Issue Brief

California Budget & Policy Center

JUNE 2015 | BY LUKE REIDENBACH

California's Sinking Center: How the Economic Recovery Is Leaving California's Midwage Earners Behind

A persistent challenge for California workers in the years immediately following the Great Recession was the lack of wage growth. Even as the labor market continued to rebound and unemployment fell, workers across the wage distribution continued to lose ground as the purchasing power of their wages eroded.

Data for 2014 suggest that while wage erosion may have finally halted for some workers, this was not true for the worker at the middle of the wage distribution – the median earner – who continued to see an erosion in her hourly wage last year. What's more, workers earning around the median wage – those at the 40th and 60th percentile – also are continuing to see a decline in the purchasing power of their wages. This continues a decades-long trend of the state's economic growth not leading to broad-based wage growth for California workers.

Even at a time when workers are better trained, more educated, and more productive than ever, California's median wage continues to lose ground, and wage inequality continues to worsen.

Even With the Economy Improving, Wages Have Continued to Erode for Workers Around the Middle of the Earnings Distribution

The Great Recession significantly reduced the earnings of California workers. In the period during and immediately following this economic downturn (which officially ended in 2009), double-digit unemployment and weak consumer demand meant that employees had little power to negotiate for higher wages, even as the cost of living increased. As a result, workers across the earnings distribution continued to see their wages erode, even as the number of jobs grew.

In 2011, wages finally stopped falling for workers at both the bottom and the top of the wage distribution. Both lower-wage workers (those at the 10th, 20th, and 30th percentiles of the wage distribution) and higher-wage workers (those earning at the 70th, 80th and 90th percentiles) saw their inflation-adjusted wages rise starting in 2011, though for low-wage workers these increases have been small and still leave wages below the level they were before the Great Recession began (Table 1). Nevertheless, these recent trends are a hopeful sign that these workers might see *future* wage growth as the labor market continues to improve.[1]

Despite this modest turnaround for lower- and higher-wage Californians, workers earning wages around the middle of the distribution continued to see their wages fall in the years following 2011. (For details on the methodology used in this analysis, see the technical notes on page 5). Specifically:

- **California's median earner – a worker with earnings at the middle of the wage distribution – continued to experience wage erosion between 2011 and 2014, after adjusting for inflation.** In 2014, the hourly wage for the median earner ($19.18) was 1.8 percent lower than in 2011 ($19.54), after adjusting for inflation. This decline continues the persistent trend of wage erosion during the current economic recovery, even as the low and high ends of the wage distribution have begun to see increases in their inflation-adjusted wages (Table 1).

- **This persistent erosion of California's median wage means that the median earner made substantially less in 2014 than before the Great Recession began.** In 2014, California's median wage of $19.18 was 6.2 percent below its inflation-adjusted level in 2006 ($20.54), the year before the Great Recession began. Moreover, the median earner in California is faring worse in this economic recovery than the median earner in the US as a whole, whose 2014 wage was 1.9 percent below its 2006 level (Figure 1).

- **Workers earning around the median wage – those at the 40th or 60th percentile of the wage distribution – also saw continued erosion of their wages.** In 2014, the 40th percentile wage ($16.12) was 0.6 percent below its 2011 value ($16.22) and 7.6 percent below its pre-recession value ($17.45), after adjusting for inflation. Meanwhile, the 60th percentile wage ($23.11) was 1.2 percent less than its 2011 value ($23.39) and 2.2 percent below its 2006 value ($23.64).

The Wage Gap Between High-Wage Workers and the Median Earner Has Continued to Widen

The recent wage erosion for California's median earner extends a decades-long trend in which the economy has delivered wage growth for some but not for others. Though there have been periods during which wages for the typical worker rose – such as the years immediately following the late 1990s economic expansion – these gains have since been erased. In 2014, California's median wage ($19.18) was 5.1 percent below its inflation-adjusted level in 1979 ($20.22), the earliest year for which data are available.

TABLE 1

Workers Around the Middle of the Earnings Distribution Have Continued to Experience Wage Erosion in Recent Years

Percent Change in the Inflation-Adjusted Hourly Wage, by Wage Percentile and Time Period

Timeframe	10th	20th	30th	40th	Median	60th	70th	80th	90th
Period of Broad-Based Wage Erosion (2006-2011)	-0.3%	-5.9%	-5.1%	-7.1%	-4.5%	-1.1%	-2.9%	-1.2%	2.8%
Period of Selective Wage Growth (2011-2014)	0.0%	1.7%	1.6%	-0.6%	-1.8%	-1.2%	1.5%	1.3%	2.0%
Overall (2006-2014)	-0.4%	-4.3%	-3.6%	-7.6%	-6.2%	-2.2%	-1.4%	0.1%	4.8%

Note: Data are for workers ages 25 to 64.
Source: Budget Center analysis of US Census Bureau data

A similar trend is seen among workers in the bottom half of the wage distribution. In fact, over the last 35 years, lower-wage workers (those at the 10th, 20th, and 30th percentiles) have seen a sharper decline in inflation-adjusted wages than any other part of the earnings distribution.

Meanwhile, higher-wage workers – those at the 70th, 80th, and 90th percentiles – have seen sustained growth in their wages. This is particularly true near the top of the distribution: the 90th percentile hourly wage in 2014 ($49.87) was nearly one-third (31.9 percent) *above* its 1979 level ($37.80), after adjusting for inflation.

These diverging fortunes have led to a widening gulf between higher-wage workers and everyone else. The gap between wages for a California worker at the 90th percentile and the median earner has steadily widened since 1979 (Figure 2). In 2014, a worker at the 90th percentile made $2.60 for every dollar the median worker earned. This "90/50" wage gap was comparatively smaller in 1979 ($1.87).

Median Pay Has Not Kept Up With Productivity Growth

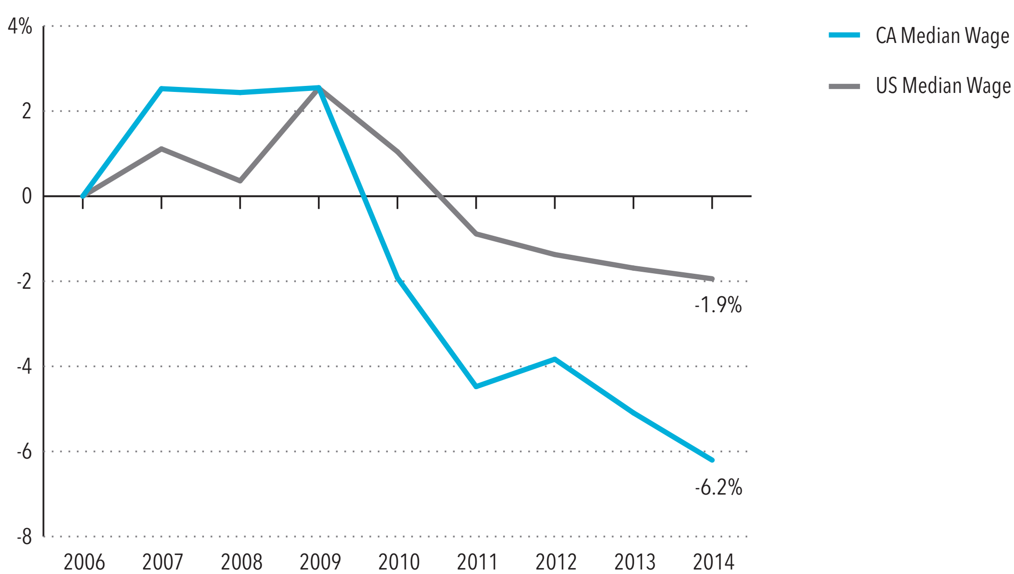
The widening gap between high-wage workers and the median earner, partly due to wage stagnation for workers in the middle, reflects a California economy that is failing to deliver broad-based earnings growth. Gains in overall productivity are not resulting in a corresponding increase in the pay of the median worker, despite the fact that California workers are better educated and more productive than ever before.

One possible reason that the median wage is not keeping up with overall productivity is that other types of labor income – employer-based health benefits or retirement contributions, for example – have become increasingly common as a way to compensate workers. However, even after accounting for these other forms

FIGURE 1

California's Median Wage Has Declined More Substantially Than the National Median Wage

Percent Change in Inflation-Adjusted Hourly Wage Since 2006

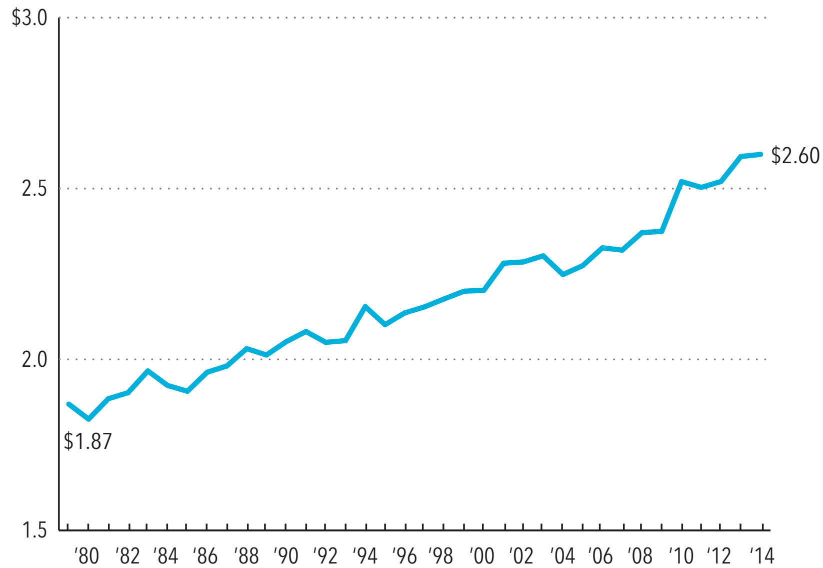


Note: Data are for workers ages 25 to 64.
Source: Budget Center analysis of US Census Bureau data

FIGURE 2

The Wage Gap Between High-Wage Workers and California's Median Earner Has Continued to Widen

Dollar Earned by a CA Worker at the 90th Percentile per Dollar Earned by CA's Median Earner



Note: Data are for workers ages 25 to 64.
Source: Budget Center analysis of US Census Bureau data

of labor income, California's media earner is still not reaping the benefits of economic growth in the state, according to an analysis by the Economic Policy Institute.[2] Specifically:

- **California's economy-wide productivity – a measure of how much the economy produces per worker – grew 30 times as much as did the pay for the typical California earner.** Between 1979 and 2013 – the most recent year for which data are available – overall productivity in California grew by 89.1 percent, while total compensation for the typical California earner – which includes health insurance and retirement benefits on top of wages – grew by only 2.9 percent.

- **The gap between productivity growth and earnings growth is wider in California than in the nation as a whole.** Between 1979 and 2013, overall US productivity grew by 75.6 percent, while median hourly compensation in the US grew by 11.4 percent in the US. In other words, on a national level, productivity increased about seven times as much as median pay grew during this period, compared to 30 times as much in California (Figure 3).

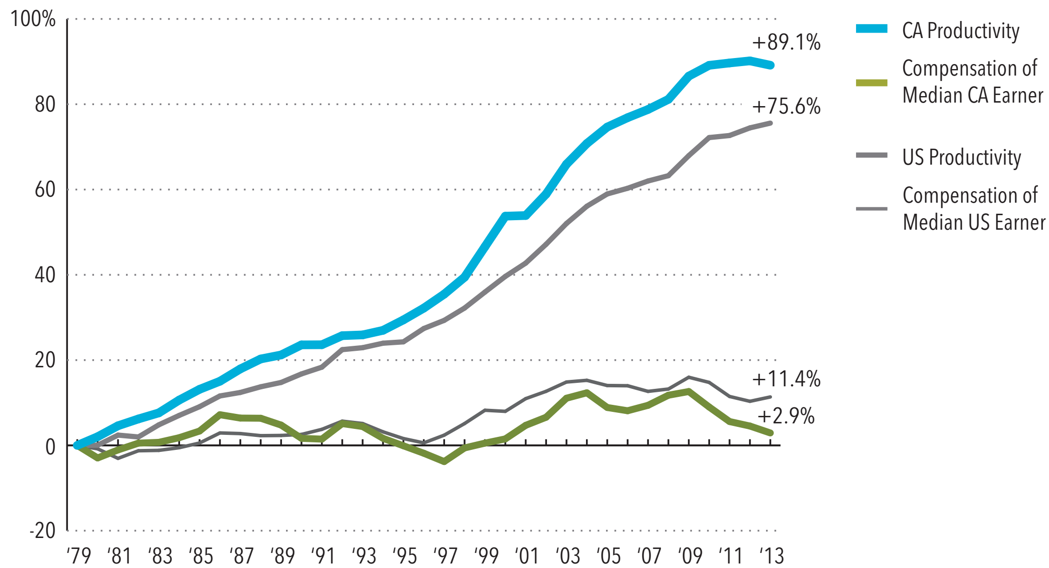
Public Policies Can Increase Californians' Economic Security

The reasons for the economic challenges facing workers around the middle of the wage distribution are varied and complex. Researchers have identified a wide range of factors that could be contributing to wage stagnation, including declining union density, monetary policy that inadequately prioritizes full employment, technological change, rising health care costs that eat into pay increases, and international trade deals that do not adequately protect workers.[3] These diverse factors call for a sustained and multifaceted approach from all

FIGURE 3

Growth of Median Compensation Is Not Keeping Up With Productivity Growth in California

Percent Change in Inflation-Adjusted Compensation and Productivity Since 1979



Note: Data are for production or nonsupervisory workers ages 18 to 64. "Compensation" includes wages plus the value of additional benefits such as employer contributions to health care or retirement plans.
Source: Economic Policy Institute analysis of US Bureau of Economic Analysis, US Bureau of Labor Statistics, and US Census Bureau data

levels of government that puts workers in a better position to benefit from economic growth.

In the near term, California policymakers should do more to increase economic security for midwage workers and their families. In addition, given California's high rate of poverty and the challenges facing low-wage workers, policymakers should focus on improving these workers' economic security as well. Fortunately, a number of policy solutions can alleviate economic hardship *across* the wage distribution. These include reducing the costs of necessities like housing, higher education, and child care, the high costs of which mean that eroding wages place even more pressure on California families.[4] Reducing the costs of these necessities would give families more financial room to breathe while improving their prospects for upward economic mobility.

TECHNICAL NOTES

Hourly Wage Data

Hourly wage data in this *Brief* are from the US Census Bureau's Current Population Survey Outgoing Rotation Group (CPS ORG). Wage data are for survey respondents who met the following criteria:

- Were between 25 and 64 years of age so as to focus on adults in their prime-earning years;
- Were employed in the public or private sector (excluding the unincorporated self-employed);

- Worked within a range of 1 to 99 hours per week, or whose weekly hours varied; and
- Earned hourly wages between $0.50 and $100 per hour in 1989 inflation-adjusted dollars using the Consumer Price Index research series (CPI-U-RS).

All data are adjusted for inflation using the Consumer Price Index Research Series (CPI-U-RS). Moreover, wage percentile estimates are calculated using "smoothed" hourly wages to compensate for tendency of survey respondents to report wages as whole numbers.

Productivity and Compensation Data

Productivity estimates come from an Economic Policy Institute analysis of data from the US Bureau of Economic Analysis, US Bureau of Labor Statistics, and US Census Bureau. Productivity reflects California's Gross State Product (GSP) per employed worker, adjusted for trends in the number of hours worked. Estimates of median hourly compensation reflect the median wage for California workers between 18 and 64 years old, adjusted by the ratio of total compensation to total wages and salaries in California.

Luke Reidenbach prepared this *Issue Brief*. The California Budget & Policy Center was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The Budget Center engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the Budget Center is provided by foundation grants, subscriptions, and individual contributions. Please visit the Budget Center's website at calbudgetcenter.org.

END NOTES

1 Recent evidence suggests that part of the stabilization of wages for those with earnings near the bottom of the overall distribution is due to the success of statewide minimum wage campaigns working in tandem with a growing economy. According to an Economic Policy Institute analysis of statewide wage trends, states that raised their minimum wages, on average, saw stronger wage growth for those at the bottom of the distribution than those that did not. For additional information, see Elise Gould, *2014 Continues a 35-Year Trend of Broad-Based Wage Stagnation*, Economic Policy Institute (Washington, DC: February 2015).

2 See David Cooper, "Delaware's Low-Wage Workers: Testimony Before the Delaware Low-Wage Worker Task Force, Economic Policy Institute (Washington, DC: August 2014) for additional information on these state-level estimates.

3 A sample of recent publications that discuss possible factors underlying wage stagnation includes: US Council of Economic Advisors, *Economic Report to the President* (February 2015), available at https://www.whitehouse.gov/sites/default/files/docs/cea_2015_erp.pdf; Dean Baker and Jared Bernstein, *Getting Back to Full Employment*, Center on Children and Families at Brookings (Washington DC: March 2014), available http://www.scribd.com/doc/212069474/Getting-Back-to-Full-Employment; Lawrence Mishel, *Causes of Wage Stagnation*, Economic Policy Institute (Washington, DC, January 2015), available at http://www.epi.org/publication/causes-of-wage-stagnation/.

4 The high costs of housing, which continues to rise, is of particular concern in California. A household needed an hourly wage of $26.04 in 2014 to afford a two-bedroom apartment, far higher than the $19.18 median wage. Because affordable housing is so far out of reach for the typical worker, a growing share of her income is being absorbed by housing costs. See National Low Income Housing Coalition, *Out of Reach 2014: California* (Washington, DC: February 2014) for more information.