

## **US earnings inequality marks biggest difficulty in US labor market according to latest IZA World of Labor report**

*Labor force participation rate drops for first time in 50 years with 10 million fewer men and women aged 24-54 years working*

27 October 2021 – London, UK – The latest [IZA World of Labor report](#), published today, finds the earnings of African-American workers relative to white worker earnings have not risen in 20 years and while Hispanic worker earnings have risen, both remain far below that of white American workers. The earnings of Asian-American full-time workers however exceed those of the majority of workers. Women’s wages have risen relative to those of men (by 7 percentage points among all full-time workers) but remain somewhat below.

The report reviews the labor market in the US, the largest economy in the world, from 2000-2020 and contrasts the impact of the recent Covid Recession with previous recessions - in 2001 and the Great Recession from 2007-2009, the deepest and longest for 70 years.

There has been a remarkable drop in the labor force participation rate for men and women aged 20 to 54 years, which means that there are 10 million fewer people working than expected in 2000.

The Covid Recession saw unemployment peaking at 14.8% in April 2020, which pushed unemployment to the highest level since the 1930s. It has since fallen and now stands at 6%, a decrease from 8% in 2020.

Despite the slow recovery of the labor market, the job vacancy rate near the end of the recent recession exceeds the hiring rate and is now above 4% per month, the highest it has been for 20 years. Employers are having difficulty finding workers and workers are not finding jobs, suggesting either: a skills gap; the impact of the generous unemployment benefits during Covid; or employers’ refusal to increase wages during a time of high demand.

Report author Daniel S. Hamermesh, said, “The continuing rise in earnings inequality is the biggest difficulty facing the US labor market. The solution to this problem is simple and would put the US economy more in line with those of other wealthy nations: raise tax rates on households in the upper third of the distribution of household incomes. This is the opposite of what was done in the Trump tax cuts of 2017 but matches proposals made early in the Biden administration.

Although post-inflation average earnings continue to grow, the decline in the employment participation rate has surprised economists after 50 years of a steady increase. The Covid Recession caused a huge increase in unemployment and it is still unclear what the longer term effects will be on labor force participation. There

may be permanent changes in the entire structure of work and people's willingness to work. Perhaps it is time to change how we value employment as a maximiser of productivity and GDP. The additional leisure that results from people working less, such as better work-life balance, can bring other positive benefits to society."

Other key highlights:

- **Average earnings rose** during the Covid Recession but only because the recession killed the jobs or hours worked of low-wage workers.
- **Male and female labor force participation rates drop** – in the last decade, the number of men aged 16-54 working has dropped, continuing a trend. The number of women has also dropped, reversing a previous trend and offsetting increases in the participation of older Americans in the workforce.
- **Women impacted disproportionately more during the Covid Recession** - Until the 1980s there were more unemployed women than men, this has been roughly equal since. However the Covid Recession saw female unemployment exceed that of males because of the concentrated impact the recession had in the service industries. In contrast, the Great Recession affected men more who were working in more male-intensive industries like manufacturing.
- **Long term unemployed expected to rise** – in 2019, over one fifth of all unemployed workers had been without work for more than six months. In 2020 there was a sharp drop in long-term unemployment, but this was the result of huge inflows of newly unemployed workers in Spring 2020. We expect to see an increase in the share of unemployed workers who have been without work for 27+ weeks this year, which will have a knock on effect on social welfare.
- **Youth unemployment remains above the adult average** – many economies are plagued by very high unemployment among youths. The US is not. Although the unemployment rate of youths rose sharply during the Great Recession, reaching nearly one-fourth of the teenage workforce, it rose to just 18% during the Covid Recession and was only 2.5 times that of adult unemployment. However it is still higher than desirable.
- **More Americans aged 55+ years working longer** – White total adult participation rates have declined since 2000, the rate among older Americans rose from 2000 to 2009 and then plateaued. The increase was perhaps because they had failed to save for retirement sufficiently or because work had become less arduous and more enjoyable.

ENDS

#### Notes to editors:

Please credit IZA World of Labor should you refer to or cite from the report.

Please find further research around unemployment on the IZA World of Labor key topic page: [Unemployment, economic instability, and their implications for well-being as well as more content on Covid-19—Pandemics and the labor market and visit our key topic page National responses to Covid-19.](#)

#### About IZA World of Labor

IZA World of Labor is an online platform that provides policy analysts, journalists, academics and society generally with relevant and concise information on labor market issues. Based on the latest research, it provides current thinking on labor markets worldwide in a clear and

accessible style. IZA World of Labor aims to support evidence-based policy making and increase awareness of labor market issues, including current concerns like the impact of Covid-19, and longer-term problems like inequality.

**For further information or if you have any queries please contact:**

Teodora Rousseva

[teodora.rousseva@bloomsbury.com](mailto:teodora.rousseva@bloomsbury.com)

or Teresa Horscroft at Eureka Communications

[teresa@eurekacomms.co.uk](mailto:teresa@eurekacomms.co.uk)

Tel: +44 (0)7990 520390