Making Work Pay – How Raising Wages is Key to Boosting Living Standards

January 7, 2016
Atlanta, GA

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Economic Policy Institute
The benefits of increased productivity over the last 40 years have not gone to the middle class

Productivity and real median family income growth, 1948–2013

Source: EP'sI analysis of Current Population Survey Annual Social and Economic Supplement Historical Income Tables, (Table F-
Growing together, then growing apart

Average annual family income growth, by income group, 1947–2012

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Bottom fifth</td>
<td>-2.7%</td>
<td>-2.1%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Second fifth</td>
<td>0.0%</td>
<td>-0.4%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Middle fifth</td>
<td>2.5%</td>
<td>0.6%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Fourth fifth</td>
<td>2.2%</td>
<td>1.5%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Top fifth</td>
<td>2.4%</td>
<td>1.9%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Note: Data are for money income.

Source: EPI analysis of Current Population Survey Annual Social and Economic Supplement Historical Income Tables (Table F-3)

Where did all that productivity growth go?

Change in average real annual household income, by income group, 1979–2010

Note: Data are for comprehensive income. Shaded areas denote recessions. To be consistent with other income and earnings measures in this paper, we use the CPI-U-RS to deflate this series, instead of the personal consumption expenditures deflator used by CBO.

Source: Authors’ analysis of Congressional Budget Office (2013)
Meager earnings growth for most Americans

**FIGURE B**

*Cumulative change in real annual wages, by wage group, 1979–2013*


Reproduced from Figure F in *Raising America’s Pay: Why It’s Our Central Economic Policy Challenge*
Rising inequality, driven by stagnant wages, has stifled improvements in living standards for most of the last generation of Americans, and stymied our ability to make progress in reducing poverty.
The “inequality tax”

Household income of the broad middle class, actual and projected assuming it grew at overall average rate, 1979–2010

Note: Data show average income of 20th–80th percentile.
Source: EPI analysis of Congressional Budget Office (2013)
Reproduced from: Figure I in Bivens et al. (2014)
Progress against poverty stalled

Poverty rate, actual and simulated,* 1959–2012

* Simulated poverty rate is based on a model of the statistical relationship between growth in per capita GDP and poverty that prevailed between 1959 and 1973.

Source: Authors’ analysis of Current Population Survey Annual Social and Economic Supplement Historical Poverty Tables (Tables 2 and 4), Bureau of Economic Analysis National Income Product Accounts (Table 7.1), and Danziger and Gottschalk (1995)
Stagnant income comes from stagnant wages

**Workers’ pay is no longer rising along with productivity**

Growth in economy-wide productivity and a typical worker’s hourly 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: Adapted from Figure A in Josh Bivens and Lawrence Mishel, *Understanding the Historic Divergence Between Productivity and a Typical Worker’s Pay: Why It Matters and Why It’s Real*, EPI Briefing Paper #406, September 2, 2015
For most, almost no growth in hourly pay

Cumulative change in real hourly wages of all workers, by wage percentile, * 1979–2013

* The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more.

Note: Shaded areas denote recessions.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata
The picture for Georgia

Change in real hourly wages in GA since 1979, by wage decile

# Family Budget for Atlanta, GA

## Monthly Costs

<table>
<thead>
<tr>
<th></th>
<th>1 adult and 0 children</th>
<th>1 adult and 1 child</th>
<th>2 adults and 2 children</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Atlanta/Sandy Springs/Marietta, GA metro area</td>
<td>Atlanta/Sandy Springs/Marietta, GA metro area</td>
<td>Atlanta/Sandy Springs/Marietta, GA metro area</td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td>$693</td>
<td>$896</td>
<td>$896</td>
</tr>
<tr>
<td><strong>Food</strong></td>
<td>$271</td>
<td>$399</td>
<td>$782</td>
</tr>
<tr>
<td><strong>Child Care</strong></td>
<td>$0</td>
<td>$506</td>
<td>$811</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>$450</td>
<td>$454</td>
<td>$583</td>
</tr>
<tr>
<td><strong>Health Care</strong></td>
<td>$272</td>
<td>$413</td>
<td>$826</td>
</tr>
<tr>
<td><strong>Other Necessities</strong></td>
<td>$466</td>
<td>$626</td>
<td>$810</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>$457</td>
<td>$596</td>
<td>$615</td>
</tr>
<tr>
<td><strong>Monthly Total</strong></td>
<td><strong>$2,609</strong></td>
<td><strong>$3,890</strong></td>
<td><strong>$5,324</strong></td>
</tr>
<tr>
<td><strong>Annual Total</strong></td>
<td><strong>$31,303</strong></td>
<td><strong>$46,678</strong></td>
<td><strong>$63,888</strong></td>
</tr>
</tbody>
</table>

Source: EPI Family Budget Calculator: [http://www.epi.org/resources/budget/]
Policies that would raise wages

1. **Raising the minimum wage & tipped minimum**

2. Strengthen and enforce labor standards
   - Wage theft, misclassification, overtime rules
   - Non-competes / mandatory arbitration

3. Paid sick leave / family leave

4. Fair schedule laws / no just-in-time scheduling

5. Strengthen/maintain unemployment insurance

6. Protect the right to organize
Had the minimum wage risen in line with productivity since 1968, it would be over $18

Real and nominal value of the federal minimum wage, and total economy productivity, 1938-2014

Note: The productivity series is total economy productivity net depreciation, indexed to the 1968 real value of the minimum wage. Minimum-wage values are in 2014 dollars deflated by the CPI-U-RS. Projections for productivity growth use CBO Budget and Economic Outlook, 2015 to 2025.

Source: Adapted from Figure A in David Cooper, Raising the Minimum Wage to $12 by 2020 Would Lift Wages for 35 Million American Workers, EPI Briefing Paper #405, July 14, 2015
Annual wage income for a full-time minimum-wage worker, compared with various poverty thresholds, 1964-2014 and 2015-2020 (projected under Raise the Wage Act)

Note: All dollar values are expressed in 2014 dollars.

Source: EPI analysis of Raise the Wage Act using Current Population Survey Outgoing Rotation Group microdata
Federal minimum wage as a share of the median wage and of the average wage of typical workers, 1967–2014 and 2015–2020 (projected under Raise the Wage Act)

Who benefits from a higher minimum wage?

**WHAT PEOPLE THINK**
- Teenager
- Works part time after school
- Lives with parents
- Earning extra spending money

**THE REALITY**
- Average age: 36 years old
- 89% are not teens. They’re 20 or older
- 37% are 40 or older
- 56% are women
- 28% have children
- 57% work full time

On average, they earn more than half of their family’s total income.

Statistics describe civilian workers, ages 16+, that would be affected by an increase in the federal minimum wage to $12.00 by 2020. The median age of affected workers is 31 years old.

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Union membership and share of income going to the top 10%

Source: U.S. Census Bureau and Piketty and Saez (2013)
States with the largest declines in collective bargaining have had slower pay growth

Median hourly compensation growth and change in state collective bargaining coverage, 1979-2012

Note: Excludes Alaska and the District of Columbia.

Source: Adapted from Figure B in David Cooper and Lawrence Mishel, *The Erosion of Collective Bargaining Has Widened the Gap Between Productivity and Pay*, EPI Report, January 6, 2015
Education is important, but not a panacea

Real hourly wages since 2000 by education level (2014$)

For more information

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