CALIFORNIA BUDGET PROJECT

economy brief

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WHERE IS THE WAGE GROWTH? WAGE STAGNATION IN CALIFORNIA'S ECONOMY

This *Economy Brief* looks at trends in hourly wages for California's workers. Low-wage and mid-wage workers still earned significantly less in 2013 than before the Great Recession began, after adjusting for inflation. This wage erosion continues a decades-long trend of widening wage inequality.

Workers Saw Weak Wage Growth in Recent Years

The Great Recession had a significant impact on the earnings of California's workers. In the period during and immediately following the economic downturn that officially ended in 2009, double-digit unemployment and weak consumer demand for goods and services meant that employees had little power to negotiate for higher wages, even as the cost of living increased. As a result, workers across the wage distribution saw the purchasing power of their earnings fall.

By 2013, even after multiple years of job growth in the private sector, wages still had not recovered from the Great Recession, especially for low- and mid-wage workers. While the hourly earnings of some workers increased between 2011 and 2013, these gains were modest.[1] Specifically:

- **Low-wage workers – those with earnings at the 20th percentile of the wage distribution – had the steepest drop in earnings in 2013 relative to their value in 2006, the year before the recession began.** In 2013, the hourly wage for low-wage workers ($10.90) was 5.4 percent below the inflation-adjusted pre-recession level ($11.52). This reflects a 5.9 percent decline from 2006 to 2011, followed by a 0.6 percent increase from 2011 to 2013.

- **Mid-wage workers – those with earnings exactly at the middle of the wage distribution – continued to experience wage erosion despite recent years of economic growth.** In 2013, California's median hourly wage ($19.10) was 5.1 percent below the inflation-adjusted pre-recession level ($20.12). The median wage fell by 4.5 percent between 2006 and 2011, and it fell by *another* 0.6 percent between 2011 and 2013, even as wages started to increase in other parts of the wage distribution.

- **High-wage workers – those with earnings at the 80th percentile of the wage distribution – saw the smallest decline in earnings between 2006 and 2013.** In 2013, the hourly wage for high-wage workers ($35.23) was only 0.6 percent below the inflation-adjusted 2006 level ($35.46), meaning that the purchasing power for these workers had nearly returned to its pre-recession level. This reflects a 1.2 percent decline from 2006 to 2011, followed by a 0.6 percent increase from 2011 to 2013.

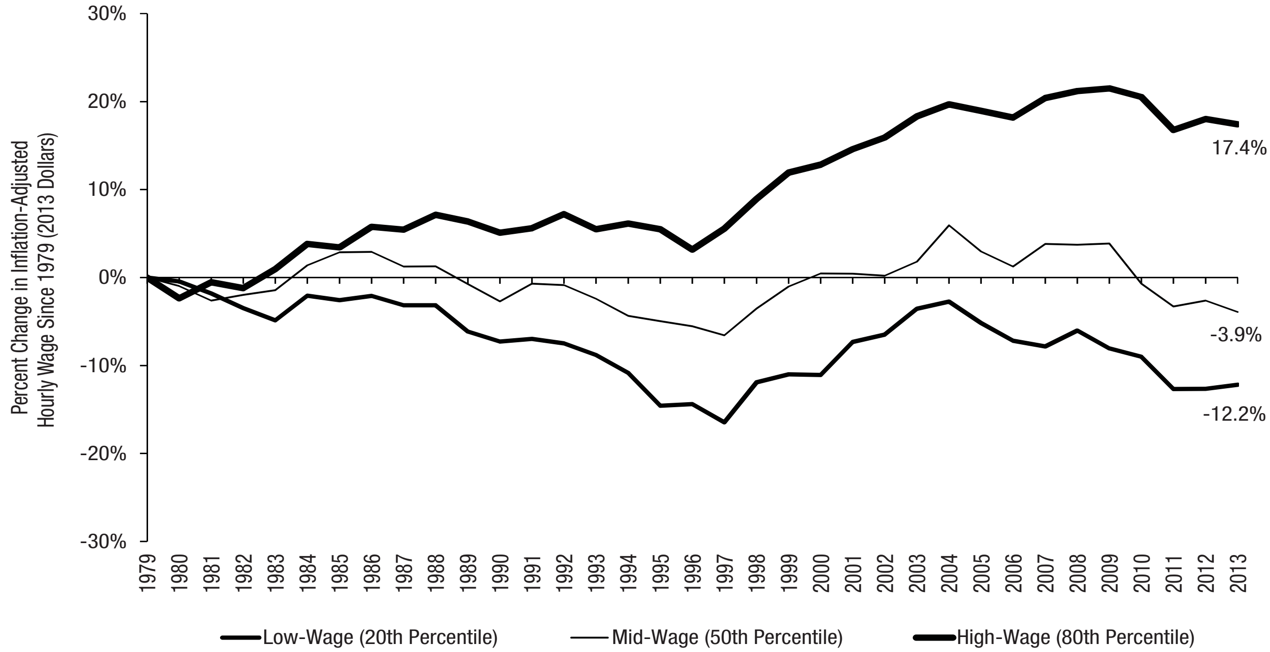
Wage Inequality Continues to Widen

Weak wage growth in recent years is partly a function of a slow economic recovery. Broad-based and robust economic growth would result in wage gains across the wage distribution. This was the case in the economic expansion of the late 1990s, when low-wage, mid-wage, and high-wage workers all saw significant wage increases.

However, the recent wage erosion for low- and mid-wage workers continues a decades-long trend of widening wage inequality between high-wage earners and workers lower in the wage distribution. Since 1979, the earliest year for which data are available, wage inequality has gradually worsened, and further wage stagnation beginning in the early 2000s erased much of the gains made by low- and mid-wage workers in the late 1990s (Figure 1). By 2013, these workers earned less than similar workers earned in 1979, after adjusting for inflation. Specifically:

- **High-wage workers have experienced significant wage gains since 1979, while low- and mid-wage workers have seen declines.** The inflation-adjusted hourly wage for high-wage workers in 2013 was 17.4 percent above its 1979

Figure 1: Wages for California's Low- and Mid-Wage Workers Have Eroded Over the Last Three Decades
Their Inflation-Adjusted Wages Were Lower in 2013 Than in 1979



Source: CBP analysis of US Census Bureau data

level. In contrast, inflation-adjusted hourly wages for low- and mid-wage workers declined over the same period. The hourly wage for low-wage workers was 12.2 percent below its 1979 value, and the median hourly wage was 3.9 percent below its 1979 value.

- **As a result of these trends, the "wage gap" between high-wage and low-wage workers continues to grow.** In 2013, the wage gap – the hourly wage earned by workers at the 80th percentile of the wage distribution per each dollar earned by workers at the 20th percentile – was near the highest level ever recorded. High-wage workers earned \$3.23 for every dollar low-wage workers earned, compared to \$2.42 in favor of high-wage workers in 1979.

Weak Wage Growth Highlights Need for Greater Investment in California's Workers

In the coming years, a stronger labor market may help reverse the recent wage erosion for low- and mid-wage workers. Policymakers could support the economic recovery by focusing on strategies that can help reduce unemployment, such as making investments in infrastructure projects or expanding job training or other policies that assist the long-term unemployed, a segment of workers who are especially struggling in today's labor market.

Changing the *long-term* wage trajectory will take a sustained and multifaceted policy response, with a focus on improving labor market outcomes for low- and mid-wage earners. Policymakers last year took a step in the right direction by increasing the state's minimum hourly wage to \$10 by January 1, 2016. They can now build off this progress by indexing the minimum wage to inflation, thus ensuring that it keeps up with the rising cost of living.

Further, while efforts to lift the wage floor for low-wage workers are important, policymakers must also make significant investments to strengthen California's workforce in ways that boost earnings over the long term. For example, broadening access to high-quality education and training would not only expand economic opportunity for Californians, but also is one of the most effective ways to strengthen the overall economy.[2]

ENDNOTES

1 Hourly wage data are for workers between 25 and 64 years of age and are from the US Census Bureau's Current Population Survey. For detailed methodology information, see the technical appendix in California Budget Project, *A Generation of Widening Inequality: The State of Working California, 1979 to 2006* (August 2007).

2 See Noah Berger and Peter Fisher, *A Well-Educated Workforce Is Key to State Prosperity* (Economic Policy Institute: August 2013), for additional discussion of education's role in a state's economy.

Luke Reidenbach prepared this Economy Brief. *The CBP was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP 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 CBP is provided by foundation grants, subscriptions, and individual contributions.*