



# World of Work Report 2013

## Snapshot of the United States

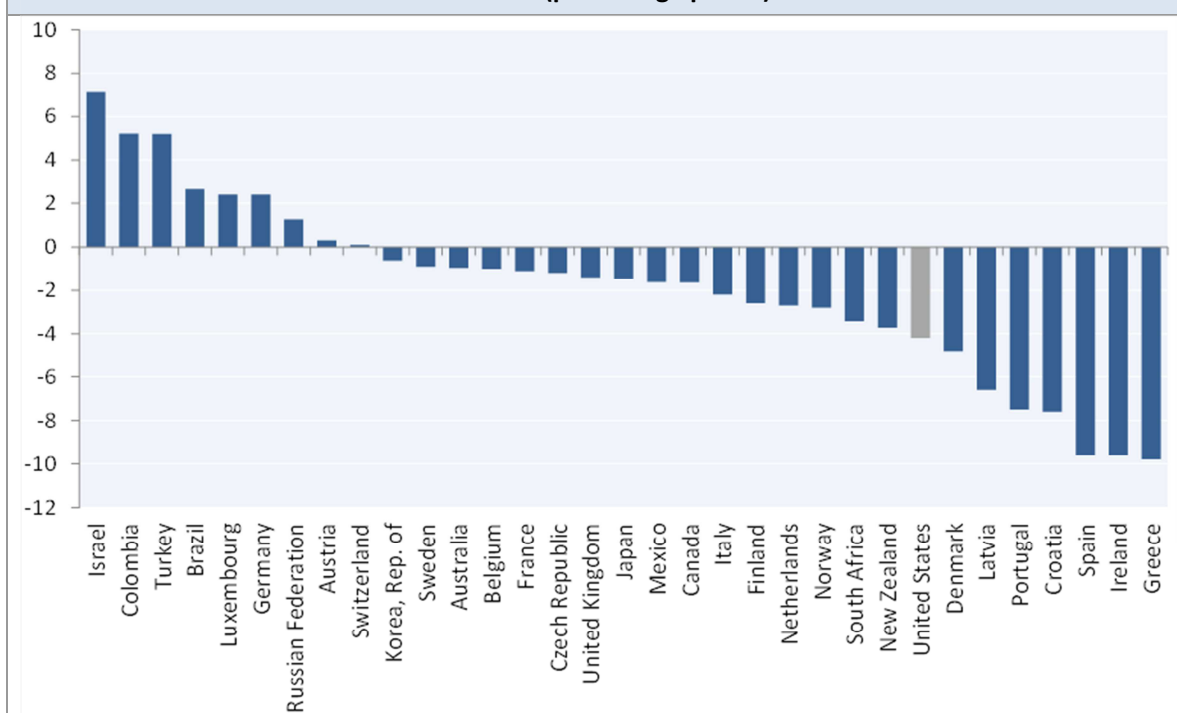
### *Labour market conditions are improving, but at a moderate pace...*

- Since the height of the crisis, the US labour market has recovered considerably: the unemployment rate has fallen from 10.0% in October 2009 to 7.5% in April 2013.<sup>1</sup> Over this period, employment has grown by more than 5.5 million. But in spite of strong gains at the end of 2012 and in early 2013, employment levels remain well below pre-crisis and a number of challenges persist:
  - *Growth in non-farm payroll employment has improved of late:* Between November 2012 and April 2013, non-farm payroll employment grew by an average monthly pace of 208,000. February 2013 recorded the highest monthly gain (332,000) since November 2005, but growth slowed somewhat in the months that followed with preliminary estimates of 138,000 in March 2013 and 165,000 in April 2013. As a result the unemployment rate remains elevated at 7.5%, falling only 0.1% in April 2013.
  - *Employment growth remains well below pre-crisis level, especially when considering growth in the working-age population:* Despite positive employment growth since the end of 2010, employment levels remain below pre-crisis levels by nearly 2.6 million. Moreover, between March 2008 and March 2013, the working-age population has grown – as a result, the decline in the employment rate (employment to population ratio), of 4.2 percentage points is among the highest in countries with available information (Figure 1).<sup>2</sup>
  - *Long-term unemployment remains high:* In April 2013, long-term unemployed declined by 258,000 from a month earlier to reach 4.4 million. However, this means that a little more than 37% of those unemployed in the US have been unemployed for 26 weeks or more. Moreover, despite recent declines in the incidence of long-term unemployment (more than 3 percentage points in the past year), this is more than 20 percentage points higher than the rate in December 2007. Also, the average length of unemployment at 36.5 weeks (April 2013) is only 4 weeks lower than the peak in December 2011 and more than 20 weeks longer than the average length of unemployment in December 2007.
  - *Part-time employment, especially of an involuntary nature, persists:* In April 2013, part-time employment accounted for 18.7% of total employment – a little more than 2 percentage points higher than the peak in October 2007. More troubling is the fact that close to 30% of those working part-time are doing so for economic reasons (slack demand or could not find full-time job). This means that 7.9 million workers are involuntarily working less than they would like. In October 2007, this figure stood at 4.3 million or only 18.2% of all part-time workers.

<sup>1</sup> Monthly labour market statistics, unless otherwise indicated, are drawn from the United States Bureau of Labor Statistics.

<sup>2</sup> Employment to population ratio refers to persons aged 15 and over. The decline in the employment rate in the United States is the 12<sup>th</sup> largest among 65 countries with available information (see Chapter 1).

**Figure 1. Change in the employment rates between fourth quarters of 2007 and 2012, select countries (percentage points)**



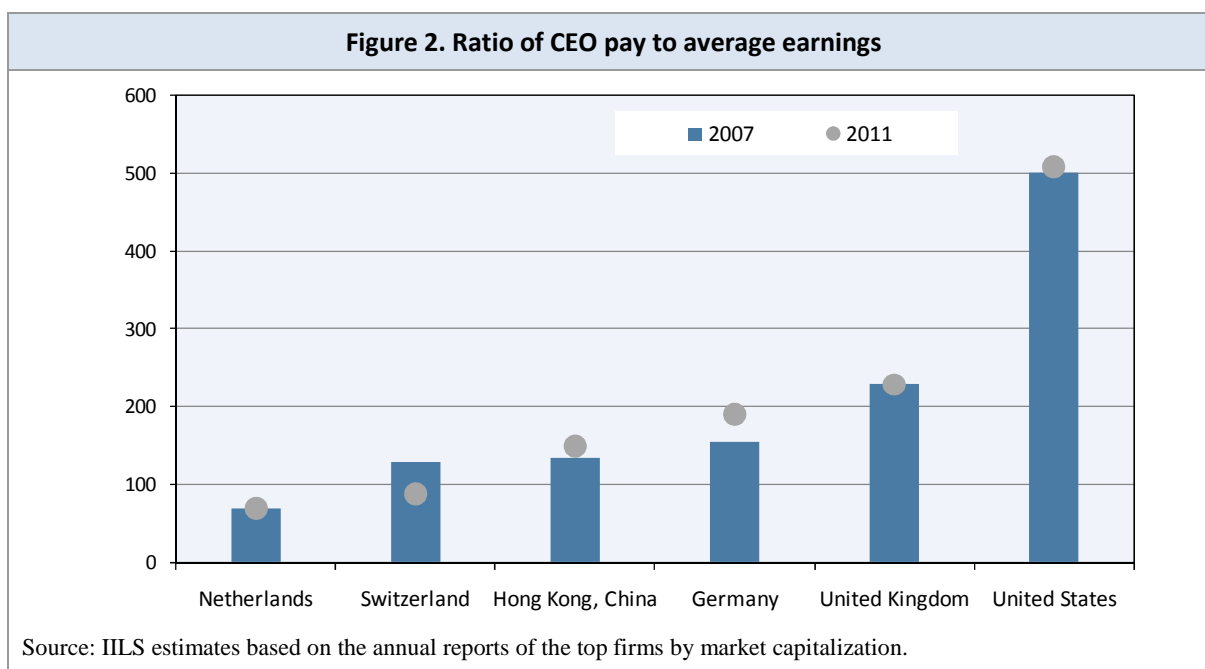
Source: ILS estimates based on Eurostat, ILO Department of Statistics and national sources.

**...inequality has grown on many fronts, leading to an erosion of the middle-income group.**

- After a brief decline in 2010, income inequality has tended to widen over the past two years, thereby resuming the trend that had preceded the onset of the global crisis:
  - *Wages of the average worker have stagnated, whereas CEO pay is on the rise again:* Between March 2007 and March 2013 (a 6-year period), average real weekly earnings grew by a total of 1.2% – which is less than the increase that took place between March 2006 and March 2007 when labour market conditions were much stronger (1.4%). Meanwhile, executive compensation among large companies is on the rise once again. In 2011, CEOs of the 15 largest firms in the United States earned on average 508 times the annual earnings of the average American worker. By comparison, the increases – albeit from lower levels – were also particularly significant in Germany and Hong Kong, China (Figure 2).
  - *Distribution of gains has been uneven:* Recovery gains have been concentrated in the highest income groups: 93% of growth in average real household income in 2010 was captured by the top 1 per cent of the population. The top 10% in 2011 learned more than 5 times more on average than the bottom 90% – highest among advanced economies. In addition at 47.7 in 2011, the Gini index in the US is also the highest among advanced economies and up from 46.3 in 2007.
  - *Shrinking middle-class:* The share of adults living in middle income households<sup>3</sup> fell from 52.5 per cent to 51 per cent between 2005 and 2010, continuing a downward trend from the last 3 decades (it was 61 per cent in 2007). Median income also declined by 5 per cent. While job polarization has been found to have contributed to this decline to some extent, important institutional changes in policies have also been observed during this period that may have

<sup>3</sup> Measured as 67 per cent to 200 per cent of national median income.

contributed (such as decreased union density and loosening of regulatory frameworks).



***Moving forward, the challenge is to support employment and incomes while paving the foundation for long-term growth through productive investment.***

- The US economy is caught in a vicious spiral of weak aggregate demand and lack of productive investment. Stagnating wages are adversely affecting demand, which in turn is dampening real investment, leading to poor job creation – reinforcing weak demand and so on. The result is persistent uncertainty, weak GDP growth and widening inequality. However, a number of policy measures could help to set in motion positive mutually reinforcing effects:
  - *Stimulate investment in the real economy:* Since 2007, ratio of investment to GDP has fallen more than 3 percentage points to reach 16.2% of GDP in 2012. The US now accounts for 12.1% of world investment compared to 21.6% in 2000. Given uncertain economic environment, US firms are holding roughly 1.9 trillion USD in cash – up from 1.3 trillion in 2007. A top priority is to get credit flowing to small firms. This report highlights a number of areas where this could be achieved, including credit guarantees, earmarking financing, credit mediation, as well as directly addressing bank losses in a manner which is friendlier to employment. Second, a better design of compensation packages to include performance incentives can help ensure that executive behaviour fosters sustainable business performance.
  - *Ensuring that the financial sector acts as an enabler of the real economy:* In addition to the measures to stimulate investment, efforts to better align the activities of the financial sector with the needs of the real economy are important. In this respect, financial systems can act as the enabler to promote and facilitate productivity-enhancing private and public investment. As such, financial innovations with the most potential value added to society can be promoted. This can be achieved by enhancing social benefits of innovation, e.g. introducing measures in an effort to align the behaviour of the financial sector with social responsibility. In addition, strengthening the governance framework for financial innovation can minimize the likelihood of negative outcomes due to a highly risky financial product or service.
  - *Stimulating wage growth, including through the use of minimum wages:* In 2013 President Obama proposed an increase in the federal minimum wage. However, in a first try the House of Representatives rejected it on 15 March 2013. Yet, Chapter 3 of this report shows that

there is only a small or zero effect of minimum wages on job creation. Indeed, raising the minimum wage would provide a significant boost for low wage workers, the majority of whom (66 per cent) are not employed by small businesses but by large corporations of over 100 employees.<sup>4</sup> Currently, the federal minimum wage is \$7.25 an hour (last increase was in 2009) – which in terms of purchasing power parity is less than 43 per cent of OECD economies including Australia, Japan, France and the UK – and 30 per cent lower than it was in the United States in 1968. In addition, among the more than 75 million workers earning hourly wages, less than 5% actually earn the minimum wage (or less).<sup>5</sup>

- *Ensure that gains of growth are more evenly distributed:* The recent increase in federal tax rates to 39.6% (from 35%) for incomes over \$400,000 (individuals) and \$450,000 (couples) is an important step towards a more progressive tax system. More can, however, be done to provide support in the form of benefits for low-income earners. In the US, benefits represent 6% of household income (compared to the OECD average of 16%). And while improvements in health coverage are a welcome step, support to unemployed workers could help them in transitioning to new jobs. In the first quarter of 2013, only 29% of those unemployed were receiving some form of unemployment benefit.<sup>6</sup> This rate is particularly low compared to other developed countries where the percentage of those receiving unemployment benefits was around 60 per cent in France, 70 per cent in Netherlands and 99 per cent in Germany (at the latest available year).

*World of Work Report 2013: Repairing the economic and social fabric is available at ([www.ilo.org/INST](http://www.ilo.org/INST)). For further comment, journalists are invited to Marva Corley (tel +41 22 799 6105; email: [corley@ilo.org](mailto:corley@ilo.org)) or Raymond Torres (tel: +41 22 799 7908; email: [torresr@ilo.org](mailto:torresr@ilo.org)), Director of the ILO's International Institute for Labour Studies.*

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<sup>4</sup> National Employment Law Project. 2012. Big business, corporate profits, and the minimum wage.

<http://www.raisetheminimumwage.org/pages/corporate-profits>

<sup>5</sup> <http://www.bls.gov/cps/minwage2012.htm>

<sup>6</sup> This includes UI, UCFE, and UCX.