THE STATE OF WORKING KENTUCKY — 2016

By Anna Baumann and Jason Bailey
August 2016
Kentucky Center for Economic Policy • 433 Chestnut Street • Berea, KY 40403 • www.kypolicy.org

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Despite steady improvement in the overall economy since the Great Recession, the current presidential election cycle has demonstrated Americans’ persistent and perhaps even worsening anger about the economy. Jobs are still too scarce, the standard of living for many low- and middle-income workers remains precarious and income inequality continues to soar. These sentiments are borne out by the data on Kentucky’s workers and economy.

By some indicators, Kentucky has all but recovered from the Great Recession. In 2015, unemployment in the Commonwealth finally returned to its pre-recession rate of 5.4 percent and that same year Kentucky workers experienced real wage growth from the top to bottom for the first time since 2001.

But other indicators show Kentuckians are struggling in the labor market, compared not only to before the recession, but also to the state of the economy in the early 2000s when the nation was closer to full employment. Once population growth since the Great Recession is accounted for, Kentucky is still 47,400 jobs short of simply returning to 2007 employment levels.

As a result, Kentuckians who are always hardest hit by an economy short of full employment—workers with lower levels of education, young people, African American workers and entire regions of our state—face more acute difficulties in the labor market.

Kentucky’s persistent economic challenges are the result of a range of policy decisions, not simply natural changes in the economy. Those decisions include budget cuts that have hampered recovery rather than investments that would return us to full employment; trade policies that have created a large trade deficit and eliminated manufacturing jobs; inaction on policies that improve job quality and remove barriers to employment for individuals; and inadequate efforts to support workers and communities in economic transition.

This report takes a close look at how the economy is performing for Kentucky workers today—particularly, to what extent there are enough, and good-enough quality, jobs. Because a strong and growing middle class is a crucial driver of our consumer economy, the plight of everyday workers matters not only to Kentuckians’ standard of living, but to our overall economic vitality as well. The room for improvement in Kentucky’s labor market points to the need for state and federal policies that push us further toward full employment and support job quality and a strong middle class.
KENTUCKY'S JOBS RECOVERY: INCOMPLETE AND LOPSIDED

After 77 months of recession and recovery, in June 2014, the number of jobs in Kentucky finally returned to the level of December 2007, before the recession hit (see below). Today, 47,600 more people are employed in Kentucky than before the recession.

Unfortunately, Kentucky’s population has grown at a faster rate than jobs: 5.1 percent compared to 2.6 percent since December 2007, meaning job growth has been too weak. Based on projected population growth in Kentucky of 1.7 percent over the next 3 years, jobs will need to grow by about 2,000 per month to fully close the jobs deficit back to 2007 levels. Over the last year, growth has averaged 1,875 jobs per month, but over the last 6 months up to June, we’ve lost on average 500 jobs per month. As a result, Kentucky’s jobs deficit has actually grown from just under 30,000 in December 2015 to nearly 50,000 in June 2016. However, strong growth in employment at the national level over the last few months provides hope for a return to job growth in the Commonwealth.
That jobs keep up with the size of our potential workforce matters because individual workers and their families rely on work for economic security and because competition for too few jobs among workers gives employers the upper hand, allowing them to hold down compensation. As this report later discusses, stagnant wages have been the reality for Kentucky workers for much of the past 15 years. And while wage growth in 2015 indicates a somewhat tightening labor market, “missing workers” who in recent years have stopped looking for work may be drawn back into the labor force at some point, putting counter-pressure on wage growth.

Another concern with the nature of the recovery in Kentucky is that large swaths of the state still have fewer jobs than before the recession. Growth has not been evenly distributed across the Commonwealth, but largely concentrated in the “Golden Triangle” region bound by Jefferson, Fayette and northern Kentucky counties (see map below). In fact, only 25 of Kentucky’s 120 counties had more people employed in June 2016 than in June 2007 (not accounting for population changes), almost exclusively in and around the Golden Triangle. And while 6 counties have seen employment grow by 9 percent or more over that time period (Fayette, Todd, Jackson, Nicholas, Oldham, Washington and Scott counties), 4 counties have at least 30 percent fewer people employed today than in 2007 (Russell, Breathitt, Elliott and Robertson).

Reasons for this lopsided development include Northern/Central Kentucky’s access to markets, including interstate highways and other infrastructure. The loss of coal jobs in eastern Kentucky—a long-term trend that has become steeper in recent years as lower natural gas prices, the depletion of accessible coal seams and environmental regulations have made the region’s coal less competitive—has contributed to the comparative lack of employment opportunity in that region.

Population shifts in the state reflect the fallout for economies built largely on coal, as well the long-standing urbanizing trend that is changing communities across the Commonwealth and the nation: Between 2010 and 2015, Pike and Floyd counties lost the greatest number of people, 3,158 and 2,178 respectively, while Jefferson and Fayette grew by 21,395 and 17,771 people. Almost all (89 percent) of the state’s net population growth over that time period occurred in cities.3

Source: KCEP analysis of Local Area Unemployment Statistics (LAUS).
FEWER GOODS-PRODUCING, MORE SERVICE JOBS AFFECT JOB QUALITY

In June 2016, Kentucky had 10,600 fewer coal jobs than in June 2009. With an average weekly wage for Kentucky coal workers of $1,394 in 2015—compared to $831 for all workers in private industries—it’s not easy for displaced coal miners to find employment that pays them as well. Yet coal jobs represent less than 1 in 200 jobs (0.4 percent) in total private employment in Kentucky, and losses in this industry are part of a much bigger problem affecting Kentucky’s middle class today: a shift away from decent-paying goods-producing jobs (mining and logging, construction and manufacturing) toward mixed-quality service-providing jobs (trade, transportation, information, financial activities, professional and business services, educational and health services, leisure and hospitality, etc.) Jobs in natural resources, mining, construction and manufacturing have traditionally provided family-supporting jobs to men with lower levels of education. In 2015, the average weekly wage for all workers in goods-producing industries was $1,068 and in service-providing industries, $764. Since 2000, Kentucky has lost almost 90,000 goods-producing jobs and gained 180,000 service-providing jobs.

![Shifting Composition of Jobs](chart.png)

Source: KCEP analysis of Quarterly Census of Employment and Wages (QCEW) data.

This shift has continued through the recovery from the Great Recession: since June 2007, goods-producing employment is down 9.8 percent or 36,100 jobs, while service-providing employment is up 5.4 percent or 82,000 jobs. Specifically, there were 10,400 fewer construction jobs in June 2016 and 15,000 fewer manufacturing jobs. Construction employment has lagged especially in the wake of the housing market crash. But manufacturing losses are part of a longer-term decline since the late 1990s resulting from two recessions as well as trade policies that have encouraged outsourcing and made American goods more expensive relative to other countries. Compared to 2000, Kentucky has 67,500 or 22 percent fewer manufacturing jobs today.

Despite how these nationwide trends have affected Kentucky, manufacturing is still a vital industry in our state, providing more jobs as a share of total employment in 2013 than in all but seven other states. Both the 1st and 2nd congressional districts in far western/southern and central/western Kentucky are among the 35 most manufacturing-dependent congressional districts of 436 nationwide—due at least in part to their central location.
In fact, a bright spot in Kentucky’s recovery from the Great Recession has been growth in durable goods manufacturing, especially in auto manufacturing: Since June 2009—just before Kentucky’s recessionary jobs trough—employment in durable goods manufacturing has grown by 34,400 jobs with 22,600 or 66 percent of growth coming from transportation equipment manufacturing (total private job growth since then is 153,400). These are comparatively well-compensated jobs, with the average weekly wage for manufacturing employees in Kentucky in 2015 at $1,090 and for transportation equipment manufacturing workers at $1,198. Compared to other states, Kentucky has had the second highest percentage growth in durable goods manufacturing employment in the nation since 2009 (behind Michigan). Including both durable and non-durable goods, Kentucky’s manufacturing sector has recovered better than the vast majority of states’: Only five states are closer to returning to their pre-recession manufacturing employment and only three states have actually surpassed pre-recession employment.\(^6\)

Other than auto manufacturing, specific industries that have grown by more than 10,000 jobs since 2009—employment services, food services and drinking places, warehousing and storage, ambulatory health care and social assistance jobs—tend to be of mixed quality, with average weekly wages ranging from $289 to $1,156. Exceptionally large gains in employment services (temporary agencies) have put more people to work, but they lack job security in this industry. Similarly, due to unpredictable scheduling, food services jobs are less stable than other types of employment.

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<td>Employment Services</td>
<td>32,900</td>
<td>117.9%</td>
<td>300</td>
<td>0.5%</td>
<td>$477</td>
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<td>Transportation Equipment Manufacturing</td>
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<td>55.1%</td>
<td>3,700</td>
<td>6.2%</td>
<td>$1,198</td>
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<tr>
<td>Food Services and Drinking Places</td>
<td>19,800</td>
<td>14.3%</td>
<td>3,200</td>
<td>2.1%</td>
<td>$289</td>
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<tr>
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<td>72.7%</td>
<td>3,000</td>
<td>12.7%</td>
<td>$771</td>
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<tr>
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<td>13.8%</td>
<td>3,600</td>
<td>4.4%</td>
<td>$1,156</td>
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<td>Social Assistance</td>
<td>10,100</td>
<td>35.2%</td>
<td>2,400</td>
<td>6.6%</td>
<td>$419</td>
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Source: KCEP analysis of Current Employment Statistics (CES) and QCEW data.\(^7\)

Health care and social assistance job growth has also been substantial with 24,100 new jobs since 2009. Though these jobs are of mixed quality, they have an average weekly wage slightly above that for all workers in private industries—$897 compared to $831. In just the past year between June 2015 and 2016, more than 10,000 health care and social assistance jobs were created, 2,900 of which were hospital jobs with an average weekly wage of $1,037.\(^8\) Since June 2013 (the Medicaid expansion started in January 2014), of the 13,100 new health care jobs created, 5,400 are in “ambulatory” or outpatient care facilities like doctors’ and dentists’ offices and 5,800 are in social assistance jobs such as personal and home care aides.

Kentucky has lost 2,900 or 9.5 percent of its education jobs since 2007, with 500 fewer jobs today than in June 2015. After employment had gone up with enrollment at higher education institutions in the recession as people sheltered from the bad economy in school, enrollment and therefore employment have dropped back down. Combined with state budget cuts, the resulting financial constraints have led to layoffs and reduction through attrition in state colleges and universities.\(^9\)
PERSISTENT SLACK IN LABOR MARKET

In 2015 Kentucky’s unemployment rate returned to its 2007 level of 5.4 percent—5.2 percentage points lower than the 2009 recessionary peak of 10.6 percent. In June 2016, it was even lower at 5.0 percent. This progress is reason for celebration, especially after such a long recovery. However, Kentucky’s unemployment rate is still higher than the 4.1 percent it hit in 2000, when Kentucky and the nation were close to full employment.

In addition, the unemployment rate understimates the size of Kentucky’s job shortage. That's because unemployment is defined as the share of the labor force without currently seeking work. It does not count people who have stopped looking for a job, even if only for a month. As a result, the unemployment rate can go down as more people get jobs, and also as would-be workers become discouraged and stop pursuing employment, effectively leaving the labor force.

Over the past 15 years, the share of our entire civilian, non-institutional population that is either employed or looking for work—the labor force participation rate—has shrunk, and today is 7.6 percentage points lower than it was in 2000 (56.5 percent compared to 64.1 percent). One factor affecting the overall decline in labor force participation rate is an aging baby boomer population. However, an aging population cannot explain the entire downward trend because workforce participation in Kentucky for those ages 25 to 54 has also declined considerably from 80.7 percent in 2000 to 74.5 percent by 2015.

Labor Force Participation in Decline, Especially Steep in KY in Recent Years

![Graph showing labor force participation rate decline](image)


Among states, Kentucky’s labor force participation rate is third from the bottom, trailing behind only West Virginia and Mississippi. Deep economic challenges remain in the Commonwealth, including a lack of jobs accessible to many Kentuckians and barriers to employment that aren’t being addressed.
EMPLOYMENT TO POPULATION RATIO IS STILL BELOW 2007 AND 2000 LEVELS

The employment to population ratio (EPOP) measures the share of the entire civilian non-institutional population with a job, a more comprehensive indicator of labor market strength than unemployment which measures the share of the narrower labor force (those working or actively looking for work) with a job. Counting those ages 25 to 54 and not baby boomers who are aging out of the labor force, Kentucky’s prime age EPOP shows persistent, even growing slack in the labor market: A 4.7 percentage point smaller share of the prime working-age population is employed today (71.2%) than in 2007 (75.9%) and a 7 percentage point smaller share than in 2000 (78.2%). If the same share of Kentuckians age 25 to 54 were working today as in 2000, 118,000 more people would be employed.

Source: EPI analysis of CPS data.

Kentucky has the second lowest prime age EPOP in the nation behind West Virginia, and trails the national rate of 77.2% by 6 percentage points. And while the prime age EPOP has been falling in Kentucky since 2013, the national rate has been increasing. That so much of the Commonwealth’s potential workforce is out of the labor market matters to those individuals and the families who rely on them, and also to our state’s overall ability to grow our economy.

Yet even for employed individuals in the labor market, job prospects are lacking. The share of part-time workers who would rather have full-time employment but can’t find it is at 17.5% percent, still 8.3 percentage points higher than the 9.2 percent in 2000. Combining this group with jobless groups who have less employment than they want—the unemployed who are actively seeking work and the "marginally attached" who have sought it in the past year—Kentucky’s underemployment rate is also still elevated: At 10.4% in 2015, it is still 3.5 percentage points higher than it was in 2000.

Another concern is the length of time it takes Kentuckians to find employment and whether they have access to unemployment benefits to help them get by until they are working again. The share of the unemployed in our state who have been looking for work long-term (more than 26 weeks) was 21.8 percent in 2015—down by 8.4 percentage points since 2014, and 15.4 points lower than the recessionary high of 37.2 percent in 2010. However, it remains elevated over both the 2007 and 2001 rates of 13.9 percent and 10.2 percent, respectively. In 2014, the last year for which data are available, about 4 out of 10 (38.8%) unemployment insurance recipients had exhausted their 26 weeks of allowed benefits, and only 23 percent of the unemployed received benefits at all. To prevent
workers and their families from falling into or deeper into poverty during a period of unemployment, recipiency should be high, and exhaustion low.

**EDUCATION HELPS, BUT DOESN’T SPARE WORKERS FROM SCARCITY OF JOBS**

Especially in a labor market that is still tough for many people, having an education helps. Unlike other factors that impact how well people do in the labor market such as race/ethnicity and age, educational attainment is one variable that workers have some control over—depending on their access to the financial and other supports needed to achieve a higher education. Those with a college degree are more likely to be employed and less likely to be underemployed. In fact, the EPOP ratio for those with a bachelor’s degree or higher is more than three times greater than for those without a high school degree (see table).

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<th>2015 Labor Force Statistics By Education Level</th>
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<td>Educational Attainment</td>
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<tr>
<td>Less than High School</td>
</tr>
<tr>
<td>High School</td>
</tr>
<tr>
<td>Some College</td>
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<tr>
<td>Bachelor’s Degree or Higher</td>
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In response to the demand for educated workers in the economy today, Kentuckians have become more educated over time. The share of our labor force with less than a high school degree has dropped from 32.7 percent in 1979 to 8.2 percent in 2015, while the share with a bachelor’s degree or higher has increased from 12.1 percent to 29.1 percent. Kentucky still ranks at the bottom of states in terms of educational attainment, though, with the 5th smallest share of the population 25 and older having at least graduated high school (83.5 percent) and the 4th smallest share with a bachelor’s degree or higher (21.8 percent).
Yet having a degree has not exempted more educated Kentuckians from the scarcity of jobs in recent years: The EPOP for workers with a high school diploma is 14.3 percentage points lower in 2015 than it was in 2000, but it’s also 7.9 percentage points lower for workers with a bachelor’s degree or higher. Similarly, labor force participation has declined for workers at all levels of education: by 14.3 percentage points for workers with a high school diploma since 2000 and 7.9 percentage points for workers with a bachelor’s degree or more. Even for those who have invested most in their earning potential, the labor market is worse than it was 15 years ago.

LOPSIDEDNESS IN RECOVERY DEEPENS REGIONAL DIVIDE

Of the 25 counties that have a larger labor force today than in 2007, Oldham, Washington and Scott have seen theirs grow by 10 percent or more; and of the 95 remaining counties whose labor forces have shrunk, 20 have seen declines of 20 percent or more. Discouraged workers dropping out of the labor force or migrating to areas with more opportunity are two contributors to such steep losses.

While some may stop looking for work or follow it elsewhere, an elevated share of the workforce in depressed rural regions are actively trying to find a job: The unemployment rate is higher today than in 2007 in 62 of Kentucky’s 120 counties. Nine counties have an unemployment rate at least 50 percent higher than in 2007: Magoffin, Clinton, Boyd, Ballard, Elliott, Johnson, Greenup, Floyd and Pike.

SLACK IN LABOR MARKET ALSO WIDENS DEMOGRAPHIC DISPARITIES

Gaps are demographic as well as geographic, with some groups facing more serious labor market challenges. Age, for instance, impacts how individuals fare, with young workers facing tough competition from older, more experienced workers. Though labor force participation for those age 55 and older has dropped in the last 2 years, it remains high compared to the 1980s and 1990s, due in part to aging baby boomers who are working to supplement retirement income that is insufficient to meet growing health care and other costs.\textsuperscript{10} Indicating that when they want work, they are more likely to get
it than younger workers, the unemployment rate for those 55 and older in 2015 was 3.5 percent, while for those age 16 to 24, it was 13.2 percent (and 4.3 percent for prime age workers).

Underemployment is also a problem for young workers, with almost 1 in 4 Kentuckians age 16 to 24 (23.2 percent) underemployed in 2015. Even for young people with a college degree, many have jobs that under-utilize their education: Nationally last year, the share of college graduates with jobs that didn’t require a degree (44.6 percent) was still up by 2.8 percentage points over the 2007 rate and 6.6 percentage points over the 2000 rate. The delay young workers experience today in becoming established in the labor market will impact their economic well-being for years to come.

Young black college graduates and other minority workers face even greater challenges. That the national unemployment rate for African American college graduates in 2015 was still 0.4 percentage points higher than it was for white graduates at the peak of the recession (9.4 percent compared to 9.0 percent) is one indicator of the racial disparities that persist. Similarly, the U.S. unemployment rate for white working-class Americans with some college or an associate’s degree is 4.7 percent, while for blacks it is 8.9 percent.

For workers of all ages and at all levels of education, race gaps persist in employment: In 2013, the last year for which there was a large enough sample size to compare by ethnicity, 21.4 percent of white Kentuckians were working part-time because they couldn’t find full-time employment compared to 31.1 percent of African American workers and an alarmingly high 54.5 percent of Hispanic Kentuckians. The underemployment gap between whites and blacks shows similar disparities, widest when the labor market is the most depressed, and narrow when conditions are better.

![Underemployment by Race](image)

Source: EPI analysis of CPS data.

Though data is not available for all the years for Hispanic Kentuckians, in 2015 their underemployment rate was 16.2 percent, lower than for African Americans but much higher than for white workers. For Hispanic Kentuckians, part of the challenge may be that employment prospects are especially limited for the share who are unauthorized immigrants.

More broadly, institutional racism, hiring discrimination, economic insecurity, inequitable incarceration policies, disparities in educational opportunity and barriers to educational attainment perpetuate a vicious cycle for minority workers in Kentucky that limit their success in the labor market both today and tomorrow. And because slack in the labor market impacts them disproportionately, monetary and
fiscal policies that push the U.S. closer to full employment will have a comparatively positive impact for minority workers.

**GENDER GAP CLOSING, BUT NOT ALWAYS FOR GOOD REASONS**

As gender roles have changed over time and it has become more economically necessary for women to work given the lack of wage growth for many middle class workers, women’s participation in the workforce has grown. As a result, the gap between men’s and women’s labor force participation rates has shrunk—from 28.4 percentage points in 1979 to 10 percentage points in 2015.

![The Gender Gap in Labor Force Participation is Shrinking](image)

Source: EPI analysis of CPS data.

Unfortunately, most of that reduction is attributable to the fact that a smaller share of men is in the labor force. Today, 49.2 percent of the total civilian, non-institutional population of women in Kentucky over 16 is employed, while for men that rate is 58 percent. Growth in service-providing industries has likely increased employment for women, while losses in traditionally male-held jobs in construction and manufacturing, for instance, have hurt men more. And because, among other reasons, women still tend to have more responsibilities in the informal economy providing family care and can’t as easily work full-time jobs, men are more likely than women to be working part-time for economic reasons in the formal economy (21.4 percent to 14.9 percent).

A common assumption and explanation for why labor force participation is in decline for men is that they have the option of living off of public assistance instead of earnings. However, programs like SNAP (formerly known as food stamps) and TANF (cash assistance) have become increasingly difficult to access for able-bodied adult men. And despite an increase in the nationwide share of prime-age men receiving disability insurance, research has found it explains only a small share of the decrease in labor force participation, with other factors playing a significant role — primarily a lack of decent-paying jobs for men with less education, the need for policies that promote participation such as job training and a decent minimum wage, and criminal justice reforms that reduce incarceration and support reentry.\(^\text{15}\)
WAGES FINALLY SHOWING GROWTH IN KENTUCKY AGAIN

After more than a decade of largely stagnant real wages for workers—following a decade of strong wage growth in the 1990s as the economy moved toward full employment—wages grew for Kentucky workers in 2015.

Though nationally a large share of this real wage growth is attributable to a dip in inflation due to lower gas prices, that cannot explain why in Kentucky real median wages grew more than they did in any other state: by 7 percent from $15.06 to $16.11. Nationally, median wages grew 1.6 percent, and in the East South Central region of which Kentucky is a part with Tennessee, Alabama and Mississippi they grew by 1.1 percent. Even with strong growth in 2015 the state still has the 16th lowest median wage in the nation: $1.08 less than the national $17.19. Median wage earners in Kentucky earned 94 percent of the U.S. median compared to 89 percent in 2014, bringing it back up to the share it was in 2001.

Source: EPI analysis of CPS data.
It is not clear yet whether good wage growth in 2015 represents a trend that can be expected to continue. More recent data show average weekly earnings peaked in August 2015 after a year of strong growth and have tapered off somewhat since then. Whether wage growth can continue depends in part on whether the economy continues to approach full employment and the impact of a strong dollar on the manufacturing sector.

**WAGE GROWTH HAS BEEN CONCENTRATED AT THE TOP**

While wages grew across all deciles in 2015, in dollar terms the larger wage growth was seen at the top of the wage-earner distribution. Those in the top three deciles had approximately three times bigger increases in earnings than did those in the bottom three deciles, as seen below.

More broadly, a disproportionate share of economic growth continues going to workers at the top, even though Kentucky workers as a whole are more educated and productive than ever. In the span of time between World War II and the late 1970s, earnings in the U.S. grew with productivity, and America’s middle class grew with them. But since then that relationship has been broken, a problem visible at the state level, too: If wage growth at the median had matched the 9.3 percent growth in productivity per worker in Kentucky between 1998 and 2014 (years for which the same data are continuously available), median wages would have grown by $1.08 more, or $2,246 on an annualized basis. At the national level, if wage growth had kept up with productivity since the late 1970s, a worker making $50,000 today would be making about $25,000 more.
The increasing share of economic growth that is being taken home in the form of profits and dividends is apparent in the income data, which includes non-wage/salary investment income that tends to make up a larger share of wealthy households’ total income. The top one percent of Kentucky earners have taken home one-fourth of all income growth in the recovery from the Great Recession. Looking further back, real income for the top one percent has grown 60.1 percent since 1979, while for everyone else it dropped by 2.6 percent. And while the average income for the top 1 percent was just 10.1 times greater than the average income for everyone else in 1979, today it is 16.6 times greater ($619,585 compared to $37,371 in 2013, the most recent data available).18

WAGES BETTER FOR THOSE WITH EDUCATION BUT NOT PROTECTED FROM STAGNATION

Greater educational attainment is associated with higher wages. At the median, college graduates in Kentucky today make $23.96 an hour compared to $14.50 for high school (HS) graduates, or $1.65 for every dollar HS graduates make. Degree attainment is essential, considering the median wage for workers with “some college” is just $14.92, only $0.50 more than what those without any college, but a HS diploma make.

Yet having an education has not protected Kentuckians from stagnant and even declining wages over the last 15 years. Between 2014 and 2015, wages showed the least real growth for workers with a bachelor’s degree or higher; and though wages have grown for all groups since the recession, they have grown the least for those with the most education (1.4 percent for those with a bachelor’s or higher compared to 4.0 percent for both HS graduates and those with some college). In fact, workers with a bachelor’s degree or higher are still making 4.8 percent less than they did in 2001 once inflation is accounted for, compared to workers with a HS diploma, who are making 4.4 percent more (those with some college are making 7.6 percent less). As a result, the wage premium associated with having a college degree has shrunk slightly over the last 15 years.
KENTUCKY’S LOW WAGE PROBLEM IS BIGGER THAN OUR LACK OF EDUCATION

Higher education still provides a substantial wage advantage in Kentucky, but many of the new jobs being created in the state today do not require a college degree. In the recovery from the Great Recession, 68,100 new jobs have been added in employment services (temp agencies), retail trade and food service and drinking places combined (June 2016 over June 2009). On net, Kentucky has added 153,400 new jobs (private employment), meaning that a substantial share of job growth is in industries that typically pay low wages for work that does not require a college degree.

The prevalence of low wage work in Kentucky is clear in the fact that 3 out of 10 workers (30.4 percent in 2014) made wages that were lower than the poverty line for a family of 4. That’s an increase from 25.7 percent of workers in Kentucky making so-called poverty wages in 2001. And the poverty line itself is a very modest definition of what it takes to make ends meet. According to a comprehensive examination of what it costs to maintain a “secure yet modest lifestyle” across the U.S., poverty wages are just 41 percent of what a two-parent, two-child family would need to cover “housing, food, child care, transportation, health care, other necessities and taxes” in rural Kentucky, and 39 percent in Lexington/Fayette (see table below). In fact, even median household income in Kentucky—which one might expect to support a middle class lifestyle for family of four—is just enough to support a one-parent, one-child household in Louisville.

<table>
<thead>
<tr>
<th>Estimated Cost of Living</th>
<th>Actual Income Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>$23,850</td>
<td>$42,786</td>
</tr>
<tr>
<td>$58,005</td>
<td>$60,764</td>
</tr>
<tr>
<td>$59,218</td>
<td>$60,883</td>
</tr>
<tr>
<td>$59,218</td>
<td>$60,883</td>
</tr>
<tr>
<td>$58,005</td>
<td>$60,764</td>
</tr>
<tr>
<td>$59,218</td>
<td>$60,883</td>
</tr>
</tbody>
</table>

Source: EPI’s Family Budget Calculator, American Community Survey (ACS) data (2014 data).
The real-life impact of low wages is reflected, for example, in Kentuckians’ relative dependence on high-risk forms of credit to make ends meet: 8.9 percent of Kentucky households use products like payday lending and rent-to-own and pawn items to get by, ranking the state 12th most reliant on high-cost credit. In 2014, the last year for which data are available, Kentucky had the 5th highest poverty rate in the country at 19.1 percent, still higher than the pre-recessionary rate of 17.3 percent and up from 15.4 percent in 2001. And today 26.2 percent of children are living in poverty, compared to 18.7 percent in 2001.

MINORITY WORKERS ARE MORE LIKELY TO FACE LOW WAGES

The poverty rate in Kentucky in 2014 was 32.4 percent for Hispanic Kentuckians, 32.3 percent for African Americans and 17.4 percent for whites. And while more than half of working minority families in Kentucky are low-income (52 percent are at or under 200 percent of the poverty line), less than a third of white working families are in this predicament (30 percent).

A difference in earnings is also apparent for workers at the median. In 2014, a typical African American worker earned 76 percent of what a typical white worker earned and Hispanic Kentuckians, 70 percent.

<table>
<thead>
<tr>
<th></th>
<th>2010 Median Earnings in the Past 12 Months</th>
<th>2010 Earnings as a Share of White Earnings at the Median</th>
<th>2014 Median Earnings in the Past 12 Months</th>
<th>2014 Earnings as a Share of White Earnings at the Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>$26,522</td>
<td>n/a</td>
<td>$27,773</td>
<td>n/a</td>
</tr>
<tr>
<td>Black or African American</td>
<td>$20,821</td>
<td>$0.79</td>
<td>$21,132</td>
<td>$0.76</td>
</tr>
<tr>
<td>Hispanic or Latino</td>
<td>$18,161</td>
<td>$0.68</td>
<td>$19,346</td>
<td>$0.70</td>
</tr>
</tbody>
</table>

Source: KCEP analysis of ACS data, 5-year estimates.

The data shown in the table are insufficient to describe how disparities are changing over time between minority and white workers in Kentucky, but national data suggest that wages are growing more slowly for minority workers than white workers, meaning the gap is widening overall.

Title VII of the Civil Rights Act prohibits pay discrimination based on race, but research estimates it may account for up to a third of the wage gap between African American and white workers. Another explanation is that declining union density especially affects African American workers, who tend to have higher union membership rates; in 2014 at the national level, unionization as a share of total employment for blacks was 13.2 percent and for whites 10.8 percent. For Hispanic Kentuckians, part of the explanation is that unauthorized immigrants are more likely than other workers to be employed in the informal economy, to work in low-paying and even Fair Labor Standards Act (FLSA) exempt industries such as agriculture, and to be the victims of wage abuse.

Economic inequality, institutional racism and gaps in opportunity, including education, perpetuate poverty and low wages.

GENDER WAGE GAP NARROWING

Though the wage gap between men and women persists, it is narrowing. In 2015, the median wage for women in Kentucky was $15.05 and for men $17.53, or 86 cents on the dollar. Before a year of strong wage growth for women at the median compared to men (9.9 percent and 4.0 percent, respectively), in 2014 the gap was 81 cents, far better still than 62 cents in 1979.
A changing mix of jobs, including growth in service sector jobs like health care, may play a role in this trend. More broadly, changing gender roles mean women hold more positions in traditionally male-dominated fields with greater earning power, and traditionally defined “women’s work” may pay better than it used to. Efforts to reduce gender-based bias and discrimination, including the Equal Pay Act, mean women are less likely to be paid less for equal work.

But another big reason for the narrowing of the gender wage gap is that wages have fallen for men; nationally, it is estimated that a full 40 percent of the reduction in gender wage gap is due to reduction in men’s wages. Even with a strong year of wage growth in 2015, men’s real wages in Kentucky have dropped by 4 percent since 2001 while for women they have grown 6.2 percent. That the U.S. has shed more than 5 million manufacturing jobs since the late 1990s certainly plays a role.

![Gender Gap in Median Wages Is Narrowing](image)

**EMPLOYER PROVIDED BENEFITS DOWN, BUT MEDICAID EXPANSION PROVIDES IMPORTANT GAINS**

A bright spot in terms of workers’ compensation in the last few years has been the increase in health care coverage, especially thanks to the expansion of Medicaid to 138 percent of the poverty line under the Affordable Care Act. Appalachian Kentucky is home to some of the biggest gains in coverage, and Kentucky’s gains are the largest in the nation. In 2014 the uninsured rate in the Fifth Congressional District fell to 8.4 percent from 17.1 percent (in 2013). Statewide, the uninsured rate is 8.5 percent while for the nation, 11.7 percent.

The majority of Kentuckians who have become insured under the expansion are working; their wages are just too low to pay for private insurance. The biggest coverage gains have been for workers in low-wage industries like food services, construction and temp agencies.
employer-provided health care, on the other hand, has become less prevalent, with just over half of workers being covered by employers today (55.5 percent) compared to over two-thirds, three-and-a-half decades ago (69.5 percent in 1981).

Similarly, the share of workers covered by employer provided pensions has dropped 11.7 percentage points to 41.4 percent in 2014 from 53.1 percent in 1981, and many employers are shifting from a more secure defined benefit plan to defined contribution plans. These trends are part of the overall reduction in compensation compared to productivity that Kentucky workers face today. And since health care and pension coverage are investments in employees’ long-term economic security, Kentucky employees will continue to feel the impact of these reduced investments in the future.
Policy changes are needed at the state and federal level in order to create more jobs, continue to lift wages and help more Kentuckians fully participate in the workforce. Below are some of the key policy issues facing working Kentucky.

FULL EMPLOYMENT

The U.S. needs to continue pursuing full employment in order to close the remaining slack in the labor market. More people working is an important outcome in and of itself, but a tighter labor market also increases competition for workers leading to consistent wage growth. And because slack hurts some more than others such as minority and young workers, a tighter labor market will disproportionately benefit people who have been left out of the recovery thus far.

• Continued low interest rates—still warranted given low inflation—will make needed purchases more affordable for families, and will enable businesses to invest in and expand their firms, including through hiring new workers.

• Expanded investments in areas like infrastructure can put Kentuckians to work today building and updating transportation and communications networks, public schools, and energy systems, for example. These investments in turn help strengthen our economy going forward.

• Special public investments in communities left behind in the recovery—including coal-field communities facing economic transition and factory towns that have lost major employers—will create immediate job opportunities in the places that need them most and help spur new businesses and industries.

JOB QUALITY

Policies that support higher labor standards are also needed to counter wage stagnation and erosion and address the challenges associated with an economy increasingly made up of low-quality, service-providing jobs.

• Raising the minimum wage and enacting earned sick leave and paid family leave are examples of work to be done on basic labor standards in Kentucky and the U.S.—work that supports economic security and mobility, as well as strong families and communities.

• Protecting and strengthening workers’ right to stick together through unions gives them power to negotiate better job contracts and lifts the wages of non-union workers as well.

• Ending unfair practices that further erode access to jobs and job quality, especially for minority workers, goes hand in hand with improving basic labor standards. Making it harder for employers to misclassify employees as contractors, engage in wage theft and take advantage of unauthorized immigrant workers is key as is strong enforcement of antidiscrimination laws in hiring and pay.
WORK SUPPORTS

Through smart investments and policy changes, Kentucky can equip a healthy, productive workforce with the education and skills it takes to succeed in today’s economy and remove barriers to workforce participation.

- High-quality early childhood education, excellent public schools, affordable higher education, supports for degree completion, accessible adult education, and career pathway job training programs that lead to gainful employment are all crucial, but currently underfunded and underdeveloped components of empowering Kentucky’s workforce. Cleaning up the state tax code of tax breaks that have been put in by powerful interests will generate the revenue Kentucky needs to make these and other smart investments.

- Improved work supports will help more Kentuckians participate in the labor market, including access to child care assistance, a state Earned Income Tax Credit, a new state retirement plan for private sector workers whose employers don’t offer coverage and reforms to unemployment insurance that allow more Kentuckians to stay in jobs and remain connected to the labor market.

- Further reforms to the criminal justice system to reduce incarceration and improve reentry programs for the formerly incarcerated will help promote greater workforce participation. Doing more to address the state’s drug use and addiction epidemic is essential to addressing this challenge as well.

POLICY THREATS

Policies can also erode Kentucky workers’ overall well-being.

- Bad tax reform—cutting income taxes even more for those at the top and shifting to consumption (sales) taxes—would leave the public with less to invest in the kinds of workforce and infrastructure improvements described above that benefit us all. And it would also shift our reliance for these investments even further onto middle and low-income workers who are benefitting less from growth in today’s economy than those at the top.

- A number of policy choices would have direct impact on job quality, standards of living and workers’ ability to speak up together in their interest: Enacting “Right to Work” and repealing prevailing wages would reduce wages. Reducing coverage gains from the Medicaid expansion by creating new barriers to care would risk Kentuckians’ lives and livelihood.
1 Economic Analysis and Research Network (EARN) analysis of Current Establishment Survey (CES) and Local Area Unemployment Statistics (LAUS) data.


4 The median wage for Kentucky workers in 2015 was $16.11, which amounts to $644 for a 40-hour work week. The difference between this and the reported $831 average weekly wage for all workers in private industries is largely attributable to the fact that average incomes are skewed upward by high-paying jobs at the top, while the median is a fairer representation of how workers are doing in the very middle of the wage distribution. Median wage data for this report comes from the Current Population Survey (CPS), while industry-specific average weekly wage data comes from the Quarterly Census of Employment and Wages (QCEW). Furthermore, the CPS is a household survey of employees, while the QCEW surveys employers. For differences between CPS and QCEW, see Bureau of Labor Statistics, “Quarterly Census of Employment and Wages,” http://www.bls.gov/cew/cewbultncur.htm#comparison.


6 Using seasonally adjusted data from the Current Establishment Survey (CES) to compare the percent change in manufacturing employment between December, 2007 and June, 2016, Kentucky ranks 9th.

7 Average weekly wages reflect not only differences in pay rates, but in the share of part-time and full-time employment and heavy overscheduling in different industries. Tips and gratuities are included in wage data.

8 Behind jobs in health care, the biggest gains in a single industry since 2014 were in retail trade, with 7,400 new jobs that paid $499 in average weekly wages in 2015.


12 Teresa Kroeger et al., “The Class of 2016.”


14 Based on American Community Survey (ACS) 3-year estimates and data from the Department of Homeland Security among other sources, The Center for Migration Studies finds that 3 out of 4 of Kentucky’s roughly 49,000 unauthorized immigrants are Hispanic. As a share of Kentucky’s total Hispanic population (from ACS 2014 five-year estimates), an estimated one in four are unauthorized immigrants. Center for Migration Studies, “Estimates of the Unauthorized Population for States,” http://data.cmsny.org/.


21 Estelle Sommeillier, Mark Price and Ellis Wazeter, “Income inequality in the U.S. by State, Metropolitan Area, and County.”


23 While the reported 19.1 percent poverty rate for all of Kentucky in 2014 is based on 1 year of Census data, the poverty rate by race/ethnicity comes from 5-year estimates to increase reliability.


25 Valerie Wilson, “People of Color Will Be a Majority of the American Working Class in 2032.”


27 Valerie Wilson, “People of Color Will Be a Majority of the American Working Class in 2032.”

28 Wage abuse of unauthorized immigrants is bad for all workers since it benefits unethical employers, makes the playing field uneven and brings down the wage floor for all workers.


