

# Waging Inequality in America

By Lawrence Mishel



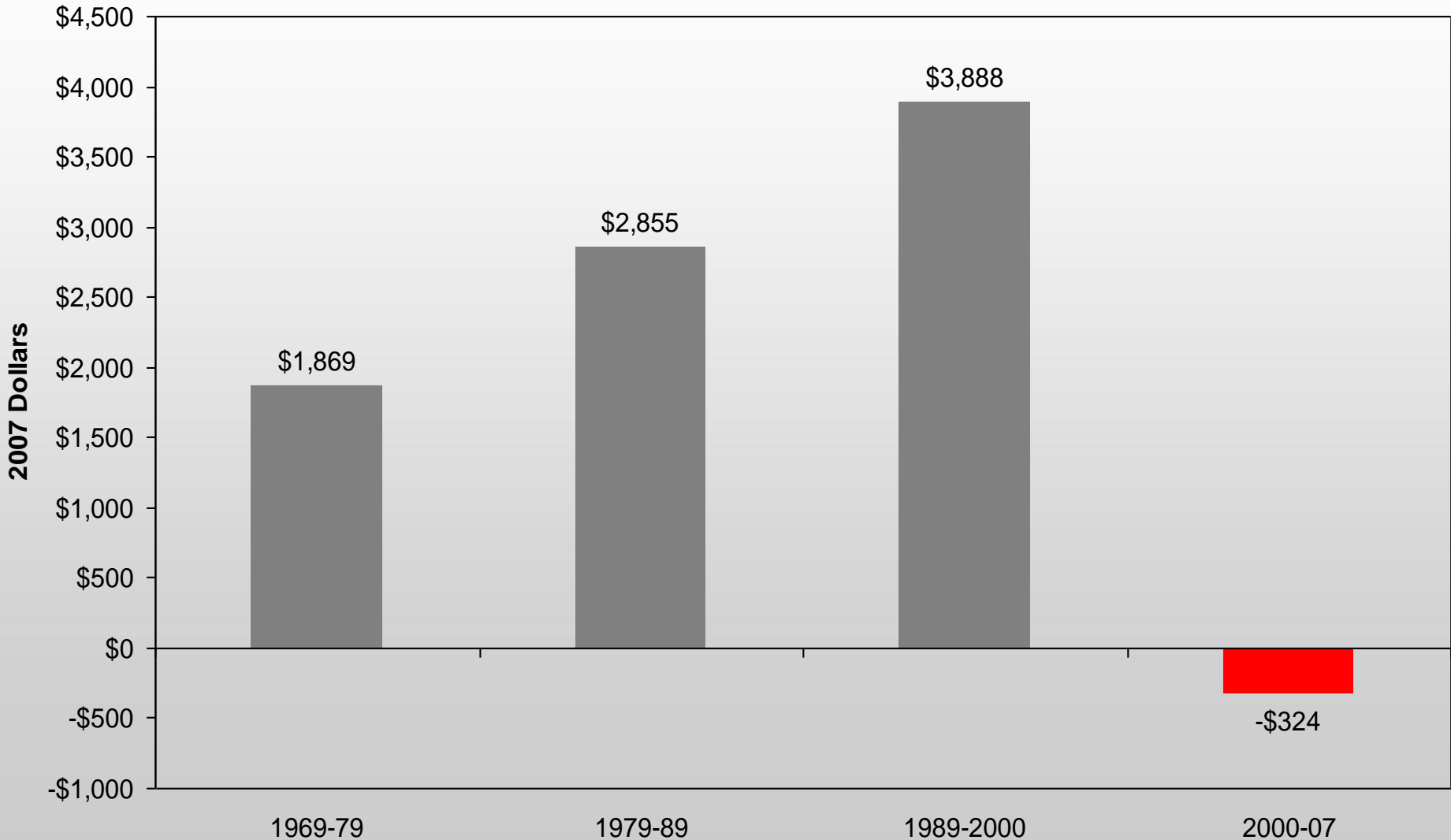
**Economic Policy Institute**

RESEARCH FOR BROADLY SHARED PROSPERITY

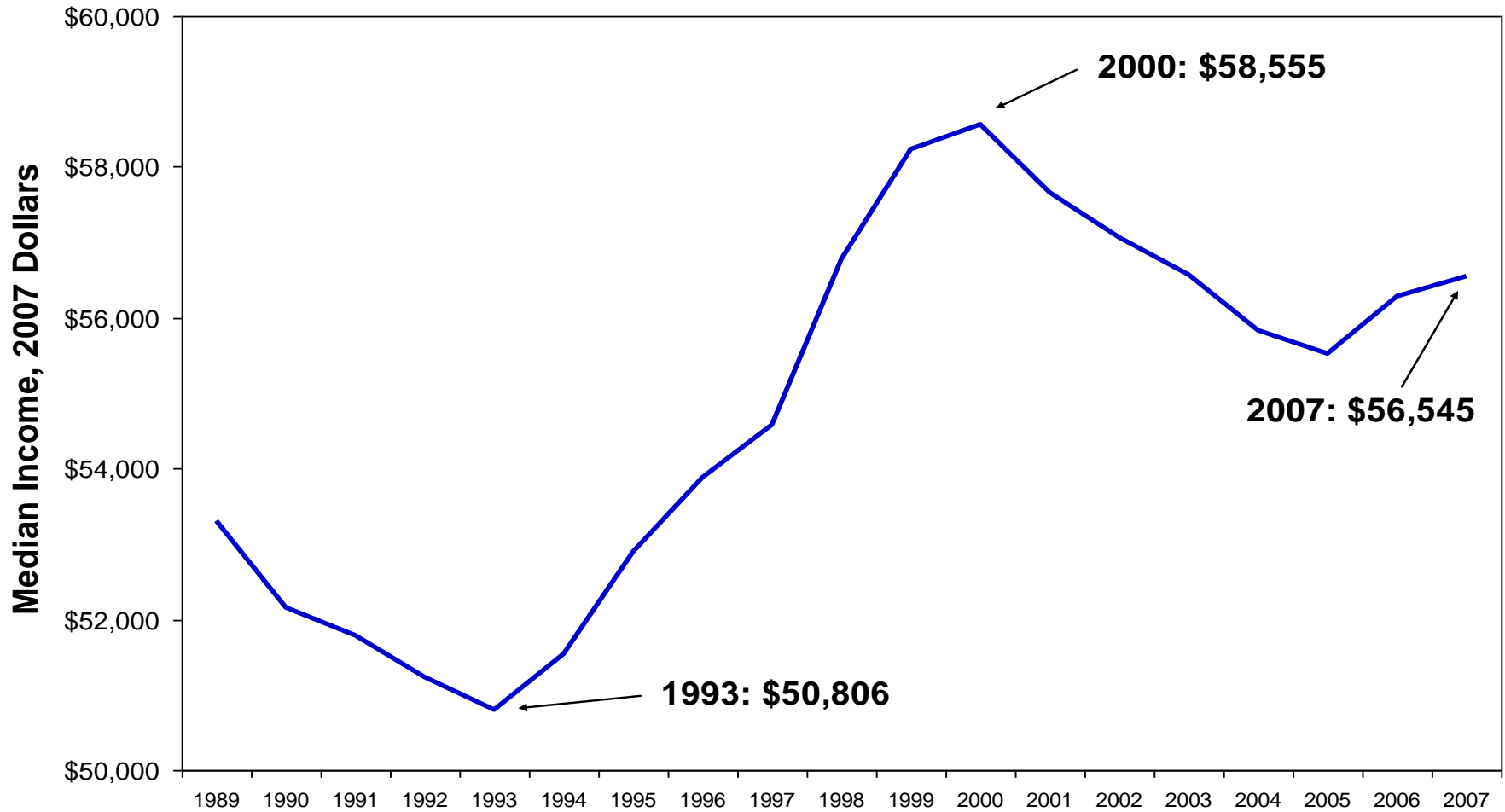
**The Middle Class Income  
Squeeze:  
Relentless, Persistent,  
and Accelerating**

# Family Incomes Did Poorly in the 2000s

## Real Median Household Income Growth Across Peak Years

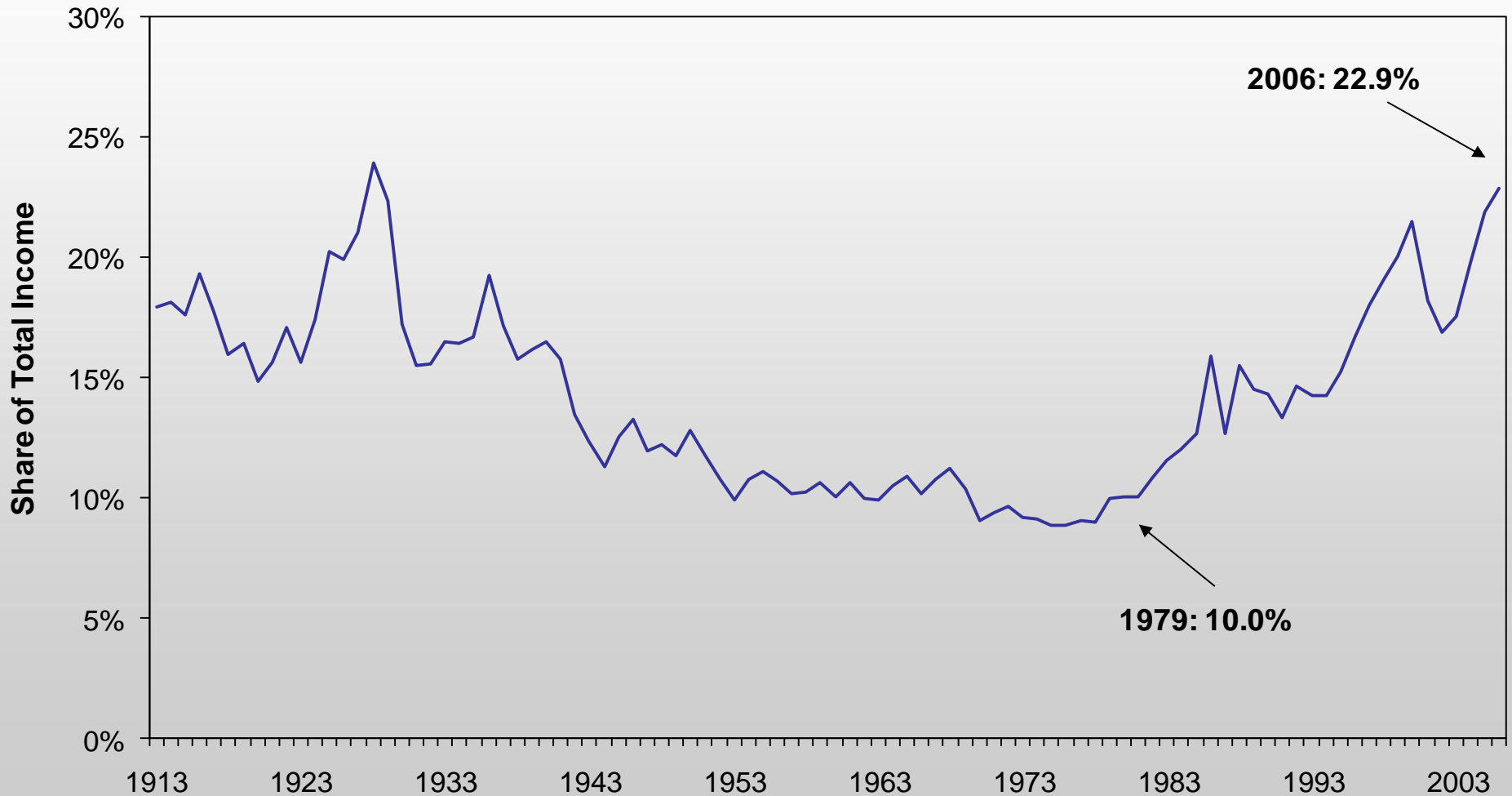


# Real Median Income, Working-Age Households, 1989-2007



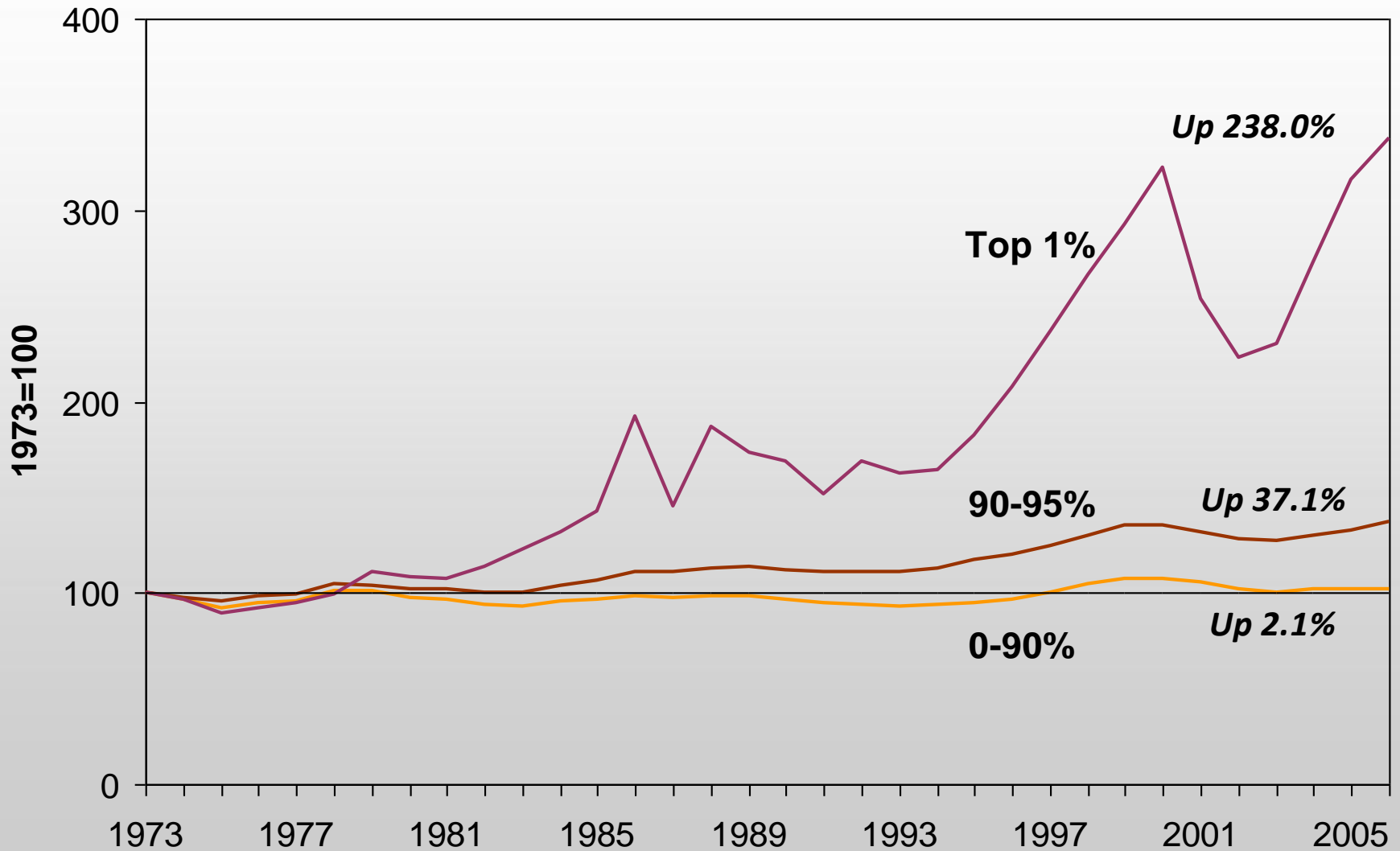
Source: Analysis of Census data

The top 1% has done very well, more than doubling their share of income from 1979 to 2006. The income of the top 1% grew to about 23%, or an average of \$1.3 million per household.



# Disparate Income Growth

Household income growth, including capital gains, 1973-2006



Source: Authors' analysis of Piketty & Saez (2008)

# Unbalanced Income Growth

Share of income growth by income group, 1989-2006

	Share of income growth, 1989-2006
<b>Top 10 percent</b>	<b>90.9%</b>
<i>Top 1.0%</i>	<b>59.0%</b>
Top 0.1%	<b>35.6%</b>
Remaining top 1%	23.6%
<i>Next 9%</i>	31.9%
<b>Bottom 90 percent</b>	<b>9.1%</b>

Source: Authors' analysis of Piketty and Saez (2008).

# Generating Inequality

**Moving upwards to the very top via:**

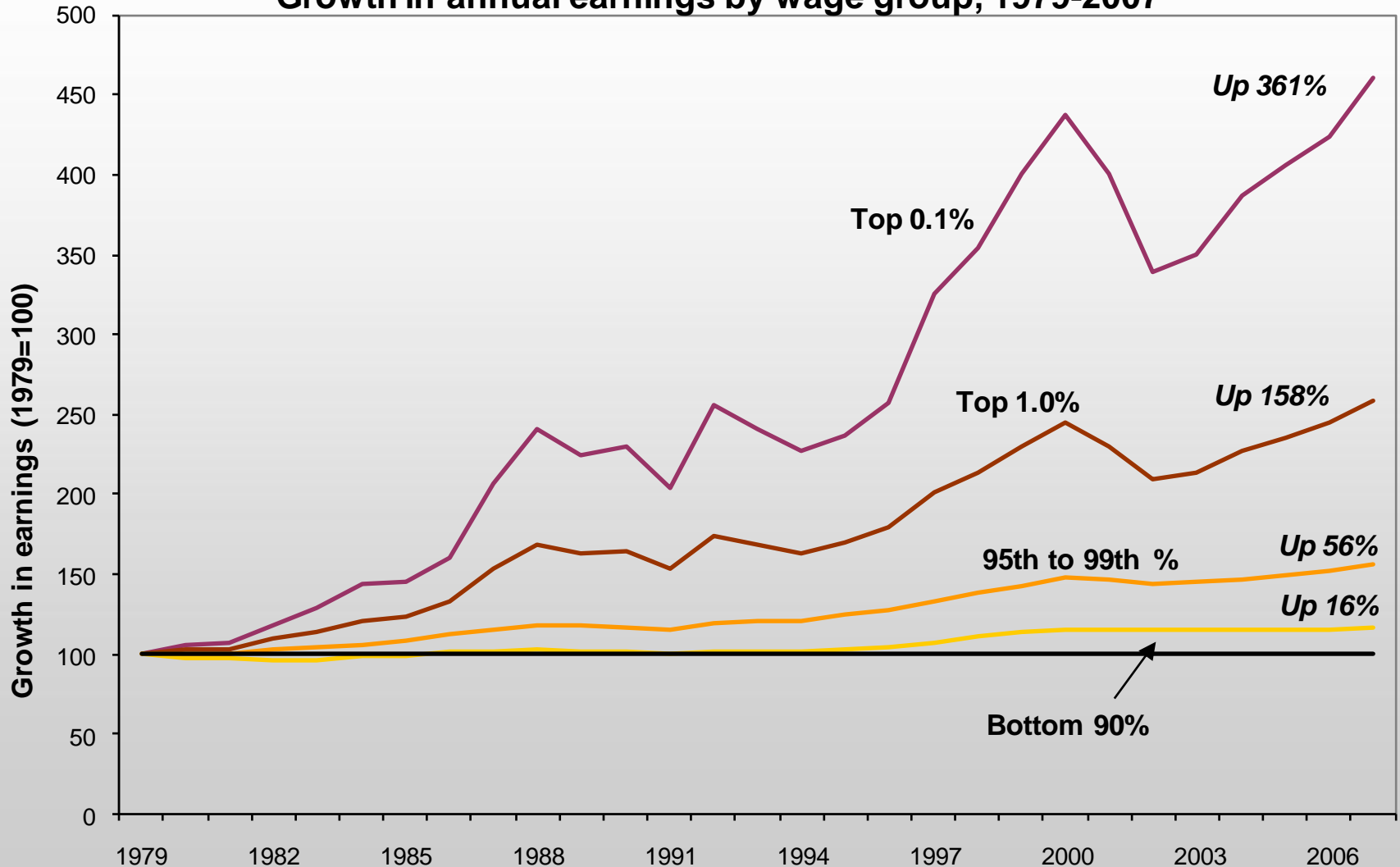
- 1. Wage disparities**
- 2. Expanded and concentrated capital income**



# Wage Disparities

# Unbalanced Earnings Growth

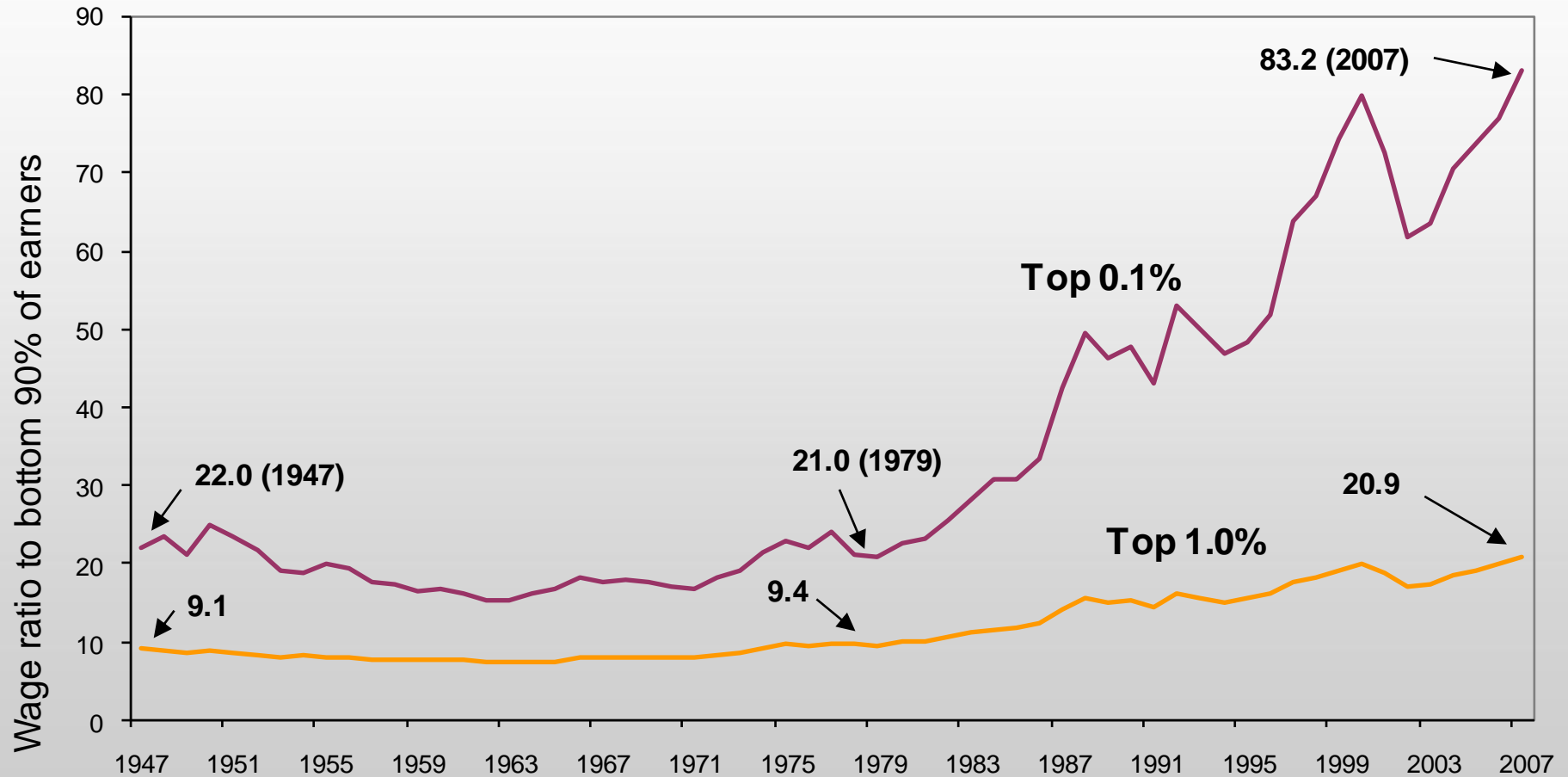
Growth in annual earnings by wage group, 1979-2007



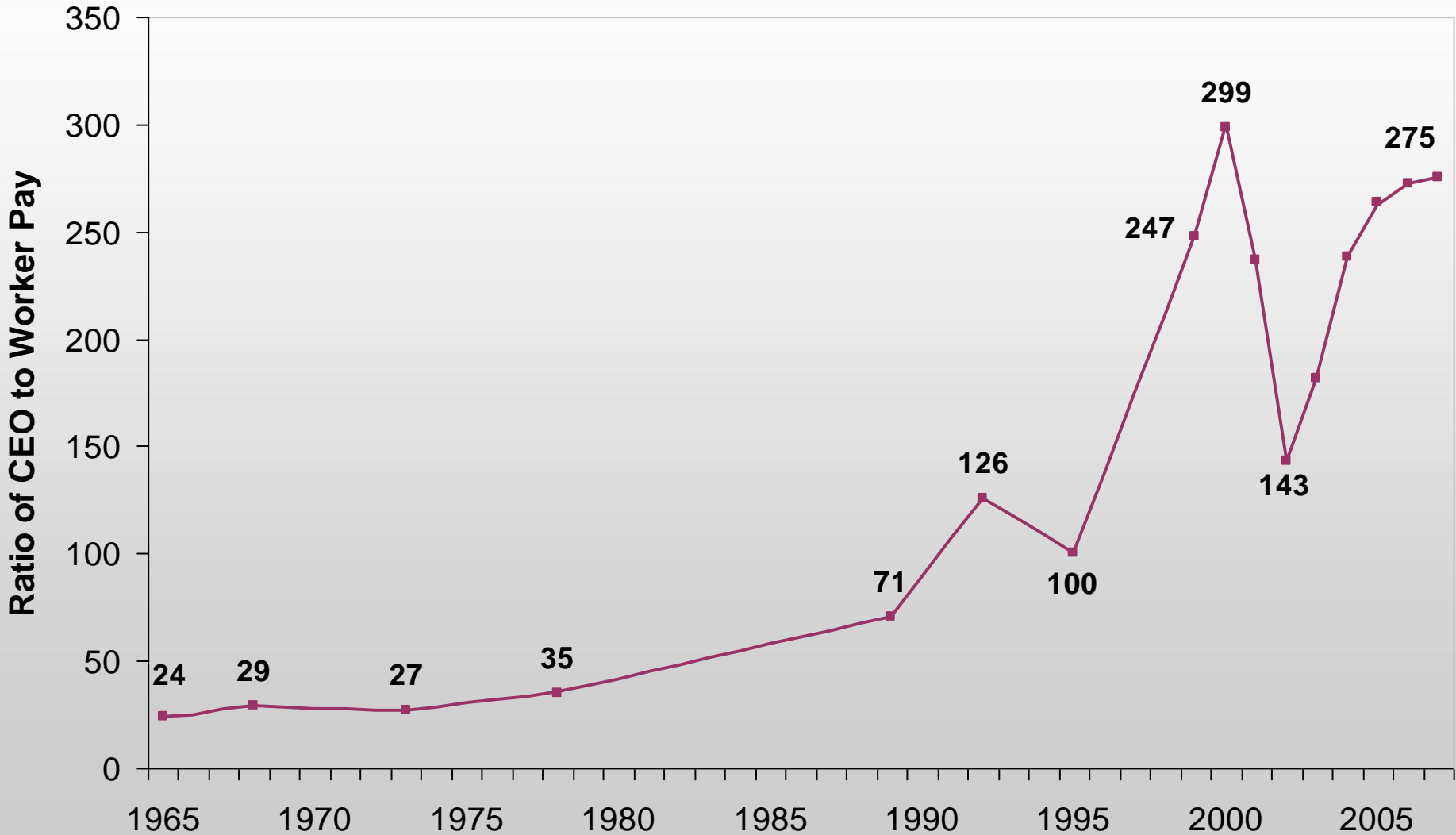
Source: Authors' analysis of Social Security wage data and Kopczuk, Saez and Song (2007).

# Growing Wage Disparities

Ratio of wages of highest earners to those of bottom 90%, 1947-2007



**CEOs made on average 27 times as much as a typical worker in 1973, but they made 275 times as much in 2007.**

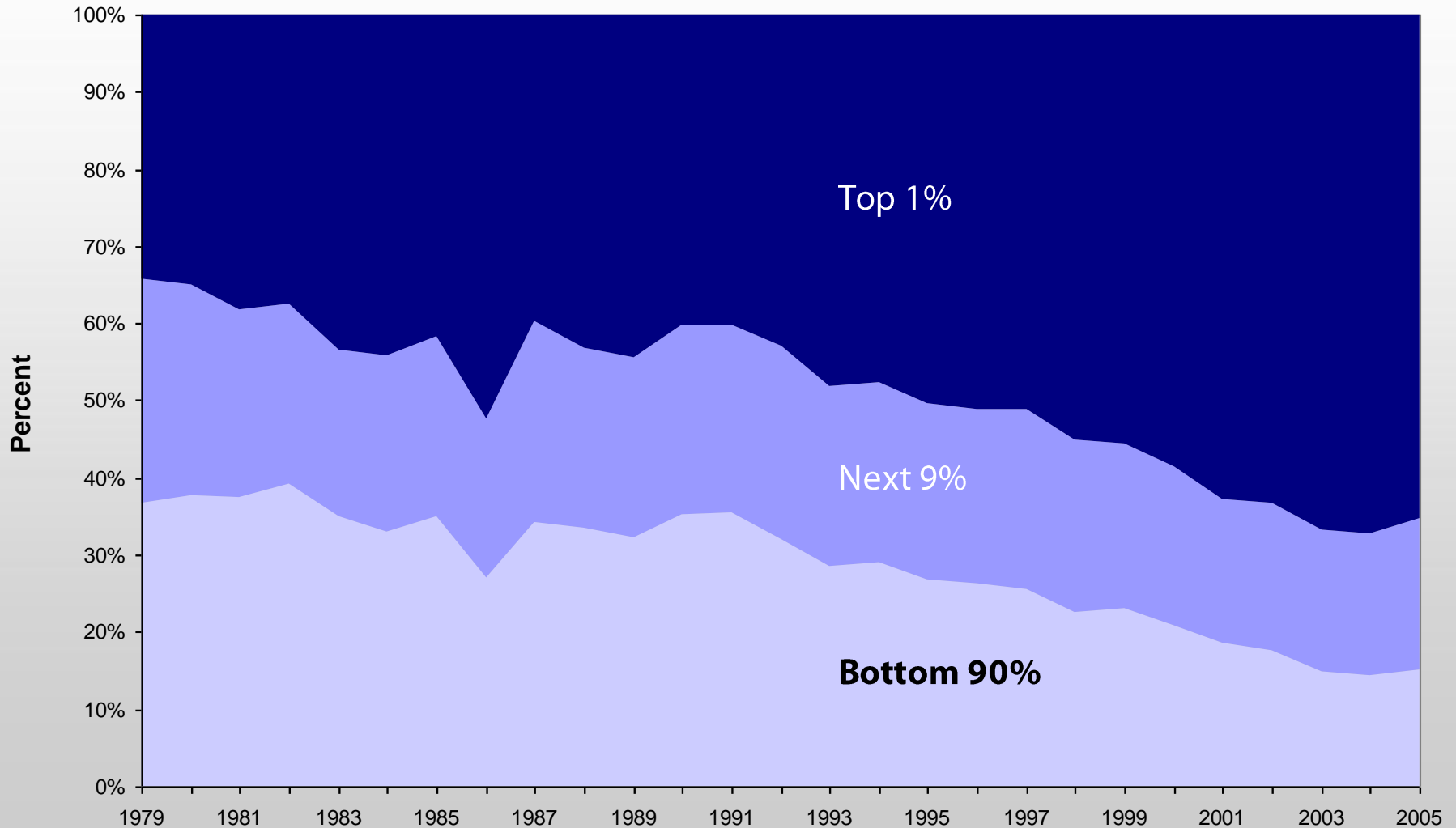


Source: Mishel, Lawrence, Jared Bernstein, and Heidi Shierholz, *The State of Working America, 2008/2009*. An Economic Policy Institute Book. Ithaca, N.Y.: Cornell University

# **Shift To and Among Capital Income**

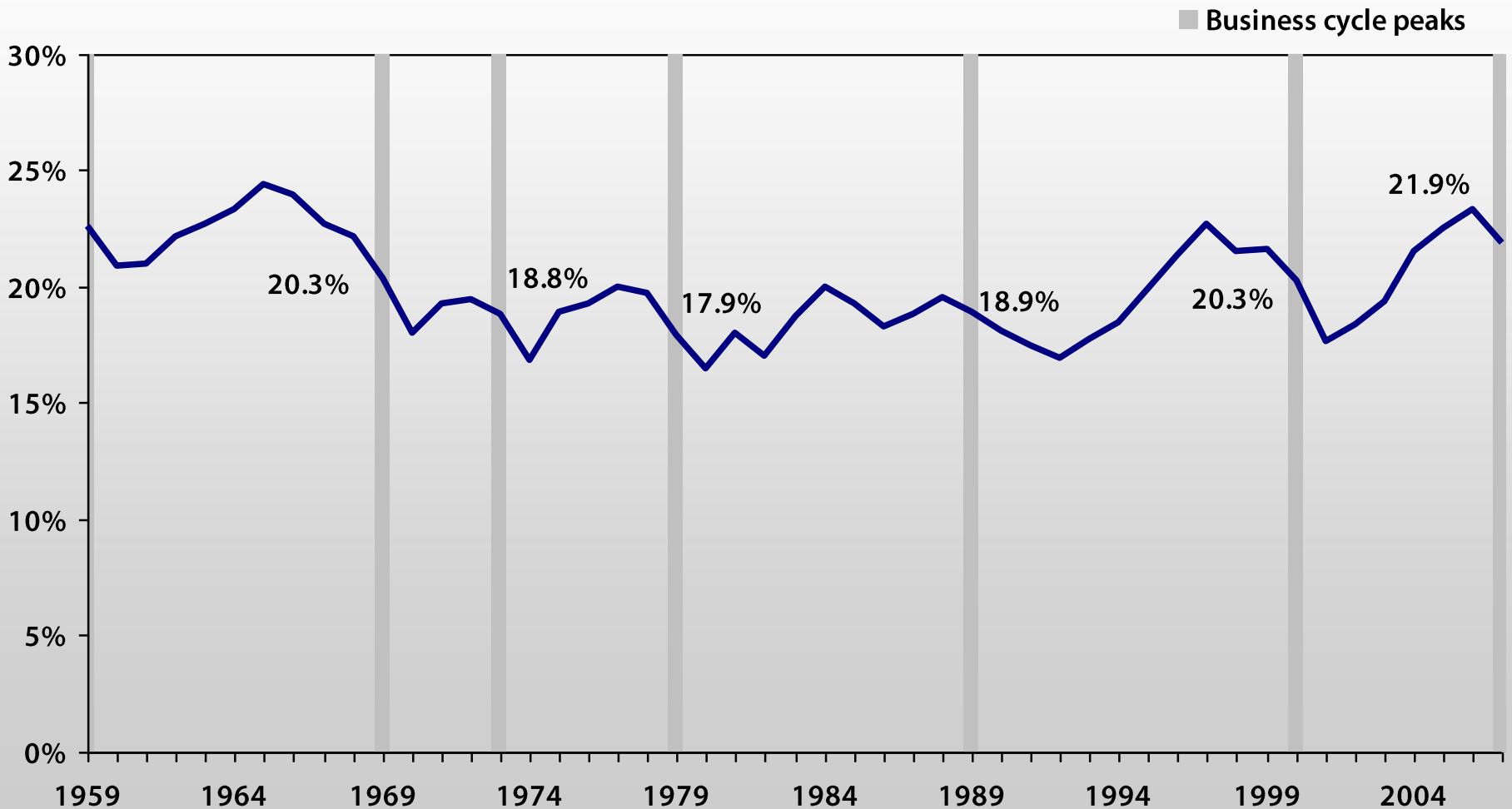
**Capital income's share of total income and returns to capital are their highest in any of the last four recoveries**

# Capital income has become far more concentrated



Source: Authors' analysis of CBO data.

# Capital shares in the corporate sector, 1959-2007



Source: Authors' analysis of NIPA data.

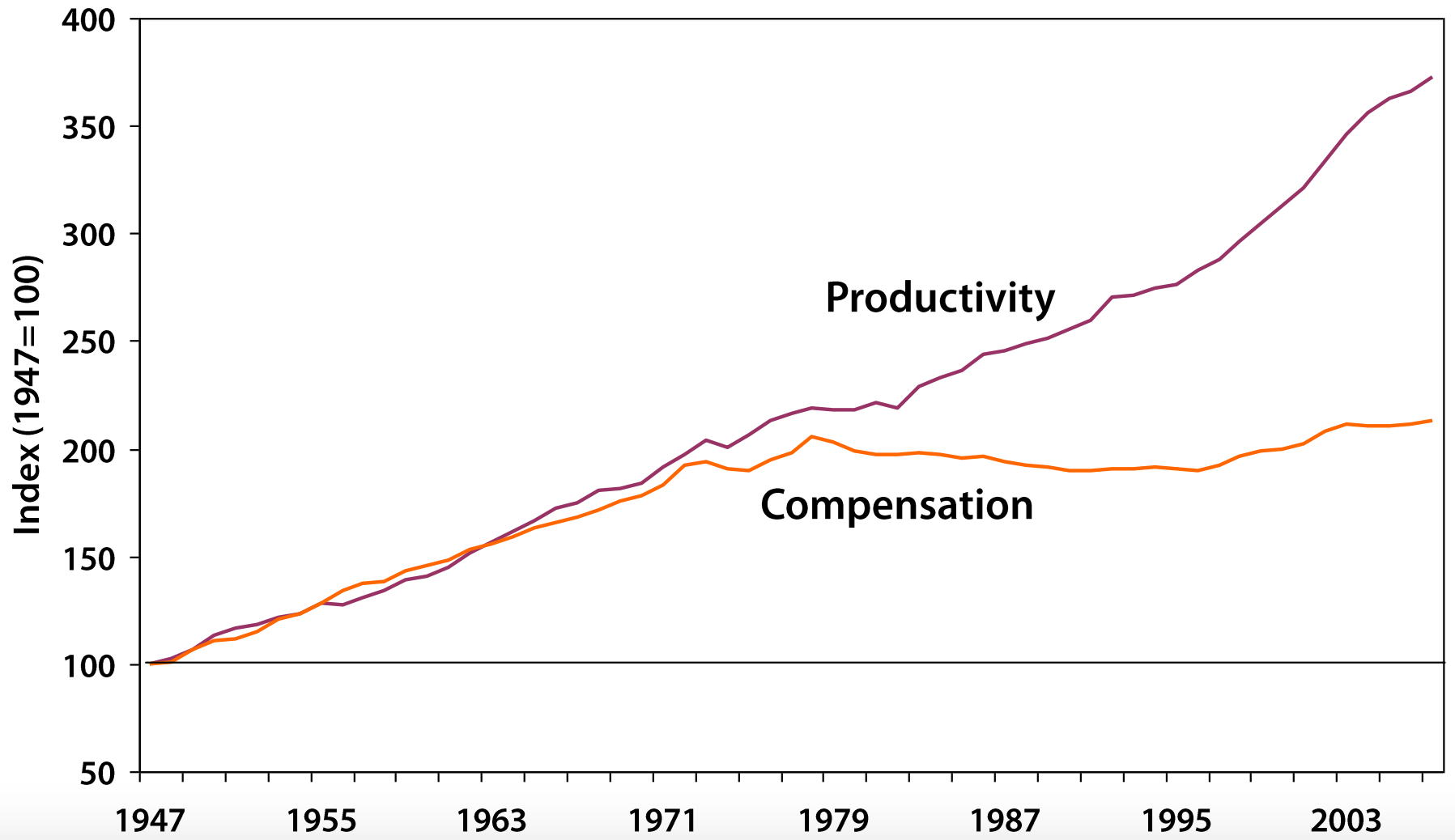
# Consequences of Higher Returns:

- **4.4% lower hourly compensation**
- **\$206 Billion annual transfer from labor to capital incomes**
- **Total loss of \$1,500 per worker**



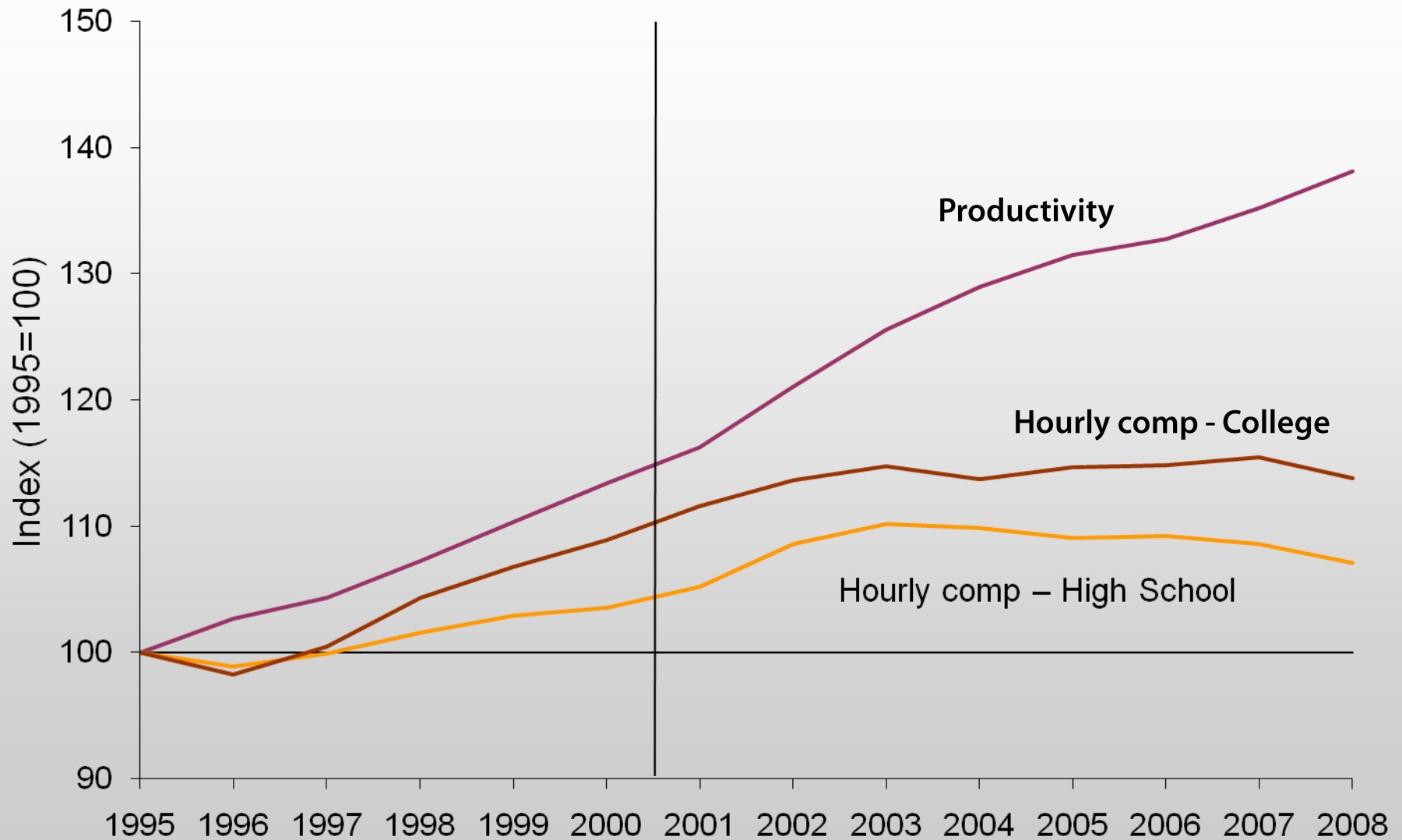
# **Productivity/Pay Disconnect**

# Typical Workers' Compensation Lags Productivity Growth



Source: Economic Policy Institute

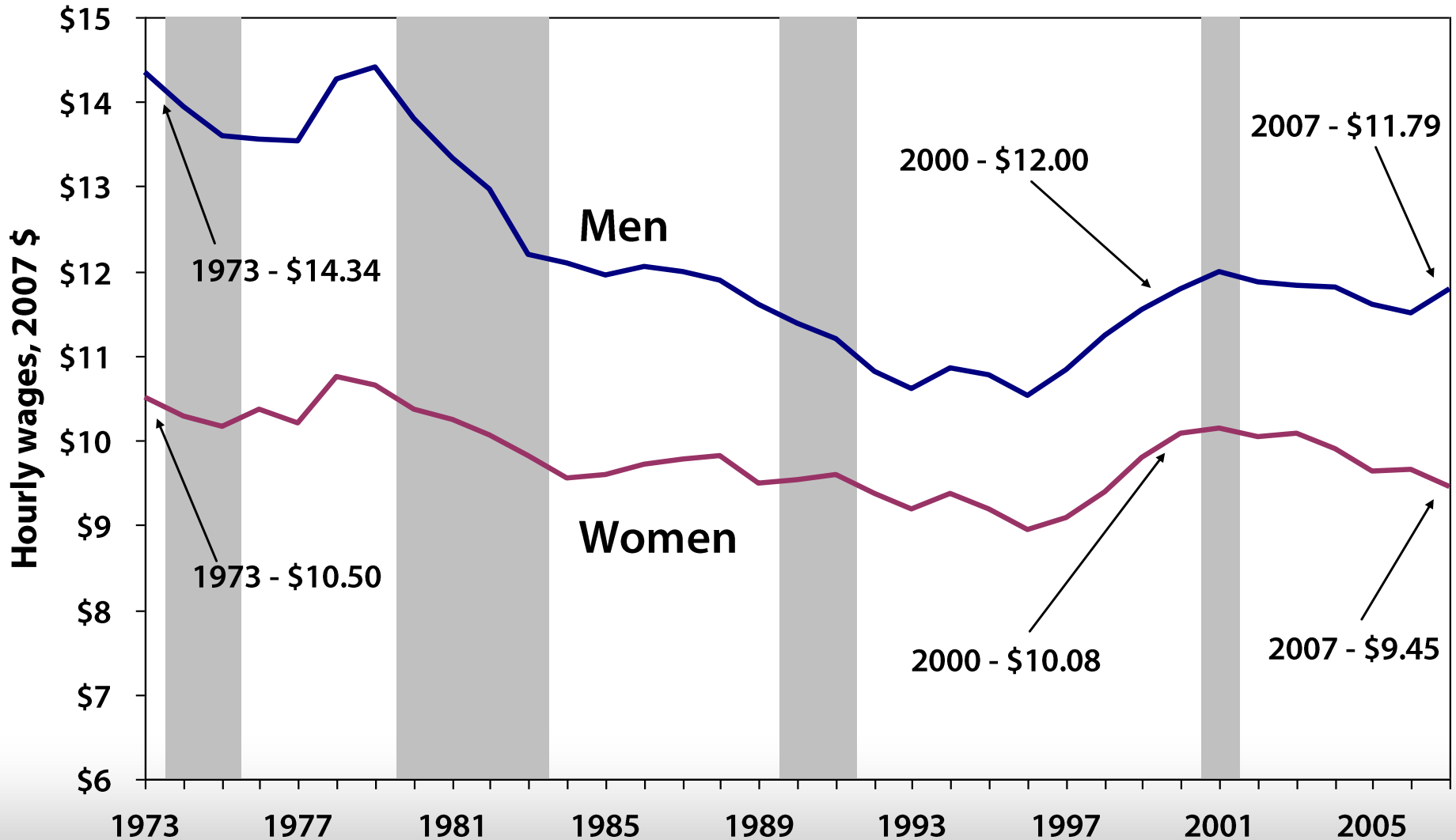
# Productivity-Pay Gap Since 1995



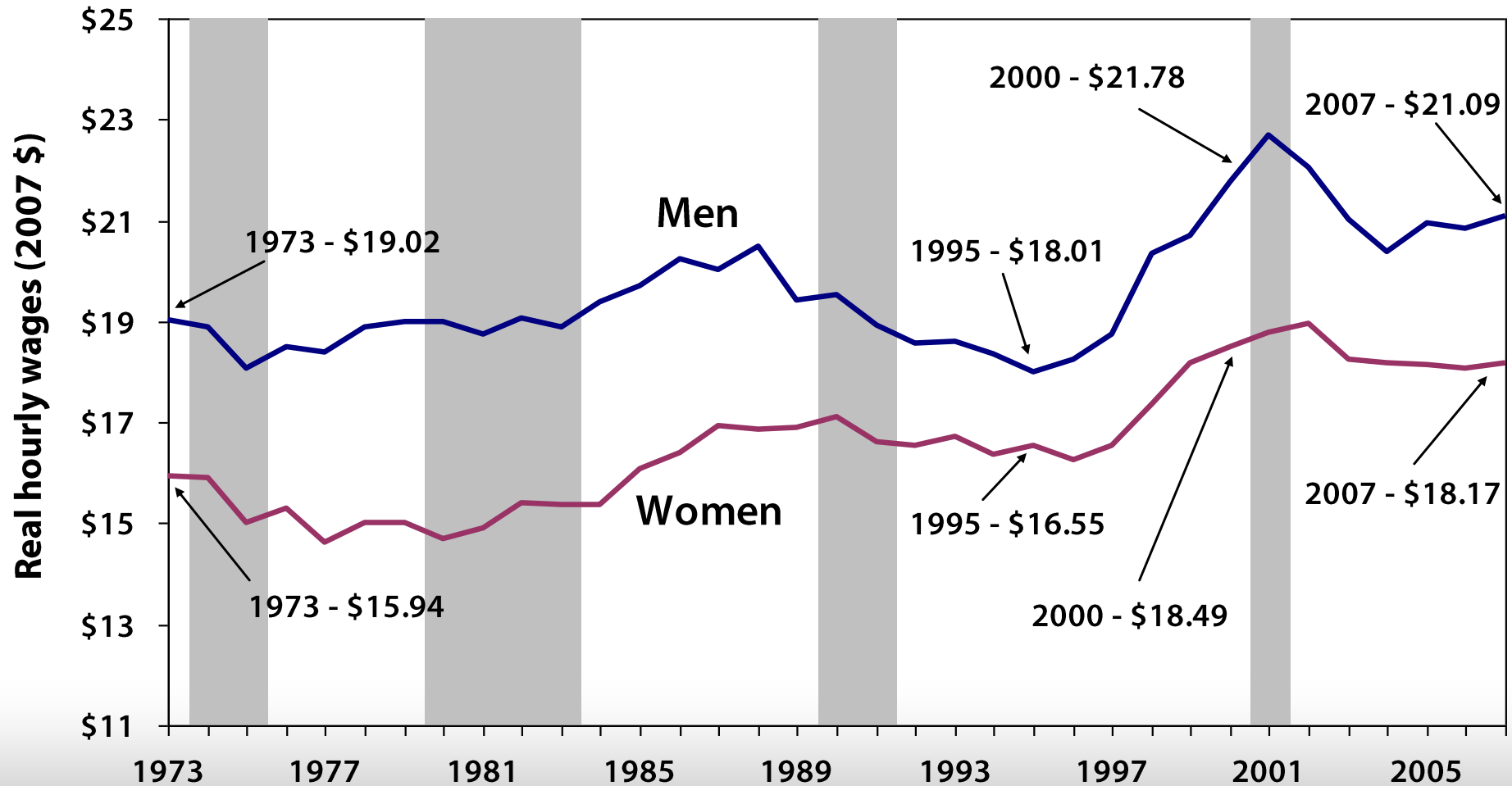
Source: Economic Policy Institute

**MISSING:  
Good Jobs  
At Good Wages  
With Benefits**

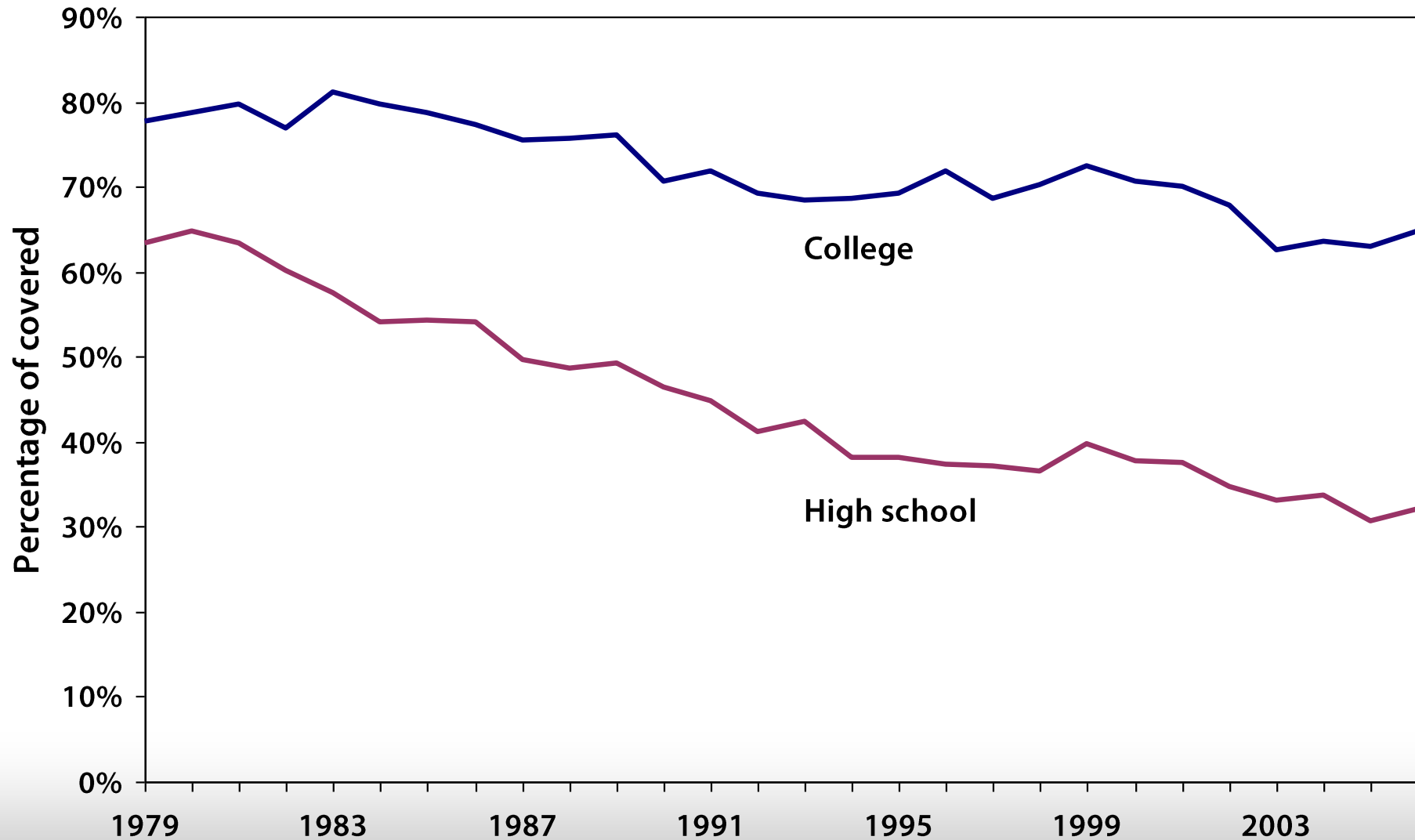
# Young workers with high school degrees start out lower than their peers a generation ago



# Even young college grads are starting out lower than in 2000. The only real gains were made in the late 1990s.



# Health insurance coverage for recent high school and college graduates, 1979-2006



Source: Authors' analysis of March CPS data.

# **Laissez-Faire Policies Undercut Good Jobs (mid-Carter onward)**

- Industry Deregulation**
- Accelerated Globalization**
- Privatization in Public Sector**
- Weaken Unions**
- Lower Minimum Wage and Weaken Labor Standards**
- Weaken safety net**
- High Unemployment/Underemployment**

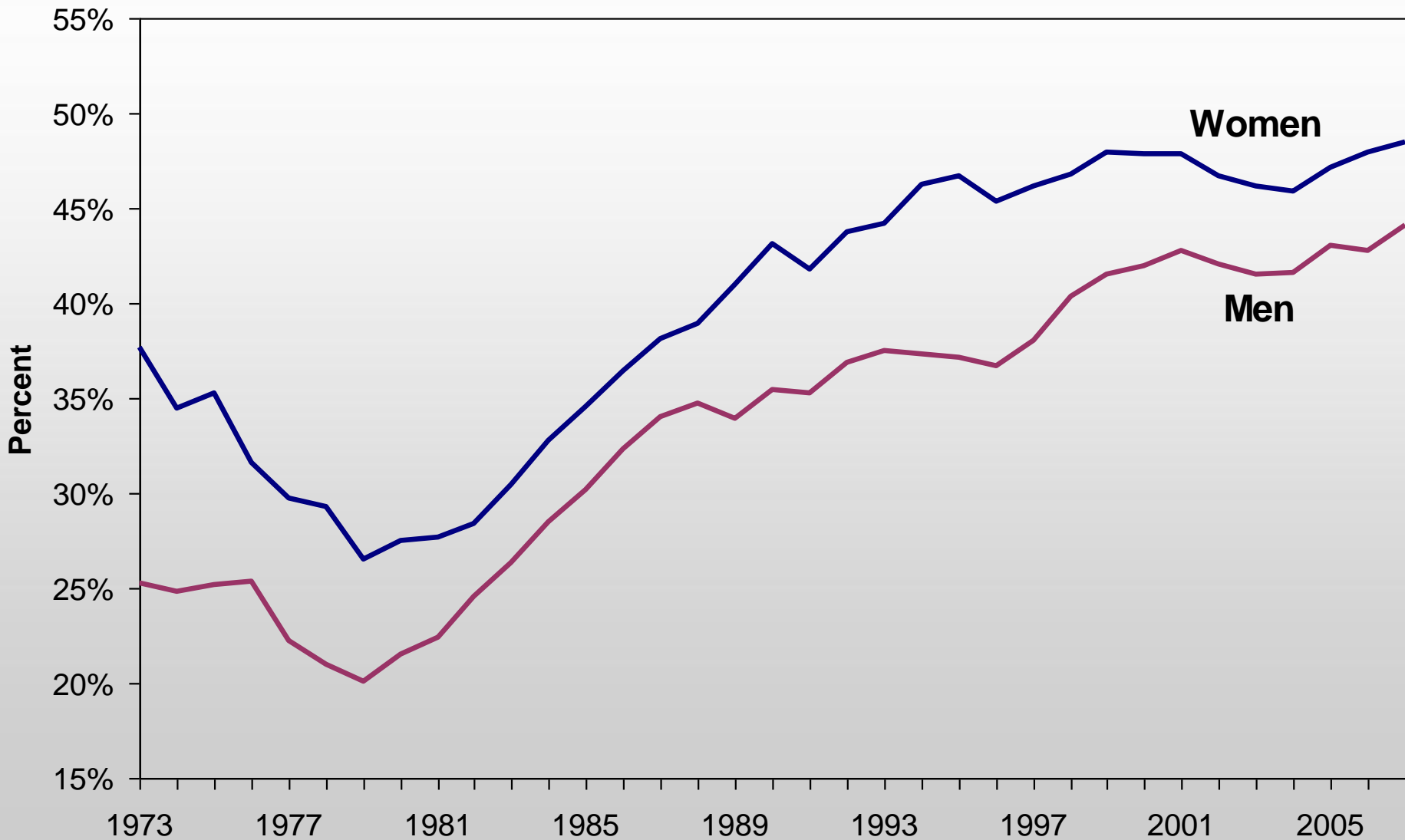
**Good Jobs and High Wages  
Seen as the Problem, not the Goal**



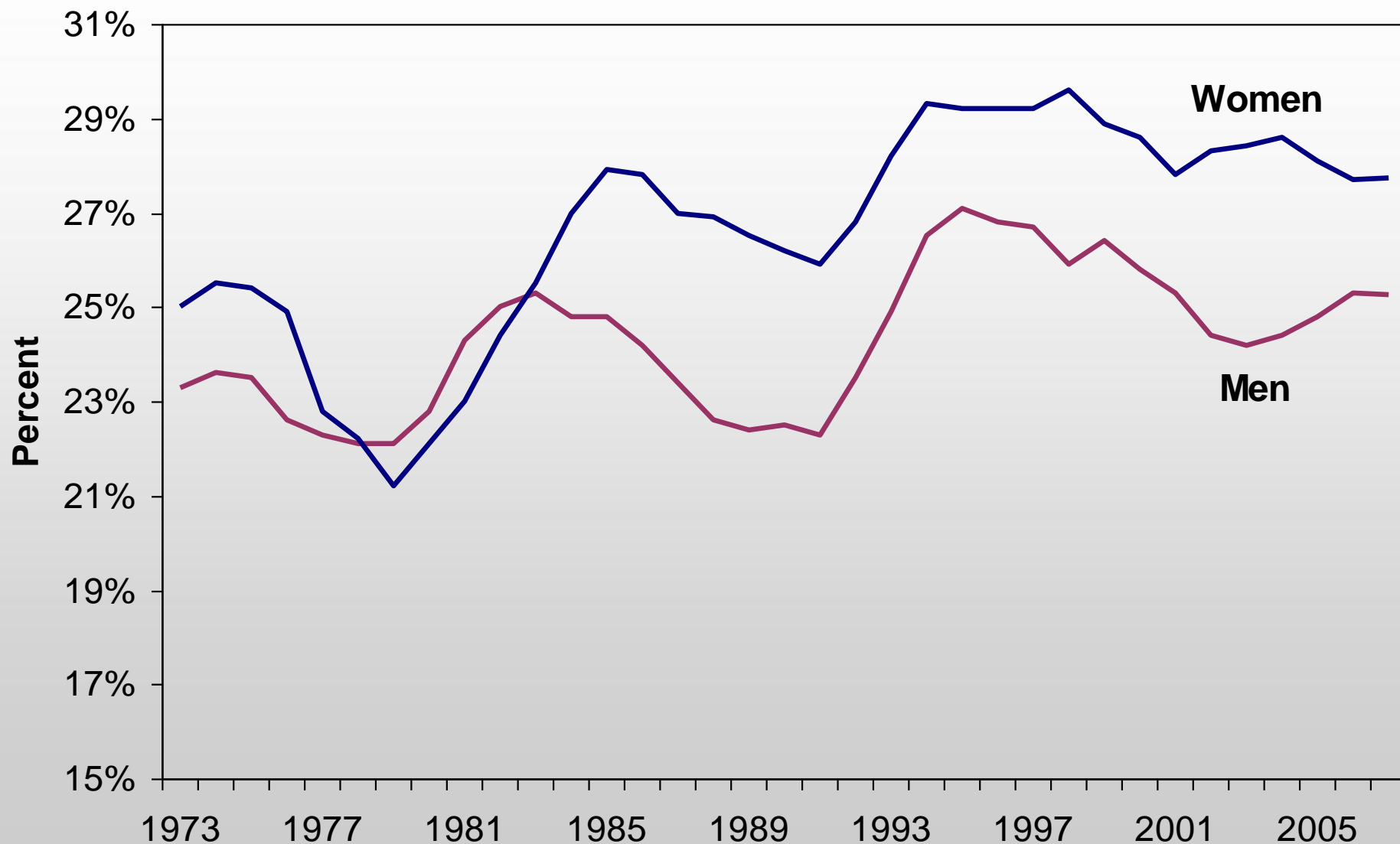
# **Two Things that do NOT Explain Wage Inequality:**

- **Technological Change ('skill biases')**
- **Skills Mismatch, Insufficient Skills**

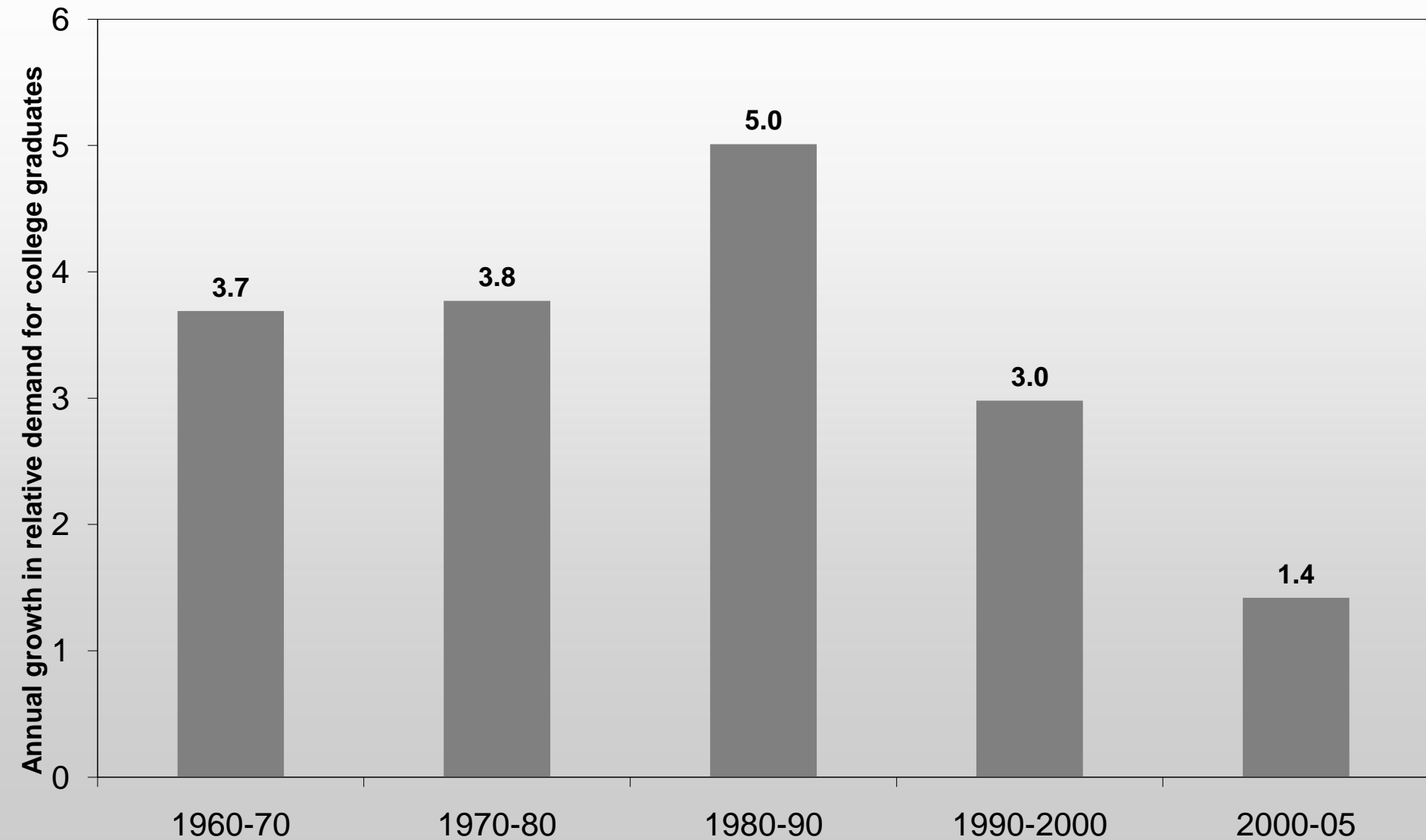
# College/high school wage premium, 1973-2007



# High school/less than high school wage premium, 1973-2007



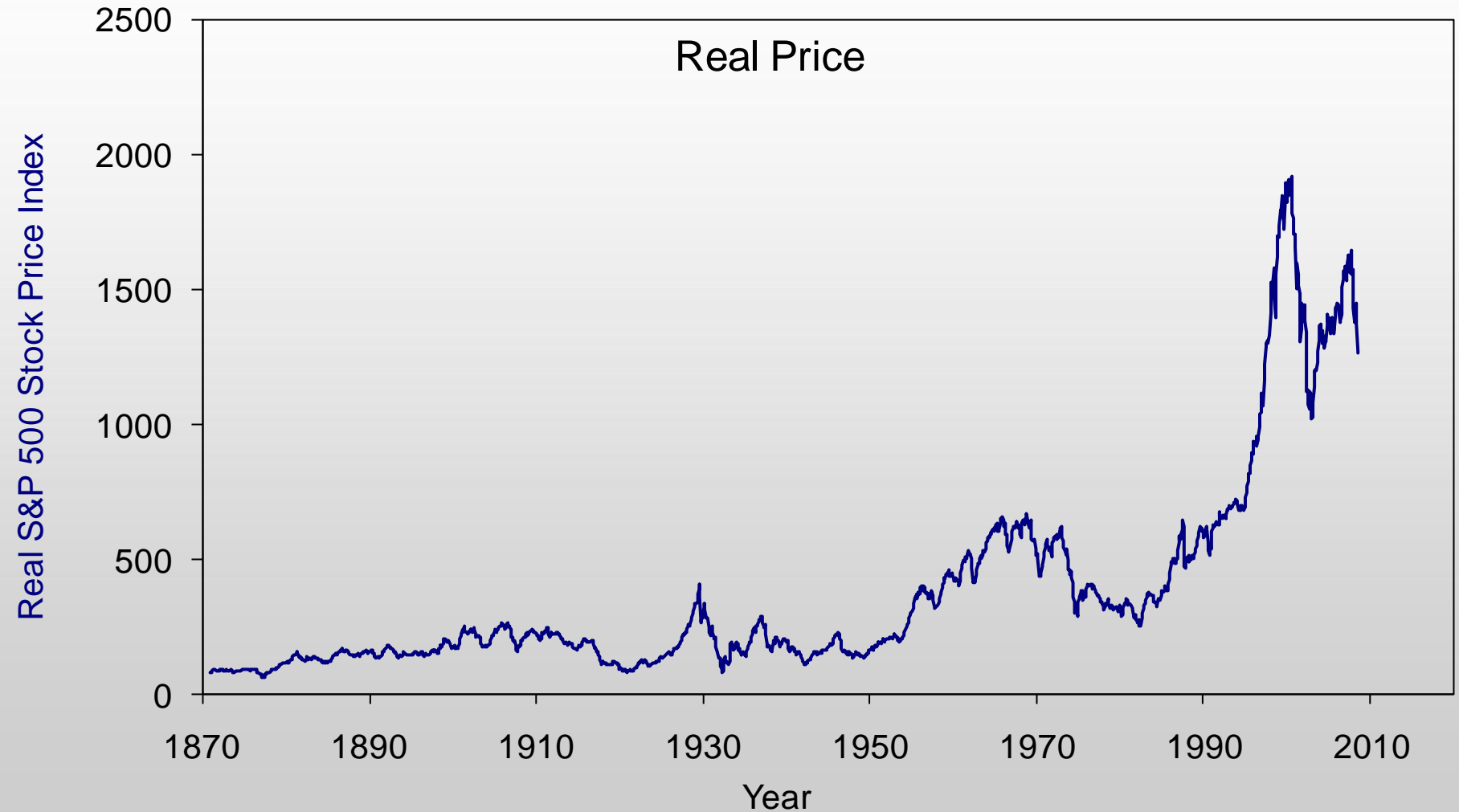
# Changes in the Demand for College Educated Workers, 1960 to 2005



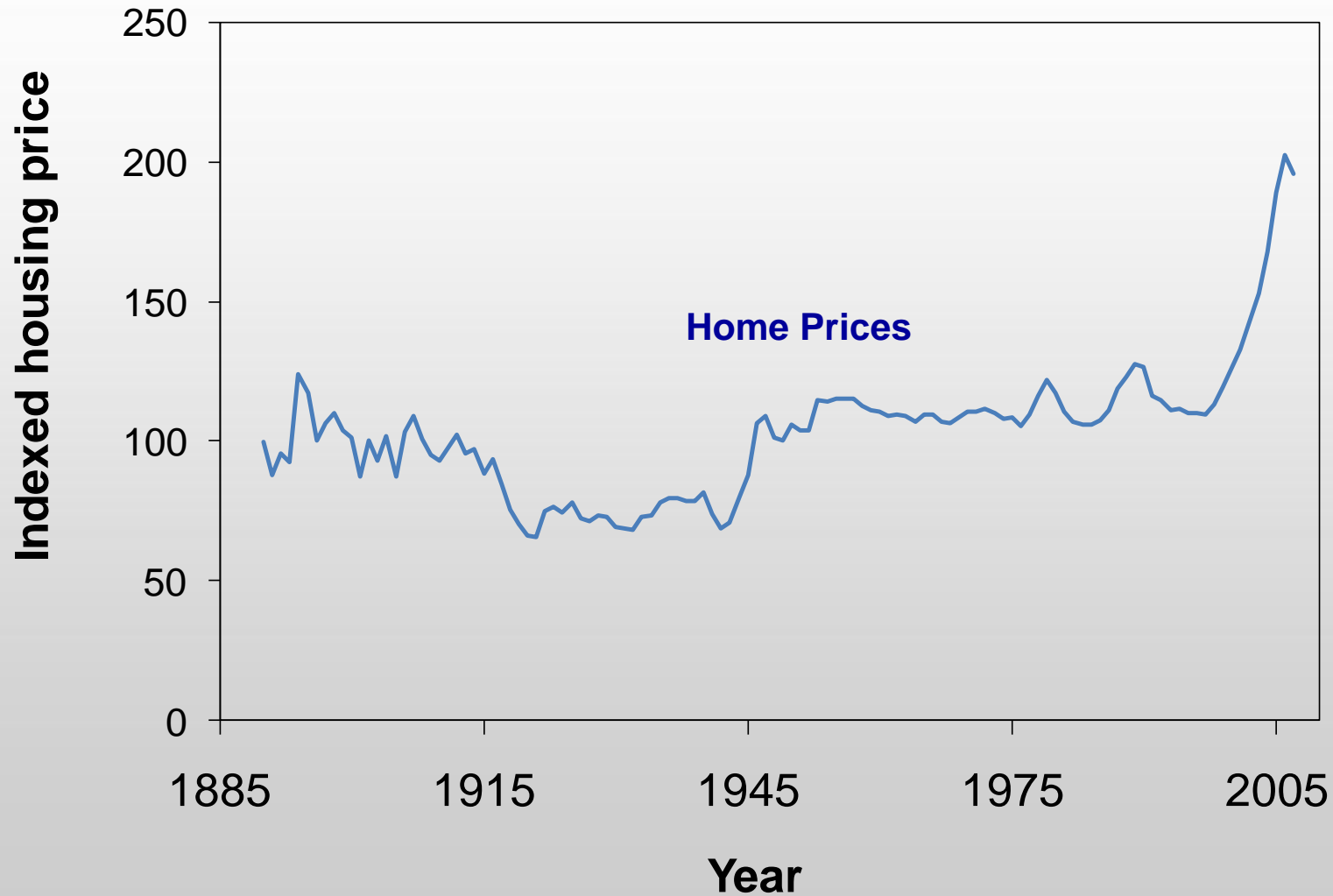
**How?**

**The Bubble Economy**

# The Stock Bubble



# The Housing Bubble

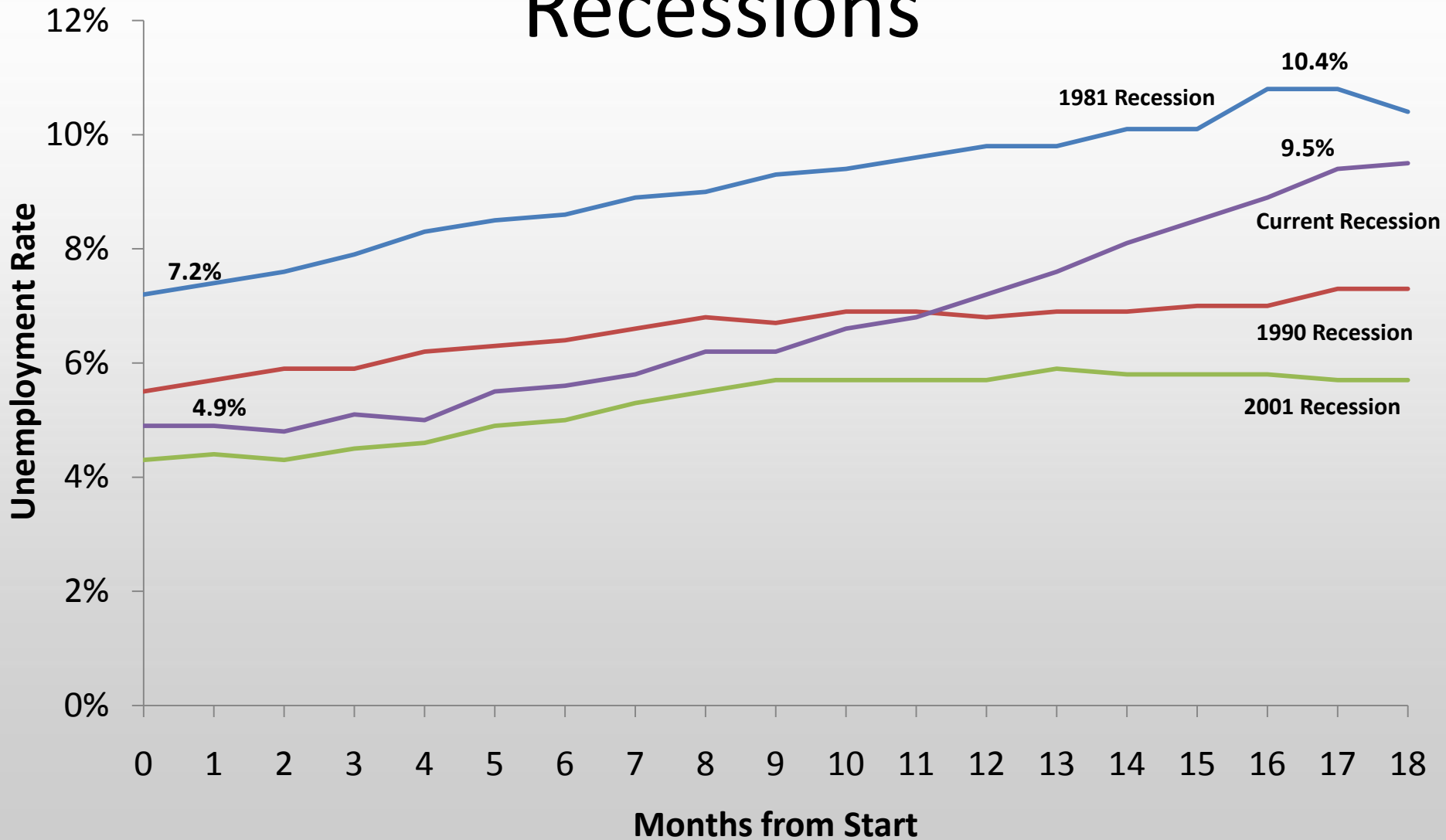


And now...



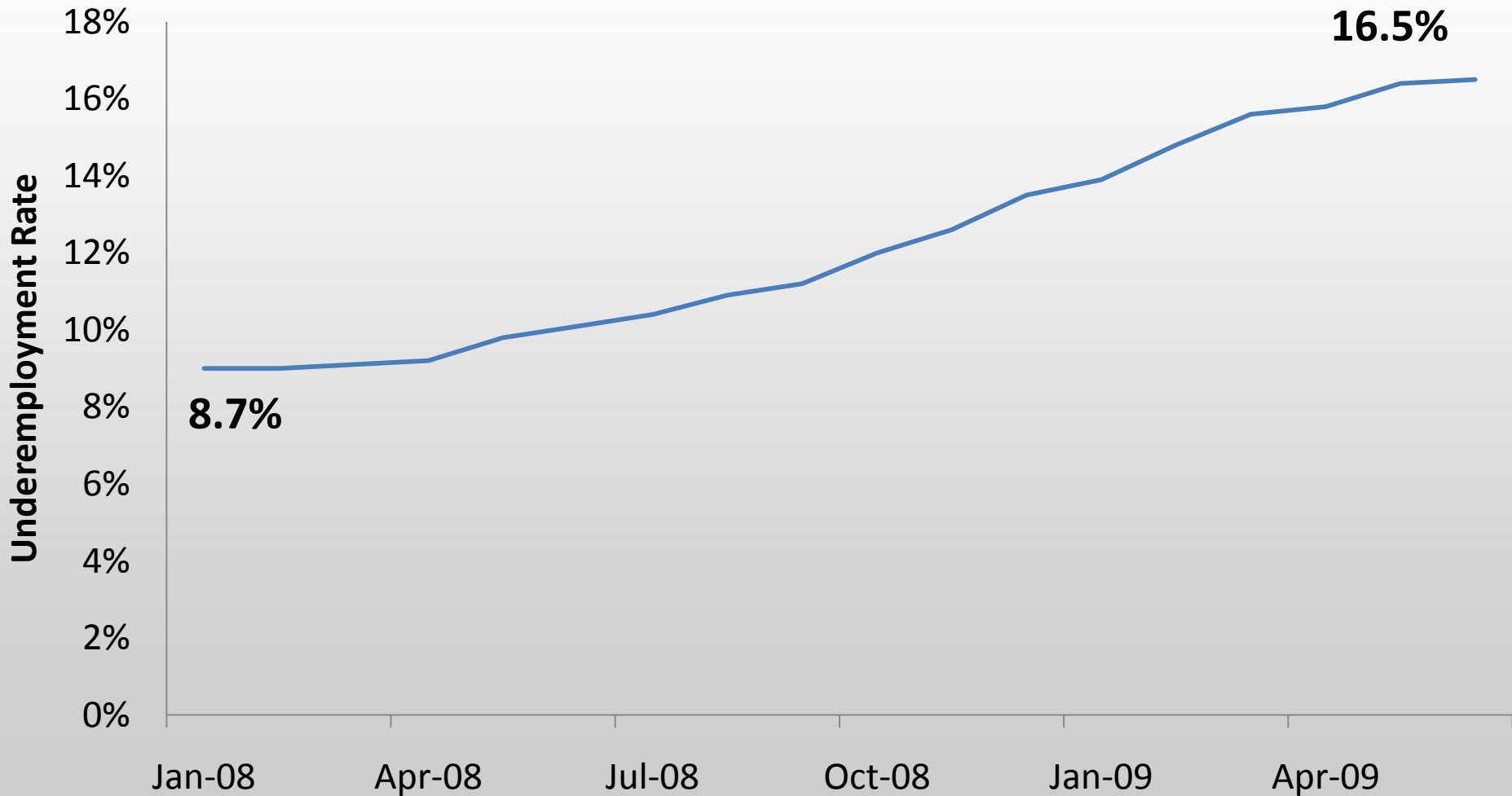


# Unemployment: Current and Prior Recessions



Source: Author's analysis of BLS data.

# Underemployment Rate



Source: Author's analysis of BLS data.

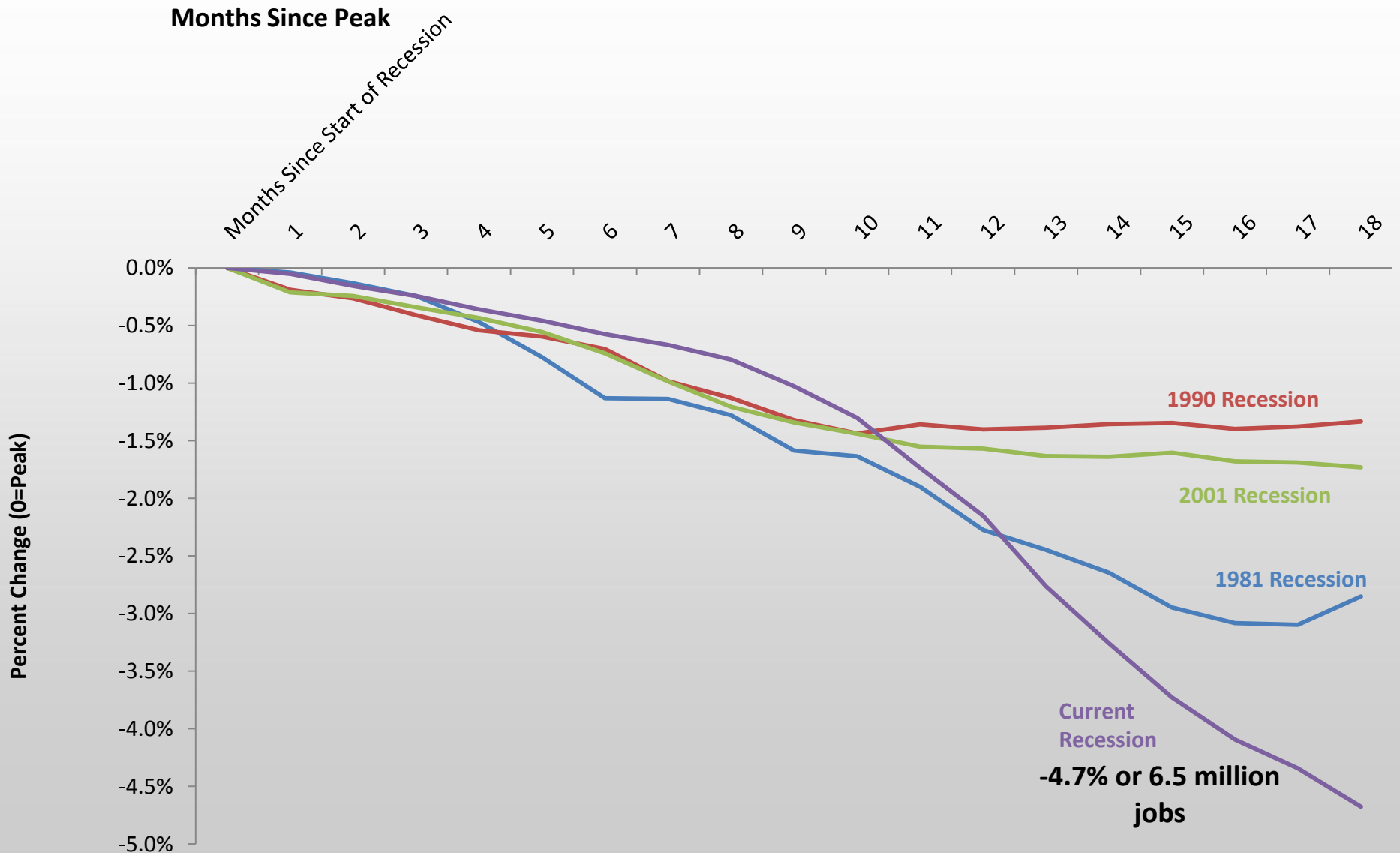
# Job Seekers per Job Opening



Dec-07 Jan-08 Feb-08 Mar-08 Apr-08 May-08 Jun-08 Jul-08 Aug-08 Sep-08 Oct-08 Nov-08 Dec-08 Jan-09 Feb-09 Mar-09 Apr-09

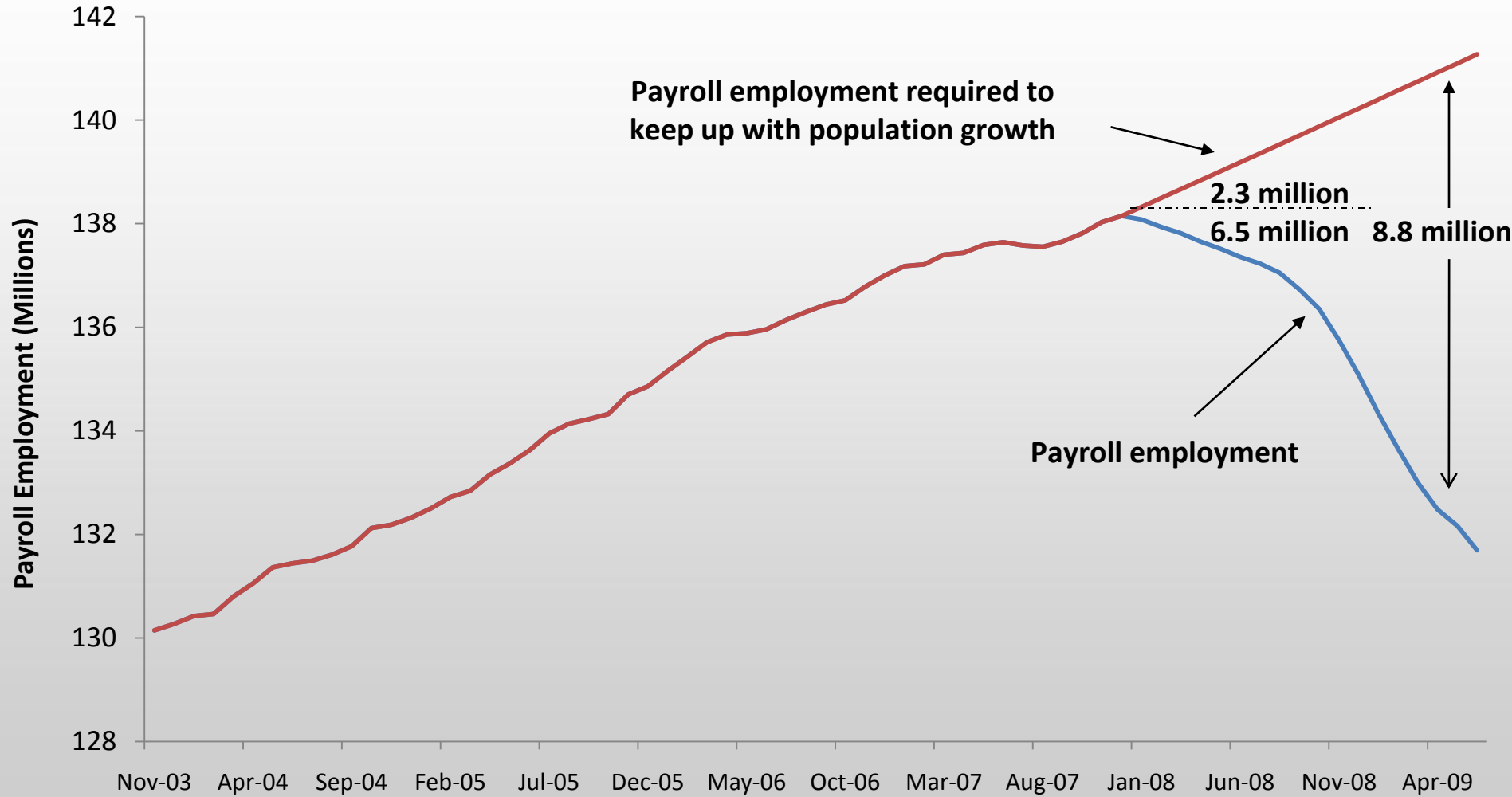
Source: Author's analysis of BLS data.

# Job Losses by Recession



**Current  
Recession  
-4.7% or 6.5 million  
jobs**

# Falling short of our potential



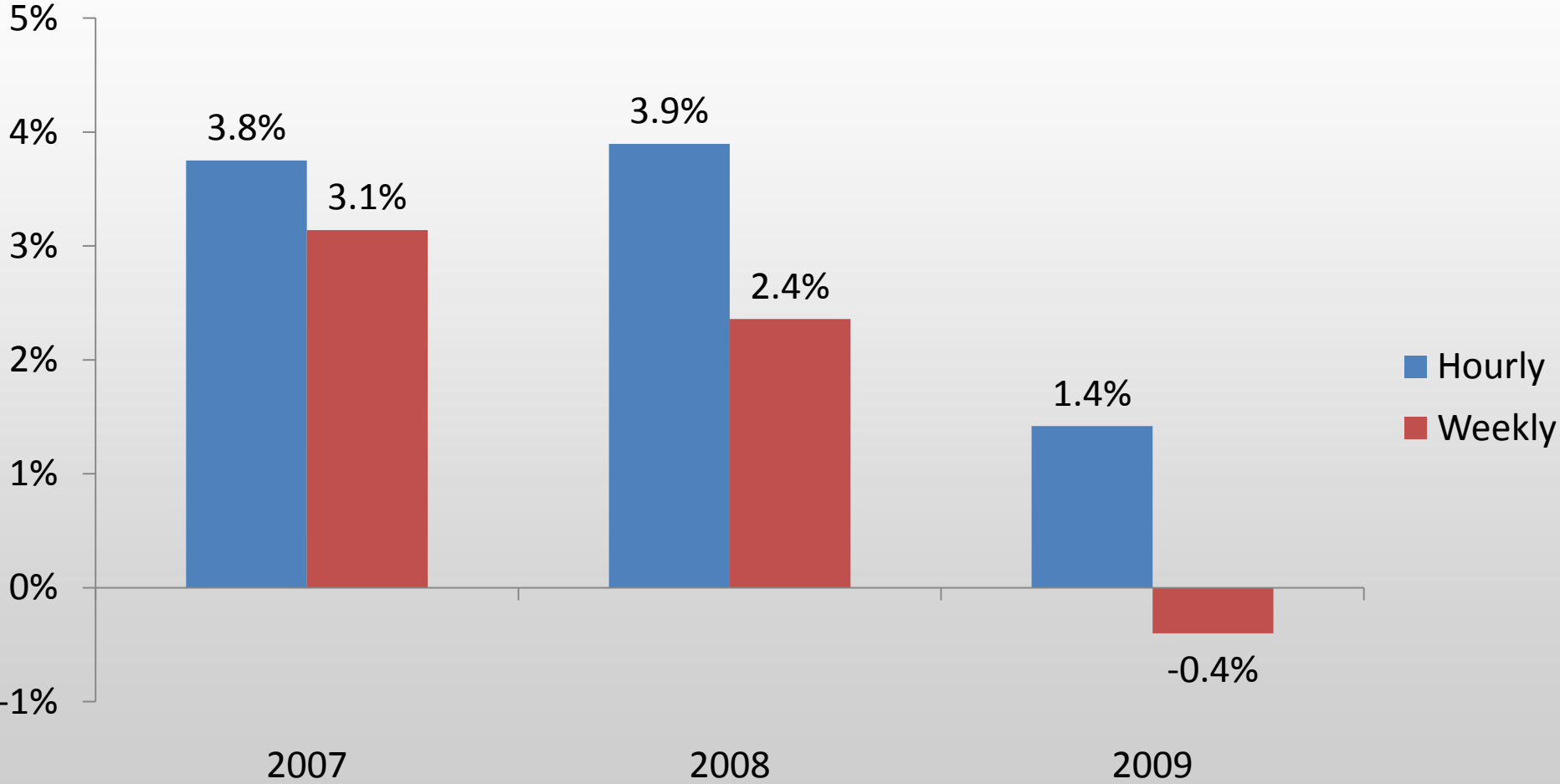
Source: Author's analysis of BLS data.

# Unemployment by Group

	1981 Recession			Current Recession		
	Start	After 18 Months	Change	Start	After 18 Months	Change
<b>Total</b>	7.2%	10.4%	3.2	4.9%	9.5%	4.6
<b>Black</b>	15.0%	21.2%	6.2	8.9%	14.7%	5.8
<b>Hispanic</b>	10.0%	15.3%	5.3	6.2%	12.2%	6.0
<b>High School</b>	5.3%	10.2%	4.9	4.6%	9.8%	5.2
<b>College or more</b>	2.7%	3.6%	0.9	2.1%	4.7%	2.6
<b>Blue-collar</b>	8.8%	16.9%	8.1	6.7%	14.0%	7.3
<b>White-collar</b>	4.2%	6.7%	2.5	3.0%	6.5%	3.5

Note: 1981 Recession unemployment by education data and unemployment by occupation data not seasonally adjusted.

# Nominal Hourly and Weekly Earnings Growth, 2007-2009



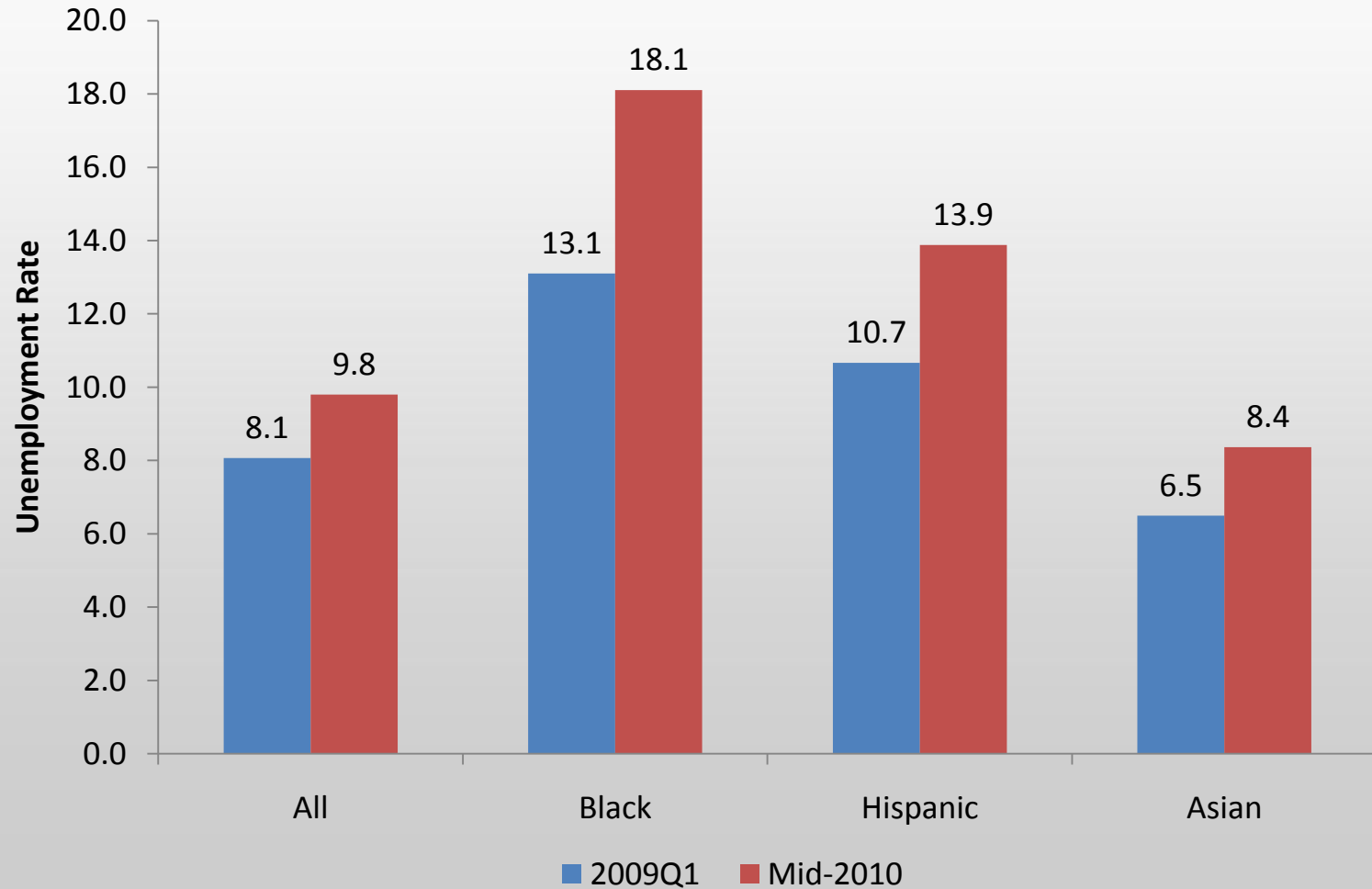
Source: Author's analysis of BLS data.

Note: 2007 and 2008 are Dec/Dec changes, 2009 is Jun/Dec

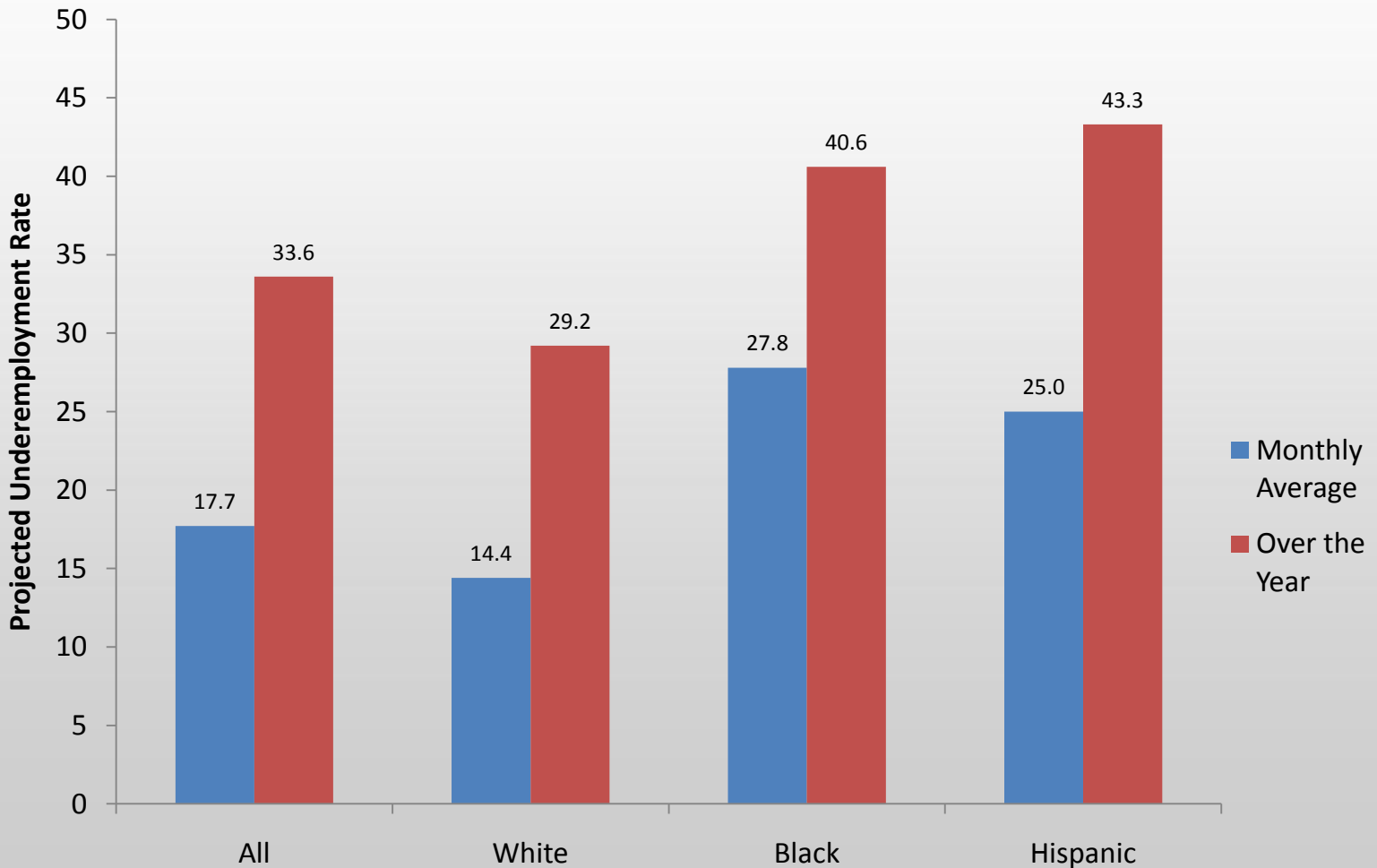
# **Where We Are Going**



# National Unemployment at Peak of 9.8%



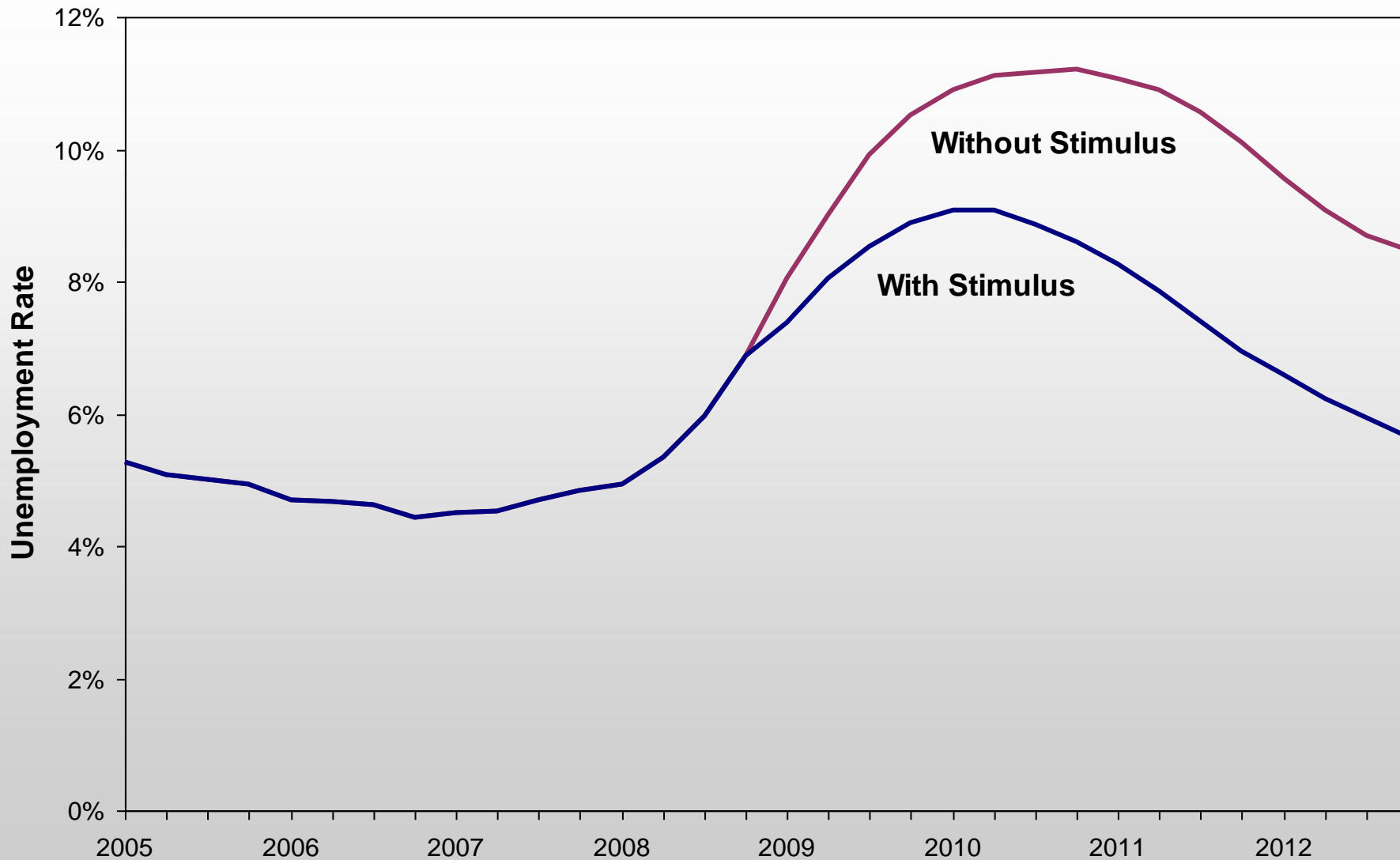
# Underemployment, Monthly Average and Over the Year, at 9.8% unemployment



# High Unemployment Rate Raises Poverty

	<b>2007 Poverty rate</b>	<b>Poverty rate as result of higher unemployment</b>	<b>Change in poverty</b>
All	12.5%	14.8%	2.3 pp
Adults (18-64)	10.9	14.5	3.6
All Children	18.0	27.3	9.3
Black Children	34.5	52.3	17.8
Elderly	9.7	9.7	0
Whites	19.5	19.5	0
Blacks	24.5	33.3	8.8
Hispanics	21.5	21.5	0
Single Mothers	37.0	48.3	11.3

# Unemployment Rate, With and Without Stimulus



Source: Economy.com forecasts



**The Economic Policy Institute  
initiative for solutions that match  
the scale of the problems.**

# The Agenda for Shared Prosperity

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## Facing the Immediate Crisis

- Strong Sustained Recovery
  1. Public Investment.....
  2. Social Supports, Targeted Jobs.....
  3. Aid to States.....
    - Financial Reregulation.....
    - Housing.....

# The Agenda for Shared Prosperity

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Health Care

Retirement

Rewarding Work

Globalization

Balancing Work and Family

Energy: Renewable and Efficient

# The Agenda for Shared Prosperity

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Immigration Reform

Race and Ethnicity

Public Investment

Education

Poverty





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