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

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A Preview

• 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

• 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

• 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

• 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

• *Persistent High Unemployment*
Since 2008, Persistent High Unemployment

2014 research.stlouisfed.org
Slow Recovery of Employment

By 3 years after the recession (arrow), total employment is only 94% of pre-recession employment.
The Failure of Hiring to Recover after 2008 Downturn

While layoffs have fallen to below pre-2008 levels, new hires have failed to regain pre-2008 levels.
Mean Duration of Unemployment Remains Very High

Prior to 2008, the mean duration of unemployment was about 15-20 weeks (bottom arrow); after the recession, mean duration soared to over 40 weeks, and is still above 35 weeks. (top arrow)
US Labor Market Performance

• 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

In 2007, 80 percent of the population was working—76 percent now
Decline in Employment Rate is Concentrated among Low-Skilled Men

Among men, decline is concentrated on low skill-low education men—89% were employed in 1970; 67% now.

Source: The Hamilton Project, Brookings Institution
US Labor Market Performance

- 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?

Most Americans are not benefiting from increased productivity
Cumulative change in total economy productivity and real hourly compensation of production/nonsupervisory workers, 1948–2011

Before 1975 (arrow), wage increases reflected productivity increases; since then wages have been stagnant
Lagging Compensation Especially for Low-skill Workers

While productivity has increased by nearly 40% since 1995, wages have increased by from 6% to 13%. All of the wage increases occurred before 2003.
US Labor Market Performance

• Persistent high unemployment
• Persistent decline in the employment-population ratio
• Failure of wage increases to reflect productivity increases
• Stagnant family income
Since 1999 (arrow), real median household income has fallen from over $54,000 to about $50,000. Household income has fallen more rapidly since 2008.
US Labor Market Performance

- 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
Since about 2000 (arrow), corporate profits soared from about 5% to over 11% of GDP; wages fell from 48% to about 42% of GDP.
Why?
Decline of Labor Unions

Union coverage rate

1973: 26.7%
2011: 13.1%
Decline in Manufacturing Sector

Percent of Employment in Manufacturing in the United States (USAPFANA)

Shaded areas indicate US recessions.
2012 research.stlouisfed.org
Erosion of Minimum Wages

In 1969 (arrow), the minimum wage was $10/hour in 2009 dollars; by 2008 the real minimum wage had fallen to about $7/hour.
US Labor Market Performance

- 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
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

Today, the richest 1 percent make nearly 25 percent of the country’s income.
Growing Poverty Rate
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
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?

- 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.

![Graph showing median annual incomes of the top four occupations in the United States, 2011.](image)

**Median Annual Incomes of the Top Four Occupations in the United States, 2011**

- **Office Clerks**: $27,186
- **Retail Salespersons**: $21,008
- **Cashiers**: $18,824
- **Food Preparation and Servers**: $18,221

**Sources:**
- 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.

- Retail salespersons: $12.02
- Cashiers: $9.52
- Office clerks, general: $13.58
- Combined food preparation and serving workers, including fast food: $8.95
- Registered nurses: $32.56
- Waiters and waitresses: $9.99
- Customer service representatives: $15.76
- Janitors and cleaners, except maids and housekeepers: $11.81
- Laborers and freight, stock and material movers, hand: $12.36
- Secretaries and administrative assistants, except legal, medical, and executive: $15.38

Mean hourly wage:
- U.S. mean hourly wage: $21.35

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

![Graph showing incarceration rates for different groups](image)

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

- **WAGES**
  - If not incarcerated: $16.33/hr.
  - Post-Incarceration: $14.57/hr.

- **WEEKS WORKED**
  - If not incarcerated: 48 weeks
  - Post-Incarceration: 39 weeks

- **ANNUAL EARNINGS**
  - If not incarcerated: $39,100
  - Post-Incarceration: $23,500

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

• A primer on the labor market and poverty
  [http://econweb.ucsd.edu/~rcarson/Chapter13_6perPage.pdf](http://econweb.ucsd.edu/~rcarson/Chapter13_6perPage.pdf)


