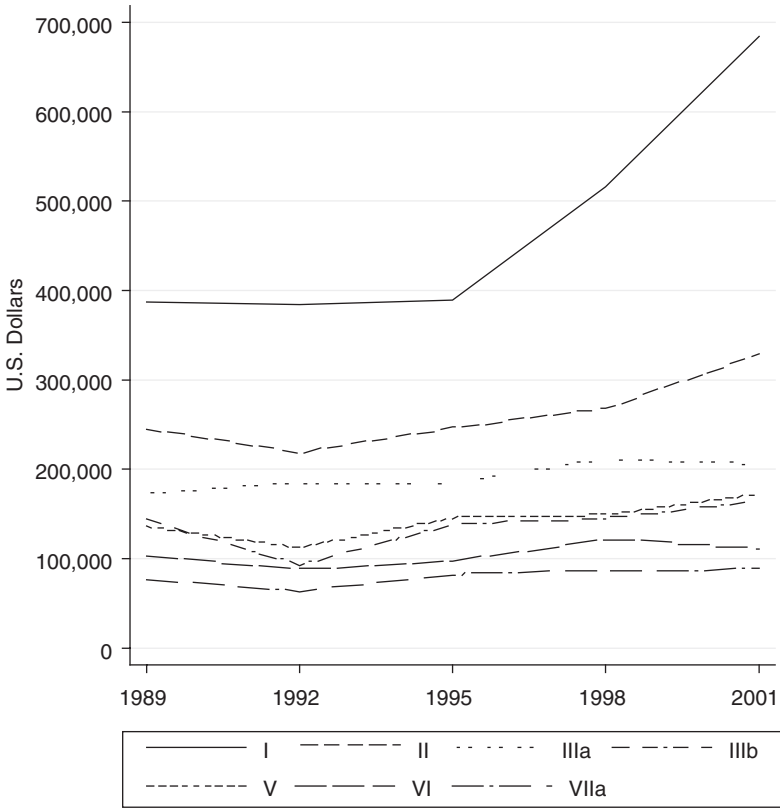
Note: EGP = Erikson, Goldthorpe, and Portocarero (1979).

IIIb had modest increases in average wealth of 18.5% and 13.7%. Finally, Classes V, VI, and VIIa had increases in wealth of 26.9%, 7.9%, and 15.6%.

Although the components of this growth of total net wealth followed somewhat different trends, we focus in Figures 4 and 5a, 5b, and 5c on the growth of wealth held in stock equities. As we describe later, some have contended (see Fligstein, 2001; Sørensen, 2000) that the growth of both wealth and earnings inequalities is closely tied to changes in the way that publicly held firms are valued and how that

value is transferred to workers and managers. Thus, to set up this later discussion, we present EGP trends in stock ownership in Figure 4 and then in stock ownership in the company for which one currently works in Figures 5a, 5b, and 5c.

Figure 4 shows that wealth held in stocks increased for all classes. In absolute terms, the growth of wealth held in stocks was greatest for Class I, which increased by 238% from $20,590 in 1989 to $69,532 in 2001. In contrast, members of Class II had increases in wealth held in stocks of 135%, from $9,982 to $23,426. In general, although Classes IIIa through VIIa had very little wealth held in stocks in 1989 (from a low of $515 for Class VIIa to a high of $5,267 for Class IIIb), these holdings increased rather substantially in percentage terms (to $2,518 for Class VIIa and $15,613 for Class IIIa). Thus, although all classes had impressive relative increases in wealth held in stock during the bull market of the late 1990s, Class I realized a much larger absolute gain.

Figures 5a, 5b, and 5c present, respectively, the amount of wealth held in the stock of the company for which one works, the percentage who own at least some stock in a company for which one works, and the average wealth held in company stock among those who own it. Figure 5a shows that the pattern of growth of wealth in company stock follows the same pattern as for stocks in general, although in even sharper relief. Class I had the largest absolute and relative increases in wealth held in company stock, from $4,685 in 1989 to $17,521 in 2001, for a growth of 274%. Class II lagged far behind, with total wealth in company stock of only $5,638 in 2001. Other classes fell further behind as expected, with the members of Class VIIa at the bottom with only $929, on average, in company stock in 2001.

Figure 5b shows one way Class I pulled ahead of all other classes. Between 1989 and 2001, the percentage of those who owned company stock increased the most of any class (from 15% to 19%). Moreover, this growth was most dramatic during the bull market from 1995 to 2001 (and in fact, it could even be the case that those in Class I wisely trimmed back their stock holdings between 1992 and 1995 and then accumulated relatively aggressively during the bull market of the late 1990s). Finally, Figure 5c shows fewer class differences in the growth of wealth among those who own such stock, further confirming that the trends revealed in Figure 5a are driven to a substantial degree by trends in the ownership of company stock, as shown in Figure 5b.

For comparison with the dual education-and-class presentation of earnings trends, we summarize the growth of wealth inequality in Table 3 for both EGP classes and educational groups. The absolute and percentage growth of wealth between 1989 and 2001 is summarized in the first panel of Table 3 for EGP classes (which is equivalent to comparing the endpoints of the trend lines in Figures 3, 4, and 5a). Analogous summaries of the growth of wealth for educational groups are presented in the second panel of Table 3 (and figures equivalent to Figures 3, 4, 5a, 5b, and 5c but with educational groups as the cross-sectional partition are presented in the supplementary appendix).

Figure 4
Mean of Wealth Held in Stocks by EGP Social Class, 1989 to 2001
Survey of Consumer Finances
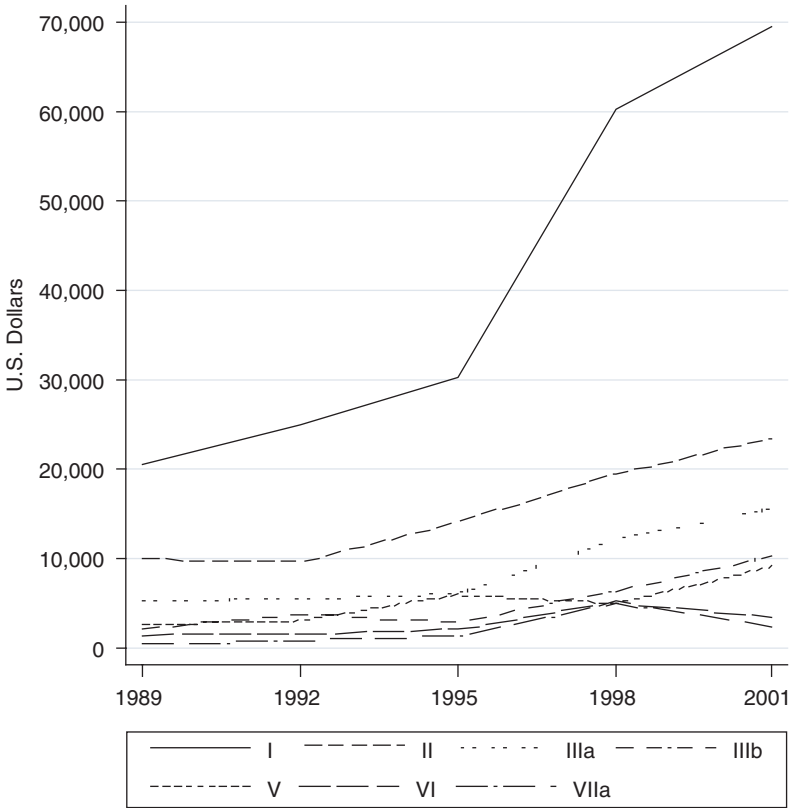
Note: EGP = Erikson, Goldthorpe, and Portocarero (1979).

Table 3 shows that the same basic picture of the growth of wealth inequality is present for educational groups, and it is even more pronounced. Net worth increased relatively more for those with high education (89.1% for college graduates and 97.5% for those with professional degrees) in comparison to those with the less education (only 19.2% for high school graduates and a decline of 22.1% for those who did not complete high school). The differences are also more pronounced for the specific components of wealth, especially the growth of wealth held in the stock of the company for which one works. This type of wealth increased a massive 590.2% between

Figure 5a
Mean of Wealth Held in Company Stock by EGP Social Class,
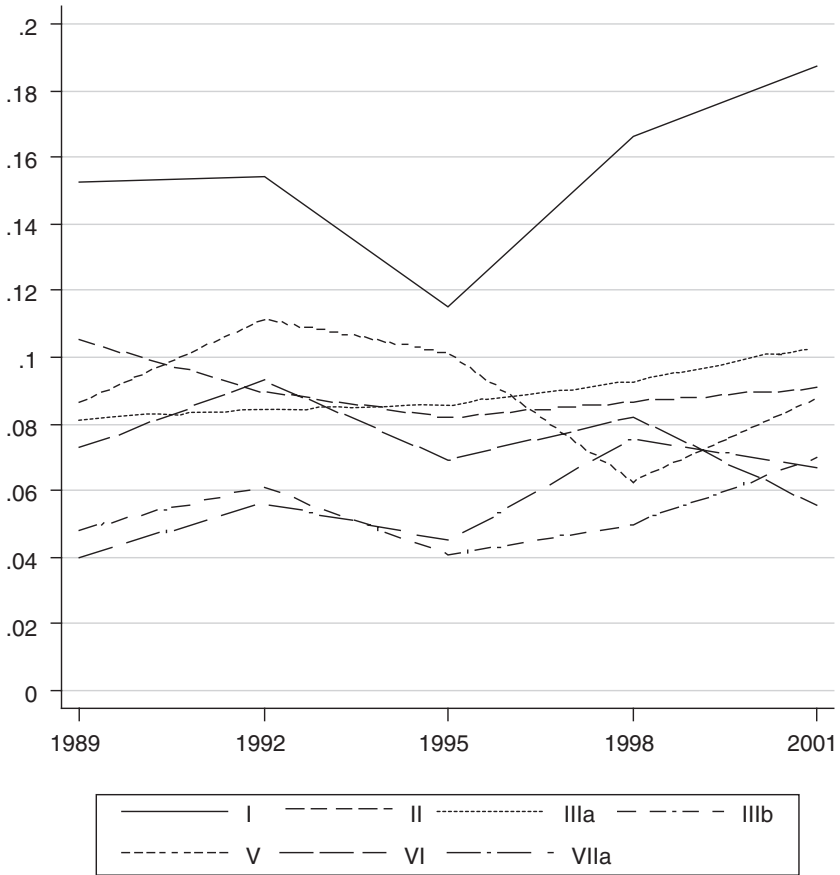**1989 to 2001 Survey of Consumer Finances**
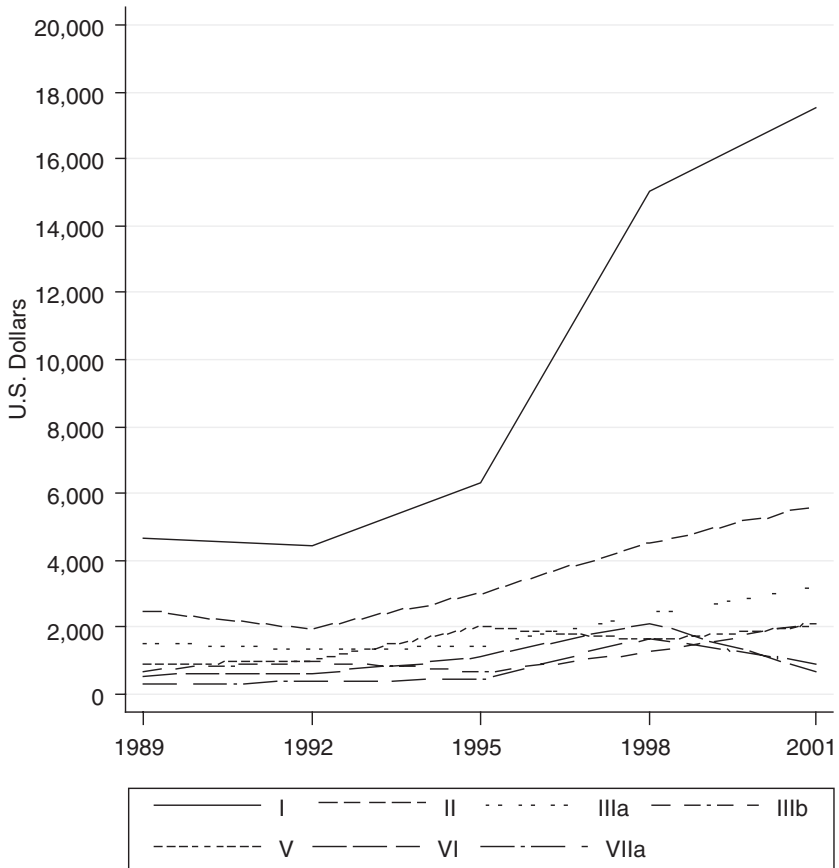
Note: EGP = Erikson, Goldthorpe, and Portocarero (1979).

1989 and 2001 for those who had graduate degrees in comparison with a substantial but much smaller growth of 11.3% for those who had high school degrees only.

Do the findings in Table 3 suggest that educational categories are more powerful predictors of the growth of wealth than are EGP class categories? It would appear so, but we will not claim strongly that this is the case. As shown in the supplementary appendix, it is possible that our estimates of class differences in wealth are afflicted by the sort of measurement error that would moderate their differences. The complication is that

Figure 5b
Percent Who Own Company Stock by EGP Social Class,
1989 to 2001 Survey of Consumer Finances

Note: EGP = Erikson, Goldthorpe, and Portocarero (1979).

the public-release version of the Survey of Consumer Finances offers only coarse occupational categories. We developed a reweighting estimator to form EGP class–based estimates of wealth trends, but this weighting scheme is not guaranteed to produce estimates that are as precise as those for the earnings trends (where we used 3-digit census occupation codes that are available for the alternative Current Population Survey data analyzed there). Thus, class as a predictor of wealth trends is somewhat undermined by the measurement complications of the data we used for the wealth analysis.

Figure 5c
Mean of Wealth Held in Company Stock for Those
Who Own Company Stock by EGP Social Class, 1989 to 2001
Survey of Consumer Finances
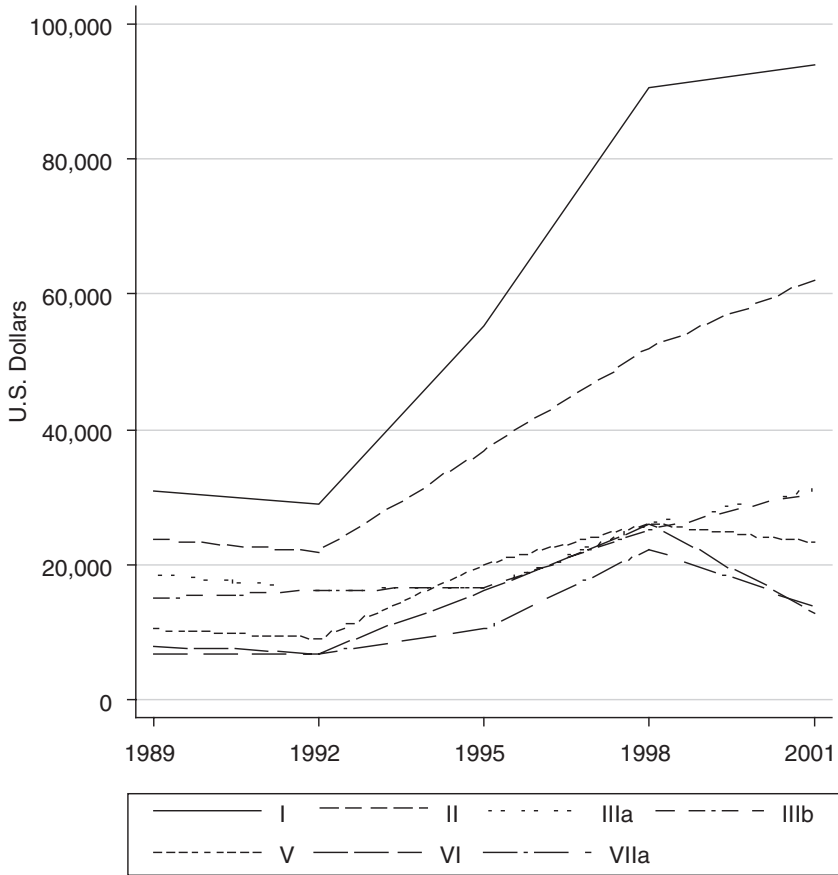
Note: EGP = Erikson, Goldthorpe, and Portocarero (1979).

What is the connection between these patterns and the rent destruction conjecture? To the extent that stock prices are a function of how much is paid to production line workers, these relative wealth gains could be interpreted, in part, as transfers from the least educated workers in Classes VI and VIIa toward highly educated workers in Classes I and II. There are two variants of this transfer mechanism, which could be referred to as variants of a rent redistribution narrative.

Table 3
Increases in Wealth Between 1989 and 2001 by
EGP Classes and Educational Groups

	Net Worth		Stocks		Stock in the Company for Which One Works	
	Absolute Increase	Percentage Increase	Absolute Increase	Percentage Increase	Absolute Increase	Percentage Increase
EGP class						
I	297,016	76.7	48,942	237.7	12,837	274.0
II	83,899	34.2	13,444	134.7	3,136	125.4
IIIa	32,105	18.5	10,346	196.4	1,690	111.0
IIIb	19,774	13.7	8,038	355.0	1,422	195.2
V	36,650	26.9	6,549	250.6	1,141	126.4
VI	8,125	7.9	2,010	135.3	153	27.0
VIIa	12,005	15.6	2,003	389.2	662	248.0
Educational group						
More than college	430,333	97.5	63,329	289.2	18,873	590.2
College graduate	244,448	89.1	29,321	203.3	7,049	204.3
Some college	41,250	23.6	6,173	104.2	1,861	91.7
High school graduate	27,171	19.2	3,067	112.5	155	11.3
Some high school or less	−24,102	−22.1	1,237	212.1	190	94.2

Note: Absolute Increase = (Value in 2001) – (Value in 1989) and Percentage Increase = [{(Value in 2001) – (Value in 1989)}/(Value in 1989)] × 100. Data are from the 1989 and 2001 Survey of Consumer Finances. These samples are restricted to full-time workers between the ages of 19 and 64, and the household wealth variables have been converted to inflation-adjusted 2000 dollars. See supplementary appendix (available on the Web site of the first author) for details of the estimation of the trends for EGP classes. EGP = Erikson, Goldthorpe, and Portocarero (1979).

As argued by Fligstein (2001) and Sørensen (2000), the equity markets shifted substantially in the 1990s. More than ever before, a good firm was seen to be one where highly educated managers in Class I were willing to minimize the wage bill of low-skilled production line workers in Classes VI and VIIa. Moreover, company profits were expected to be distributed to shareholders, not workers whose skills were easily replaceable. To encourage managerial decisions in line with these goals, higher level managers were compensated (by themselves and by those higher in the organizational chart) with increased earnings and a greater share of company profits via employee stock ownership plans.

This mechanism is plausible, although it surely cannot account for much of the relative growth of wealth inequality. As shown in Figures 5a, 5b, and 5c, the majority of the members of Class I do not own company stock, in part because many

do not work for companies that are capitalized by publicly traded stock. And even many of those who do work for such companies have no influence on wage negotiations with production line workers.

A weaker (but somewhat less speculative and, hence, more promising) version of this transfer mechanism still establishes a connection to the rent destruction and redistribution narrative. Individuals at the top of the class structure were more likely to own stock shares that would benefit from labor cost savings, and their attention to such concerns may have increased in the 1990s. As a result, individuals in Class I may have been more willing to turn a blind eye toward policies that reduced the wages of production line workers.

There are two types of individuals in Class I worth considering, those who are and those who are not directly in a position to affect wage negotiations with the working class. For those who have such influence, such as high-level managers of large industrial corporations, adherence to norms of fairness that formerly assured that production line wages were sufficiently high may have weakened (especially in less competitive industries where firms have genuine profits to share). Any such willingness to frame fairness concerns as old-fashioned were likely to be supported by middle-level managers in Class II whose retirement savings were more likely to be tied to the share prices of their company stock.

For those who have almost no scope to influence wage-setting policies for the working class, such as professionals, a more subtle realignment of political interests may have emerged. More individuals in the 1990s may have associated their well-being with continued increases in stock market yields than in prior decades. Accordingly, some individuals who formerly supported policies and politicians aligned with working-class interests may have become more likely to support politicians who opposed increases in the minimum wage and any restrictions on free trade. In fact, this sort of a response to the rise of stock equities may cut across class boundaries to a substantial degree. Even some members of Classes VI and VIIa may have formed beliefs about their interests that led them to withdraw support for the traditional allies of labor. Meager as their stock holdings may have been, dreams of windfall profits that could make up for their sinking wages may have led some members of the working class to cast votes inconsistent with their long-run interests.

This weaker version of the indirect transfer explanation, thus, has wider scope in accounting for the interests and behavior of a larger segment of the upper class (and perhaps of middle and lower EGP classes). But like its stronger variant, it is speculative nonetheless.

Conclusions of Empirical Analysis

In the preceding section, we showed that the growth of wealth inequality may support the rent destruction conjecture. Stock shares in ostensibly profitable companies

in the 1990s were unequally distributed, and the unequal distribution appears to have led to an accentuation of class differences in wealth (and perhaps to an even larger accentuation of wealth differences between educational groups). The two possible transfer mechanisms that we describe in the previous section, if true, would establish the trends in wealth inequality as supportive of the rent destruction and redistribution narrative. Of course, given the limited nature of our analysis, which itself is a function of the availability of data, we have no evidence that these particular mechanisms are valid.

Moreover, even if these mechanisms are valid and, hence, the rent redistribution narrative has some merit in accounting for some pattern of the growth of both earnings and wealth inequality, the bull market in stocks that allowed for these processes to unfold requires some explanation. It is clearly endogenous to a variety of political economy processes. Beyond the fiscal and trade policy decisions that could be seen as a function of voters' interests (and, hence, the weak variant outlined earlier), other mostly exogenous changes would seem to matter (which is what would give the weak variant its causal power). Changes in the tax code created incentives for companies to pay workers in company stock, and technological change created the perception, if not necessarily the reality, of greater profits in response to lower productivity costs. In the next section, we discuss a variety of intertwined ultimate explanations such as these.

Plausible Explanations for the Growth of Inequality and Their Complementarities

The sociological literature on the growth of inequality in the United States has expanded recently. In addition to the rent destruction literature just discussed, sociologists have attempted to build on a variety of complementary explanations: technological and associated organizational change (e.g., Fernandez, 2001), the emergence of nonstandard employment relations (e.g., Kalleberg, 2003), and the consequences of new post-Fordist production regimes (e.g., DiPrete, Goux, & Maurin, 2002). As a result, sociology as a discipline has now joined the effort alongside economists to explain these important changes.

In this concluding section, we discuss this growing cross-disciplinary literature, indicating which lines of inquiry appear, at present, to be the most promising. Because it seems clear to most researchers working on these questions that there is no master causal narrative for the growth of inequality, the following discussion is by necessity somewhat fluid, as the explanations themselves bleed into each other.

Skill-Biased Technological Change and Other Education-Focused Explanations

In specifying his vision in *The Coming of Post-Industrial Society*, Daniel Bell (1973/1999) emphasized the consequences of technology for the division of labor

and the growth of the service sector. But Bell also noted its more specific consequences for patterns of inequality:

> A striking fact of Western society over the past two hundred years has been the steady decrease in the disparity among persons—not by distribution policies and judgments about fairness, but by technology, which has cheapened the cost of products and made more things available to more people. (p. 451)

Bell saw technology as an equalizer of (some) inequalities of consumption, but he did not foresee a growth of earnings or wealth inequality as a result of technological change.[1]

Most of the literature on the effects of technological change on inequality remains within economics. For the increase in earnings inequality considered here, the explanation of skill-biased technological change achieved a degree of consensus in economics in the mid-1990s (see Acemoglu, 2002, for citations and a review). As suggested by its title, this explanation posits that since the 1970s, technological changes have increased the wage premia that firms are willing to pay to highly skilled workers who can more easily use and adapt to new technologies. After this brief consensus was achieved, strong criticism of the technological change explanation emerged (see Bernstein & Mishel, 2001; Card & DiNardo, 2002). Because of these misgivings, review articles in economics, following on those such as Katz and Autor (1999), now place technological change within a general supply-demand-and-institution framework, which allows for the incorporation of the exogenous effects of institutions. Thus, the institutional narratives favored by Morris and Western (1999) are present in the economics literature now, informed by cross-national comparisons (e.g., Blau & Kahn, 2002).

The skill-biased technological change explanation rests, implicitly, on the assumption that educated workers with high skills are in relative short supply. Any explanation for a relative shortage of highly skilled workers could generate an increase in inequality and, thus, it makes just as much sense to look for changes in the profile of educated labor supplied to the labor market as it does to look narrowly at possible technology-driven increases in the demand for educated labor (see Acemoglu, 2002). Along these lines, it could be that the growth of inequality can be regarded as an artifact of changes in educational institutions and patterns of selection into them. If, for example, educational institutions have become better at sorting students by levels of ability and potential productivity since the 1970s, then individuals who would have been relatively highly paid members of the working class because of inherent ability may now more likely have been sponsored to higher levels of educational and occupational attainment. Under this scenario, there would be more homogeneity of ability within the working class, and there would be fewer individuals of relatively high ability willing to take employment in low-skilled jobs. The growth of class differences in earnings would then reflect growing class differences in the relative marginal productivity of employees.

We know of no evidence that supports this audaciously neoclassical position on the growth of inequality. Such evidence would, presumably, take the form of an increase in the relationship between college graduation and cognitive skills measured in early adolescence. However, were support generated for it, it would hardly seem to be a complete explanation, because some position on the determinants of labor demand processes would still need to be maintained.

Political Economy Explanations

The work of Bell (1973/1999) provides a fitting departure point for political economy explanations as well. Bell wrote,

> How much difference should there be in income between the head of a corporation and a common laborer, between a professor at the top of the scale and an instructor? . . . What is the rationale for these differences? What is fair? Traditionally, the market was the arbiter of differential reward, based on scarcity or on demand. But as economic decisions become politicized, and the market replaced by social decisions, what is the principle of fair reward and fair differences? Clearly this will be one of the most vexing questions. (p. 451).

For Bell, the supremacy of technical knowledge in the postindustrial society will hasten a new period of labor market regulation, overseen by democratic political institutions.

Contrary to some of Bell's (1973/1999) other predictions, in this domain he may well have been partially correct (depending on one's specification of how democratic institutions are supposed to function). A growing body of scholarship emphasizes the degree to which political institutions of alternative countries have become captive to those who would wish to see the market remain the "arbiter of differential reward." Welfare-states scholars, in particular, have considered variations in the relationship between the growth of labor market inequality and the downsizing of the welfare state across industrialized societies (see Esping-Andersen, 1999; Hicks, 1999; Kenworthy, 2004). Promoting (and popularizing) an extreme version of this type of argument, Pierre Bourdieu (2001/2003) wrote of an emergent "neo-liberal utopia" in countries such as the United States and declared, "Thus has come into being . . . a mode of production that entails a mode of domination based on the *institution of insecurity*" (p. 29). According to Bourdieu, the "deregulated financial market fosters . . . a casualization of labor that cows workers into submission" (p. 29).

Although some variation remains in the relationship between the state and market capitalism across industrialized societies, scholars who have developed political economy explanations for the growth of inequality have noted that the United States is increasingly considered (mistakenly) by politicians and their economic advisers to be the model that all nations must imitate if they are to prosper in the globalizing postindustrial economy (see Gilbert, 2002). Thus, for these scholars, the outsized

growth of earnings inequality in the United States since the 1970s may portend similar changes for the rest of the industrialized world, unless the neoliberal agenda can be rolled back.

The present goal for this promising research is to carefully specify the causal pathways by which political decisions shape wage inequality, via lower order institutional and market processes. It is clear that there is much to be gained by specifying the institutional narratives by which changes in legislation on minimum wage levels (see Card & Krueger, 2000; DiNardo, Fortin, & Lemieux, 1996) and the rights of workers to organize into labor unions (see Bronfenbrenner, 2000) have arisen.

Before returning to rent-based explanations, it is worth considering whether these political economy explanations are necessarily at odds with the technology-based explanations presented earlier. As just noted, Bourdieu (2001/2003) was a vocal proponent of the neoliberalism explanation, which can be seen as a political economy explanation taken to its extreme. In some sense, this is quite odd as it is surprising to see Bourdieu explain these changes without much direct reference to his favorite concept of cultural capital. A deeper reading reveals the connections.

First, Bourdieu (2001/2003) wrote of a deeper logic for the trend, focusing on the power of ideology: "It is as if the instantaneist, individualistic, ultrasubjectivist philosophy of neoclassical economics had found in neoliberal policy the means of its own realization, had created the conditions for its own verification" (p. 30). Then, he used cultural capital to explain intergenerational immobility and the reproduction of inequality across generations. This mechanism helps to explain why those who are powerful remain powerful and, hence, why the powerful gain more from the tyranny of neoliberalism. Second, Bourdieu wrote of the ability of those with high cultural capital to benefit disproportionately from new technologies, under the presumption that those with high cultural capital are more comfortable with adaptations cultivated by the ruling class. In so doing, Bourdieu reframed the skill-biased technological change explanation as a cultural capital–biased technological change explanation. It, thus, remains an open question whether, in the absence of this neoliberal utopia, Bourdieu might have argued that inequality would have grown anyway because of changes in technology.

Can a Rent-Based Framework
Unify and Extend These Explanations?

As shown by our empirical results in this article and in our prior work, one particular virtue of the rent-based framework is its capacity to serve as a proximate mechanism for ultimate causes identified by supply-and-demand factors as well as political economy processes. We therefore see great appeal in some of the mechanisms suggested by Sørensen (1996, 2000), and in the rent-based analysis framework more generally. It helps to connect a variety of intersecting causal narratives, from technological and institutional change to the dynamics of political decisions as

conditioned by the economic power of capital. And it therefore militates against the search for narrow master causal narratives, such as that which first pushed skill-biased technological change to the forefront of debate. The growth in inequality is, as now seems clear, almost certainly the result of a confluence of trends, none of which should necessarily to be given primary attention.

To conclude this article, we discuss two main issues on the agenda for rent-based examinations of the growth of inequality: (a) the next mechanism of selective rent destruction that is in need of evaluation and (b) the relationship between rent-based explanations and the more direct empirical legacy of new structuralist scholarship in the sociology of labor markets.

To further assess the full potential of the rent destruction explanation, the next mechanism that is in need of evaluation is the conjecture of a decline in composite institutional rents. In general, a composite rent is defined as the extra payment that the market yields when two assets are uniquely combined and jointly employed in a common production enterprise. With reference to earnings, composite rents have been used to characterize lifetime earnings trajectories for workers employed in firms where job-specific skills are crucial determinants of individual productivity. For such positions, workers incur short-run opportunity costs by initially accepting lower wages than they could obtain from other employers working at jobs for which productivity is not as closely tied to job-specific skills. Workers are willing to incur these short-run costs only because they expect to receive higher wages after their productivity increases in response to the acquisition of job-specific skills. The excess payment workers receive above and beyond the next-best wage they could receive at any other employer can be thought of as a composite rent that is delivered during the course of an entire career (see Lazear, 1995).

The destruction of composite rents could increase earnings inequality in two ways. First, the destruction of these rents could simply have occurred more frequently at the bottom of the class distribution, as Sørensen (1996, 2000) seems to imply in his writing. The literature on casualization and post-Fordism, to the extent that it documents relative shifts toward idealized spot contracts for low-skilled workers, may provide support for this explanation (see Appelbaum, Bernhardt, & Murnane, 2003; Kalleberg, 2003). Second, however, the destruction of composite rents could increase inequality merely by increasing the returns to measurable skills. If workplace productivity is seen to depend on the acquisition of skills, and if expensive on-the-job training programs are less attractive to employers who intend to pay workers wages more consistent during their lifetimes with expectations of market-based wages, employers should be willing to pay wage premia to attract highly educated workers to their firms whom they do not have to train as intensively. Such workers enter their jobs with large skill endowments and just as important, have demonstrated that they have the capacity to efficiently acquire skills on their own. If this scenario is reasonable, then the increase in the wage premium for highly educated

workers could simply reflect a subtle response to changes in employment relations that has prompted a reweighting of the importance that employers place on educational credentials.

Whether Sørensen's (1996, 2000) vision of the evolution of inequality in the 21st century will guide deeper sociological analysis of trends in inequality than other competing perspectives remains to be determined. We will not know until the framework has been applied more comprehensively—broadly in comparative analysis of political economy processes and narrowly in investigations of composite institutional rents and the dynamics of technological change.

There is a model for how such integrative analysis can be designed—the most recent empirical instantiation of the tradition of structural analysis in the sociology of labor markets (see Kalleberg, Knoke, Marsden, & Spaeth, 1996; Kalleberg, Reynolds, & Marsden, 2003). In contrast to some of the more simplistic models of dualism from the 1970s and 1980s, in this new literature, a subtle accounting of the distribution of earnings is now offered alongside the dynamics of organizational change. Firms operate in competition with each other but also under institutional and regulatory constraints that apply to all firms and that shape their human resource practices. Workers compete within organizations for promotion opportunities, once they have achieved some degree of protection from competition with those outside of the firm. Increasingly since the 1980s, workers have had to compete with a pool of casual labor, which represents the postindustrial equivalent of the classical Marxist reserve army of the unemployed. A casualization of the employment relationship results, in which the weakened bargaining position of workers hurts their wages and fringe benefits.

Rents should be examined within this framework via more explicit comparisons of the earnings levels revealed by empirical analysis and the counterfactual wage patterns that might be realized under alternative structural conditions in the labor market. One need not push these counterfactuals all the way toward complete specification of the conditions of perfect competition that define rents. There is value merely in showing through careful theoretical modeling, calibrated with empirical data, how the interests and bargaining strategies of workers and employers generate advantages and disadvantages for each. And for the sociological literature on the evolution of inequality in the late industrial United States, there is value in showing how succinctly and elegantly some of the disadvantages of workers can be explained with the language rent destruction and redistribution.

Note

1. In the latest edition of his book, Bell (1973/1999, p. lxviii) reviewed the evidence in support of his postindustrialism conjecture, especially as the evidence bears on his forecast of the death of class. He did not consider the recent growth of inequality to be particularly meaningful.

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