



Economic Policy Institute

December 18, 2014

THE TOP 10 CHARTS OF 2014

This last year saw the pace of job growth pick up, a welcome development. Yet the economy remains far from healthy. In 2014 the twin issues of income inequality and stagnant wage growth for the vast majority of Americans took center stage. Better late than never.

EPI's top charts of 2014 show why addressing inequality and spurring wage growth is so necessary—and so doable. Policy choices led to these trends, and different policy choices can reverse them.

The first policy choice should be based on the “do no harm” principle: the Federal Reserve should not try to slow recovery in the name of fighting inflationary pressures until wage growth is much, much stronger.

After this, policymakers should support those labor standards that can restore some bargaining power to low- and moderate-wage workers in coming years. That means policy actions such as passing a higher minimum wage, expanding rights to overtime pay, protecting the labor rights of undocumented workers, and restoring the right to collective bargaining.

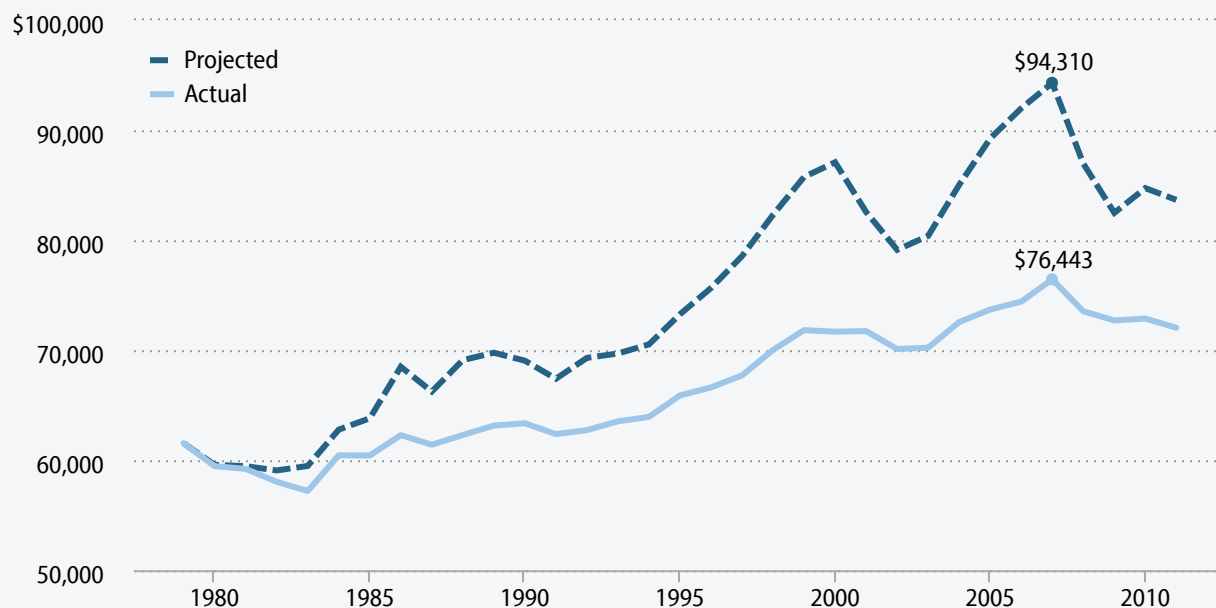
1

In 2014, rising income inequality became a front-burner political issue. This figure shows that the stakes of rising inequality for the broad American middle-class are enormous. In 2007, the last year before the Great Recession, incomes for the middle 60 percent of American households would have been roughly 23 percent (nearly \$18,000) higher had inequality not widened (i.e., had their incomes grown at the overall average rate—an overall average buoyed by stratospheric growth at the very top). The temporary dip in top incomes during the Great Recession did little to shrink that inequality tax, which stood at 16 percent (nearly \$12,000) in 2011.

2

The U.S. middle class has faced a huge ‘inequality tax’ in recent decades

Household income of the broad middle class, actual and projected assuming it grew at overall average rate, 1979–2011



Note: Data show average income of households in the 20th–80th percentile. [+](#)

Source: EPI analysis of Congressional Budget Office data

Reproduced from Figure I in *Raising America's Pay: Why It's Our Central Economic Policy Challenge* [...](#)

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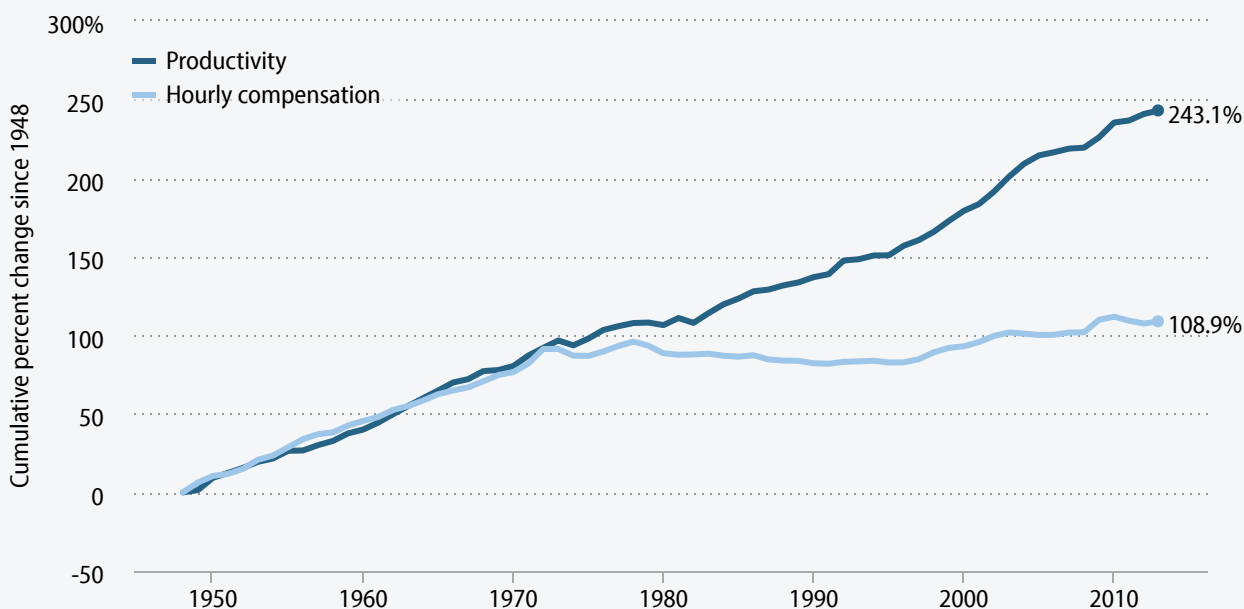
As 2014 comes to a close, there is a growing recognition that the root of rising American inequality is the failure of hourly pay for the vast majority of American workers to keep pace with economy-wide productivity (output produced in an average hour of work). When hourly pay for the vast majority tracked productivity for decades following World War II, the American income distribution was stable and growth broadly shared. Since the late 1970s, the link between typical workers’ pay and productivity has broken down and allowed capital owners (rather than workers) to claim a larger share of income and allowed those at the very top of the pay distribution to claim a larger share of overall wages. This growing “wedge” between typical workers’ pay and productivity is what needs to shrink if we’re to address rising inequality.

3

The ability of those at the very top to claim an ever-larger share of overall wages is evident in this figure. Two things stand out: the extraordinarily rapid growth of annual wages for the top 1 percent compared with everybody else (and particularly the bottom 90 percent), and the fact that even workers in the 90th to 95th percentiles—a very privileged

Since 1979, productivity has risen eight times faster than pay

Disconnect between productivity and typical worker's compensation, 1948–2013



Note: From 1948 to 1979, net productivity rose 108.1 percent, and hourly compensation (of production/nonsupervisory workers in the private sector) increased 93.4 percent. From 1979 to 2013, productivity rose 64.9 percent, and hourly compensation rose 8.0 percent. ...

Source: EPI analysis of data from the Bureau of Labor Statistics and Bureau of Economic Analysis

Updated from Figure A in *Raising America's Pay: Why It's Our Central Economic Policy Challenge* ...

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group in relative terms—only saw their wages grow in line with economy-wide average wage growth. This means that wage growth of workers in the bottom 90 percent of the wage distribution was actually *below* average.

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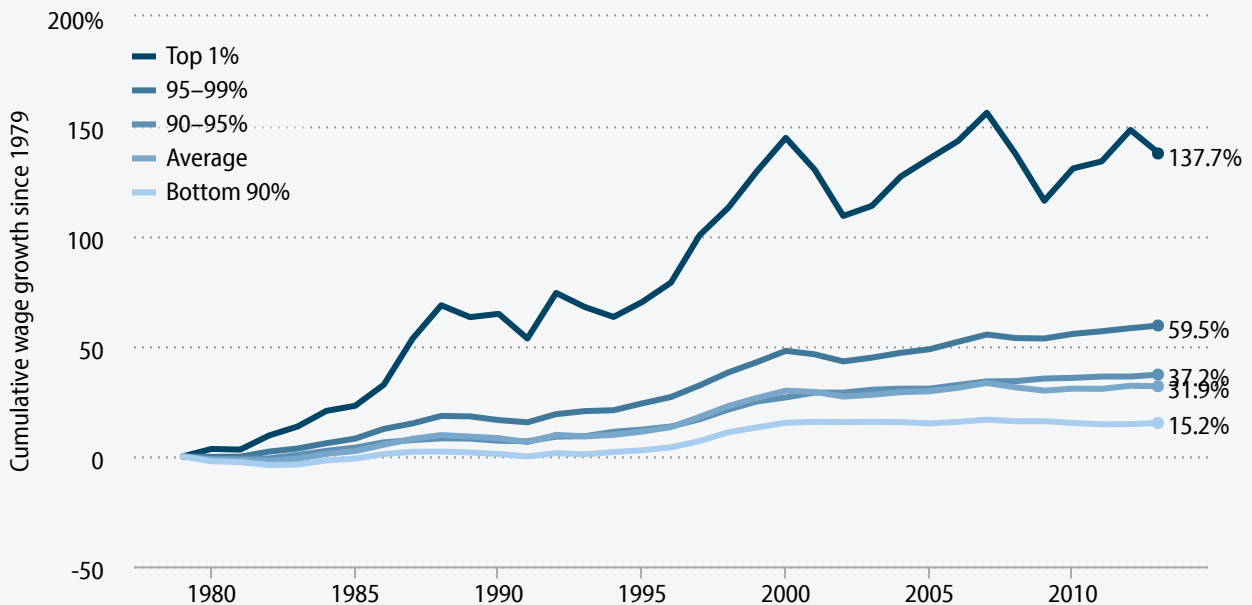
Over the entire 34-year period between 1979 and 2013, hourly wages for the bottom 70 percent of American workers grew less than 11 percent. Expressed as an annual average, this comes out to yearly wage growth of 0.3 percent or less. Furthermore, take a look at the late 1990s: Nearly all the wage growth of the bottom 70 percent of wage earners happened in that brief period when labor markets got tight enough—unemployment fell to 4 percent for a two-year spell in 1999 and 2000—to finally deliver across-the-board hourly wage growth.

5

The most extreme wage disparities are between the heads of large American corporations and typical workers. This figure tracks the ratio of pay of CEOs at the 350 largest public U.S. firms and typical workers in those firms' industries. In 1965, these CEOs made 20 times what typical workers made. But as of 2013, they make just under 300 times typical workers' pay.

When it comes to the pace of annual pay increases, the top 1% leaves everybody else in the dust

Cumulative change in real annual wages, by wage group, 1979–2013



Source: EPI analysis of data from Kopczuk, Saez, and Song (2010) and Social Security Administration wage statistics

Reproduced from Figure F in *Raising America's Pay: Why It's Our Central Economic Policy Challenge* ...

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6

While pay at the top of the labor market has outpaced nearly every labor market indicator for decades, pay at the bottom—the federal minimum wage—has severely lagged most. This figure shows the decline in the real (inflation-adjusted) value of the minimum wage since its high in 1968 as well as what the federal minimum wage would be today if it had kept pace with the growth of real hourly wages of production and nonsupervisory workers (who make up 80 percent of the workforce) or economy-wide productivity. Had the federal minimum wage kept pace with productivity it would be over \$18 today. Though not shown, the federal minimum wage *did* keep pace with productivity in the 30 years before 1968.

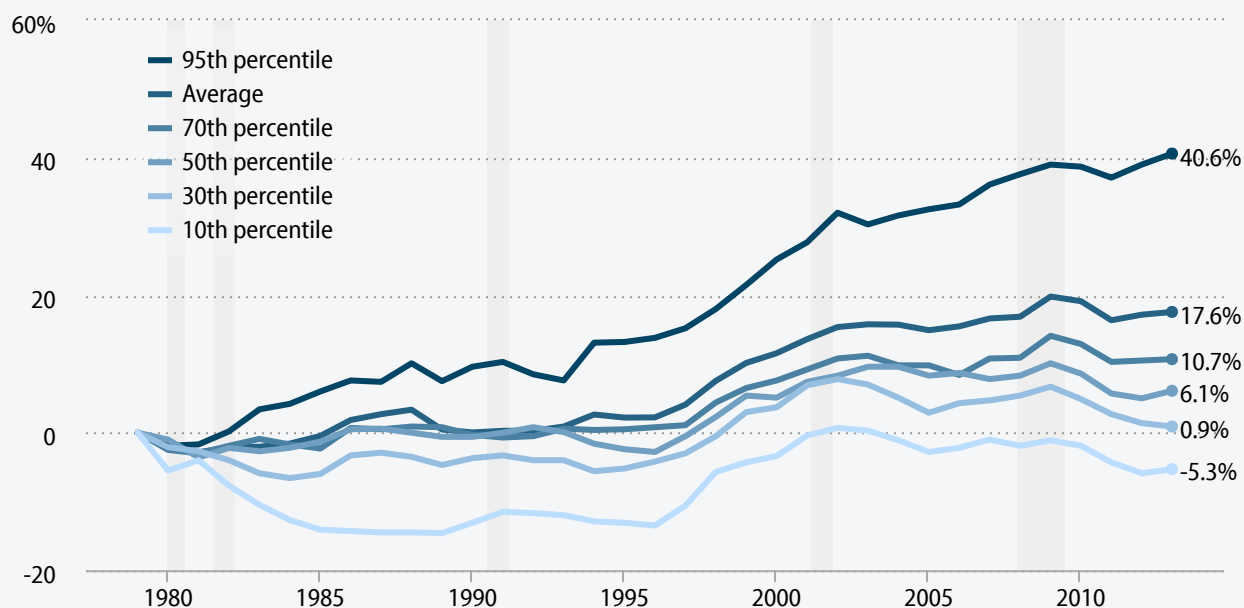
7

The widespread problem of stagnant hourly wages is not simply a problem of insufficiently skilled or educated workers. As this figure shows, a four-year college degree has been no guarantee at all of decent wage growth. In 2013, average real hourly wages of young college graduates were barely higher than in 1989!

8

Hourly wage growth is even worse than annual, with full-employment in the late 1990s providing only boost for most

Cumulative change in real hourly wages of all workers, by wage percentile,* 1979–2013



* The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more.

Note: Shaded areas denote recessions. [+](#)

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

Reproduced from Figure F in *Why America's Workers Need Faster Wage Growth—And What We Can Do About It* [...](#)

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Despite a falling unemployment rate and a stepped-up pace of job growth in 2014, the economy remains far from fully recovered. This is illustrated by the sharp slowdown in nominal wage growth (wages unadjusted for inflation) that has persisted in the recovery from the Great Recession. Given trend productivity growth (1.5–2 percent) and the Federal Reserve’s 2 percent inflation target, hourly wage growth could be *twice* as fast—around 4 percent—without spurring inflation. And wages could grow significantly faster than this for an extended period of time—say, 6 percent for six years—before they hit the healthy wage target set by 4 percent growth since 2007.

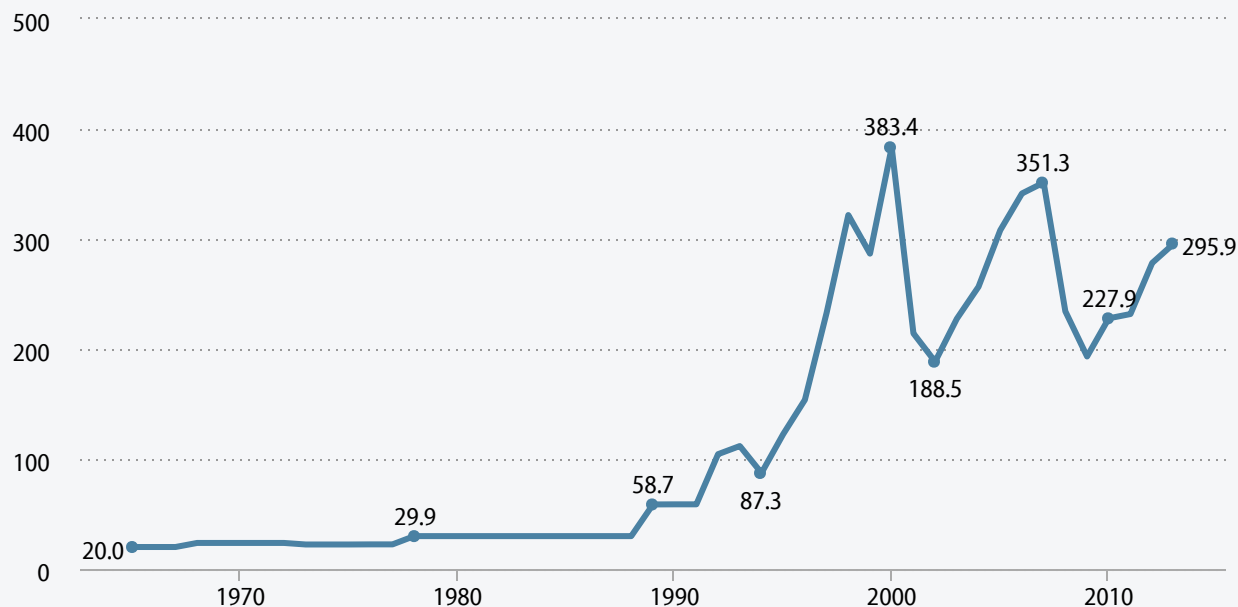
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The damage from our too-slow recovery can extend well into the future. As one example, in 2012 and especially in 2013, college enrollment rates among young adults fell sharply off trend and outright declined. If continuing economic weakness is behind this decline (and there’s plenty of reason to think that it is), this means that the scars of the Great Recession and attendant slow recovery could run deep.

10

Extreme inequality—CEOs versus the workers they manage

CEO-to-worker compensation ratio, 1965–2013



Note: CEO annual compensation is computed using the "options realized" compensation series for CEOs at the top 350 U.S. firms ranked by sales. Typical worker compensation is average compensation of production/nonsupervisory workers in the key industries of the firms included in the sample. [...](#)

Source: EPI analysis of data from Compustat's ExecuComp database, Bureau of Labor Statistics Current Employment Statistics, and Bureau of Economic Analysis NIPA tables

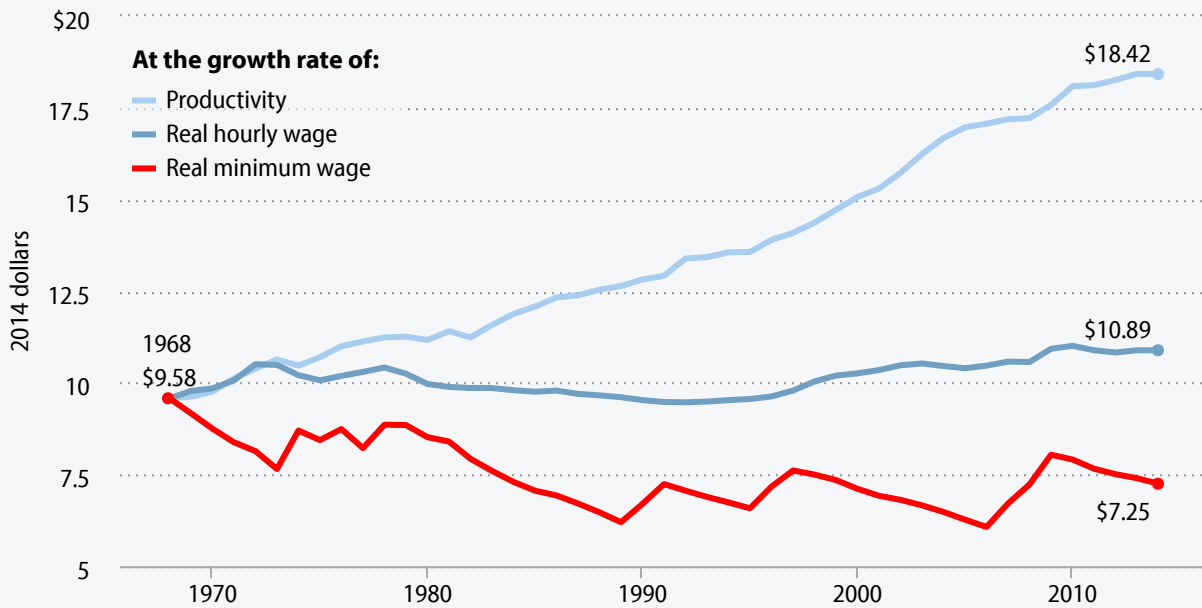
Reproduced from Figure C in *CEO Pay Continues to Rise as Typical Workers Are Paid Less* [...](#)

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The year 2014 saw policy address one aspect of labor market dysfunction—the enormous erosion in employer-sponsored health insurance coverage. Like wage stagnation, this problem was not confined to non-college-educated workers. The share of young college graduates who have employer-sponsored health insurance coverage fell from 60.7 percent in 1989 to 30.9 percent by 2012. For high-school graduates, the decline was even steeper, from 23.5 percent in 1989 to just 6.6 percent in 2012. This rapid unraveling of employer-sponsored insurance, even for recent college graduates, was a key impetus for health reform in 2009, and 2014 was the first year that the coverage provisions went into effect.

The minimum wage would be over \$18 had it risen along with productivity

Real value of the federal minimum wage compared with its value had it grown at the rate of productivity and average hourly wages, 1968–2014



Note: Real average hourly wages are of production/nonsupervisory workers in the private sector, and productivity is net productivity of the total economy. ...

Source: EPI analysis of data from the U.S. Department of Labor's Bureau of Labor Statistics and Labor Wage and Hour Division

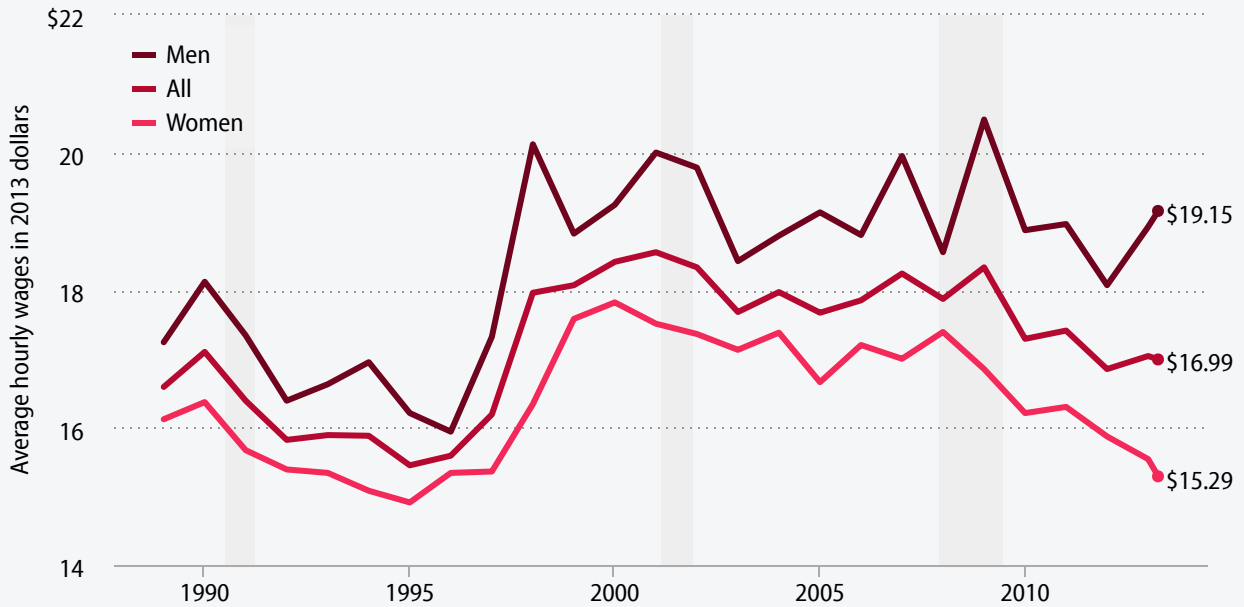
Adapted from Figure A in *Raising the Federal Minimum Wage to \$10.10 Would Save Safety Net Programs Billions and Help Ensure Businesses Are Doing Their Fair Share* ...

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When it comes to wages, young college grads are stuck in 1989

Real average hourly wages of young college graduates, 1989–2014



Note: Data are for college graduates age 21–24 who do not have an advanced degree and are not enrolled in further schooling. Data for 2014 represent 12-month average from April 2013–March 2014. Shaded areas denote recessions. [+](#)

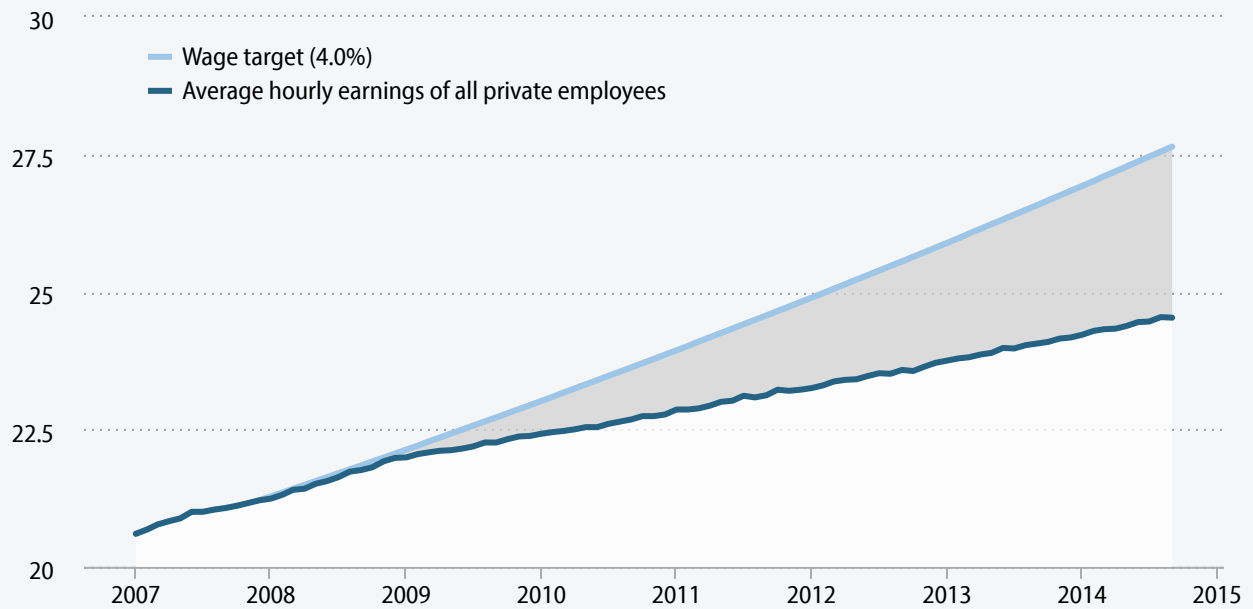
Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

Adapted from Figure N in *The Class of 2014 The Weak Economy Is Idling Too Many Young Graduates* [...](#)

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Wage gap shows how far from full recovery we remain

Cumulative nominal hourly earnings and wage target, January 2007–October 2014



Note: The graph depicts the wage target consistent with the Federal Reserve Board's 2% inflation target and 2% labor productivity growth assumption. [...](#)

Source: EPI analysis of Bureau of Labor Statistics Current Employment Statistics, public data series.

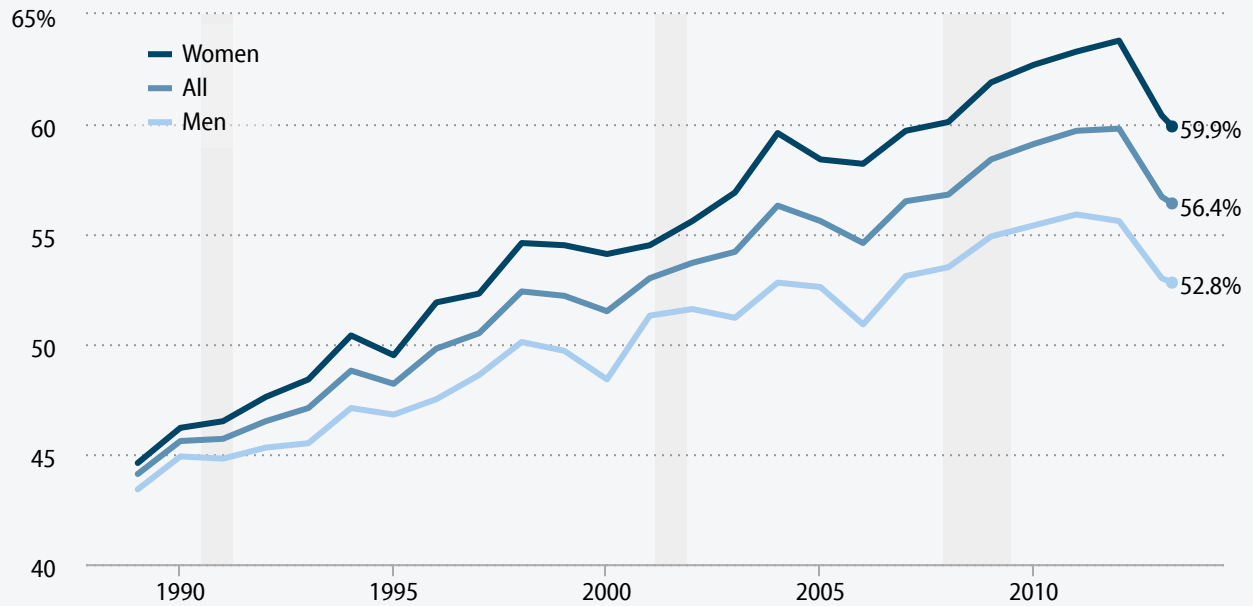
Reproduced from EPI's [Nominal Wage Tracker](#) [...](#)

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Scars from the Great Recession and slow recovery include falling college enrollment

Share of young high school graduates enrolled in college or a university, by gender, 1989–2014



Note: Data are for high school graduates age 17–20 who may have previous college experience. Data for 2014 represent 12-month average from April 2013–March 2014. Shaded areas denote recessions. [+](#)

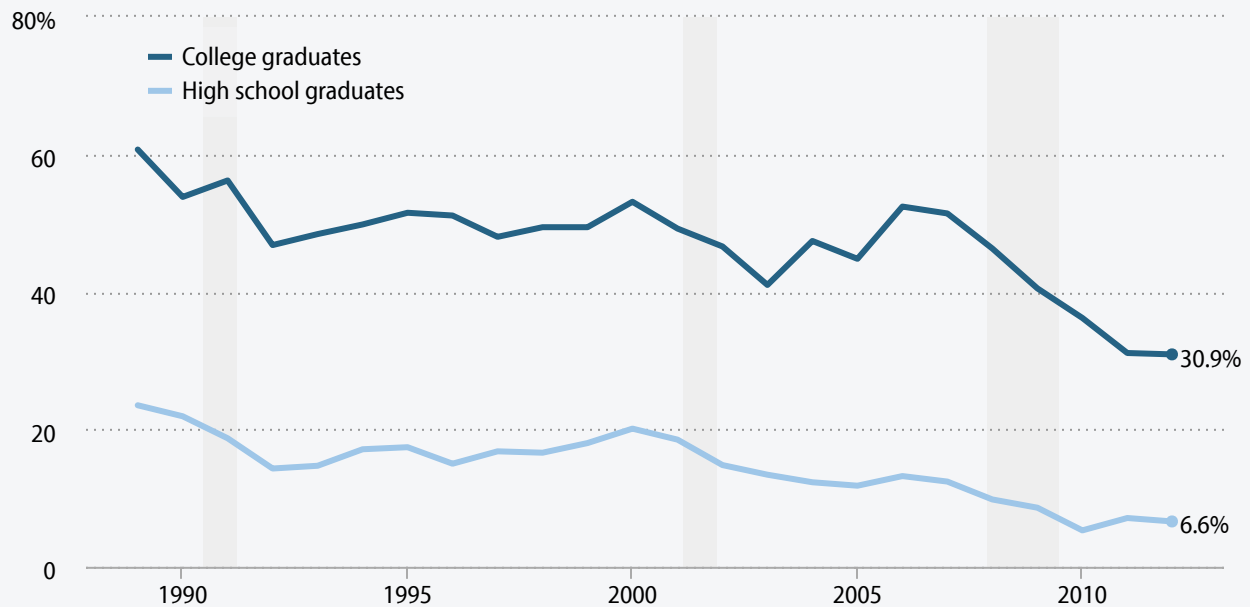
Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

Reproduced from Figure J in [The Class of 2014: The Weak Economy Is Idling Too Many Young Graduates](#) [...](#)

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Eroding health insurance coverage led to health reform

Share of employed recent high school and college graduates with health insurance provided by their own employer, 1989–2012



Note: Coverage is defined as being included in an employer-provided plan where the employer paid for at least some of the coverage. Data are for college graduates age 21–24 who do not have an advanced degree and are not enrolled in further schooling, and high school graduates age 17–20 who are not enrolled in further schooling. Shaded areas denote recessions. [+](#)

Source: EPI analysis of Current Population Annual Social and Economic Supplement microdata

Reproduced from Figure O in *The Class of 2014: The Weak Economy Is Idling Too Many Young Graduates* [...](#)

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