Metrics of Protest: Black Friday and Low Wage America

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The headline on the front page of the Thanksgiving Day *The New York Times*: "Opening Day for Holiday Shopping Shows Divide."

The next day - Black Friday – *Bloomberg* ran a story with the headline "U.S. Workers' Pay Slide Poses Consumer Risk. "

It may turn out to have been a "Black Friday" for top end retailers, but it's a bleak season for low income America and the businesses that cater to it. According to the *Times'* story: "Wal-Mart's profits declined in the third quarter as it kept many prices low so its shoppers could afford them." Michael T. Duke, Wal-Mart's chief executive, told analysts that 'There is a real sense that the economic strain is taking its toll" (*New York Times*, Nov. 24, 2011, A-3). Without the fuel of credit that had increasingly been required to power spending by low-income workers, Wal-Mart now has to resort to layaway plans for its shoppers.

As 10 percentage points of national income has been directed away from the bottom 80% to the top 1% since 1979, those paid the lowest wages have seen their buying power erode the most. While the quality and quantity of education force can explain much of the distribution of income within the bottom 99% (together with personal networks, effort and luck), differences in educational attainment have *nothing* to do with the transition of the American economy to *extreme inequality* since the 1970s. It is also quite clear that among developed countries, America is exceptional: only the UK comes close to US-style extreme inequality.

The lesson is that extreme inequality is the outcome of political choices that have empowered a tiny minority. It has to do with political choices, the way institutions function, and social norms; it is *not* a natural market payoff to investments in education. The shift of income to the top .1% (which has driven the growth of the top 1%) reflects the market power of a small number of CEOs and finance, medical and legal professionals.

Here are some metrics that focus on what has happened to the wage/salary earnings of American workers.

Employee compensation in the last quarter (April-September 2011) accounted for the smallest share of national income since 1929 (it was 44%, which compares to 53% as recently as 1970). In contrast, the *corporate profit* share was the largest since 1929 (10% in 2010, compared to 5% in the 1970s and 1980s). (*New York*

Times, Saturday, Nov. 26, p. B3)

What about the distribution of income, regardless of whether it comes as wages/salaries, profits or interest? Between 1979 and 2007:

- the top 1% of households increased its share of after-tax income from 8% to 17%;
- the middle 60% of all households saw a decline from 50% to 43%;
- the after-tax income share received by bottom 20% fell from 7% to 5% (CBO, 2011, p. 3).

Over the same period, what happened to average real wages by education group (in 2007 dollars)?

- workers with just a high school degree had a real hourly wages decline by 35 cents, from $15.36 to $15.01;
- workers without a high school degree experienced a collapse of $2.29 per hour wage, from $13.69 to $11.38;
- workers who invested in college but didn't graduate , wages increased by 56 cents, from $16.42 to $16.94, a gain of 3%.
- workers with no more than a college degree gained about $5, from $21.53 to $26.51, a rise of 23%. The dollar increase for those with more than a college degree was only slightly more.

It's important to put into perspective this 23% increase in wages/salaries for those with a college degree.

First, it is not close to the gain in output noted above (+225%), or the increase in output per capita (+50%), or the increase in the share of national income taken home by the top 1% (+144%), much less the the top .1% (324%) (EPI Briefing Paper #331, figure D).

Second, there was <u>no increase</u> in real pay for the college+ group from 2001 to 2007; by this measure, the Bush "boom" entirely bypassed the most educated.

And third, recent research has shown that about one-fifth of the increase in the college-to-high school wage gap between 1980 and 2000 was accounted for by the higher cost-of-living in the (increasingly income-segregated) communities where those with college degrees live (NBER Working Paper No. 14370).

The fact is that as a group, even those with at least a college degree have shared little in America's growth during the age of free market fundamentalism. It's not about education.

What does this mean for the standard of living for most Americans? A new and much improved measure of poverty from the Census Bureau has found that, after accounting for taxes, government benefits, and typical expenses, one in every three Americans (33%)was classified in 2010 as either poor ($11,282 for an individual and $24,343 for a family of four) or near poor (50 percent above the poverty line). Further, the Census Bureau found that 10.3 million people who worked full-time in 2010 fell into the "near-poor" category. *(http://www.census.gov/newsroom/releases/archives/poverty/cb11-tps51.html).*

It turns out that this 33% poverty/near poverty rate for American households is *nearly identical* to the share of American workers paid a very low wage, as **Figure 1** shows. For reference, this figure presents the low-wage share for France (which has nearly eliminated low wages by steadily increased the statutory minimum wage). As I'll show in another post, France has achieved this over the last decade without increasing the unemployment rate or decreasing the employment rate for young workers. (The source for this and the statistics on France that follow: a forthcoming paper by Howell, Okatenko and Azizoglu.)

Figure 2 shows that most young American workers with only a high school degree are now paid extremely low wages. This is most certainly NOT the case in France. Almost half of all young American male workers were paid low wages in 2009, up from just 17% in 1979. In contrast, only about 12% of young French male workers with just a high school degree were paid low wages, down from 20% in 2009.

This figure also shows that the US-French gap in the low wage share for young female workers was gigantic: 65% of American female workers with just a high school degree were low-paid in 2010, which was up from 45% in 1979, compared to just 18 percent for their French counterparts, which was down from 25% in the mid-1990s. *The payment of low wages is a political choice.*

Finally, it is worth pointing out that it is not just poorly educated American workers who are being paid low wages. **Figure 3** shows that the low-wage share of workers with "some college" was 50% in 2010, up from 29% in 1979. For those with college and graduate degrees, in 2010 figure was 19.5%, up from 13.3% in 1979.

In sum, it's no surprise that there is a "divide" among consumers and that low end retailers are in trouble. The problem is the redistribution of income away from most households in an age of drastically reduced credit. The results: 1/3 of American households are poor or near-poor, 1/3 of all workers are paid low wages, the real earnings of those without a college degree have fallen or remained constant since the 1970s, there has been a sharp decline in the labor share and record levels for profits, and extreme inequality (the share of income received by the top 1%) has exploded. These outcomes reflect policy choices made under a regime of free market fundamentalism.

To return to the pre-1979 income distribution, we must fundamentally change the way compensation systems work at the very top of the income distribution, but we also need to substantially raise the wage paid to the bottom third of American workers. There is no *economic reason* why America must be in a league of its own within the developed world in both extreme inequality and the incidence of low pay.

Figure 1: Low-Wage Shares of Employment for the US and France
(low-wage = less than 2/3 of the median full-time wage)

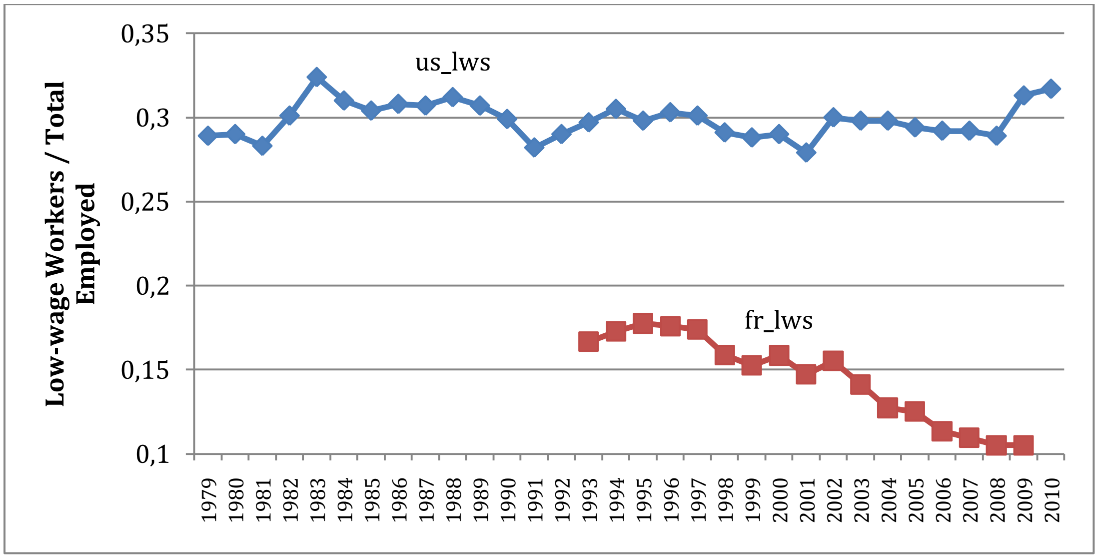

Figure 2: Low-Wage Shares of Employment for Young Workers (20-34) with only a High School Degree, the US and France

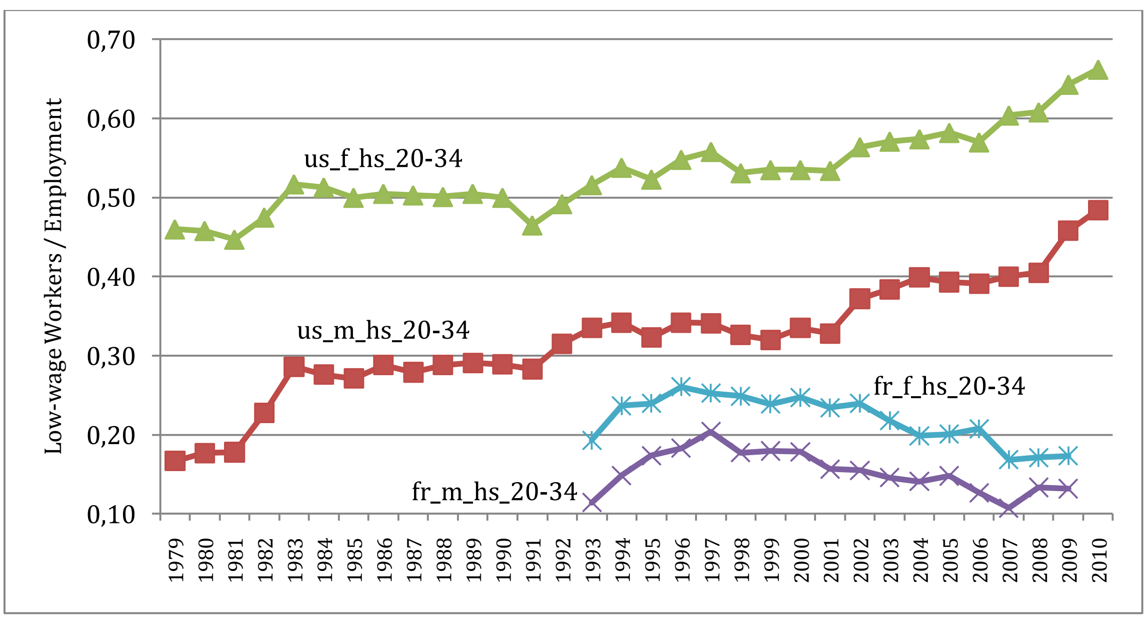

Figure 3: Low-Wage Shares for Young (20-34) US Workers
By Education Group