State of Working Pennsylvania 2019

August 2019

by Stephen Herzenberg and Muhammad Maisum Murtaza

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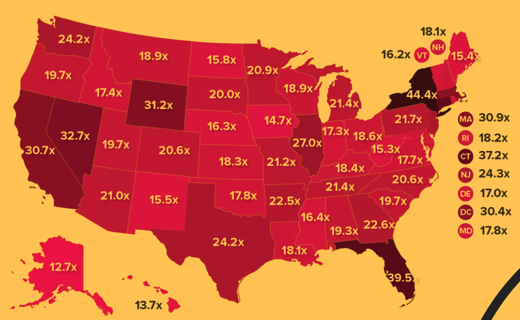

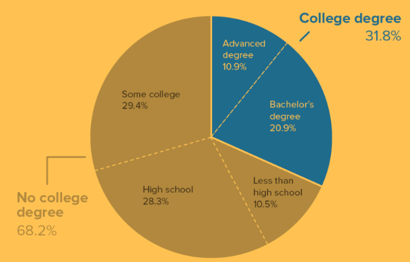

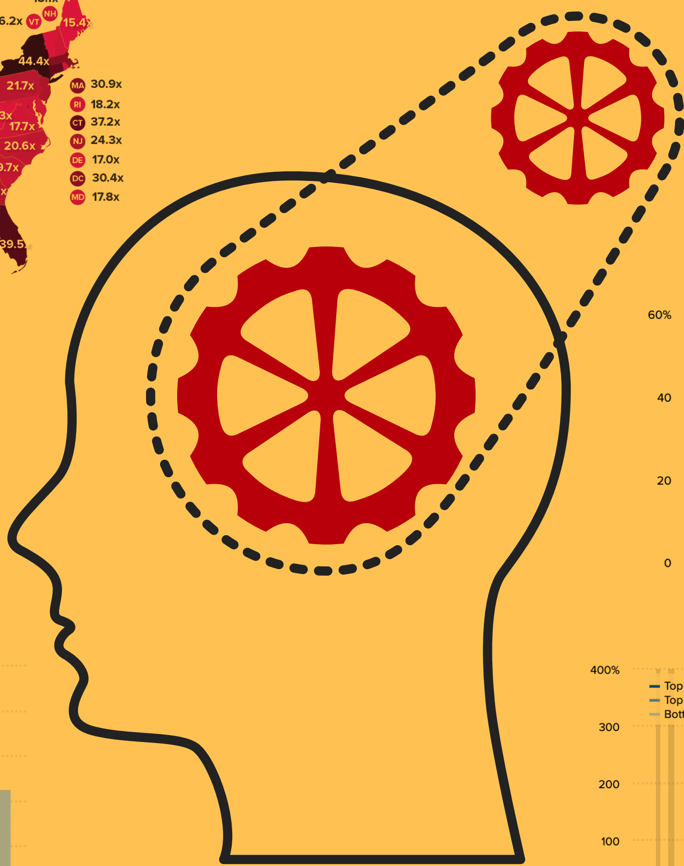

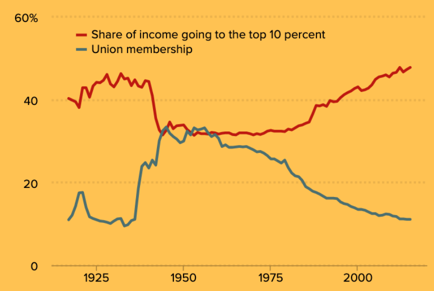

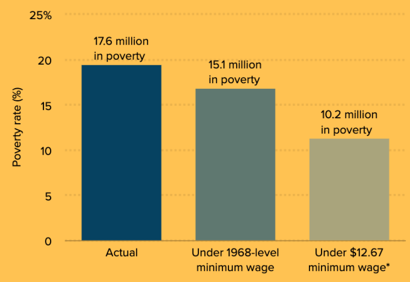

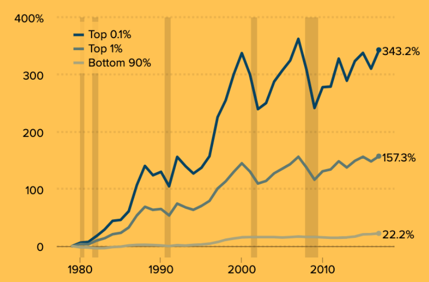

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Executive Summary

In the past few weeks, leading American business leaders appear to have experienced a sudden and surprising bout of conscience. On Monday, August 19, the Business Roundtable, which represents the largest U.S. corporations, issued a statement signed by 181 CEOs that embraced stakeholder capitalism—the idea that corporations have obligations to employees, the community, and customers, as well as shareholders. On the next day, Tom Wilson, the chair of the executive committee of the U.S. Chamber of Commerce published an op-ed titled "Save Capitalism by Paying People More." Wilson acknowledges in blunt terms that ordinary working Americans aren't flourishing economically. (For excerpts from Wilson's op-ed, see Box 1 near the end of this report.)

This year's annual "The State of Working Pennsylvania" documents the accuracy of Wilson's observation in Pennsylvania. To be sure, this report does have a bit of good news. In 2018, for the first time since 2001, Pennsylvania workers enjoyed wage increases across the board—3.1% on average across the entire wage distribution (i.e. from the 10th percentile to the 90th percentile). These gains reflect what is now the longest economic expansion in U.S. history and an unemployment rate in Pennsylvania below 4% for the first time since before 1976.

Acknowledging this progress, the longer-term picture remains one of meager gains for workers. Over the last full business cycle, from the 2007 peak to 2018, the annual average increase in the Pennsylvania median wage has been less than half a percent. Even now, some slack remains within the Pennsylvania job market, which helps explain why wages in this expansion took so long to kick up. Underemployment remains above the 2007 pre-Great Recession level and the employment rate (share of adults aged 20 and over employed) remains below the 2007 level. If the employment rate today were at the 2007 level, Pennsylvania would have another roughly 150,000 jobs. Looking over a longer period, since 1973, the top 1% in Pennsylvania have received 46% of the total increase in income in the state. And CEO pay in Pennsylvania in 2018 climbed to about 240 times the pay of typical workers.

For African Americans in Pennsylvania, current (and past) economic realities are a good deal grimmer. The Black unemployment rate remains more than twice the white. In the first quarter of 2019, Black unemployment in Pennsylvania, at 8.4%, was the fourth highest among the 24 states for which reliable estimates exist. Over the past 40 years, even as white workers have struggled, the Black median wage in Pennsylvania has plunged from at least 90% of the white in the early 1980s to less than 75% in recent years. The Black median hourly wage in Pennsylvania is roughly 10% lower today in inflation-adjusted terms than 40 years ago. That last sentence bears rereading.

The trends above do not reflect the inexorable result of the "free market" or technology or globalization. These trends reflect misguided policies and the fraudulence of "trickle-down economics"—the idea that if we just cut taxes for corporations and rich people, the resulting economic growth will ultimately benefit everyone.

Business leaders' worries reflect not just these realities but the possibility that a recession could wipe out the little progress working families have begun to make. And who knows what low-paid gig workers, underemployed millennials, the unemployed, and near retirees without pensions and with vanishing 401(k)s might do then.

Business leaders in Pennsylvania have three immediate opportunities to demonstrate that they share Tom Wilson's commitment to saving capitalism by raising workers' pay. They could support an increase in the Pennsylvania minimum wage, which would particularly benefit African-American workers and women. They could support Governor Wolf's proposed increase within the pay threshold below which salaried workers automatically receive overtime pay—so far, Pennsylvania businesses have robotically weighed in against restoring fair pay for salaried workers, the kind of reflexive greed that undermines ordinary Americans' faith in the system. Third, business leaders could endorse the governor's proposal to raise Pennsylvania's minimum teacher salary to $45,000, helping to attract and retain great teachers to educate the workforce of the future.

The end of this report also recommends following Wilson's advice that business leaders create specific goals and execute a plan to grow more higher-paying jobs. We propose using the already existing Middle Class Task Force, which includes labor as well as business representation, to develop the plan and execution strategy. After 40 or more years of business leadership focused single-mindedly on profits, it will take a sustained team effort to create a kinder, gentler capitalism that we can all embrace.

Despite Uncertainty, Economic Expansion Continues

The preliminary government estimate for the second quarter pegged U.S. GDP growth at 2.1%.[1] Despite a jittery stock market, an inverted Treasury yield curve in which some longer-term interest rates are lower than some shorter-term ones, and escalation of tit-for-tat tariffs by the U.S. and China, the national economy continues to chug along.[2] In June, this became the longest economic expansion in U.S. history, 121 months and counting.[3]

Figure 1 shows that Pennsylvania's growth rate caught up with the U.S.'s in the first quarter of this year, edging over 3% since 2018:Q1.

Figure 1

GDP Growth Continued Through the First Quarter of This Year

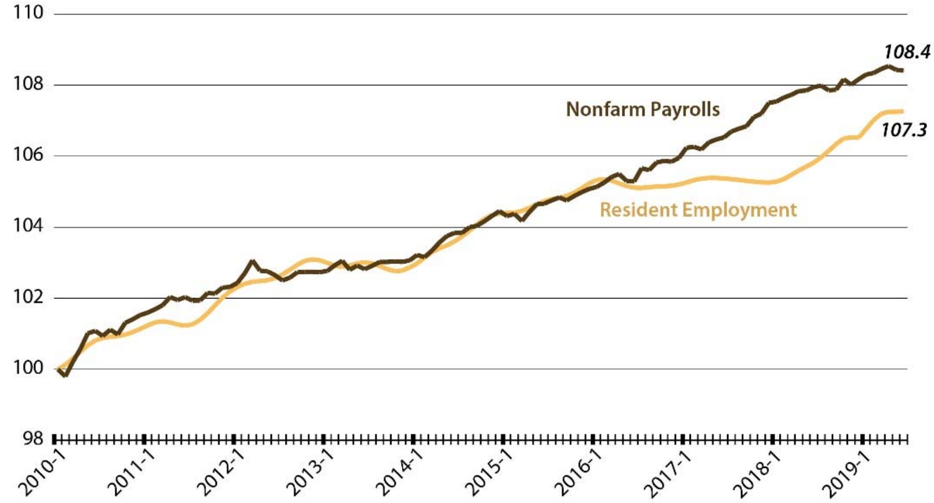
Note: GDP growth rate (percent) shown quarterly for the previous 12-month period, 2010:Q1 to 2019:Q1.
Source: Keystone Research Center based on Bureau of Economic Analysis data online at https://www.bea.gov/data/gdp/gdp-state

The number of Pennsylvania jobs has also continued to grow (Figure 2). The standard source used to measure "job growth" relies on data from non-farm businesses on the number of workers on business payrolls. This job count has risen less quickly in the past year: by an average of 2,525 jobs per month from July 2018 to July 2019 (and 1,157 jobs per month from December 2018 to July 2019) compared to 3,328 more jobs per month over the entire 121 months of the national expansion. An alternative measure of employment has grown more quickly—"resident employment." This measure is based on a survey of a sample of households which counts the number of residents in each household who are working. Resident employment grew by about 7,000 each month in the last year. This more rapid growth partially restored resident employment's long-term alignment with non-farm job growth after two years in which resident employment grew more slowly than the number of non-farm jobs.

Figure 2.

Since January 2010, Total Nonfarm Employment and Resident Employment Have Grown 8.8% and 7.3% Respectively in Pennsylvania

Seasonally adjusted nonfarm and resident employment indexed to January 2010 (= 100)



Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey (CPS) data.

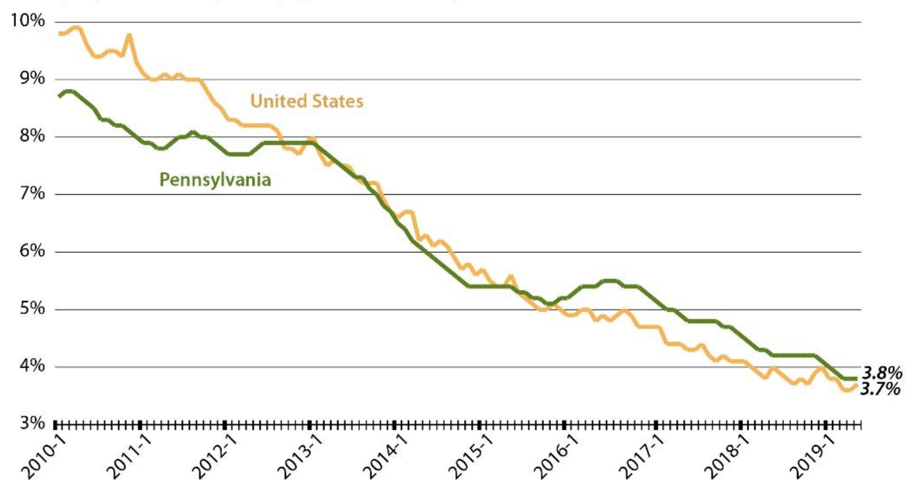
Unemployment, Underemployment, and Employment Rates

Pennsylvania's unemployment rate after the Great Recession peaked in early 2010 at 8.8% (Figure 3). The rate dipped below 4% in March 2019 for the first time since before 1976 and equaled 3.8% in June 2018.[4] Pennsylvania unemployment hovered about half a percentage point above national unemployment for most of 2016 to 2018 but is now only a tenth of a percentage point above U.S. unemployment.

Figure 3.

The Pennsylvania and United States Unemployment Rates in June 2019 Were Below 4%

Seasonally Adjusted Monthly Unemployment Rate, Pennsylvania and the United States



Source: Keystone Research Center based on Economic Policy Institute analysis ofBureau of Labor Statistics, Current Employment Statistics and Local Area Unemployment Statistics data

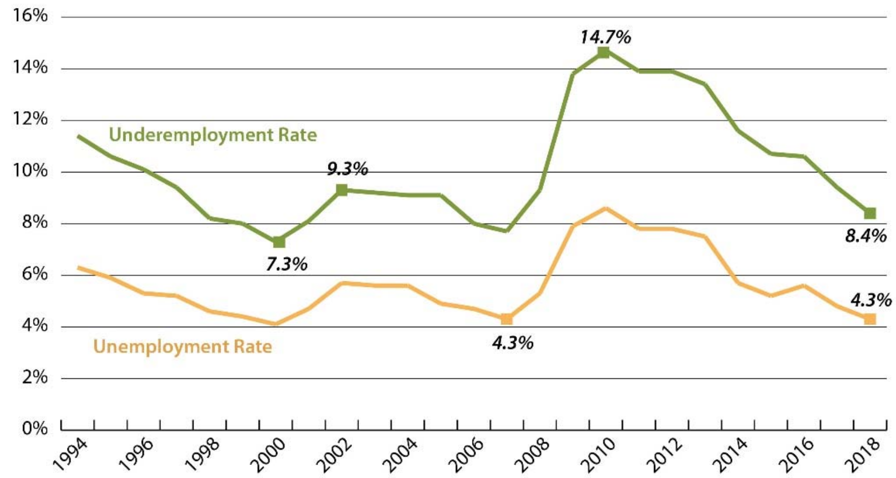
A broader measure of the underutilization of labor, the underemployment rate is only available on an annual basis and through 2018. This measure, like unemployment, shows steady improvement. Pennsylvania underemployment peaked at 14.7%—about one out of every seven people in the labor force—in 2010 but now equals 8.4%, about one out of every 12 labor force participants (Figure 4). Underemployment, unlike unemployment, remains above its 2010 and 1998-2001 levels.

The underemployment rate as used here (and defined by the Bureau of Labor Statistics) captures people we traditionally think of as unemployed plus three other groups: those that have looked for work recently (in the 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.

Figure 4.

The 2018 Underemployment Rate at 8.4% Remains Above Its Level After the Late 1990s Expansion

Annual Rates of Unemployment (U3) and Underemployment (U6) in Pennsylvania 1994 to 2018



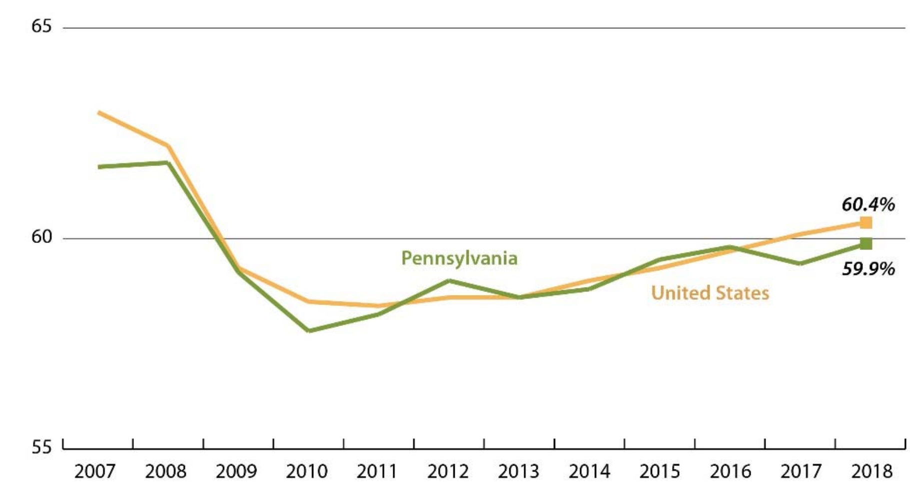
Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey (CPS) data.

Our final measure of whether the economy is near full employment is the share of adults (those 20 and over) with a job, also called the "employment rate" (Figure 5). At 59.9%, this remains 1.8 percentage points below its pre-recession peak and 1.9 percentage points below its 2008 level, indicative of some continuing slack in the Pennsylvania labor market. If the overall employment rate was 61.7%, its 2007 level, there would be another roughly 150,000 employed workers in Pennsylvania.[5] The persistence of some slack in the labor market has important implications for workers. It translates into less upward pressure on wage levels than with a tighter job market—and less wage growth for families.

Figure 5.

Employment Rates in Pennsylvania and the United States Remain Nearly 2 Percentage Points Below Their Pre-recession Peak Signaling a Labor Market That Has Not Yet Reached Its Full Capacity

The percentage of the population age 16 and over with a job



Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey (CPS) data.

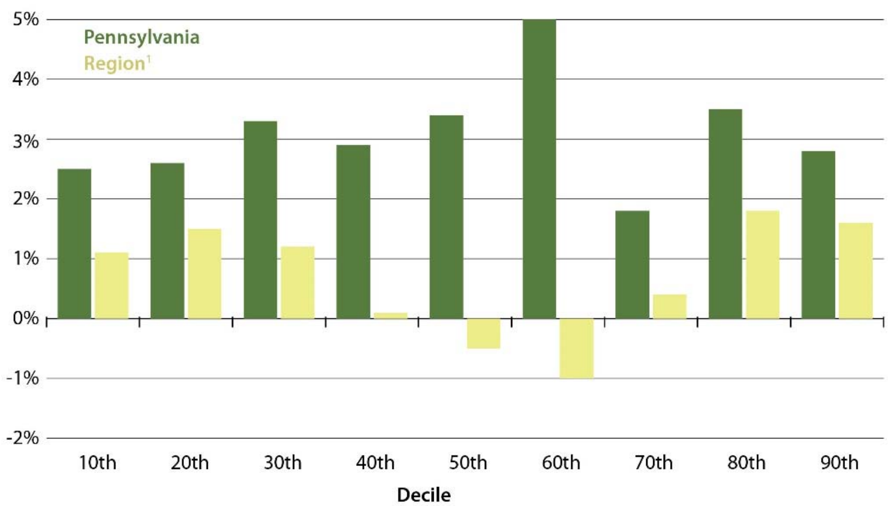
Wage Growth in the Last Year, Decade, and 40 Years

In 2018, for the first time since 2001 (in the wake of the late 1990s expansion), Pennsylvania wages rose across the board. Throughout the Pennsylvania wage distribution, except for the 70th percentile, wages in 2018 rose by 2.5% or more (Figure 6). Median wage workers enjoyed an increase from $18.64 to $19.27, 63 cents per hour—$1,310 annually for a full-time, full-year worker. Wages increased more in Pennsylvania, by 3.1% on average from the 10th to the 90th percentile, than in surrounding states or in the United States, both of which experienced only a 0.7% wage increase on average across all deciles.

Figure 6.

In 2018 Real Wages Grew Faster in Pennsylvania Than Surrounding States

Percent change in real wages 2017 to 2018 (2018 dollars)



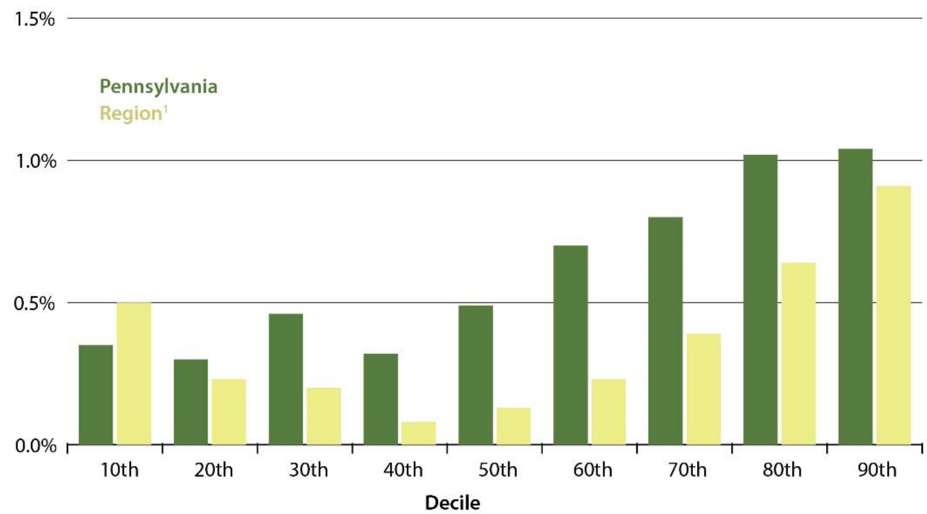
Note: The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more.
[1]Delaware, District of Columbia, Maryland, New Jersey, New York, Ohio, and West Virginia. In the regional average, the wages for each state were weighted by its share of employment in the region.
Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey (CPS) data.

Over the full business cycle, from the 2007 peak to 2018, annual wage growth has been about half a percent or less annually in Pennsylvania for the 10th through 50th percentile and a bit higher in upper deciles, up to just above 1% annually (Figure 7). Wage growth in surrounding states has been even slower—except at the 10th percentile where minimum wage increases in our neighboring states have raised wages more rapidly than in Pennsylvania since about 2012. Despite the more rapid recent growth of wages in Pennsylvania, our wages remain lower than in our neighbors, especially at upper deciles (Figure 8).

Figure 7.

The Bottom 60% of Workers in Pennsylvania Are Still Experiencing Weak Real Wage Growth Over the Last 11 Years

Annual average percent change in real wages 2007 to 2018 (2018 dollars)



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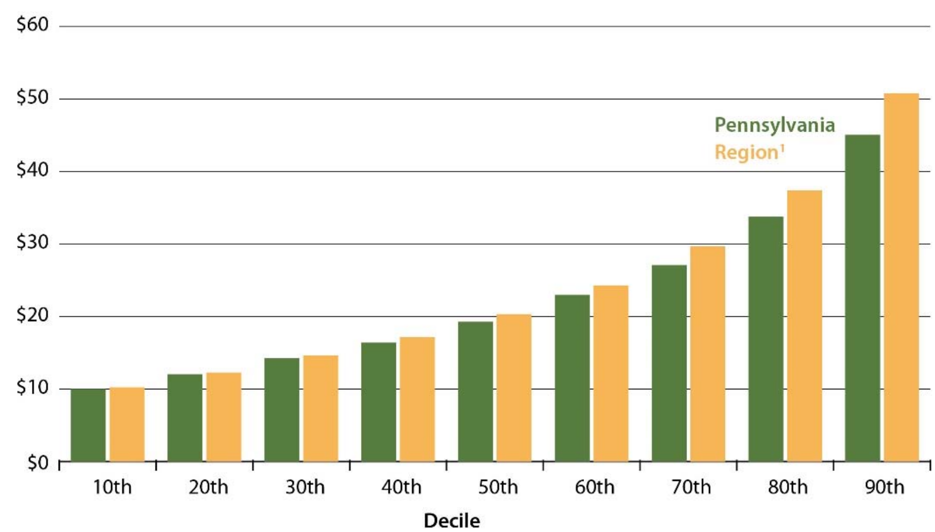
[1]Delaware, District of Columbia, Maryland, New Jersey, New York, Ohio, and West Virginia. In the regional average, the wages for each state were weighted by its share of employment in the region.

Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey (CPS) data.

Figure 8.

Pennsylvania Wages in 2018 Remain a Bit Below Surrounding States



[1]Delaware, District of Columbia, Maryland, New Jersey, New York, Ohio, and West Virginia. In the regional average, the wages for each state were weighted by its share of employment in the region.

Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey (CPS) data.

Racial Inequality

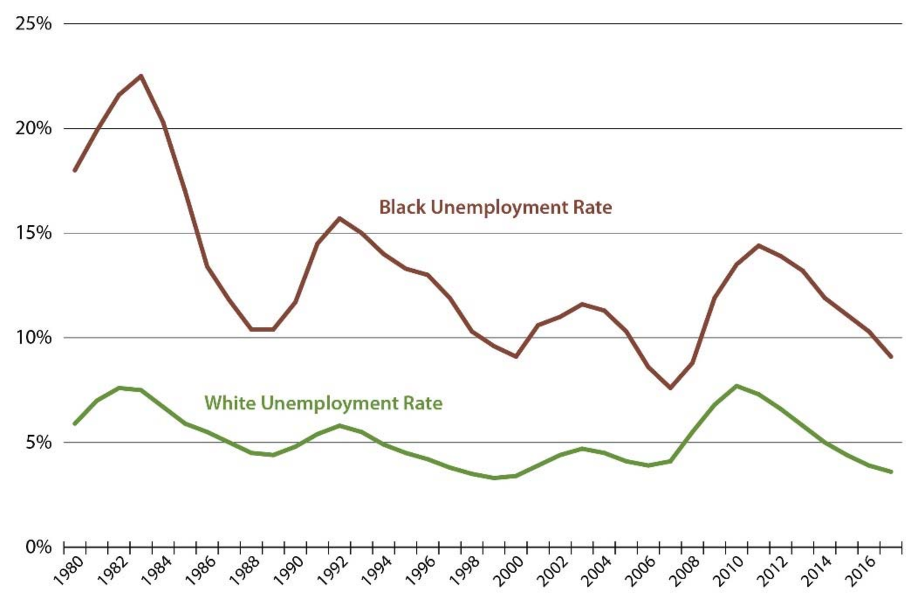
While the job market offered a ray of hope in the past year for Pennsylvania workers considered as a group, that slim light did not shine on the state's African-American workers. Over the past 40 years—a period in which white workers have shared little in the benefits of economic growth—the state's African-American workers have gone backwards relative to white workers and from a lower starting point. Legislators, members of the media, and Pennsylvanians of every race and ethnicity would do well to digest that grim inequity as they consider how to create a more inclusive economy.

Unemployment, Underemployment, and Labor Force Participation

Starting with measures of labor market slack by race, Pennsylvania in 2018 had the fourth-highest African-American unemployment rate (8.4%) (out of 22 states with big enough sample sizes to make reliable estimates) in the first quarter of 2019.[6] Figure 9 shows unemployment by race in Pennsylvania for the past four decades, with the line for Black unemployment far above the white. In the harrowing early 1980s recession, the annual average Black unemployment rate in Pennsylvania peaked at Depression-era levels of 22.5%; the white rate never reached 10 percent.

Figure 9.

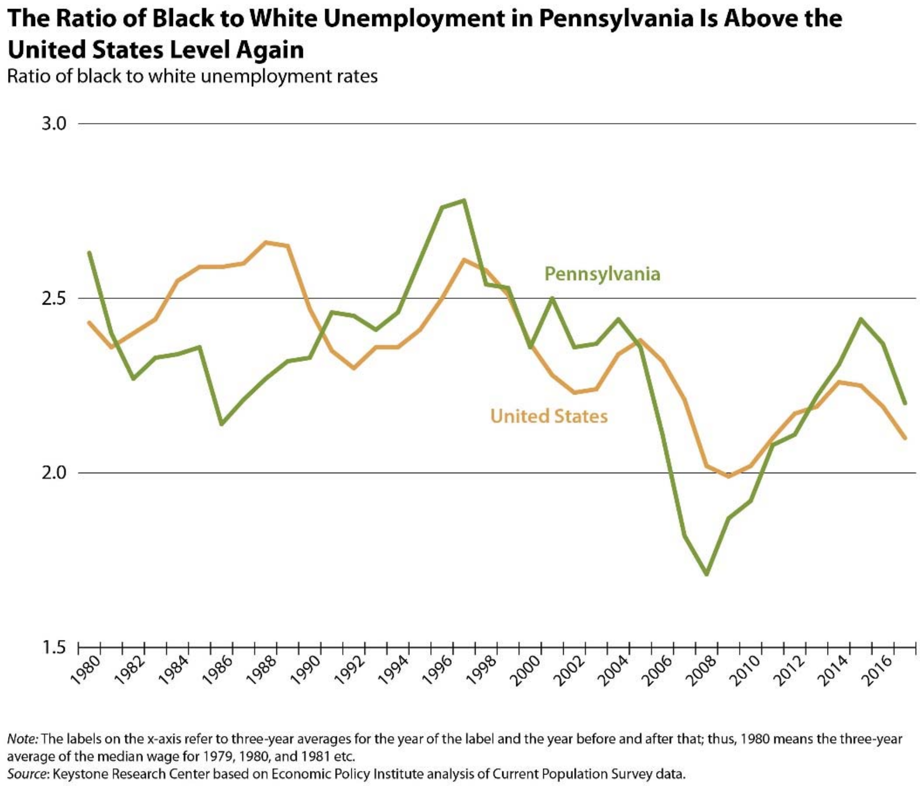
Pennsylvania Unemployment Rates Are Down But Black Unemployment Remains Much Higher Than White



Note: The labels on the x-axis refer to three-year averages for the year of the label and the year before and after that; thus, 1980 means the three-year average of the median wage for 1979, 1980, and 1981 etc.
Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey data.

Figure 10 shows the ratio of Black to white unemployment in Pennsylvania and the United States. After dipping below 2.0 in and just after the Great Recession (likely because of whites' and Hispanics' predominance in residential construction—overwhelmingly non-union residential construction firms in Pennsylvania don't hire many African Americans), the Pennsylvania ratio climbed back to 2.0 since 2012.

Figure 10.



Unemployment (and underemployment) rates fail to capture people who drop out of the labor force and thus understate the joblessness of Pennsylvania Blacks relative to white. As reported in "The State of Working Pennsylvania 2016," both white and Black prime-age men have dropped out of the labor force in significant numbers since the 1970s.[7] But the white drop has been smaller from a higher starting point. The white male labor force participation rate among men 18-64 dropped from 86% around 1980 to 79% in 2013-15. The Black male participation rate among men the same age dropped from 78% to 66%. And even labor force participation rates understate Black joblessness because they do not capture the growing numbers of Black males incarcerated over the past 40 years (because the incarcerated are not included in the denominator of labor force participation rates).

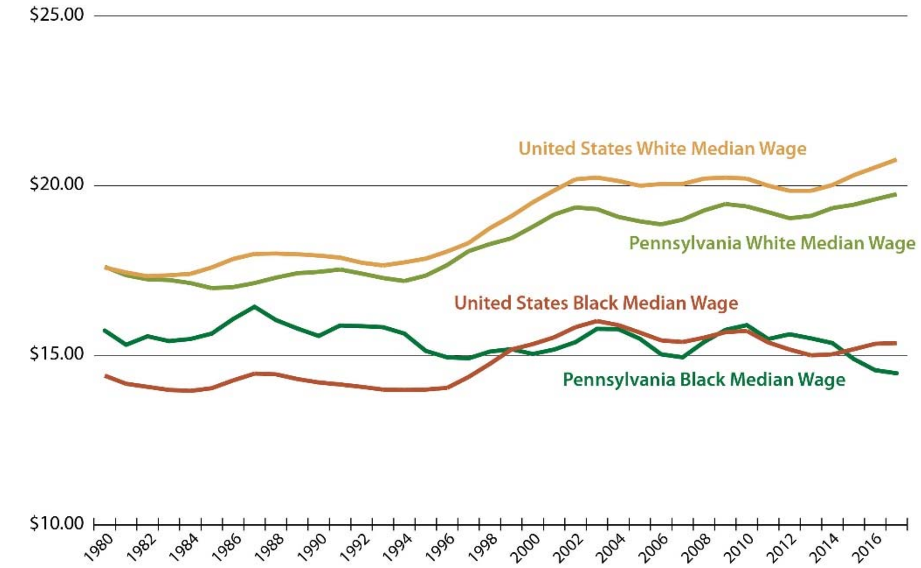
Wages

Turning to median wages, Pennsylvania ties for the fourth-lowest African-American median wage in 2018, out of 24 states with reliable estimates, $14.45 per hour (above Louisiana, North Carolina, and Indiana and tied with Mississippi). The next chart shows the median wage by race for Pennsylvania and the United States since 1979—since we use three-year averages, the first label is for "1980," which refers to the three-year average from 1979 to 1981. The chart shows that white workers enjoyed significant wage gains in the second half of the 1990s and again in the past few years and that Black workers did not. The chart also shows that Pennsylvania white workers lost ground to U.S. workers from 1979 to the early 2000s and that ground has not been recovered in the period since.

Figure 11.

Wages for Both Races Have Risen More Slowly in Pennsylvania than the US

Pennsylvania Black wages are falling even now and lower than in 1980 and in 2000



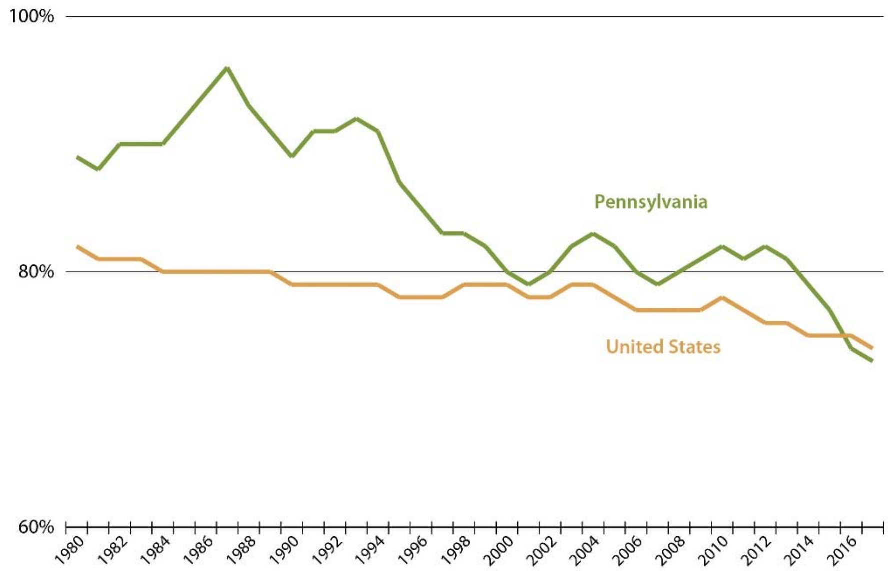
Note: The labels on the x-axis refer to three-year averages for the year of the label and the year before and after that; thus, 1980 means the three-year average of the median wage for 1979, 1980, and 1981 etc.
Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey data.

The next chart shows the same information in a different way—the Black median wages as a percent of the white one. In Pennsylvania, the Black median hovered around 90% of the white median until the mid-1990s, a period which began with white men too experiencing downward mobility. Then, in the second half of the 1990s, the Black median dropped to around 80% of the white as wages rose for whites but did not for Blacks. The Black median has dropped again, relative to the white median, in the last few years, with white workers again seeing wage increases while Black workers' wages continue to decline. For the first time in the past 40 years, the Black median wage is a lower percent of the white median wage in Pennsylvania than nationally. Appendix Table A1 shows that the same trends in relative wages for Blacks and whites in Pennsylvania exist at other deciles as well as the 50th percentile (or median). Throughout the middle of the wage distribution (in fact, at all percentiles for which reliable data are available) Black Pennsylvania wages have declined relative to white.[8]

For Hispanic workers, data only began to become available in about the year 2000 as the state's Hispanic population grew large enough for reliable estimates based on the Current Population Survey. Appendix Table A2 shows that Hispanic wages fluctuated around 90% of Black wages from 2000 to 2016, dipping below this in and after the Great Recession (possibly because of the collapse of residential construction), but then recovering. In 2017 and 2018, the Hispanic median wage climbed above the Black median although it remains only 76% of the white median wage.

Figure 12.

The Pennsylania Black Median Wage Used to Be 90% of the Pennsylvania White Median Wage But Now Is Less Than 75%, as in the United States
Black median wage as % of white, 1979-2018, three-year average



Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey data.

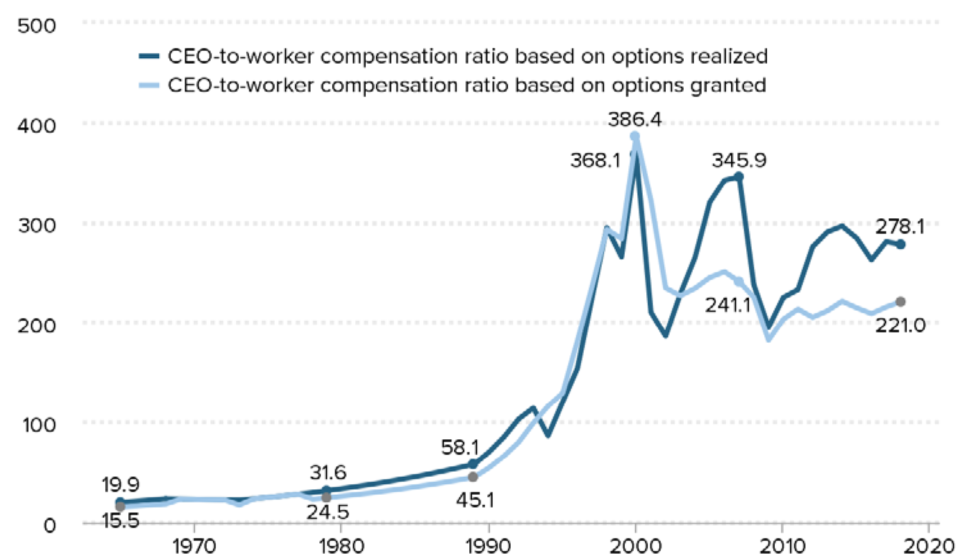
CEO Pay and the Top 1% Income Share

One reason CEOs worry that anger about the economy could boil over is that CEOs have first-hand knowledge of how starkly their own outsized and ever-growing compensation contrasts with the struggles of typical families. Average pay of CEOs at the top 350 U.S. firms equaled $17.2 million in 2018—or $14 million using a more conservative measure.[9] As Figure 13 shows, the ratio of U.S. CEO-to-typical-worker pay climbed from 20-1 to 278-1 between 1965 and 2018 by one measure and 16-1 to 221-1 by another. (Figure 13 comes from a new Economic Policy Institute report; "Authors' analysis" in the figure "Source" means the authors of that EPI report, Lawrence Mishel and Julia Wolfe.)

Figure 13.

CEOs make 278 times more than typical workers

CEO-to-worker compensation ratio, 1965–2018



Notes: CEO average annual compensation is measured for CEOs at the top 350 U.S. firms ranked by sales. Two measures are computed, differing in the treatment of stock options: One uses "options realized," and the other uses the value of "options granted." Both series also include salary, bonus, restricted stock awards, and long-term incentive payouts for CEOs. Projected value for 2018 is based on the percent change in CEO pay in the samples available in June 2017 and in June 2018 (labeled first-half [FH] data) applied to the full-year 2017 value. Projections for compensation based on options granted and options realized are calculated separately. "Typical worker" compensation is the average annual compensation of the workers in the key industry of the firms in the sample.

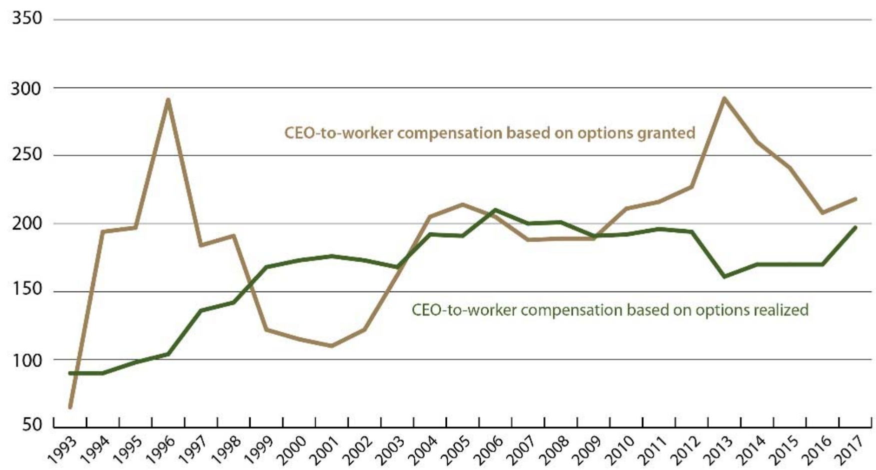
Source: Authors' analysis of data from Compustat's ExecuComp database, the Bureau of Labor Statistics' Current Employment Statistics data series, and the Bureau of Economic Analysis NIPA tables

Economic Policy Institute

In the years for which we have data, we see similar trends in Pennsylvania. For the CEOs of six Pennsylvania companies in the top 350 U.S. firms from 1992 to 2018, the three-year average of the CEO-to-worker compensation ratio climbed to 197 for one series and 218 for the other (Figure 14 on the next page). (The first three-year average is 1992-94, which we call 1993 and the last three-year average is 2016-18, which we call 2017.)

Figure 14.

Six Pennsylvania Companies in Top 350 List Since 1992 Make About 200 Times More Than Typical Workers



Note: Two measures of CEO compensation are used, which differ in the treatment of stock options: one uses "options realized," and the other uses the value of "options granted." Both series also include salary, bonus, restricted stock awards, and long-term incentive payouts to CEOs. (For additional detail, see the "Notes" to Figure 13.) The above chart shows an unweighted three-year average of the CEO-to-worker compensation ratios for the six Pennsylvania head-quartered firms in the top 350 U.S. firms from 1992 to 2018. (Kraft Heinz is missing from the data in 2012 and 2013.) The six firms are Air Products, Crown Holdings, Kraft Heinz, PNC Financial, PPG, and U.S. Steel. The Kraft Heinz figure for the ratio based on options realized in 1995 (2,433) is an outlier because of a $64 million payout that year, which results in the early peak of the green line. "Typical worker compensation" is the average annual compensation of the workers in the key industry of the firms in the sample.
Source: Keystone Research Center based on Economic Policy Institute analysis of Current Population Survey data.

Table 1 shows 2016 and 2018 data for 13 Pennsylvania CEOs. The average CEO-to-worker compensation ratios in 2018 are 236 and 243, which is roughly in line with the national ratios. Average CEO compensation equals around $14 million using both definitions.

Table 1. CEO-to-Worker Compensation Ratio, PA Companies in Top 350 U.S. Firms, 2016 and 2018

		CEO Compensation ($thousands)				CEO-to-worker compensation ratio: stock options granted		CEO-to-worker compensation ratio: stock options realized	
Company	**Executive**	**EPI definition with realized stock options**		**EPI definition with stock options granted**					
		2016	2018	2016	2018	2016	2018	2016	2018
Kraft Heinz Co	*Bernardo Vieira Hees*	3,731	27,544	3,731	27,544	87	612	87	612
PNC Financial	*William S. Demchak*	24,969	14,980	12,300	14,980	221	253	449	253
PPG Industries Inc.	*Michael H. McGarry*	7,867	7,753	10,200	10,420	168	152	130	113
United States Steel	*David Boyd Burritt**	11,559	12,653	10,291	11,371	173	189	194	210
Crown Holdings In.	*Timothy J. Donahue*	8,561	8,556	8,561	8,556	173	164	173	164
Air Products & Chem.	*Seifollah Ghasemi*	11,280	13,670	11,280	13,670	186	200	186	200
Amerisourcebergen	*Steven H. Collis*	20,902	21,486	9,265	11,291	180	205	405	391
Comcast	*Brian L. Roberts*	49,421	41,502	24,382	24,616	348	336	705	567
Rite Aid	*John T. Standley*	7,280	4,536	7,280	4,492	169	96	169	97
Lincoln National	*Dennis Robert Glass*	14,666	12,401	8,542	13,939	123	194	211	173
Mylan NV	*Heather Bresch*	11,013	11,180	12,573	13,000	207	190	182	163
Universal Health	*Alan B. Miller*	50,528	5,697	28,583	22,314	379	282	670	72
Dicks Sporting Goods	*Edward W. Stack*	32,176	7,297	11,757	8,797	336	238	920	197
PPL	*William H. Spence*	11,689	9,615	9,917	9,615	211	192	249	192
Unweighted Average, 13 Companies		18,974	14,205	12,047	13,900	211	236	338	243
**The U.S. Steel CEO in 2016 was Filho Mario Longhi*									
Note and Source: See notes to Figure 14.									

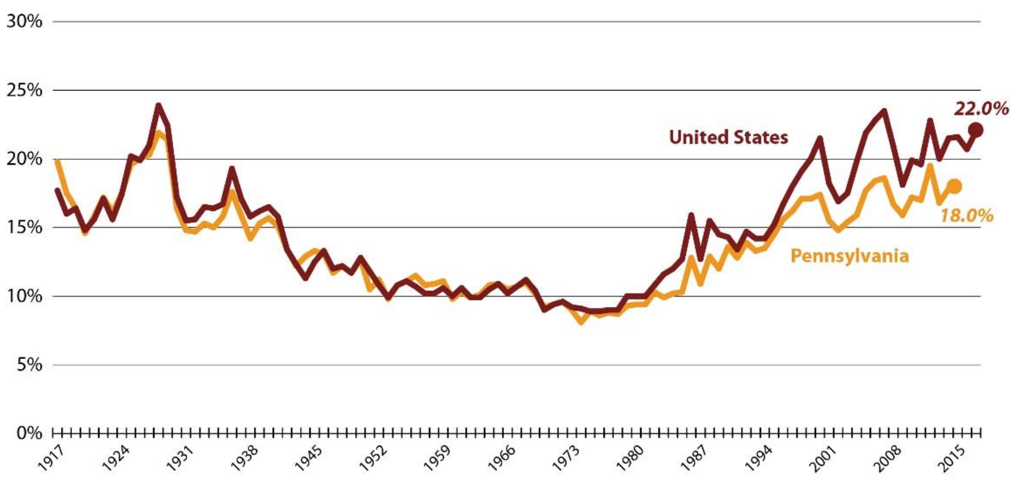
Figure 15 shows the income share of the top 1% since 1917 in Pennsylvania and the United States.[10] Throughout the 1970s, the top 1% of Pennsylvanians garnered less than 10% of all income in the state. In the last six years for which we have data, the top 1% received 17% to 19.5% of all income in Pennsylvania. Nationally, the top 1% income share climbed back to 22% in 2017. (We do not yet have estimates for the Pennsylvania 1% share in 2016 and 2017.) The national top 1% share peaked in recent years at 23.5% in 2007, before declining temporarily as a result of the financial crisis and stock market crash.

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

Figure 15.

The Share of All Income Held by Top 1 Percent



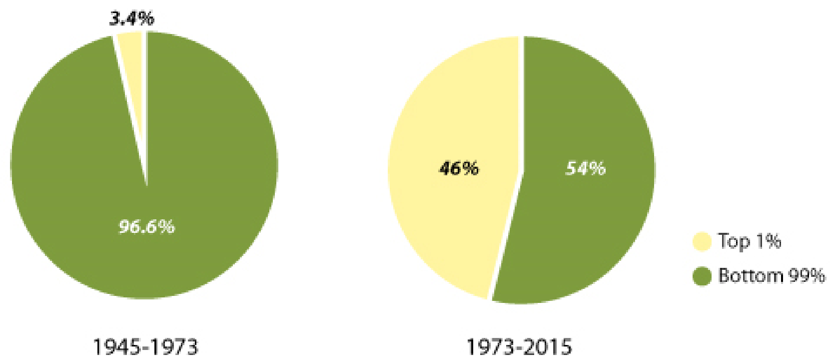
Source: Sommeiller, Estelle, and Mark Price. 2018. The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County. Economic Policy Institute, July 2018. Data for 2014-2017 for the U.S. downloaded 'data updated to 2017' available online at https://eml.berkeley.edu/~saez/

As a result of the skewed distribution of the gains from economic growth, the top 1% in Pennsylvania has captured nearly half (46%) of the overall increase in state income since 1973 (Figure 15). The top 10% have received about two thirds of the overall increase, leaving only one third for the bottom 90%.

Figure 15.

The Top 1% in Pennsylvania Captured Just 3.4% of Overall Income Growth Between 1945 and 1973, but Since 1973 the Top 1% has Captured 46% of Income Growth

Share of overall income growth captured by the top 1% and bottom 99%.



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 2018.

Four Steps to Inclusive Growth

On August 12, 2019, the U.S. Business Roundtable issued a "Statement on the Purpose of a Corporation" signed by 181 CEOs which acknowledged that corporations have responsibilities to other stakeholders besides shareholders—to employees, communities, customers, and suppliers. We share the view of Ford Foundation president Darren Walker that this statement is good news[11]—even while understanding the skepticism of others because, in effect, "talk is cheap."[12]

In an opinion piece published in *The New York Times* the day after the Roundtable statement, Tom Wilson, the chair of the executive committee of the U.S. Chamber, went further. (Box 1 contains an excerpt from Wilson's opinion piece.) Wilson stressed the need for action as well as aspirations, supported an increase in the minimum wage (albeit not a specific level), and told a classic story about companies needing well-paid workers as customers to drive the economy forward.[13]

Box 1: An Excerpt From "Save Capitalism by Paying People More" by Tom Wilson, CEO of Allstate and Chair, Executive Committee of the U.S. Chamber of Commerce[14]

"American businesses are sending a clear message: They need to focus on doing more than making profit…

"That said, accomplishing these aspirations requires more dialogue and action…American businesses prosper by asking tough questions, creating specific goals and executing plans. This must now be applied to creating higher-paying jobs.

"Boards need to raise specific questions to chief executives: Should we locate jobs in the same country where customers live, even if it makes prices higher? How do we count jobs created by suppliers? How do we determine whether wages are fair relative to the value created? At Allstate we began this journey in 2016, when we raised our minimum wage to $15 an hour…To address our broader responsibilities, we created a Prosperity Report to replace the annual financial report…we all need to do more.

"…most Americans are struggling…A 2017 survey by the Federal Reserve Board showed that 40 percent of Americans do not have $400 for an emergency...Being broke while working is not an American value. Poor financial health creates stress, reduces hope and undermines capitalism. It is a cancer waiting to metastasize.

"Americans need higher-paying jobs. Businesses have the resources and capabilities to make this a reality…

"According to a 2018 Gallup poll, less than half of young Americans today support capitalism…Businesses are serving customers well and making good profits. But there is not enough focus on creating jobs that provide a living wage.

"Raising the minimum wage for existing jobs will certainly help, but some jobs simply do not create enough value to be high paying. More jobs with higher sustainable wages are needed…

> "I heard a story about Walter Reuther, the legendary union leader, walking through a Ford Motor plant in Cleveland that was becoming mechanized. A Ford official pointed to some new machines and asked him, 'How are you going to collect union dues from these guys?' Reuther thought for a moment and responded, 'How are you going to get them to buy Fords?'
>
> "The point is well taken…
>
> "Let's create more high-paying jobs and restore faith in capitalism…For American businesses, that is our history. That is our role. It must be our future."

We encourage Pennsylvania CEOs, the Pennsylvania Chamber, and other state and local business organizations to join their national counterparts in seeking to restore faith that our economic system works for everyone. To help them follow Wilson's guidance, we also offer three specific, short-term goals and a proposal that business leaders help develop a comprehensive, long-term plan to increase Pennsylvania workers' pay and then "execute" that plan.

Raise the Pennsylvania minimum wage

From 2015 to 2018, legislative leaders stonewalled Gov. Wolf's proposal to increase the minimum wage. This year, in state budget negotiations, legislative leaders took the minimum wage issue seriously. Some acknowledged that the state should enact an increase, even if not at the level of the governor's proposal for a $12 per hour increase July 1, 2019, and $15 per hour by 2025. But a deal was not reached as part of the budget. For those who still believe in evidence, the case for raising the state's minimum wage modestly is, at this point, airtight (as a report by the legislature's own Independent Fiscal Office (IFO) makes clear—see Box 2). For example, wages for lower-wage workers have increased in recent years an estimated 50% faster in states that have increased their minimum wage than in other states and without causing job loss.[15] In Pennsylvania as nationally, a higher minimum wage would give Black, female, Hispanic, and other low-wage workers a much-needed boost in pay.[16]

Box 2. Independent Fiscal Office (IFO) Reports Make the Case for a Higher Minimum Wage

Pennsylvania's Independent Fiscal Office (IFO) is the legislature's own internal capacity for evaluating legislative and budget proposals on economic and fiscal issues. As we detail in a new and in-depth report, the IFO's 2019 analysis of a possible minimum wage increase makes a strong case for increasing Pennsylvania's minimum wage.[17]

- The IFO finds that a minimum wage hike to $12 per hour would raise wages for 1.9 million workers, with 1.1 million workers (who now earn less than $12 per hour) benefiting directly, and another 800,000 workers earning between $12 and $15 per hour benefiting indirectly. These estimates are broadly consistent with those of the Economic Policy Institute.[18]
- Among the 1.1 million workers directly affected by a minimum wage increase, the IFO estimates average annual incomes will rise by $2,470.
- In total, the IFO estimates that Pennsylvania incomes will rise by $3.5 billion, boosting Pennsylvania General Fund revenues by $50 million.
- Of the workers affected, the IFO finds:
  - Most (88.4%) would be adults aged 20 or older, with just over 41.5% aged 40 and older.
  - A little over half (56.2%) would be women.

- Just over one in four (25.9%) would be parents.
- Just over half (56.3%) would be employed full time.

- While the IFO speculates that 34,000 workers would lose employment as a result of a minimum wage increase to $12, this is less than 2% of the number the IFO predicts would see higher wages. The IFO also now acknowledges that recent high-quality research finds minimum wage increases have not had negative employment effects but continues to project job losses by relying on older studies with less sophisticated, lower quality statistical methods.
- The IFO does not estimate employment impacts from increasing the tipped minimum wage to $12 per hour. A study of full-service restaurants in New York (which has increased its tipped minimum wage) and neighboring states (which have not) finds faster growth in employment, wages, and the number of business establishments in New York.[19] Industry growth has been especially strong in New York counties that border Pennsylvania relative to the neighboring Pennsylvania counties.
- Data on the broader food services and drinking places industry (which includes fast food and bars as well as full-service restaurants) in Pennsylvania and in surrounding states—all of which have increased their minimum wage since 2010—also show more robust employment and wage growth in other states than Pennsylvania.

As lawmakers return from the summer recess, it's time to finish the job and increase the state's minimum wage as all of our neighboring states have already done. If the chair of the U.S. Chamber executive committee supports a minimum wage increase, and with strong bipartisan support among voters, we should be able to get an increase done in Pennsylvania.

Localized Information on the Benefits of Raising the Pennsylvania Minimum Wage

Pennsylvanians and lawmakers can get localized information about the number and characteristics of workers affected by a minimum wage increase from Keystone Research Center fact sheets. The facts sheets present data for counties, state Senate and state House districts. Available at https://www.keystoneresearch.org/factsheets18

Restore overtime pay and the 40-hour work week for nearly half a million salaried workers

A second way for business leaders in Pennsylvania to demonstrate that they now get the memo on the need to increase workers' pay would be for them to join Gov. Wolf in supporting an increase in the salary threshold below which salaried workers automatically receive overtime pay if they work more than 40 hours.[20] While many in recent decades think simply labelling employees "salaried" denies them overtime pay, that is not the law or what was intended by the 1938 U.S. Fair Labor Standards Act or the Pennsylvania Minimum Wage law. Federal and state law hold, instead, that only workers who perform genuinely "executive," "professional," or (high-level) "administrative" job duties are ineligible for overtime pay—because the skills of such specialized workers should guarantee that they earn a good living without overtime pay. In the mid-1970s, more than 60% of U.S. workers fell below the then-federal threshold for salaried workers to be automatically eligible for overtime pay. But in a classic illustration of broader trends since the Reagan era—and of business overreach—the federal threshold has increased only once since the 1970s and less than 10% of salaried workers fall below the current $23,600. In vast swaths of retail, restaurants, higher education, and even parts of banking and health care, the practical reality is that employees ARE denied overtime simply by calling them "salaried." In a modest compromise, President Obama sought to bring the overtime threshold back up to $47,476—covering 40% of salaried employees in the U.S.'s lowest-wage region, the South (i.e., well less than two-thirds the share of salaried workers automatically eligible for overtime pay in the mid-1970s). When a Texas court derailed this federal effort, Governor Wolf stepped forward last year to phase in an increase in the Pennsylvania threshold to $47,892—which he can do through a regulatory change.

When the courts blocked Obama's change, the Altoona-based company Sheetz took the kind of action called for by Tom Wilson. Sheetz announced that it would raise the pay of all its salaried employees to over $47,500 in 2017. The president and CEO of Sheetz explained: "Since our founding in 1952, the success and satisfaction of our employees at Sheetz has been vital to the accomplishments of the company itself. This announcement represents our constant efforts toward attracting and retaining the best talent and being a great place to work. It is a commitment that reaches beyond compensation, to the offering of excellent benefits and a great balance between work and family."[21]

See our joint release with the National Employment Law Project estimating the number of workers by county impacted by Pennsylvania's proposed higher overtime threshold.

"Wolf Proposal Would Restore 40-Hour Work Week and Fair Overtime Pay for 465,000 PA Salaried Workers"

Available at https://goo.gl/8kYi7M

Faced with Governor Wolf's proposal, however, most in the Pennsylvania business community submitted comments opposing the change, even while Pennsylvania workers and advocates submitted a larger number of comments supporting the proposal. Based on these comments and on input at stakeholder sessions, the Wolf administration is now developing its final proposed change in the Pennsylvania overtime rule.

Meanwhile at the federal level, President Trump, having chosen not to defend the Obama threshold (but having defended his right to reset the threshold through regulation), proposed a much lower increase than either President Obama or Governor Wolf—to $35,308. Some reports indicate that the president may announce his final rule this Labor Day.[22] The claims President Trump might tweet if he announces a final rule at $35,308 are not difficult to imagine: "Biggest win for American workers in 50 years. President Obama couldn't deliver but I have for millions. A huge step to undo the rigging of the economy against the hard-working managers who close our restaurants, open our retail stores, and supervise our construction sites." As Heidi Shierholz says, "Don't be fooled."[23] This proposal would benefit far fewer salaried employees—8.2 million fewer salaried workers than President Obama's proposal and nearly half a million fewer Pennsylvania salaried employees than Governor Wolf's proposal.[24]

Increase the Pennsylvania minimum teacher salary

A third opportunity to increase pay involves public-sector workers—teachers. As documented by the Economic Policy Institute, a growing teacher pay gap exists across the county with teachers earning 13.1% less in total compensation (salary plus benefits) than comparable private sector workers.[25] In Pennsylvania, weekly wages for teachers are now 13.5% lower than comparable workers.[26] While public school teachers do not work for private businesses, high turnover and recruitment challenges that result from low pay threaten the quality of the future workforce. Forward-looking business leaders should recognize a self-interest in investing more in our teachers.

To address the teacher pay gap, and to promote quality education, Governor Wolf proposed in his last budget proposal to increase the minimum annual teacher salary in Pennsylvania to $45,000. As with the minimum wage, this proposal did not become part of the final 2019-20 budget but should be implemented. Another benefit of the governor's minimum teacher salary proposal: state funds that help districts raise salaries would go to less affluent rural and urban school districts which pay the lowest salaries, providing a boost to local economies where it is most needed.

Develop a plan to raise PA's pay—and then execute it

The three proposals above offer immediate opportunities for business leaders to begin restoring the faith of ordinary Pennsylvanians in their economic system. But, as Tom Wilson suggests, we need an overall plan and execution strategy to achieve an economy in which ordinary people and corporations thrive together. Gov. Wolf's Middle-Class Task Force, co-chaired by the president of the PA AFL-CIO and the president and CEO of the Pennsylvania Chamber of Business and Industry, could be charged with developing the plan.[27] Over the past several years, the task force has helped craft two new initiatives in education and workforce development—PAsmart and Governor Wolf's new Workforce Development Command Center. While these are positive steps forward, these two initiatives will not raise pay. For that we need bold actions that can "save [Pennsylvania] capitalism by paying people more." As with actions individual companies take—as at Allstate, with its $15 per hour minimum wage, and at the Wolf Company headquartered in York, Pennsylvania (Governor Wolf used to be CEO of the Wolf Company), which pays generous salaries and benefits plus profit sharing—public policies that raise workers' pay can also pay off for business. It's time for a deeper conversation about forging a Pennsylvania capitalism that really works for everyone. And then it's time to create that capitalism.

Table A1: African American Wages by Year by Decile as a % of White in Pennsylvania (In 2018 dollars)**						
	30th percentile	40th percentile	50th percentile (Median)	60th percentile	70th percentile	Average Across All Reported Deciles
1979	91%	90%	90%	88%	85%	89%
1980	91%	93%	85%	86%	88%	89%
1979	91%	90%	90%	88%	85%	89%
1980	91%	93%	85%	86%	88%	89%
1983		91%	91%	88%		90%
1984		91%	91%	95%		92%
1985		91%	89%	87%		89%
1986	91%	94%	96%	93%	97%	94%
1987	102%	99%	98%	95%	94%	98%
1988		93%	94%	91%		93%
1989	92%	90%	87%	88%	85%	88%
1990	95%	94%	91%	94%	92%	93%
1991	90%	88%	89%	90%	88%	89%
1992	94%	94%	91%	89%	86%	91%
1993	95%	92%	93%	90%	92%	92%
1994	89%	86%	91%	92%	89%	89%
1995	89%	88%	89%	90%	89%	89%
1996	88%	83%	82%	82%	84%	84%
1997		84%	83%	79%		82%
1998	89%	88%	83%	78%	81%	84%
1999	90%	86%	82%	77%	79%	83%
2000	87%	84%	82%	80%	82%	83%
2001	88%	82%	76%	76%	77%	80%
2002	89%	83%	80%	78%	78%	82%
2003		86%	83%	79%		82%
2004		83%	83%	86%		84%
2005		81%	82%	86%		83%
2006		77%	80%	78%		78%
2007		82%	77%	79%		79%
2008		81%	79%	77%		79%
2009		86%	84%	82%		84%
2010		79%	80%	79%		80%
2011		80%	82%	82%		81%
2012		80%	79%	83%		81%
2013		83%	84%	82%		83%
2014		80%	80%	76%		79%
2015		75%	75%	69%		73%
2016		76%	76%	78%		76%
2017		73%	73%	70%		72%
2018		75%	72%	70%		72%
* Blank cells not available due to insufficient sample size						
** Using CPI-U-RS.						
Source: Economic Policy Institute analysis of Current Population Survey data						

Table A2: Hispanic Wages by Year by Decile in Pennsylvania (In 2018 dollars)*			
	Hispanic Median Wage	**Hispanic Median as % of White**	**Hispanic Median as % of Black**
2000	$13.91	75%	92%
2001	$14.39	74%	97%
2002	$13.99	72%	90%
2003	$15.11	79%	95%
2004	$14.84	77%	93%
2005	$14.05	75%	91%
2006	$13.72	73%	92%
2007	$13.72	72%	94%
2008	$12.94	67%	85%
2009	$14.40	74%	88%
2010	$13.78	70%	88%
2011	$13.54	71%	87%
2012	$13.17	69%	87%
2013	$12.91	68%	80%
2014	$14.36	75%	94%
2015	$13.25	67%	90%
2016	$13.69	71%	93%
2017	$14.91	76%	105%
2018	$15.31	76%	106%

*Using CPI-U-RS.

Source: Economic Policy Institute analysis of Current Population Survey data.

Endnotes

[1] The 2.1% growth rate for the second quarter is "annualized" (i.e., it indicates that if the second-quarter growth rate continued for four quarters it would equal 2.1% for a full year). The first revision of second-quarter GDP growth will be announced on August 29. See https://www.bea.gov/news/2019/gross-domestic-product-2nd-quarter-2019-advance-estimate-and-annual-update.

[2] According to journalist Dave Roos, the inversion of the Treasury yield curve has only delivered one "false positive" over the course of the past seven recessions. See Dave Roos, "7 Warning Signs of a Looming Recession," *How Stuff Works* thttps://money.howstuffworks.com/7-warning-signs-looming-recession1.htm. Roos also claims that recessions have begun, on average, 18 months after the inversion. The Treasury yield began to invert for the first time since the last recession in December 2018. For enumeration of cases in which some longer-term bonds have had lower yields than shorter-term bonds, see Kimberly Amadeo, "Inverted Yield Curve and Why It Predicts a Recession," *The Balance*, updated August 22, 2019; https://www.thebalance.com/inverted-yield-curve-3305856.

[3] Gretchen Frazee, "Can the longest economic expansion in U.S. history last?" Online at https://www.pbs.org/newshour/economy/making-sense/can-the-longest-economic-expansion-in-u-s-history-last.

[4] State-level unemployment rates are available on the website of the Bureau of Labor Statistics (www.bls.gov) only back to 1976. Prior to 2019, the monthly U.S. unemployment rate last fell below 4% from February 1966 to January 1970.

[5] In 2018, Pennsylvania needed roughly another 180,000 jobs to get back to the employment rate of 2007. As of June 2019, Pennsylvania had about 30,000 more jobs than the annual average number for 2018, which lowers the 180,000 shortfall to 150,000.

[6] Illinois, Indiana, and Louisiana (and the District of Columbia) had higher African-American unemployment rates. See the online interactive map at https://www.epi.org/indicators/state-unemployment-by-race-and-ethnicity/.

[7] Stephen Herzenberg and Mark Price, "The State of Working Pennsylvania 2016," Keystone Research Center, 2016, Box 1, p. 7; https://www.keystoneresearch.org/SWP2016.

[8] In both Table A1 and Table A2 (discussed in the next paragraph in the text), we report data for each year rather than three-year averages. With data suppressed in some years for many Black and Hispanic deciles because of small sample sizes, using three-year averages multiples the number of years for which no data can be reported (because one or more of the three years has suppressed data).

[9] Lawrence Mishel and Julia Wolfe, "CEO compensation has grown 940% since 1978; Typical worker compensation has risen only 12% during that time," Economic Policy Institute, August 14, 2019; https://www.epi.org/publication/ceo-compensation-2018/.

[10] To estimate top incomes we rely on Internal Revenue Service data based on tax returns rather than on the Current Population Survey (CPS) of households which does not have a sufficient sample size to accurately estimate top income reliably. The CPS also "top codes" reported very high wages—lowering them to a maximum recorded wage level—based on the view that these could be unreliable "outliers." For estimates of the top 1% share in all 50 states (and in many localities) through 2015, see 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.

[11] In the Business Roundtable press statement, Darren Walker, president of Ford, actually called the statement "tremendous news." His full quote was: **"**This is tremendous news because it is more critical than ever that businesses in the 21st century are focused on generating long-term value for all stakeholders and addressing the challenges we face, which will result in shared prosperity and sustainability for both business and society**,"** See https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.

[12] Phil Mattera estimates that the 181 signatories account for $197 billion out of $470 billion in fines documented by Good Jobs First's national "violation tracker" data base. See Phil Mattera, "Has the Business Roundtable Really Seen the Light?" Inequality.org, August 23, 2019; https://inequality.org/research/has-business-roundtable-seen-light/.

[13] The story is attributed to United Auto Workers president Walter Reuther who explained to a General Motors manager that robots and other machines won't buy anything. The Allstate CEO's last name and his inclusion of a

story from the auto industry makes us wonder if Tom Wilson is related to “Engine Charlie” Wilson, the General Motors CEO who negotiated the post-World War II “Treaty of Detroit.” This treaty between post-WW II labor and management locked in wage increases for unionized auto workers at the rate of inflation plus productivity growth staring around 1950 (and until around 1980). The Treaty formula then spread throughout unionized (i.e., most of) manufacturing. Coupled with five congressional minimum wage increases from 1950 to 1968 that maintained the relative relationship of the minimum wage to manufacturing wages, the Treaty of Detroit set the stage for three decades of wage-led growth. On the Treaty of Detroit, see Frank Levy and Peter Temin, “Inequality and Institutions in 20th Century America,” Industrial Performance Center, Massachusetts Institute of Technology Working Paper Series, MIT-IPC-07-002, revised June 27, 2007;
https://inequality.stanford.edu/sites/default/files/media/_media/pdf/key_issues/politics_research.pdf.

[14] Excerpted from Tom Wilson, “Save Capitalism by Paying People More: Changing the role of shareholders is only a start. Boards and C.E.O.s must create more higher-paying jobs,” *The New York Times*, Aug. 20, 2019, updated Aug. 23, 2019.

[15] From 2013 to 2018, 10th percentile wages increased at 13% in states that have increased their minimum wage recently versus 8.4% in states like Pennsylvania that didn’t. See Elise Gould, “Wage growth for low-wage workers has been strongest in states with minimum wage increases,” Economic Policy Institute, March 5, 2019; https://www.epi.org/publication/wage-growth-for-low-wage-workers-has-been-strongest-in-states-with-minimum-wage-increases/.

[16] Valerie Wilson, “The Raise the Wage Act of 2019 would give black workers a much-needed boost in pay,” Economic Policy Institute, February 13, 2019; https://www.epi.org/publication/the-raise-the-wage-act-of-2019-would-give-black-workers-a-much-needed-boost-in-pay/.

[17] This box is based on Mark Price, “A Review of the Independent Fiscal Office’s 2019 Minimum Wage Analysis,” Keystone Research Center, August 2019; https://www.krc-pbpc.org/research_publication/review-of-ifos-minimum-wage-analysis.

[18] The Economic Policy Institute’s Minimum Wage Simulation Model (MWSM) finds a minimum wage of $12 will raise wages for 1.6 million workers, boosting total income by $5.3 billion. Both the EPI and IFO estimates are for a minimum wage effective July 1, 2019, which did not take place. A minimum wage of $12 per hour effective January 1, 2019, would benefit slightly fewer workers and increase workers’ wage income by a bit less.

[19] Institute for Policy Studies and Restaurant Opportunities Centers United, “New York’s Experience after the Tipped Minimum Wage Increase: Restaurant worker wages, employment, and number of establishments have grown in the past two years,” October 2019; https://inequality.org/wp-content/uploads/2018/11/New-York-tipped-minimum-policy-brief-Oct-2018.pdf.

[20] This section draws heavily from Stephen Herzenberg, “Wolf Proposal Would Restore 40-Hour Work Week and Fair Overtime Pay for 465,000 PA Salaried Workers,” Keystone Research Center and National Employment Law Project, August 20, 2018; https://www.krc-pbpc.org/research_publication/wolf-proposal-would-restore-40-hour-work-week-and-fair-overtime-pay-for-465000-pa-salaried-workers/.

[21] Accessed December 10, 2017, from http://fox43.com/2016/11/30/sheetz-to-raise-the-minimum-salary-of-employees-despite-judges-flsa-injunction/.

[22] https://www.epi.org/blog/dont-be-fooled-by-the-trump-administrations-labor-day-pitch-on-overtime-policy-its-going-to-cost-workers-billions/.

[23] Heidi Shierholz, “Don’t be fooled by the Trump administration’s Labor Day pitch on overtime policy—it’s going to cost workers billions”;
https://www.epi.org/blog/dont-be-fooled-by-the-trump-administrations-labor-day-pitch-on-overtime-policy-its-going-to-cost-workers-billions/.

[24] https://www.keystoneresearch.org/media-center/press-releases/statement-about-300000-pennsylvania-workers-left-behind-new-trump-admin-.

[25] Sylvia Allegretto and Lawrence Mishel, "The teacher weekly wage penalty hit 21.4 percent in 2018, a record high: trends in the teacher wage and compensation penalties through 2018, April 24, 2019; https://www.epi.org/files/pdf/165729.pdf.

[26] https://www.keystoneresearch.org/media-center/press-releases/teacher-weekly-wage-penalty-reached-record-high-2018.

[27] Three other reports by Keystone Research Center and the Pennsylvania Budget and Policy Center provide a wide range of ideas for raising Pennsylvania's pay beyond the three specific ones in this report: "The Agenda to Raise Pennsylvania's Pay," https://www.keystoneresearch.org/sites/default/files/SWP17_RaisePennsylvaniasPay_FINAL_0.pdf, Keystone Research Center, August 31, 2017; We The People Pennsylvania, *Roadmap to a New Pennsylvania: State Policy Towards a Safer, Healthier, More Prosperous and Equitable Commonwealth*, January 2019; and Stephen Herzenberg and John Alic, "Towards an AI Economy That Works for All," Keystone Research Center, February 2019, https://www.keystoneresearch.org/publications/research/towards-ai-economy-works-all.