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Anxiety Over Wages Still Justified

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Three recently released reports attempt to challenge the evidence of the decline in living standards for most Americans. One is a study by the president's Council of Economic Advisers (CEA); the second comes from the National Association of Manufacturers (NAM), and the third was released by two economists from the Federal Reserve Board of Dallas (FRB). While the studies differ substantively, they each serve to obscure the simple truth that hourly wage rates have fallen for most American workers.

It is important to note that the accuracy of the statistics in these studies is generally not in dispute. What is in dispute is the conclusions the reports draw about the condition of work in America today. By avoiding the most pressing problem facing American workers-wage erosion-they add little to, and perhaps detract from. the debate over economic policy.

The CEA Study: "Job Creation and Employment Opportunities: The United States Labor Market, 1993-I 996"

The CEA study examines employment growth by occupation/industry groupings and finds that most of the employment growth over the past three years has been in sectors that pay above-median wages.

Unfortunately, the report has been widely misinterpreted. Newspapers have reported that the CEA study shows that most new jobs created since 1994 are high-quality jobs with above-average pay. However, the *CEA analvsts have no way of knowing what the "new" jobs actually pay,* because they have no information about where new jobs are created in the labor market. They can only point out which sectors (occupation/industry groupings) grew from one time period to the next. Thus, new jobs in a sector with high turnover-a sector that both added and lost similar numbers of jobs-would necessarily be missed in their accounting.

It is with these limitations in mind that we should evaluate CEA's finding that "two-thirds of the net growth in full-time employment between February 1994 and February 1996 was found in job categories paying above-median wages." (The median worker's earnings place him or her at the 50th percentile of the wage distribution: the median worker earned $489 per week in the first quarter of 1996.) The CEA generates this finding by calculating the median wage in the economy in February 1994 and comparing this to the median wage in sectors where there was net job growth. For example, they show that net job growth was close to a million in the service-sector category "professional specialty," an occupation including engineers, doctors, lawyers, and teachers. Clearly, this is a relatively high-wage occupation. However, the real median earnings of full-time earners in this occupation actually fell by 1%, 1994-95.' This points to the basic problem of the CEA study: the fact that net **job growth** occurred in relatively high-paying sectors reveals nothing about the **wage trends** of workers in these sectors.

The best measure of job quality comes from a direct observation of real wage rates (see **Table).** For example, the real wage rate of the typical, or median worker (the worker at the 50th percentile of the wage distribution) fell 3.7% from 1979-89, and 3.1% more from 1989-94.' In fact, as the table below reveals, 70% of the workforce had both lower hourly wages and compensation in 1994 than in 1979 or 1989. Furthermore, the hourly wages of non-college educated workers, who represent 75% of the workforce, have been falling consistently since 1979.

This critique of the CEA's report is not intended to deny that there have been some positive developments over the current expansion. Inflation and unemployment are down; job growth is up, and at least one hourly wage series (that of non-production, non-supervisory workersj shows some positive signs (up 1.3% since January 1993). The fact remains, however, that American workers' long-term concerns regarding their wage losses are not addressed in this study.

TABLE
Hourly Wages and Compensation, All Workers! 1979-94
(1994 Dollars)

				Percent Change	
	1979	**1989**	**1994**	**1979-89**	**1989-94**
Hourly Wages					
30th Percentile	$8.11	**$7.50**	**$7.22**	**-7.5%**	**-3.7%**
Median	10.70	10.30	9.98	-3.7	-3.1
70th Percentile	14.56	14.19	14.00	-2.5	-1.3
Hourly Compensation*					
30th Percentile	$9.81	$9.15	$8.89	-6.7%	-2.9%
Median	12.94	12.57	12.29	-2.9	-2.2
70th Percentile	17.61	17.31	17.23	-1.7	-0.5

* Compensation includes wages and salaries, health and pension benefits, and social insurance.

Source: EPI analysis of U.S. Bureau ot Labor Statistics data.

The NAM Study:
"Improving the Economic Condition of the American Worker"

The NAM study adds confusion to the debate over living standards by making broad statements about the condition of work with little or no supporting evidence and by citing the growth in employment and average compensation to make its case. Neither of these facts are relevant to the question of how the typical worker is faring in this labor market.

The report begins by noting that jobs have grown in the 1990s, suggesting that the rate of growth should allay the worries of those concerned about the economy. In fact, job growth is always positive during an expansion; the question is how does growth in this expansion compare to that of past expansions. The answer is that employment growth in this recovery (1989-95) is 1.3% per year, while annual employment growth over the expansions of the 1970s and 1980s was 2.6% and 1.9%, respectively. Our current growth rates are positive, but moderate.

The NAM report also emphasizes the growth in average compensation (i.e., wages plus benefits). The key problem with NAM's emphasis on *averages* is that in a period of increasing inequality, the average becomes less and less relevant to the typical worker. *It* is *the median, not the average wage, that most reflects the labor market of the 1980s and 1990s.* Above we noted the decline in the median wage in the 1980s and 1990s.

NAM also argues that the growth of benefits has offset the decline in wages. But even if we include all benefits, the total compensation of the median worker still fell 5% from 1979 to 1994.

NAM goes on to make a variety of dubious claims:

- **"The United States has regained its preeminent international competitive position."**
  This claim is inconsistent with the fact that we have been running large and persistent trade deficits (our trade deficit in manufactured goods exceeded $100 billion in both 1994 and 1995). NAM is correct in noting that our exports have grown and that export-related jobs pay above average wages. *But it neglects to mention thut our imports have grownfaster than our exports,* and that those sectors of the economy that compete with imports also pay above average wages.

- **"Taxes, particularly payroll taxes, account for much of the slowdown in compensation growth."**
  The basis for this claim is questionable. It comes from a report by the Tax Foundation which purports to show that the median family's tax burden has grown from 20% to 37% between 1955 and 1995. As John Berry points out in a recent *Washington Post* article, the 37% is unrealistically high and is driven by improper methodology used by the Tax Foundation (Berry 1996).

  Nevertheless, the tax burden on the median family has risen since 1955. This fact, however, is irrelevant to the debate over changes in living standards since the 1970s when the slowdown in real wages began. While tax burdens increased over the 1950s and 1960s (which happened to be periods of strong and even growth), they have been relatively constant for middle-class families since the 1970s. Stable tax burdens cannot be blamed for declining living standards.

  Perhaps more important is that the data on declining real wages and compensation (like those shown in the table) are *pr-e-tax.* Thus. the changes in tax rates would not affect these trends.

- **“The data is [sic] badly skewed by the overstatement of the Consumer Price Index (CPI).”** The NAM report misleadingly suggests that there is broad consensus on this issue by economists. It cites a report produced by a commission headed by Michael Boskin (who headed George Bush’s Council of Economic Advisors) which focused only on the upward biases and ignored the downward ones. Other economists have pointed out that the evidence does not justify this conclusion (Freeman 1996). Giving these countervailing biases. and the fact that some of the problems pointed out by the Boskin commission have long been corrected, the CPI stands as our best measure of inflation.

In sum, by citing the growth in aggregate indicators like employment and average compensation, the NAM study diverts attention away from the real wage decline facing the bottom 75% of the workforce.

The FRB Study: “By Our Own Bootstraps: Economic Opportunity and the Dynamics of Income Distribution”

The FRB study claims that wage decline over the 1980s was offset by mobility. According to this view, even if you’re poor in one time period, in a later period there is a high probability that you will be better off. The study has been roundly criticized in various venues, including a recent New York *Times* article (Passe11 1996). Like the other two studies, it also avoids addressing the central problem of widespread wage decline.

As Professor Peter Gottschalk of Boston College points out in his analysis of the study, the FRB analysts “ask the wrong question and give a misleading answer to the question they ask” (Gottschalk 1996). The FRB study essentially shows that as persons get older, their incomes (and wages) increase. This is something economists have known since Adam (Smith). The *implication* of the study is that this factor should offset the increase in wage stagnation and inequality that occurred over the 1980s.

In fact, only *increasing* rates of mobility can offset the wage problems documented above, and the FRB study provides no information on whether mobility has increased. Fortunately, other researchers have examined this question. As Gottschalk points out. “Of the five existing studies that look at changes in mobility, three show no change in mobility while the other two show a decline.” In the context of the wage problems faced by most workers, this result tells us the following: the likelihood of moving to a higher position in the wage scale has not changed since the 1970s. What has changed is that you will be worse off over time if you do not advance, due to wage decline among low-wage workers. And even if you do improve your position (e.g., you rise to, say, the median) you will earn less than the median workers in previous periods, due to wage decline at the median level.

Conclusion: The Appropriately Anxious American Worker

None of these reports seriously challenges the reality of wage erosion. Each report represents an effort to find other indicators of increased economic well-being (jobs in relatively high-paying categories, growth of average compensation, and the existence of mobility), but in the final analysis, none of these indicators gets to the heart of the matter. Despite the growth in white-collar jobs and average compensation, and despite wage mobility, most workers have been losing ground since the late 1970s. Until we address this reality, the anxiety of American workers will continue to be justified.

Endnote

1. There were two other net growth occupations in services: executives and managers and machine operators. Across all industries, the real median earnings of full-time workers in the first group grew by 1.1%; in the second group, median earnings fell by 0.9%.

2. This overall figure combines the effect of falling wage rates for the median male and increasing rates for females.

Bibliography

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