



FACT SHEET

How the Economy Has Performed for Workers This Year: Labor Day 2015 by the Numbers

Labor Day is a time to honor America's workers and their contributions to the economy. Unfortunately, while the nation as a whole continues to recover from the Great Recession, the recovery remains incomplete; its benefits have not yet reached many Americans in important ways:

- Unemployment rates remain too high overall, and far too high for African Americans, Hispanics, and young graduates.
- Wages have continued their 35-year trend of broad-based stagnation.
- The buying power of the minimum wage continues to erode each year that policymakers refuse to raise it.
- Declining collective bargaining is harming workers' wage prospects.
- Far too many workers have to contend with unpredictable schedules and no paid leave.

The good news is that these outcomes aren't inevitable. They were created by policy choices—policy choices made intentionally to benefit those with the most power and wealth. But we can have different outcomes if we make different policy choices to benefit low- and moderate-income Americans. There are a number of **policies we can pursue to raise Americans' pay and ensure that prosperity is broadly shared**. In the near term, the most pressing of these policy choices is to have the **Federal Reserve continue to help the recovery** reach still-struggling Americans by keeping interest rates low.

Unemployment and underemployment

The economy has mostly been adding jobs at a modest but respectable pace. Nonfarm payroll employment rose by **173,000 in August**, below both the 2015 monthly average and the faster 2014 monthly average of 260,000. The unemployment rate declined in August to 5.1 percent.

However, recovery from the Great Recession is reaching people **unevenly by state and race**. The African American unemployment rate only recently dipped below 10 percent for the first time in seven years. In August it was 9.5 percent, and the Latino unemployment rate was 6.6 percent, compared with 4.4 percent for whites and 3.4 percent for Asians. According to data averages for the second quarter of 2015 (April–June), African American unemployment is lowest in Tennessee (6.9 percent), but that is about even with the *highest* white unemployment rate (7.0 percent in West Vir-

ginia). Black unemployment is highest in the District of Columbia (14.2 percent), and Hispanic unemployment is highest in Connecticut (12.7 percent).¹

There is also a severe unemployment and underemployment problem for young workers, particularly young minorities and high school graduates, according to [EPI analysis of data reflecting the 12-month average](#) from April 2014 to March 2015. Approximately 19.5 percent of young high school graduates (those ages 17–20) are unemployed, and about 37.0 percent are underemployed (they either want a job, or have a job that does not provide the hours they need). For young college graduates (those ages 21–24) the unemployment rate is 7.2 percent, and the underemployment rate is 14.9 percent.² Almost a quarter—23.0 percent—of young black college graduates are currently underemployed, compared with 22.4 percent of young Hispanic college grads and 12.9 percent of white college grads.³

The picture is bleakest for young high school graduates, who are a majority of young workers (52.7 percent of young people between the ages of 17 and 24 [have a high school degree or less](#)). Among young black high school graduates, 51.3 percent are underemployed, compared with 36.1 percent of young Hispanic high school grads and 33.8 percent of white high school grads.

Wages

With the economy still operating well below full employment, decent wage growth remains elusive. From 2013 to 2014, real (inflation-adjusted) [hourly wages stagnated or fell for most American workers](#), including for those workers with the most education and the highest wages. Real wages at the top of the wage distribution fell—by 0.7 percent at the 90th percentile and 1.0 percent at the 95th percentile. In contrast, at the 10th percentile, wages actually increased (albeit slightly) thanks to state-level minimum-wage increases (as is discussed in greater detail in the following section). Among education categories, the [greatest real wage losses between 2013 and 2014 were among those with a college or advanced degree](#). Workers with a four-year college degree saw their hourly wages fall 1.3 percent from 2013 to 2014, while those with an advanced degree saw an hourly wage decline of 2.2 percent.

This sends two clear messages: First, that a lack of skills/education is not the reason behind falling American wages. If advances in technology were driving high demand for increased skills and education, workers with these credentials should find their wages increasing. Second, if even these groups of highly educated workers facing the lowest rates of unemployment are seeing outright wage declines, there is clearly lots of slack left in the American labor market.

In the last year (August 2014 to August 2015), average hourly earnings have risen, but [only by 2.2 percent](#), far below any reasonable [wage target](#). And wages for production/nonsupervisory workers (a group comprising 80 percent of the private-sector workforce) rose even more slowly, at 1.9 percent over the year. Meanwhile, [CEOs are making 300 times more than typical workers](#); the CEO-to-worker compensation ratio, which stood at 20-to-1 in 1965, [was 303-to-1 in 2014](#).

Wage stagnation is a long-term trend. Between 2002 and 2014, inflation-adjusted hourly wages for the [bottom seven deciles](#) (i.e., 70 percent of the American workforce) fell.

Comparing 2014 with 2007 (the last period of reasonable labor market health before the Great Recession), hourly wages for the vast majority of American workers have been [flat or falling](#). Even when including the value of benefits such as

health insurance and pension coverage, pay has **stagnated or declined** for the vast majority since 2007. And ever since 1973, hourly compensation of the vast majority of American workers has not risen in line with economy-wide productivity. Our nation's output of goods and services per hour worked (productivity, net of depreciation) grew 72.2 percent from 1973 to 2014, while the inflation-adjusted hourly compensation of the typical worker rose by just 9.2 percent.⁴

Workers with only high school diplomas in particular are being left behind. The average young high school graduate who does not enroll in further schooling makes \$10.40 an hour, which has declined 5.5 percent from the \$11.01 they made in 2000.⁵ **The average wages of young college graduates**—those between ages 21 and 24 who are not enrolled in further schooling—are 2.5 percent lower than they were 15 years ago. In 2015, young college graduates had an average hourly wage of \$17.94, which translates into an annual income of roughly \$37,300 for a full-time, full-year worker. In 2000, the average hourly wage of a young college graduate was \$18.41.

Labor standards and the minimum wage

As noted previously, unlike the rest of the wage distribution, **wages actually increased at the 10th percentile between 2013 and 2014.** Wages at the bottom ticked up when they fell for nearly everyone else because we still have some labor standards that provide wage protections. More specifically, 18 states—whose workforces make up 47 percent of all workers—increased their minimum wage in 2014 (either through legislation or through automatic inflation adjustments).

When we compare states with and without a minimum-wage increase, we find clear evidence that the minimum wage provided support for the 10th percentile wage. Wages at the 10th percentile rose by 1.6 percent in states with minimum-wage increases, while in states without such an increase, they essentially stagnated—increasing by a scant 0.3 percent.

These 18 states are among the **29 states (and the District of Columbia) that have raised their state minimums** in the absence of national action to address the declining real value of the federal minimum wage, which has languished at \$7.25 since 2009. In 2014, the federal minimum wage of \$7.25 was worth **nearly 10 percent less than when it was last raised in 2009**, after adjusting for inflation. In fact, the real (inflation-adjusted) value of the federal minimum wage in 2014 was **24 percent below its peak value in 1968.** If the minimum wage had kept pace with price increases since 1968, by 2014 it would have stood at \$9.54—about **32 percent higher than its actual level.**

Over the past four decades, much of the growth in inequality in the bottom half has come from the declining value of the federal minimum wage. Infrequent or inadequate increases in the federal wage floor created a **significant gap** between the hourly wages paid to low-wage workers and the wages paid to typical or middle-wage workers.

In fact, a stagnating minimum wage has left low-wage workers facing a **longer climb to reach the middle class.** (The declining inflation-adjusted value of the minimum wage is the main cause of growth in wage inequality between low-wage workers and middle-wage workers since 1979, particularly among women.)

Nearly a third (30 percent) of working women—roughly 20 million—would get a raise under a proposal to increase the federal minimum wage from \$7.25 to \$12 per hour by 2020 and then “index” it to median wages. The gains are even more substantial for working women of color, 37 percent of whom—8.6 million—would see their pay increase.

Raising the federal minimum wage to \$12 per hour—which would affect **one in four workers**—would **primarily benefit older workers**. Nearly 90 percent of workers who would be affected are at least 20 years old, and 37 percent are at least 40 years old.

Such an increase is achievable and **well within the U.S. economy's historical experience**. Raising the federal minimum wage to \$12 by 2020 would lift the minimum wage's purchasing power modestly relative to where it was five decades ago. It would also restore the relationship between the minimum wage and the median wage that prevailed in the late 1960s.

Collective bargaining, right-to-work laws, and wages

As union membership and power have declined, **inequality has increased**—and **the share of income going to the broad middle class has fallen**.⁶ The middle 60 percent of families depend primarily on wages for their income, so as unions' ability to raise wages diminished, so did the ability of middle-class families to earn a fair share of the nation's growing income.

Indeed, the **single largest factor** suppressing wage growth for middle-wage workers has been the erosion of collective bargaining. The decline of collective bargaining through its impact on union and nonunion workers can explain one-third of the rise of wage inequality among men since 1979, and one-fifth among women.

The states where collective bargaining eroded the most since 1979 had the **lowest growth in middle-class wages**. Specifically, the 10 states that had the least erosion of collective bargaining saw their inflation-adjusted median hourly compensation grow by 23.1 percent from 1979 to 2012, far faster than the 5.2 percent growth of the 10 states suffering the largest erosion of collective bargaining—a **gap in compensation growth of 17.9 percentage points**.

One reason for the decline in collective bargaining is right-to-work (RTW) laws, which weaken unions by depriving them of the funding they need to be effective. **Workers in non-RTW states are more than twice as likely (2.4 times) to be in a union or protected by a union contract**.

In RTW states, both union and nonunion workers have lower wages. Wages in RTW states are **3.1 percent lower** than those in non-RTW states, after controlling for a full complement of individual demographic and socioeconomic factors as well as state macroeconomic indicators. This translates into RTW status being associated with \$1,558 lower annual wages for a typical full-time, full-year worker.

Employee misclassification and irregular shift schedules

State-level studies show that between 10 and 20 percent of employers misclassify at least one worker as an independent contractor. **Beyond the billions of dollars in lost tax revenues**, there are millions of Americans wrongly left uninsured, without benefits and without job security, as independent contractors are ineligible for benefits such as the minimum wage, overtime pay, unemployment insurance, and workers' compensation.

About 17 percent of workers have unstable work schedules—meaning they are assigned irregular or on-call work shifts, or work split or rotating shifts. Low-income workers face the most irregular work schedules. This variability of work

hours contributes to income instability and thus adversely affects not only household consumption but general macro-economic performance.

Paid sick days

Family economic security is at risk when workers do not have access to paid leave. Currently, **more than one-third of all workers—39 percent—have no paid sick days**. Only one in five low-wage workers have paid sick days, compared with close to **90 percent of high-wage workers**.

Wages and poverty

Almost **two-thirds of employable poor people work**, and over 40 percent work full time. Wage growth is thus a key to poverty reduction. Between 1979 and 2013, hourly wage growth stagnated for the vast majority—even while those at the bottom relied increasingly heavily on their wages to make ends meet. If all wages had grown at the same rate as average wages since 1979 (in other words, had wage inequality not increased), the market-based non-elderly poverty rate would be 1.7 percentage points (or 8.6 percent) lower today, and **4.5 million fewer people would be poor**.

Endnotes

1. Unemployment data by state and race for the second quarter of 2015 only include states with sufficient sample sizes for reliable estimates.
2. Our measure of underemployment is the U-6 measure from the BLS, which includes not only unemployed workers but also those who are part-time for economic reasons and those who are marginally attached to the labor force.
3. These data are for recent high school (ages 17–20) and college graduates (ages 21–24) who are not enrolled in further schooling.
4. These figures are from an EPI report on the pay–productivity gap to be released in early September.
5. Data reflect a 12-month moving average as of March 2015.
6. Union membership peaked at 33.2 percent in 1953 and 1956, and was at 11.2 percent in 2013. Over that same time period, the share of income going to the top 10 percent increased from 31.8 percent to 47.0 percent.