

THE STATE OF WORKING AMERICA

12TH EDITION



↪ See Figure 7A on page 422.

LAWRENCE MISHEL • JOSH BIVENS
ELISE GOULD • HEIDI SHIERHOLZ

ECONOMIC POLICY INSTITUTE

The State of Working America

12th Edition

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LAWRENCE MISHEL

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HEIDI SHIERHOLZ



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For the newest generation in my family, grandson Oliver and great nephew Nathan, who won't hit the job market for two decades.

— LAWRENCE MISHEL

To Holley and Finn, as well as to my parents and in-laws, who sometimes must think that they're the only people in the world I'm not trying to flood with my views on how the economy is doing.

— JOSH BIVENS

To Alex for patience and understanding; Eli, Sarah, and Jess for inspiration and perspective; and mom and dad for everlasting support.

— ELISE GOULD

For my little sangha, Alan, Sal, and Iko.

— HEIDI SHIERHOLZ

Visit **StateofWorkingAmerica.org**

The StateofWorkingAmerica.org website presents up-to-date historical data series on incomes, wages, employment, poverty, and other topics. All data presented in this book can be viewed online or downloaded as spreadsheets.

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—The authors

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Documentation and methodology

Documentation

This book's comprehensive portrait of changes over time in incomes, taxes, wages, employment, wealth, poverty, and other indicators of economic performance and well-being relies almost exclusively on data in the tables and figures. Each table and figure has an abbreviated source notation that corresponds with a full citation in the bibliography at the end of the book. More detailed documentation (as well as information on methodology) is contained in the table and figure notes found at the end of each chapter. This system of documentation allows us to omit distracting footnotes and long citations within the text and tables.

In instances where we directly reproduce other people's work, table and figure source lines provide an "author/year" reference to the bibliography. Where we present our own computations based on other people's work, the source line reads "Authors' analysis of (source)." In these instances we have made computations that do not appear in the original work and are thus responsible for our analyses and interpretations. We also use this source notation when presenting descriptive trends from government income, employment, or other data, since we have made judgments about the appropriate time periods or other matters for the analysis that the source agencies have not made. When we present our own analysis of survey data we list the name of the survey and cite as a source "Authors' analysis of [name of Survey]." The table or figure notes provide information on the data analysis.

Time periods

Economic indicators fluctuate considerably with short-term swings in the business cycle. For example, incomes tend to fall in recessions and rise during expansions. Therefore, economists usually compare business cycle peaks with other peaks and compare troughs with other troughs so as not to mix apples and oranges. In this book, we examine changes between business cycle peaks. The initial year for some tables is 1947, with intermediate years of 1967, 1973, 1979, 1989, 2000, and 2007, all of which were business cycle peaks (at least in terms of having low unemployment). We also present data for the latest full year for which data are available (2010 or 2011 when available). Whenever figures show recessionary periods we base these on the National Bureau of Economic Research dating of cycles (NBER 2010).

In some tables, we also separately present trends for the 1995–2000 period (referred to as the late 1990s) in order to highlight the differences between those years and those of the early 1990s (or, more precisely, 1989–1995) and the business cycle of 2000–2007. This departs from the convention of presenting only business cycle comparisons (e.g., comparing 1979–1989 with 1989–2000 trends) or comparisons of recoveries. We depart from the convention because there was a marked shift in a wide variety of trends after 1995, and it is important to understand and explain these trends. We frequently refer to the 1979–2007 period because it represents the long period of growing inequality that predated the recession that began at the end of 2007.

Growth rates and rounding

Since business cycles differ in length, to facilitate comparisons we often present the average annual growth rates in each period rather than the total growth. In some circumstances, as noted in the particular tables, we have used log annual growth rates. This is done to permit decompositions.

In presenting the data, we round the numbers, usually to one decimal place, but we use unrounded data to compute growth rates, percentage shares, and so on. Therefore, it is not always possible to exactly replicate our calculations by using the data in the table. In some circumstances, this leads to an appearance of errors in the tables. For instance, we frequently present shares of the population (or families) at different points in time and compute changes in these shares. Because our computations are based on the “unrounded” data, the change in shares presented in a table may not exactly match the difference in the actual shares. Such rounding discrepancies are always small, however, and never change the conclusions of the analysis.

Adjusting for inflation

In most popular discussions, the Consumer Price Index for All Urban Consumers (CPI-U), often called the consumer price index, is used to adjust dollar values for inflation. However, some analysts hold that the CPI-U overstated inflation in the late 1970s and early 1980s by measuring housing costs inappropriately. The methodology for the CPI-U from 1983 onward was revised to address these objections. Other changes were introduced into the CPI-U in the mid-1990s but not incorporated into the historical series. Not all agree that these revisions are appropriate. We choose not to use the CPI-U to avoid any impression that this book's analyses overstate the decline in wages and understate the growth in family incomes over the last few decades.

Instead of the CPI-U, we adjust dollar values for inflation using the Consumer Price Index Research Series Using Current Methods (CPI-U-RS). This index uses the post-1983 methodology for housing inflation over the entire 1967–2007 period and incorporates the 1990s changes into the historical series (though not before 1978, as doing so would make economic performance in the years after 1978 falsely look better than the earlier years). The CPI-U-RS is now used by the Census Bureau in its presentations of real income data. Because it is not available for years before 1978, we extrapolate the CPI-U-RS back to earlier years based on inflation as measured by the CPI-U.

In our analysis of poverty in Chapter 7, however, we generally use the CPI-U rather than the CPI-U-RS, since the chapter draws heavily from Census Bureau publications that use the CPI-U. Moreover, the net effect of all of the criticisms of the measurement of poverty is that current methods understate poverty. Switching to the CPI-U-RS without incorporating other revisions (i.e., revising the actual poverty standard) would lead to an even greater understatement and would be a very selective intervention to improve the poverty measurement. (A fuller discussion of these issues appears in Chapter 7.)

The Current Population Survey

Many tables and figures in the book are based on original analyses of survey data generated by the monthly Current Population Survey (CPS), which is best known for producing the monthly unemployment rate and for the annual data on poverty and incomes. There are three separate CPS sources of data employed in our analyses: the Annual Social and Economic Supplement (the ASEC, commonly referred to as the March Supplement), the full monthly public data series, and the Outgoing Rotation Group. We examine trends in annual household or family income and poverty, as well as employer-provided benefits (health and pension) and annual wages, using the March Supplement. The formal name for these data and the way the data are referred to in source notes is the “Current Population Survey Annual Social and Economic Supplement microdata” or “Current Popula-

tion Survey Annual Social and Economic Supplement *Historical Income Tables*.” Details of our use of the March microdata are presented in Appendix A. We employ the full samples of the monthly CPS in analyses of employment/unemployment trends, and this is referred to in source notes as “basic monthly Current Population Survey microdata.” The CPS Outgoing Rotation Group (CPS-ORG) provides information on the wages of workers for one-fourth of each month’s sample, and we use these data for analyses of wage trends. These data are referred to in source notes as “Current Population Survey Outgoing Rotation Group microdata.” Details of our use of these wage data are provided in Appendix B.

Household heads and families

We often categorize families by the age or the racial/ethnic group of the “household head,” that is, the person in whose name the home is owned or rented. If the home is owned jointly by a married couple, either spouse may be designated the household head. Every family has a single household head. A “household head” may sometimes be referred to as the “householder.”

Black, Hispanic, and white designations

Unless otherwise noted, races/ethnicities are presented in the following mutually exclusive categories: White refers to non-Hispanic whites, black refers to non-Hispanic blacks, and Hispanic refers to Hispanics of any race.

However, we sometimes use data from published sources that employ the U.S. Census Bureau’s convention of including Hispanics in racial counts (e.g., with blacks and whites) as well as in a separate category. For instance, in Table 2.5 a white person of Hispanic origin is included both in counts of whites and in counts of Hispanics. In these cases, we alert readers to the exception.

Overview

Policy-driven inequality blocks living-standards growth for low- and middle-income Americans

Like its predecessors, this edition of *The State of Working America* digs deeply into a broad range of data to answer a basic question that headline numbers on gross domestic product, inflation, stock indices, productivity, and other metrics can't wholly answer: "How well has the American economy worked to provide acceptable growth in living standards for most households?"

According to the data, the short answer is, "not well at all." The past 10 years have been a "lost decade" of wage and income growth for most American families. A quarter century of wage stagnation and slow income growth preceded this lost decade, largely because rising wage, income, and wealth inequality funneled the rewards of economic growth to the top. The sweep of the research in this book shows that these trends are the result of inadequate, wrong, or absent policy responses. Ample economic growth in the past three-and-a-half decades provided the potential to substantially raise living standards across the board, but economic policies frequently served the interests of those with the most wealth, income, and political power and prevented broad-based prosperity.

America's vast middle class has suffered a 'lost decade' and faces the threat of another

Wages and incomes of typical Americans are lower today than in over a decade. This lost decade of no wage and income growth began well before the Great Recession battered wages and incomes. In the historically weak expansion following the 2001 recession, hourly wages and compensation failed to grow for either

high school- or college-educated workers and, consequently, the median income of working-age families had not regained pre-2001 levels by the time the Great Recession hit in December 2007. Incomes failed to grow over the 2000–2007 business cycle despite substantial productivity growth during that period.

Although economic indicators as of mid-2012 are stronger than they were two or three years ago, protracted high unemployment in the wake of the Great Recession has left millions of Americans with lower incomes and in economic distress. This problem is actually quite solvable: Tackle the source of the problem—insufficient demand—with known levers of macroeconomic policy to generate demand. Unfortunately, the problem is not being solved.

Consensus forecasts predict that unemployment will remain high for many more years, suggesting that typical Americans are in for another lost decade of living standards growth as measured by key benchmarks such as median wages and incomes. For example, as a result of persistent high unemployment, we expect that the incomes of families in the middle fifth of the income distribution in 2018 will still be below their 2007 and 2000 levels.

Income and wage inequality have risen sharply over the last three-and-a-half decades

Income inequality in the United States has grown sharply over the last few decades. This is evident in nearly every data measure and is universally recognized by researchers. For example, if we look at cash “market-based incomes,” which exclude the effects of taxes and transfers (benefits received through government programs such as Social Security) and employer-provided in-kind benefits such as health insurance, the top 1 percent of tax units claimed more than six times as much of the total income growth between 1979 and 2007 as the bottom 90 percent—59.8 percent to 8.6 percent. Similarly, there has been a tremendous disparity in the growth of wages earned by individual workers. Wages for the top 1 percent grew about 156 percent between 1979 and 2007, whereas wages for the bottom 90 percent rose by less than 17 percent.

Rising inequality is the major cause of wage stagnation for workers and of the failure of low- and middle-income families to appropriately benefit from growth

There has been sufficient economic growth since 1979 to provide a substantial across-the-board increase in living standards. However, because wage earners and households at the top reaped most of the benefits of this growth, wages were relatively stagnant for low- and middle-wage workers from 1979 to 2007 (except in the late 1990s), and incomes of lower- and middle-class households grew slowly. This pattern of income growth contrasts sharply with that of the postwar period up through the 1970s, when income growth was broadly shared.

The economy's failure to ensure that typical workers benefit from growth is evident in the widening gap between productivity and median wages. In the first few decades after World War II, productivity and median wages grew in tandem. But between 1979 and 2011, productivity—the ability to produce more goods and services per hour worked—grew 69.2 percent, while median hourly compensation (wages and benefits) grew just 7.0 percent.

Economic policies caused increased inequality of wages and incomes

Since the late 1970s, economic policy has increasingly served the interests of those with the most wealth, income, and political power and effectively shifted economic returns from typical American families to the already well-off. A range of economic policy choices—both actions and failures to act—in the last three decades have had the completely predictable effect of increasing income inequality. These choices include letting inflation consistently erode the purchasing power of the minimum wage, and allowing employer practices hostile to unionization efforts to tilt the playing field against workers. U.S. policies have also hastened integration of the U.S. economy and the much poorer global economy on terms harmful to U.S. workers, refused to manage clearly destructive international trade imbalances, and targeted rates of unemployment too high to provide reliably tight labor markets for low- and middle-wage workers.

Industry deregulation (of trucking, communications, airlines, and so on) and privatization have also put downward pressure on wages of middle-class workers. Meanwhile, deregulation of the financial sector—without a withdrawal of the government guarantees that allow private interests to take excessive risks—has provided the opportunity for well-placed economic actors to claim an ever-larger share of economic growth. An increasingly well-paid financial sector and policies regarding executive compensation fueled wage growth at the top and the rise of the top 1 percent's incomes. Large reductions in tax rates provided a motive for well-placed actors to take these risks and also fueled the after-tax income growth at the top.

Although these post-1979 economic policies predictably redistributed wages, income, and wealth upward, there was no corresponding benefit in the form of faster overall economic growth. In fact, economic growth from the 1970s onward was slower than the economic growth in the prior 30 years. Besides resulting in slower growth, economic policy decisions also contributed to the fragility of the U.S. economy in the run-up to the Great Recession. For example, otherwise-anemic economic growth in the mid-2000s was driven by a housing bubble made possible largely through a deregulated financial sector that was hiding, not managing, the growing risk that home prices would fall. This economic fragility proved catastrophic when confronted with the shock of plummeting

demand after the housing bubble burst and destroyed families' housing wealth. More equitable and stable economic growth can only occur if there is a marked change in the direction of U.S. economic policy.

Claims that growing inequality has not hurt middle-income families are flawed

Despite the near-universal acknowledgement of growing income inequality as a fact of recent American economic history, a number of studies have claimed that it has not prevented middle-income families from achieving acceptable income growth since 1979. These studies argue that under a comprehensive measure of income that includes benefits from employers and government transfers, incomes of the middle fifth of households in the income distribution grew by 19.1 percent between 1979 and 2007. But this 19.1 percent cumulative (0.6 percent annual) growth rate does not mean that the private sector of the American economy is performing well for middle-income families. First, had the middle fifth's incomes grown at the same 51.4 percent cumulative rate as overall average incomes (i.e., had there been no growth in income disparities), their annual income in 2007 would have been far greater—\$18,897 higher. Second, this 0.6 percent annual growth rate does not come close to the income growth between 1947 and 1979, when middle-fifth family income grew 2.4 percent annually.

Third, the large share of this 1979–2007 income growth coming from government transfers (53.6 percent) reflects the strength of American social insurance programs (Social Security, Medicare, and Medicaid) and is not evidence that the private U.S. economy is being managed effectively or fairly. Given the unnecessary push to cut these programs going forward, it is unlikely that this source of middle-class income growth can be relied on in future decades. Fourth, higher household labor earnings contributed a modest 6.1 percent to this middle-fifth income growth, and the impressive ability of American households to steadily increase their work hours over this period, in part by increasing the number of household members employed, will not be replicable in the years ahead.

Last, the data on comprehensive incomes are technically flawed because they count, as income, rapidly rising health expenditures made on behalf of households by employers and the government without accounting for the excessive health care inflation that has absorbed large portions of the increase in this particular source of income. If rising health care costs are properly accounted for, the 19.1 percent growth in comprehensive middle-fifth incomes is lowered by a third. If we strip out health care inflation, government transfers, and additional hours worked—elements that add to measured income growth but cannot be attributed to a well-performing private economy—middle-class incomes grew just 4.9 percent across the 28 years from 1979 to 2007, with most of that growth occurring just in the late 1990s.

Growing income inequality has not been offset by increased mobility

Growing income inequality in the United States is a trend made more disturbing by static, and perhaps declining, economic mobility. Despite the image of the nation as a place where people with initiative and skills can vault class barriers, America today is not a highly mobile society, compared with our international peers. In one study of 17 Organisation for Economic Co-Operation and Development (OECD) countries, the United States ranked 13th on a measure of mobility, ahead only of Slovenia, Chile, Italy, and the United Kingdom, and far behind Denmark, Norway, Finland, and Canada.

Americans largely end up where they started out on the economic ladder, and the same is true for their children. For example, one study showed that two-thirds (66.7 percent) of sons of low-earning fathers (in the bottom fifth of the earnings distribution) end up in the bottom two-fifths as adults, while only 18.1 percent make it to the top two-fifths. There is no evidence that mobility has increased to offset rising inequality, and in fact some research shows a decline.

Inequalities persist by race and gender

As this book, and our research in general, shows, there is actually no single economic “state of America” but rather an America that is experienced differently, and often unequally—not only by class, as discussed, but by race and gender. For example, a review of employment rates from 1979 to 2011 shows that black and Hispanic unemployment always far exceeded white unemployment. As this book was nearing completion in July 2012, the overall unemployment rate was 8.3 percent—roughly the same as the African American unemployment rate during all of 2007, the last year of economic expansion before the Great Recession.

Further, even in 1992, the peak of black/white equality in wealth holdings, median black household wealth was just 16.8 percent of median white household wealth. By 2010—after the housing bubble had burst and destroyed \$7 trillion in equity in residential real estate (the most widely held type of wealth)—median African American wealth was just 5.0 percent of median white wealth.

And while gaps between labor market outcomes of men and women have closed in recent decades, progress has occurred not just because women gained ground, but also because men lost ground. Gaps in employer-provided pension coverage rates between men and women, for example, have rapidly closed in recent decades, but only because men’s coverage rates have fallen while women’s have stagnated.

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