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

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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

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

50/10 wage gap: Men

50/10 wage gap: Women

*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

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)
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 ??????
“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*

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
Technology

Changes in occupation employment shares

Changes in occupation wages

Changes in overall wage distribution
Smoothed Changes in Employment by Occupational Skill Percentile 1979-2007

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

Smoothed Employment Changes by Skill Percentile Among All Workers

100 x Change in Employment Share

Skill Percentile (Ranked by Occupation’s 1979 Mean Log Wage)

- 1979–1989
- 1989–1999
- 1999–2007
- 2007–2012
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
Source: Author’s analysis of Bakija, Cole, and Heim (2012, Tables, 4, 5, 6a, and 7a)

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

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)
Macroeconomic Failure

- Excessively high unemployment, 1979-2015
- Depresses wage growth, drives up wage inequality
Figure 7.0: Increase in wages from a 1-percentage-point decline in the unemployment rate, by gender

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