

Economy in Focus

Slower Wage Growth, Declining Real Wages Undermine Recovery

During the first few months of 2012, the economy's recovery seemed to pick up speed, with an increasing number of jobs across a wide range of sectors coming on line. While it remains to be seen whether employment gains continue at a brisker pace, one thing remains clear: growth of wages remains weak, amplifying concerns not only about the quality of jobs added to the economy, but also about the strength of recovery - which is hampered by weak consumer demand - and the types of opportunities available to working families trying get back on solid footing after the worst economic downturn in decades.

Workers' wages suffered during the Great Recession, and while nominal average hourly wages are increasing slowly, their growth rate is far behind the pace of pre-recession growth. At the same time, when adjusted for inflation, the real value of wages has fallen, even over the course of the last year - well into the third year of the official recovery from the Great Recession.¹ These sobering trends underscore what many working families already know: employment growth has been - and is expected to continue to be - skewed towards lower-income jobs, and wages for people trying to enter the workforce or become reemployed after job loss are declining. Moreover, increasing shares of employed workers are experiencing no wage growth, and those working in minimum wage jobs are stuck with historically low spending power. Together, these factors amplify diverging income trends, characterized by the accumulation of income gains for top earners and corporations flush with cash, while the overwhelming majority of workers are falling further behind, undermining a sustained robust economic recovery.

As a first step to address this crisis, Congress and the states should raise the minimum wage - which at the federal level stands at just \$7.25 per hour - and adopt annual inflation indexing so that it keeps pace with the rising cost of living. Doing so will put more money in the hands of those who will spend it, spurring economic activity and job growth while helping put the economy back on the right track.

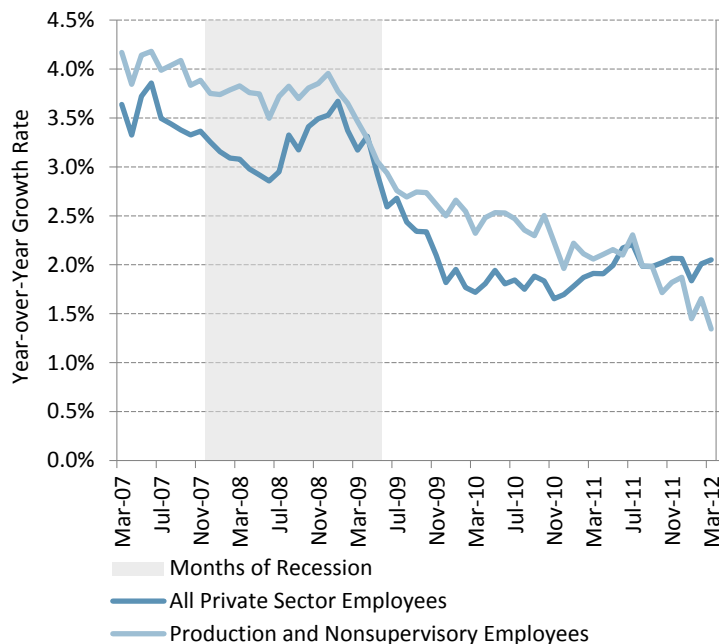
Declining Wage Growth: Key Points

- The growth of average hourly wages lags pre-recession growth rates, and the real value of wages has fallen over the past year.
- Lower wages have been fueled by growth in low-wage occupations.
- Wages for entry-level workers, as well as those becoming employed after a spell of joblessness, are falling.
- Growing numbers of employed are seeing stagnant wages, and those earning the minimum wage have historically low spending power.
- These trends have exacerbated an already-growing income divide.
- Raising and indexing the minimum wage is an urgently needed policy response to address low wages and boost economic recovery.

Wage growth is lagging, and the real value of wages is falling

Average hourly wages, in nominal terms, have increased incrementally month to month, which generally is good news – an increase in wages means that workers have more money to spend, and when combined with an uptick in hours worked per week, results in more robust weekly wages and indicates that increased hiring may be on its way. However, the *rate* of nominal hourly wage growth remains weak, and currently lags pre-recession growth. In March 2012, for example, average hourly wages for all private sector workers increased by \$0.05 from the prior month, resulting in a 2.1 percent annualized growth rate over the past year. When higher-paid workers (such as managers and supervisors) are removed from the equation, wage growth is even less: average hourly wages for production and nonsupervisory workers rose by \$0.03 in March, rounding out the past year with 1.8 percent annualized growth. By comparison, average hourly wages in the year prior to the start of the Great Recession, in December 2007, grew at a rate of 3.3 percent for all private sector workers, and nearly 3.8 percent for production and nonsupervisory workers.²

Year-over-Year Change in Nominal Average Hourly Wage Growth, March 2007 – March 2012



Source: Current Employment Statistics, Average Hourly Wages of All Private Sector Workers, Bureau of Labor Statistics

hourly wage and hours worked per week) unchanged, while an increase in hours for production and nonsupervisory workers still resulted in 0.5 percent decline in real total weekly wages.⁴ In other words, in real terms workers are earning less now than a year ago.

Employment in low-wage occupations is expanding

Job loss during the Great Recession most certainly plays a role in the stagnancy of wages. As NELP has documented, while widespread job loss from 2008 through the resumption of job growth in early 2010 affected all sectors of the economy, relatively better-paying occupations experienced the bulk of cuts: a full 60 percent of jobs lost during this period were in mid-wage occupations such as paralegals, carpenters, and health technicians, with another 18.7 percent lost in higher-wage occupations such as nurses and accountants. In contrast, during the year of job growth that followed this period, the meager gains experienced were dominated by jobs in low-wage occupations, such as retail salespeople, food service workers, and cashiers.⁵

The decline in wage growth over the course of the Great Recession and its aftermath is easily observed through the year-over-year change in nominal average hourly wages. The rate of change fell dramatically over the course of the recession and the early stages of recovery, and has clearly not yet rebounded; in fact, as of March 2012, hourly wage change was nearly 44 percent *below* the rate of change as of March 2007, prior to the Great Recession.

Not only is wage growth slowing, but the real value of hourly wages – once adjusted for inflation – is also declining when compared to the prior year. From March 2011 through March 2012, real average hourly earnings fell 0.6 percent for all private sector workers and declined by even a great degree – 1.0 percent – for nonsupervisory and production workers.³ Changes in the number of hours worked per week by both groups did not make up for the loss in wages: an uptick in the hours worked among all private sector employees left their real total weekly wages (a product of the

This type of bottom-heavy growth, however, is not limited to early observations regarding wages and jobs following the Great Recession; it is precisely these occupations that are also expected to add significant numbers of jobs to the economy through the end of this decade. Among the top thirty growth occupations are those such as retail salespeople, home health aides, personal care aides, child care workers, and janitors – all occupations with annual median wages that hover around \$20,000.⁶ All told, nearly 30 percent of job openings (resulting from turnover or growth) through 2020 are expected to have median wages at this level.⁷ Significantly, personal care aides and home health aides are not only among the occupations expected to add the largest number of jobs over this period, but they also top the list of the fastest-growing occupations, with employment in each expected to increase by roughly 70 percent.⁸

12 Lowest-Wage Occupations with Most Job Projected Growth through 2020

Occupation	Number of Jobs Added, 2010 – 2020 (in 000s)	Median annual wage, 2010
Combined Food Preparation & Serving Workers, Including Fast Food	398.0	\$17,950
Waiters & Waitresses	195.9	\$18,330
Cashiers	250.2	\$18,500
Childcare Workers	262.0	\$19,300
Personal Care Aides	607.0	\$19,640
Home Health Aides	706.3	\$20,560
Retail Salespersons	706.8	\$20,670
Janitors & Cleaners, Except Maids & Housekeeping Cleaners	246.4	\$22,210
Teacher Assistants	191.1	\$23,220
Landscaping & Groundskeeping Workers	240.8	\$23,400
Laborers & Freight, Stock, & Material Movers, Hand	319.1	\$23,460
Security Guards	195.0	\$23,920

Source: Bureau of Labor Statistics, *Occupational Employment Projections to 2020*; Table 1.4: Occupations with the most job growth, 2010 and projected 2020. March 2012.

New entrants to the labor force and the reemployed face wage loss

The downward pressure on wages can also be observed through the declining pay rates for new entrants to the labor force as well as for those becoming reemployed after job loss. Most notably, entry-level pay for young workers - for both men and women, with varying levels of education – is declining. As the Economic Policy Institute has shown, entry-level wages for young workers has fallen sharply over the last decade, and the loss has been particularly acute for particular groups during the recession and its aftermath. From 2007 through 2011, for instance, entry-level wages for men with a high school education fell a full eight percent. In fact, both men and women with a high school education who entered the labor force last year earned wages that were *less*, when adjusted to 2011 dollars, than what they would have earned more than three decades ago, in 1979 – 25.3 percent less for men and 14.2 percent less for women.⁹

At the same time, workers becoming reemployed after a spell of joblessness are often paid less than they were at their previous jobs. This is particularly true for the long-term unemployed, even for those who received government assistance through the unemployment insurance program and therefore had a safety net available to them while looking for work. By early 2010, for example, only about one third of workers who had run through their maximum allotment of state and federal unemployment insurance subsequently became reemployed; of these, a full 71 percent faced reduced earnings, with half of this group losing over a quarter of their prior wages upon becoming reemployed.¹⁰

In general, workers displaced from jobs are grappling with declining wages once back to work. Recent research examining job flows has shown that displaced workers, jobless for two or three quarters during the Great Recession before becoming reemployed, received wages that were five to six percent less than their prior employment; in non-recessionary years, such as 2005 or 2000, workers with such spells of joblessness

experienced almost full wage replacement. Even for workers who were unemployed for shorter durations – who found new jobs after only a quarter of job loss – wages upon reemployment declined in comparison to better years, and also declined when compared to the 2001 recession. Even more alarmingly, workers laid off in industries hard hit by job loss during the Great Recession, and who had to switch industries in order to become reemployed, faced steeper wage loss. For example, relatively greater shares (about seven to eight percent more than during the 2001 recession) of construction and manufacturing workers who lost their jobs during the Great Recession and were able to find work did so by gaining employment in food services and accommodation jobs - sectors with notably lower pay that resulted in wage loss of up to 30 percent for these groups.¹¹

Wages are stagnant for increasing shares of the continuously employed

Even for those who have remained employed, wage growth has been diminished by persistent high levels of unemployment. Since the start of the Great Recession, the portion of employed workers experiencing *no* annual wage growth (16 percent) has increased sharply – this portion is now greater than at any point since the early 1980s. This is true not only for workers with lesser levels of formal education – who have historically been more heavily affected by stagnant wages - but for workers across all education groups and in various industries, not just those that have been the hit the hardest by the recession.¹²

The minimum wage falls well below its historic standard

At the same time, the wage floor has eroded substantially. The current minimum wage, which stands at \$7.25 per hour, falls significantly below its historic standard. In 2011, the 3.8 million workers who earned the minimum wage or less were stuck at a maximum wage rate that has less spending power than it did in the late 1960s; if kept on par with inflation since 1968 – when its value peaked – the minimum wage would currently stand at \$10.55 per hour.¹³ Even by other measures, the value of the minimum wage has declined: if the wage

If kept on par with inflation since 1968, the minimum wage would currently stand at \$10.55 per hour.

floor had increased at the same rate as productivity since its peak, for example, minimum wage workers would currently earn nearly \$22.00 per hour.¹⁴ The low wage floor, paired with the deterioration of labor institutions and employment protections, has resulted in the US earning the undesirable title of the global leader in low-wage work: the US labor force is made up of a larger share of low-wage workers than any other comparable economy. This has clear ramifications for the future: similar to spells of joblessness, holding a low-wage job may hurt future prospects for workers and result in reduced earnings over time.¹⁵

The true devaluation of the minimum wage, however, is understated even by these measures. Increasingly, low-wage workers are on average older in age and have higher levels of formal education compared to thirty years ago.¹⁶ The wage floor, then, not only fails to keep up with inflation and productivity, but also with the degree of skills and experience low-wage workers now bring to their jobs.

Low and stagnant wages have contributed to skewed income distribution

The decline in wage growth, expansion of low wage work, and erosion of the wage floor are alarming enough for working families who continue to struggle in the aftermath of the Great Recession; adding to this concern is the fact that even relatively meager wage gains are not evenly spread among all workers. The Occupy Wall Street movement brought renewed attention to the disproportionate accumulation of income going to top earners; recent economic research confirms just how skewed income gains have become. Using a unique data set based on IRS tax data, economist Emmanuel Saez found that despite significant income loss for the top one percent of households during the Great Recession, these households have rebounded quite well: a full 93 percent of income growth (after taking into account population growth and inflation) was funneled to the top

1 percent of households in 2010. On average, these households saw their real income levels rise 11.6 percent during that year. In contrast, those households at the bottom 99 percent of income distributions saw gains that averaged a meager 0.2 percent, with average household income for the bottom at nearly a 30-year low.¹⁷

To be clear, the recent downturn has largely exacerbated and intensified trends that have been decades in the making. Income for top-earning households has outpaced growth for those at the bottom since the 1970s. At the same time, however, workers today are also seeing more fruits of their labor funneled back into corporate profits than going back to their own wages. The ratio of profits to wages is higher now than at any other time since the government began tracking such data;¹⁸ by the end of 2011, real wages for workers had fallen over the year as corporate profits reached an all-time high during the last quarter.¹⁹ Even in large companies flush with cash, workers are being squeezed: according to the Wall Street Journal, revenue per employee at companies among the Standard & Poor's 500-index surpassed pre-recession (2007) levels by more than 11 percent in 2011.²⁰

Raising and indexing the minimum wage is the first step to address depressed wages

While a range of solutions – including restoration of organizing and bargaining rights, stronger enforcement of wage laws, and a renewed social compact among corporations and their employees – are powerful and needed antidotes for the alarming erosion of wages facing workers today, an important first is raising the minimum wage and indexing it to inflation so that it keeps pace with the rising cost of living. Restoring the minimum wage to its historic value, indexing it to rise annually, and closing the loopholes that limit coverage for millions of low paid workers will bolster economic recovery by putting money in the pockets of working families who will spend it, driving up the consumer demand employers need in order to grow and create new jobs. A robust minimum wage that boosts pay scales across the bottom of the labor market will also begin to address the widespread and growing problem of low-wage jobs in which increasing numbers of America's workers today spend their careers.

Eighteen states and the District of Columbia currently have minimum wages above the federal level of \$7.25 per hour, and 10 states index their minimum wage to inflation to automatically rise with the cost of living. With the federal minimum wage for tipped workers frozen at a shockingly low \$2.13 per hour, 30 states have raised their tipped minimum wages above \$2.13. Seven of these states require that tipped workers receive the full state minimum wage from their employer.²¹ Numerous states and cities are currently considering similar policies to raise and index minimum wage rates.²² Recent legislation at the federal level, introduced by Senator Tom Harkin (D-IA), proposes to increase the minimum wage to \$9.80 per hour over two and a half years, and then index it to inflation, while also raising the federal tipped minimum wage. According to the Economic Policy Institute, Senator Harkin's proposal, if implemented, would directly raise wages for roughly 19.5 million workers earning less than \$9.80, and indirectly increase pay for 8.9 million more as employers adjust pay scales. Consumer spending stemming from these increases would create an estimated 100,000 full-time equivalent jobs and boost GDP by \$25 billion.²³

Conclusion

Prolonged, high unemployment continues to weaken wage growth for workers, undermining more vibrant economic recovery. The expansion of low-wage work and reduced earnings for those affected by the recession amplify these concerns. At the same time, even relatively weak wage growth is not reaching all workers. Raising and indexing the minimum wage begins to address the problem of low wages and boost economic recovery by stimulating demand and creating jobs.

ENDNOTES

¹ The National Bureau of Economic Research marks the end of the Great Recession, and beginning of the recovery, at June 2009. National Bureau of Economic Research, “US Business Cycle Expansions and Contractions.” Accessed April 2012. Online: <http://www.nber.org/cycles.html>

² Wage data from the Bureau of Labor Statistics, Current Employment Statistics. Online: <http://www.bls.gov/ces/>
Bureau of Labor Statistics, “Real Earnings – March 2012.” Released April 13, 2012. Online: <http://www.bls.gov/news.release/pdf/realer.pdf>

See also: Economic Policy Institute, “Weaker jobs report is a reminder that we’re still on a rocky road.” April 6, 2012. Online: <http://www.epi.org/publication/strengthened-jobs-recovery/>

³ Bureau of Labor Statistics. “Real Earnings – March 2012.” Released April 13, 2012. Online: <http://www.bls.gov/news.release/realer.nr0.htm>

⁴ Ibid at note 3

⁵ These measures are based on Current Population Survey data covering occupational employment and median wages from the first quarter of 2008 through the first quarter of 2011. Employment data by occupation and wages were ranked and placed into three equal groups, with each representing a third of US employment: lower-wage (\$7.51 to \$13.52 per hour), mid-wage (\$13.53 to \$20.66 per hour), and higher-wage (\$20.67 to \$53.32 per hour), and employment change was analyzed based on periods determined by peak and trough employment levels. Please see NELP’s report for more detail on these particular wage trends, definitions for lower-, mid-, and higher-wage jobs, and the methodology used:

National Employment Law Project. “The Good Jobs Deficit: A Closer Look at Recent Job Loss and Job Growth Trends Using Occupational Data.” July 2011. Online: <http://www.nelp.org/goodjobsdeficit>

⁶ Bureau of Labor Statistics, “Employment Projections, 2010 – 2020: Table 1.4: Occupations with the most job growth,” Released February 1, 2012. Online: <http://www.bls.gov/news.release/ecopro.nr0.htm>

⁷ Metzgar, Jack. “Education, Jobs, and Wages.” Talking Union: A Project of the DSA Labor Network. March 20, 2012. Online: <http://talkingunion.wordpress.com/2012/03/20/education-jobs-and-wages/>

⁸ Bureau of Labor Statistics, at note 3. Table 1.3: Fastest growing occupations, 2010 and projected 2020

⁹ Mishel, Lawrence. “Entry-level workers’ wages fell in lost decade.” Economic Policy Institute, March 7, 2012. Online: <http://www.epi.org/publication/ib327-young-workers-wages/>

¹⁰ United States Government Accountability Office. “Unemployment Insurance: Economic Circumstances of Individuals Who Exhausted Benefits.” February 2012. Online: <http://www.gao.gov/products/GAO-12-408>

¹¹ Hess, Ryan. “Displaced Workers: Matching Wages is Tough Even When Finding a Job Isn’t.” Employment & Training Reporter. MII Publications. April 23, 2012: p.393

Hyatt, Henry and Erika McEntarfer, “Job-to-Job Flows and the Business Cycle.” US Bureau of the Census. March 2012.

¹² Daly, Mary, Bart Hobijn, and Brian Lucking. “Why Has Wage Growth Stayed Strong?” Federal Reserve Bank of San Francisco. April 2, 2012. Online: <http://www.frbsf.org/publications/economics/letter/2012/el2012-10.pdf>

Krugman, Paul. “Screw Your Analysis to the Sticky Point.” *The New York Times*: Opinion Pages, April 3, 2012. Online: <http://krugman.blogs.nytimes.com/2012/04/03/screw-your-analysis-to-the-sticky-point/>

¹³ Bureau of Labor Statistics. “Characteristics of Minimum Wage Workers: 2011.” Labor Force Statistics from the Current Population Survey. Released March 2, 2012. Online: <http://www.bls.gov/cps/minwage2011.htm>

The value of the [minimum](#) wage reached at high point in 1968, when its nominal value was \$1.60 per hour. Since that time, it has eroded dramatically as Congress has failed to adjust the minimum wage for inflation over time. 1968’s minimum wage, when adjusted using the Consumer Price Index for All Urban Consumers, would currently stand at \$10.39. See:

National Employment Law Project, Raise the Minimum Wage website, April 2012
<http://www.raisetheminimumwage.com/facts/entry/amount-with-inflation/>

¹⁴ Schmitt, John. “The Minimum Wage Is Too Damn Low.” Center for Economic and Policy Research. March 2012. Online: <http://www.cepr.net/documents/publications/min-wage1-2012-03.pdf>

¹⁵: Schmitt, John. “Low-wage Lessons.” Center for Economic and Policy Research, January 2012. Online: <http://www.cepr.net/documents/publications/low-wage-2012-01.pdf>

¹⁶ In this analysis, low-wage workers are defined as those earning \$10.00 or less, in 2011 dollars. See: Schmitt, John and Janelle Jones. "Low-wage Workers are Older and Better Educated than Ever." Center for Economic and Policy Research, April 2012. Online: <http://www.cepr.net/documents/publications/min-wage3-2012-04.pdf>

¹⁷ Saez, Emmanuel. "Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2009 and 2010 Estimates)." University of California, Department of Economics. March 2, 2012. Online: <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2010.pdf>

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¹⁸ Gross, Daniel. "Unemployment may be down, but so are wages and benefits." The Daily Ticker, April 2, 2012. Online: <http://finance.yahoo.com/blogs/daily-ticker/reich-superficial-labor-market-improvements-masks-erosion-wages-133111886.html>

¹⁹ Kavoussi, Bonnie. "Real Wages Fell in 2011 Amid Record Corporate Profits." The Huffington Post: Business. February 1, 2012: http://www.huffingtonpost.com/2012/01/31/wages-2011-record-corporate-profits_n_1244297.html

²⁰ The Wall Street Journal conducted an analysis of sales, profits, and employment of companies among Standard & Poor's 500 stock index, and found that in 2011, these companies saw \$420,000 in revenue per employee – up from \$378,000 per employee in 2007. See:

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<http://online.wsj.com/article/SB10001424052702303815404577331660464739018.html>

²¹ See US map of minimum wage rates and policies on NELP's minimum wage site for more information: <http://www.raisetheminimumwage.com/pages/map>

²² Greenhouse, Steven. "Raising the Floor on Pay." The New York Times: Business Day (Economy). April 9, 2012. <http://www.nytimes.com/2012/04/10/business/economy/a-campaign-to-raise-the-minimum-wage.html>

See also: NELP, Raise the Minimum Wage website, at note 13

²³ Cooper, David. "A rising tide for increasing minimum wage rates." Economic Policy Institute, April 13, 2012. Working Economics Blog: <http://www.epi.org/blog/proposals-increasing-minimum-wage/>