Stagnant wages fuel revolt against globalization

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The epicenter of the political earthquake that struck the United States on Nov. 8 ran through heartland states dominated by voters who told interviewers they felt left behind by the forces of globalization and technological change. Donald Trump promised to change all that: "The forgotten men and women of our country will be forgotten no longer," he proclaimed in his victory speech.

If one issue crystallizes this deeply felt economic angst, it's the stubborn persistence of stagnant wages for large numbers of American workers. It's a curious disconnect, because the U.S. economy is in the seventh year of an expansion, job growth is averaging between 100,000 and 200,000 a month, and unemployment has fallen to 4.9 percent – a level close to what many economists regard as full employment. This kind of ostensibly thriving labor market might be expected to prompt businesses to offer higher wages to entice workers, based on historical evidence and economic theory, freelance correspondent Kathleen Murray writes in her report for SAGE Business Researcher. But for wide swaths of the population, it just hasn't happened.

Take Bill Kieffer, a 59-year-old call center worker in Brick, N.J. He makes $13.94 an hour, just $2.44 more than when he started six years ago. During that time, his health insurance costs have more than doubled. His wife has a relatively lucrative sales job, but her income fluctuates wildly. Lately, Kieffer says, it feels like they're working harder just to stay afloat. "We've had a few peanut butter and jelly weeks where we skimp on eating healthy to keep costs down," Kieffer told Murray. "I need to work a week of overtime just to be able to afford to go to the doctor."

The effect of this wage stagnation on the U.S. economy is like an anchor that drags down growth by constricting demand. This helps explain why the economic growth rate is so tepid; GDP grew by just 0.8 percent in the first quarter of 2016 and 1.4 percent in the second, before strengthening to 2.9 percent in the third. Growth during the current expansion is the weakest of any since 1949.

Economists cite a host of potential causes to explain how we got here, Murray writes:

- The decline of unions and the weakening of worker protections such as overtime laws reduced employee bargaining power.
- Education/skill-biased technology changes eliminated jobs and left many workers unqualified for new positions.
- Globalization and liberalized trade policies resulted in an oversupply of low-skilled workers who can bid wages down.
- Demographic changes, especially the retirement of higher-paid Baby Boomers, are leading to a younger and lower-paid workforce.
- A divergence in recent decades between wages and productivity, which moved in tandem until the 1970s, has resulted in a larger share of wealth going to owners of capital than to workers.

One recent indicator suggested a possible break in the clouds: In September, the Census Bureau released data showing that U.S. real median household income increased to $56,516 in 2015, a 5.2 percent increase from the previous year.

That's nice, but don't pop any champagne corks just yet, says Lawrence Mishel, the chief economist at the Economic Policy Institute, who has been studying wage stagnation for more than three decades. He says the rise in real income – which measures income adjusted for inflation – is primarily a reflection of low inflation; if inflation were at more typical levels, real income would be flatter. And even with this increase, the level still isn't back to where it was in 1979, he told Murray.

"It used to be that wages improved year-in, year-out," Mishel says, citing 4 percent and even 9 percent annual increases in the early 2000s. "So the fact is, something is still very broken and needs to be fixed." And part of what's busted, according to Mishel and other economists, is where the gains in income are going. "People in the vast middle," he says, "are not sharing in the growth."

People who live in places like Ohio, Michigan, Wisconsin, Iowa and Pennsylvania – states that were deep blue on Election Night maps in 2008 and 2012, but turned bright red this year.

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Notes:

- *This post is based on the report Wage Stagnation: Is weak pay growth the new normal? SAGE Business Researcher, by Kathleen Murray.*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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