Interview

‘Most workers deserve a raise’

Income inequality in the US has grown enormously, says economist Arindrajit Dube. The same forces are at work elsewhere in the world. ‘It doesn’t surprise me that there’s a lot of dissatisfaction, and that it can fuel populism.’

MARIJN JONGSMA

Economic growth is no guarantee of broadly shared prosperity, warns American economist Arindrajit Dube. In his recently published book *The Wage Standard*, he takes particular aim at his own country. ‘In many respects, the United States is truly exceptional in the rise of wage inequality.’ But the underlying forces behind labor-market disparities are at work elsewhere too, Dube tells FD.

By ‘the wage standard’ (the title of his book), Dube means that there should be a ‘socially acceptable range’ for the compensation of work, rather than leaving it to a labor market that, in his view, functions imperfectly.

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1996

Diploma, Stanford University (California)

2003

PhD, University of Chicago

2003–2009

Various positions at the University of California, Berkeley

2009–2023

Various professorships and research roles, including work on the effects of a higher minimum wage for the UK Treasury

2023–present

Professor of Economics, University of Massachusetts, Amherst

2026

Publishes *The Wage Standard: What’s Wrong in the Labor Market and How to Fix It*

‘My core message is simple,’ Dube says from his office. ‘Most workers deserve a raise. Before 1980, real wages and productivity in the US moved roughly in step for most workers for several decades. After 1980, that really stopped. For many workers we have seen stagnation over recent decades, with productivity of the economy as a whole growing far faster than the median wage.’

The Wage Standard is not short on statistics and studies. Tellingly, US labor productivity rose 73% between 1980 and 2019, but the real median wage grew only 23%. The top 10% of American wage-earners gained 53% more to spend. ‘It doesn’t surprise me there’s so much dissatisfaction with the economy, and that this can feed all kinds of populism. If we allow the economy to deliver insufficient wage growth for so many workers, we shouldn’t be surprised when that leads to conflict-ridden political outcomes that are less than ideal.’

Q In your book, you name monopsony—where firms behave on the labor market like a monopolist—as a major cause of stagnant wages at the bottom. How does that work?

‘Pure monopsony, literally a single buyer of labor, is extremely rare. But employers often have considerable power to set wages. Scale plays a role. There may only be a handful of hospitals in a city, for instance, and that confers market power. Most Americans realistically have a choice of just three or four employers. On top of that, switching jobs brings all kinds of challenges and uncertainties. Workers don’t do it lightly, and that gives firms room. They can pay a somewhat lower wage without staff walking out the door immediately. For all these reasons, the labor market isn’t a simple story of supply and demand.’

Q Professional managers don’t come off well in your book—they have widened inequality.

‘Wages used to be set more often on the basis of job titles, whereas now there’s far more room for managers to set them themselves. That has widened wage dispersion, even among workers with similar skills, and it has produced bigger gaps between top and bottom. Pay practices often hinge on management’s choices. A striking study shows that in both the US and Denmark, when firms switched to a CEO with a business-school background, wages fell on average by about 6%, and for low-paid workers by as much as 9%.’

‘At the same time, CEO pay rose, and so did profits for shareholders. But it did little for productivity. So it’s not that firms became more productive; the pie was simply sliced differently. And what’s interesting: this is not a purely American phenomenon.’

Q What explains it?

‘We see this phenomenon from the 1980s onward, when real changes occurred in corporate ideology. Managers are no longer so closely tied to the workers on the shop floor—for example, because they didn’t rise through the ranks internally but were brought in from outside. As a result, the personal bonds with employees are

weaker.’

‘Employers have considerable power to set wages—scale is part of the reason why’

‘It also has to do with the idea of what a company is actually supposed to do. If you believe the central mission is to maximize shareholder value, then anything that doesn’t directly advance that becomes a cost to be minimized. Of course, making a profit is always part of being a capitalist firm. But is it the only or the decisive motive? And how much should it take priority? I think those views have shifted, and that has led to a relatively smaller share of revenues going to labor.’

Q Companies do sometimes change course, though. Walmart—the largest private employer in the US—was long known for low wages, but a decade ago it decided to raise them sharply. Why?

‘There was external pressure, and the labor market tightened after 2010. Companies themselves say explicitly that higher wages reduce elevated turnover. Higher pay helps retain workers, and that can raise productivity. In one prominent study, researchers found that higher labor costs were fully offset. That shows firms were in fact no worse off. But absent external pressure—for example from strong unions—they can easily stay in a situation where they pay relatively low wages.’

Q Policymakers and central bankers, in your view, should aim more deliberately for a tight labor market.

‘They need to understand that a tight labor market doesn’t just mean more jobs—it can also lead to more broadly shared prosperity, because it strengthens workers’ bargaining position and counters employer power. The market functions better. For the US, my colleagues David Autor and Annie McGrew and I have shown that a tighter labor market reversed a substantial part of the rise in wage inequality since 1980—and it happened in just five years, roughly between 2019 and 2024. In Germany we saw the same thing, even before the pandemic.’

The Wage Standard, Arindrajit Dube, Dutton, $30

Q What will the impact of artificial intelligence (AI) be? If fewer workers are needed, the labor market will loosen by itself.

‘Yes, it’s hard to talk about the labor market in 2026 without mentioning AI. At the same time, we still know very little. Ultimately, we can decide ourselves how AI shapes our work. Take the 2023 Hollywood screenwriters’ strike. One of the central issues was how AI could be used in the writing process for films and television series. As part of the settlement, they agreed to share income better, so that writers benefit from productivity gains. It’s not only about what AI does to jobs. The question is also how you divide the gains it produces.’

Q Raising the statutory minimum wage is often seen as bad for the bottom of the labor market—workers become too expensive and lose their jobs. Is that fear justified?

‘Over the past twenty years, many countries have raised their minimum wage, or introduced one for the first time. As a result, we now have far more evidence.’

The US has been the ideal research laboratory, Dube outlines. The federal minimum wage hasn’t been raised since 2009 and is so low ($7.25 an hour) that it’s hardly actually paid anywhere. At the same time, more than half of US states have set their own, much higher minimum wage.

‘Compare Florida and California, which raised their minimum wages, to Texas and Oklahoma, which didn’t. Do you see employment growing much faster in the states without an increase? Absolutely not. In fact, employment trends are nearly identical. That holds for low-wage sectors like hospitality and retail as well as for young workers. At the same time, wages at the bottom have risen far more in California and Florida than in Texas and Oklahoma. As a result, wage inequality fell in that part of the country.’

Just as with voluntary corporate pay raises, ‘monopsonists’ often turn out to be able to absorb part of the extra costs themselves, Dube explains, so layoffs aren’t necessary. And here too, lower turnover lifts productivity. ‘Employers pass some of the costs through to consumers via higher prices. So higher-income consumers partly pay for higher wages at the bottom, because labor-intensive services become more expensive.’

‘Of course, there’s a limit. If I raise the minimum wage to an extreme level, eventually it probably will produce the problems people often fear: less employment, or very strong price increases. But for now, most countries don’t seem to have reached that point yet.’

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