State of Working Pennsylvania 2018

August 2018

by Mark Price and Stephen Herzenberg

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About the Authors

Mark Price, KRC's labor economist and research director, holds a PhD in economics from the University of Utah. He is a coauthor of *The New Gilded Age: Income inequality in the U.S. by state, metropolitan area, and county*, published in 2016 by the Economic Analysis Research Network (EARN).

Stephen Herzenberg, KRC's executive director, holds a PhD in economics from MIT. He is a coauthor of *Losing Ground in Early Childhood Education*, published in 2005 by the Economic Policy Institute (EPI), and *New Rules for a New Economy: Employment and Opportunity in Postindustrial America*, published in 1998 by Cornell/ILR Press.

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Executive Summary

"The State of Working Pennsylvania 2018," Keystone Research Center's 23rd annual review of the Pennsylvania economy and labor market finds that, nearly a decade into the current national economic expansion, many Pennsylvania workers are still waiting for a raise. The report points to three factors that help explain this. First, despite low unemployment, some slack remains in the job market. Second, employers—led by giant service-sector employers of millions of low-wage workers—ruthlessly use their market power over workers to repress wages. Third, national and state public policies, shaped by legislatures with Republican majorities and federal courts (including the Supreme Court) dominated by conservative justices, push mostly in the wrong direction. They keep rigging the economy further against ordinary workers. Where Pennsylvania's current governor and attorney general have authority to act independently they have sought to lift wages. Faster and greater progress in Pennsylvania requires state lawmakers to row in the same direction.

The Pennsylvania economy has grown steadily since the current economic recovery began in the middle of 2009. Non-farm employment now exceeds the level in early 2010 by 8%. Unemployment has fallen to less than half its post-recession peak—4.2% in July 2018. Yet Pennsylvania workers' wages remain stubbornly unmoved by steady economic growth.

- Wages for workers throughout most of the Pennsylvania wage distribution *fell* in the 12 months ending in June 2018.
- Over the past decade, wages have also fallen for most of the bottom 60% of Pennsylvania workers.

Meanwhile, top 1% incomes, which took a dive with the stock market crash in and after the Great Recession, are back on the fast track.

- Top 1% earners took home one-third of the increase in Pennsylvania income from 2009-2015 (the latest period for which these data are available).
- And Pennsylvania income other than typical wages and salaries ("non-withholding income"), which goes mostly to high earners (e.g., dividends, capital gains, and profits) increased a robust 7.8% in the last 12 months (i.e., the fiscal year ending in June 2018).

Our three-part explanation for why wages remain stagnant starts with labor market slack. One broad measure of such slack—"underemployment"—includes, in addition to the unemployed, part-time workers who want full-time work and "discouraged workers" who want jobs but have given up looking. Underemployment remains slightly higher today than at its highest level after the recession following the burst of the dot.com stock market bubble in the early 2000s. Underemployment also remains substantially higher than its lowest level before the Great Recession (9.4% versus 7.9%). And the employment-to-population ratio for Pennsylvanians aged 16 and over is well below the 2007 level (59.4% versus 61.7%).

A second reason that wages remain stagnant is that the market power of employers, including giant service corporations that together employ millions of low- and moderate-wage workers: H&R Block, McDonald's and other fast food companies, and the like. Within their franchisees, many such companies use "non-compete agreements"—promises not to poach each other's workers—to short-circuit competition for workers. Therefore, wages become less responsive to low unemployment in a tight labor market.

A third reason: public policy. Lawmakers in every surrounding state have increased their state minimum wage. Pennsylvania lawmakers have not. At the federal level, in June 2018 the U.S. Supreme Court reversed a longstanding policy and eliminated the contributions that public sector unions previously received from non-members those unions represent. This aims to weaken unions' ability to bargain for higher wages and benefits for public workers, as well as their ability to push for policies that raise the wages of private workers (e.g., via a higher minimum wage or high construction worker wages on publicly funded jobs). Eager to kick Pennsylvania workers when they are down, some Pennsylvania lawmakers have jumped in the wake of this U.S. Supreme Court decision with state proposals aimed at maximizing its negative impact on union resources.

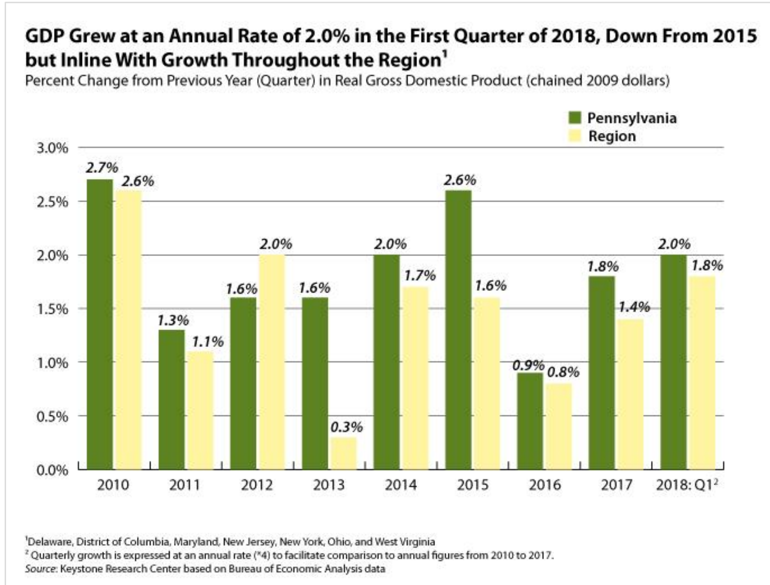
In sum, state policies that we summarized in "State of Working Pennsylvania 2016" as "The Agenda to Lower Pennsylvania's Pay" remain influential with the majority caucus in the legislature. So far, these lawmakers must be considered successful: many of their constituents have inflation adjusted earnings that remain lower than wages for their counterparts 10 years ago.

Governor Wolf, while blocked in his efforts to raise the state minimum wage, has submitted a formal notice of proposed rulemaking to increase the threshold below which all Pennsylvania salaried workers receive overtime pay. And Attorney General Josh Shapiro has spearheaded an effort by attorneys general across many states to get companies to stop using non-compete agreements with lower-wage workers. In 2019 and beyond, a return to broadly shared prosperity requires Pennsylvania lawmakers to enact a more comprehensive agenda to raise the wages of incomes of Pennsylvania workers, such as the ones outlined in our "Agenda to Raise Pennsylvania's Pay" in the "We the People – Pennsylvania" agenda online at www.wethepeoplepa.org.

The State of the Pennsylvania Economy

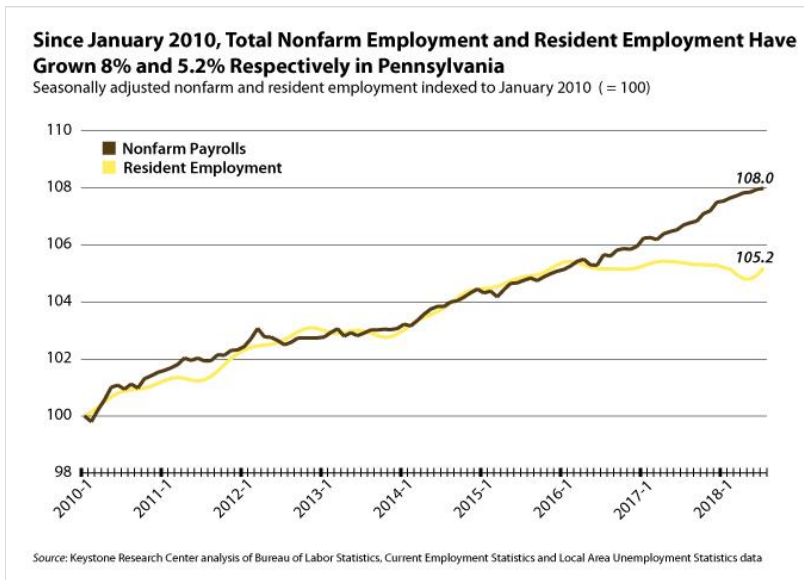
Gross Domestic Product, the broadest measure of economic activity in Pennsylvania, grew at an annualized rate of 2% in the first quarter of 2018 (the most recent quarter of data available). This rate of growth is in line with the 1.8% rate of growth in 2017 and just above the rate of growth in our wider region (defined here to include Delaware, D.C., Maryland, New Jersey, New York, Ohio, and West Virginia) where Gross Domestic Product grew at an annual rate of 1.8% in the first quarter of 2018.

Figure 1



Shifting our focus to employment, the number of workers on the payrolls of non-farm businesses (based on data from employers)—the standard source relied on to measure "job growth"—expanded by an average of 3,843 jobs per month in the first seven months of 2018. An alternative measure of employment, "resident employment"—measured by a survey of some households—moved in the opposite direction, falling 793 jobs a month through this July. The growth of non-farm payrolls and resident employment occasionally diverge over short periods; over longer periods the two measures of employment growth tend to produce similar trends.

Figure 2



Looking across the region, the divergence in non-farm and resident employment growth is also present since 2016 with non-farm payrolls growing in the region by 3% (over the same period they grew 2.7% in Pennsylvania) while resident employment grew by just 1% in the region. (In Pennsylvania, resident employment fell 0.2% over this period.)

Overall, the growth in both Gross Domestic Product and employment in Pennsylvania can be characterized as healthy and consistent with an economy that's expanding. We now turn our attention to labor market statistics that track the underutilization of labor so that we might assess the extent to which the Pennsylvania economy is near full employment.

Unemployment, Underemployment, and Employment Rates

According to the National Bureau of Economic Research[1], the Great Recession ended officially in June 2009, but resident employment and non-farm payrolls didn't begin to rise steadily until early 2010—and it's in early 2010 that the unemployment rate in Pennsylvania peaked at 8.8%. Eight years later, the unemployment rate has fallen by just over half to 4.2% this July (Figure 3), its lowest level since 2007 (Figure 4).

The unemployment rate throughout the region was 4.4% this July. Looking back at the peak of the last four economic expansions, the unemployment rate in Pennsylvania reached a low of 4.5% in February 1989, 4% in February 2000, and 4.2% in February 2007. As of this July, the unemployment rate is at or within three tenths of a percentage point of these previous lows.

A broader measure of the underutilization of labor, the underemployment rate (see Box 1 for a definition) provides

Figure 3

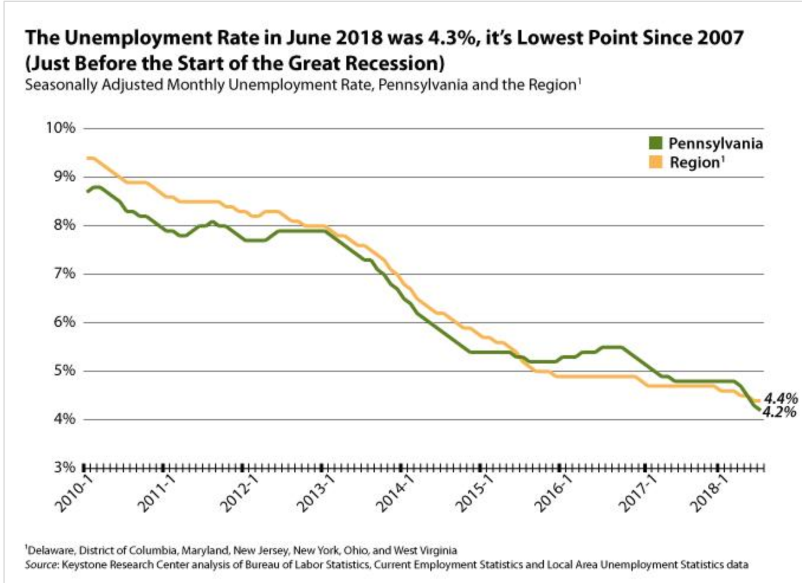
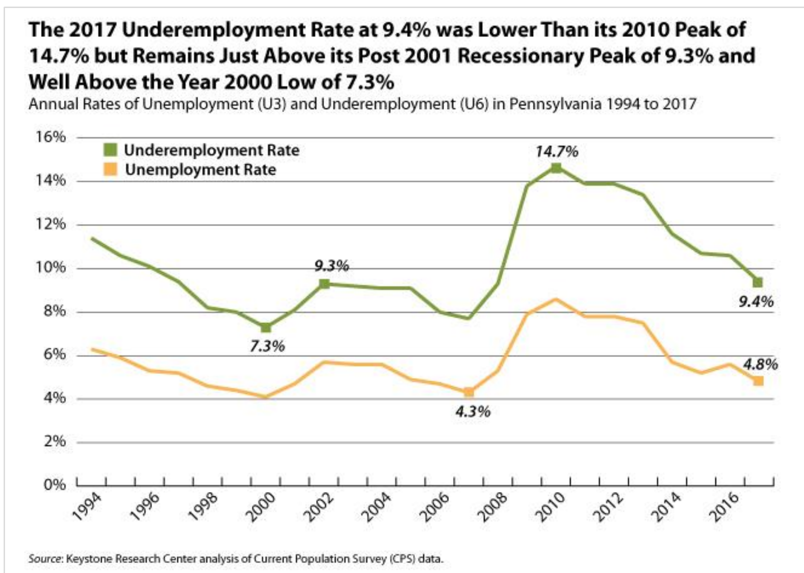


Figure 4



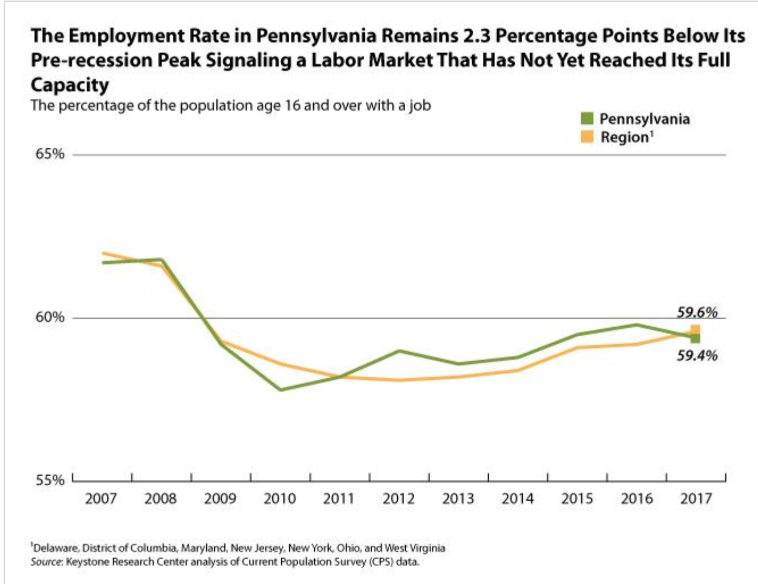
Box 1: The Underemployment Rate

The use of the term underemployment sometimes invokes the idea of workers with a specialized skill or degree working in lower-paying jobs that don't require skills or a degree. The underemployment rate as used here (and as defined by the Bureau of Labor Statistics) doesn't capture whether skills are being fully utilized. It does capture people we traditionally think of as unemployed plus three other groups: those that have looked for work recently (previous four weeks) but can't find it; "discouraged workers"—people not considered unemployed because they haven't looked for work in the previous four weeks but who are ready and willing to work (and have looked for work within the last year); and workers who want full-time work but can't find it and so work part-time. The third group is the biggest of the three other groups.

evidence that although the official unemployment rate is near historic lows there is still some lingering slack in the Pennsylvania labor market.

The underemployment rate has improved substantially since it peaked at 14.7% in 2010. Despite this, at 9.4% the underemployment rate today remains just above the 9.3% peak in 2002, following the dot.com recession of 2001 and one-and-a-half percentage points above the level before the Great Recession.[2]

Figure 5



The final metric to evaluate whether the economy is near full employment is the employment rate or the percentage of the population with a job (Figure 5). At 59.4% the employment rate in Pennsylvania remains 2.3 percentage points below its pre-recession (2007) peak. Employment rates for workers 55 and older have surpassed their pre-recession peaks (Table 1). But for prime-age workers in Pennsylvania, the employment rate at 79.1% remains 1.4 percentage points below its pre-recession peak. Fewer people in the total population working relative to previous years, especially among prime-age workers, demonstrates that the economy has yet to fully utilize the potential universe of employable workers that it had been using before the start of the Great Recession. If the overall employment rate in 2017 was 61.7% (its 2007 level) there would be 240,000 *more employed workers* in Pennsylvania. This persistent slack in the labor market has important implication for workers: it translates into less upward pressure than there might otherwise be on wage levels. When employers can't fill job openings or fail to receive enough job applications they will have to raise the wage they offer to entice workers to apply. With less upward pressure on wages, workers overall will see less income growth. Critically, it's this process during economic expansions that allows workers to see meaningful improvements in their standard of living. Let us now turn our attention to trends in wages over time in Pennsylvania.

Table 1.

The percentage of the population with a job in Pennsylvania and throughout the region, 2007 and 2017

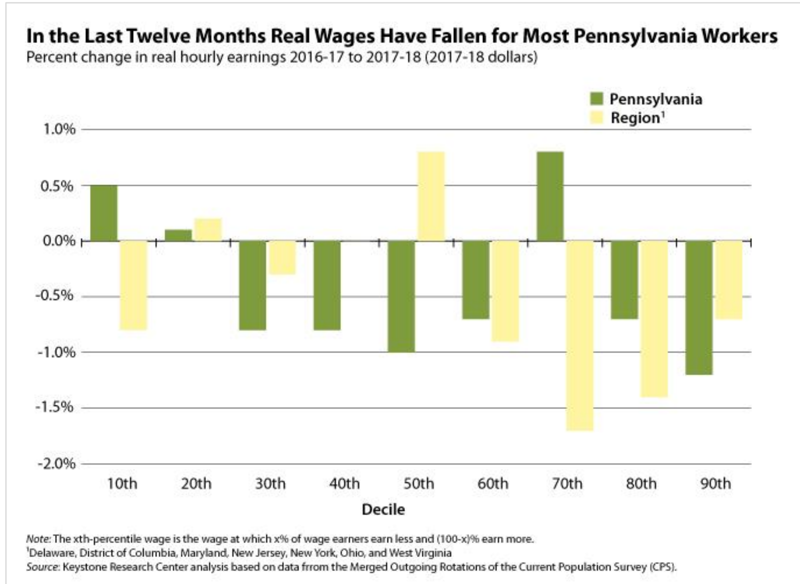
Category	Pennsylvania			Region[1]		
	2007	2017	Percentage Point Difference	2007	2017	Percentage Point Difference
All	61.7%	59.4%	-2.3%	62.0%	59.6%	-2.4%
16-24	54.5%	54.0%	-0.5%	48.6%	47.0%	-1.6%
25-54	80.5%	79.1%	-1.4%	79.6%	78.6%	-1.0%
55 and over	36.2%	38.7%	2.4%	37.9%	39.0%	1.1%

[1]Delaware, District of Columbia, Maryland, New Jersey, New York, Ohio, and West Virginia

Source: Keystone Research Center based on Current Population Survey data

Wage Growth in the Last 12 Months

Figure 6



The economic data on output and employment in Pennsylvania illustrates an economy that is growing but has yet to reach its full potential. Turning our attention to hourly earnings in the 12 months ending this June we find that wages fell for most workers in Pennsylvania and across our region.

Median wages at $18.24 per hour in the 12-month period from July 2017 to June 2018 were down in Pennsylvania by 18 cents or 1% from the previous year (Table 2). In marginally better news, hourly wages for the lowest-paid workers, those at the 10th percentile at $9.51 per hour were up in the last 12 months by 4 cents. Wages also rose to $11.42 for the 20th percentile, by a single cent per hour. The only other group of workers to see a wage increase in the last 12 months were those at the 70th percentile where hourly wages rose 21 cents (an increase of 0.8%) to $25.95.

The underemployment and employment rate data summarized so far suggests the presence of labor market slack in Pennsylvania that is depressing wage growth. Still, the inflation adjusted decline in hourly earnings for most workers in the past 12 months is startling, especially considering the fiscal stimulus injected into the economy over the last eight months.

The Congressional Budget Office projects the federal deficit will rise from 3.5% to 4% of GDP in 2018 (an increase in the deficit of $139 billion over 2017).[3] Economic forecasters are expecting this fiscal stimulus from the Tax Cuts and Jobs Act (TCJA) to boost GDP growth. However, the distribution of the benefits of the TCJA are also widely expected to be skewed toward families with the highest incomes. Here in Pennsylvania, the Institute on Taxation and Economic Policy (ITEP) estimates the top 5% of Pennsylvania taxpayers, those earning $225,900 or more, will capture 51% of the benefits of the TCJA this year (2018).[4] The early returns on hourly wages summarized above point to the so-far limited impact of this poorly targeted fiscal stimulus on wage growth.

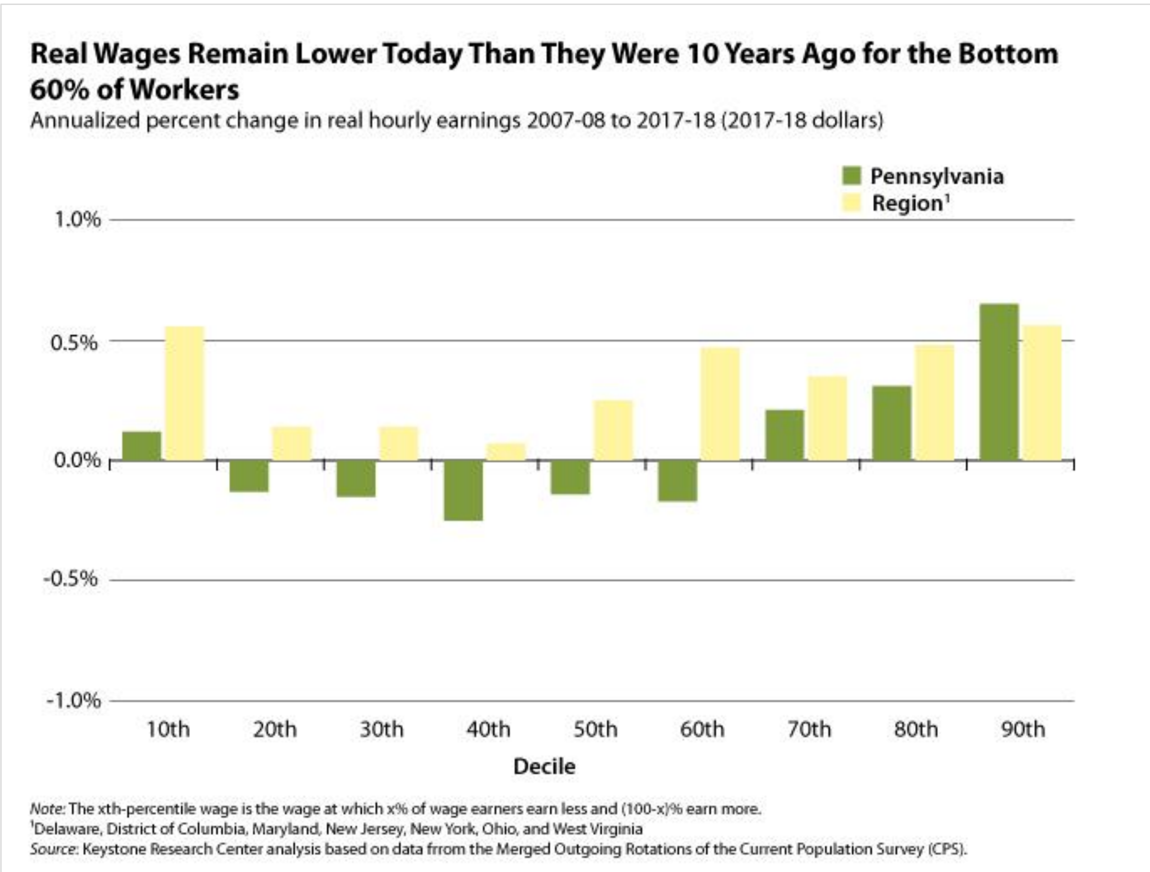
Personal Income Tax Collections in the Last 12 Months

Pennsylvania personal income tax collections also provide some limited information about the distribution of income growth in the wake of the TCJA.[5] In the 2017-18 fiscal year, Pennsylvania personal income tax withholding, which captures income from wages and salaries, grew by 2.1% after adjusting for inflation. In contrast, personal income tax collections on non-withholding income (i.e., income other than wages and salaries such as income from profits, dividends, and capital gains, which goes mostly to upper-income Pennsylvanians) grew after adjusting for inflation by 7.8% in the last 12 months.[6]

While taxpayers with incomes of $250,000 or higher account for just 2.8% of taxpayers, they capture about two-thirds of non-withholding income. While it will be another two years (Summer 2020) before tax data by income will be released, allowing a more precise analysis of the distribution of income growth in Pennsylvania, the early returns point to rapid growth for the top 1% of families and stagnant or falling wages for most other workers.[7]

Wage Growth in the Last 10 Years

Figure 7



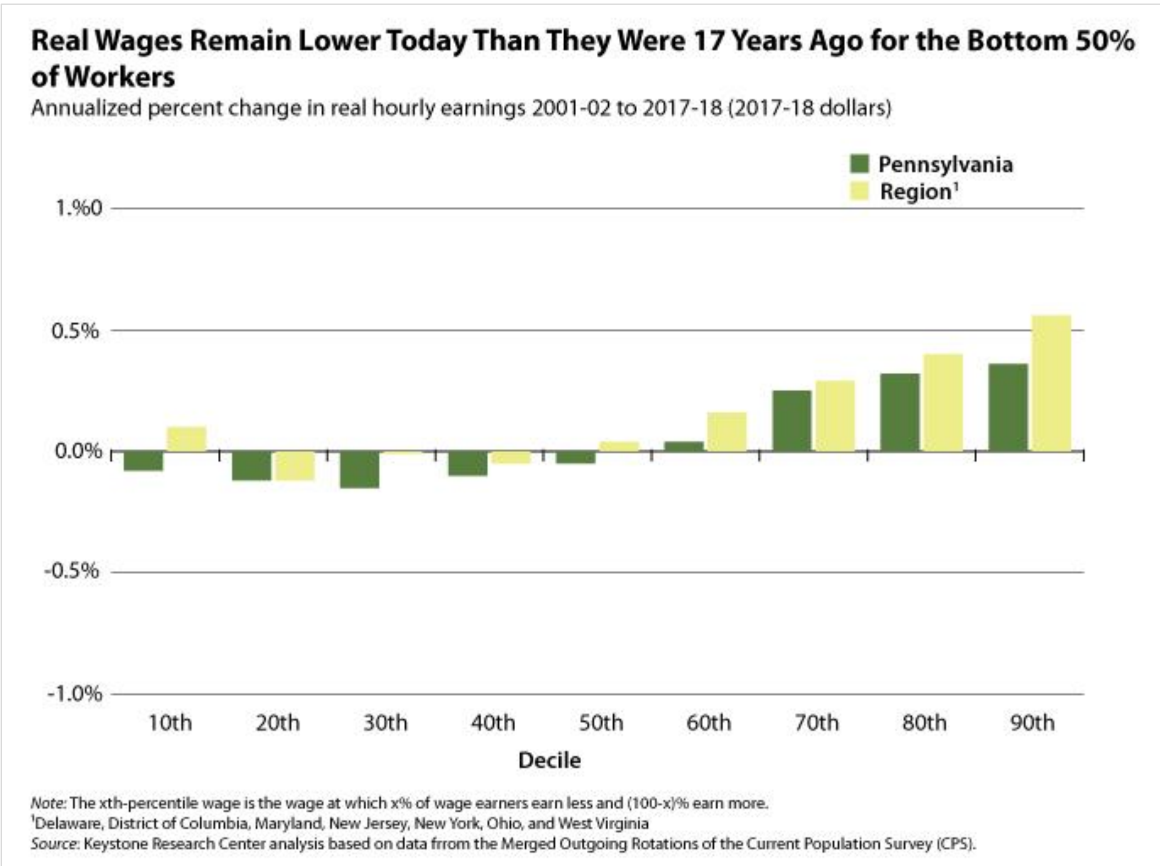
As the business cycle ages, yearly wage trends like those summarized in the previous section are usually positive, reflecting the cumulative impact of job growth and rising employment rates. As more people become employed, and as unemployment and underemployment rates fall, more employers boost wages to drive up applications for their openings.

This points to a key challenge for workers: there need to be enough good years of wage growth in the latter part of an expansion to make up for wage declines in recessions from job loss and the slow growth of wages relative to inflation for workers that keep their jobs during and shortly following a recession. Figure 7 illustrates that hourly wages for the bottom 60% of Pennsylvania workers (those earning less than $21.30 an hour in the last 12 months) remain lower today than they were 10 years ago. Pennsylvania workers have yet some distance to travel to fully recover from the Great Recession.

Throughout the region, wage growth in the last 10 years in other states has been better than in Pennsylvania for all workers except those at the very top (90th percentile). Although regional wage growth was more broadly positive, the pattern of growth is similar to Pennsylvania's, with growth improving as you move to higher percentiles. The one exception to this pattern is wages at the 10th percentile, which in the region have grown faster, up 5 cents a year, (an average annual increase of 0.6%) a trend that reflects, in part, rising minimum wages throughout the region—except in Pennsylvania.

Wage Growth in the Last 17 Years

Figure 8



Looking back 17 years, real wages remain lower today than they were in 2001-02 for the bottom half of Pennsylvania workers. Positive wage growth for workers in the top 40% translated into rising wage inequality in Pennsylvania. (See the final three columns of Table 2 on the next page.)

Josh Bivens and Ben Zipperer of the Economic Policy Institute find that the unemployment rate necessary to generate real wage growth for the typical worker has steadily declined since 1973, a fact which they attribute to decline of worker bargaining power. See their paper "The Importance of locking in full employment for the long haul" at https://goo.gl/a8Jgiy to learn more about the relationship between unemployment rates and wage growth for low-wage workers, the racial employment gap and monetary policy.

Table 2.

Hourly wages by wage percentile in Pennsylvania, 2001-02 - 2017-18 (2017-18 dollars)

	Wage by percentile									Wage ratio		
	10th	20th	30th	40th	50th	60th	70th	80th	90th	50th / 10th	90th / 50th	90th / 10th
2001-02	$9.63	$11.64	$13.76	$15.86	$18.39	$21.17	$24.96	$30.13	$40.42	1.91	2.20	4.20
2007-08	$9.40	$11.57	$13.64	$16.02	$18.51	$21.66	$25.41	$30.72	$40.13	1.97	2.17	4.27
2016-17	$9.47	$11.41	$13.55	$15.74	$18.43	$21.46	$25.74	$31.90	$43.22	1.95	2.35	4.57
2017-18	$9.51	$11.42	$13.43	$15.61	$18.24	$21.30	$25.95	$31.66	$42.72	1.92	2.34	4.49
Annualized percent changes										Wage ratio change		
2001-02 - 2017-18	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.2%	0.3%	0.4%	0.01	0.14	0.30
2001-02 - 2007-08	-0.4%	-0.1%	-0.1%	0.2%	0.1%	0.4%	0.3%	0.3%	-0.1%	0.06	-0.03	0.07
2007-08 - 2017-18	0.1%	-0.1%	-0.2%	-0.3%	-0.1%	-0.2%	0.2%	0.3%	0.6%	-0.05	0.17	0.22
2016-17 - 2017-18	0.5%	0.1%	-0.8%	-0.8%	-1.0%	-0.7%	0.8%	-0.7%	-1.2%	-0.03	0.00	-0.07

Source: Keystone Research Center analysis based on data from the Merged Outgoing Rotations of the Current Population Survey.

Table 3.

Hourly wages by wage percentile in the Region[1], 2001-02 - 2017-18 (2017-18 dollars)

	Wage by percentile									Wage ratio		
	10th	20th	30th	40th	50th	60th	70th	80th	90th	50th / 10th	90th / 50th	90th / 10th
2001-02	$9.71	$12.01	$14.10	$16.75	$19.67	$23.19	$27.64	$33.65	$44.82	2.03	2.28	4.62
2007-08	$9.35	$11.63	$13.89	$16.50	$19.31	$22.93	$27.93	$34.18	$46.25	2.07	2.39	4.95
2016-17	$9.95	$11.76	$14.12	$16.60	$19.64	$23.99	$29.41	$36.35	$49.17	1.97	2.50	4.94
2017-18	$9.87	$11.79	$14.08	$16.60	$19.79	$23.77	$28.90	$35.83	$48.84	2.01	2.47	4.95
Annualized percent changes										Wage ratio change		
2001-02 - 2017-18	0.1%	-0.1%	0.0%	-0.1%	0.0%	0.2%	0.3%	0.4%	0.6%	-0.02	0.19	0.33
2001-02 - 2007-08	-0.6%	-0.5%	-0.2%	-0.2%	-0.3%	-0.2%	0.2%	0.3%	0.5%	0.04	0.12	0.33
2007-08 - 2017-18	0.6%	0.1%	0.1%	0.1%	0.2%	0.4%	0.3%	0.5%	0.6%	-0.06	0.07	0.00
2016-17 - 2017-18	-0.8%	0.2%	-0.3%	0.0%	0.8%	-0.9%	-1.7%	-1.4%	-0.7%	0.03	-0.04	0.01

[1]Delaware, District of Columbia, Maryland, New Jersey, New York, Ohio, and West Virginia

Source: Keystone Research Center analysis based on data from the Merged Outgoing Rotations of the Current Population Survey.

Table 4.

Hourly wages by wage percentile in the U.S., 2001-02 - 2017-18 (2017-18 dollars)

	Wage by percentile									Wage ratio		
	10th	20th	30th	40th	50th	60th	70th	80th	90th	50th / 10th	90th / 50th	90th / 10th
2001-02	$9.53	$11.42	$13.66	$15.62	$18.22	$21.23	$25.39	$30.83	$40.81	1.91	2.24	4.28
2007-08	$9.29	$11.36	$13.19	$15.52	$18.05	$21.39	$25.58	$31.52	$42.28	1.94	2.34	4.55
2016-17	$9.80	$11.31	$13.38	$15.56	$18.46	$21.81	$26.27	$33.23	$45.96	1.88	2.49	4.69
2017-18	$9.81	$11.33	$13.39	$15.56	$18.26	$21.60	$26.10	$32.90	$45.44	1.86	2.49	4.63
Annualized percent changes										Wage ratio change		
2001-02 - 2017-18	0.2%	0.0%	-0.1%	0.0%	0.0%	0.1%	0.2%	0.4%	0.7%	-0.05	0.25	0.35
2001-02 - 2007-08	-0.4%	-0.1%	-0.6%	-0.1%	-0.2%	0.1%	0.1%	0.4%	0.6%	0.03	0.10	0.27
2007-08 - 2017-18	0.6%	0.0%	0.2%	0.0%	0.1%	0.1%	0.2%	0.4%	0.7%	-0.08	0.15	0.08
2016-17 - 2017-18	0.1%	0.2%	0.1%	0.0%	-1.1%	-1.0%	-0.6%	-1.0%	-1.1%	-0.02	0.00	-0.06

Source: Keystone Research Center analysis based on data from the Merged Outgoing Rotations of the Current Population Survey.

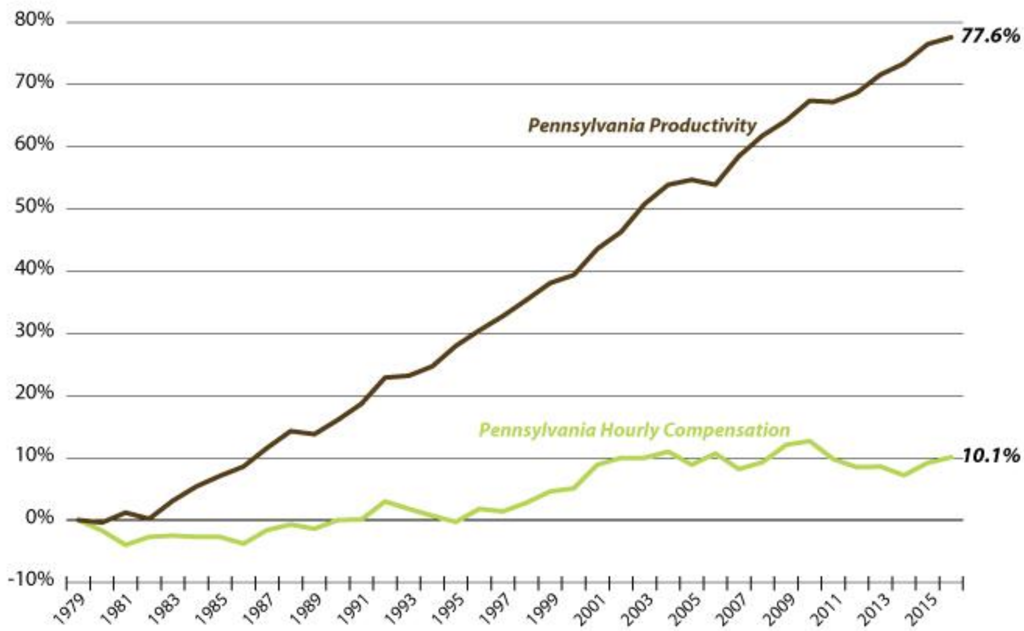
Productivity and Compensation Growth in Pennsylvania since 1979

Since 1979, median hourly compensation (wages plus benefits) has grown 10.1% to $22.39. Over the same period, productivity has grown 77.6% or more than seven times as much. This growing wedge between median compensation and productivity in Pennsylvania is a key driver of the sharp increase in family incomes at the top of the income distribution in the Commonwealth. We now turn our attention to the growth of incomes at the top.

Figure 9

While Hourly Compensation in Pennsylvania has Grown 10.1% Since 1979, Productivity Over the Same Period has Grown 77.6%

Cumulative percent change since 1979 in real hourly median compensation (wages and benefits) and productivity, 1979-2016



Source: EPI analysis of unpublished total economy data from Bureau of Labor Statistics, Labor Productivity and costs program; employment data from Bureau of Labor Statistics, Local Area Unemployment Statistics; wage data from the Current Population Survey and compensation data from the Bureau of Economic Analysis, State/Nationa Income and Product Accounts public data series

This July, Keystone Research Center's executive director Stephen Herzenberg and his co-author Jonathan White issued a report: "Democracy in Pennsylvania."

The report found that Pennsylvania's democracy is not healthy, as measured by the amount of money in politics, electoral competition (do voters have choices in primary and general elections?), political participation (e.g. voter turnout), and confidence in government. The report also concluded that the citizens of Pennsylvania still have the power to revitalize their democracy.

Read more about the opportunity to reverse Pennsylvania's drift towards oligarchy at https://goo.gl/fJcE2o.

Top Incomes 1917 to 2015

The wage trends discussed so far are drawn from a survey of households that for a variety of technical reasons tend to understate top incomes.[8] For better data on the highest earners, we rely on estimates of top incomes based on tax data published by the Internal Revenue Service.[9]

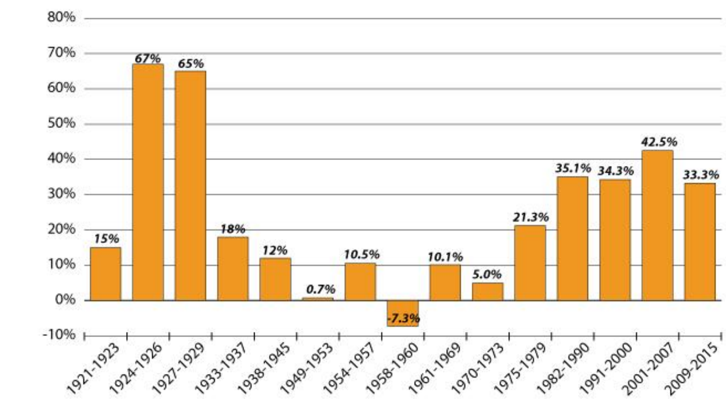
As we discussed when examining wage trends, the growth in incomes tends to be more broadly distributed as the economic expansion ages: as the labor market gets closer to full employment, the pressure on employers to raise wages increases. Of course, the rising tide of economic activity also pushes up other non-wage income like dividends, rents, and capital gains.

Figure 10 illustrates that in more recent economic expansions, the top 1% in Pennsylvania have received a rising share of total income growth. During the five economic expansions between 1945 and 1970, the top 1% captured less than 11% of income growth with the remainder flowing to the bottom 99%. Starting in the late ’70s, the top 1%’s take of income growth during expansions has steadily increased from 21% to 42.5% in the expansion from 2001 to 2007. So far, in the current expansion (2009 to 2015), the top 1% has taken home 33.3% of all income growth.

Figure 10

Economic Expansions Since 1973 in Pennsylvania Have Disproportionately Benefited the Top 1%

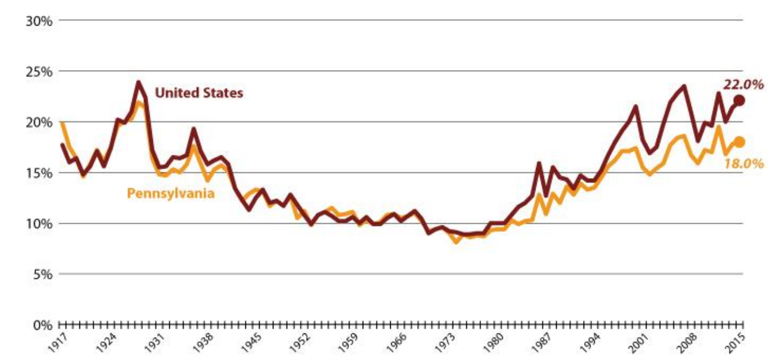
The top 1%'s share of real income growth in Pennsylvania during economic expansions 1921 to 2015 (2015 dollars).



Note: Not pictured above is the economic expansion from 1945 to 1948 when only the average income of the bottom 99% increased (0.1%) while average incomes at the top 1% fell 9.8% pulling down overall income growth by 1.3%.
Source: Estelle Sommeiller and Mark Price. 2018. The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County. Economic Policy Institute, July 2018.

Figure 11

The Share of All Income Held by Top 1 Percent



Source: Sommeiller, Estelle, and Mark Price. 2018. The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County. Economic Policy Institute, July 208.

In 2015, the average income of the top 1% of families in Pennsylvania (a group that includes 67,993 families) was $1.1 million with the threshold for entering the top 1% of $388,593. The average income of the top 0.01% of families (a group that includes 679 Pennsylvania families) was $24.2 million.

See a national report by Keystone Research Center labor economist Mark Price and French economist Estelle Sommeiller on top incomes all across the country at https://goo.gl/17ZM5J

Why does the uneven split of income growth matter?

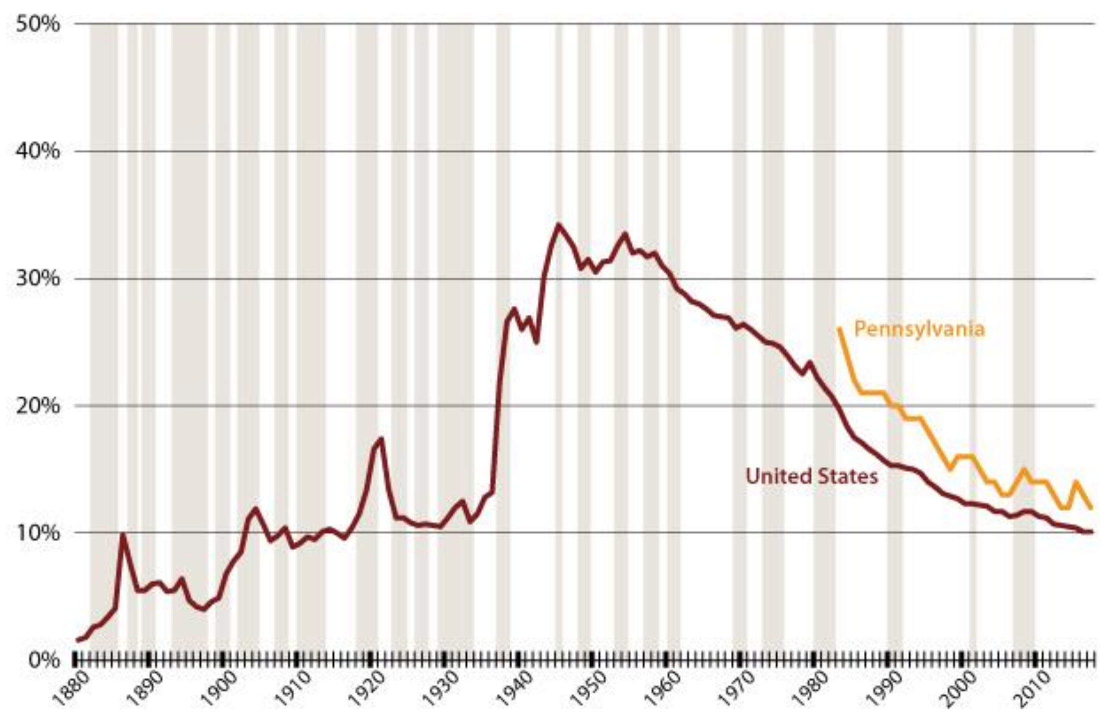
As a disproportionately large share of growth is captured by the top 1% during expansions their total share of all income will rise. In 1973, before the beginning of the new gilded age, the top 1% of Pennsylvania families took home just 9% of all income. Thanks to the uneven distribution of income growth since 1973, today the top 1% in Pennsylvania take home 18% of all income. Absent changes in economic policy that lead to more broadly shared wage and income growth, the concentration of income in Pennsylvania may soon surpass the 21.9% peak reached in 1928.

The Erosion of Bargaining Power for Pennsylvania Workers

Figure 12

Over One in Four Pennsylvania Non-Agricultural Workers Were Union Members in 1983: Today Just One in Eight Workers are Union Members

Percentage of non-agricultural workers that are members of unions in the U.S. and Pennsylvania, 1880-2017 (recessions shaded in grey)



Source: Union membership and non-agricultural employment estimates from 1880-1995 from Richard B. Freeman, "Spurts in Union Growth: Defining Moments and Social Processes", NBER Working Paper 6012. Union membership estimates from 1995-2017 Keystone Resarch Center analysis of the Current Population Survey (Number of Union Members) and Current Employment Statistics (Nonagricultural Employment).

"Our results show that over the last nine decades, when unions expand, whether at the national level or the state level, they tend to draw in unskilled workers and raise their relative wages with significant impacts on inequality."

Source: Farber, Henry, Daniel Herbst, Ilyana Kuziemko, and Suresh Naidu, *Unions and Inequality Over The Twentieth Century: New Evidence from Survey Data*. National Bureau of Economic Research Working Paper 24587, http://www.nber.org/papers/w24587

Just over one in four workers in Pennsylvania were members of unions in 1983; today that figure is one in eight. The falling representation of workers by unions in Pennsylvania, which has mirrored national trends (Figure 12), is a contributor to the growing gap between productivity growth and hourly compensation.

Celine McNicholas, Heidi Shierholz, and Samantha Sanders have advanced a bold set of reforms aimed at restoring bargaining power for workers. Their report "First Day Fairness: An agenda to build worker power and ensure job quality." is available online at https://goo.gl/Nz4Kk5

Unions raise wages for workers they represent and tend to lift wages even in non-union workplaces as employers seek to avoid unionization by maintaining higher wages as a means of avoiding union organizing drives. As unions have declined, fewer and fewer workers see a share of their rising productivity show up in their paychecks either directly through collective bargaining or indirectly as their employers raise wages to avoid union organizing.

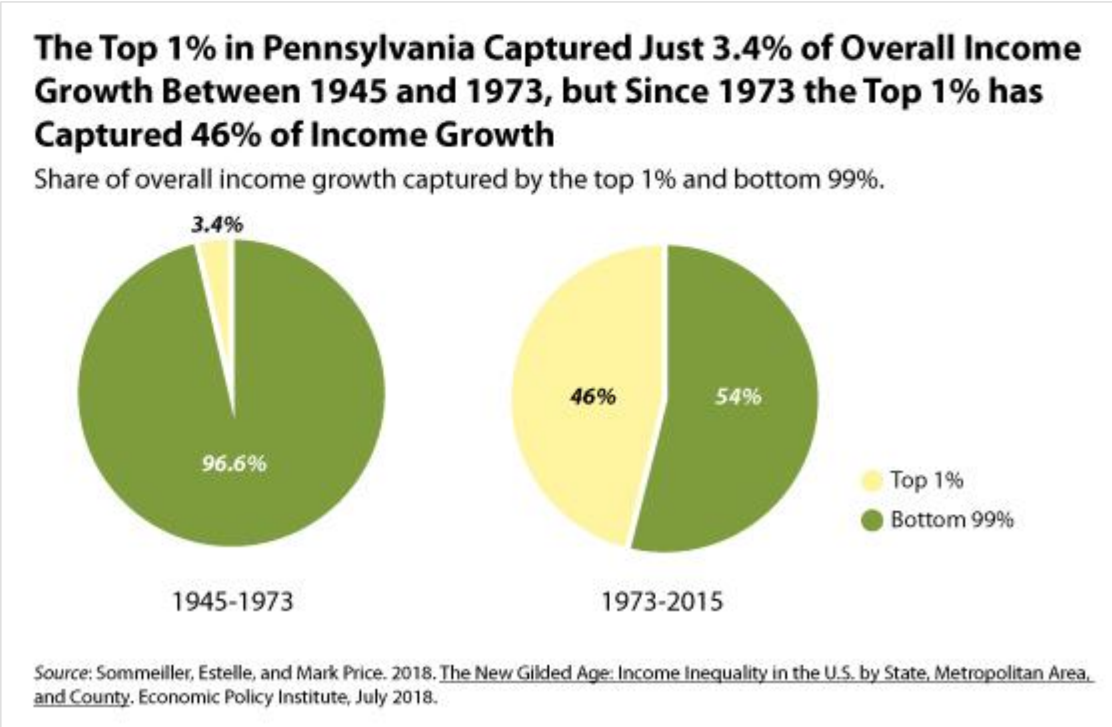
For low-wage workers the loss of bargaining power implied by the declining power of unions has been amplified by the falling purchasing power of the minimum wage, down 28% since 1968.[10]

In recent years, bargaining power has also been eroded by the growth of giant service-sector corporations, which have great leverage (or "monopsony power") when bargaining with individual workers in the job market. Companies with 10,000 or more employees now account for 28% of U.S. employment, up from 24% in 1995.[11] Adding in franchises, misclassified independent contractors, low-wage subcontractors, and other gig workers would increase the share of the workforce over which these quasi-monopolies exert overwhelming influence. Economic research documents the way employers use their monopsony power to drive down wages—and how anti-trust policy could be used to combat these abuses.[12]

One specific way that large employers suppress wage growth is by restricting worker mobility to move to a similar employer for a higher wage. This hobbles the capacity of normal market forces to boost wage growth for low-wage workers. Currently, it is estimated that a quarter of American workers are restricted by their employer from taking another job through so called "non-compete" or "no-raid pacts"; 21% of workers earning less than the median wage are currently, or have been, restricted in their mobility by one of these agreements.[13] An examination of franchise agreements covering franchises like McDonald's, Burger King, Jiffy Lube, and H&R Block, finds that 58% of those agreements include "no poaching" clauses preventing one franchisee, say at a McDonald's, from hiring an employee of another McDonald's franchisee.

The casual observer is probably surprised to hear that these kinds of agreements are common in low-wage industries. They also have pernicious effects on the broader economy, especially through the distribution of wages and income during expansions. As the economy recovers from a recession, employers faced with new customers and orders seek to hire new workers. Initially, thanks to high unemployment, employers find a deep pool of applicants; but as unemployment falls, employers seeking to expand and or replace workers will find a smaller and smaller pool of applicants to draw from. In a normal market process, employers that have difficulty filling openings will begin offering higher wages to attract more applicants. However, a significant share of workers in the economy are either directly prohibited from chasing higher wages or face a labor market where a significant number of employers are colluding to prevent them from getting higher-wage jobs. Combine this with the falling purchasing power of the minimum wage and declining union power, and the end result is slower wage growth for low- and middle-income workers. Falling union density, falling minimum wages, and collusion by employers has contributed to an economy in which the top 1% of Pennsylvania families has captured 46% of income growth since 1973 (Figure 13).

Figure 13



Conclusion

Last year's State of Working Pennsylvania highlighted from our "Agenda to Raise Pennsylvania's Pay" (available at http://bit.ly/2x6jlI0) made two key policy recommendations, raising the Pennsylvania minimum wage and updating Pennsylvania's rules governing overtime pay.

> See our joint release with the National Employment Law Project estimating the number of workers by county impacted by the new overtime regulations.
>
> *"Wolf Proposal Would Restore 40-Hour Work Week and Fair Overtime Pay for 465,000 PA Salaried Workers"*
>
> *Available at* https://goo.gl/8kYi7M

Pennsylvania has made significant progress since last year's report. Specifically, this June, Governor Tom Wolf issued a notice of his intention to restore guaranteed overtime pay for Pennsylvania salaried employees earning between about $24,000 and $48,000 when they work more than 40 hours in a week. (For a detailed background on the overtime issue, see the box above and to the right.) This change would benefit an estimated 465,000 Pennsylvania salaried employees statewide, including up to 20% of workers in some lower-wage rural counties with shortages of family-supporting jobs. The first round of public comment on the proposed regulations concluded earlier this August.

Under Pennsylvania law, Governor Wolf has the authority to increase the overtime pay threshold without passage of legislation by the General Assembly. In contrast to the minimum wage where the state legislature must act if workers are to receive an increase, the news is much less positive. The General Assembly still has not moved any legislation that would increase Pennsylvania's minimum wage through either the House or Senate Labor and Industry Committees towards a full vote on the House and Senate floor. A minimum wage increase in Pennsylvania is long overdue and continued inaction is contributing to the slow growth in earnings for workers earning less than $15 an hour.

> See our estimates of the number of workers affected and the characteristics of the workers affected by a minimum wage increase to $15 by 2024. The factsheets present, when possible, data specific to counties, state senate, and state house districts as well as some data by congressional district on a federal increase in the minimum wage as proposed under The Raise The Wage Act of 2017.
>
> Available at https://www.keystoneresearch.org/factsheets18

In another important area, related to noncompete agreements and no poaching clauses, a second statewide elected official has the ability to weigh in on the workers' side without being blocked by the legislature. And Attorney General Josh Shapiro has done exactly that (https://goo.gl/qPqpwz). On July 9, he and attorneys general from nine other states and the District of Columbia sent a letter (https://goo.gl/dKkFEP) to Arby's, Burger King, Dunkin' Donuts, Five Guys, Little Caesars, Panera Bread, Popeyes Louisiana Kitchen and Wendy's asking these restaurants to provide documents that include copies of franchise agreements and communications related to no-poach provisions. One possible model for a multi-state agreement is the agreement secured in July by the Washington state attorney general (https://goo.gl/rnQMJ2) with Arby's, Auntie Anne's, Buffalo Wild Wings, Carl's Jr., Cinnabon, Jimmy John's, and McDonald's to not enforce existing agreements and not enter any new agreements that would prevent their employees from accepting employment from another franchise location for higher pay. If these agreements are also being used in Pennsylvania they serve no purpose other than restraining competition and ultimately limiting the growth in wages for Pennsylvania workers. A multi-state effort to restrict their use will boost wages for Pennsylvania workers.

In 2019 and beyond, a return to broadly shared prosperity requires Pennsylvania lawmakers to enact a more comprehensive agenda to lift up the wages of incomes of Pennsylvania workers such as the ones outlined in our "Agenda to Raise Pennsylvania's Pay" in the "We the People Pennsylvania" agenda online at www.wethepeoplepa.org.

[1] See http://www.nber.org/cycles.html.
[2] We present calendar year estimates in the main body, but the Bureau of Labor Statistics does publish a rolling average; the latest figure is 9% for the twelve months between the third quarter of 2017 and the second quarter of 2018 (https://www.bls.gov/lau/stalt.htm).
[3] See Table 2 on page 8 of the Congressional Budget Office, The Budget and Economic Outlook 2018 to 2028. April 2018, https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf
[4] Steve Wamhoff, Extensions of the New Tax Law's Temporary Provisions Would Mainly Benefit the Wealth, Institute on Taxation and Economic Policy, April 10, 2018, http://itep.org/wp-content/uploads/TCJA-2018-2026-national-and-state-tables-for-download.xlsx
[5] See the Pennsylvania Department of Revenues Monthly Revenue Reports https://www.revenue.pa.gov/GeneralTaxInformation/News%20and%20Statistics/ReportsStats/MRR/Pages/default.aspx.
[6] Although non-withholding personal income tax collections have grown quickly in the last twelve months surging in particular by 25% in January 2018 total general fund collections in Pennsylvania were still $137 million below projections in fiscal year 2017-18.
[7] According to data from the Bureau of Labor Statistics adjusted for inflation, average hourly earnings for private sector workers in Pennsylvania fell 0.5% in the 12 months ending this June. Enter SMU42000000500000003 at https://data.bls.gov/cgi-bin/srgate to access this data.
[8] Two key reasons that top incomes are understated in the Current Population Survey, our source for trends in hourly wages, are the non-disclosure of the highest incomes by the Census Bureau to protect the anonymity of survey participants and the difficulty of sampling the highest earners who represent a tiny fraction of the population.
[9] Estelle Sommeiller and Mark Price. 2018. The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County. Economic Policy Institute, July 2018.
[10] Inflation adjustment based on the CPI-U-RS with inflation for 2018 (current as of this publication through July) assumed to be 2% for all of 2018.
[11] Meanwhile, the share of U.S. employment in companies with fewer than 20 employees fell from 22% to 18% since 1983. David Leonhardt, "The Charts That Show How Big Business Is Winning," *New York Times*, June 17, 2018; https://www.nytimes.com/2018/06/17/opinion/big-business-mergers.html. Leonhardt's data come from the Census Bureau Longitudinal Business Database 1977-2014, online at https://www.census.gov/ces/dataproducts/bds/data_firm.html.
[12] Suresh Naidu, Eric A. Posner, and Glen E. Weyl, "Antitrust Remedies for Labor Market Power," *Harvard Law Review*, forthcoming; available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3129221.
[13] Alan Krueger and Eric Posner. 2018. *A Proposal for Protecting Low-Income Workers from Monopsony and Collusion*. The Hamilton Project, Brookings, http://www.hamiltonproject.org/assets/files/protecting_low_income_workers_from_monopsony_collusion_krueger_posner_pp.pdf