



Understanding the Status of American Workers Through Analysis of Current Population Survey Data

*By The Ludwig Institute for Shared Economic Prosperity (LISEP)
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Executive Summary

A key to understanding the health of the economy on a micro level is a thorough and accurate indicator of the growth over time of wages and earnings. Through observation of these data, in tandem with other economic indicators, one can glean information on the health of the economy and its ability to sustain individuals and families.

Among the closely scrutinized economic indicators is the Median Weekly Earnings Report, issued quarterly by the Bureau of Labor Statistics (BLS). Drawn from the Current Population Survey (CPS) – compiled by BLS and the U.S. Census Bureau – the earnings report remains the most comprehensive data set available, and provides valuable information that, in turn, is used as the basis for national economic policy.

While the data remain the most accurate assessment of wages and earnings in the U.S., the current presentation can lead to misinterpretation. In the hands of economic policymakers, this could result in initiatives that ignore the sectors most in need, or even result in policies that could be counterproductive.

Some examples of how the BLS Earnings Report could be misleading include:

- By using median weekly wages of only full-time wage earners, the report is biased upward during times when low- and moderate-income earners lose their jobs. For instance, if only executive positions remained in the workforce, the median income would go up.
- Through the omission of part-time workers, the report is biased upward – even though extensive part-time employment could be an indication of a weak economy.

- In the omission of unemployed members of the workforce – even while including these numbers in the monthly BLS unemployment report – wages, and the ability of workforce participants to support themselves and their family, are overstated.

To present a clearer picture of worker earnings, the Ludwig Institute for Shared Economic Prosperity (LISEP) has developed the True Weekly Earnings (TWE) report. By including all members of the workforce – including part-time and jobless who are seeking work – policymakers will have access to a more comprehensive indicator of how the job market is performing as a whole.

Just as LISEP's True Rate of Unemployment (TRU) focused a wider lens on unemployment to include the marginally and functionally unemployed, TWE employs a snapshot of the labor force as a window to the larger economy. This allows for a more accurate picture regarding the status of low- and middle-income families, as it provides these families full representation in data, regardless of current employment status.

Upon analysis of the data for TWE, initial findings include:

- Over the last 20 years, the BLS report has overstated the growth in earnings by more than one-third when compared to the LISEP data (13% versus 9%).
- The BLS data is particularly suspect during times of economic downturns. During the 2008 recession and during the 2020 recession, BLS reported increases in median earnings of about 5% and 7% for each downturn, respectively. LISEP's TWE showed declines of about 2% for both time periods – a more accurate reflection of what workers were experiencing at the time.
- BLS earnings data by demographics are also misleading. The BLS reports that since 2000, Black workers have seen their earnings grow roughly equivalent to White earners. But the LISEP analysis shows a significant gap in earnings, with White earnings increasing by 16.2%, while Blacks saw only a 7.9% gain.

LISEP further compared its earnings data with other economic measures, including Gross Domestic Product (GDP) and corporate earnings, which provided some eye-opening revelations. GDP outpaced earnings by about five times (45.3% versus 9%), while domestic corporate profits ballooned by 119% since 2000.

It is worth noting that though the wage data used is Consumer Price Index (CPI) adjusted, the CPI does not tell the whole story for middle- and lower-income Americans. For example, during the same period used for calculating earnings data, educational costs increased 147.3%, housing 64.9%, medical care 104%, and food 62.7%. All of these increases are greater than that

of the general CPI in the U.S. These goods and services are essential to socioeconomic mobility and have generally been a larger part of the budgets of middle- and lower-income individuals.

Introduction

Understanding U.S. labor market conditions in terms of wages, wage growth, and how they relate to socio-economic dynamics is a cornerstone of the creation and implementation of economic policy, as it provides a snapshot of the ability of American families to earn a living and actively participate in the economy, as well as accumulate and grow wealth. For more than 80 years, this window into the American labor force has been provided by the CPS. The CPS continues to provide immensely important information that sheds light on us as individuals and as a society – our work, our earnings, and our education.

The headline number from the CPS report that is widely used, Median Weekly Earnings of Full Time Wage and Salaried Workers, is published in the report of Usual Weekly Earnings of Wage and Salary Workers and is commonly cited to depict the welfare of the U.S. workforce, both in terms of bargaining power and earnings capacity. These statistics can have significant policy and real-world implications. Bargaining power, for instance – which refers to the ability of a worker to negotiate a higher wage – is higher when a worker is highly productive, or when fewer replacement-level workers are available. There is a direct correlation between bargaining power and wages.

While the CPS remains the gold standard for comprehensive earnings data in the U.S., the headline numbers based on these data are misleading. While not commonly known, the earnings report does not include the entire universe of workers within the BLS-defined labor force, nor does it include those outside of the workforce. It includes only workers that are employed full-time. By excluding individuals working part time or who are unemployed – a sizable, fluctuating and crucial part of the workforce – the flawed nature of the statistic becomes glaringly evident, particularly during times of economic crisis. This is can be particularly misleading, considering that the BLS unemployment data not only includes part-time workers as employed, but counts as employed workers who may only work a single hour in a two-week period.

For example, in Q2 of 2020 – when the economy was contracting more severely than it had since the Great Depression – this wage statistic indicated that earnings had increased by nearly 7% in a single quarter, the largest increase in earnings since the BLS started reporting the statistic in 1978. Meanwhile, the jump in the BLS-reported unemployment rate from March to April in the same year, from 4.4% to 14.7%, represented the largest ever recorded.

LISEP has created a new statistic to correct for this flaw. Just as LISEP announced in October 2020 the creation of TRU to better reflect the status of jobless Americans to include those unable to find living-wage jobs, the Ludwig Institute has created the TWE statistic as a measure of what American workers are actually earning. TWE takes the median earnings from the entire labor force, including all employed people and also those actively seeking employment. Thus, this measure better depicts the earnings of the entire U.S. workforce. It is also a more accurate measure of labor bargaining power, which is lower during periods of high unemployment, even if the earnings of those with full-time employment remains high.

Methodology

To calculate TWE, LISEP employs the CPS's Outgoing Rotational Group Study, a study based on one-fourth of the survey respondents who are asked specific questions regarding their earnings. This is identical to the data used by the BLS in its CPS earnings report.¹ LISEP then uses the same methodology to calculate the entire labor force's median earnings, excluding the self-employed. LISEP then repeats this process to construct the median earnings of the workforce by gender, race/ethnicity, and educational level.

Initial Findings

For the purpose of this study, "real earnings increase" refers to CPI-adjusted earnings, which is considered a better measure of actual spending power than nominal earnings. LISEP updates past wages to be shown in the current dollar value of the most recent release. Given this framework for analysis, LISEP has made several revealing observations regarding the growth and current status of median earnings in the U.S., both from a general standpoint and based on demographic identifiers, which include race, gender, and educational attainment:

- The growth of real earnings for the overall labor force has been overstated over time, particularly in times of economic crisis;

¹ While the BLS also publishes other earnings metrics, none are as comprehensive or widely used as the earnings report that uses the CPS. The Current Employment Survey (CES) does report earnings for both full- and part-time employees, but it is easily skewed by higher-earning employees, given that it reflects an average rather than a median, and also excludes agricultural workers, a major sector of the workforce.

The BLS also publishes the Quarterly Census of Employment and Wages (QCEW). The QCEW reports average wages at about a half-year lag for 95% of the workforce. While this survey does report detailed historical analysis at an industry and geographical level, there are notable deficiencies. First, the report is issued with a six-month lag, limiting its usefulness for real-time decision making. Second, the QCEW also reports average wages. There are several yearly measures that report income and wages, but these do little to satisfy the need for real-time analysis of the workforce.

- Contrary to the BLS-reported data, the racial divide has grown among wage earners in the 21st century;
- While the gender gap is closing, it is doing so at a much slower pace than the government-reported rate;
- Earning potential as a function of educational attainment has remained flat, with pronounced gaps between each subsequent attainment level.

Overall Labor Force

In producing the BLS's headline number, the exclusion of key segments of the workforce – particularly those forced into part-time employment, and those who are unemployed but seeking work – leads to a significant underreporting of the plight of low- and moderate-income wage earners in the U.S. In times of crisis, when policy decisions rely on comprehensive statistics, the BLS numbers become more unreliable, as they exclude those hit hardest by economic downturns: displaced workers, or those who have experienced a reduction in their working hours.

The LISEP analysis shows that the BLS reports a cumulative 12.9% increase in earnings since 2000 and some of the most significant increases occurred during severe economic crises. For instance, during the 2008 financial crisis, BLS-reported real earnings went up 5% in the second half of the year, and in 2020 – while the nation was experiencing the most severe economic contraction since the Great Depression – BLS-reported real earnings increased by 7% in a single quarter (see Figure 1).

Meanwhile, the LISEP measure presents a much more somber picture, albeit a more accurate reflection of what wage earners were experiencing at the time. The TWE has increased by a mere 9.2% since 2000 – about a third less than reported by BLS. And while the BLS reported healthy increases in real earnings during the two most recent economic recessions, LISEP's TWE shows a *decrease* of 2% in 2008, and a similar decline in 2020 (see Figure 2).

The BLS reports that the median real weekly earnings are currently \$984, annualized to about \$51,186 a year for the average worker. But LISEP shows that the median weekly paycheck for someone in the workforce is about \$797, amounting to \$41,444, or about 20% less than the BLS number.

Figure 1

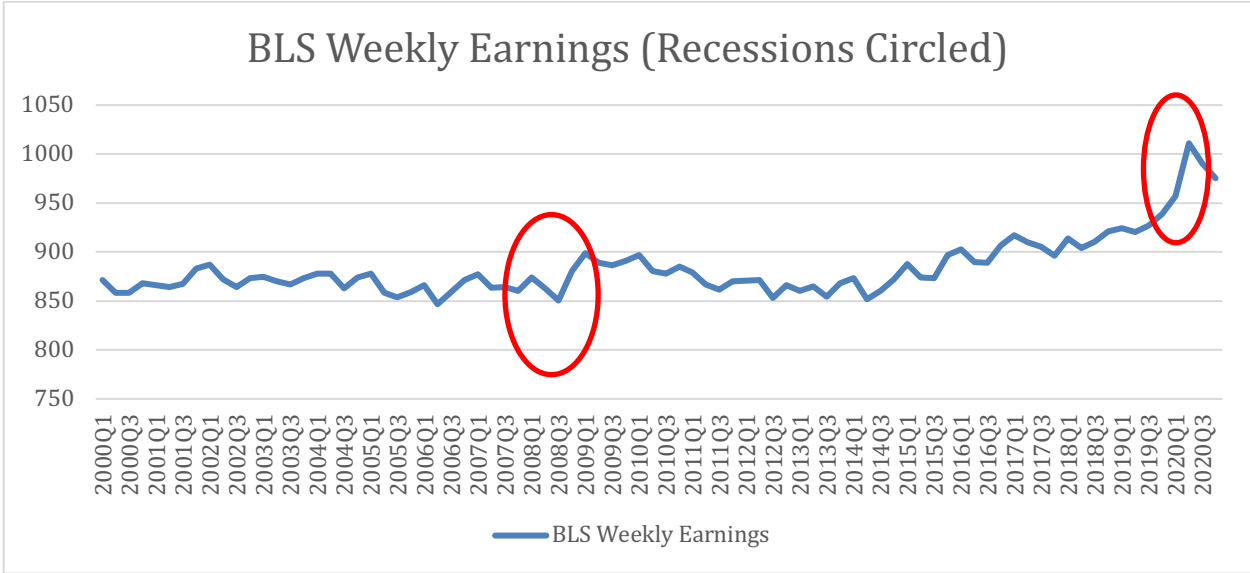


Figure 2

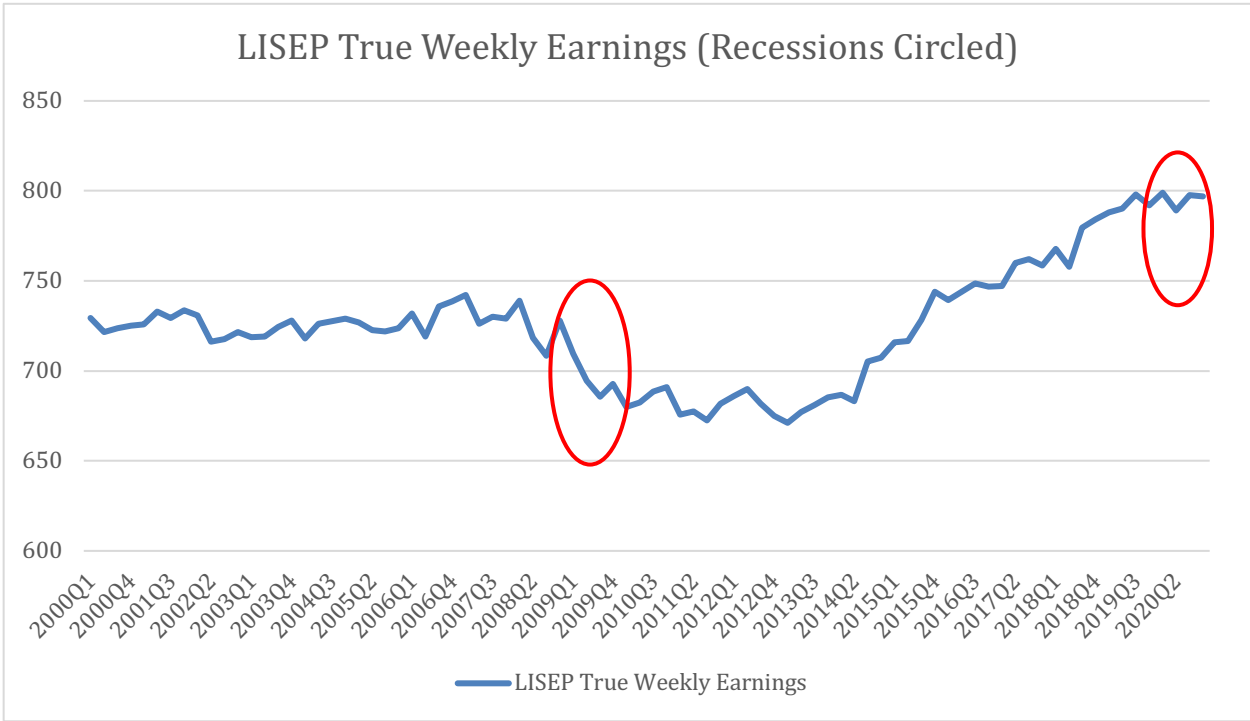
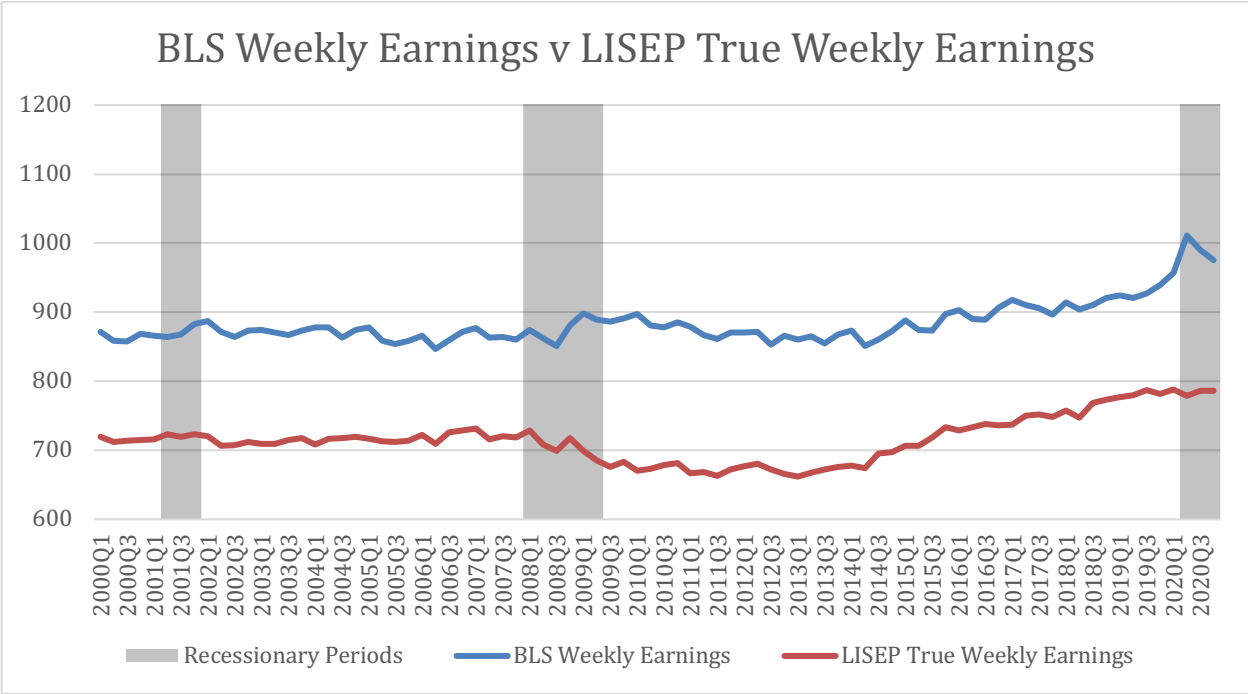


Figure 3

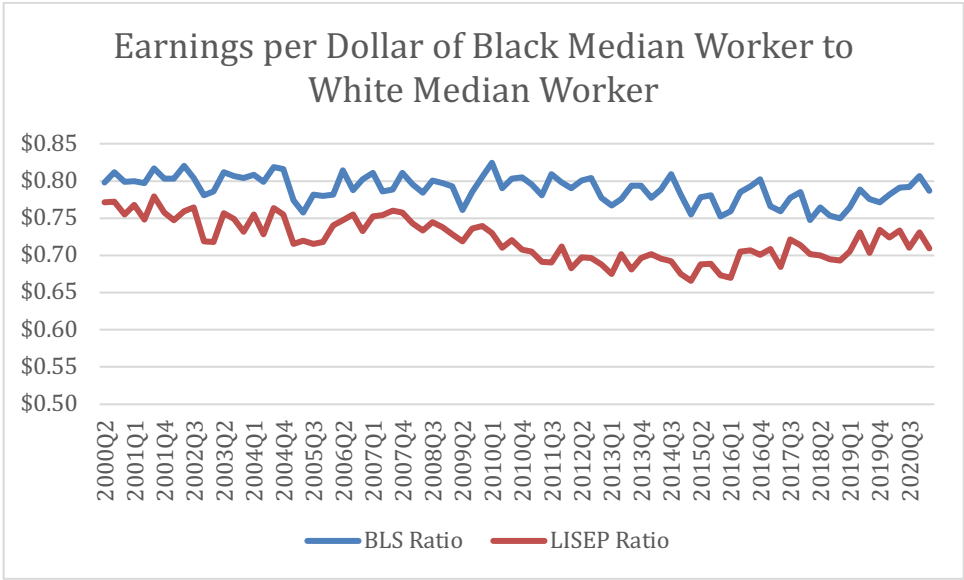


Racial Disparities

At first glance, the BLS data would indicate that racial disparities among wage earners have remained steady in the 21st century, with real earnings for White workers increasing by 11.6% since 2000 versus a 10.1% increase for Blacks. But the LISEP analysis tells a different story – one of worsening racial inequality. During that same time period, the LISEP measure indicates White median earnings have increased by 16.2%, while Black earnings have increased by only 7.9%. Furthermore, the ratio of Black earnings to White earnings, according to the LISEP analysis, has declined significantly: in 2000, the median Black member of the workforce earned 77% of their White counterpart; in 2020 that ratio has fallen to 72% (Figure 4). Thus, LISEP finds the actual racial gap in earnings is significantly widening, despite the BLS numbers indicating to the contrary.

For Hispanics, the LISEP number is not much better. Although their true earnings since 2000 have gone up more quickly than Whites or Blacks, at 17% growth in the last 21 years, their median earnings are still only 68% of their White equivalent.

Figure 4



Disparities by Gender

According to the BLS, women in the workforce have significantly outpaced their male counterparts since 2000, with real median earnings for females up 20.4% versus 9.6% for male earners. But during that time, women made up very little ground in what they earn compared to men – women bring home just 83 cents on the dollar compared to their male counterparts, an increase of just 7 cents. By contrast, LISEP’s TWE data shows women outperform men by an even wider margin over the same time period – although neither did as well as the BLS numbers indicate. According to LISEP, real median earnings for females have increased 17.2% since 2000, while male median earnings have only increased by 3.2%.

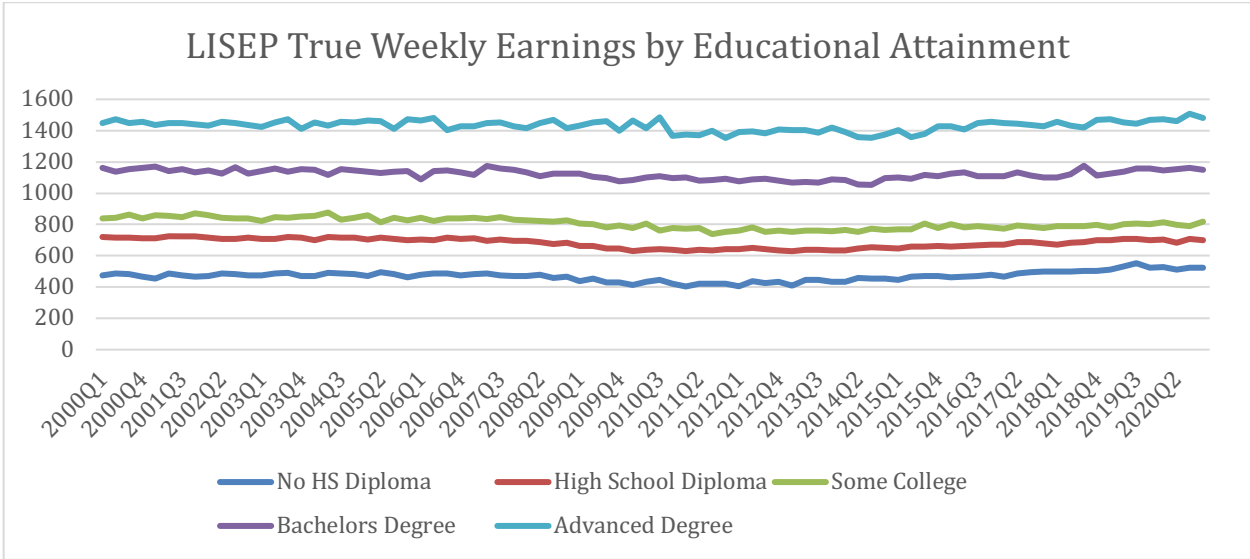
Meanwhile, LISEP concluded that the median member of the female workforce earns only 78 cents per every \$1 earned by males – 5 cents lower than indicated by BLS. This indicates that the gender wage gap is even larger than the BLS headline numbers indicate.

Earnings Growth by Education

Earnings by education level, according to LISEP, are relatively flat across the board (see Figure 5). Since 2000, real median earnings for those with less than a high-school degree has increased 10.6%, while for those with just a high-school degree, real median earnings decreased by 3.2%. For those with some college, earnings have decreased by 2.4%, and for those with a bachelor’s degree, earnings have also decreased in real terms, by about 1.1%. For those with an advanced degree, earnings are up a meager 2.1%. Although movement for higher degrees is flat, you can

see that each successive level of education earns more than the previous one. This indicates that the clearest path to moving up in earnings potential is through education.

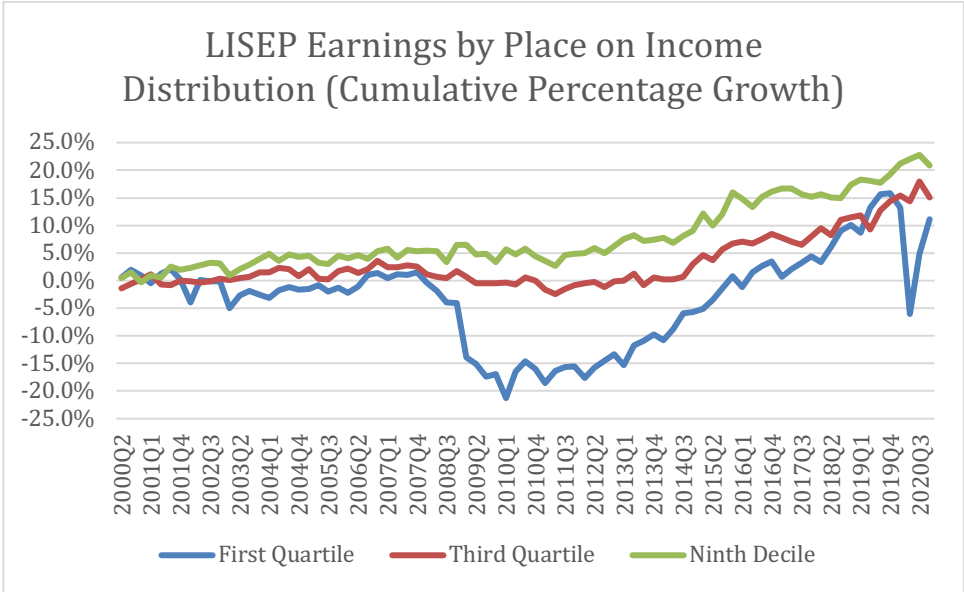
Figure 5



Earnings by Percentile of Income Distribution

LISEP found that since 2000, the lowest 25% of earners has seen a real earnings increase of 11.1%. This is 10% below the earnings increase of someone in the 90th percentile of earnings distribution, with 21% growth since 2000. Earners in the 75th percentile have seen a growth of about 15.1% since 2000 (see Figure 6). All of these, though, are higher than the median, suggesting that the middle class is losing out the most.

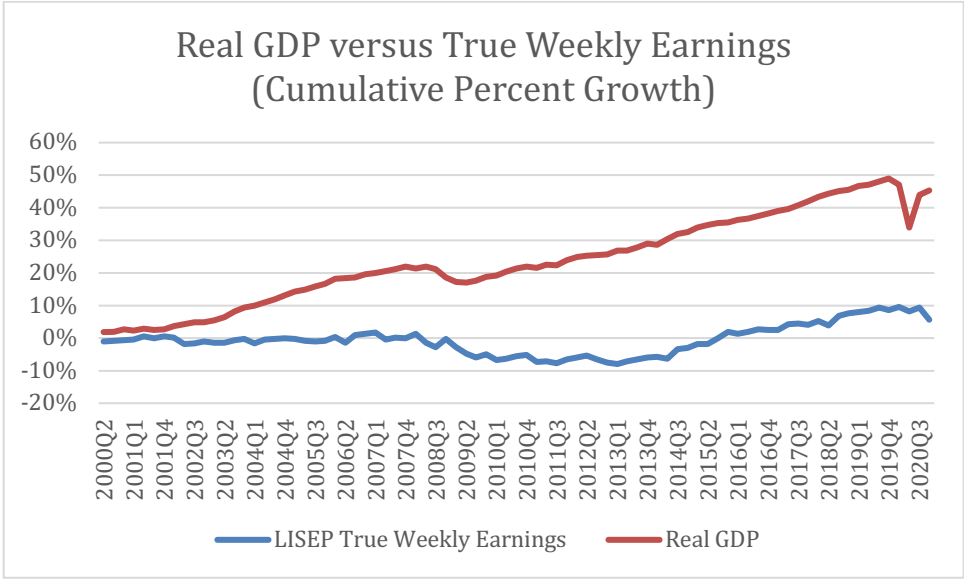
Figure 6



Differences Between Earnings and Other Growth Metrics

Not surprisingly, earnings growth has failed to keep up with other common measures of economic growth, according to LISEP. Since 2000, GDP (inflation adjusted) has increased by 45.3% -- five times faster than the LISEP median earnings measure (Figure 7). Meanwhile, since 2001 (earliest year reported by the Bureau of Economic Analysis), corporate profits of domestic corporations (inflation adjusted) have increased by 119% -- versus a 9% increase in median earnings, as per LISEP's measure.

Figure 7



Conclusion

These data all point to an economic situation that is unsustainable. A workforce that is continually marginalized through meager increases in compensation, even while contributing to overall economic growth through increased productivity, will eventually become disaffected. This, coupled with growing racial and gender inequality, can eventually give rise to societal issues beyond economics. It is our hope that policymakers will take a look at this new way of analyzing traditional data and apply it to effect positive change throughout the national economy.

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