How Reliance on High-Income Consumers Increases Wage Inequality in the U.S. Economy

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As American incomes become more unequal, gaps in consumption are growing too – almost as much as income inequality. The spending power of the majority of Americans has barely edged up, while a small number of high-income consumers can spend lavishly. According to one study, since 1989 consumer spending by the top five percent of income recipients has grown at a rate of 5.2% per year, while consumer spending by the bottom 95% grew by only 2.8% a year.

The disproportionate growth of high-income consumers means that the U.S. economy caters increasingly to the preferences of elite spenders. In turn, as my research shows, the majority of U.S. workers are now employed in industries that earn at least ten percent of their revenues from sales to households earning incomes over $150,000 per year. What does that mean for workers' wages? Too little is known about the consequences for the economy and U.S. workers of growing reliance on high-end consumers. My research sets out to improve our knowledge of these consequences.

Why Industries Serving High-End Consumers are Likely to See Growing Wage Gaps

It stands to reason that businesses and jobs that increasingly rely on the patronage of high-income consumers will sharpen their focus on the distinctive wants of these consumers. Affluent consumers are willing to pay for the highest status and highest quality products, so the increased influence of these consumers sets up big rewards for businesses that create and sell the sorts of products the affluent want. In turn, if producers aiming to serve elite markets bid up wages for talented workers, it follows that upward-tilted consumer spending can translate into a more unequal distribution of wages. In short, growing demand from elite consumers may spur growing gaps in pay between various employees at firms catering to the affluent; and such growing elite demand may also widen gaps between the workers in firms that are more or less successful at attracting affluent consumers within particular industries.

An example may help to spell out my hypothesis. Consider the labor market for maids and servants. Demand for household service workers runs a gamut from dual-earner middle-class households seeking a part-time maid up to ultra-rich households employing full household staffs. In the ultra-rich households, butlers are trusted with substantial responsibility for supervising household expenses and management, and the best ones can become a symbol of the high status and success of their employers. Butlers perceived to be the most adept at running wealthy households will be able to claim premium pay compared to mere nannies or housekeepers serving middle-class families. Therefore, if over time the domestic services industry skews increasingly toward serving very high-income households, then pay gaps will grow between elite butlers and housekeepers or nannies. Unless other economic forces counter this trend, pay scales within the domestic services industry will become more and more unequal.

An Empirical Test

As a step toward testing this theory in a rigorous way, I have studied how within-industry wage inequality varies by the degree to which different U.S. industries depend on elite consumers. I analyzed a new dataset that allows accurate estimates of the dependence of 252 different industries on elite consumers, and the findings support my hypothesis:

- Industries that rely more on earning their revenues from very high-income consumers do indeed tend to have more unequal wage structures than industries more reliant on non-affluent consumers.

- Can the apparent impact of affluent consumers be explained away by other differences among industries – such as the education or occupation of their workers? Even when I use statistical techniques to take these and other important differences in industry workforces into account, the positive relationship between high-end consumers and wage gaps continues to hold.

My analysis suggests that the growing clout of elite consumers in the U.S. economy could very well be a key contributor to increases in wage inequalities within many industries. However, the new data I used for this study refer only to the year 2012, so I am not yet in a position to show that, over time, rising dependence on high-income consumers has driven U.S. wage inequality.

How Dependence on High-Income Consumers Distorts the Economy

Although more research remains to be done – especially on detailed industry dynamics over the years – my study show that elite consumption could be a significant driver of growing wage gaps within many U.S. industries. And the impact could be quite sizeable. Economists Barry Cynamon and Steven Fazzari find that the top 5% of U.S. income earners increased their share of consumer expenditures from 26% in 1989 to 38% in 2012. An increase of this magnitude in the average dependence of industries on high-income consumers can expand inequalities in wages within industries between 2.5% and 4.7%. Similarly, it could increase inequality that is unexplainable by differences in factors like education and occupation between 3.8% and 7.5%.

Unless Americans take actions to reduce income inequality, my research suggests that self-reinforcing dynamics may grow in importance. As incomes swell at the top of the economic ladder, affluent consumers will, just by spending on things they want, tend to encourage firms and industries that produce the relevant luxury goods and services to reward their workers more unequally. This reality could, in turn, spur further income inequalities.

My project addresses just one of several ways in which the growing importance of high-income consumers could reshape the U.S. economy, but I am the first to probe the direct impact on wages. In an economy marked by continued income stagnation for all except the highest earners, the dynamics described here could grow in importance. An American economy geared to very affluent consumers produces more than just luxury goods and premium services. Such nice things may matter only to the very wealthy who are able to buy them. Yet an economy overly geared to the production of luxuries will also likely be an economy where wage gaps grow in one industry after another – and that matters to the vast majority of American workers and families.

Read more in Nathan Wilmers, "Can High Income Consumers Increase Within-Industry Wage Inequality?" American Sociological Association Annual Meeting, August 2014.