

**Wages and Inequality:
How resetting rules of labor market
generated wage stagnation and inequality**

**CUNY/Luxembourg Income Study
June 2016**

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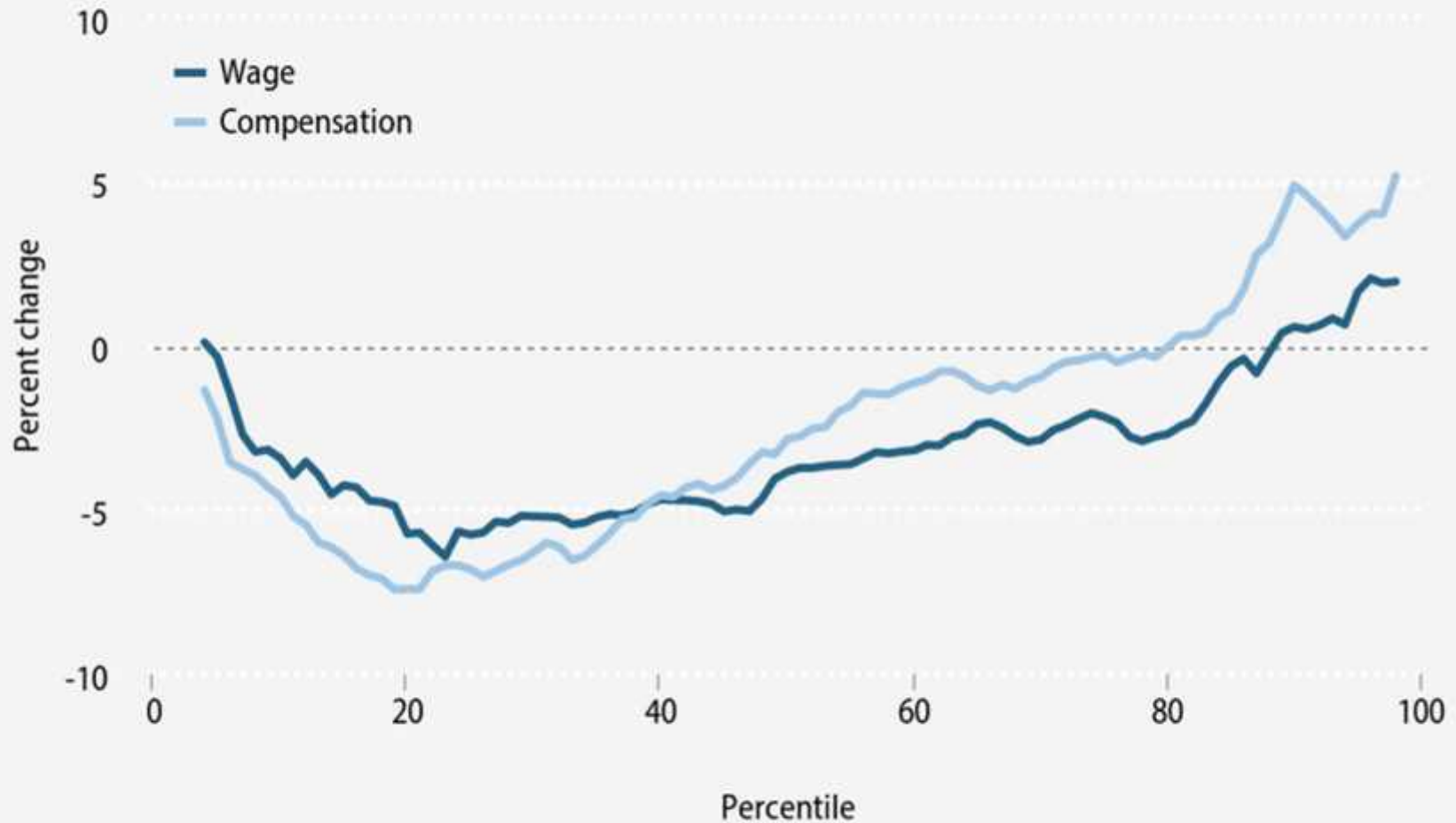
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The basic facts

The Wage Patterns to be Explained



Percent change in real hourly compensation and wages for civilian workers, by percentile, 2007-2014

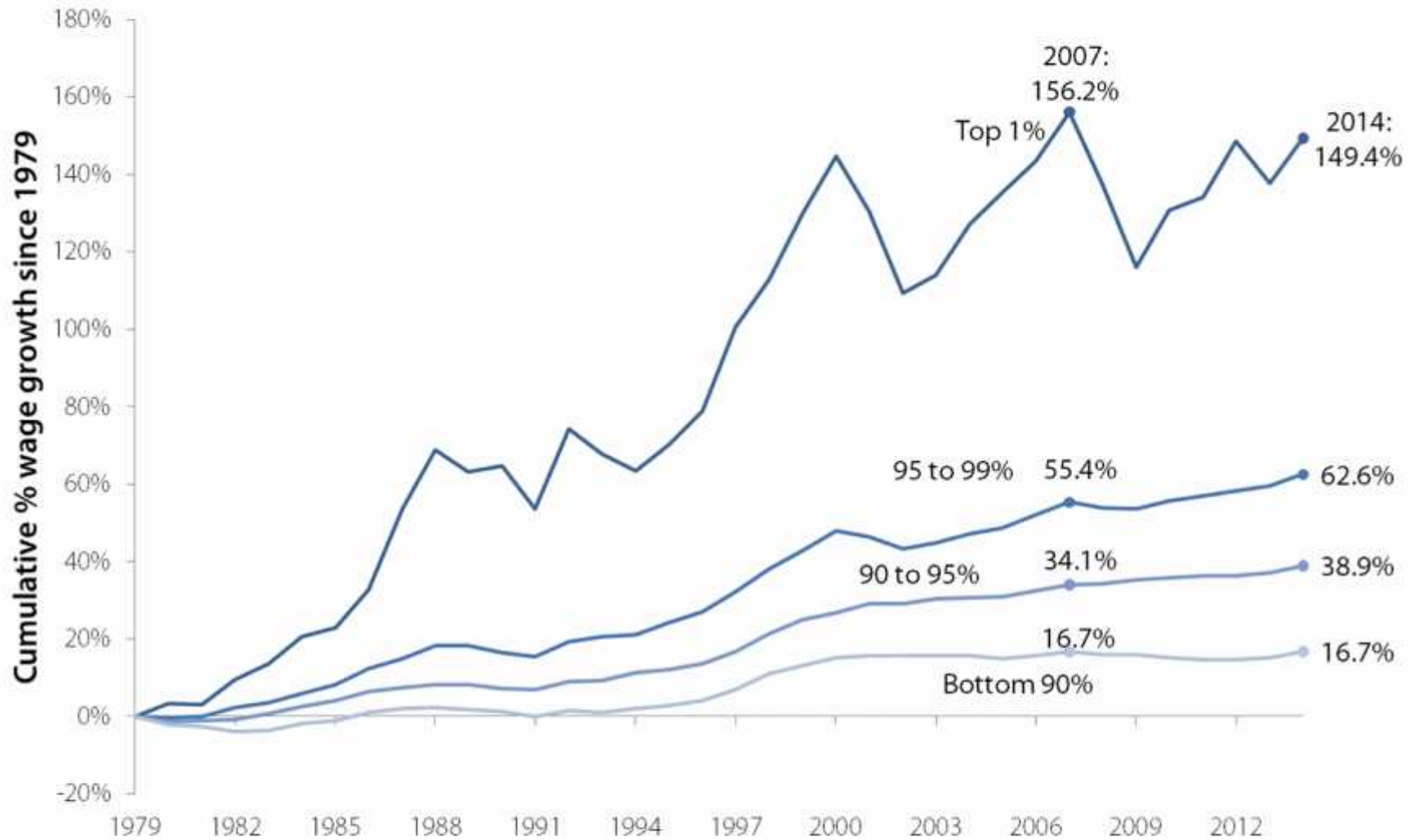


Source: EPI analysis of U.S. Bureau of Labor Statistics, Employer Costs for Employee Compensation.

Wage Gaps

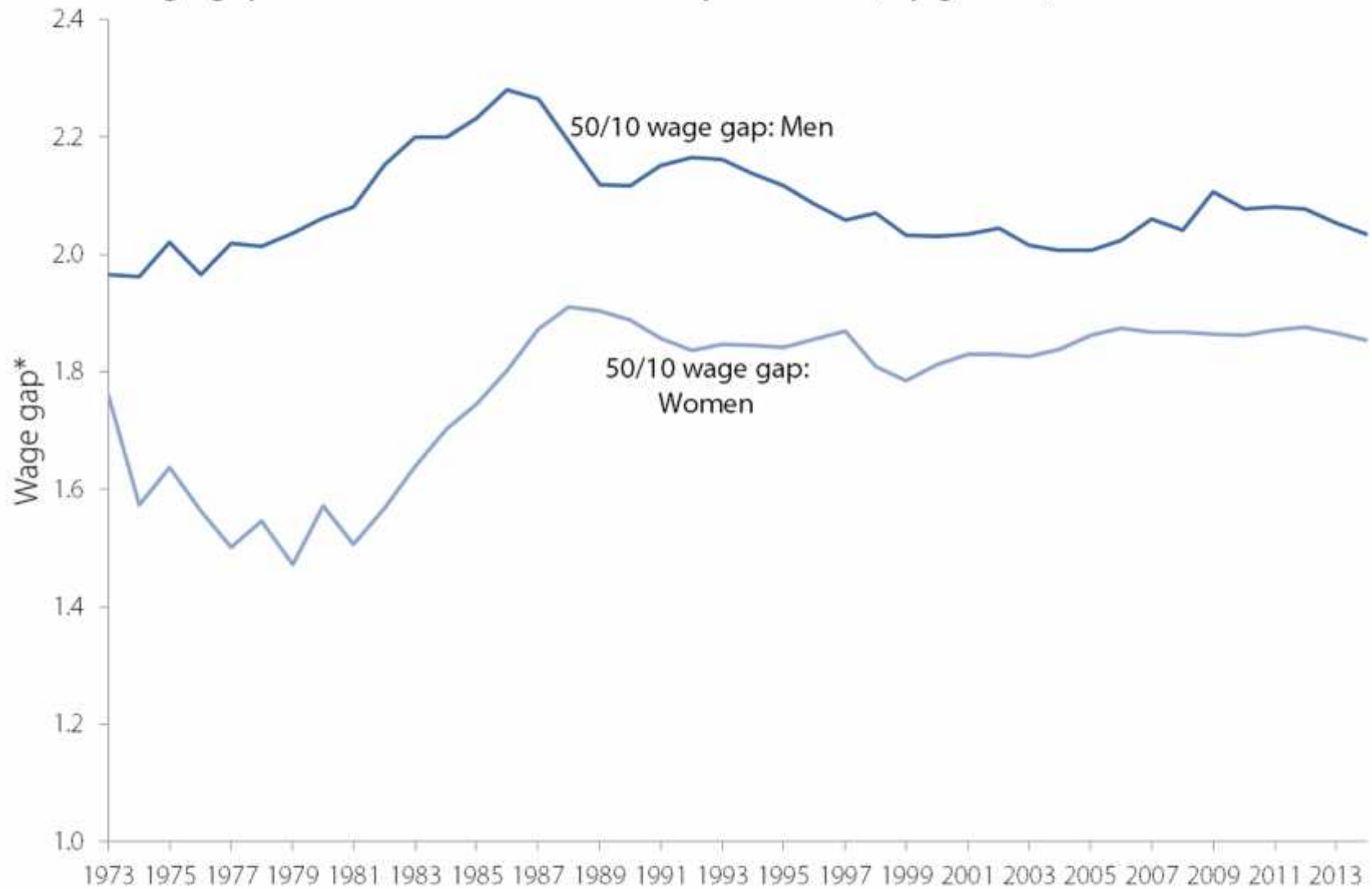
1. Top 1% vs. top;
2. Top vs. middle; and
3. Middle vs. bottom

Cumulative percent change in real annual wages, by wage group, 1979–2014



Source: EPI analysis of Kopczuk, Saez, and Song (2010, Table A3) and Social Security Administration wage statistics

Wage gap between the 50th and 10th percentiles, by gender, 1973–2014



*Ratio of workers' wages at the 50th earnings percentile to wages at the 10th percentile

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

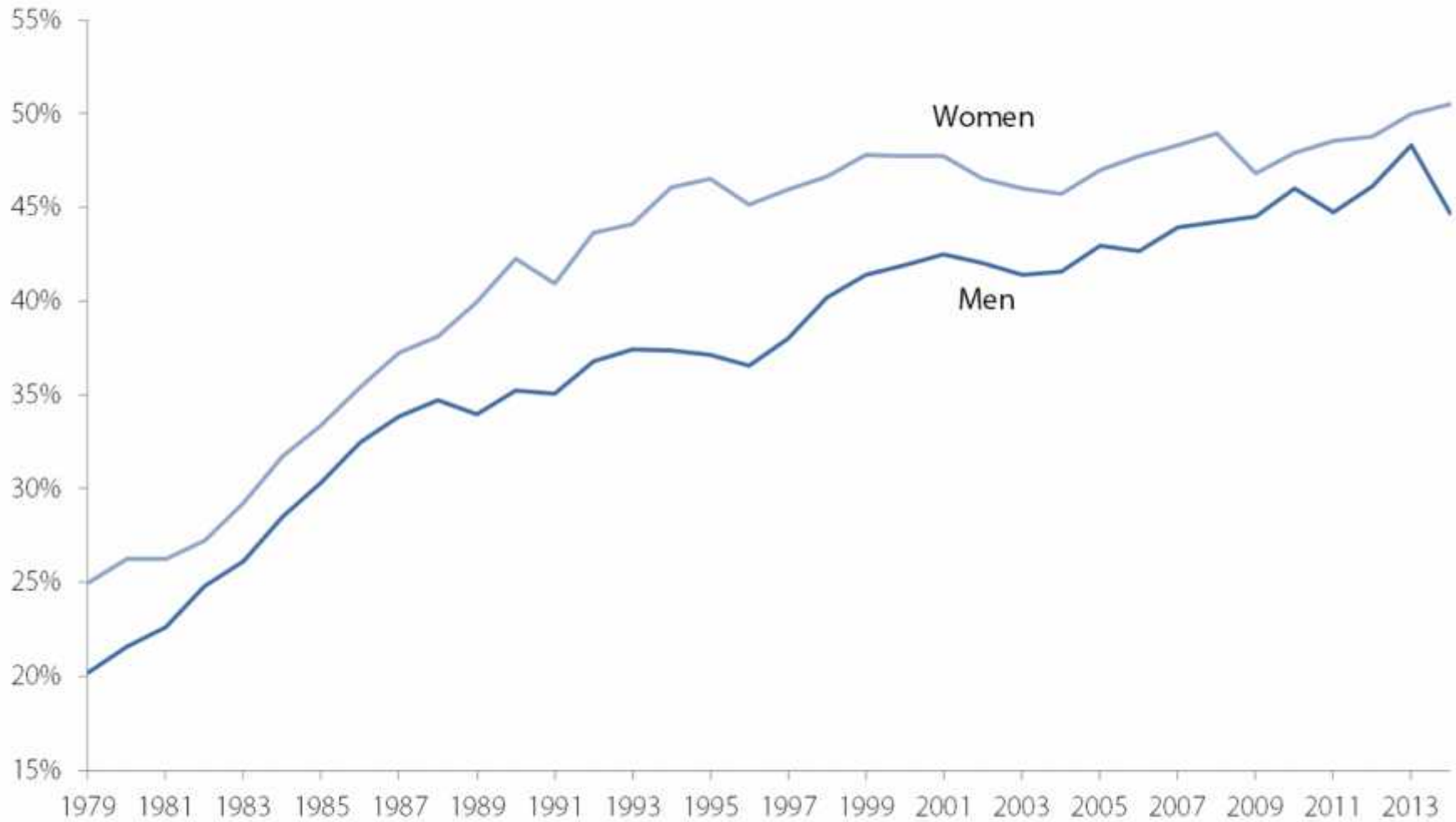
Wage gap between the 95th and 50th percentiles, by gender, 1973–2014



*Ratio of workers' wages at the 95th earnings percentile to wages at the 50th percentile

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

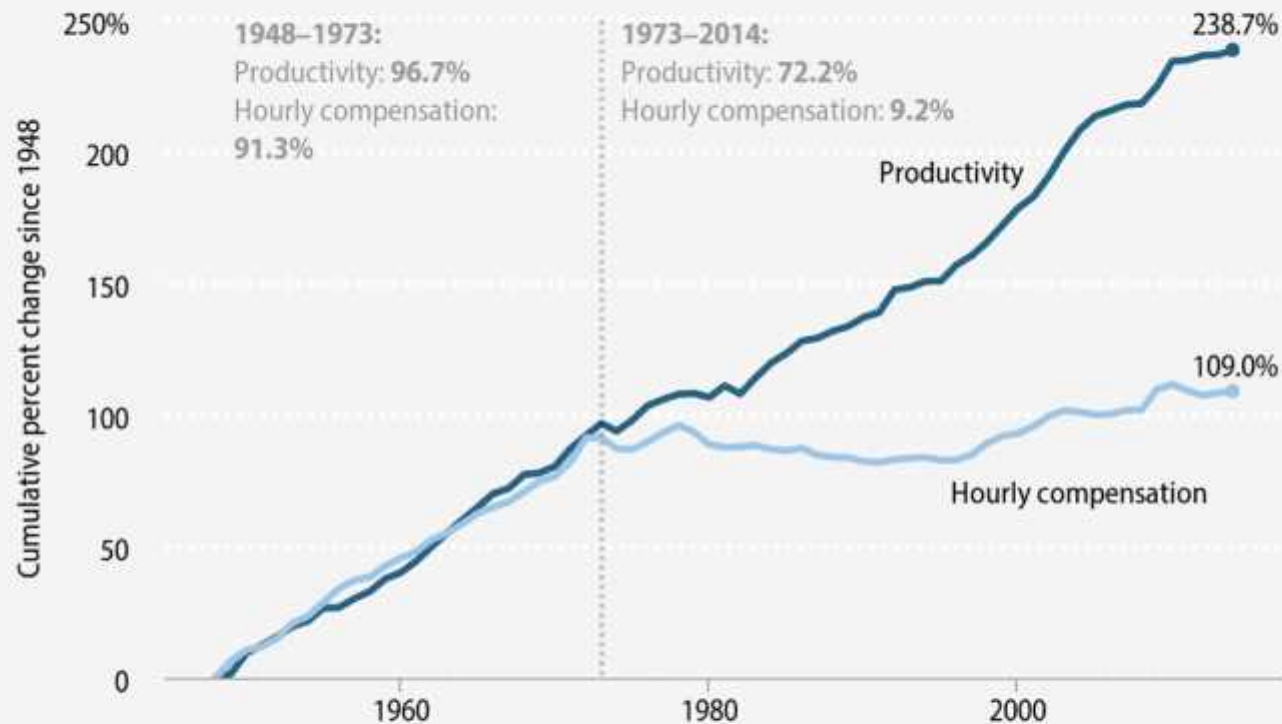
FIGURE 4N College wage premium, by gender, 1979–2014



*Percent by which wages of college graduates exceed those of otherwise equivalent high school graduates, regression adjusted

Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group (ORG) microdata

Disconnect between productivity and a typical worker's compensation, 1948-2014



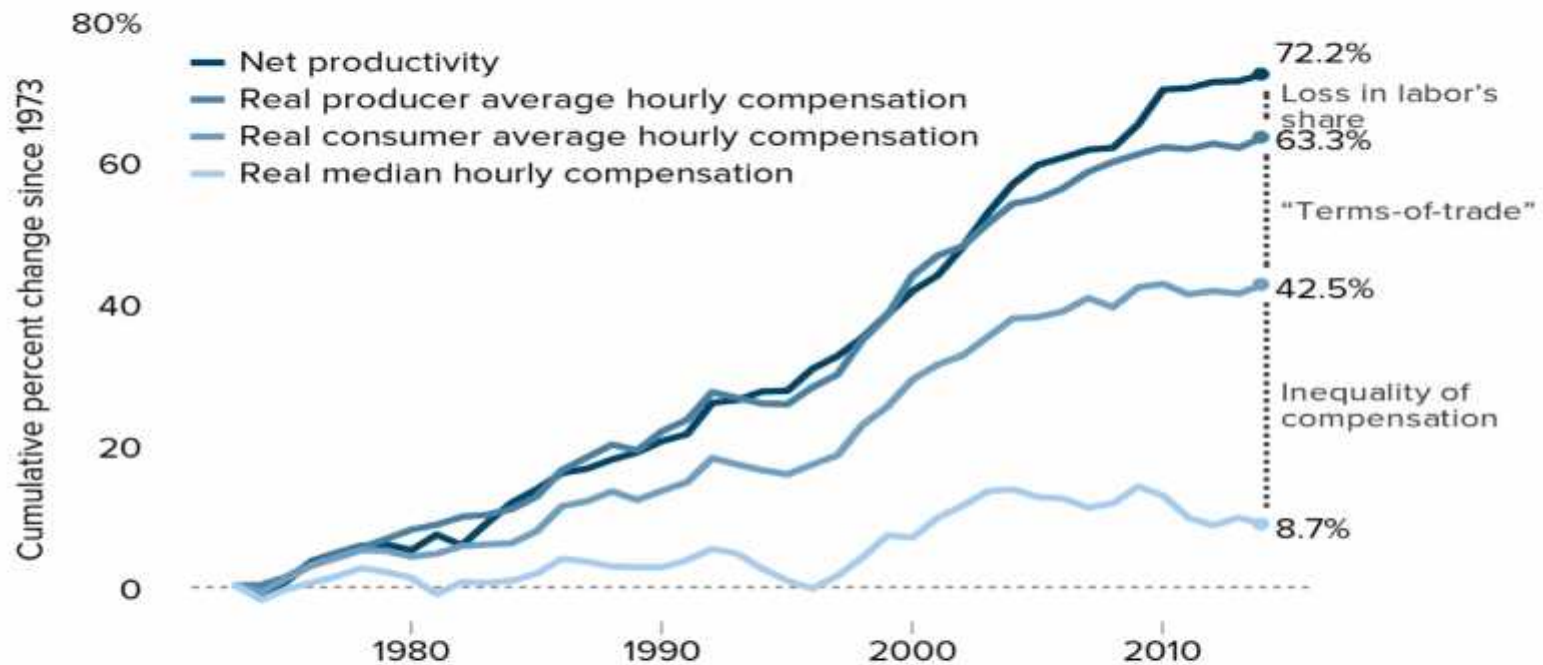
Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

Source: EPI analysis of data from the BEA and BLS (see technical appendix for more detailed information)

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Decomposing Productivity-Median Hourly Compensation Gap

Growth of productivity, real average compensation (consumer and producer), and real median compensation, 1973–2014



Note: Data are for all workers. Net productivity is the growth of output of goods and services minus depreciation, per hour worked.

Source: EPI analysis of data from the BEA, BLS, and CPS ORG (see technical appendix for more detailed information)

The Productivity-Pay Gap

1. Stagnant Compensation (wages & benefits) stagnation not due to failure of economy to expand productivity. There was lots of income and wealth produced.
2. Gap primarily due to rising inequality, especially in 2000s:
 - a. Inequality of compensation
 - b. Decline of labor's share

The Cause?

Conventional Wisdom says:

1. Globalization;

2. ~~Technology/Skills Deficits;~~

3. and ??????



Summers on SBTC

“And I am concerned that if we allow the idea to take hold that all we need to do is there are all these jobs with skills and if we just can train people a bit then they will be able to get into them and the whole problem will go away. I think that **is fundamentally an evasion of a profound social challenge.**”

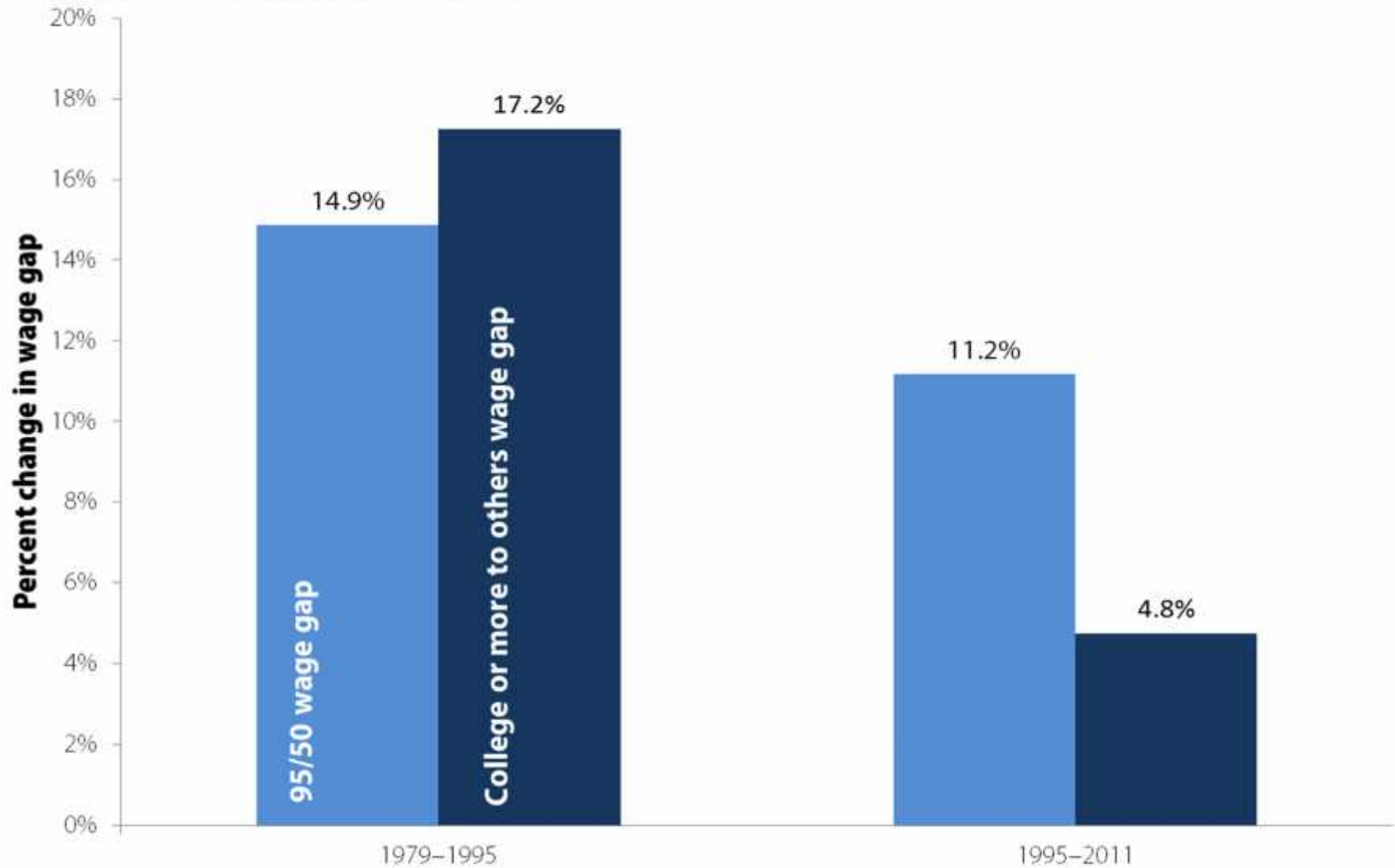
Why the 'Skills Deficit' Explanation Fails

1. The 2000's Do Not Fit the
Stories
2. The Slowdown in Relative
Demand for 'Skill'/Education

Two Stories

1. **Education**—need for college graduates—driven by technology/computers
2. **Occupations**—job polarization computers erode *middle*, expand relative demand for non-routine, cognitive skills expands at *top* and do not affect routine, manual work at *bottom*

Changes in wage gaps, 1979–1995 and 1995–2011



Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata

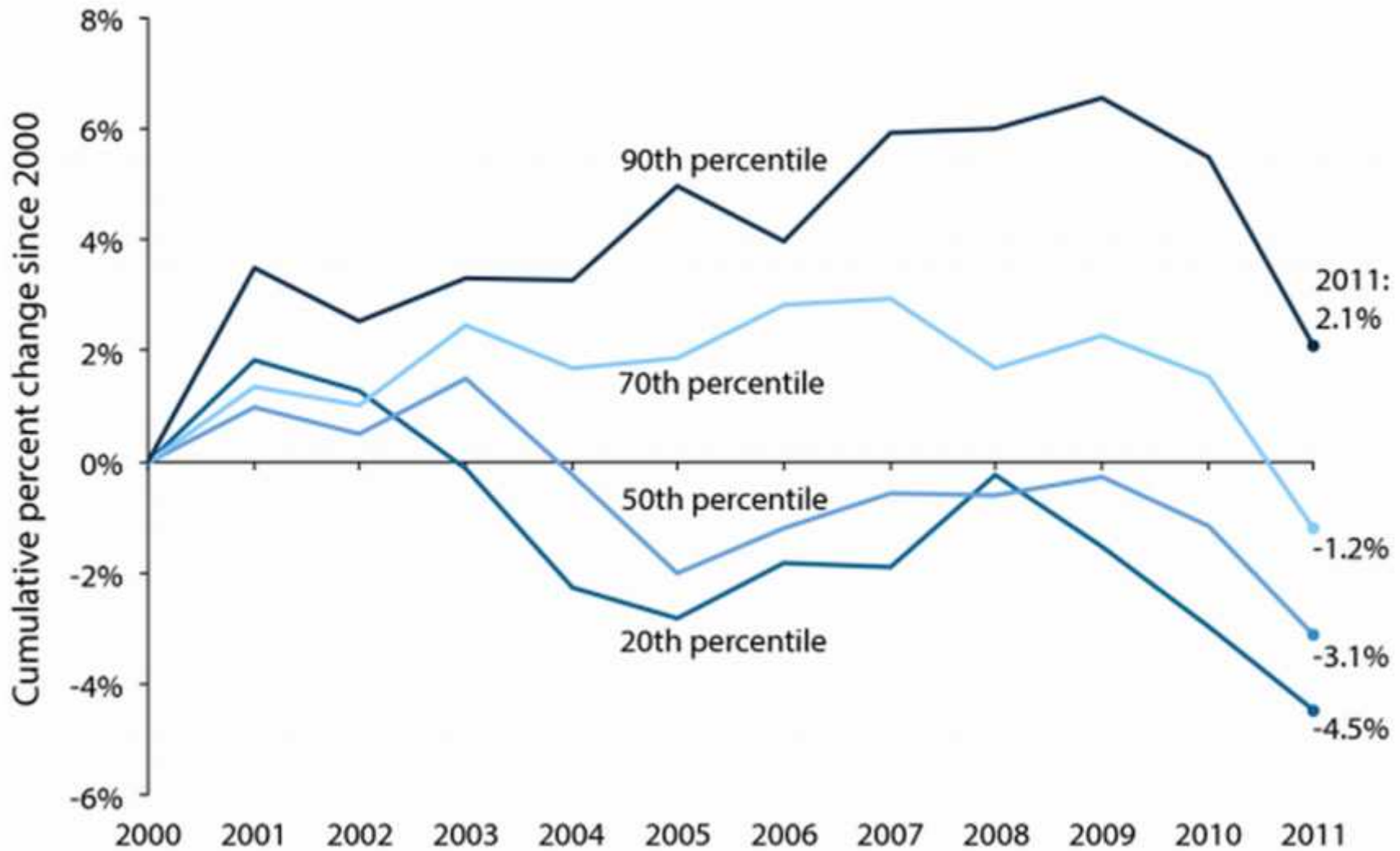
Marxist Explanation

‘Are you going to believe me, or what you see with your own eyes?’

Groucho Marx

Examples: unpaid **internships**, stagnant college **wages**, especially young, and **underemployment**

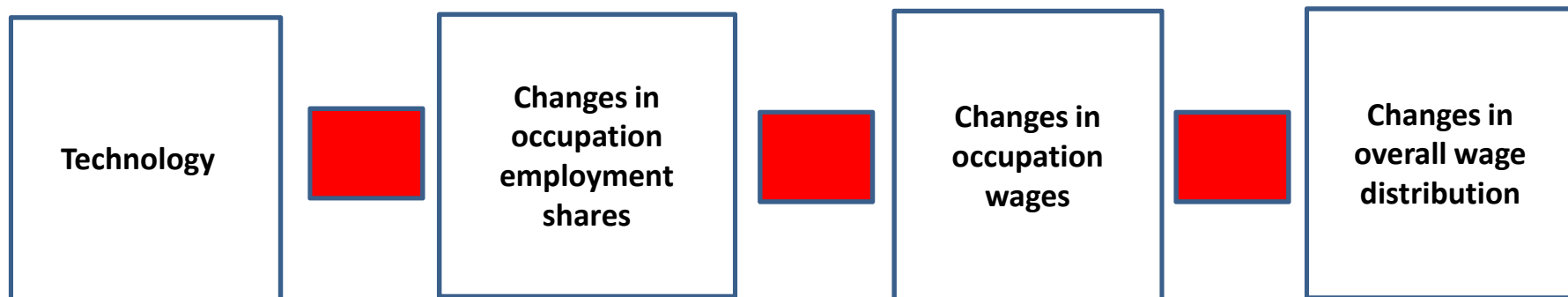
Cumulative change in real hourly wages of college graduates, by decile, 2000–2011

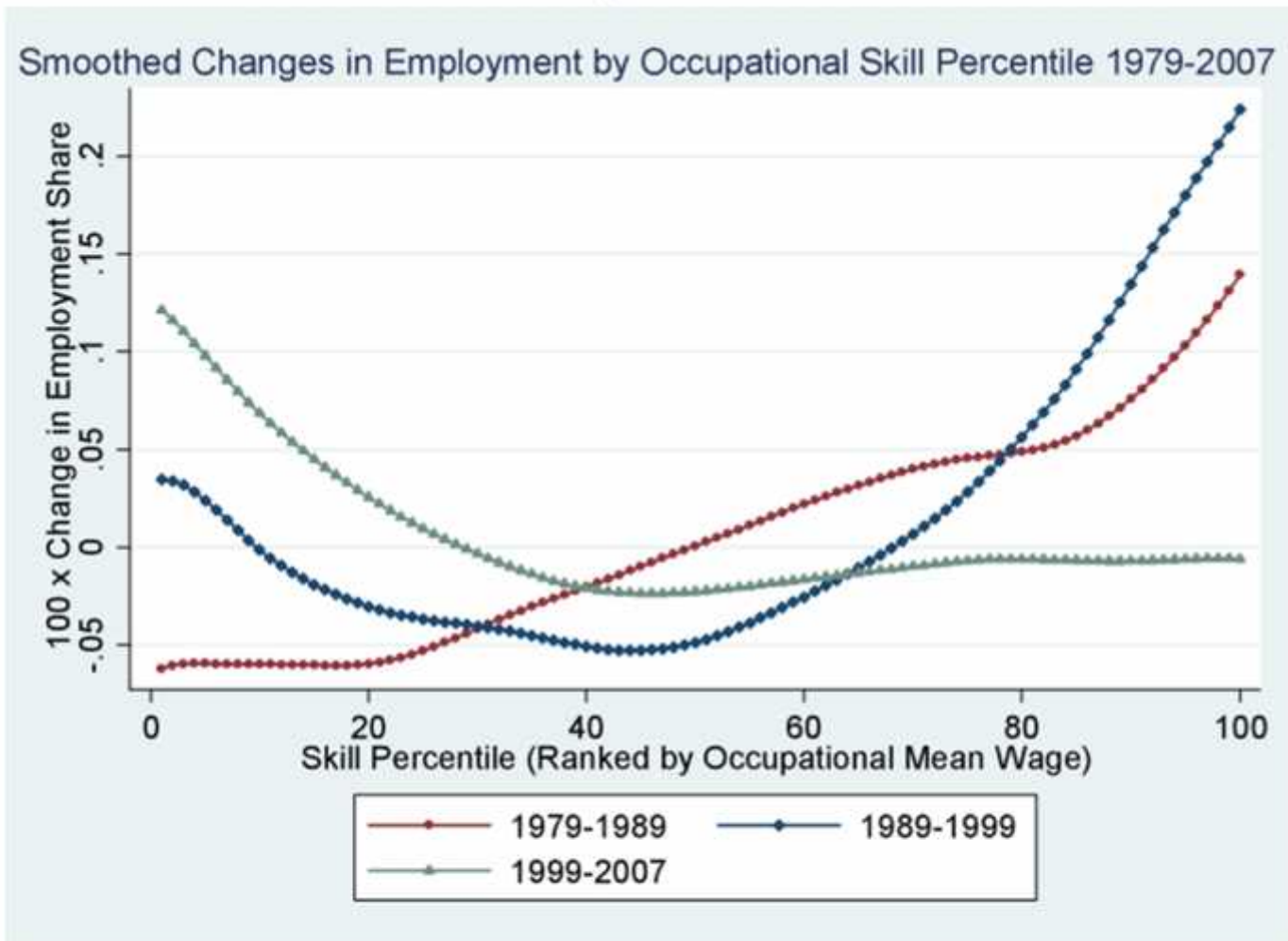


Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata

What about Occupations?

1. No evidence of job polarization in 2000s
2. Slowdown in relative demand started in mid-90s

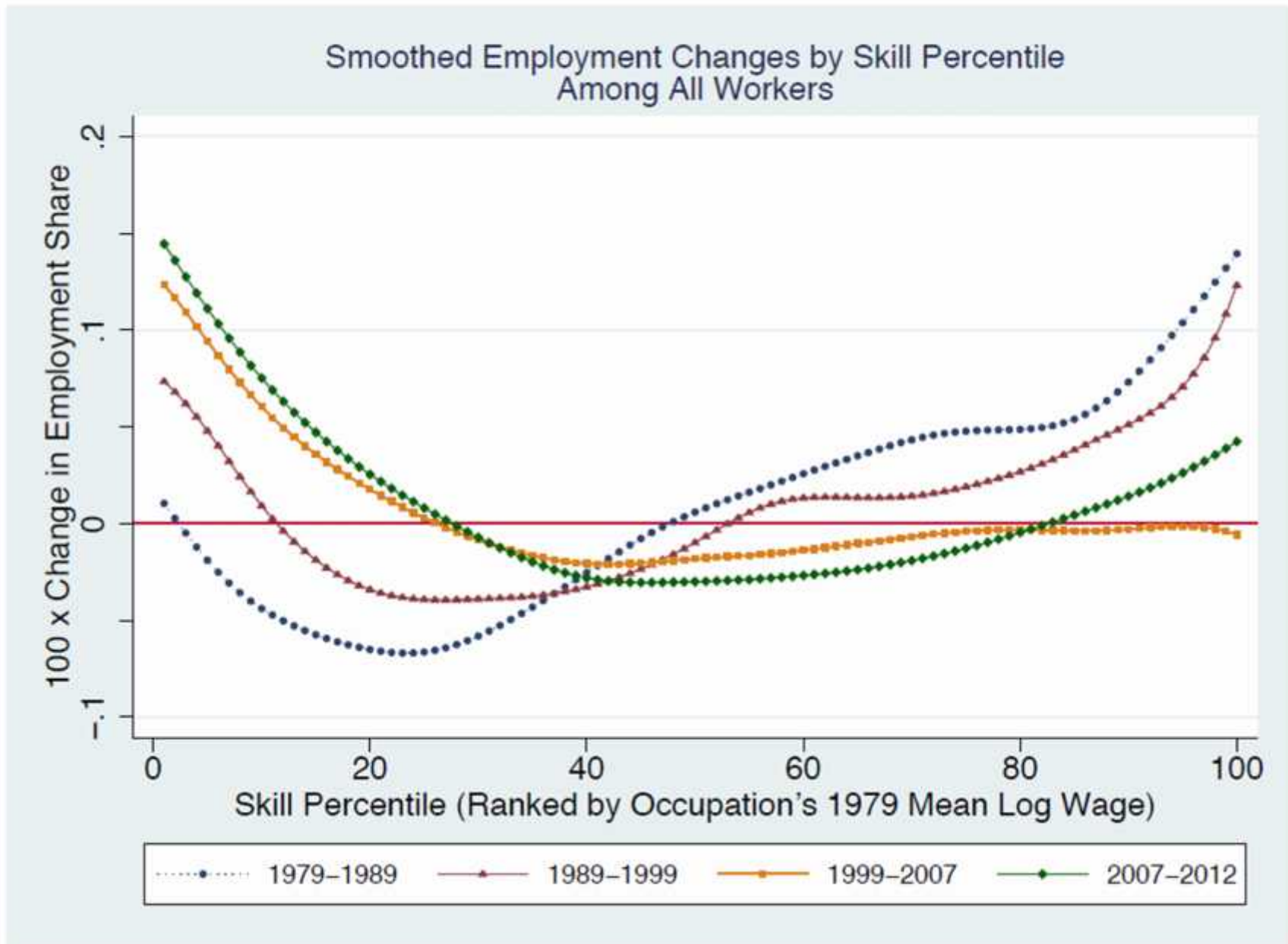




Source: Census IPUMS 5 percent samples for years 1980, 1990, and 2000, and Census American Community Survey for 2008. All occupation and earnings measures in these samples refer to prior year's employment. The figure plots log changes in employment shares by 1980 occupational skill percentile rank using a locally weighted smoothing regression (bandwidth 0.8 with 100 observations), where skill percentiles are measured as the employment-weighted percentile rank of an occupation's mean log wage in the Census IPUMS 1980 5 percent extract. Mean education in each occupation is calculated using workers' hours of annual labor supply times the Census sampling weights. Consistent occupation codes for Census years 1980, 1990, and 2000, and 2008 are from Autor and Dorn (2009a).

Figure 7.

Smoothed Employment Changes by Occupational Skill Percentile, 1979 – 2012



Missing Pieces

Policy choices, on behalf of those with most wealth and power, that have undercut wage growth of a typical worker:

1. Excessive unemployment;
2. Weakened labor standards;
3. Eroded institutions: collective bargaining
4. Top 1.0% wage/income growth



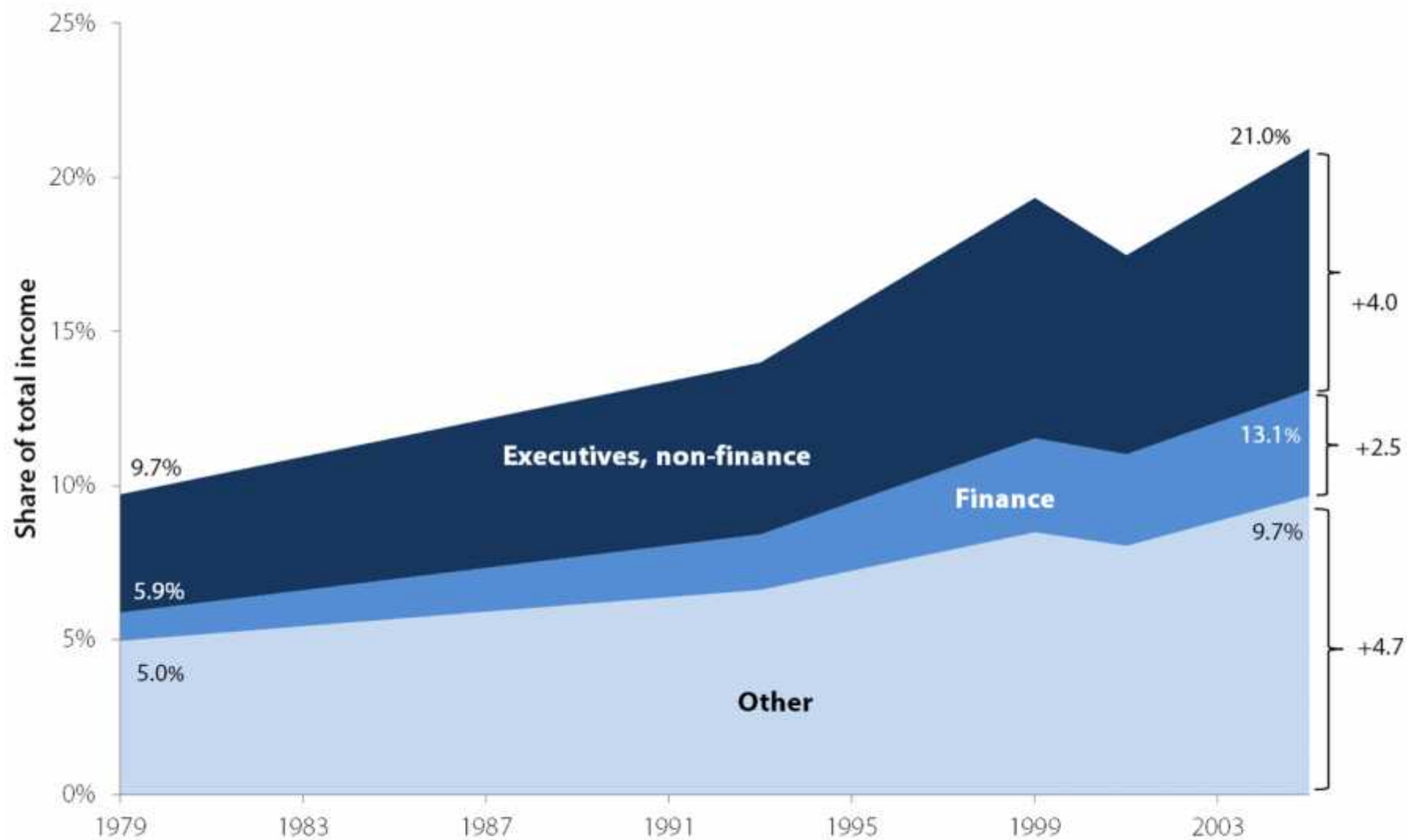
Context

- **Vast majority live paycheck to paycheck**
- **Little or no wealth**
- **No staying power**
- **Safety net eroded**

Drivers of Top 1% Incomes

- **Executives, escalating pay**
- **Financial sector, larger and better paid**
- **Lower marginal income tax rates**

Share of total income* of the top 1.0% of earners, by occupation, 1979–2005

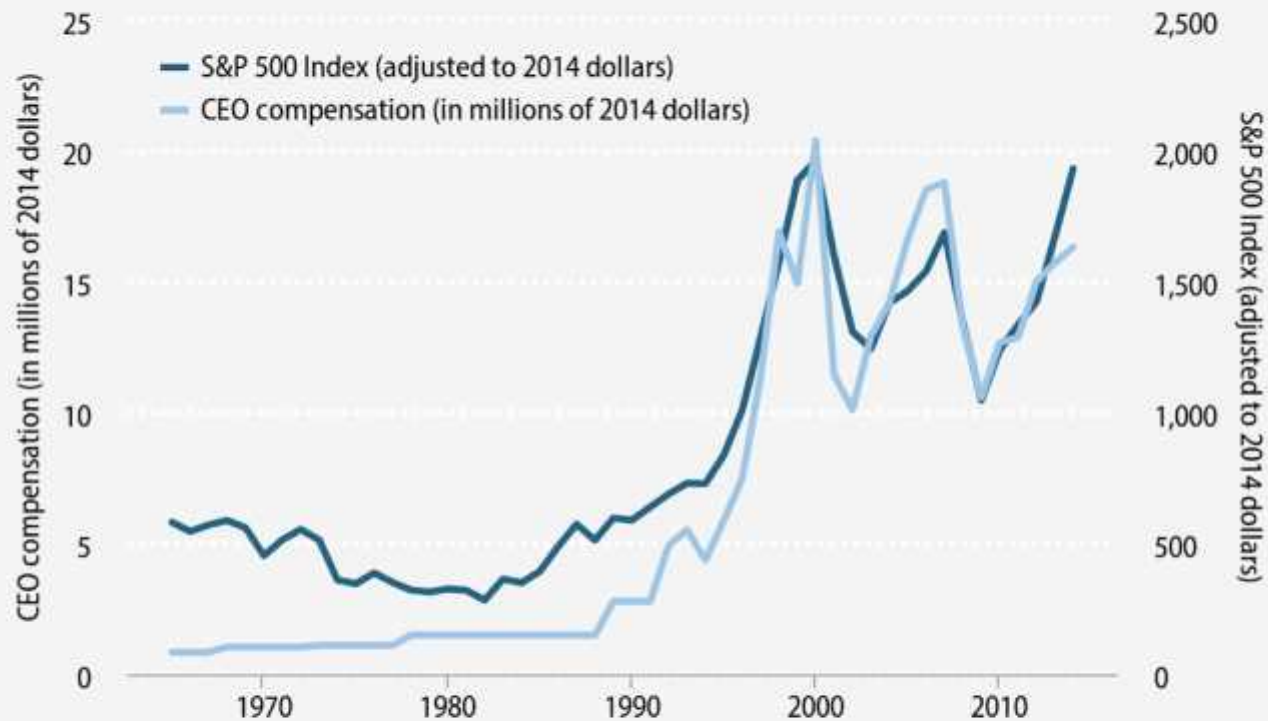


*Household income including capital gains

Note: data available for years 1979, 1993, 1999, 2001, and 2005. Intervening years calculated by linear interpolation.

Source: Author's analysis of Bakija, Cole, and Heim (2012, Tables, 4, 5, 6a, and 7a)

CEO compensation and the S&P 500 Index (in 2014 dollars), 1965-2014

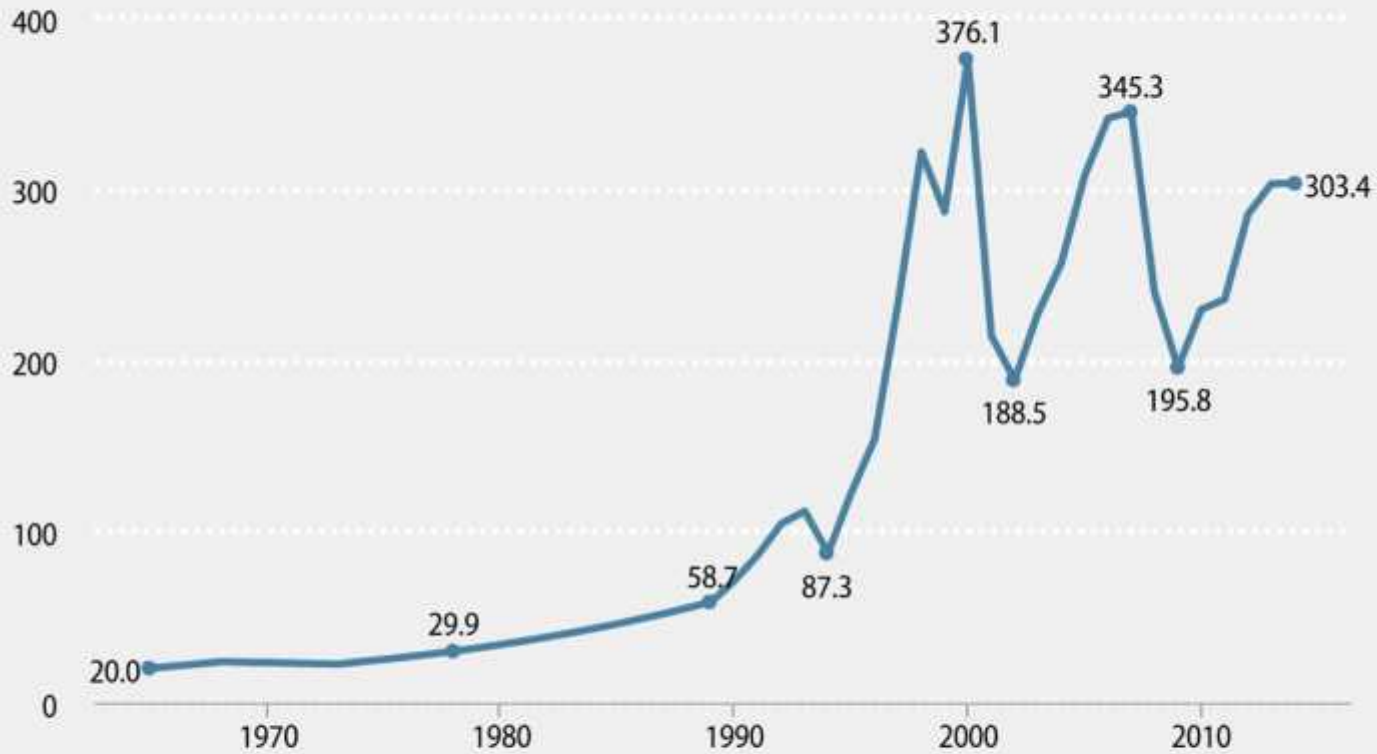


Note: CEO annual compensation is computed using the "options realized" compensation series, which includes salary, bonus, restricted stock grants, options exercised, and long-term incentive payouts for CEOs at the top 350 U.S. firms ranked by sales.

Source: Authors' analysis of data from Compustat's ExecuComp database and Federal Reserve Economic Data (FRED) from the Federal Reserve Bank of St. Louis

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CEO-to-worker compensation ratio, 1965-2014

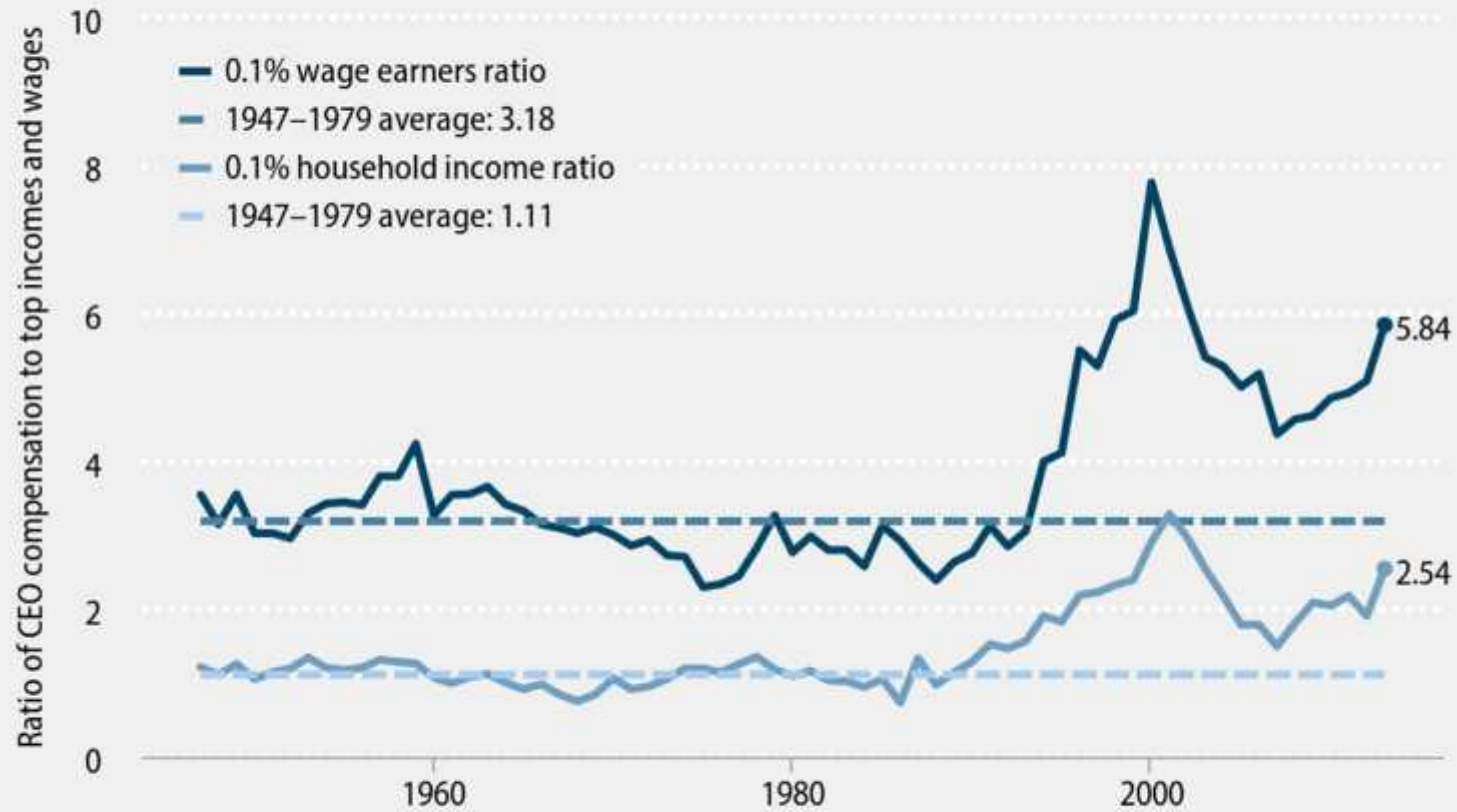


Note: CEO annual compensation is computed using the "options realized" compensation series, which includes salary, bonus, restricted stock grants, options exercised, and long-term incentive payouts for CEOs at the top 350 U.S. firms ranked by sales.

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

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Comparison of CEO compensation to top incomes and wages, 1947-2013



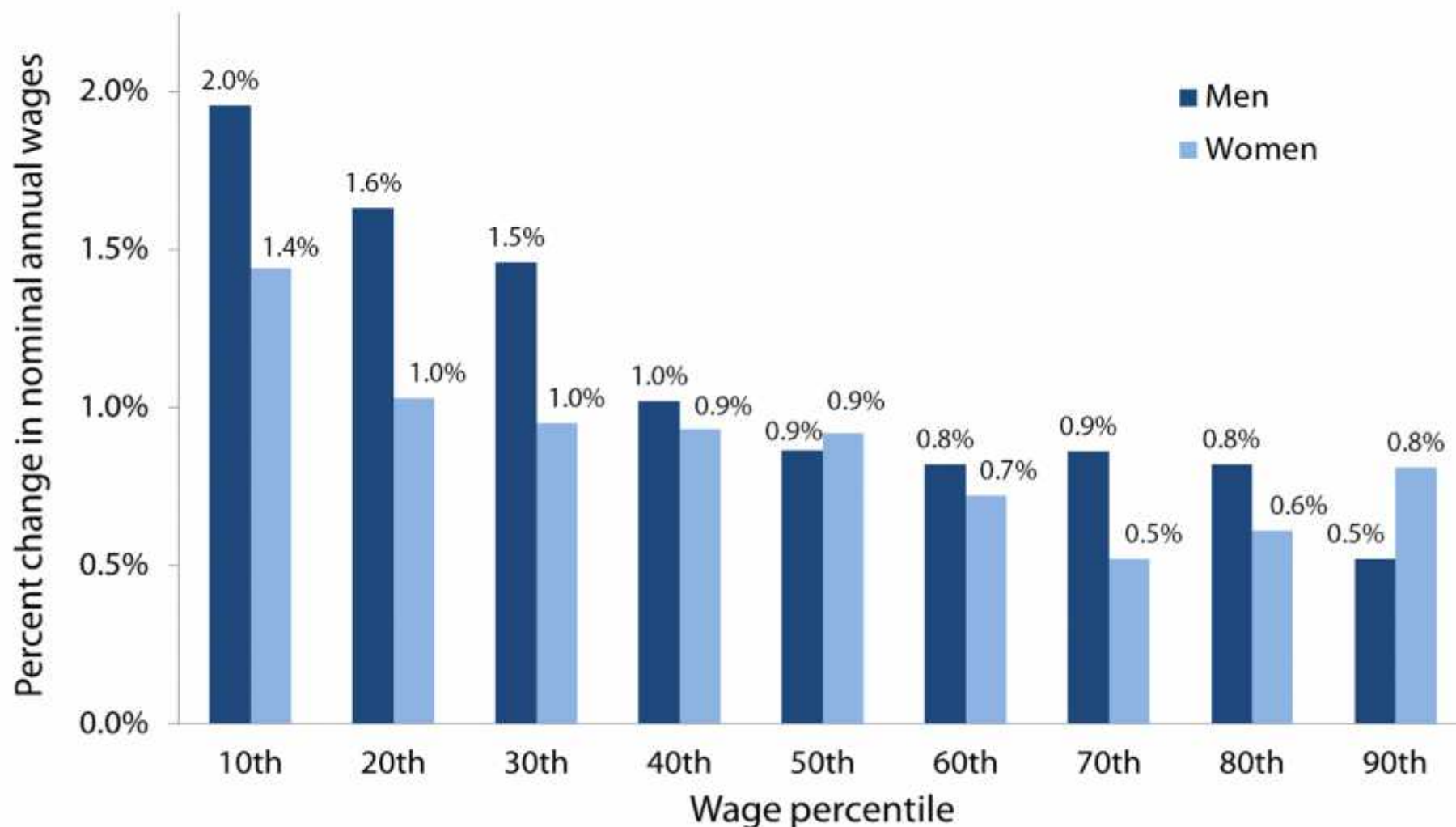
Source: Authors' analysis of Kaplan (2012b) and Mishel et al. (2012, Table 4.8)

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Macroeconomic Failure

- **Excessively high unemployment, 1979-2015**
- **Depresses wage growth, drives up wage inequality**

Figure 70 Increase in wages from a 1-percentage-point decline in the unemployment rate, by gender



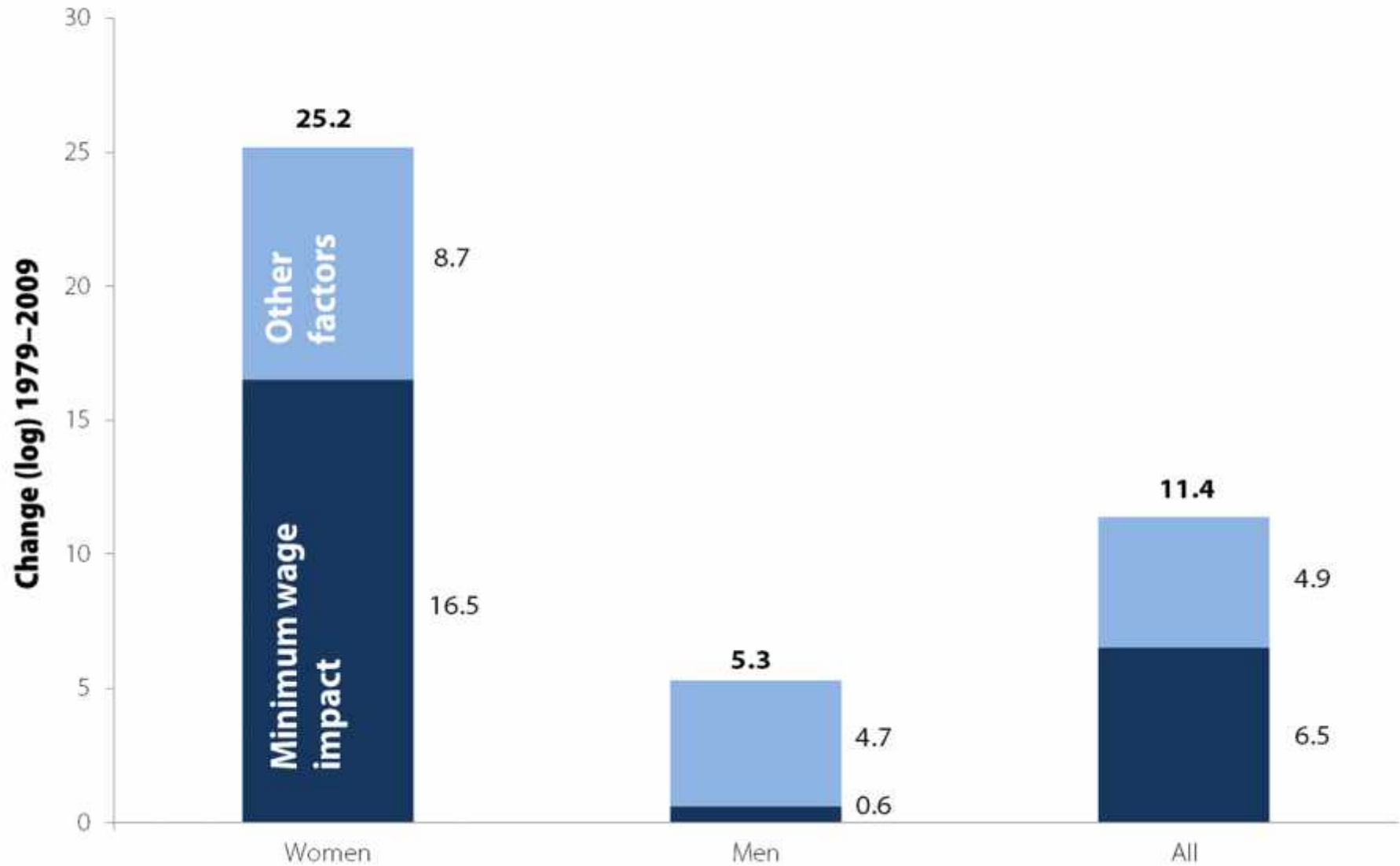
Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata for 1979 to 2007. Analysis based on Katz and Krueger (1999)

Labor Standards

Weakened

1. Minimum wage
2. Misclassification/wage theft/enforcement
3. Undocumented workers/guest-workers
4. Overtime
5. Franchising/subcontracting
6. Deregulation
7. Forced Arbitration of disputes

Impact of the minimum wage on the 50/10 wage gap, 1979–2009



Source: Authors' analysis of Autor, Manning and Smith (2010, Table 5)

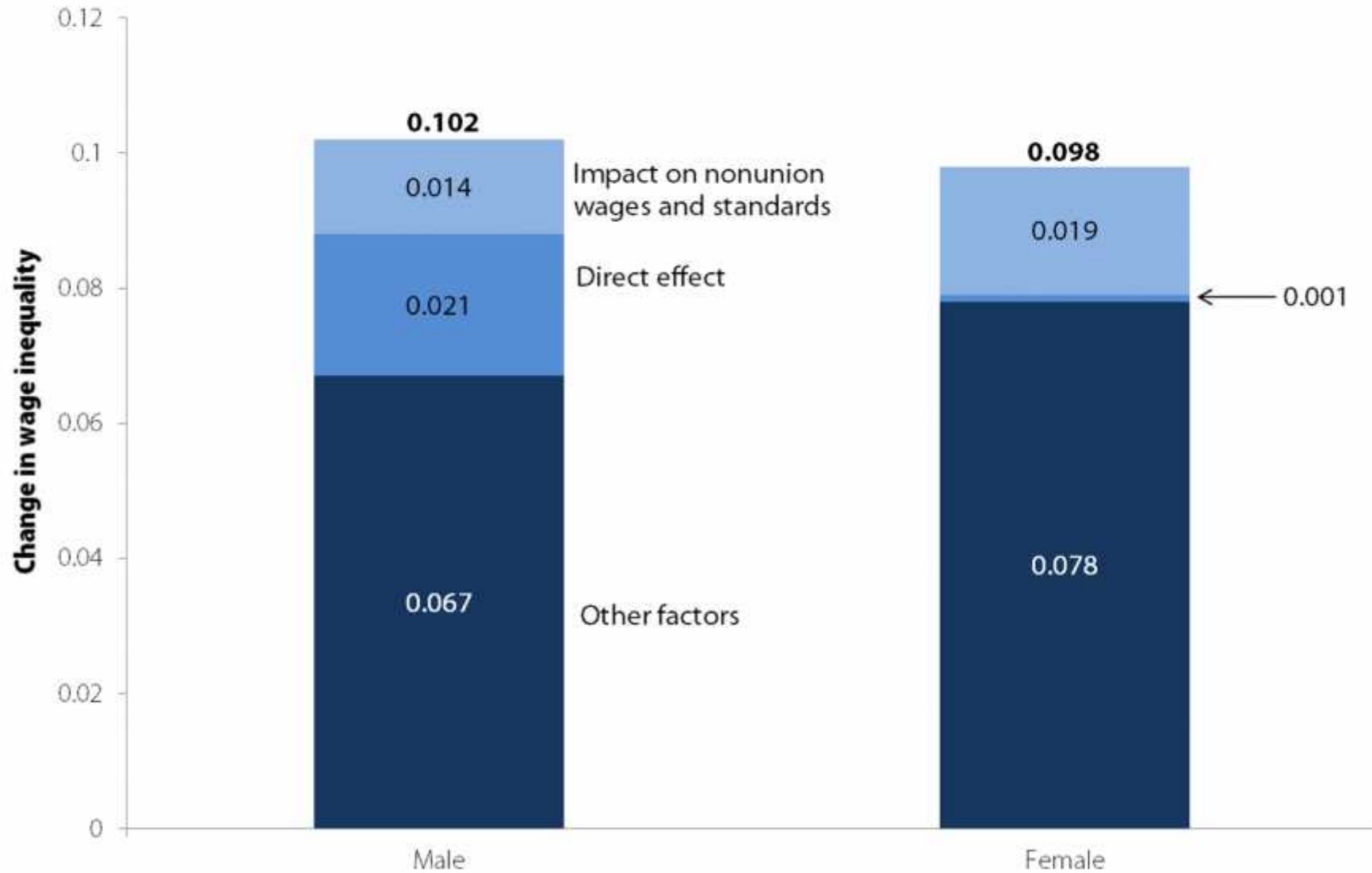
Labor Market Institutions

Weakened

1. Collective bargaining;
2. Spillover effect
3. Political voice

.....Not simply endogenous

Impact of deunionization on wage inequality, 1973–2007



Note: Wage inequality measured by change in variance of log wages.

Source: Authors' analysis of Western and Rosenfeld (2011, Table 2)

Quantitative Change leads to Qualitative shifts

These policy shifts have impacts by:

1. *Spillover effects* on those not directly affected, e.g., undocumented workers, lower union density; and
2. *Changes Norms*: revising standards in the marketplace; and
3. *Factor shares*: Loss of labor's share of income



End