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THE SAD BUT TRUE STORY OF WAGES IN AMERICA

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Recent debates about whether public- or private-sector workers earn more have obscured a larger truth: all workers have suffered from decades of stagnating wages despite large gains in productivity. The current public discussion illogically pits state and local government employees against private workers, when both groups have failed to sufficiently benefit from the economic fruits of their labors. This paper examines trends in the compensation of public (state and local government) and private-sector employees relative to the growth of productivity over the past two decades.

This paper finds:

- U.S. productivity grew by 62.5% from 1989 to 2010, far more than real hourly wages for both private-sector and state/local government workers, which grew 12% in the same period. Real hourly compensation grew a bit more (20.5% for state/local workers and 17.9% for private-sector workers) but still lagged far behind productivity growth.
- Wage stagnation has hit high school–educated workers harder than college graduates, although both groups have suffered—and a bit more so in the public sector. For example, from 1989 to 2010, real wages for high school-educated workers in the private sector grew by just 4.8%, compared with 2.6% in state government. During the same period, real wages for college graduates in the private sector grew 19.4%, compared with 9.5% in state government.
- The typical worker has had stagnating wages for a long time, despite enjoying some wage growth during the economic recovery of the late 1990s. While productivity grew 80% between 1979 and 2009, the hourly wage of the median worker grew by only 10.1%, with all of this wage growth occurring from 1996 to 2002, reflecting the strong economic recovery of the late 1990s.
- The fading momentum of the 1990s recovery failed to propel real wage gains for college graduates employed by private-sector firms or states from 2002 to 2010, despite productivity growth of 20.2% over the same period.

These data underscore that there is a bigger story than public versus private compensation and a more penetrating set of questions to ask than who has more than whom. The ability of the economy to produce more goods and services has not translated into greater compensation for either group of workers. Why has pay fared so poorly overall? Why did the richest 1% of Americans receive 56% of all the income growth between 1989 and 2007, before the recession began (compared with 16% going to the bottom 90% of households)? Why are corporate profits 22% above their pre-recession level while total corporate sector employees' compensation (reflecting lower employment and meager pay increases) is 3% below pre-recession levels? The answers lie in an economy that is designed to work for the well off and not to produce good jobs and improved living standards.[1]

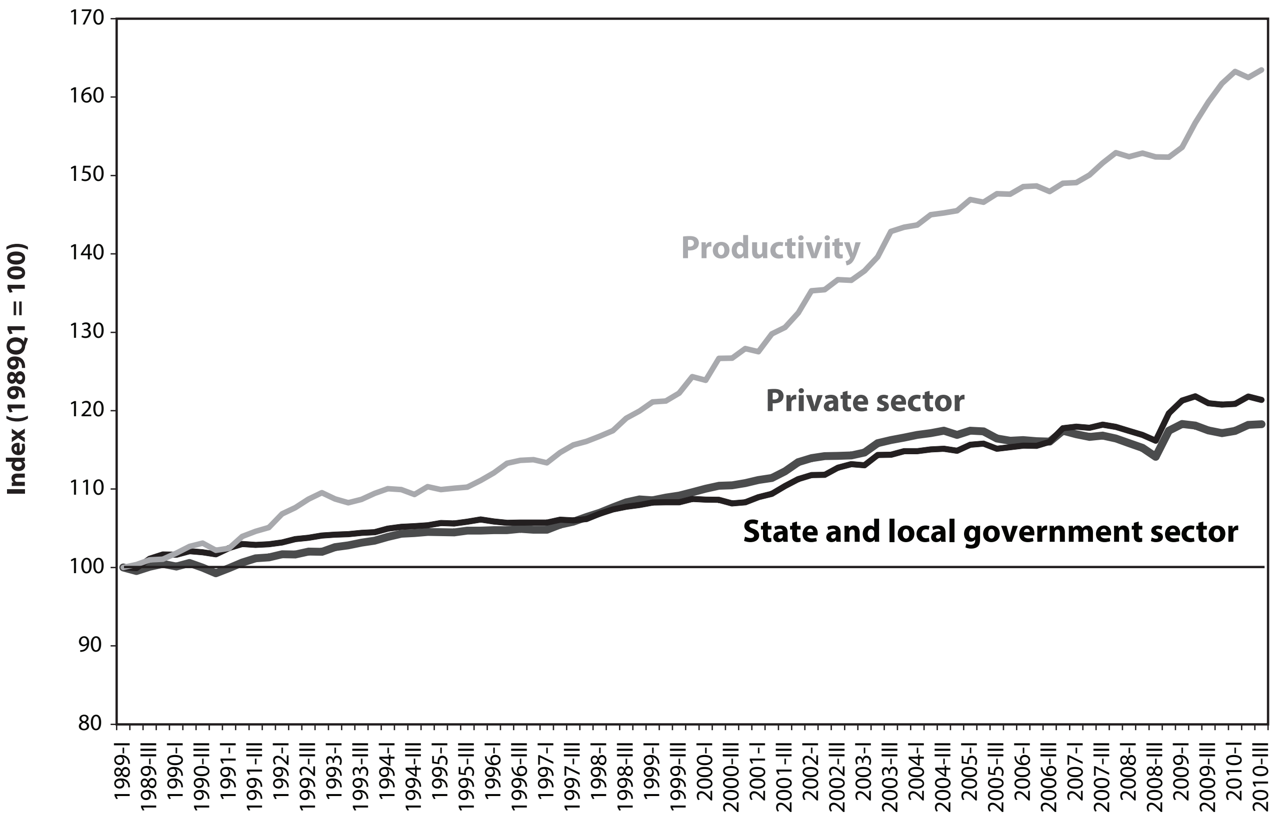
Essentially, economic policy has not supported good jobs over the last 30 years or so. Rather, the focus has been on policies that were thought to make consumers better off through lower prices: deregulation of industries, privatization of public services, the weakening of labor standards including the minimum wage, erosion of the social safety net, expanding globalization, and the move toward fewer and weaker unions. These policies have served to erode the bargaining power of most workers, widen wage inequality, and deplete access to good jobs. In the last 10 years even workers with a college degree have failed to see any real wage growth.

Workers' pay growth lagged productivity gains

Figure A tracks the full, inflation-adjusted compensation (including wages and benefits) of private-sector and state/local government employees since the first quarter of 1989 (data back to the beginning of the 1980s business cycle are unavailable). Over this period, the hourly compensation of private-sector workers grew by 17.9%, just slightly below the 20.5% growth in compensation of state/local public-sector workers. The timing of the growth differed: Private-sector compensation grew faster in the late 1990s, while state/local compensation grew faster in the early 2000s. Compensation in both sectors has stagnated since mid-2008.

FIGURE A

Growth in compensation of workers in private and state/local sector compared with productivity, 1989Q1-2010Q3



SOURCE: EPI analysis of Bureau of Labor Statistics, Employment Cost Index data.

The parity in compensation growth in both sectors is surprising because the public sector includes a far larger share of college graduates (including those with advanced degrees), whose wages historically grew faster over the last few decades (at least until 2000 or so). Thus, the college graduate–intensive state/local public sector would be expected to experience faster compensation growth than the less college graduate–intensive private sector. As we show below, this has not happened because wages for college graduates in state and local government have grown only half as much as in the private sector.

What really stands out in Figure A, however, is that productivity grew by 62.5% over this period, nearly three times the growth of hourly compensation. The Bureau of Labor Statistics also has recently noted the failure of compensation to keep pace with productivity (they grew in tandem from 1947-73).[2] That productivity-pay gap is the bigger story here than any public-private pay gap: The ability of the economy to produce more goods and services has not translated into greater compensation for workers.

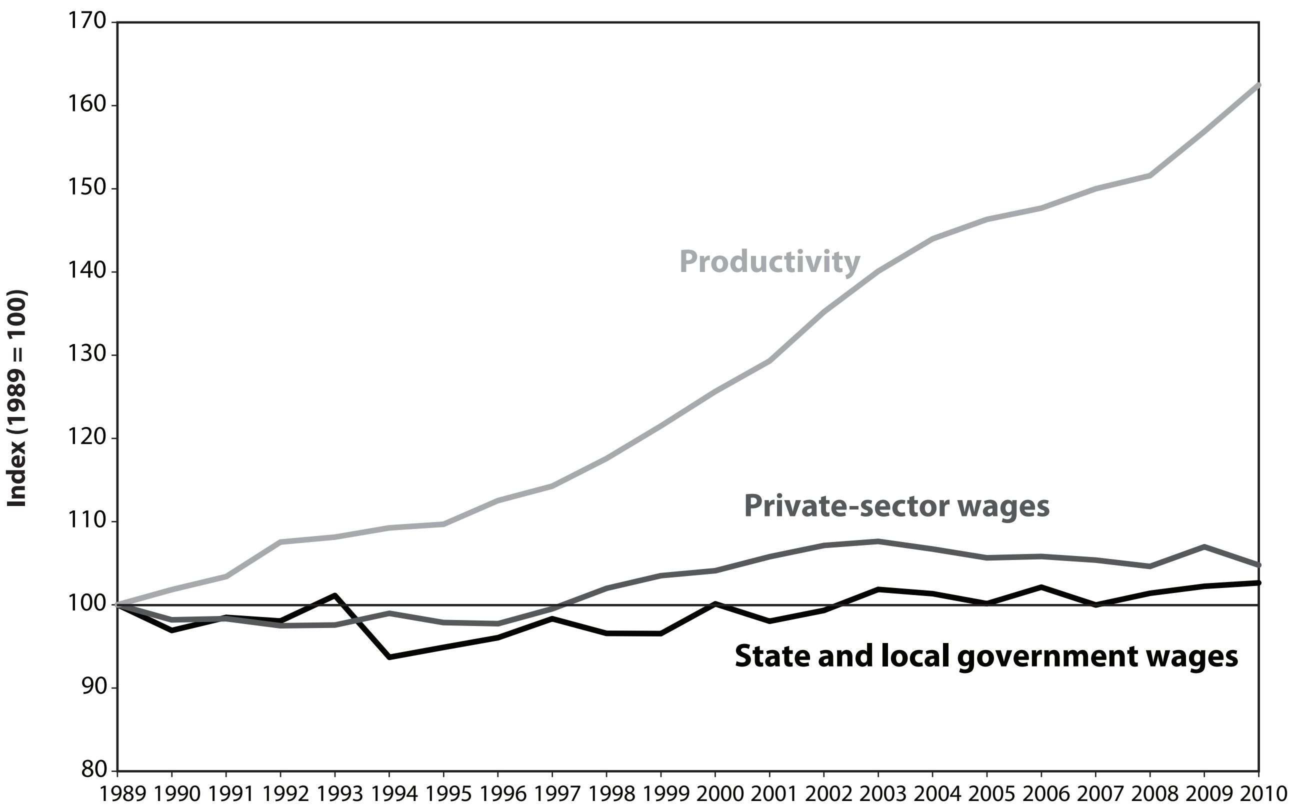
College grads only somewhat buffered from worst of lagging pay growth

Pay failed to keep pace with productivity whether workers had a college degree or a high school degree, though those with college degrees clearly fared better, at least until about a decade ago.

Figures B and **C** examine wage growth by education using tabulations of annual Current Population Survey Outgoing Rotation Group data from 1989 to 2010. Wages (rather than compensation) of state government and private-sector

FIGURE B

Real hourly wage growth for high school graduates working in private and state/local sectors compared with productivity growth, 1989-2010



SOURCE: EPI analysis of Current Population Survey, Outgoing Rotations Group.

workers are the focus because there are no data that *directly* measure employer-provided benefits for workers by education level[3] and because policy and media attention has targeted state employee pay.

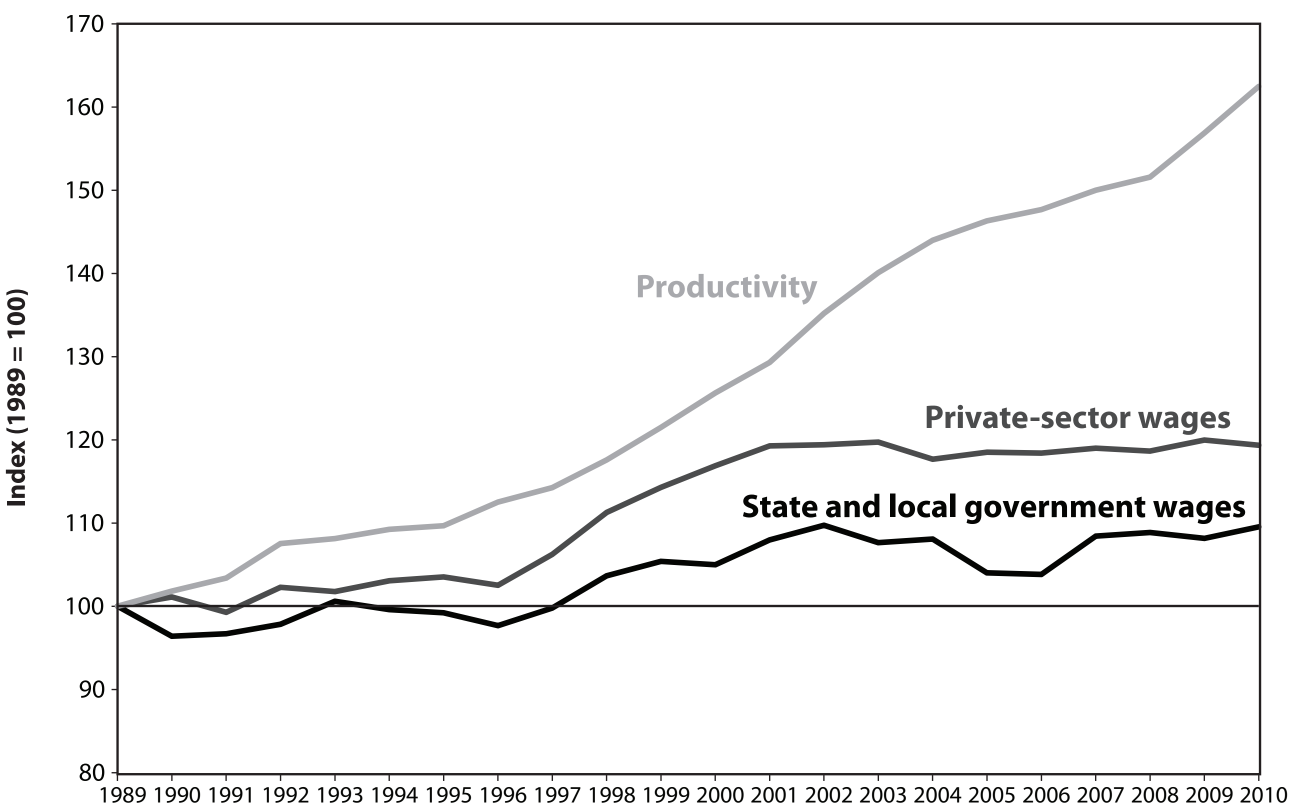
Figure B shows the growth of inflation-adjusted hourly wages for high school–educated workers in state government and in the private sector. High school–educated workers' real wages grew by just 4.8% in the private sector, a bit higher than the 2.6% growth in state government. In other words, wages were stagnant for 21 years, a trend that contrasts starkly with the sharp 62.5% growth in productivity during the same period. These data confirm that—regardless of whether they worked in the private sector or worked for a state government—typical workers did not share in the growth of the economy over the last two decades.

This two decades worth of low pay growth is part of an even longer trend of wage stagnation for the typical worker: median hourly wages only grew 10.1% in real terms from 1979 to 2009, even though productivity grew 80% in those 30 years. Since virtually all of this real wage growth occurred in the six years from 1996 to 2002, reflecting the wage momentum of the strong economic recovery in the late-1990s, it is fair to say that there has been no real wage growth for the typical worker for most of the last 30 years. Analyses of total compensation that factor in the value of employee benefits yield the same result because nonwage benefits as a share of total compensation also have failed to grow since 1979, meaning benefits did not grow faster than wages.[4]

Figure C presents a comparable analysis for college-educated workers (those with a bachelor's degree but no further education). From 1989 to 2010, real wages of college graduates working in the private sector grew 19.4%, compared

FIGURE C

Real hourly wage growth for college graduates working in private and state/local sectors compared with productivity growth, 1989-2010



SOURCE: EPI analysis of Current Population Survey, Outgoing Rotation Group.

with half that much in wage growth—9.5%—for college-educated state workers. Productivity grew 62.5% in this period. It is important to note that neither state-employed nor private-sector college graduates experienced any real wage gains from 2002 (which marks the start of the expansion following the recession of the early 2000s) to 2010—a period in which productivity grew by 20.2%. In short, college graduates' real wages were stagnant in recent years during a time when productivity was growing rapidly.

Conclusion: Focus needs to shift to reconnecting worker pay growth to productivity growth

The rhetoric of some newly elected politicians has suggested that state and local public employees in the United States are some sort of privileged class, earning high wages and benefits at the expense of the taxpayers. In fact, state and local government employees are not a privileged class.[5] Rather, they are part of the same class as the taxpayers to whom they provide services, and find themselves in the same situation: Neither private-sector workers nor state and local government employees have seen their pay rise much over the last two decades, and what meager pay growth they have experienced has been far outpaced by growth in productivity—the increased goods and services that they themselves have generated. The substantial growth in productivity, income, and wealth in the last few decades could and should have generated some pay growth for American workers. Reconnecting the growth of workers' pay to the growth of productivity is the major challenge policymakers should be addressing.

Endnotes

1. See Josh Bivens, *Failure by Design: The Story behind America's Broken Economy*, An Economic Policy Institute book. Ithaca, N.Y.: ILR Press, and imprint of Cornell University Press, 2011.
2. See "The compensation-productivity gap," *The Editor's Desk*, U.S. Bureau of Labor Statistics, Feb. 24, 2011; http://www.bls.gov/opub/ted/2011/ted_20110224.htm
3. For a standard approach for estimating benefit levels by education, see Jeffrey H. Keefe, *Debunking the Myth of the Overcompensated Public Employee: The Evidence*, Economic Policy Institute, Briefing Paper, September 2010; http://www.epi.org/page/-/pdf/bp276.pdf.
4. See pages 129-130 of Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008/2009.* An Economic Policy Institute Book. Ithaca, N.Y.: ILR Press, and imprint of Cornell University Press, 2009.
5. Jeffrey H. Keefe, *Debunking the Myth of the Overcompensated Public Employee: The Evidence.*