Waging Inequality in America

By Lawrence Mishel
The Middle Class Income Squeeze: Relentless, Persistent, and Accelerating
Family Incomes Did Poorly in the 2000s
Real Median Household Income Growth Across Peak Years

2007 Dollars

<table>
<thead>
<tr>
<th>Period</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969-79</td>
<td>$1,869</td>
</tr>
<tr>
<td>1979-89</td>
<td>$2,855</td>
</tr>
<tr>
<td>1989-2000</td>
<td>$3,888</td>
</tr>
<tr>
<td>2000-07</td>
<td>-$324</td>
</tr>
</tbody>
</table>
Median Income, 2007 Dollars

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.

Source: Author's analysis of Piketty and Saez (2006).
Household income growth, including capital gains, 1973-2006

Disparate Income Growth

Source: Authors’ analysis of Piketty & Saez (2008)
## Unbalanced Income Growth

Share of income growth by income group, 1989-2006

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Share of Income Growth, 1989-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top 10 percent</strong></td>
<td></td>
</tr>
<tr>
<td>Top 1.0%</td>
<td>90.9%</td>
</tr>
<tr>
<td>Top 0.1%</td>
<td>59.0%</td>
</tr>
<tr>
<td>Remaining top 1%</td>
<td>35.6%</td>
</tr>
<tr>
<td><strong>Next 9%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Bottom 90 percent</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23.6%</td>
</tr>
<tr>
<td></td>
<td>31.9%</td>
</tr>
<tr>
<td></td>
<td>9.1%</td>
</tr>
</tbody>
</table>

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

Source: Authors' analysis of Social Security wage data and Kopczuk, Saez and Song (2007).
CEOs made on average 27 times as much as a typical worker in 1973, but they made 275 times as much in 2007.

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.

Source: Authors' analysis
Even young college grads are starting out lower than in 2000. The only real gains were made in the late 1990s.

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

Source: Authors' analysis
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

Source: Mishel et al. (2008)
High school/less than high school wage premium, 1973-2007

Source: Mishel et al. (2008)
Changes in the Demand for College Educated Workers, 1960 to 2005

Annual growth in relative demand for college graduates:
- 1960-70: 3.7
- 1970-80: 3.8
- 1980-90: 5.0
- 1990-2000: 3.0
- 2000-05: 1.4

Source: Goldin & Katz
How?
The Bubble Economy
The Stock Bubble
The Housing Bubble

Home Prices

Indexed housing price vs. Year
And now...

Recession

NEXT EXIT
Unemployment: Current and Prior Recessions

1981 Recession: 10.4%
Current Recession: 7.2%
1990 Recession: 9.5%
2001 Recession: 4.9%

Source: Author’s analysis of BLS data.
Underemployment Rate

Source: Author’s analysis of BLS data.
Job Seekers per Job Opening

Source: Author’s analysis of BLS data.
Job Losses by Recession

Months Since Peak

Percent Change (0=Peak)

1981 Recession
1990 Recession
2001 Recession
Current Recession

Source: Author’s analysis of BLS data.
Falling short of our potential

Payroll employment required to keep up with population growth

Payroll employment

Source: Author’s analysis of BLS data.
# Unemployment by Group

<table>
<thead>
<tr>
<th></th>
<th>1981 Recession</th>
<th></th>
<th>Current Recession</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Start</td>
<td>After 18</td>
<td>Change</td>
<td>Start</td>
</tr>
<tr>
<td>Total</td>
<td>7.2%</td>
<td>10.4%</td>
<td>3.2</td>
<td>4.9%</td>
</tr>
<tr>
<td>Black</td>
<td>15.0%</td>
<td>21.2%</td>
<td>6.2</td>
<td>8.9%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>10.0%</td>
<td>15.3%</td>
<td>5.3</td>
<td>6.2%</td>
</tr>
<tr>
<td>High School</td>
<td>5.3%</td>
<td>10.2%</td>
<td>4.9</td>
<td>4.6%</td>
</tr>
<tr>
<td>College or more</td>
<td>2.7%</td>
<td>3.6%</td>
<td>0.9</td>
<td>2.1%</td>
</tr>
<tr>
<td>Blue-collar</td>
<td>8.8%</td>
<td>16.9%</td>
<td>8.1</td>
<td>6.7%</td>
</tr>
<tr>
<td>White-collar</td>
<td>4.2%</td>
<td>6.7%</td>
<td>2.5</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

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%

Unemployment Rate

<table>
<thead>
<tr>
<th></th>
<th>2009Q1</th>
<th>Mid-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>8.1</td>
<td>9.8</td>
</tr>
<tr>
<td>Black</td>
<td>13.1</td>
<td>18.1</td>
</tr>
<tr>
<td>Hispanic</td>
<td>10.7</td>
<td>13.9</td>
</tr>
<tr>
<td>Asian</td>
<td>6.5</td>
<td>8.4</td>
</tr>
</tbody>
</table>

- 2009Q1
- Mid-2010
Underemployment, Monthly Average and Over the Year, at 9.8% unemployment

Projected Underemployment Rate

<table>
<thead>
<tr>
<th></th>
<th>Monthly Average</th>
<th>Over the Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>17.7</td>
<td>33.6</td>
</tr>
<tr>
<td>White</td>
<td>14.4</td>
<td>29.2</td>
</tr>
<tr>
<td>Black</td>
<td>27.8</td>
<td>40.6</td>
</tr>
<tr>
<td>Hispanic</td>
<td>25.0</td>
<td>43.3</td>
</tr>
</tbody>
</table>

- Blue bars: Monthly Average
- Red bars: Over the Year
# High Unemployment Rate Raises Poverty

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

Unemployment Rate

Source: Blue Chip Forecasts
Predicted Size of Stimulus

<table>
<thead>
<tr>
<th></th>
<th>Billions of $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 08</td>
<td>$200</td>
</tr>
<tr>
<td>Dec 08</td>
<td>$500</td>
</tr>
<tr>
<td>Jan 09</td>
<td>$778</td>
</tr>
</tbody>
</table>

Source: Blue Chip Forecasts
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

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

Health Care
Retirement
Rewarding Work
Globalization
Balancing Work and Family
Energy: Renewable and Efficient
The Agenda for Shared Prosperity

Immigration Reform
Race and Ethnicity
Public Investment
Education
Poverty
The Economic Policy Institute initiative for solutions that match the scale of the problems.