



**INSTITUTE** *for*  
**RESEARCH** *on*  
**POVERTY**

UNIVERSITY OF WISCONSIN-MADISON

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# The U.S. Labor Market, Poverty, and Inequality

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**Teaching Poverty 101 Workshop**  
**Wednesday, May 27, 2015**

# A Preview

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- What do we expect from a smoothly functioning labor market in a rich nation?
- How has the US labor market performed; a litany of problems
- Implications for poverty and inequality.

# A Smoothly Functioning Labor Market in a Developed Economy—**Characteristics**

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- **Competition** among labor demanders and suppliers
- **Full information** on both sides of the market
- **Mobility** into and out of the market, and between sectors
- **Flexible** wages
- **Few artificial barriers** to wage adjustment

**These norms may be violated in several dimensions, often by policies**

# A Smoothly Functioning Labor Market in a Developed Economy--**Outcomes**

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- Increases in labor productivity become reflected in wage increases
- Employment grows along with output (GDP)
- A level of unemployment which balances both supplier and demander preferences = 'full employment'
- Moderation of wage disparities through long-run adjustments in supplies and demands

# A Litany of Poor US Labor Market Performance

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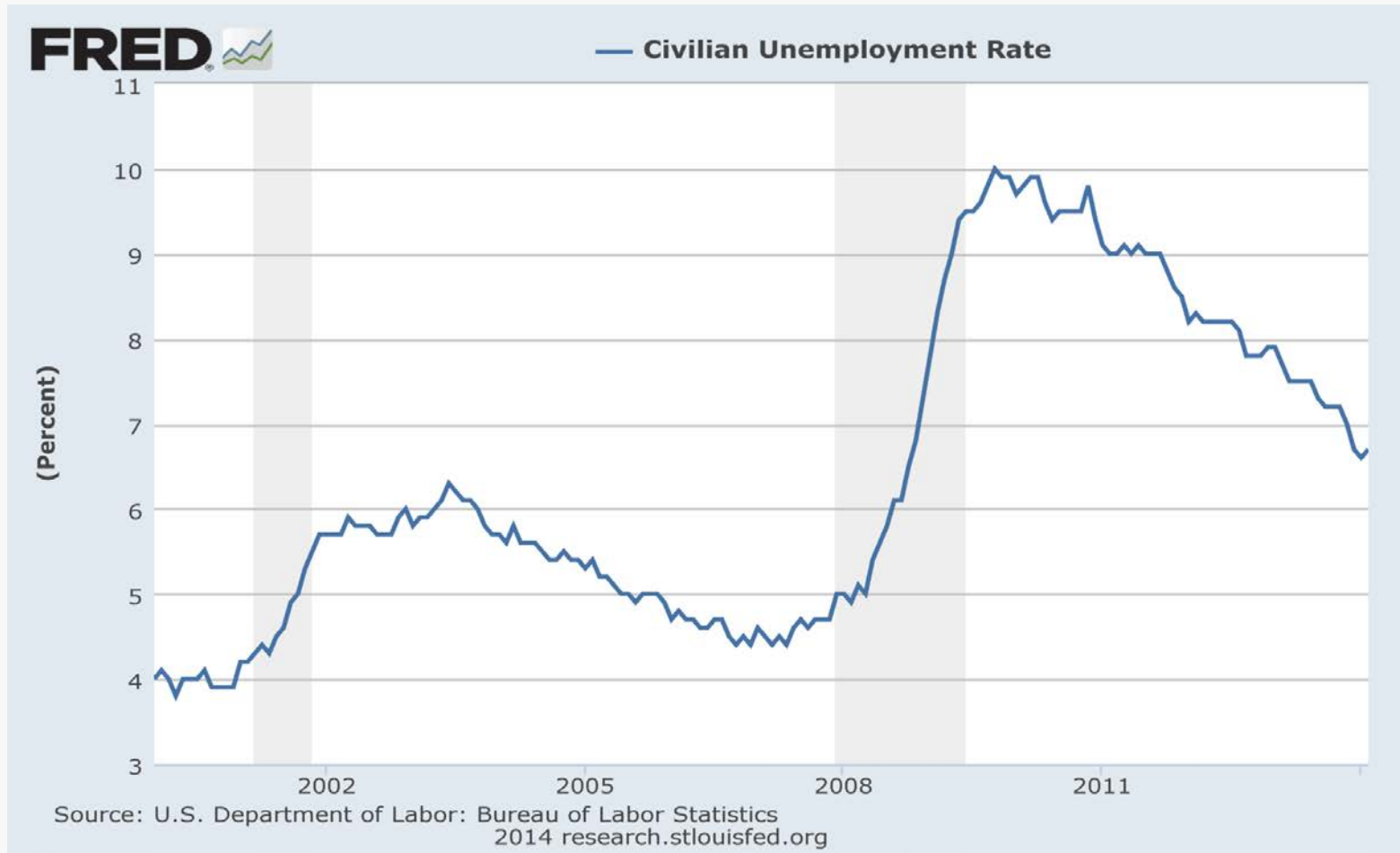
- Persistent high unemployment
- Declining employment-population ratio
- Low aggregate income growth
  - Is it due to the structure of job growth, most of which has been in low skill/low pay sectors?
- Failure of wages to track productivity
- Low growth in wages and household income
- Declining labor share of output/income
- Growing wage/income inequality

# US Labor Market Performance

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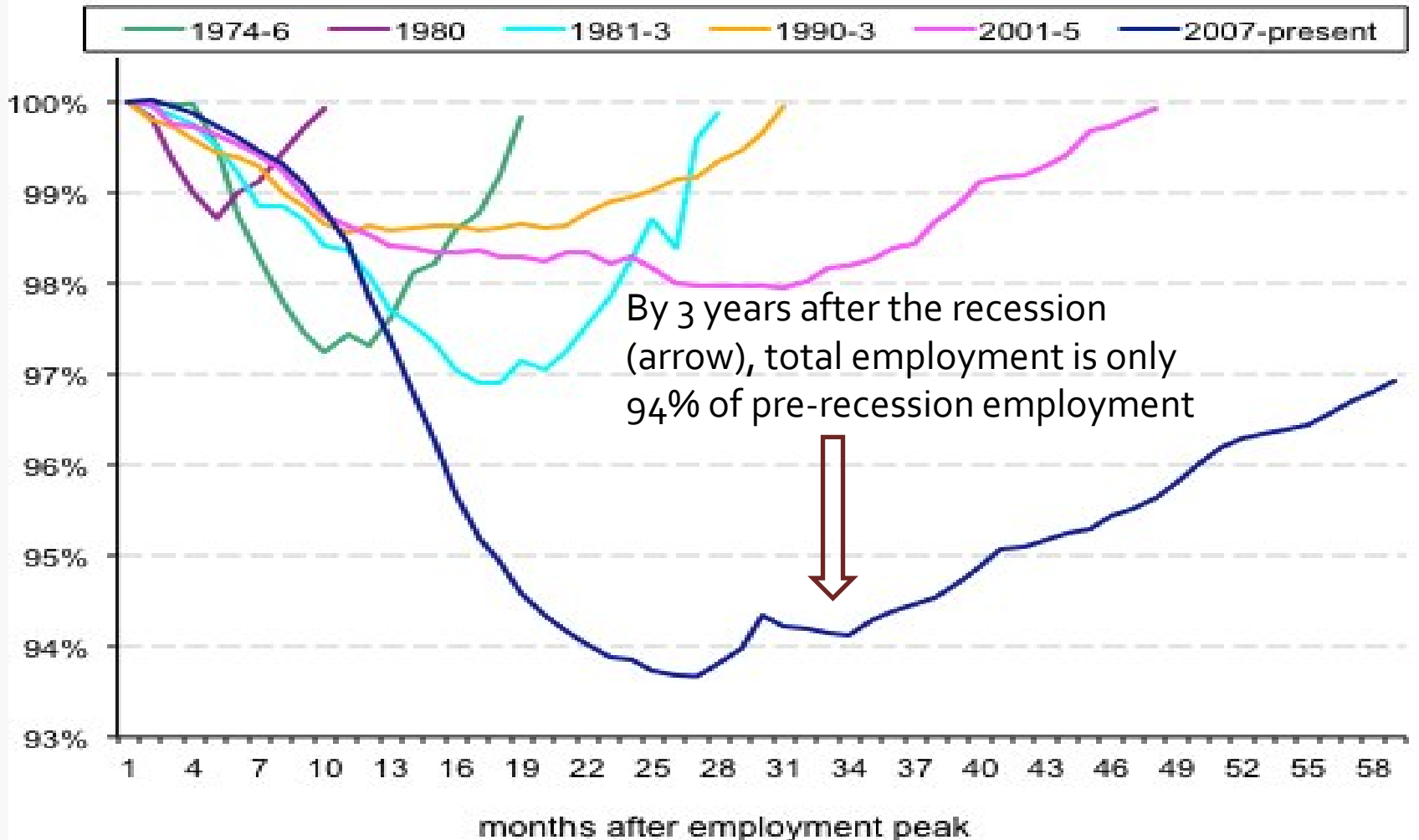
- *Persistent High Unemployment*

# Since 2008, Persistent High Unemployment



# Slow Recovery of Employment

Job Changes in Recent Recessions/Recoveries, as a Share of Employment at Previous Peak

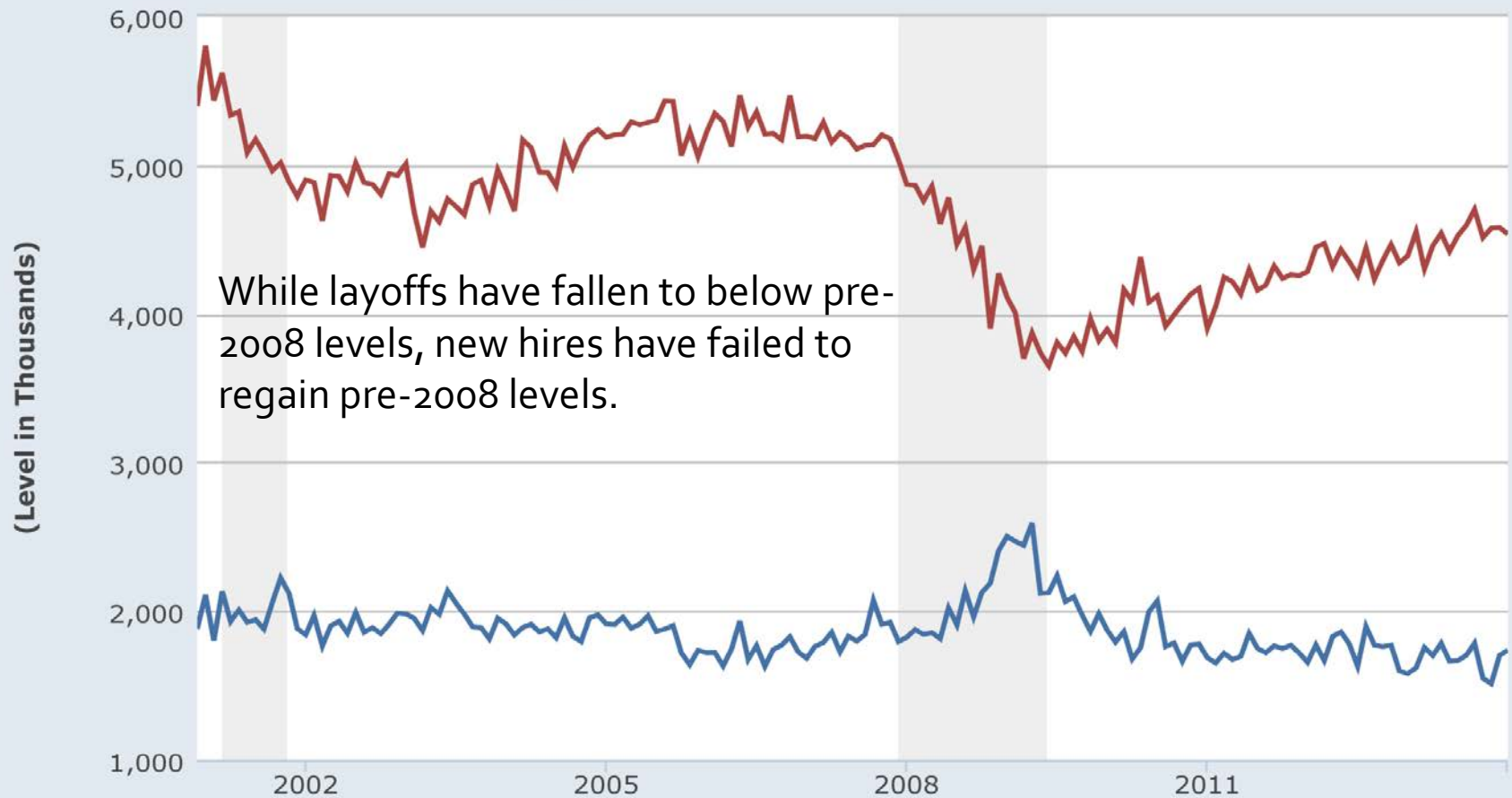




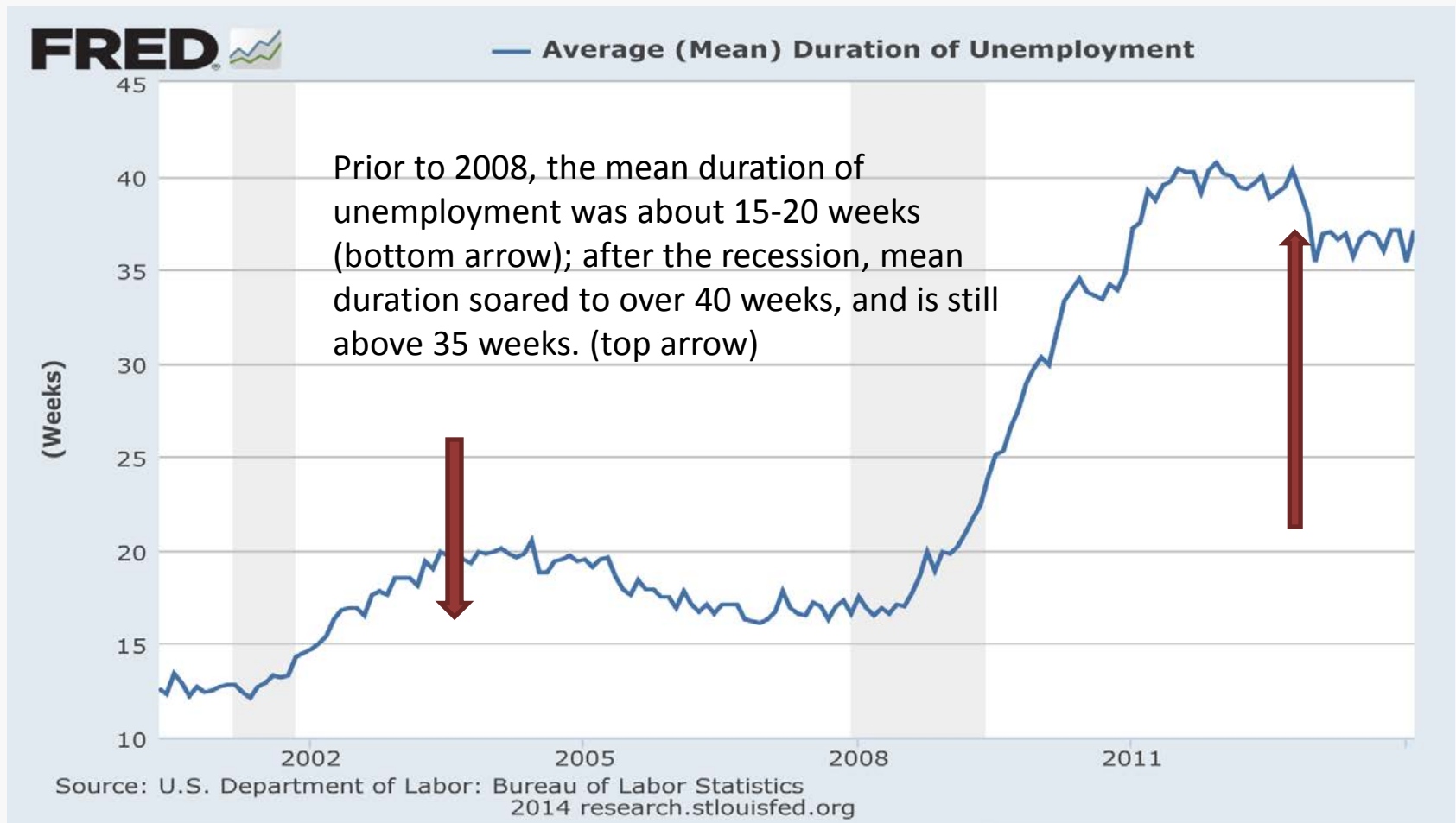
# The Failure of **Hiring** to Recover after 2008 Downturn

**FRED** 

— Layoffs and Discharges: Total Nonfarm  
— Hires: Total Nonfarm



# Mean Duration of Unemployment Remains Very High



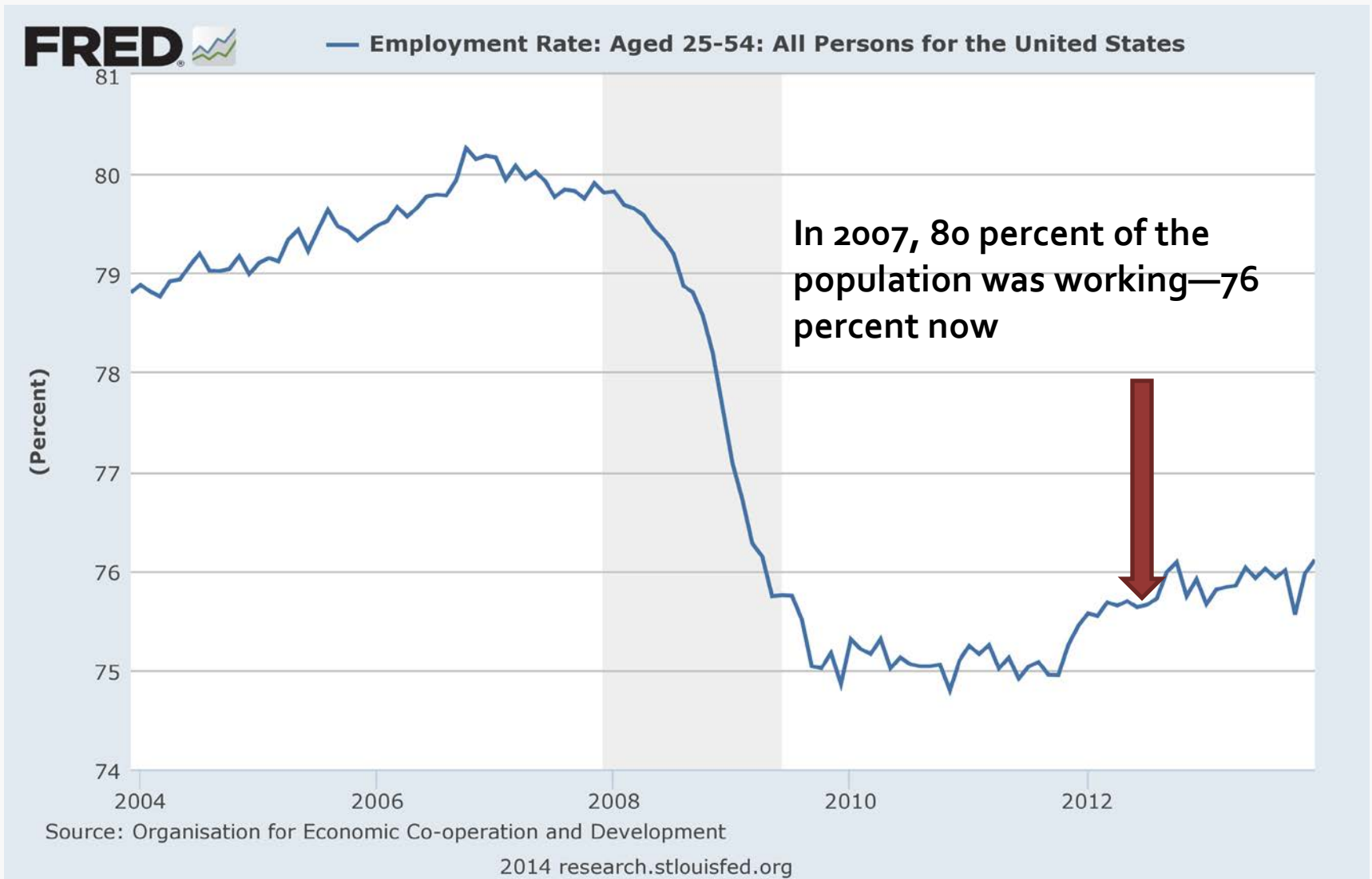
# US Labor Market Performance

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- **Persistent High Unemployment**
- ***Decline in the Employment-Population Ratio***
  - ***Primarily among low-skill men and young workers***

# The Emp/Population Rate Has Fallen and Stays Low

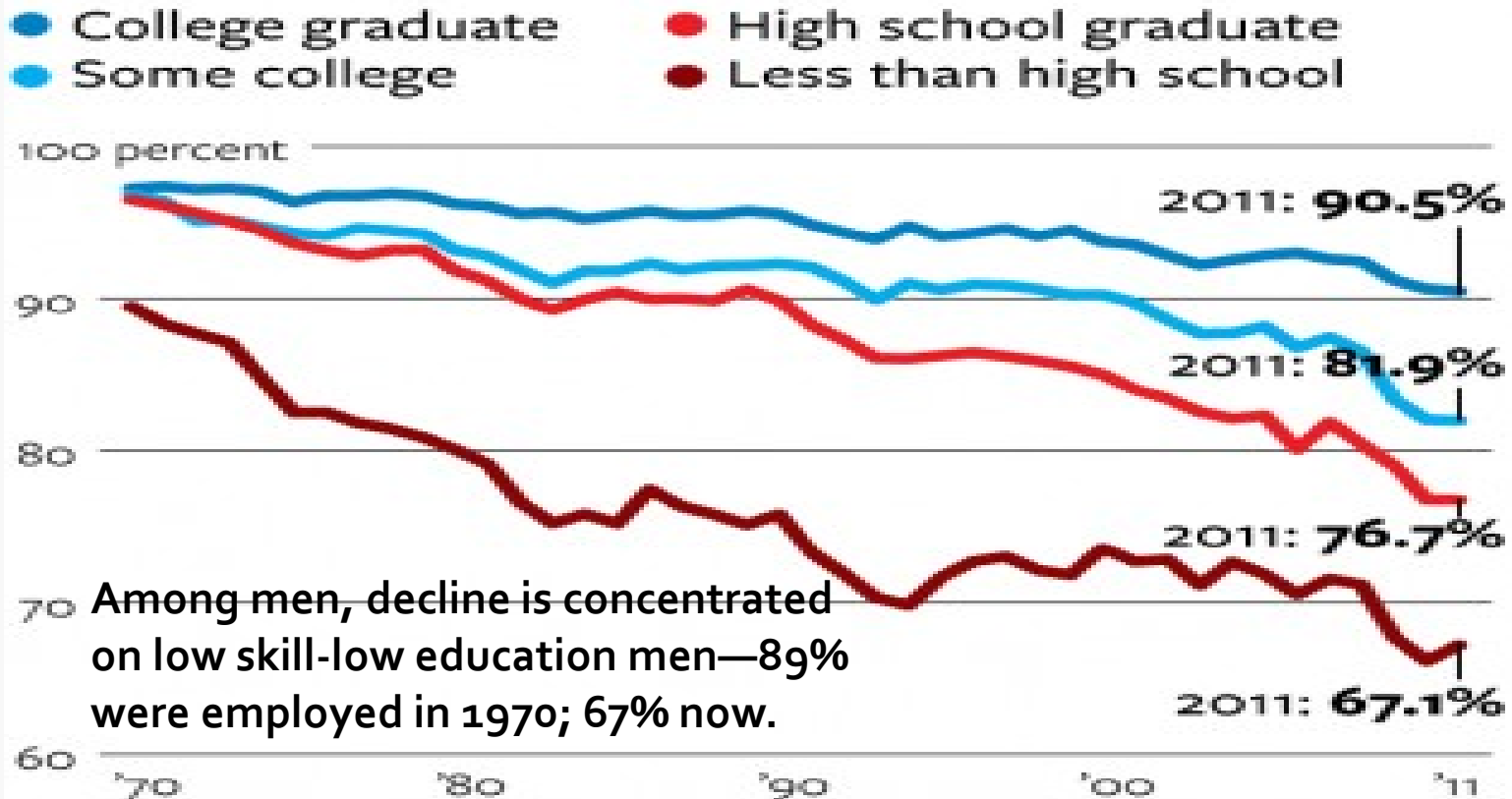
--For men, the rate has fallen even more; the actual number of men employed is the lowest since 1997



# Decline in Employment Rate is Concentrated among Low-Skilled Men

## ④ Men Not at Work

Employment of men age 25-64, 1970-2011



Source: The Hamilton Project, Brookings Institution

# US Labor Market Performance

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- Persistent high unemployment
- Persistent decline in the employment-population ratio
- ***Failure of wage increases to reflect productivity increases***

# Recently, wage increases have failed to reflect productivity increases?

#13 EPI'S TOP CHARTS OF 2012

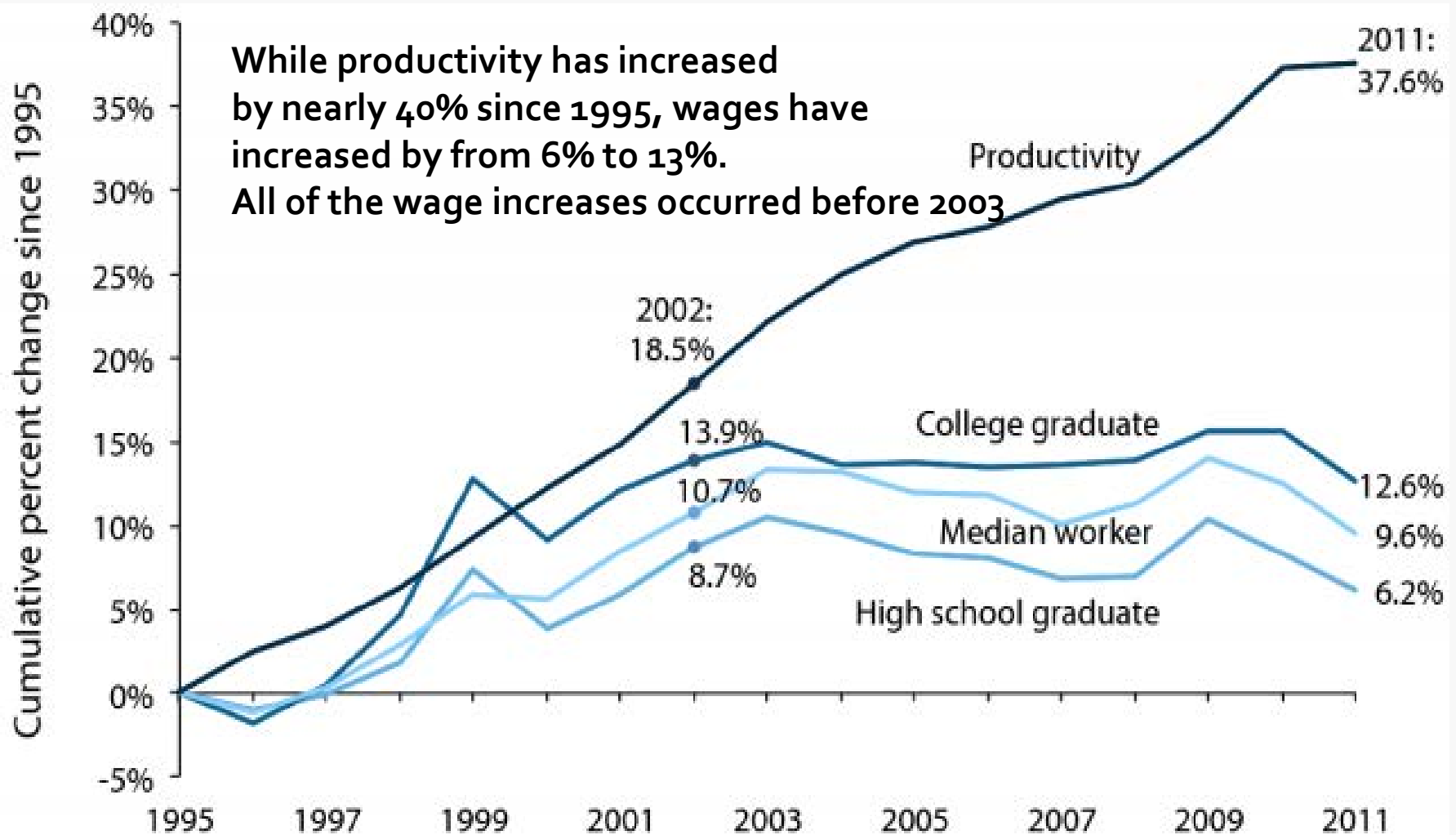
## Most Americans are not benefiting from increased productivity

Cumulative change in total economy productivity and real hourly compensation of production/nonsupervisory workers, 1948–2011



**Note:** Data are for compensation of production/nonsupervisory workers in the private sector and productivity of the total economy.

# Lagging Compensation Especially for Low-skill Workers



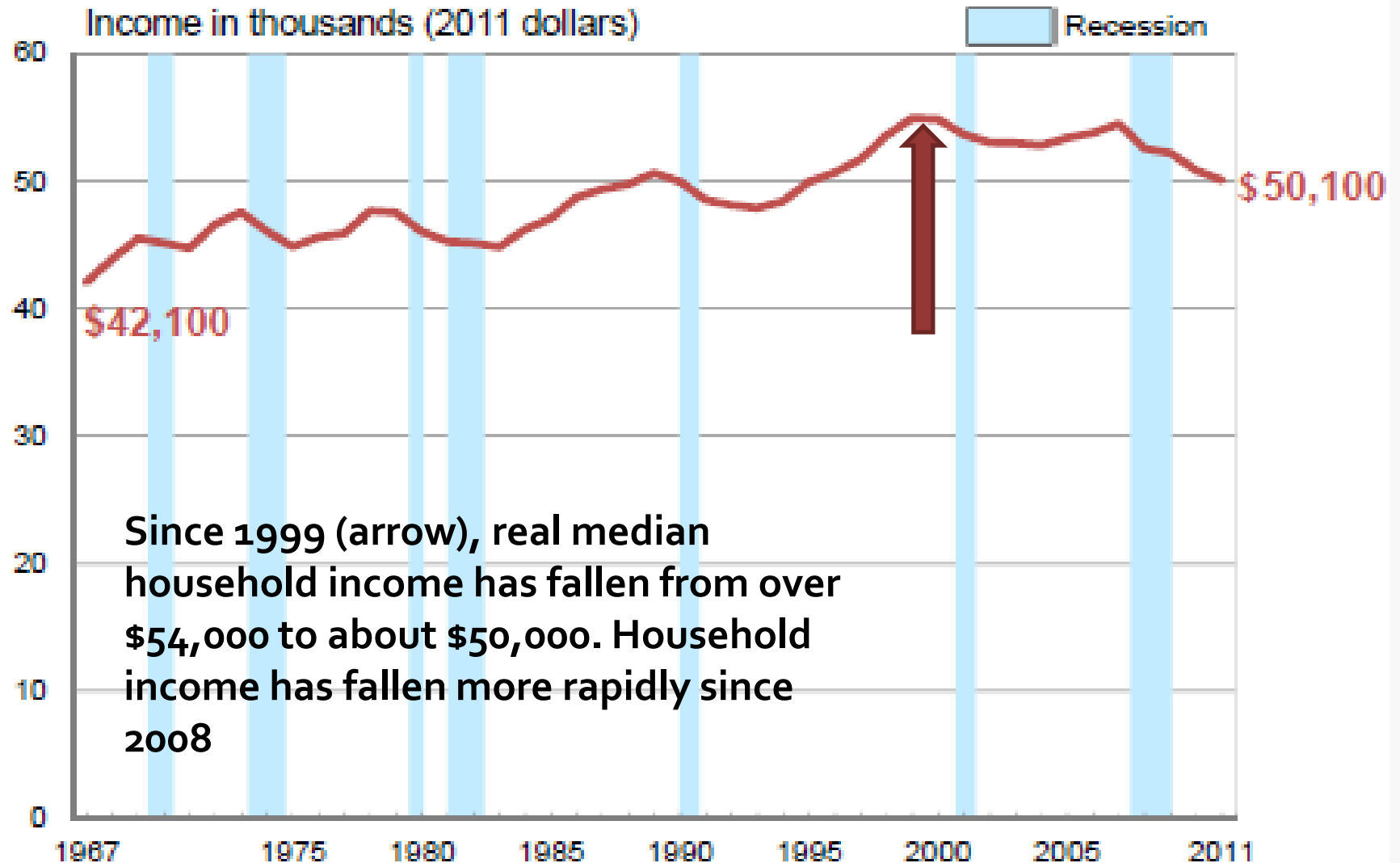


# US Labor Market Performance

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- Persistent high unemployment
- Persistent decline in the employment-population ratio
- Failure of wage increases to reflect productivity increases
- ***Stagnant family income***

# Broader Effect—Stagnating Family Income

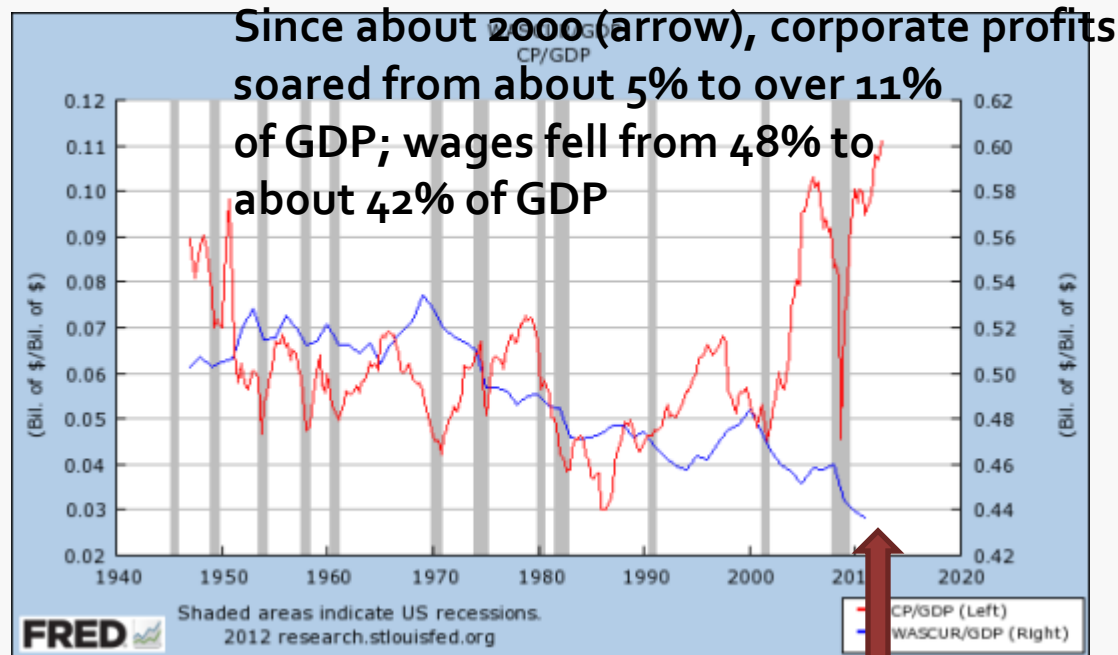


# US Labor Market Performance

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- Persistent high unemployment
- Persistent decline in the employment-population ratio
- Failure of wage increases to reflect productivity increases
- Stagnant family income
- ***Declining labor share in total income***

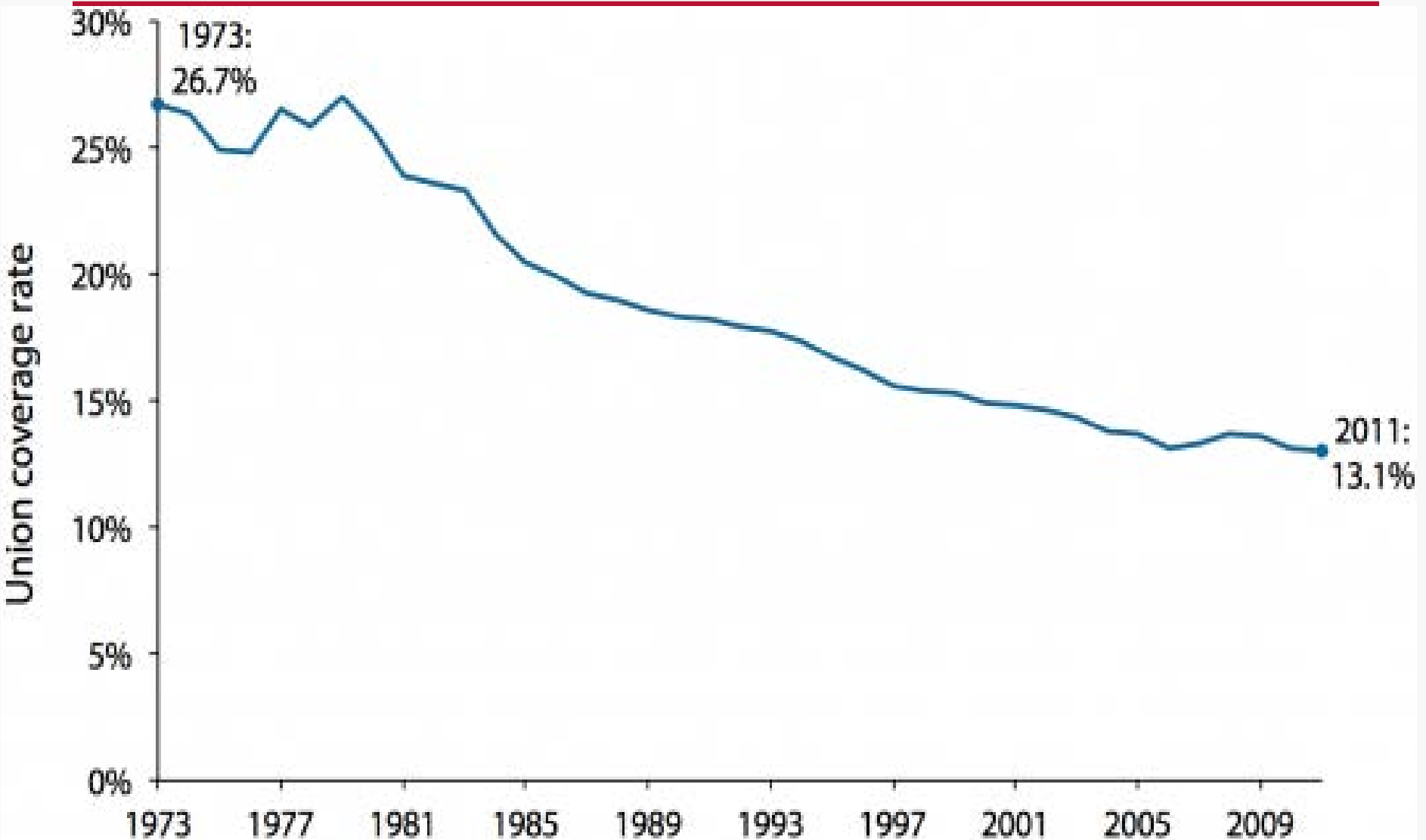
# Corporate Profits/GDP (red) and Wages/GDP (blue)



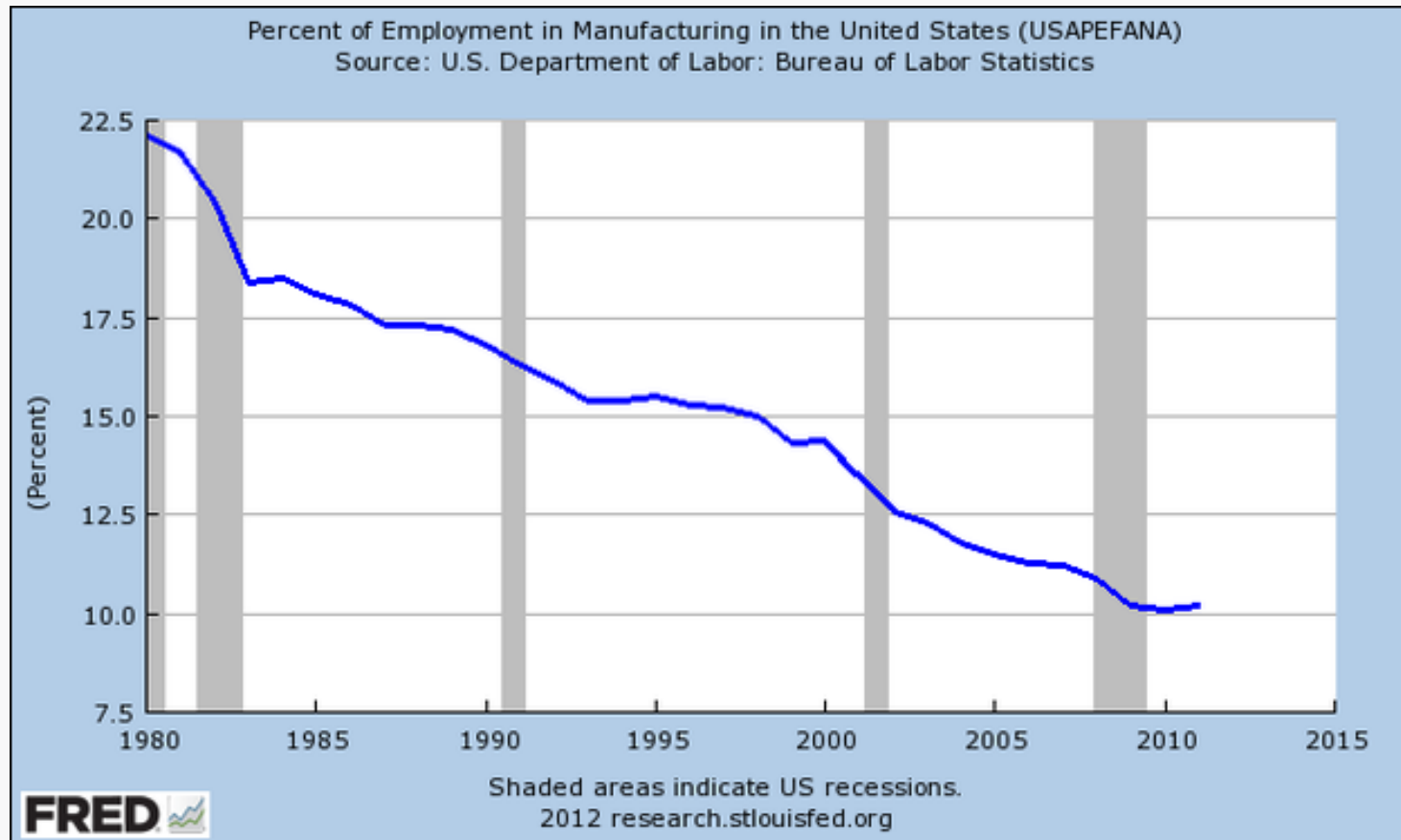
# Why?

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# Decline of Labor Unions

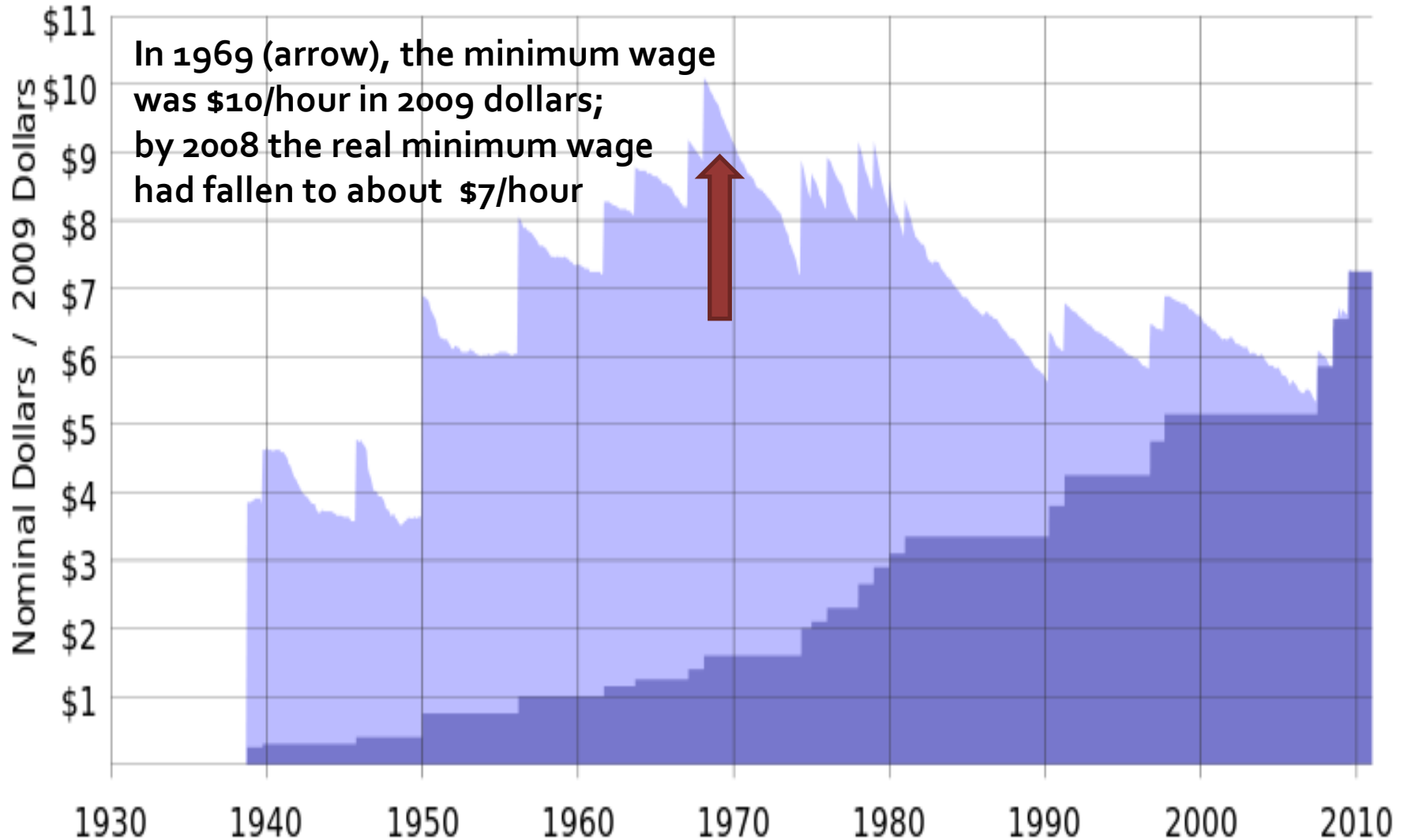


# Decline in Manufacturing Sector



# Erosion of Minimum Wages

U.S. Federal Minimum Wage





# US Labor Market Performance

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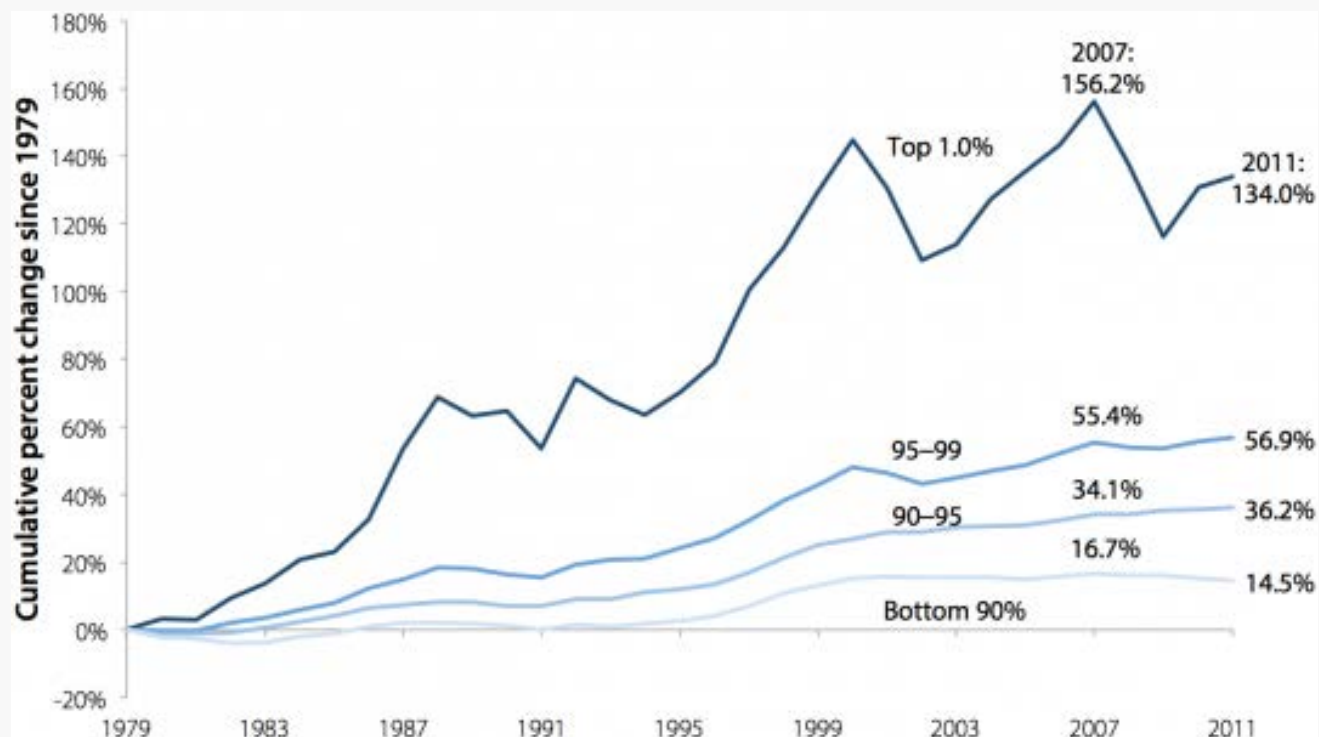
- Persistent high unemployment
- Persistent decline in the employment-population ratio
- Failure of wage increases to reflect productivity increases
- Stagnant family income
- Declining labor share in total income
- ***Growing Inequality—Wages, Income and Poverty***

# Growing **Wage** and **Income** Inequality

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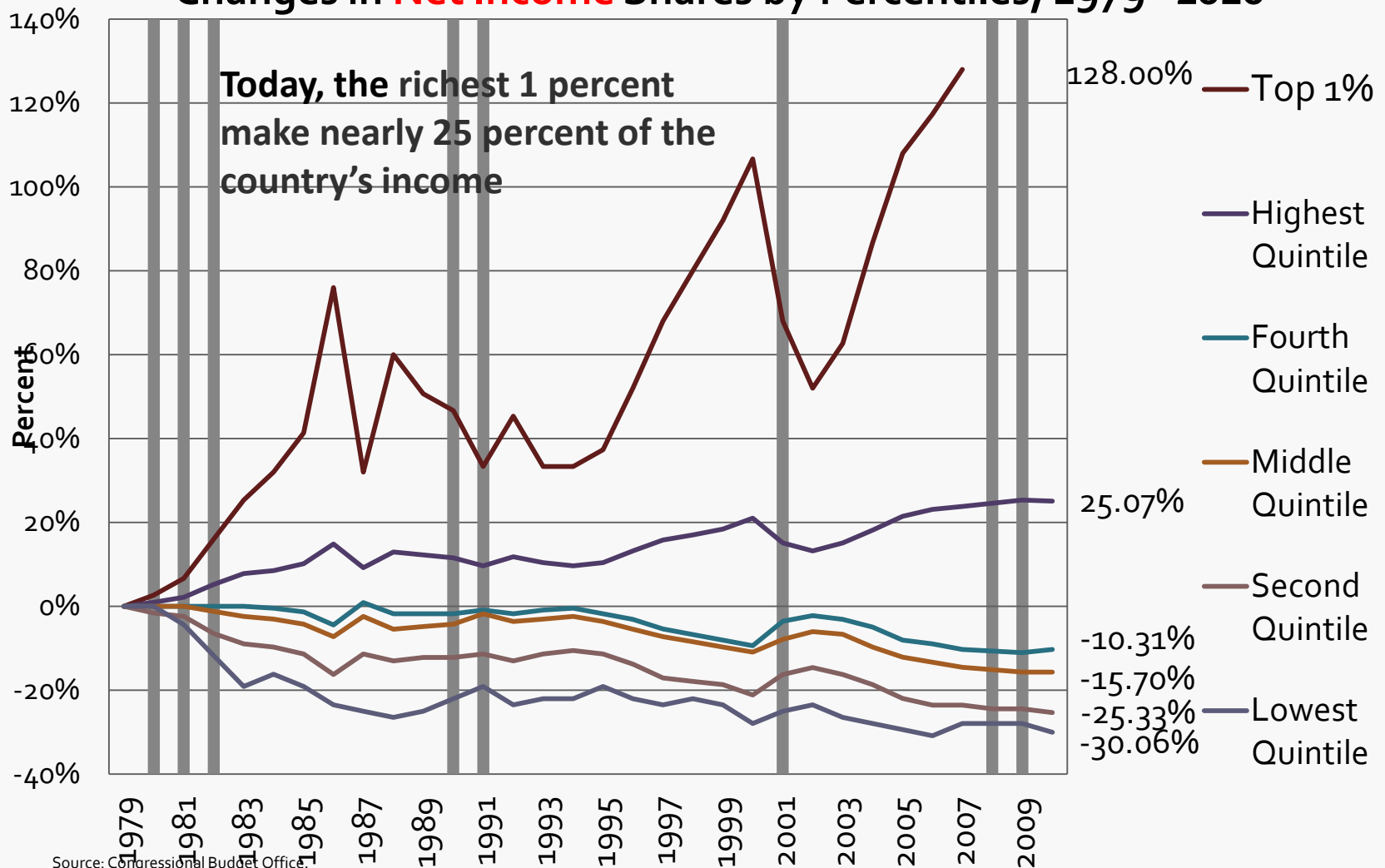
# Overall **Wage Inequality** is Unprecedented: Think 'Winner Take All' Labor Market

Since 1979, the wages of the top 1% of earners have grown by 134%, while those of the bottom 90% have grown by about 15%



# Growing **Income** Inequality

Changes in **Net Income** Shares by Percentiles, 1979--2010

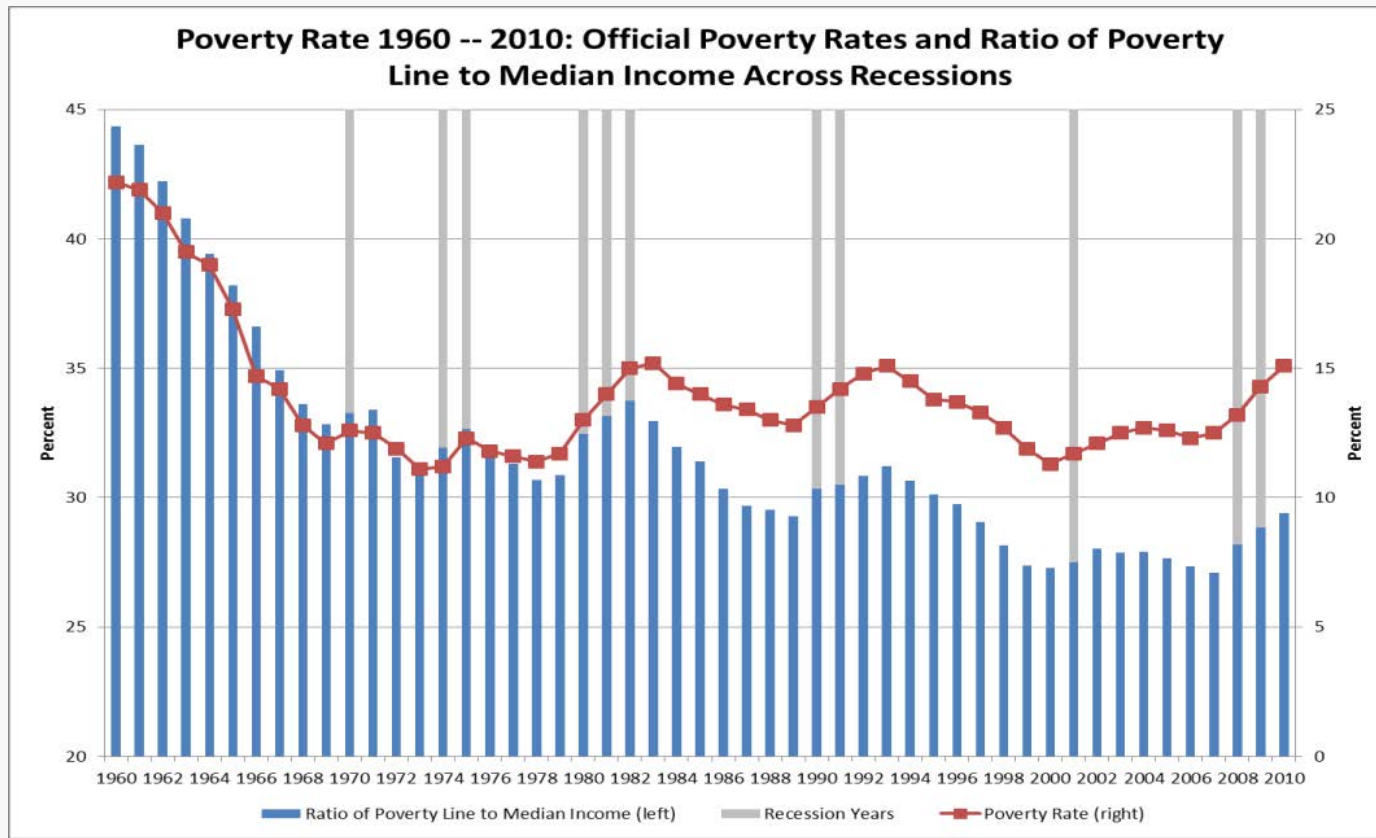


# Growing Poverty Rate

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# With the Growth of Income Inequality has come the Growth in **Poverty**

Since 1998, the nation's poverty rate has drifted up, especially after 2008

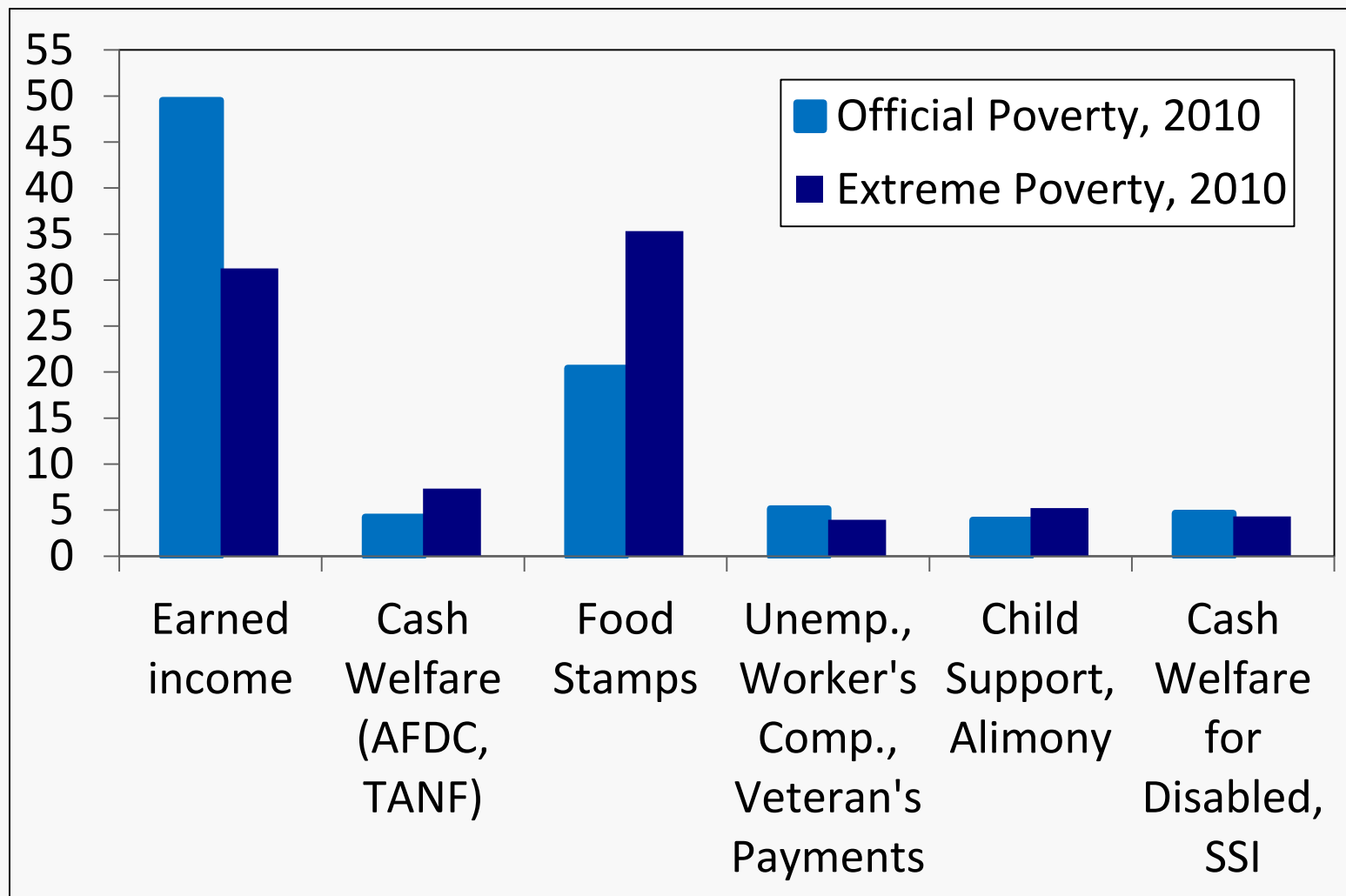


# Some Insights on Work and Poverty

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# The poor *DO* work:

## earnings shares of income for the poor and the extreme poor (incomes less than 50% poverty line)



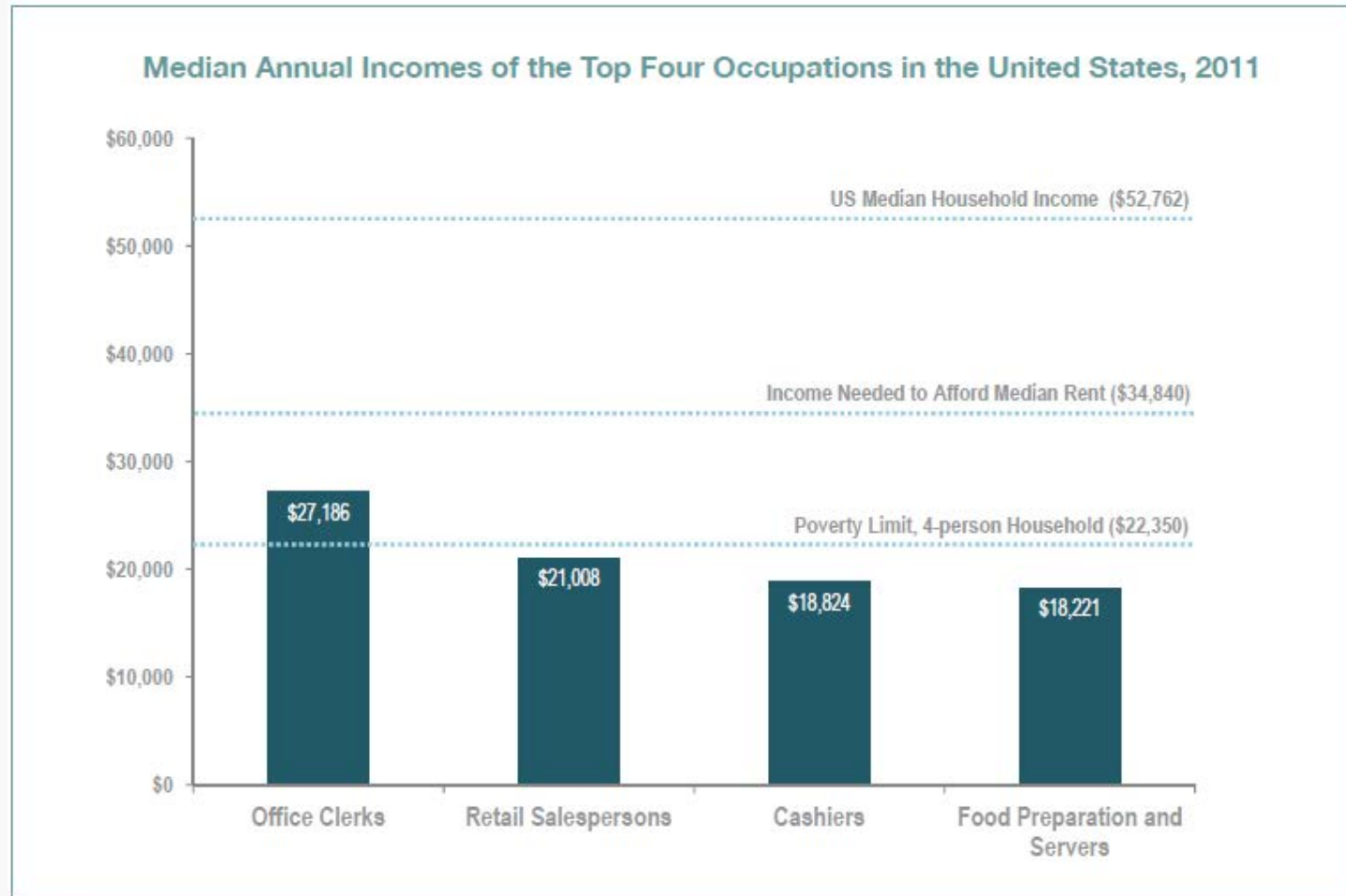


# How much must jobs pay in order to avoid poverty?

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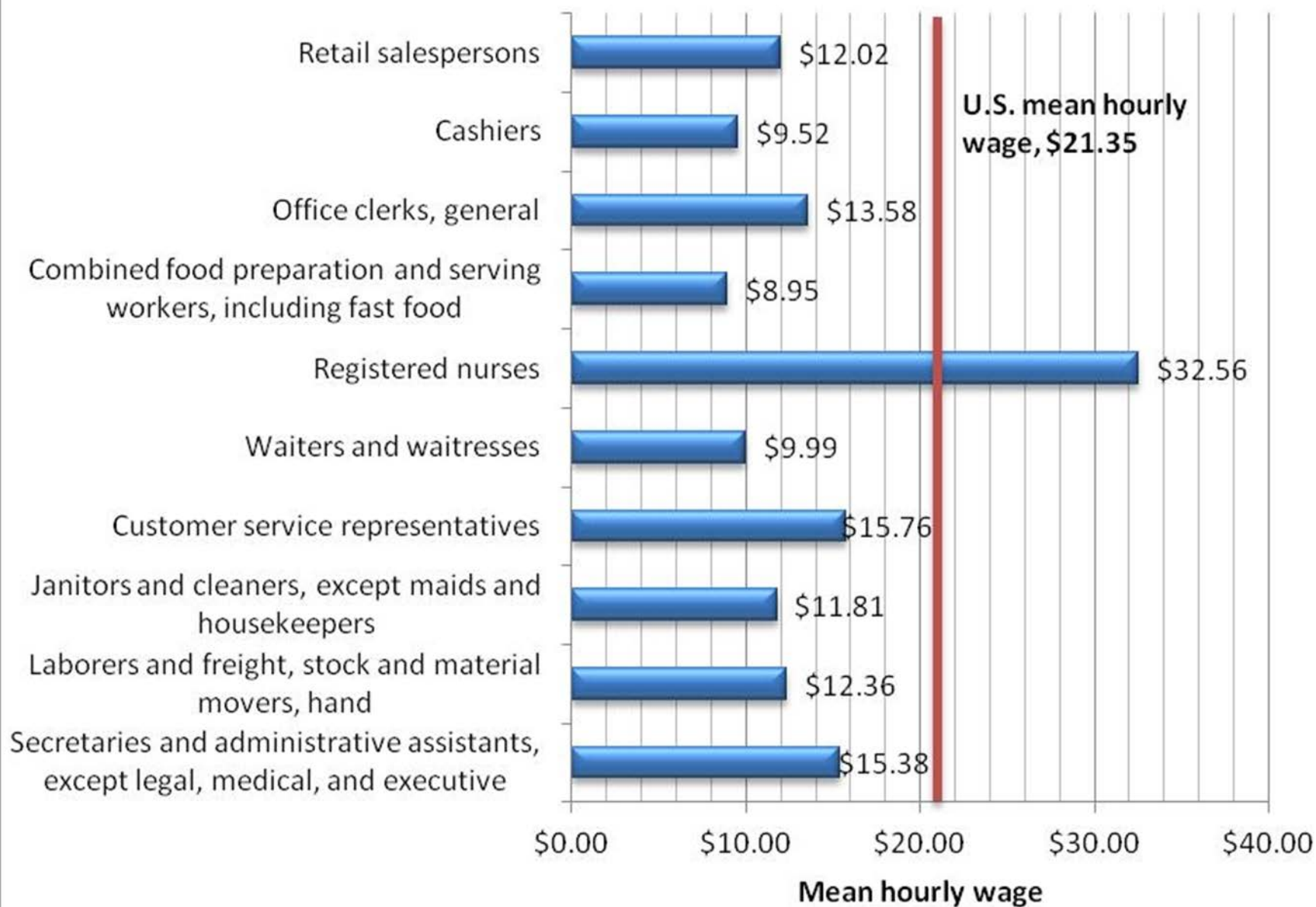
- A family of 3 needs about \$20,000 per year after payroll taxes, child care expenses and health expenses, so about \$12 an hour 'gross wage' needed for full year full time work to avoid poverty for family of 3
- Many low skill jobs don't pay that wage.
- In addition, most single parents cannot work full-time, full-year without help for child care and health care
  - Should we expect single parents with a young child to work FY/FT when child is under say age 3?

# However, many jobs available to low-skilled do not pay well



Sources: U.S. Bureau of Labor Statistics Occupational Employment and Wage Estimates, May 2011; US Department of Health and Human Services Poverty Guidelines, 2011; American Community Survey 5 Year Estimates, 2011. Note: Median monthly rent for the U.S. in 2011 was \$871; affordable rent is defined as no more than 30% of income.

## Nine out of ten of the largest occupations in 2010 pay far less than the U.S. mean wage.



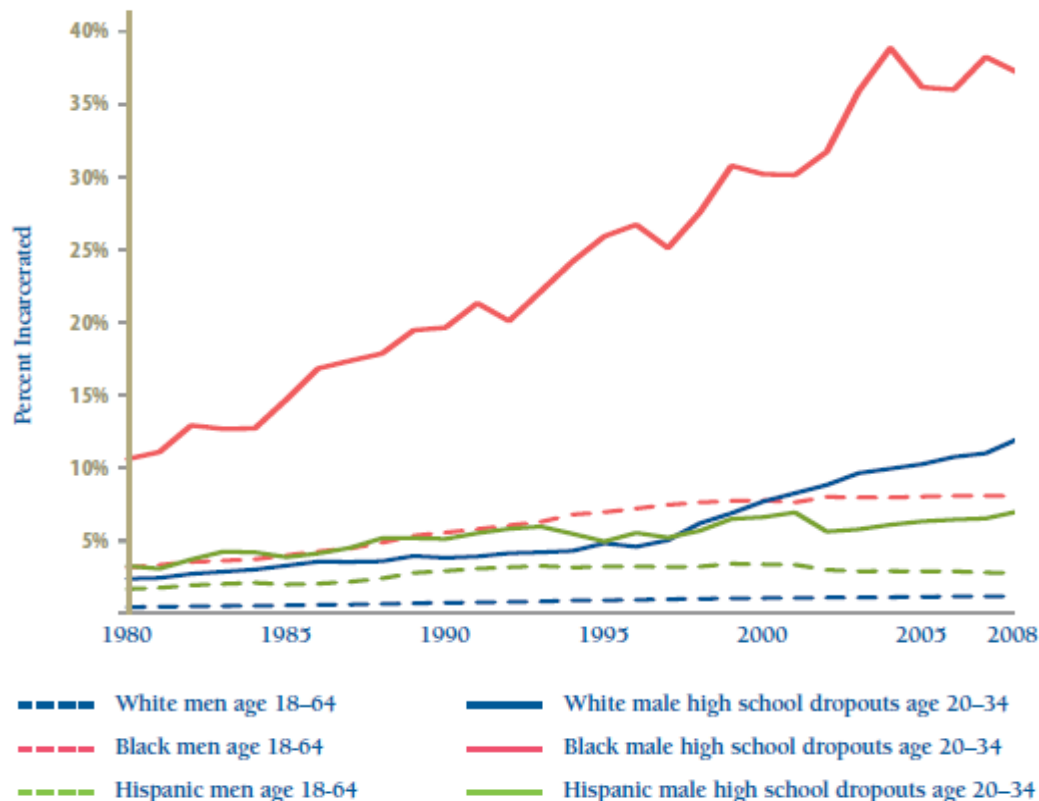
Source: Bureau of Labor Statistics, May 2010 OES, 2011.

# Policy of Incarceration Hinders Work and Earnings of Low-skilled Minority Men

FIGURE 3

## INCARCERATION RATE RISING

More than one in three young, black men without a high school diploma is currently behind bars



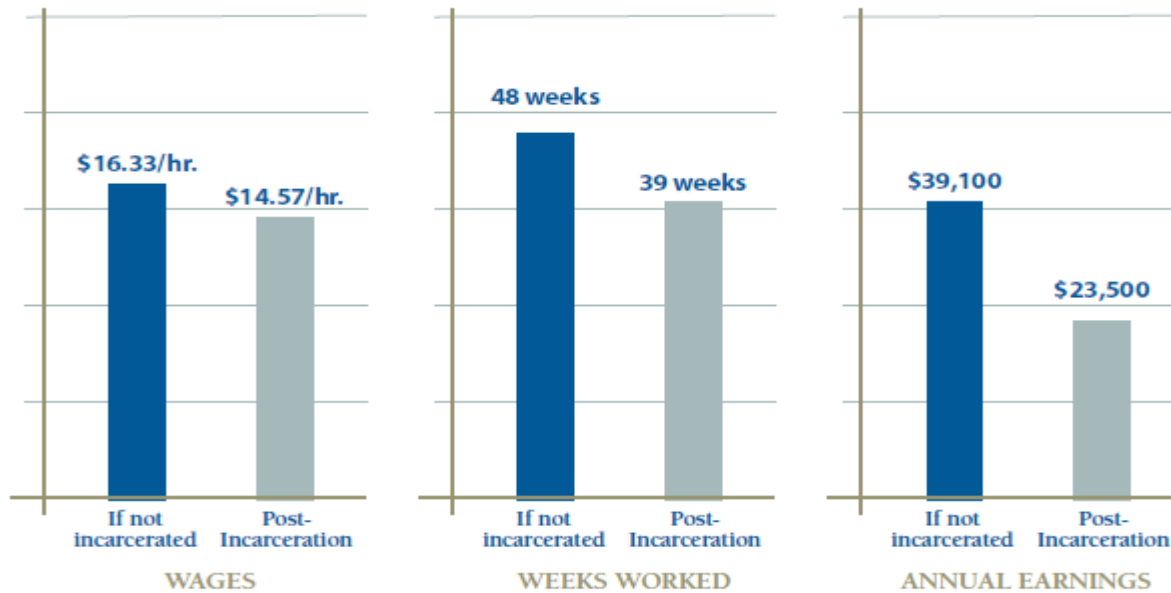
Source: Original analysis for The Pew Charitable Trusts by Bruce Western and Becky Pettit, 2009.

# Big negative effects on work and earnings

FIGURE 4

## INCARCERATION REDUCES EARNINGS POWER

Estimated effect of incarceration on male wages, weeks worked, and annual earnings, predicted at age 45



Source: Original analysis for The Pew Charitable Trusts by Bruce Western and Becky Pettit, 2009.

# Some Sources

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- A primer on the labor market and poverty  
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- Holzer, Harry, Paul Offner, and Elaine Sorensen. 2005. "Declining Employment among Young, Black, Less-Educated Men: The Role of Incarceration and Child Support." *Journal of Policy Analysis and Management*. 24 (2): 329-50.