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LABOR DAY 2009 REPORT

COLLAPSE OF WAGE GROWTH IMPERILS RECOVERY

As working people run faster but fall farther behind, consumer purchasing power weakens as engine of economic growth, and further policy action to generate jobs is needed

EPI
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NEWS FROM EPI

Friday,
Sept. 4, 2009

FOR IMMEDIATE RELEASE

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As the nation struggles to recover from the worst economic battering since the Great Depression, the challenges facing American workers threaten to weaken the recovery for years to come. American consumer purchases normally play a key part in returning the nation to prosperity after a recession. But flagging wage growth, already in evidence and expected to worsen, will slow the growth of consumption for several years, leading to a sluggish recovery.

Unless wage growth can regain its historical forward momentum, consumers who are focused on paying debt and rebuilding savings simply won't have enough income to stimulate the economy with their spending. This means that the path to recovery for the U.S. economy is likely to be much longer and slower than in past recession-recovery cycles.

A new Economic Policy Institute report, ***"The Recession's Hidden Costs,"*** examines recent wage trends to provide a detailed portrait of the economic plight of this Labor Day's lucky ones – those who still have jobs to go to. Authored by EPI's president **Lawrence Mishel** and labor market economist **Heidi Shierholz** (with research assistance from Andrew Green), the report explains how stagnant wages, and new developments in the workplace, such as the rise of unpaid furloughs and the elimination by many employers of 401(k) contributions are expected to put increasing pressure on workers already treading water.

"A remarkable slowdown"

"The fallout from this recession is an equal opportunity disaster for millions of Americans throughout the labor market, and for the economy as a whole," said Shierholz. "Those who are out of work are facing longer spells of unemployment and rising competition for scarce job openings as employers continue to downsize – and those who have managed to hang onto jobs are seeing their paychecks stagnating or shrinking, along with their housing and retirement nest eggs."

The report details what the authors describe as a "remarkable slowdown" in hourly wages, and traces its impact across groups of private sector workers. Among their reported findings are these:

- In the private sector, nominal (i.e., not adjusted for inflation) wage growth plummeted to 1.3 percent in the first half of 2009, one-third slower than in late 2008 and 40 percent behind the growth rate in 2007 and the first half of 2008.

-More-

- Wage growth slowed even faster for managerial and professional workers – to 1.1 percent, down 50 percent since the end of last year and one-third below 2007 and the first half of 2008.
- For the 80 percent of workers who hold production and nonsupervisory jobs, wages posted an annualized growth rate of 4 percent through 2007-08, but collapsed to 1.4 percent growth this year.
- For all workers, private and public, wages grew only about half as fast over the past year as they had during the previous two years.

These data trends are borne out in recent consumer surveys, in which a majority of respondents reported worsening personal finances, and the lowest percentage in the survey's 60-year history reported any income gain at all.

Hardest hit wages: Working women

While increases in unemployment have been much steeper for men in this recession, the sharpest wage deceleration is being experienced by women, whose wage growth this year dropped by 57 percent over previous years. Much of this decline is attributable to the collapse of wage growth among college-educated women to just 0.3 percent - far below even the recent relatively modest inflation rate – over the last year. This dramatic drop also accounts for much of the overall 56 percent growth decline among all college graduates' wages.

Urgent need: Continuing federal interventions

The authors conclude that because of the extraordinary challenges at hand, continuing government interventions to generate jobs are urgently needed. They recommend a range of actions that includes tax credits to subsidize the creation of new jobs, continuing fiscal relief to states – both to ward off damaging job cuts and assist private firms that do business with the states – and increased supports to hard-hit families . The authors also emphasize the need for government to adopt policies to address the ever-widening gap between workers' rising productivity and their stagnating wages, a long-term labor market problem which has been exacerbated in the current confluence of economic trends.

"It's really just Economics 101," explained Mishel. "With high unemployment expected to continue and spending power shrinking for those who are working, businesses don't have enough customers – and without customers they can't invest enough to create enough jobs to dig us out of this hole. That leaves government as the only credible player that can make the investments on the scale that's needed to get jobs, wages, and the economy growing again."

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