

BRIEFING PAPER

Wages Still Flat Despite Strong Economic Growth in 2006

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Analysis by the Keystone Research Center of new data from official government sources indicates that for the fifth straight year in a row, wages for most workers in Pennsylvania and the United States have stagnated.

Despite a strong economic expansion and healthy productivity growth, wages have not kept pace with inflation since 2002 for Pennsylvania workers at most education levels and across the wage distribution. These trends stand in marked contrast to the economic expansion of 1995–2000, during which wages rose for most workers as productivity increased.

These newest statistics document the trends:

- Five years into an economic expansion that began in November 2001, wages for most Pennsylvanians have not yet recovered to 2002 levels (2002 was the year in which wages peaked for most groups of workers).
 - Adjusting for inflation, at no point in the distribution did wages increase by more than 1.5% between 2005 and 2006 (Figure 1). At most wage levels earnings climbed by less than 1% in 2006. High earners experienced a fall in earnings.
 - Virtually *every point* in the wage distribution up to the 95th percentile workers experienced a fall in wages between 2002 and 2006 (Figure 2).
 - These wage trends are similar to those for the United States as a whole (See Table 1 and Table 2 on page 5).
- Pennsylvania earnings continue to stagnate at almost every education level (Figure 3). The only exception is workers with less than a high-school degree, and even these workers have seen a wage increase of less than 2% since 2002. College-educated workers in Pennsylvania now earn 7% *less*, in inflation-adjusted terms, than at their wage peak (in 2001).
- While wages remained flat, U.S. inflation-adjusted corporate profits rose 17% from 2005 to 2006 and productivity climbed 2.1% (Figures 4 and 5).²

These data clearly indicate that Pennsylvania needs an innovative economic plan to repair the broken link between wages and productivity growth as well as one that will sustain strong recent productivity growth for the long term.

¹ Stephen Herzenberg holds a PhD in economics from the Massachusetts Institute of Technology. Mark Price holds a PhD in economics from the University of Utah.

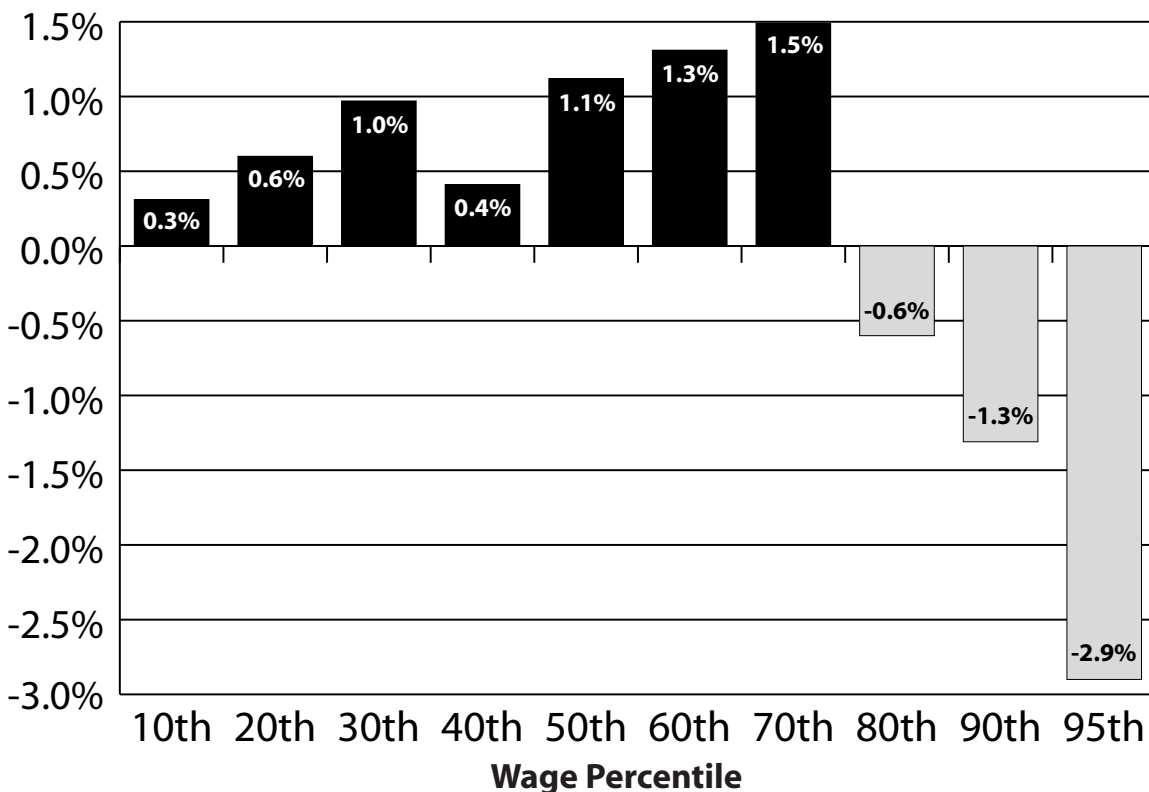
² The 2006 profit figures are annualized estimates based on three quarters of data. (Full-year data are not available as of this writing.)

Figure 4 also shows that, with the partial exception of 1995-2000, the link between middle-class (and low-wage workers') earnings has been broken now for three decades. It is time to repair this link.

The *Prescription for Prosperity: An Economic Agenda for Pennsylvania's Future*, developed and endorsed by a broad coalition of Pennsylvania groups, outlines an agenda that would expand economic opportunity and security while also investing in the future to sustain productivity growth.

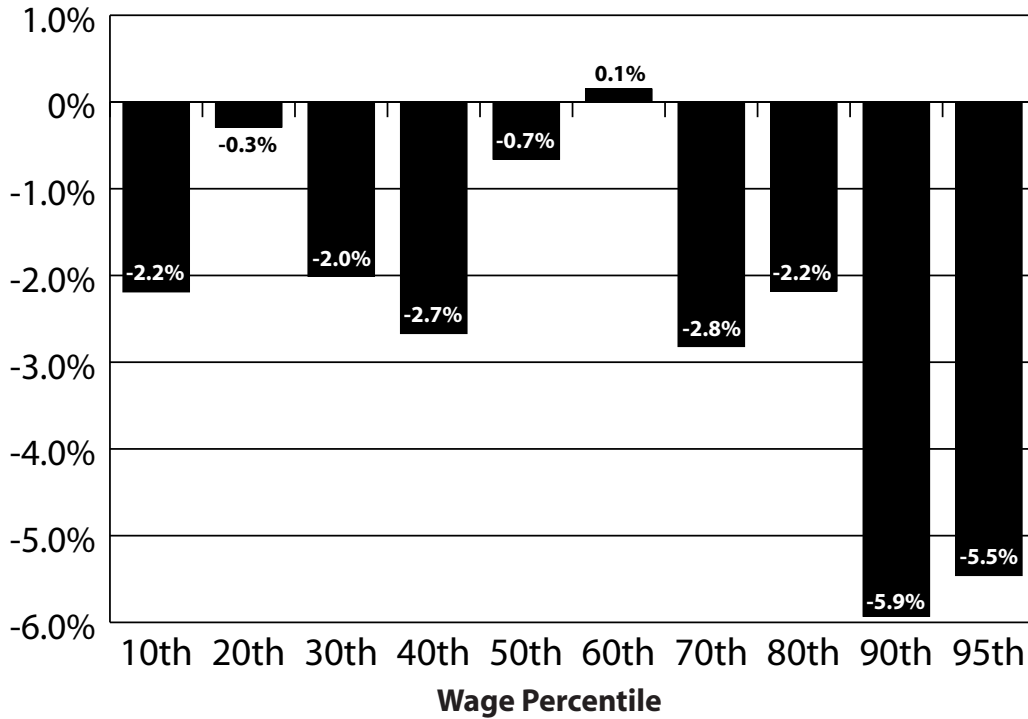
For a more comprehensive analysis of trends in wages, benefits, income, poverty, unemployment, and other key indicators of the well-being of working Pennsylvanians, see *The State of Working Pennsylvania*

Figure 1. Percent Change in Inflation-Adjusted Pennsylvania Wages, 2005 to 2006 by Wage Level (2006 Dollars)



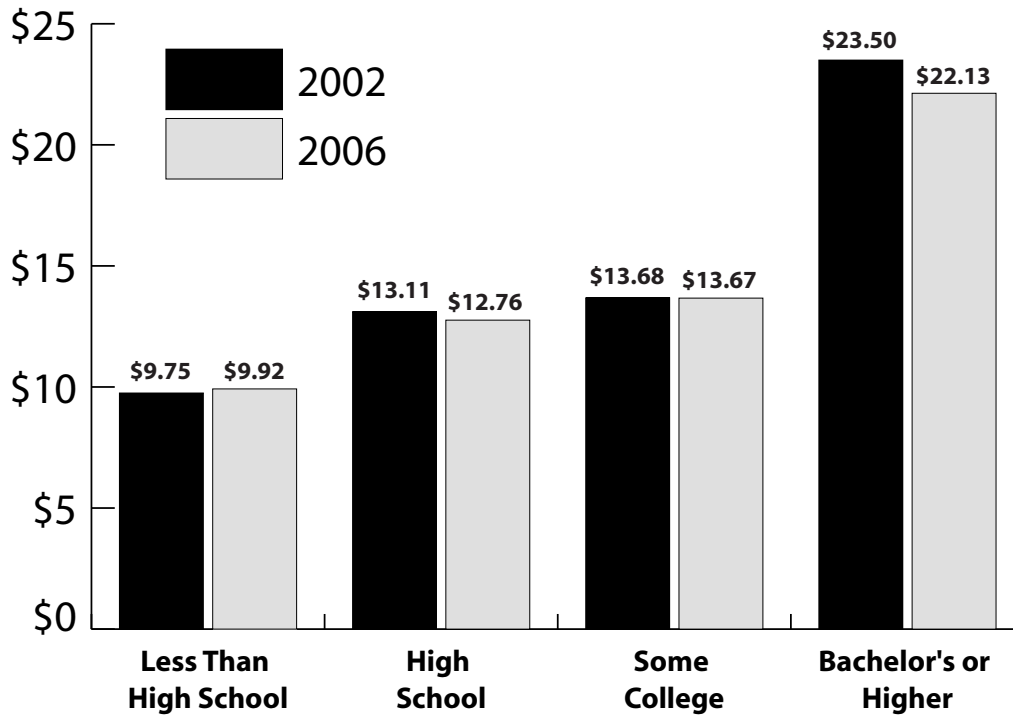
Source. Keystone Research Center (KRC) analysis of Current Population Survey (CPS) data

Figure 2. Percent Change in Inflation-Adjusted Pennsylvania Wages, 2002 to 2006, by Wage Level (2006 Dollars)



Source. KRC analysis of CPS data

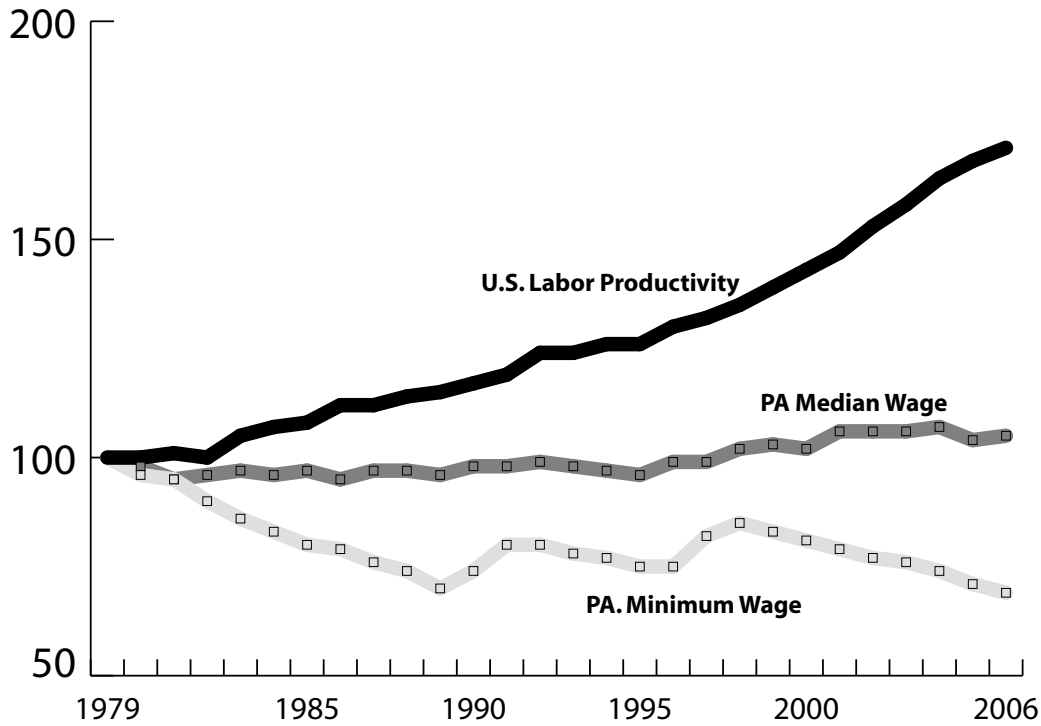
Figure 3. Median Inflation-Adjusted Wages by Education Level in Pennsylvania, 2002 and 2006 (2006 Dollars)



Source. KRC analysis CPS data

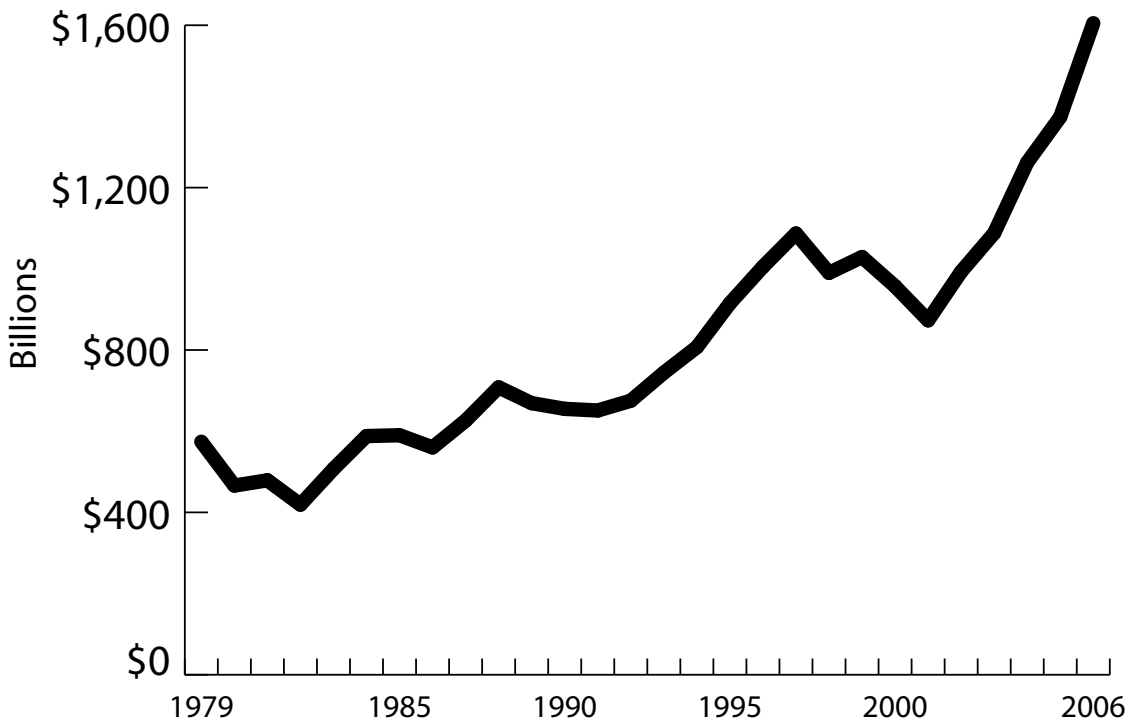
Figure 4. The Broken Link Between Wages & Productivity Growth

Inflation-Adjusted Minimum Wage, Median Wage, and Labor Productivity, 1979–2006 (Indexed to 1979 = 100)



Source: KRC analysis of CPS data and Major Sector Productivity and Costs program of the Bureau of Labor Statistics

Figure 5. United States Corporate Profits, 1979-2006 (2006 Dollars)



Note: Corporate profits with inventory valuation and capital consumption adjustments. Inflation-adjustment based on the CPI-U-RS. Figures in 2006 dollars. Data for 2006 is an annualized estimate based on three quarters of data.

Source: KRC analysis of Bureau of Economic Analysis data

Table 1. Inflation-Adjusted Change in Hourly Wages from 2005 to 2006 for Each Wage Decile – Pennsylvania and the United States

Percentiles	Inflation-Adjusted Wage (2006 dollars)					
	United States		% Change	Pennsylvania		% Change
	2005	2006		2005	2006	
10th Percentile	\$7.42	\$7.47	0.6%	\$7.57	\$7.59	0.3%
20th Percentile	\$9.11	\$9.10	-0.1%	\$9.28	\$9.34	0.6%
30th Percentile	\$10.53	\$10.67	1.3%	\$10.77	\$10.87	1.0%
40th Percentile	\$12.50	\$12.55	0.4%	\$12.66	\$12.72	0.4%
50th Percentile (Median)	\$14.74	\$14.81	0.5%	\$14.66	\$14.83	1.1%
60th Percentile	\$17.35	\$17.24	-0.7%	\$17.04	\$17.26	1.3%
70th Percentile	\$20.49	\$20.24	-1.2%	\$19.84	\$20.14	1.5%
80th Percentile	\$25.16	\$25.08	-0.3%	\$24.34	\$24.20	-0.6%
90th Percentile	\$33.46	\$33.78	1.0%	\$31.93	\$31.52	-1.3%
95th Percentile	\$43.05	\$43.30	0.6%	\$41.15	\$39.95	-2.9%

Source. KRC and EPI analysis of CPS data.

Table 2. Inflation-Adjusted Change in Hourly Wages from 2002 to 2006 for Each Wage Decile – Pennsylvania and the United States

Percentiles	Inflation-Adjusted Wage (2006 dollars)					
	United States		% Change	Pennsylvania		% Change
	2002	2006		2002	2006	
10th Percentile	\$7.70	\$7.47	-3.0%	\$7.76	\$7.59	-2.2%
20th Percentile	\$9.22	\$9.10	-1.3%	\$9.36	\$9.34	-0.3%
30th Percentile	\$11.04	\$10.67	-3.4%	\$11.10	\$10.87	-2.0%
40th Percentile	\$12.67	\$12.55	-1.0%	\$13.06	\$12.72	-2.7%
50th Percentile (Median)	\$14.76	\$14.81	0.4%	\$14.93	\$14.83	-0.7%
60th Percentile	\$17.22	\$17.24	0.1%	\$17.24	\$17.26	0.1%
70th Percentile	\$20.69	\$20.24	-2.2%	\$20.72	\$20.14	-2.8%
80th Percentile	\$25.15	\$25.08	-0.3%	\$24.74	\$24.20	-2.2%
90th Percentile	\$33.44	\$33.78	1.0%	\$33.50	\$31.52	-5.9%
95th Percentile	\$42.91	\$43.30	0.9%	\$42.26	\$39.95	-5.5%

Source. KRC and EPI analysis of CPS data.

The Keystone Research Center (KRC) was founded in 1996 to broaden public discussion on strategies to achieve a more prosperous and equitable Pennsylvania economy. Since its creation, KRC has become a leading source of independent analysis of Pennsylvania's economy and public policy. The Keystone Research Center is located at 412 North Third Street, Harrisburg, Pennsylvania, 17101. Most of KRC's original research is available from the KRC Web site at www.keystoneresearch.org. The Keystone Research Center welcomes questions or other inquiries about its work at 717-255-7181, or toll free at 888-618-2055.