The Myth of Rising Wages in America

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This Labor Day 2018 marks yet another year of declining living standards for American workers. If one were to believe the media and press, rising wages belie that statement. The Wall St. Journal, August 1, 2018 trumpeted 'US Workers Get Biggest Pay Raise in Nearly Ten Years'.

But here's why that media spin is a misrepresentation of reality.

Labor's Falling Income Share

If wages were rising, why is it that labor's share of total national income has continued to fall for nearly 20 years, including this past year? At about 64% of total national income in 2000, it has steadily plummeted to around 56% of today's roughly $16 trillion national income. That decline has not just been a result of the 2008-09 great recession; half of it occurred between 2000 and 2008. So it is a long term secular trend, rooted in today's 21st century US capitalist system and not a recent phenomenon.

A drop of 8% in income share for Labor might not seem much in simple percent terms. But 8% of $16 trillion is just short of $1.5 trillion a year. In other words, workers have come up short $1.5 trillion in 2017-18; if their share had remained at 64% they would have $1.5 trillion more in their pockets today than they actually have. That $1.5 trillion of Labor Share decline represents a loss, at minimum, of $8,000 a year or more per worker. But the $1.5 is also an underestimation.

'Labor's Share' as defined by the government (Labor Dept. and Congressional Budget Office) includes the salaries of managers and senior executives, year-end bonuses of bankers, lump sum payments to executives, and other forms of non-wage income. True wages income—i.e. of non-management, non-supervisory worker—is a subset of this expanded official definition of Labor's Share. But if executives, managers and bankers' forms of salary and pay categories of Labor's Share have been rising rapidly—which they have—in net terms then true wage incomes have fallen even more than the $1.5 trillion. Take out the executives' and managers' share of the Labor Share of national income, and the lost per year per worker likely exceeds $10,000.

But that's not all. Even when considering true wage incomes of non-management, non-supervisory workers (about 82% of the total labor force), wage gains that have occurred have been skewed strongly to the top 10% of the remaining working class households—i.e. professionals in tech, health care and finance, those with advanced college degrees, etc. By averaging in the wage gains of the top 10% of the working class with the rest, the wage gains of the 10% offset the wage stagnation of the rest. The true negative wage stagnation and decline for the 'bottom' 90% wage earners is thus even greater. That's about 133 million of the 162 million labor force. In other words, the wage incomes of the 133 million have lost even more than the $1.5 trillion of Labor's Share decline, when excluding the net wage gains of the top 10% of the working class. That means the 133 million have lost even more than $10,000 a year per worker.

Weekly Earnings v. Wages

Actual wages of the 133 million have therefore fared worse than the Labor Share decline suggests—and even after adjusting for executives-managers and for the top 10% tier (professionals, higher educated, etc.) of the working class. Wages are far less than Labor's Share data.

Nor are wages the same as 'workers weekly earnings', which the media often refers to as wages in order to overstate wage gains. Official government sources indicate weekly earnings have been rising at 2.7% annual rate. But weekly earnings are volatile and upswing widely with the business cycle, reflecting hours worked and second jobs. And business cycle upswings since 2001 have been short and shallow. Nevertheless, the press and media often, and purposely, confuse wages with weekly earnings (or with household personal income) in order to make it appear that gains for America's working class are greater than they are in fact. US Labor Dept. data as of mid-year estimated wage gains at 2.5% over the preceding 17 months to July 2018, according to the Wall St. Journal, and therefore less than the 2.7% figure for weekly earnings.

Wages: The Real Numbers

Even when properly considering just wages for non-management and non-supervisory workers, official government stats still distort to the upside the true picture with regard wages as well. This upside overestimation is due largely to five causes

1) reporting wages for full time employed workers only;

2) reporting nominal wages instead of real wages;

3) ignoring the claims on future wage payments due to rising worker household debt in the present and therefore future interest payments;

4) not considering the decline in 'deferred wages' which are represented in pension and retirement benefit payments decline;

5) disregarding declines in 'social wages' represented in falling real social security benefits payments;

1) While official government data report that wages are now rising at a 2.5% annual rate, what that stat fails to mention is that the 2.5% is for full time permanent workers only. It thus leaves out the lower, if any, wage increases for the current 40-50 million workers who are not full time and are employed in what is sometimes called 'contingent' or 'precarious' work.

Their lower wage gains would reduce the 2.5% for the total wage earning labor force to less than 2.5%. A similar adjustment should be made for the 8 million or full time workers who have become unemployed and whose "wages", in the form of unemployment benefits and food stamps, are certainly not rising or being cut. Add the millions more of undocumented workers, and still millions more youth and others working in the 'underground' economy (estimated now at 12% of US GDP)—neither of whom whose wages are estimated accurately by official government wage stats—and the wage gains are still further reduced from the official 2.5%. When adjustments are made to include these latter categories of wage earners, and consider contingent workers' wages, it is this writer's estimate that the true net rise in *nominal* wages the past year is no more than 1.7% to 2.0% overall and closer to 1% for the 133 million and the 'bottom' 90% of the wage earning labor force.

To sum up thus far, when excluding salaries of executives and managers, exempting the top 10% of the wage earning labor force, adding in the wage-less unemployed, and correcting for undocumented and underground economy labor force—the net result for even nominal wages is far less than the official 2.5%.

Nominal wage gains for 133 million are thus no more than 1.5%; that is, or one percent less than the official 2.5%.

2) The 2.5% official wage gain stat reported by the government is what's called the nominal wage, not the real wage. The real wage—or what workers have actually to spend—is the nominal wage adjusted for the rate of inflation. So what has been the inflation rate? And how accurate is it?

There are various price indices against which wage gains may be adjusted: the consumer price index (CPI), the personal consumption expenditures index (PCE), GDP deflator index, and others. However, most often reported by the media is the CPI. The CPI at mid-year had officially risen 2.9% over the previous year. So if one applied the CPI to the official hourly wage gain of 2.5%, it would mean that workers' real wages declined by- 0.4% over the past year. (Or fell by -1.4% if the above adjustments to the nominal wage are considered).

But both the -0.4% and -1.4% are also underestimations. Here's why: The CPI purposely underestimates the true rate of inflation. (And the higher the rate of inflation, the lower the real wage). First, it smooths out year to year inflation by averaging annual inflation rates by means of what is called 'chained indexing'. Furthermore, the CPI does not look at all prices, but at a 'basket' of the most likely purchases of goods and services by households. It then assigns 'weights' to the items in this basket. For working class households, the weights should be greater for housing, healthcare, education, insurance and other basics but they're not. The weights therefore do not reflect the true impact of inflation on reducing real wages. There's another problem. The Labor Dept. arbitrarily assumes increases in quality of a particular good or service in the basket reduces the price for that product. The price for the product in the CPI is often far lower than what a household actually pays for it in the market place. For example, a student may pay $800 for a computer laptop for back to school use, but the Labor Dept. reports it in the CPI as only $500 since it assumes the quality of that laptop is greater than an $800 laptop three years ago. But this is a distortion of the actual price paid in the market by the working class household. Inflation is under-estimated. Another problem in the CPI is the government's bias toward underestimating prices for online ecommerce goods purchases by households.

These arbitrary assumptions baked into the CPI serve to reduce the actual rate of CPI inflation. And if the CPI is underestimated, the real wage gain is estimated higher than it actually is. The true inflation rate is therefore undoubtedly well above the official 2.9% and real wages consequently even lower than officially reported.

While mainstream economists typically argue households don't really know how much inflation is really rising, the truth is they know far better than the economists who rely on faulty, arbitrary government statistical estimations of consumer inflation. Ask any median working class worker if their household costs have been increasing by only 2.9% the past year—when rent costs are escalating rapidly (often at double digit rates), health insurance premiums and doctor-hospital deductible and copay costs rising 20%-50%, auto insurance, gasoline costs per gallon up sharply over the past year, education & utility and transport costs, etc. And in the last six months, prices have begun to rise even more broadly, as a large array of goods prices are being hiked by US businesses in anticipation of Trump's tariff wars starting to bite.

With official CPI inflation at 2.9% and official nominal wages at 2.5%, the government real wage adjustment is only -0.4%. But if the real CPI were around 3.5%, and nominal wages still assumed at the official 2.5%, then the real wage gain would be only 1.5%.

But that 1.5% real wage still does not factor in the corrections to the nominal wage noted in 1) above—i.e. for excluding executive-managers' salaries as wages, for including contingent part time and temp workers' wages, including the lost wages of the unemployed, and correcting for the undocumented and underground economy labor force, etc. Those adjustments reduced the nominal wage from 2.5% to 1.5%.

When these downward adjustments are made to the official 2.5% nominal wage (reducing it to 1.5%), combined with an upward adjustment of the CPI inflation rate to 3.5% (from 2.9%), what results is a real wage decline of -2.0% for the 133 million wage earners in the labor force.

The media and the press consistently report that real wages have stagnated this past year. The nominal wage gains have been roughly equal to the rate of inflation. But by properly estimating nominal wages (with the adjustments) and properly estimating a somewhat higher CPI rate, real wages have not been stagnating but have continued to decline—at least for the 133 million.

But the 'wage story' is still not complete, even when properly defining and adjusting for nominal wages, inflation, and real wages. Neither the media or government give any consideration in their calculations of wage changes to deferred wages or social wages or to the impact of interest and debt on future wages.

3) Future Wages represent a category never considered by official government statistics. What's 'future wages'? They represent nominal and real wages adjusted downward to reflect the cost of credit, and thus interest payments on debt, incurred in the present but due to impact wages in the future as the interest on debt is repaid. It is no secret that US working class households are increasingly in debt since 2000, as they take on credit in order to finance household consumption as their real wages and incomes have steadily stagnated or declined. Credit, and therefore debt, has been a primary way they have tried to maintain their standard of living the past two decades. (Before that it was adding more hours of work to the family income by having spouses enter the workforce. But this leveled off by 1999). Adding second and third jobs has been another way to add wage income to the household, as wages for primary worker in the household have declined.

But interest on debt is a claim on wages to be paid in the future. It is spending future wage income in the present. And US capital is more than glad to finance household consumption by extending more and more credit and debt to households in lieu of paying more wages. Another method by which wage decline has been 'offset' is to provide cheap imports of basic goods like clothing, household items, even some food categories. But the cheap imports come at the cost of lost high paying manufacturing jobs. So lack of wage gains is in part offset by cheap imports and a massive increase in available credit to households. US household debt is now at historic levels, higher than in 2007. More than $13 trillion in debt, including $1.5 trillion in student debt, more than $1 trillion in credit cards, $1.2 trillion in auto debt, and the rest in mortgage debt. The average household credit card debt interest payments alone are estimated at no less than $1,300 per year. Debt costs, moreover, are rising rapidly as the US central bank continues to steadily hikes its rates.

The debt-interest to wage change relationship has become a vicious cycle, moreover. Employers give little in the way of wage hikes and households resort to more credit-debt and in turn demand less wage increases. This cycle appears in some areas to be breaking down, however, as teachers, minimum wage service workers, and others agitate for higher wages. But he overall problem will likely continue, as the vehicle for achieving wage gains in good economic times—i.e. Unions—decline further and no longer play their historic role. Knowing this, and burying households in credit card offers and other credit, businesses refuse to grant wage hikes except in isolated cases.

4) and 5): Another area that should be considered 'wage' but is not by government agencies reporting on wage changes is pensions and social security benefits. These too are in effect 'wages'. Pensions are deferred wage payments. Workers forego actual wage increases in order to have employers provide contributions, in lieu of actual wages, into their pension plans. Upon retirement, they are then paid these 'deferred wages' from their pension plans.

But true pension plans, called defined benefit pensions, have been steadily destroyed—with the assistance of the government run by both Republican and Democrat parties—by employers since the 1980s. The destruction has accelerated since 2001 and continues in its final stages. Defined benefit pensions have been progressively replaced with privatized, '401k' and 'IRA' plans—reducing employer costs and liabilities dramatically. 401k plan substitutes have proven a disaster and grossly insufficient for providing 'deferred wages' for retirees. Workers within 10 years of retirement on average have barely $50k in 401ks with which to retire on. The average 401k balance for all households is less than $18k. Not surprising, the fastest segment of US labor force growth is workers over age 67 having to re-enter the work force in order to survive. And retiree bankruptcy filing rates are at record levels and rising rapidly. Before 2000, only 2.1% of the over 65 age group filed for bankruptcy; today the rate is 12.2%, a more than fivefold increase even as their population share has risen by only 2.3%. Median household indebtedness for retirees is now $101,000.

Much of the rising debt for retirees is due to the collapse of the 'wage' in the form of monthly pension benefit payments, as defined benefit plans have been destroyed by employers and government in collusion and replaced by lower benefit 401k privatized pensions. Bankruptcies, rise of part time contingent work by retirees, and senior citizen poverty rate escalation have been the consequences. None of this deferred wage decline has been accounted for in the general wage statistics by US government agencies, however.

A similar retirement household wage decline is associated with monthly social security benefit payments—i.e. what might be called a 'social wage' similar to private pension deferred wage. It is 'financed' by employer (and worker) payroll tax payments into the social security trust fund from which monthly money benefits upon retirement are paid. Also deferred, like private pension benefit payments, the social wage represents employer payroll tax contributions to social security that are made in lieu of direct wages that might be paid to workers were there no payroll tax. The payroll tax represents workers' deductions from wages they do not otherwise receive and instead have redirected to the social security trust fund. Both employer and worker wages are thus deferred and deposited to the trust fund, to be paid out in the future in wages in the form of social security benefit payments. Social security benefits are thus a form of 'social wage'. And to the extent social security benefits are reduced, the social (deferred) wage is reduced. The wage reduction has been implemented by the government raising the retirement age to 67 at which to receive social security retirement benefits. Suspending or failing to enact cost of living adjustments to monthly payments. Cuts to SSDI benefits, i.e. social security disability insurance—all represent de facto cuts to the social wage. Rising annual deductibles and copays for Medicare are another form of social wage cut. Moreover, Trump plans to reduce Medicare in his latest budget represents yet another pending social wage cut.

Like defined benefit pension deferred wages, reductions in the social wage in the form of social security payments also represent appropriate wage categories affecting 50 million retired workers that US government agencies responsible for estimating wage changes do not include in their calculations of wage changes.

Summary Comments

Contrary to media 'spin', business press misrepresentations, and US government agencies' 'statistical legerdemain', real wages for the vast majority of the US labor force—i.e. the 133 million— are not even close to rising in the US under Trump. Nor did they under Obama, Bush, or Clinton. Since 1980 and the advent of neoliberal capitalist restructuring of the US and global economy, a key element of neoliberal policies has been to compress wages—for all but the roughly 10% that US Capital considers essential to its further expansion and for, of course, the salaries of executives and managers. The rest of the US workforce has undergone constant wage stagnation and decline over the long term. The pace has accelerated or abated at different times, but the long term direction of decline and stagnation has not.

When wage change is not limited to considering only permanent, full time employees or averaged out, when conveniently excluded categories of workers are considered, when wages are adjusted for true inflation rates, when interest and debt effects are accounted for, and when 'deferred' and 'social' wage payments are factored into wage totals in general—it is overwhelmingly the case that US wages have been declining for some time and that decline continues in 2018 despite the media-government spin that wages are rising in America.

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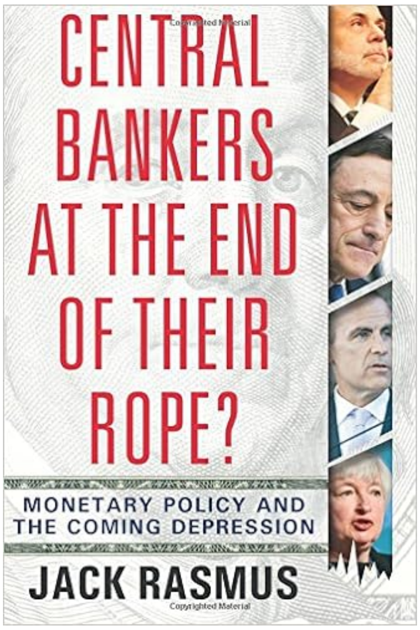
Dr. Rasmus is author of the most recently published book, 'Central Bankers at the End of Their Ropes: Monetary Policy and the Coming Depression', Clarity Press, August 2017, and the forthcoming 'The Scourge of Neoliberalism: Economic Policy from Reagan to Trump', Clarity Press, 2019. He blogs at jackrasmus.com and his twitter handle is @drjackrasmus. He is a frequent contributor to Global Research.



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