

State of Working Philadelphia



October 2018

by Mark Price



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Executive Summary

Each Labor Day the Keystone Research Center releases an annual checkup on the health of the Pennsylvania labor market, “The State of Working Pennsylvania.”

(<https://www.keystoneresearch.org/SWP2018>)

The 2018 edition focused on state-level data, mostly available through June 2018. This addendum to that report focuses on 2017 data released last month by the Census Bureau on incomes and poverty for Philadelphia. We complement the Census data with statistics on employment and unemployment from the Bureau of Labor Statistics to provide a comprehensive assessment of the performance of the Philadelphia economy since 2005. We start with the year 2005 as that is the first year in which data at the county level are available from the Census Bureau’s American Community Survey.

Our findings in brief:

Employment growth in the City of Philadelphia has been stronger than in the state since the end of the Great Recession, growing at an average annual rate of just over 1%, compared to the statewide average of 0.85%. Indicative of this relative strength, the unemployment rate (6.2%) in the city in 2017 has fallen by almost half from its post-recession peak of 10.9%. The share of city residents with employment in 2017 at 53% is higher than before the recession began.

Further reflecting this economic strength, the poverty rate in the city has fallen from its 2011 peak of 28.4% to 25.7% in 2017. However, the poverty rate in 2017 was unchanged from 2016. Furthermore, in 2007, the best year for the U.S. and Philadelphia economy prior to the start of the Great Recession when the unemployment rate in the city was 6.2%, fewer than one in four (23.8%) of the city’s residents had incomes below the poverty line. On its own, economic growth in the city has not proved sufficient to lead to large reductions in the poverty rate. Workers need higher wages and better hours, and the disabled need a broader, more effective safety net.

The most direct route to raising wages is a minimum wage higher than \$7.25, but here the city is blocked by state law from setting a higher minimum wage. In addition to low wages, many workers in the commonwealth of Pennsylvania continue to work in part-time jobs when they would prefer full-time work. Workers employed part-time but wanting full-time work is the primary reason that the underemployment rate in Pennsylvania remains high at 9.4% a higher level for this metric than following the aftermath of the dot.com recession in 2002. The challenge of insufficient hours is felt most acutely by Philadelphia’s service sector workers, just 17% of whom are employed full-time, with just under three in four of those working part-time needing additional hours to make ends meet.

Next week, the Philadelphia City Council takes up Fair Work Week Legislation that, in addition to providing workers with more notice on scheduling of work hours—a key requirement for all working parents also requires employers to offer hours first to incumbent part-time employees when expanding their schedule, rather than hiring new ones. Expanding hours for the underemployed is a key way to help more working Philadelphians move out of poverty.

Official poverty thresholds also understate the degree to which Philadelphia families struggle to get by. While the official poverty threshold is \$16,895 for a single adult with one child, data on the costs that families in the city face for rent, food, child care and health care reveal that a basic family budget for a single parent requires an annual income of \$56,912. Median earnings of \$32,011 in the city suggest that for many Philadelphia families work doesn’t pay enough to provide a decent standard of living.

Since 2009, as the economy in Philadelphia has improved, both median household incomes and median earnings (for individuals) have begun to improve. In the last two years, however, median household incomes have fallen while median earnings are essentially unchanged.

Looking into these aggregate trends reveals persistent inequality in the city. The average income of the bottom fifth of households in 2017 remains 61% lower than it was for this group in 2007; for next fifth incomes remain 21% below their 2007 levels; and for the 3rd quintile they remain down 5% from 2007. More succinctly, as of 2017, the bottom 60% of households in Philadelphia still make less in real terms than their counterparts in 2007. Meanwhile, the average income of the top 20% of households grew 13% over the same period.

Internal Revenue Service data covering a shorter period, 2010 to 2015, suggest that income growth has been concentrated among the top 1% of the city's families, who have seen their average income climb 32%.

Examining inequality more closely reveals the continued presence of gaps in earnings by race, ethnicity, and gender. Among full-time, full-year workers living in the city in 2017 we find that

- white women had median earnings of \$54,912 or 95% of the \$57,542 median for white men (a difference that is not statistically significant, more reliable data from a larger sample reveal a statistically significant gap of 87.3%),
- median earnings for black men were \$39,367 or 68% of the median for white men,
- median earnings for black women were \$37,594 or 65% of the median for white men,
- Hispanic men had median earnings of \$36,465 a figure, 63% of the figure for white men,
- median earnings for Hispanic women were \$33,737 or 59% of the figure for white men,
- among Asian men median earnings were \$44,660 or 78% of the median for white men, and
- at \$38,355 median earnings for Asian women were 67% of the white male median.

In sum, economic growth by itself in the city of Philadelphia is not resulting in broadly shared growth in incomes. As detailed in the body of this report, it has left in place the gaps in opportunity and structural inequality that have resulted from the bias directed at all communities of color and women throughout the 18th, 19th, 20th and now 21st century.

The city of Philadelphia took important steps towards building a more inclusive economy by recently enacting a Wage Equity Ordinance and now considering Fair Work Week Legislation. The city also needs better policies from Harrisburg, including a higher state minimum wage and the power for Philadelphia to set its own higher minimum wage. In addition to rules that make the economy more inclusive, the city needs the state to establish universal access to high quality pre-K (<http://www.prekforpa.org/>), fully fund K-12 education (<http://paschoolswork.org>), and reduce the cost of attending the state's public institutions of higher education (<http://www.papromise.org/>).¹

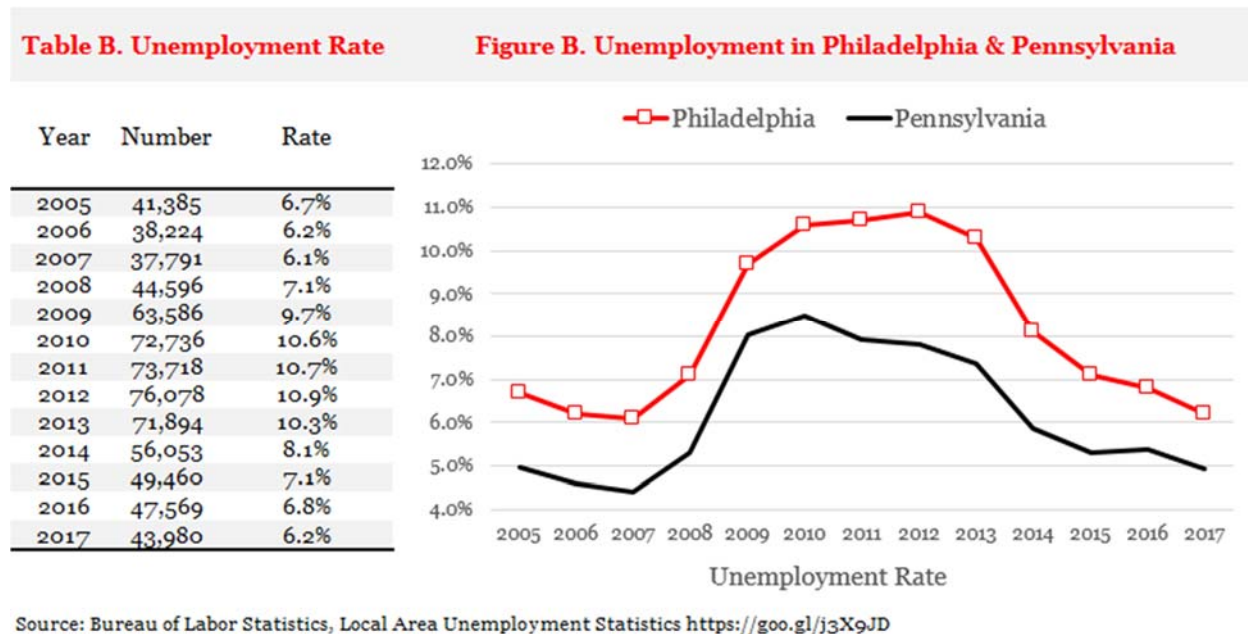
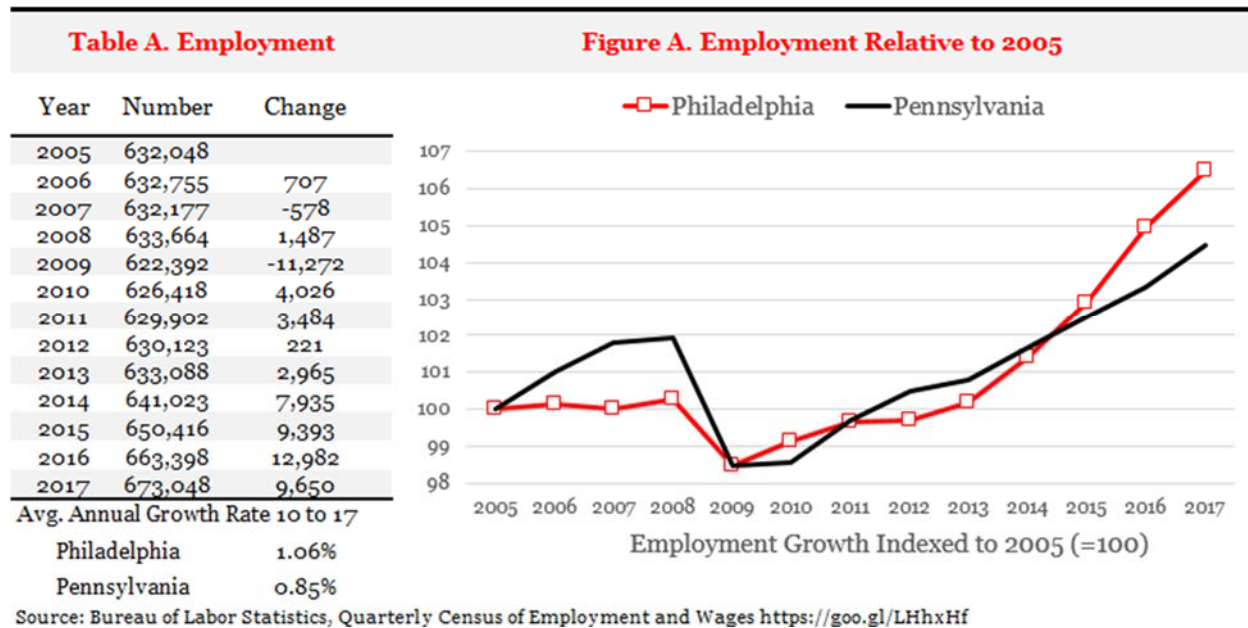
While necessary, however, these changes are not sufficient to overcome the sharp divide in wealth inequality overall or by race, ethnicity, and gender. One proposal for reducing wealth inequality directly is the establishment of Pennsylvania baby trusts, opened for each child born

¹ The We The People - Pennsylvania (WTP-PA) campaign has developed a comprehensive agenda to improve the lives of working families that includes most of the items highlighted here. The short version of the WTP-PA agenda is at <http://wethepeoplepa.org/materials/> with more detail on many of the policies available at <http://wethepeoplepa.org/the-policy/>. As of October 17, 116 Pennsylvania candidates for the General Assembly had endorsed the We The People - PA agenda.

in Pennsylvania and accessible by age 18 to fund investments in education, a home or a new business. A modest flat tax on wealth that would impose an annual burden of just \$44 on the typical household could, because of the sharply unequal distribution of wealth, fund an average trust amount of just over \$8,000. The trusts would be available to all families but scaled to provide larger trusts to the children of low- and middle-wealth families.

Employment, Unemployment and Poverty

Since the start of the employment recovery from the Great Recession of 2008-09, the Philadelphia labor market has performed relatively well. Employment over this period has grown at an average annual rate of just over 1%, faster than the statewide pace of growth over the same period (see Table A and Figure A).



Box A: Employers Colluding to Suppress Wage Growth

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. 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.‡

On July 9, Attorney General Josh Shapiro 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.

‡ Alan Krueger and Eric Posner. 2018. *A Proposal for Protecting Low-Income Workers from Monopsony and Collusion*. The Hamilton Project, Brookings, <https://goo.gl/pV6FWr>.

As a result, the unemployment rate, which peaked at 10.9% in 2012, has fallen nearly in half to 6.2% in 2017 (Table B and Figure B previous page).² The unemployment rate in the city is now just one-tenth of a percentage point higher than in 2007 (the Great Recession started in December 2007). Although the unemployment rate in the city is down, it remains 1.3 percentage points above the statewide average of 4.9%. The higher overall unemployment rate reflects longstanding differences between the city and the rest of the state in the challenges that workers face in finding paid employment. For example, the city has a higher share of the population age 25 to 64 with less than a high school degree than in the rest of the state (Table C on page 7). In all communities, this group faces more difficulty finding sufficient work at living wages. As we discussed in “The State of Working Pennsylvania 2018,” workers with a high school degree or less face a labor market where the absence of unions, the slow nature of economic recoveries, and employer collusion (for example, through “no poaching” agreements (see Box A above)) conspire to limit opportunities for wage growth, sufficient hours, and family-friendly schedules.

The high rate of unemployment for workers with a high school degree or less points to the need for public employment programs like those proposed in the Federal Job Guarantee which would guarantee a job to all that want one with a minimum annual salary of \$24,600 (a minimum wage of \$11.83 per hour).³ Such a program would lower unemployment and increase the

² As of August 2018, the unemployment rate in Philadelphia is 6%, the lowest August unemployment rate since 2000.

³ Mark Paul, William Darity, Jr. and Darrick Hamilton. 2018. “The Federal Job Guarantee – A Policy to Achieve Permanent Full Employment.” Full Employment Project at the Center on Budget and Policy

competition between employers in the city for workers. Increased competition between employers for available workers would also improve wage growth as the economy expands.

Although unemployment as of 2017 is relatively low, in Philadelphia and across the Commonwealth a broader measure of labor market slack—the underemployment rate—remains high. The use of the term underemployment sometimes refers to workers with a specialized skill or degree working in lower-paying jobs that don't require those qualifications. The underemployment rate as used here (and as defined by the Bureau of Labor Statistics) does not refer to whether skills are being fully utilized. It instead captures people we traditionally think of as unemployed plus three other groups, the largest and most important of which is those who want full-time work but can't find it and so work part-time.⁴ The Pennsylvania 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.

Official estimates of the underemployment rate in the city of Philadelphia are not available, but analysis of the service sector in the city by Daniel Schneider and Kristen Harknett suggest that it may well be high. These authors find that only 17% of service sector workers are employed full time and 74% of those who work less than 30 hours a week want more hours on the job.⁵ Insufficient hours are a major challenge for service workers that highlight the importance of policy that boosts hours of work while simultaneously raising wages. Boosting hours for workers who don't have enough of them is, along with raising wages, the most direct way to

Box B: Fair Work Week Legislation Before the Philadelphia City Council

Philadelphia City Council Member Helen Gym has introduced legislation (Bill #180649) which would begin to address a major problem for many workers: unpredictable schedules and incomes.

The legislation would require employers to give workers a good-faith estimate of the number of hours and the timing of shifts they can expect upon hire. The legislation requires employers to give their workers 14 days' notice of what their schedules will be. Perhaps the most critical part of this proposed legislation is a requirement that employers must, when expanding the schedule, offer hours to incumbent part-time employees, rather than first hiring new ones. Expanding hours for the underemployed is a key way to help working Philadelphians move out of poverty. To learn more about the need for fair schedules read One Pennsylvania's primer, "Certain Uncertainty: Why Philadelphians Need a Fair Workweek,"

<https://goo.gl/4Qg4gP>.

To get involved in the campaign for a Fair Work Week in Philadelphia, visit

<http://www.onepa.org/fairworkweekphl/>.

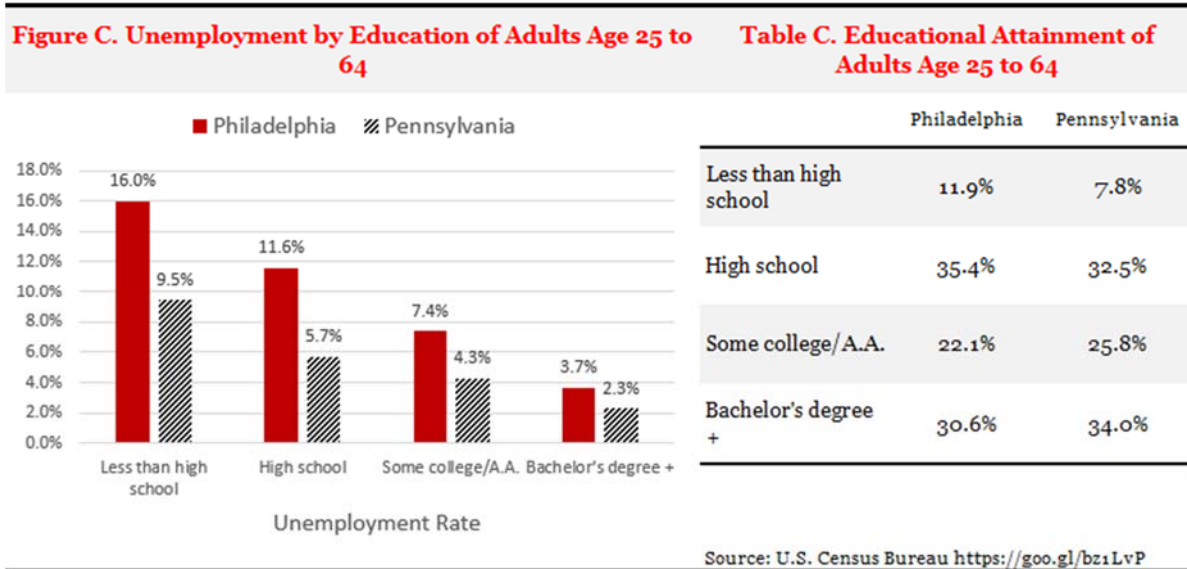
Priorities. <https://www.cbpp.org/research/full-employment/the-federal-job-guarantee-a-policy-to-achieve-permanent-full-employment>

⁴The underemployment rate includes 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.

⁵ Daniel Schneider and Kristen Harknett. 2017. "Working in the Service Sector in Philadelphia," The Shift Center, University of California-Berkeley, <https://goo.gl/NZEZvc>.

reduce poverty in the city of Philadelphia.

In terms of local solutions, the Philadelphia City Council is considering fair work week legislation that would substantially improve job quality in the city by curtailing last-minute schedule changes that play havoc with the lives of parents with children and also by increasing hours for some part-time workers that want more (see Box B on previous page).



There is no better illustration of the failure of economic growth alone to reduce poverty in Philadelphia than recent trends in the city. Consider first the percentage of the resident employed population, which at 53% in 2017 is higher than before the recession began (Table D and Figure D1). Reflecting this improvement, the poverty rate in the city has fallen from its 2011 peak but only to 25.7% in 2017 (Table E and Figure E on page 10). When unemployment in the city was last as low as it is now, in 2007, the poverty rate was 23.8%. If the national economy continues to expand, the poverty rate will fall further in the city—but this current expansion will likely end sooner rather than later, halting progress. To meaningfully reduce poverty, economic policies aimed squarely at lifting wages through a higher minimum wage (see Box C below) and stabilizing/raising hours are required. An employment rate of 23% for adults living below the poverty line (Figure D3) underscores the pressing need to raise employment further, as well as raise wages.

Box C. Workers in Philadelphia Affected by Minimum Wage Increases

There is a proposal to raise the minimum wage to \$15 per hour by 2024. An increase in the minimum wage to \$15 per hour would boost the wages of 253,698, or 39.7%, of the city's resident workforce. In total, wages in Philadelphia would increase by \$1.1 billion.

Read more about the workers affected at
http://keystoneresearch.org/sites/default/files/KRC_Philadelphia_MinWage.pdf

Table D. Resident Employment Rate

Year	Age 16 & older		Age 25 to 54
	Number	Rate	Rate
2005	555,596	51.5%	60.0%
2006	568,328	50.7%	67.9%
2007	593,712	52.6%	69.4%
2008	594,268	52.7%	70.2%
2009	633,695	51.7%	67.6%
2010	597,552	48.7%	63.9%
2011	596,146	48.5%	64.7%
2012	613,692	49.5%	65.0%
2013	640,362	51.5%	67.7%
2014	652,343	52.2%	68.8%
2015	676,015	53.8%	69.9%
2016	678,637	53.9%	71.3%
2017	673,858	53.0%	69.1%

Figure D1. Employment Rate Relative to 2005

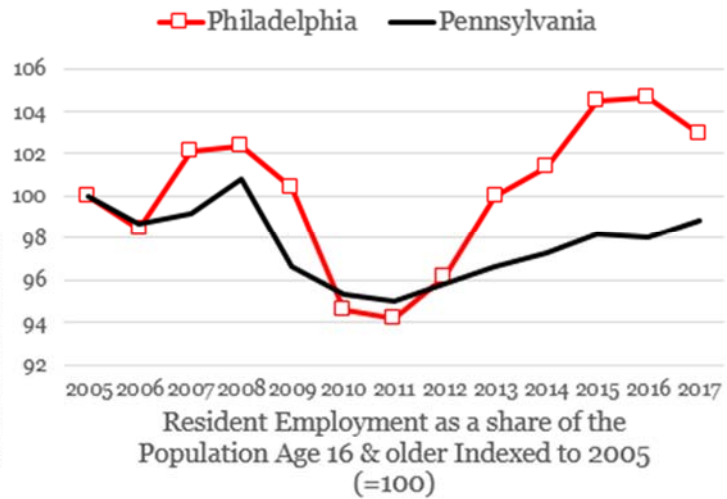
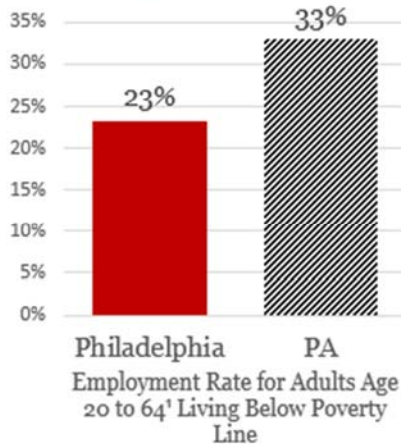
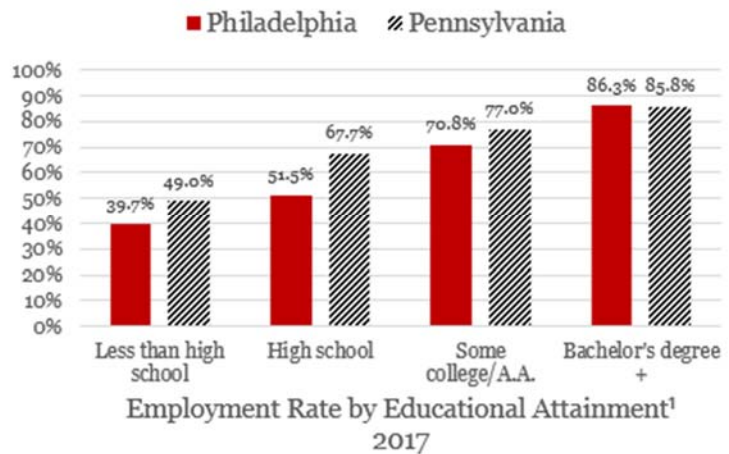


Figure D3. Employment Rate for People in Poverty



¹Excludes group quarters

Figure D2. Employment Rate by Education 2017



¹Adults age 25 to 64

Source: U.S. Census Bureau <https://goo.gl/bz1LvP>

Because a third (32.7%) of Philadelphia's poor are disabled, increasing incomes in the city will require strategies that go beyond providing good jobs with sufficient hours.⁶ It also includes the need to expand income supports (see Box D) and in-kind assistance for health care, food, and housing.

Box D: The Restoration of General Assistance

This summer, thanks to the efforts of [Community Legal Services of Philadelphia](#), the Pennsylvania Supreme Court in a 7 to 0 decision found that Act 80 of 2012 was enacted in a manner that violated the Pennsylvania Constitution. Act 80 eliminated General Assistance, a program that provides cash assistance to people with serious disabilities, survivors of domestic violence, and individuals in active drug treatment for limited periods of time.

The program is only available to low-income individuals with less than about \$200 a month in income (\$2,400 a year) and total assets no greater than \$250. The cash assistance provided is also limited in scope amounting to about \$200 a month. Before the program was eliminated, 97% of the recipients were disabled. While the income provided by cash assistance is modest, about \$2,400 a year, the restoration will be a lifeline in a city like Philadelphia with a large impoverished and disabled population and where the average income of the bottom 20% households is just \$3,172 (see Table I on page 13).

To learn more about General Assistance visit <https://clsphila.org/GA>.

⁶ See the Census Bureau's American Factfinder https://factfinder.census.gov/bkmk/table/1.0/en/ACS/17_1YR/S1703/0400000US42|0400000US42.05000

Table E. Poverty

Year	Number	Rate
2005	343,547	24.5%
2006	354,135	25.1%
2007	333,142	23.8%
2008	336,272	24.1%
2009	374,226	25.0%
2010	397,083	26.7%
2011	423,305	28.4%
2012	405,689	26.9%
2013	396,963	26.3%
2014	394,765	26.0%
2015	393,203	25.8%
2016	391,653	25.7%
2017	395,664	25.7%

Figure E. Poverty Rate Relative to 2005

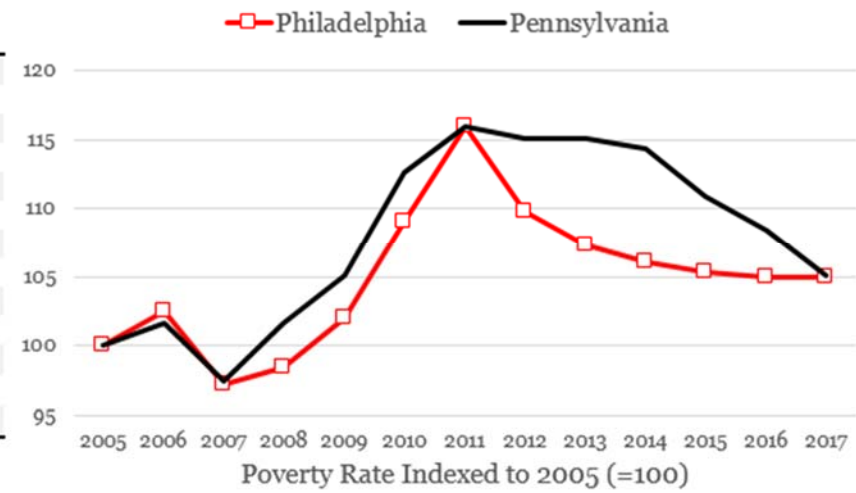
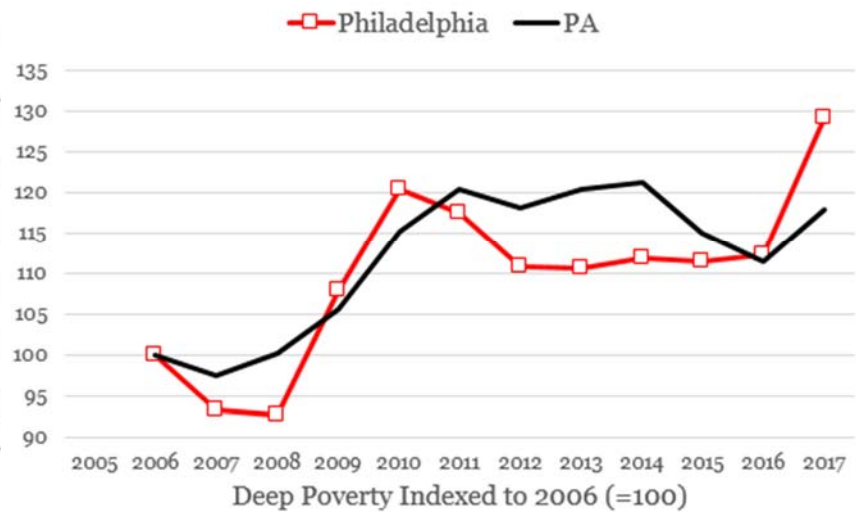


Table E1. Deep Poverty

Year	# of People With Incomes Half or Less of The Poverty Line
2006	166,553
2007	155,266
2008	154,183
2009	179,864
2010	200,439
2011	195,625
2012	184,553
2013	184,218
2014	186,168
2015	185,542
2016	186,893
2017	215,320

Figure E1. Number of People in Deep Poverty Relative to 2006



Source: U.S. Census Bureau <https://goo.gl/SZS8rw>

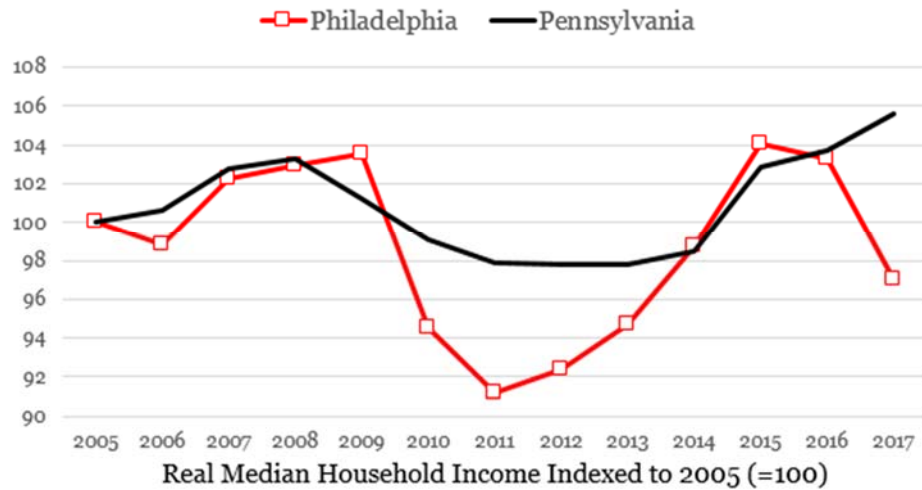
Incomes and the Cost of Living

Turning our attention to incomes, after adjusting for inflation, both median household incomes (Table F) and median earnings (of individuals Table G) in the city fell 11% from a 2009 peak to a 2012 low. As of 2017, incomes have recovered some of the ground lost as a result of the recession with median household incomes down 6% from 2009 to 2017 and median earnings down 3% over the same period.

Table F. Incomes

Year	Median Household Income (2017 \$)
2005	\$40,987
2006	\$40,500
2007	\$41,915
2008	\$42,201
2009	\$42,428
2010	\$38,758
2011	\$37,364
2012	\$37,849
2013	\$38,825
2014	\$40,468
2015	\$42,664
2016	\$42,340
2017	\$39,759

Figure F. Median Incomes Relative to 2005



Source: U.S. Census Bureau <https://goo.gl/ZScSzd>

Table G. Earnings

Year	Median Earnings (2017 \$)
2005	\$33,475
2006	\$31,929
2007	\$31,240
2008	\$32,993
2009	\$33,129
2010	\$30,105
2011	\$30,046
2012	\$29,466
2013	\$31,618
2014	\$30,982
2015	\$31,236
2016	\$31,338
2017	\$32,011

Figure G. Median Earnings Relative to 2005



Source: U.S. Census Bureau <https://goo.gl/5M83cG>

Figure H presents the income threshold for being classified as poor for several family types. In 2017, single adults with no children are poor if they had an income less than \$12,752. Also, in Figure H and in more detail in Table H are modest family budgets for Philadelphia which go beyond the federal poverty threshold and factor in actual costs for housing, transportation, and health care in the city. With a modest budget for a single adult requiring an annual income of \$33,420 and half of the city's workers making less than \$32,011 a year (Table G on the previous page), it's obvious that a modest family budget is out of reach for many of the city's workers and more so for those with children.

Figure H. Income Thresholds For Determining Poverty Status and Modest Family Budgets

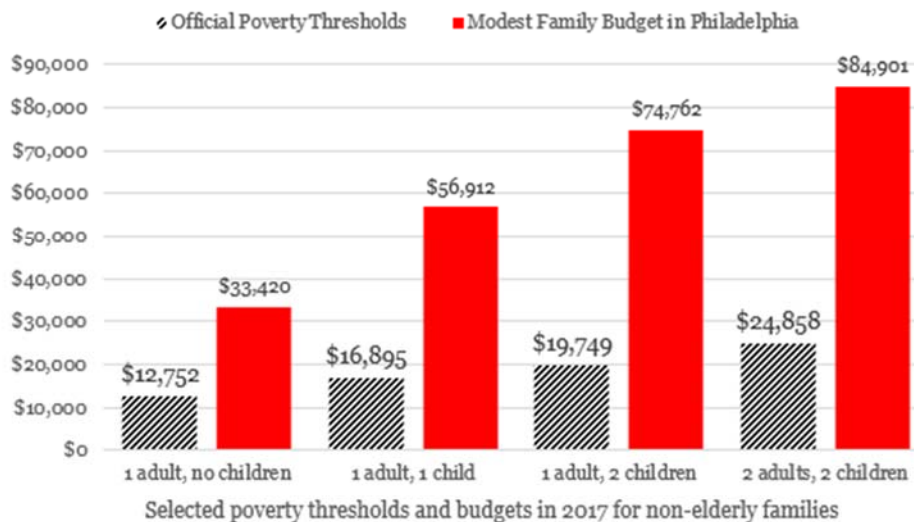


Table H. Modest Family Budgets in Philadelphia

Monthly Expenses for a modest family budget	1 adult, no children	1 adult, 1 child	1 adult, 2 children	2 adults, 2 children
🏠 HOUSING	\$744	\$1,067	\$1,067	\$1,067
🍌 FOOD	\$265	\$390	\$571	\$764
👶 CHILD CARE	\$0	\$824	\$1,567	\$1,567
🚗 TRANSPORTATION	\$548	\$630	\$718	\$879
🏥 HEALTH CARE	\$361	\$550	\$739	\$1,100
👜 OTHER NECESSITIES	\$407	\$588	\$661	\$739
💰 TAXES	\$460	\$694	\$907	\$959
MONTHLY EXPENSES	\$2,785	\$4,743	\$6,230	\$7,075
ANNUAL TOTAL	\$33,420	\$56,912	\$74,762	\$84,901

Source: U.S. Census Bureau <https://goo.gl/SZS8rw> and Economic Policy Institute <http://www.epi.org/resources/budget/>

Inequality

The new data on poverty and incomes in 2017 released in early September for Philadelphia were startling as they revealed that, despite continued job growth, median household incomes fell and there was no change in the city's poverty rate. Examining household income by quintile in Figure I reveals that real household incomes for the bottom three quintiles (bottom 60% of households) fell slightly in 2016 and sharply in the lowest quintile (the bottom 20%) in 2017. Income growth has been much more consistent and robust for the top 20% of the city's households, growing 13% from their pre-recession (2007) levels (Figure I). Data from the Internal Revenue Service capture trends in top incomes better than Census data. Examination of the data from the IRS, shows the average income of the top 1% up 32% in Philadelphia through 2015 (Figure J below). Despite relatively strong job growth, income levels in the city continue to grow apart.

Table I. Inequality

Quintile	Household Income 2017	
	Mean	Share
Q1 < \$10,321	\$3,172	1.0%
Q2 \$10,321-\$28,131	\$18,477	6.0%
Q3 \$28,131-\$52,311	\$39,816	13.0%
Q4 \$52,311-\$93,529	\$70,834	23.0%
Q5 > \$93,529	\$174,992	57.0%
Top 5% > \$185,258	\$319,385	26.0%

Figure I. Percent Change in Income by Quintile 2007 to 2017

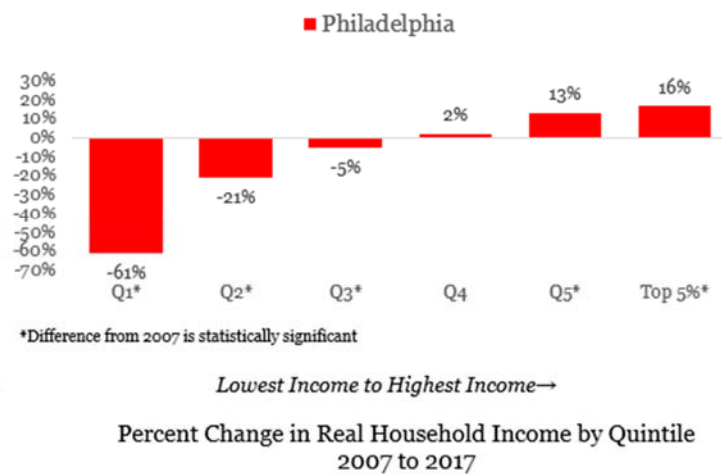


Figure I1. Real Household Income by Quintile Relative to 2006

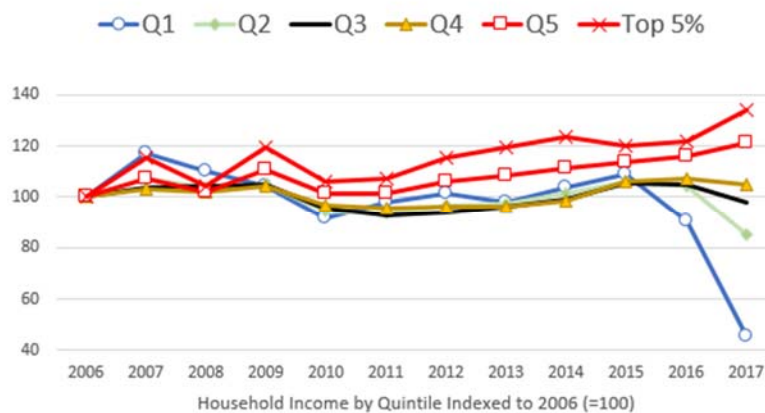
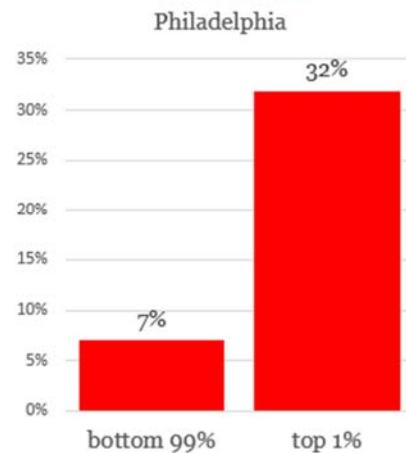


Figure J. Change in Top 1% Incomes 2010 to 2015



Source: U.S. Census Bureau <https://goo.gl/WSvhvT>

Source: Economic Policy Institute <https://goo.gl/VWuJPwI>

Table J. Top Incomes in 2015

	Average income of the top 1%	Average income of the bottom 99%	Top-to-bottom ratio	Top-to-bottom ratio ranked for 67 Counties
Philadelphia	\$732,220	\$35,713	20.5	6
Pennsylvania	\$1,100,962	\$50,830	21.7	-

Source: Economic Policy Institute <https://goo.gl/VxJPw1>

Inequality by Race, Ethnicity and Gender

The United States was founded on a system of slavery and its radical aspiration for equality before the law within a democracy was, in practice, meant for white men of property. Throughout our shared history African Americans, other communities of color, and women, have been subject to both private and government-sanctioned discrimination in every aspect of public life, including but not limited to employment, housing, and education.

The end of slavery was shortly followed by the rise of Jim Crow laws which prevented the accumulation of wealth for blacks. For women, the right to vote was ratified in 1920 and was followed by the continuation of laws and social norms that sharply limited their economic freedom. Also, in practice until the civil rights era the right to vote was frequently only enforced for white women.

Less widely understood is the role in existing patterns of racial segregation played by housing policy that emerged out of the New Deal. From redlining, which limited access by communities of color to federal housing assistance, to the unequal access for non-white war veterans to the G.I. Bill, the racial animus of the 18th and 19th century reached deep into the 20th century, stripping large parts of communities of color of the opportunity to accumulate wealth (See Box E for suggested further readings on these topics).

Box E: Suggested Reading on “The Hidden Rules of Race”

For more on the interplay between race and opportunity in America, we recommend:

- *The Hidden Rules of Race* by Andrea Flynn, Susan R. Holmberg, Dorian T. Warren and Felicia J. Wong <https://goo.gl/Nbjx7x>
- *The Color of Law* by Richard Rothstein <https://goo.gl/xZKKwn>

While the Civil Rights era made great progress in eliminating explicitly racist and sexist rules from civil society, the era was followed by a period of deregulation in economic activities that has served to maintain rather narrow inequality by race, ethnicity, and gender. The explicitly racist rules of Jim Crow, and later the New Deal, were replaced by practices in the private sector that in the 1980s led black mortgage applicants to be more likely rejected for a home loan than whites after controlling for the characteristics of applicants, their properties, neighborhoods, and loan features. The emergence of predatory finance like high interest subprime home loans

in the 2000s (reverse redlining⁷) resulted in black and Hispanic families being more likely to have these high interest loans than whites of similar financial profile.⁸

Racial and gendered non-rules or deregulation have replaced rules (Jim Crow, red-lining) as the primary driver of inequality by race and gender today. For example, past acts of discrimination against women and men in pay are embedded in current pay structures where employers rely upon a worker's previous salary history in setting the terms of an employment offer (see Box F). Federal tax benefits favor asset holding (capital gains and dividends) over earned income thus capitalizing past acts of discrimination that have resulted in a sharply unequal racial distribution of wealth by race.⁹ Past acts of racial segregation have concentrated blacks and Hispanics in Pennsylvania in poor communities with a limited capacity to raise revenue to finance public education. This creates large gaps in per-student expenditures across affluent and poor communities.¹⁰ Cuts in state support for higher education have driven up tuition at public

Box F: City of Philadelphia's Wage Equity Ordinance

In late 2016, the Philadelphia City Council and Mayor Jim Kenney unanimously approved an ordinance prohibiting employers from relying upon and asking prospective employees for information about their wage history. The City's objective in adopting this ordinance is to reduce the wage gap by preventing employers from perpetuating gender, race, and ethnicity wage discrimination by relying on prior discriminatory pay to set wages.

The Greater Philadelphia Chamber of Commerce, under the direction of its previous Board Chair and Drexel University President John Fry, sued the City of Philadelphia and its Commission on Human Relations, challenging the ordinance in federal court on the grounds that it violates the free speech rights of the city's employers.

The case is currently before the Third Circuit Court of Appeals following the District Court's ruling on the Chamber's request to preliminarily enjoin the ordinance. The District Court granted the injunction as to the inquiry provision and denied it as to the reliance provision, and the parties cross-appealed.

The Women's Law Project has filed a friend of the court brief in support of the City of Philadelphia and Philadelphia Commission on Human Relations on behalf of itself and 36 organizations dedicated to gender wage equity, including Keystone Research Center. (<https://goo.gl/URGFbp>)

See the Women's Law Project for more on the fight for pay equity in Pennsylvania.

<https://www.womenslawproject.org/?s=prior+pay>

⁷ The predatory targeting of high-price high-profit margin services at communities that were in the past neighborhoods redlined by federal, state and local officials.

⁸ See Chapter 4 "The Racial Rules of Wealth" in Andrea Flynn, Susan R. Holmberg, Dorian T. Warren and Felicia J. Wong. 2017. *The Hidden Rules of Race*. Cambridge University Press.

⁹ For analysis of how recent tax changes in the Tax Cuts and Jobs Act have impacted the wealth inequality by race and ethnicity, see also Meg Wiehe, Emanuel Nieves, Jeremie Greer and David Newville. 2018. "Race, Wealth, and Taxes: How the tax cuts and jobs act supercharges the racial wealth divide." Institute on Taxation and Economic Policy and Prosperity Now.

https://prosperitynow.org/sites/default/files/resources/Itep-Prosperity_Now-Race_Wealth_and_Taxes-FULL%20REPORT-FINAL_5.pdf

¹⁰ Mark Price. 2018. Affidavit in William Penn School District v. Pennsylvania Department of Education. https://www.keystoneresearch.org/sites/default/files/KRC_Price_Declaration.pdf

colleges¹¹ and created opportunities for for-profit universities to target their low-quality, high-priced product to women and communities of color seeking to improve their labor market prospects.

In this way, the long dead hand of the past weighs heavily on the present, shaping the inequalities we observe between men and women and between whites and communities of color in Philadelphia.

In Philadelphia in 2017:

- With a relatively strong economy, the unemployment rate for blacks (11.6%) and Hispanics (11%) was nearly twice the unemployment rate for whites (6.2%) (Figure K).
- The resident employment rate for whites is 55% compared to 50.7% for blacks and 51.2% for Hispanics (Figure L).¹²
- Median household incomes for blacks was \$35,038 or 69% of median household income of whites \$50,933, and for Hispanics (\$25,340) it was half (Figure M).
- Among full-time, full-year workers living in the city in 2017 we find
 - white women had median earnings of \$54,912, or 95% of the \$57,542 median for white men (this difference is not statistically significant). The difference in median earnings between white women and men in Philadelphia is statistically significant for the period 2012-16 with white women earning 87.3% of white men;¹³
 - median earnings for black men were \$39,367 or 68% of the median (\$57,542) for white-men;
 - median earnings for black women were \$37,594 or 65% of the median for white men;
 - Hispanic men had median earnings of \$36,465, a figure which is 63% of the figure for white men;
 - median earnings for Hispanic women were \$33,737 or 59% of the figure for white men;
 - among Asian men, median earnings were \$44,660 or 78% of the median for white men;
 - at \$38,355, median earnings for Asian women were 67% of the white male median.

¹¹ Mark Price, Stephen Herzenberg and Diana Polson. 2018. "The Pennsylvania Promise: Making College Affordable and Securing Pennsylvania's Economic Future." Keystone Research Center. https://www.kestoneresearch.org/sites/default/files/KRC_PAPromise.pdf

¹² If the employment rate for blacks was the same for whites (55%), there would be 22,128 more employed blacks in the city and 6,228 more Hispanics with employment.

¹³ Given 2017's figures we would expect a slight improvement in the ratio of white women's earnings to white men's (greater than 87% but likely far less than 95%) when the 5-year pool (2013-2017) of American Community Survey (ACS) data is released later this year. Several years more of ACS data will be required to assess whether the improvement in earnings observed in 2017 is more than just an anomaly.

Making progress in closing the gap in earnings by race and gender requires committing to the promise of full-employment, establishing universal access to high quality pre-K (<http://www.prekforpa.org/>), fully funding K-12 education (<http://paschoolswork.org>), expanding access to post-secondary education and training (<http://www.papromise.org/>), and rules that make the economy more inclusive—rules, for instance, that prohibit employers from using past salary histories (wage equity) in setting pay, give workers more voice in the distribution of hours, extend family-friendly provisions like paid sick days and paid family leave to all workers. (<http://www.pathwayspa.org/index.php/programs/policy-advocacy/philadelphia-paid-sick-days/>)

(<https://wgfpa.org/our-work/paid-family-leave/>)

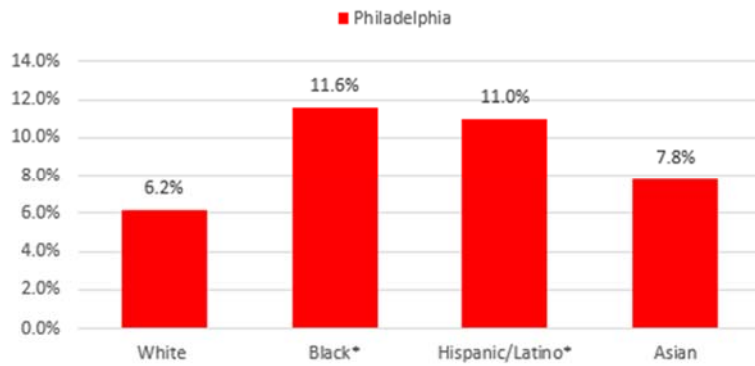
While these changes are necessary, they are not sufficient to overcome the sharp divide in wealth inequality we observe in this country. One proposal for reducing wealth inequality directly is the establishment of Pennsylvania baby trusts (See Box I on page 21 for more details).

Box G: Unemployment, Employment and Income for Asian Americans in Philadelphia

In 2017, unemployment rates, employment rates and median incomes for the Asian community in Philadelphia were not statistically different than those for whites. However as illustrated in Figure N on page 19 disaggregation of data by gender and race reveals statistically significant gaps in earnings among workers employed full-time, full-year for Asian men and women in Philadelphia. It is also important to recognize that while race and ethnicity categories are useful in understanding inequality in our communities, they are also broad aggregates that can obscure a wide range of experience within all communities of color but especially within the Asian community. For further reading on this topic we recommend work by Christian Edlagan and Kavya Vaghulthe for the Washington Center for Equitable Growth

How data disaggregation matters for Asian Americans and Pacific Islanders
<https://goo.gl/R4yuFF>

Figure K. Current Outcomes Rooted in Long History of Discrimination: Unemployment by Race and Ethnicity

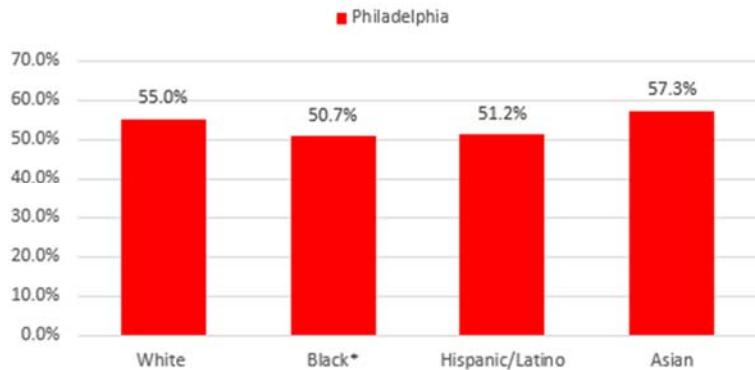


*Difference in unemployment rate with white is statistically significant.

Source: U.S. Census Bureau <https://goo.gl/bz1LvP>

In 2017, with a relatively strong local economy, the unemployment rate for blacks and Hispanics was nearly twice the unemployment rate for whites in the city of Philadelphia.

Figure L. Current Outcomes Rooted in Long History of Discrimination: Resident Employment Rate by Race and Ethnicity

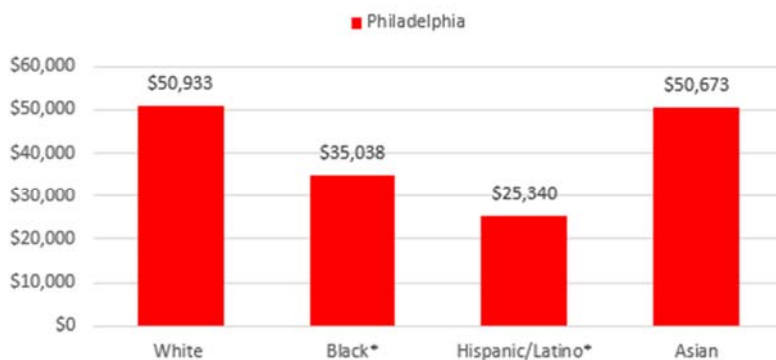


*Difference in employment rate with white is statistically significant.

Source: U.S. Census Bureau <https://goo.gl/bz1LvP>

If the employment rate in 2017 for blacks and Hispanics was the same as that for whites there would be 22,128 more blacks and 6,228 Hispanics with paid employment.

Figure M. Current Outcomes Rooted in Long History of Discrimination: Median Household Income by Race and Ethnicity

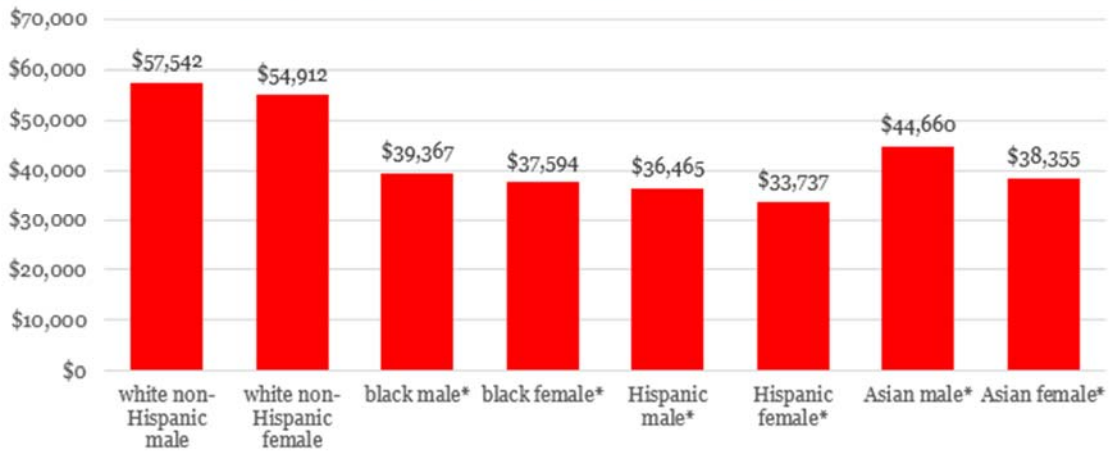


*Difference in income with white households is statistically significant.

Source: U.S. Census Bureau <https://goo.gl/bz1LvP>

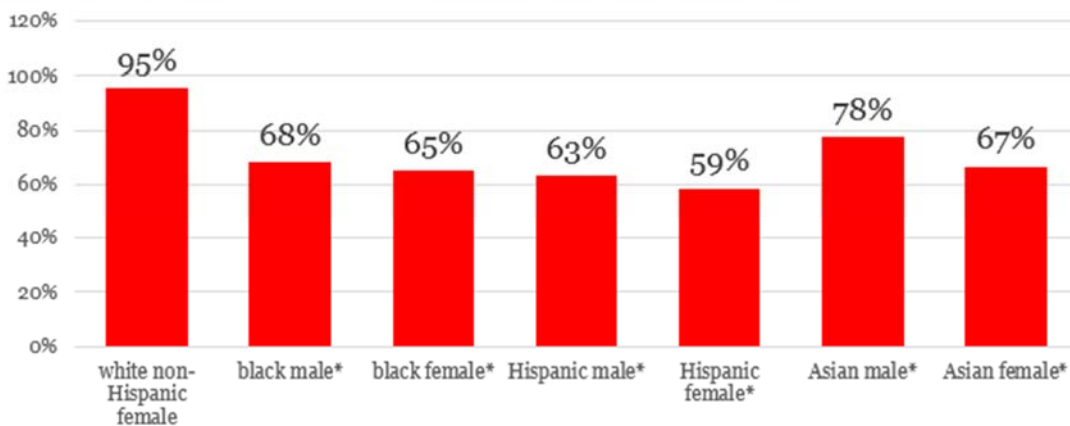
In 2017, in Philadelphia, the typical black household had 69 cents income for every dollar of income in a white household, for Hispanic households this same figure was 50 cents.

Figure N. Current Outcomes Rooted in Long History of Discrimination: Median earnings full-time, year-round workers by Race, Ethnicity and Gender in Philadelphia



*Difference in earnings with white non-Hispanic males is statistically significant.

Figure N1. Current Outcomes Rooted in a Long History of Discrimination: Median earnings by race and ethnicity relative to white non-hispanic males in Philadelphia



*Difference in earnings with white non-Hispanic males is statistically significant.

Source: U.S. Census Bureau <https://goo.gl/FnXDSy>

Conclusion

While America’s commitment to extend life, liberty and the pursuit of happiness to all was truer in words than practice in its founding, after hundreds of years we have the tools and the wisdom to give those words meaning.

We can begin to reverse rising inequality by doing things like raising the minimum wage, by restricting employers from using “no poaching” agreements to deny workers the capacity to chase better wages and more opportunity with another employer. The city of Philadelphia has taken its own positive steps with a Wage Equity Ordinance (Box F on page 15) and is considering legislation to give workers a voice in the distribution of hours of work on the job (Box B on page 6).

However, the city does not exist in a vacuum and it depends in many important areas on state action—for example, state law preempts the city from setting a higher minimum wage for all workers. And each step the city and its counterpart municipalities take to extend new

protections to workers is under constant threat from corporate special interests in Harrisburg using their power derived from accumulated wealth to push the General Assembly to use the state law to preempt local action.

The national political events of the last two years, culminating in the appointment of Brett Kavanaugh to the Supreme Court have also radically changed the ideological composition of the Federal Judiciary and raise the specter of a strategy to further weaponize the courts in the defense of accumulated inequality (see Box H). The Philadelphia Chamber of Commerce's effort to use the courts to reverse Philadelphia's

Wage Equity Ordinance (Box F on page 15) is an illustration of the importance of this strategy for blocking efforts to build a more inclusive local economy.

Philadelphia needs an economy that works for all families, not just the wealthy and big corporations. Though unemployment is low, the cost of living is high, and far too many Philadelphians are living paycheck to paycheck.

Federal economic policy focused on tax cuts for the rich has failed all but the city's wealthiest, and state inaction on issues like the minimum wage combined with the decline of unions and employer collusion continues to make it more difficult for working people to negotiate better wages and benefits.

We need federal, state, and local elected leaders who will boldly rewrite the rules of the economy so that it works for all families.

Box H: Learn More About Why Courts Matter

No matter the issue—voting rights, employment discrimination, environmental regulation, health care, immigration—our federal judiciary plays an important role in the lives of hardworking Americans.

The Why Courts Matter – Pennsylvania coalition plays a unique role in educating Pennsylvanians about the importance of the federal judiciary and how it affects our daily lives.

<http://whycourtsmatterpa.org/>

Box I: Pennsylvania Baby Trusts

As we discussed in the main body of this report, inequality by race and gender has its roots in this country’s long history of discrimination. Today’s inequality is firmly rooted in the past and is perpetuated by economic and social policy that fails to seek out remedies that make the economy more inclusive.

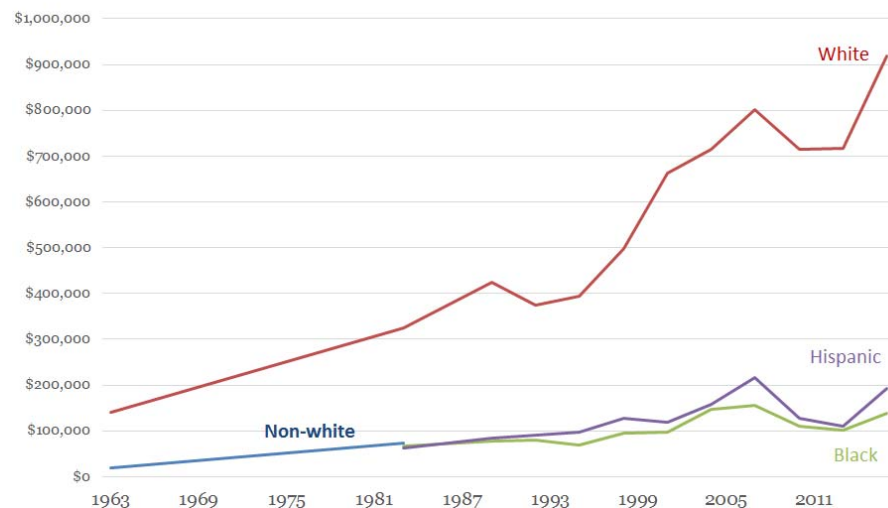
However, even were we to correct disparities in education, employment, and income observed in the main body of this report, there would remain large gaps in wealth by race and ethnicity in Philadelphia.

In the United States, as of 2016 the average family wealth of white families was 6.6 times greater than the average wealth of black families (Figure O).

National data indicate that those in black and Hispanic households that attend college and live in two-parent households have much less wealth than similarly situated white households. Black and Hispanic households that include a full-time worker have much less wealth than white households with a full-time worker.¹⁴ What these data reveal is that even for those households that defy the typical gross stereotypes deployed to explain away inequality (employment, family structure and educational attainment), large and persistent gaps in wealth exist.

Given the historical roots of existing wealth inequality, economists William Darity and Darrick Hamilton have proposed baby trusts or “baby bonds” as a practical means of reducing wealth inequality. They have proposed the establishment of a trust awarded to each child born in the United States.¹⁵ Under their proposal the wealthiest child would receive a \$50 trust, and trusts for babies born in the poorest families would be set between \$50,000 and \$60,000 (they estimate an average trust amount between \$20,000 and \$25,000). The trust would be accessible to each child once they turn 18 and their redemption would be conditioned on use in specific areas, expenditures for education, starting a business or purchasing a home.

Figure O: Average Family Wealth by Race/Ethnicity in the United States, 1963–2016



Notes: 2016 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later.

Sources: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016 <http://urbn.is/wealthcharts>

¹⁴ Amy Traub. 2017. The asset value of whiteness: understanding the racial wealth gap

¹⁵ William Darity, Jr. and Darrick Hamilton. 2018. “A trust fund for every American child”. *Newsday*. <https://www.newsday.com/opinion/commentary/a-trust-fund-for-every-american-child-1.16558077> and Darrick Hamilton and William Darity, Jr. 2010. “Can ‘Baby Bonds’ Eliminate the Racial Wealth Gap in Putative Post-Racial America?” *Review of Black Political Economy*, 37(3,4):207-216.

Pennsylvania could establish a similar program with the trusts invested and managed by the Pennsylvania state treasurer.

The ideal¹⁶ revenue source to finance such a program in Pennsylvania, given its constitutional prohibition on progressive taxes (aka the uniformity clause), would be a flat tax on wealth (net worth) of 0.054 percent. This modest tax would cost a taxpayer with \$1 million in financial assets \$540 a year. A taxpayer at the national median of net worth of \$81,000 would pay \$44 a year. In total, a wealth tax would raise \$1.2 billion a year in Pennsylvania.¹⁷ With 139,409 births a year in Pennsylvania this would make available an average trust amount of \$8,440.¹⁸

Pennsylvania baby trusts would directly reduce wealth inequality in the commonwealth overall, and by race and ethnicity, seeding home ownership and educational achievement, and critically providing important seed capital to entrepreneurs not born into wealth.

¹⁶ This program could also be financed by a surcharge on millionaires, but such a surcharge would require a change in the Pennsylvania constitution to allow for a graduated income tax; an alternative not requiring a constitutional amendment would be a severance tax on natural gas extraction.

¹⁷ Financial assets of households and non-profit organizations equaled \$78.3 trillion in the second quarter of 2017 (<https://www.federalreserve.gov/releases/z1/current/html/b101.htm>). We assume that the Pennsylvania share of U.S. financial assets equals the Pennsylvania share (2.78%) of the net worth held by people with more than \$2 million in assets in 2007 (http://www.irs.gov/file_source/pub/irs-soi/07in06pw.xls). (The year 2007 was the last time these personal wealth statistics by state were reported, <https://www.irs.gov/statistics/soi-tax-stats-personal-wealth-statistics#2>.) Thus, Pennsylvania financial wealth equals \$2,179 billion. A 0.054% tax on this amount would raise \$1.18 billion.

¹⁸ This estimate assumes that all births (<https://www.cdc.gov/nchs/fastats/state-and-territorial-data.htm>) in Pennsylvania are to households with a median net worth of less than \$82,000.