

## **Top charts of 2018**

Twelve charts that show how policy could reduce inequality—but is making it worse instead

December 20, 2018

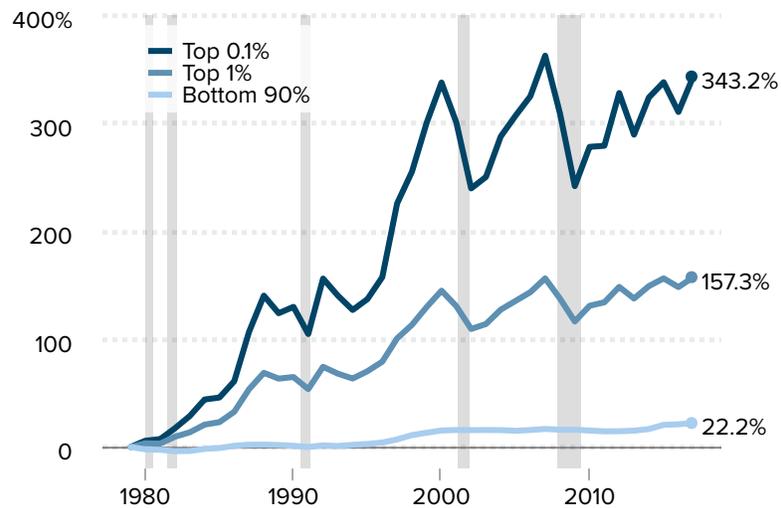
With the unemployment rate at 4 percent or below for eight consecutive months, 2018 appears to be the year when the economy finally became healthy again. But while low unemployment is good news, it doesn't tell the whole story of how typical families are faring in the current economy.

As the economy normalizes following a long, slow recovery from the Great Recession, we are quickly resuming our prerecession course of rising inequality. The fruits of economic growth are bypassing typical families and going straight into the hands of the already-rich.

Our current policy trajectory is doing nothing to reverse the trend of inequality. But it's doing plenty to widen it. This year's edition of Top Charts highlights how policy choices continue to exacerbate inequality and how we can achieve more broadly shared prosperity through better policy choices.

## The upward march of inequality is firmly reestablishing itself

Cumulative percent change in real annual earnings, by earnings group, 1979–2017



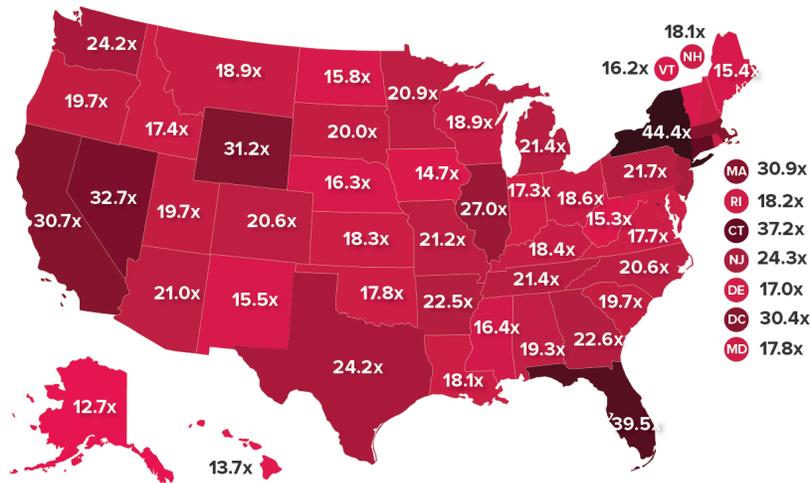
**Source:** Adapted from Figure A in Lawrence Mishel and Julia Wolfe, “**Top 1 Percent Reaches Highest Wages Ever—Up 157 Percent Since 1979**,” *Working Economics* (Economic Policy Institute blog), October 18, 2018. Shaded areas denote recessions.

While top 1 percent earnings took a dive following the Great Recession, by 2017 those earnings had risen to their highest level ever, and the annual earnings of the top 1 percent had risen 157 percent cumulatively since 1979. For the top 0.1 percent, earnings have grown a whopping 343.2 percent since 1979. In contrast, earnings of the bottom 90 percent of workers rose just 22.2 percent over the same period.

The dynamic of large but temporary earnings declines for the highest earners during the Great Recession reflects the composition of their pay packages. For CEOs and other executives in the top 1 and 0.1 percent, earnings include stock options and other compensation measures linked strongly to firms’ stock market performance. As the stock market fell rapidly during the recession, this led to a sharp de-

cline in earnings. But as stock prices went back up, so did the earnings of the top 1 and 0.1 percent—and so did inequality.

## Depending on the state, the average top 1-percenter makes between 12.7 and 44.4 times more each year than the average bottom 99-percenter



Source: Estelle Sommeiller and Mark Price, *The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County*, Economic Policy Institute, July 2018. Map is based on 2015 income data for tax units.

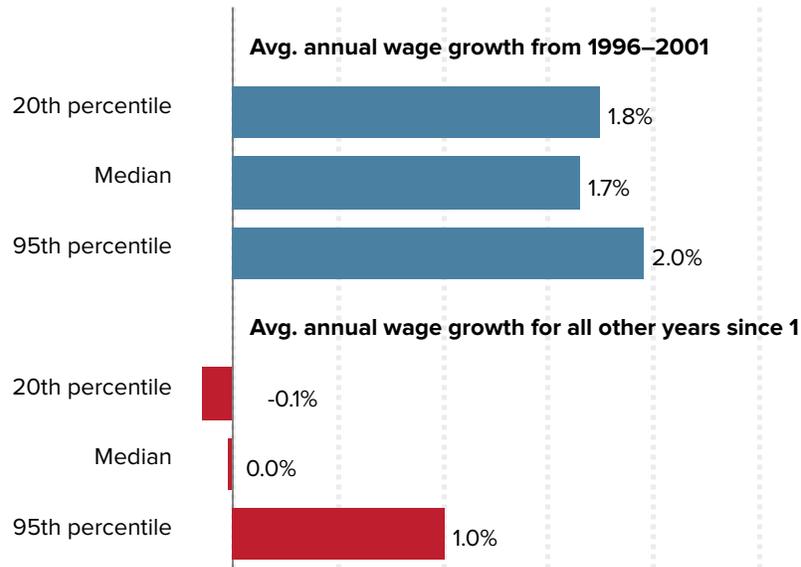
Rising inequality is not just a story of those on Wall Street, in Hollywood, or in the Silicon Valley reaping outsized rewards. Measured by the ratio of top 1 percent to bottom 99 percent income in 2015, every state has a sizable gap between the fortunate few at the top and everybody else. In eight states plus the District of Columbia, that ratio of top-to-bottom incomes is greater than the national ratio of 26.3-to-1.

The post–Great Recession recovery in top incomes—combined with unequal income growth since the 1970s—has America hurtling back towards levels of inequality that characterized the Gilded Age of the 1920s. In five states we’ve already surpassed Gilded Age levels of inequality. EPI research shows that in New York, Florida, Connecticut, Nevada, and Wyoming, the top 1 percent’s share of overall income tops the 1928 overall national record of 23.9 percent. Nationwide, the top 1 percent took home 22.0 percent of all income in 2015.

While the degree of income inequality differs across the country, the causes are mostly common and clear: intentional policy decisions to shift bargaining power away from working people and toward the top 1 percent.

## The Fed can look to the late 1990s for guidance on how to raise wages

Average annual wage growth from 1996–2001 vs. all other years between 1979 and 2017



**Source:** Adapted from Figure C in Josh Bivens and Ben Zipperer, *The Importance of Locking in Full Employment for the Long Haul*, Economic Policy Institute, July 2018. Wage growth is inflation-adjusted.

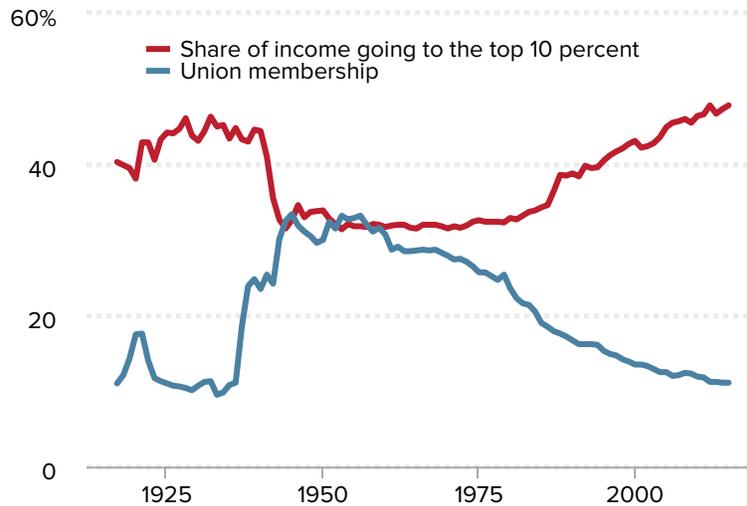
Wages grew much more—and more equally—from 1996 to 2001 than in any of the other years between 1979 and 2017. Why? What was different about the late 1990s that policymakers should seek to emulate?

The most important difference was sustained low unemployment. The Fed kept interest rates low, allowing the unemployment rate to fall to levels far below what was considered sustainable for keeping inflation in check. And yet inflation did, in fact, remain in check. The late 1990s also saw an increase in the federal minimum wage, which helped boost wage growth at the bottom.

The Fed's willingness to tolerate low unemployment, along with the boost to the minimum wage, paid enormous dividends in reducing inequality: annual wage growth for a 20th-percentile worker (1.8 percent) and for the median worker (1.7 percent) approximated that of a 95th-percentile worker (2.0 percent). In contrast, across all other years between 1979 and 2017, average annual wage growth for low- and middle-wage workers was essentially zero, while high-wage workers enjoyed consistently positive (if not hugely impressive) growth.

## Attacks on unions have hurt their ability to hold inequality in check

Union membership and share of income going to the top 10 percent, 1917–2015



**Source:** Figure A in Celine McNicholas, Samantha Sanders, and Heidi Shierholz, *First Day Fairness: An Agenda to Build Worker Power and Ensure Job Quality*, Economic Policy Institute, August 2018.

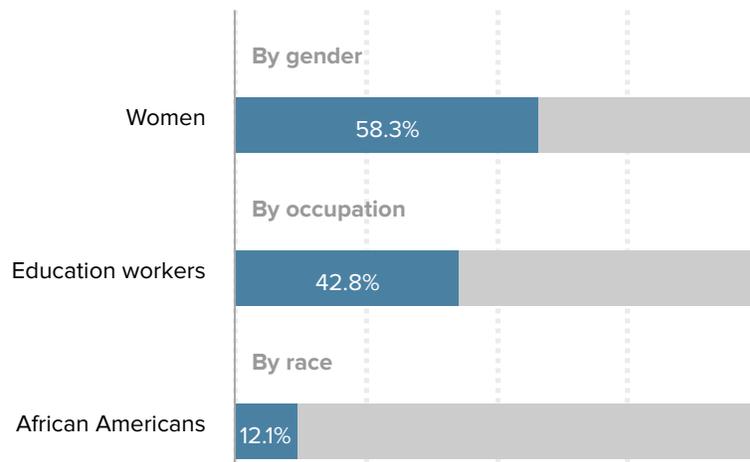
This chart is a dramatic representation of how essential unions are to keeping inequality in check. The growth in union membership in the late 1930s and early 1940s coincided with a falling share of income going to the top 10 percent. A strong labor movement means workers have more power to negotiate with their employers for a proportionate share of income growth. That power is precisely what corporations and policymakers doing their bidding have increasingly been eroding. Attacking unions makes sense from a bottom-line perspective: for corporations, the easiest path to profits is not in achieving greater efficiency and innovation but in suppressing wages.

As union membership has declined over the past 40-plus years, the top 10 percent have captured a greater and greater share of income. Breaking the momentum of rising inequality will require a much-strengthened labor movement. For lawmakers who will form a pro-

gressive majority in the U.S. House of Representatives in January 2019, the path is clear: enact **ambitious reforms** to the laws governing union organizing and collective bargaining to level the playing field and return bargaining power to workers.

## An attack on public-sector unions is an attack on women, teachers, and African Americans

Distribution of unionized state and local government workers



Source: Julia Wolfe and John Schmitt, *A Profile of Union Workers in State and Local Government*, Economic Policy Institute, June 2018.

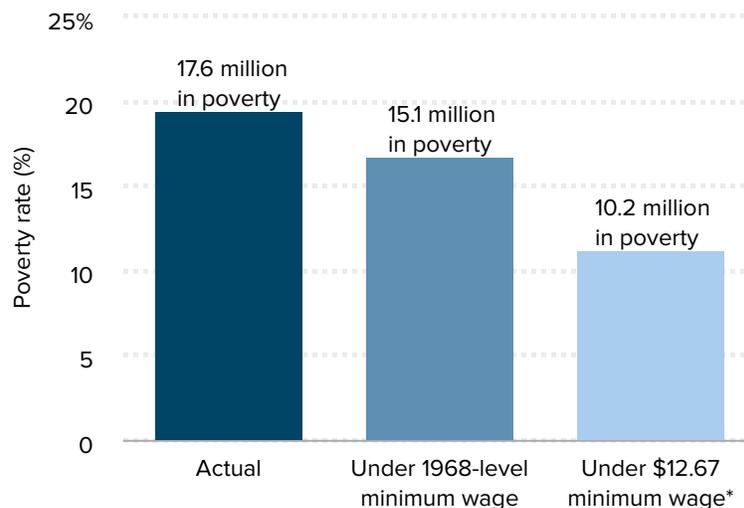
In recent years, anti-union interests have focused their attack on public-sector workers—the workforce with the highest rate of union representation. In 2018, a small group of foundations with ties to the largest and most powerful corporate lobbies celebrated their newest success: the Supreme Court decision in *Janus v. AFSCME Council 31*. The court ruling effectively stripped state and local government public-sector unions of their ability to collect fair share fees to cover the costs of representing workers who choose not to join their workplace’s union. By eliminating fair share fees, the ruling goes a long way toward stripping workers of their ability to organize and bargain collectively.

As this chart shows, this attack on state and local government unions constitutes an attack on women, teachers, and African Americans. Women and African Americans make up a disproportionate share of

workers in the public sector who are represented by a union (relative to their shares of the private-sector workforce). And while teachers constitute the single largest subgroup of union workers in state and local government, union workers also include those serving the public as administrators, social workers, police officers, firefighters, and other professionals. The good news: actions policymakers take to bolster public-sector unions will disproportionately benefit women, African Americans, and teachers.

## Raising the minimum wage would lift millions of African Americans and Hispanics out of poverty

Black and Hispanic nonelderly poverty rates in 2017, under actual, 1968-level, and a more ambitious minimum wage



\* \$12.67 in 2017 is equivalent to \$15 in 2024 after accounting for projected inflation

**Source:** Adapted and updated from Ben Zipperer, *The Erosion of the Federal Minimum Wage Has Increased Poverty, Especially for Black and Hispanic Families*, Economic Policy Institute, June 2018.

Although the minimum wage is first and foremost a wage-boosting labor standard, it is also a critical anti-poverty tool. Applying new research on poverty's response to income changes shows that we are consigning millions of people to poverty by not wielding the minimum wage effectively.

The inflation-adjusted value of the federal minimum wage is about 25 percent less today than it was at its peak in 1968. Had policymakers enacted adjustments to keep the 1968 minimum wage rising with inflation, the black and Hispanic poverty rate would be 14 percent lower today—meaning 2.5 million fewer blacks and Hispanics would be in poverty.

Policymakers have proposed going beyond simple inflationary adjustments to raise the federal minimum wage to \$15 by 2024. If we had an equivalent policy in place today, we would lift 7.4 million blacks and Hispanics out of poverty.

The call to raise the minimum wage beyond its 1968 level is coming from more than just anti-poverty advocates. Supporters view it as a remedy for widening wage inequality. That's because the minimum wage affects wages of low-wage workers and workers further up the wage scale by setting a wage floor. Adjusting this important labor standard upward would ensure that typical workers share more in our country's economic growth.

## Tipped workers fare better when they must be paid the regular minimum wage

How ‘one-fair-wage’ cities San Francisco and Seattle compare with the District of Columbia

### INEQUALITY

Tipped workers’ annual earnings are closer to those of nontipped workers.

**San Francisco - 42%**



**Seattle\* - 45%**



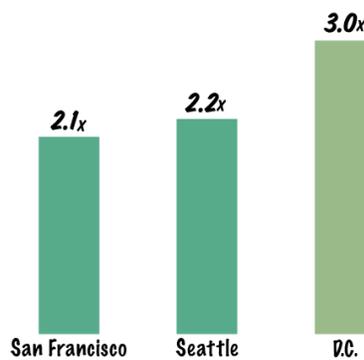
**D.C. - 34%**



\*King County, Washington

### POVERTY

Tipped workers are just twice as likely as nontipped workers to be in poverty—not three times, as in D.C.



**Source:** David Cooper, *Why D.C. Should Implement Initiative 77*, Economic Policy Institute, September 2018. EPI analysis of American Community Survey microdata, pooled years 2012–2016 (Ruggles et al. 2018). All values have been inflated to 2017 dollars.

As policymakers examine options for raising minimum wages, they should not forget about the tipped minimum wage. The federal tipped minimum wage has not been raised since 1991 and is currently just \$2.13 per hour. Some cities and states are moving toward “one-fair-wage” policies—which would abolish the subminimum wage for tipped workers and require that all workers be paid the same minimum wage as a base wage, regardless of tips.

But recent proposals to move toward one fair wage in certain cities and states have been met with fearmongering. Critics claim that increasing the tipped minimum wage will destroy jobs or somehow even lower wages for workers in tipped industries. A ballot measure to bring one fair wage to Washington, D.C., was passed by voters but repealed by the city council—who used such claims to defend their

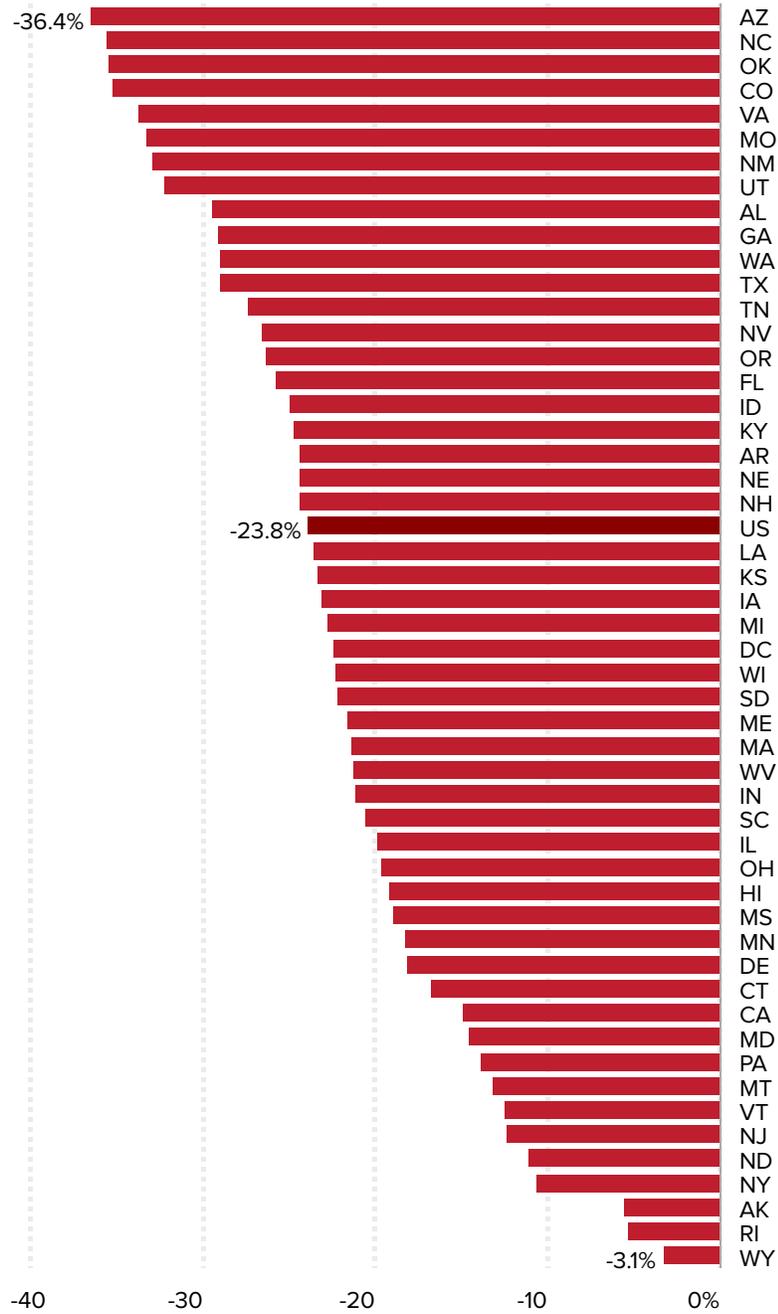
decision to ignore the will of the voters.

The evidence behind these big claims is sorely lacking. But there is evidence refuting these claims. San Francisco and Seattle have both implemented one-fair-wage policies. Relative to D.C., there is less inequality between tipped workers and nontipped workers in Seattle and San Francisco, and tipped workers in these cities are much less likely than D.C. tipped workers to be in poverty.

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## **Behind the teacher strikes is a big teacher pay gap**

Teachers are paid less than other college graduates in every state

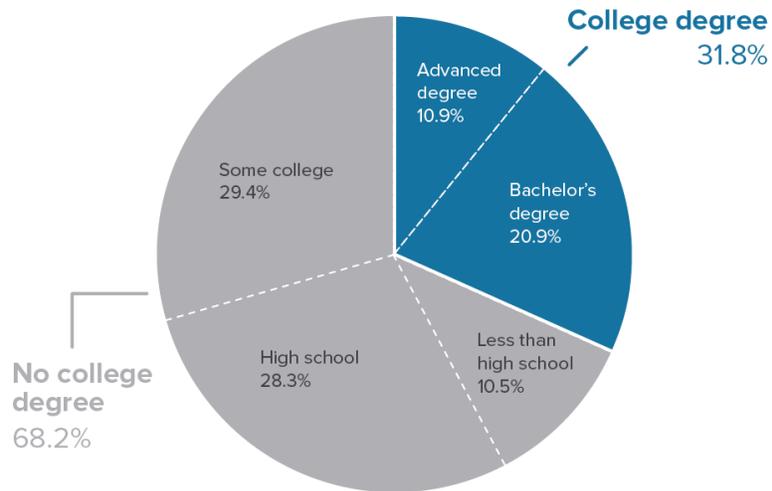


Source: Adapted from Figure C in Sylvia Allegretto and Lawrence Mishel, *The Teacher Pay Penalty Has Hit a New High*, Economic Policy Institute, September 2018.

A big story in 2018 was the wave of protests by teachers across the United States. These teachers were complaining that state and local governments had starved public education of the funding it needed to be effective. An obvious sign of severe education underfunding can be found in the teacher wage penalty: the percent by which public school teachers are paid less than comparable workers. In every single state, the weekly wages of elementary, middle, and secondary public school teachers lag far behind wages of all other workers with a college degree. This teacher wage penalty has **grown significantly** over time, but is smaller in states with **stronger collective bargaining rights** for teachers.

## Most U.S. adults do not have a college degree

Shares of 18- to 64-year-olds with a given level of education, 2018



**Source:** Adapted from Figure A in Elise Gould, Zane Mokhiber, and Julia Wolfe, *Class of 2018: High School Edition*, Economic Policy Institute, June 2018.

Every now and then policymakers in Washington will concede that a given economic trend warrants attention because it might harm workers without a four-year college degree. The effect that growing **trade flows with less developed countries** has on wages is one example. Often, however, this concession to the interests of “noncollege” workers is made with the implicit assumption that workers without a college degree represent a niche interest in the U.S. economy. This assumption is way off base. Two-thirds of working-age people in the United States have less than a four-year degree. Hence, anything that harms noncollege workers is harming the large majority of the American working-age population.

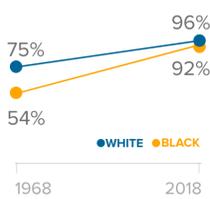
## **Our nation still has a long way to go in a quest for economic and racial justice**

Social and economic circumstances of African American and white families, c. 1968 and c. 2018

Gaps have narrowed ▶◀

### High school graduation rate

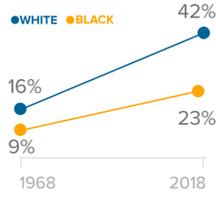
Adults ages 25–29



Gaps have widened ◀▶

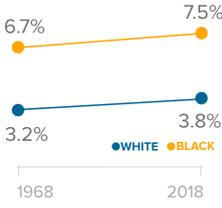
### College graduation rate

Adults ages 25–29



Gaps held steady

### Unemployment rate



Gaps have narrowed ▶◀

### Hourly wage

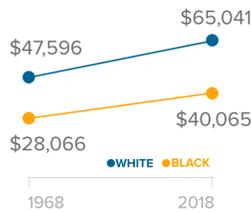
Median, 2016 dollars



Absolute gap ◀▶ Relative gap ▶◀

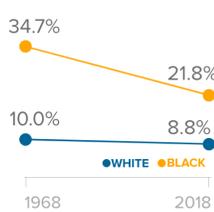
### Household income

Median, 2016 dollars



Gaps have narrowed ▶◀

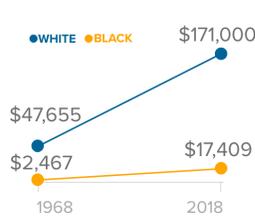
### Poverty rate



Absolute gap ◀▶ Relative gap ▶◀

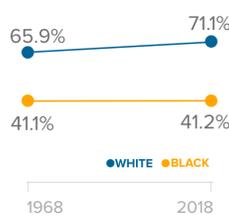
### Household wealth

Median, 2016 dollars



Gaps have widened ◀▶

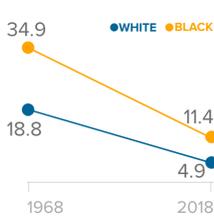
### Homeownership rate



Absolute gap ▶◀ Relative gap ◀▶

### Infant mortality

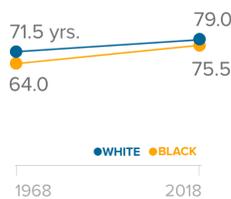
Per 1,000 births



Gaps have narrowed ▶◀

### Life expectancy at birth

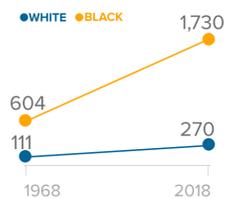
Per 100,000



Gaps have widened ◀▶

### Incarcerated population

Per 100,000



# Economic Policy Institute

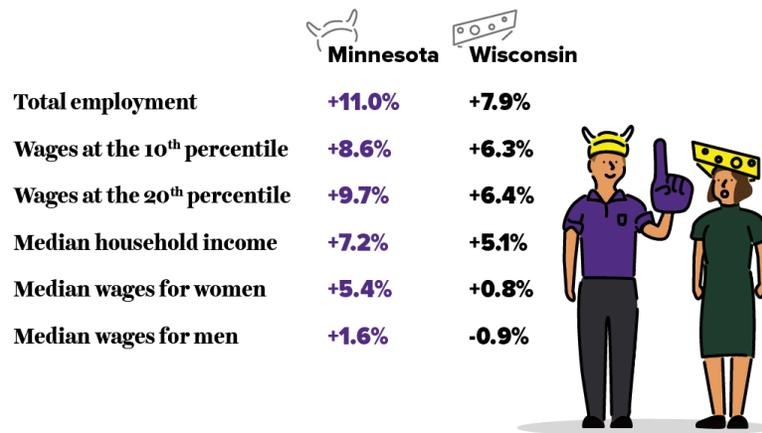
Source: Adapted from Table 1 in Janelle Jones, John Schmitt, and Valerie Wilson, *50 Years After the Kerner Commission: African Americans Are Better Off in Many Ways but Are Still Disadvantaged by Racial Inequality*, Economic Policy Institute, February 2018. Values are for 1968 and 2018 or closest year for which data are available.

This year marked the 50th anniversary of the landmark Kerner Commission report, which documented systemic racism in the United States and the economic and social inequities facing African Americans in 1968. The report warned that “our nation is moving towards two societies: one black, one white, separate and unequal,” and called for a commitment to “the realization of common opportunities for all within a single [racially undivided] society.” In a 2018 EPI report, we asked the question: Fifty years later, how far have we progressed toward that goal?

Not nearly far enough. The chart shows that, while African Americans are in many ways better off in absolute terms than they were in 1968, they are still disadvantaged in important ways relative to whites. African Americans today are much better educated than they were in 1968—but young African Americans are still half as likely as young whites to have a college degree. Black college graduation rates have doubled—but black workers still earn only 82.5 cents for every dollar earned by white workers. And—as consequences of decades of discrimination—African American families continue to lag far behind white families in homeownership rates and household wealth. The data reinforce that our nation still has a long way to go in a quest for economic and racial justice.

## Progressive state policies create more broad prosperity than conservative state policies

Since 2010, Minnesota's economy has outperformed Wisconsin's



Source: David Cooper, *As Wisconsin's and Minnesota's Lawmakers Took Divergent Paths, So Did Their Economies*, Economic Policy Institute, May 2018.

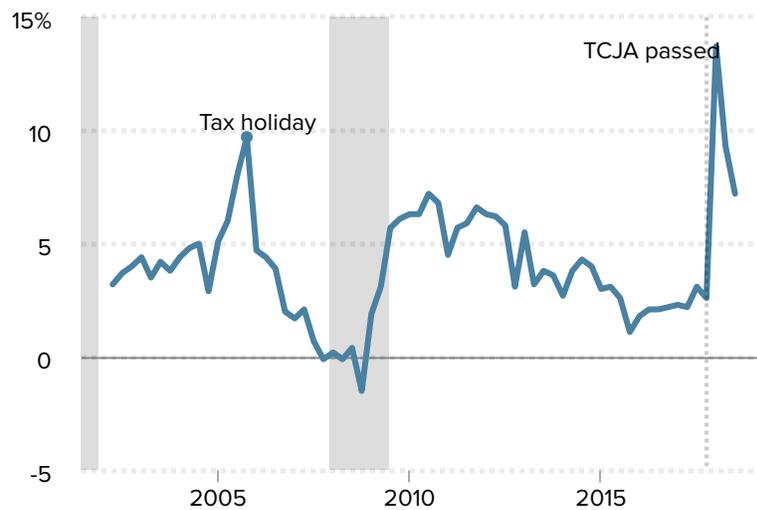
Policy matters, and this includes state policies. In 2010, the neighboring states of Wisconsin and Minnesota embarked on divergent political paths when voters elected a conservative, Scott Walker, as governor of Wisconsin and a progressive, Mark Dayton, as governor of Minnesota. Because these states were neighbors who had suffered similarly from the Great Recession that began in 2008, their post-recession economic performance provides useful evidence on the effect of divergent policy paths.

Governor Walker and the Wisconsin state legislature pursued a highly conservative agenda centered on cutting taxes, shrinking government, and weakening unions. In contrast, Minnesota lawmakers under Governor Dayton enacted a slate of progressive priorities: raising the minimum wage, strengthening safety net programs and labor standards, and boosting public investments in infrastructure and ed-

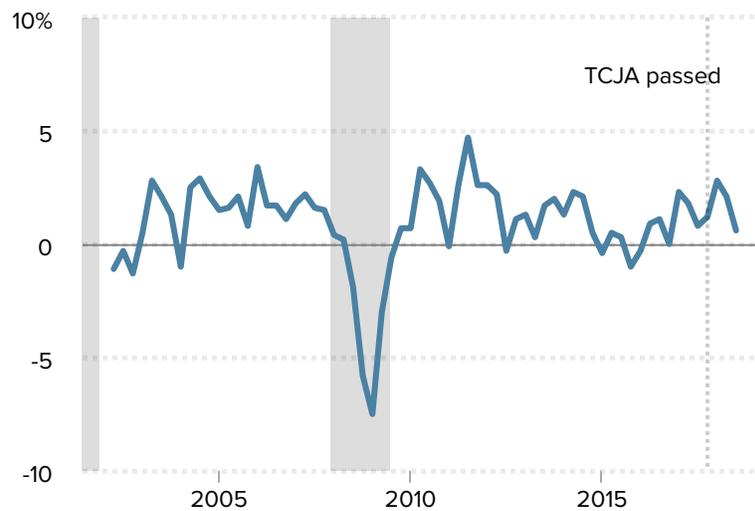
ucation, financed through higher taxes (largely on the wealthy). The evidence shows clearly superior performance—faster wage and employment growth—in Minnesota.

## The Trump tax cuts didn't increase investment—but they did increase corporate profit hoarding

Undistributed domestic corporate profits as a percent of domestic corporate gross value added, 2002Q2–2018Q3



### Percent change in real nonresidential fixed investment, 2002Q2–2018Q3



**Source:** EPI analysis of data from Tables 1.1.6 and 1.1.4 from the National Income and Product Accounts (NIPA) from the Bureau of Economic Analysis (BEA). TCJA stands for the Tax Cuts and Jobs Act of 2017. Shaded areas denote recessions.

Policy can fight inequality, or it can generate more. And the policy priority of the Trump administration seems to be *increasing* inequality. Besides an ongoing assault on regulatory safeguards that provide workers needed leverage in labor market bargaining, the signature policy achievement that the administration and congressional Republicans delivered was a large, regressive tax cut for corporations. The Tax Cuts and Jobs Act (TCJA) of 2017 was championed with loud claims that it would boost investment in productivity-enhancing plants and equipment—eventually leading to higher wages for workers. Nearly a year after the act’s passage, the verdict so far is clear: the tax cuts have simply fattened already bloated corporate profits. Productive investment has not been spurred at all.

The top half of the figure shows undistributed corporate profits as a share of corporate-sector value-added (where value-added is a measure of all income—either wages or profits—generated by a corporation). Undistributed corporate profits are profits not immediately passed through to shareholders as dividends and thus available for

investing in plants and equipment, or buying back shares of stock, or for other financial engineering. These undistributed profits soared in the wake of the TCJA, largely because it allowed a tax-free repatriation of profits that had been stored offshore. (A similar tax holiday in the mid-2000s led to a similar spike in undistributed profits.)

The bottom half of the figure shows where this profit bonanza did *not* end up—in investments in productive plants and equipment. The quarterly investment growth rate shows no indication that investment is shifting into a higher gear because of the tax cut.