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WORKING HARD FOR AN ECONOMY THAT'S HARDLY WORKING:

North Carolina's workers increase productivity, get paid less for first time in 30 years

BY ALLAN M. FREYER

KEY FINDINGS

- **The economic recovery from the Great Recession is different from any recovery in the last 30 years, as seen in unprecedentedly sluggish job creation and, perhaps most obviously, falling wages.**
- **A unique feature of the current sluggish recovery is the productivity gap, in which—for the first time in 30 years—rising worker productivity (a key driver of economic growth) is not being rewarded with higher wages.**
- **This productivity gap has contributed to the emergence of a two-tier labor market, with growth in low-wage and high-wage occupations, but little growth in between. The result is the worst wage inequality seen in 30 years.**

Introduction

One of the nation's most cherished ideals is the notion that hard work pays off. As a worker improves his efficiency, he increases the economic output of his employer while reducing his employer's costs and expanding its profits. In theory, as the employer increases production with lower costs, the resulting savings from these productivity gains are passed along to the worker in the form of higher wages and additional job creation. Unfortunately, the reality of work after the Great Recession has not lived up to this promise, as the savings from the state's productivity gains have failed to benefit North Carolina's workers. Unlike the recoveries from previous recessions over the past 30 years, productivity gains in the current recovery have been directed almost entirely *away* from new-job creation and higher wages, magnifying the sluggishness of the current recovery.

Compared to the recoveries from the recessions of 1981, 1990, and 2001, today's Tar Heel workers have seen slower job creation, lower wage growth, and greater wage inequality, despite generating significant productivity gains for their employers in the years since the end of the Great Recession in 2009. Unlike the experience in those previous recoveries, today's workforce is working hard for an economy that's hardly working for them.

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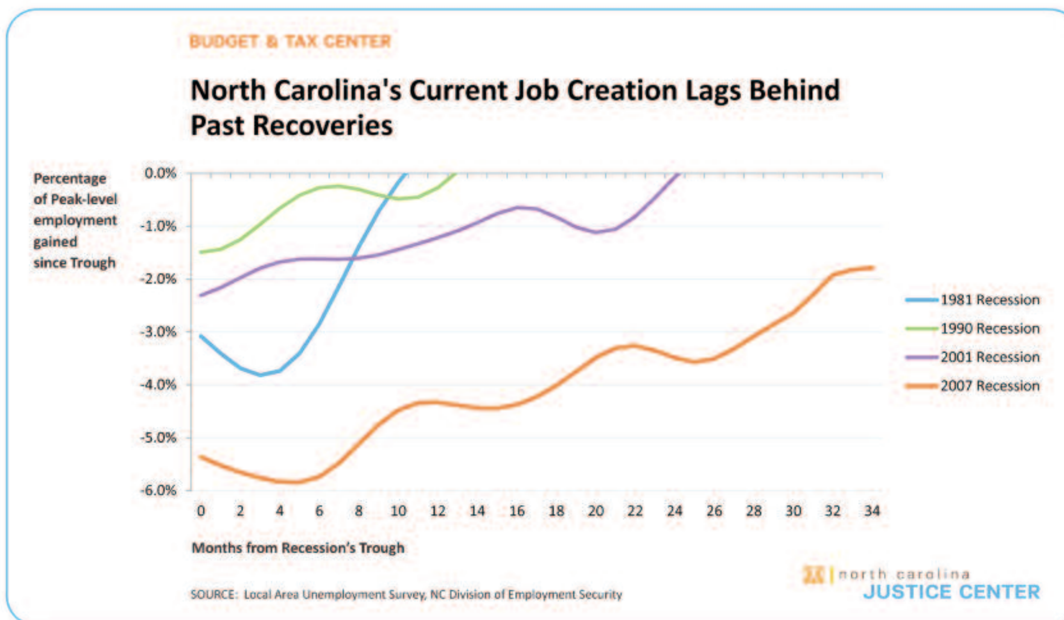
A Different Kind of Recovery

In April 2012, North Carolina's economy entered the 34th month since the formal end of the Great Recession in June 2009 (the so-called "trough" of the business cycle), yet the state's workers had experienced little in the way of a real economic recovery, especially when compared to the state's track record following the three previous recessions of the past 30 years (those beginning in 1981, 1990, and 2001). Thirty-four months after the end of the most recent recession , North Carolina still had a higher unemployment rate and a smaller share of its residents employed than at this same point in previous economic recoveries. Looking at North Carolina 34 months into past recoveries, the unemployment rate was 5.4 percent in September 1985, 4.7 percent in January 1994, and 5.3 percent in September 2004—all well ahead of the current jobless rate of 9.4 percent. As a result, North Carolina's job replacement rate is lagging far behind previous recoveries (**see Figure 1**).

The state needs to create more than 218,000 jobs just to replace those lost during the recession and an additional 314,000 jobs to keep with population growth;[1] only then will North Carolina return to pre-recession employment levels. In contrast, the state's labor market had already returned to pre-recession employment levels 10 months into the recovery from the 1981 recession, 13 months into the recovery from the 1990 recession, and 25 months into the recovery from the 2001 recession.

Clearly, North Carolina is experiencing a fundamentally different recovery than in the past, and recent research has explained these differences as resulting from a number of factors, including pre-recession over-concentration in the legacy manufacturing industries that suffered the greatest job losses during the recession (textiles, furniture, and tobacco);[2] a decade's worth of job losses due to offshoring, especially in these legacy manufacturing industries;[3] and layoffs in state and local governments, a sector that had cushioned the unemployment rate in past recessions.

FIGURE 1

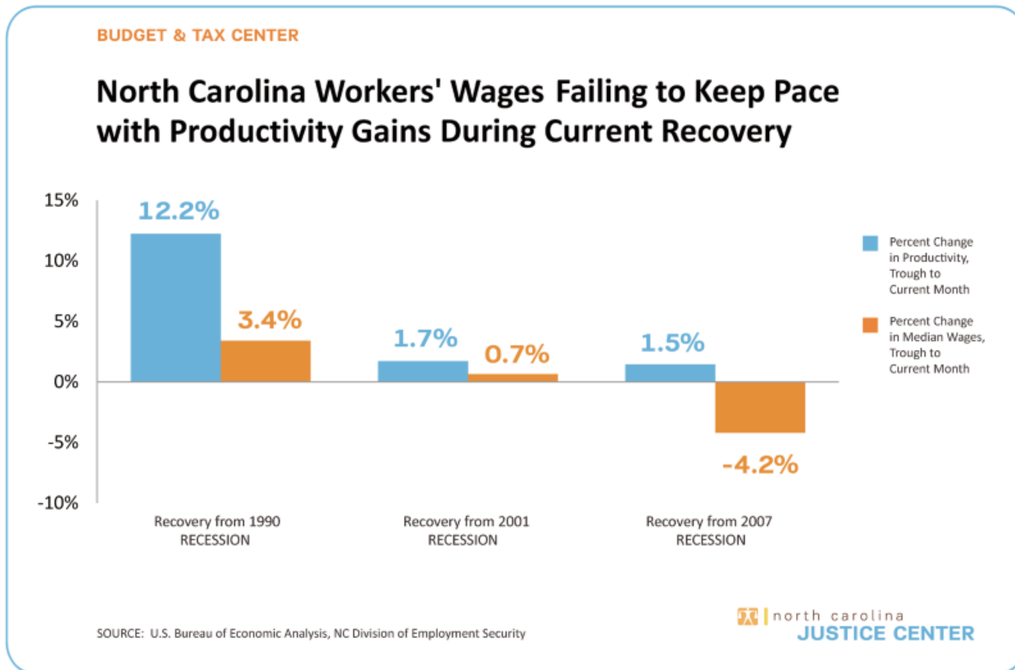


A story largely untold, however, is the astonishing gap between productivity and wages in the current recovery. Unlike in previous recoveries, productivity gains after the Great Recession have been transferred to capital income distributed to shareholders from corporate profits, rather than going to increased wages or new-job creation.[4] As job creation has lagged amidst continuing high unemployment, the growing pool of jobless people in search of work has only increased competition for scarce jobs and served to drive wages down even further—more than 4 percent since the end of the recession in 2009.

Working Harder For Lower Wages

In theory, productivity gains—measured by the total amount of goods and services produced by each worker—should be accompanied by wage increases. Unfortunately, this general principle has not held true for North Carolina's workers, as wage gains have fallen behind productivity gains in the last three economic expansions, and especially in the aftermath of the Great Recession. Indeed, for the first time in the postwar era, the wages of North Carolina's workers actually fell during the recovery, despite positive productivity growth. As indicated by Figure 2, output per worker (measured by the state's share of real Gross Domestic Product)[5] increased dramatically between the formal end of each recession (the trough) and 30 months into the recovery (the most recent wage data available). Yet inflation-adjusted median wages[6] (in 2011 dollars) have either stagnated or fallen over the same period, suggesting that workers are not being rewarded for their more efficient work and increased output.

FIGURE 2



In the recovery from the 1990 recession, productivity exploded, with 12-percent gains over the 30 months after the end of the recession (likely due to a historically unique transition to computerization and the birth of the Internet) while hourly wages saw a 3.4-percent gain from $13.20 to $13.65, well ahead of wage performance over the same period in the current recovery. Both the 2001 and 2007 recoveries generated only minimal productivity gains of close to 1.6 percent, but while the 2001 recovery saw some moderate wage improvements of about 1 percent (from $15.18 an hour to $15.28 an hour), median hourly wages in the current recovery have actually fallen from $15.68 to $15.02, a catastrophic 4.2-percent drop that erased the anemic wage gains of the 2000s in their entirety. And these wages dropped despite improvements in output and efficiency.

Given these trends, employers are clearly treating their workers differently than in past recoveries—choosing to keep the savings generated by productivity gains in cash reserves[7] or as profits distributed to shareholders[8] instead of rewarding hard work with higher wages or creating additional jobs. This has contributed to sluggish employment growth and falling wages as weak job creation has increased competition for existing jobs and placed downward pressure on wages.

The Productivity Gap and the Emerging Two-Tier Labor Market

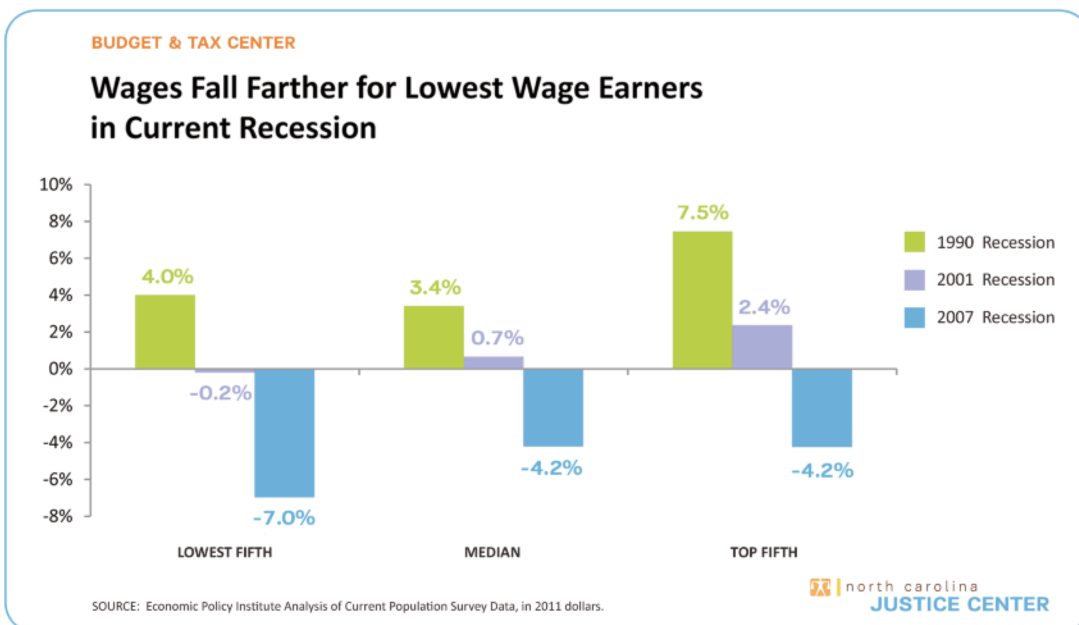
An additional consequence of the productivity gap is the rise of wage inequality and a two-tier labor market, driven in part by the offshoring of domestic middle-wage jobs and

their replacement with low-wage jobs and high-wage jobs, but little in between. For example, many workers who once labored in middle-wage jobs are increasingly shunted into fast-growing low-wage and low-skill occupations, including Food Preparation (which pays $8.27 an hour), Home Health Aides ($9.73 an hour), and Cashiers ($8.50 an hour).[9] At the same time, the state is seeing growth in high-wage and high-skill occupations like Nurses, Physicians, Office Managers, Post-Secondary Teachers, which pay between $22.01 and $41.12,[10] and require significant training and education. Unfortunately, there is little growth in the middle-wage, middle-skill occupations in between, like those traditionally associated with manufacturing, which provided a reasonably secure path to middle-class prosperity. Given that higher job skill levels command higher wages,[11] the emergence of this two-tier labor market has forced low-skill workers into a difficult position in which most productivity gains in low-wage occupations derive from customized, firm-specific inventorying and communications innovations rather than the skill development of individual employees, leaving workers with little opportunity to build skills that can be transferred to other firms or industries and command higher wages.[12] Similarly, productivity gains at the high end of the wage spectrum are typically associated with the skills workers develop through greater educational attainment—skills that allow them to harness technological innovations in ways not available to workers in lower-skill occupations.[13] As a result, in the current recovery, the least-skilled workers—those with no high school diploma—saw their wages fall by more than 6 percent since 2009, while those workers with the highest level of skills—those with a college degree or higher—only saw their wages drop by nearly 3 percent. Indeed, the higher the educational level, the stronger the wage performance during the most recent recovery. Unfortunately, these skill requirements place significant barriers in the way of less-educated workers looking to boost their wages, and the result has translated into greater wage inequality.

Wage Inequality

The challenges associated with this kind of skill development have resulted in greater inequality in wage growth during the current recovery than in previous recoveries. If the current recovery's gap between wages and productivity has proven challenging for the average worker in North Carolina, then it has been disastrous for the lowest-wage earners in the state. Rising wage inequality since 2009 has resulted in a significant drop in wages among the lowest fifth of earners, who saw their wages drop by 7 percent (from $10.18 to $9.47 an hour), while the top fifth of earners experienced the same 4.2 percent drop as median earners (**see Figure 3**),[14] indicating that high-wage earners are holding up better than low-wage earners.

FIGURE 3



Compared to wage inequality in previous

recoveries, however, the current picture is much more challenging. During the first 30 months of the booming post-1991 recovery, wages went up for workers across all quintiles, and although workers in the top fifth of wage earners saw their wages increase by the largest amount (7.5 percent), workers in the lowest fifth actually saw greater wage growth (4 percent) than the median worker (3.4 percent). In a foreshadowing of wage inequality in the current recovery, wages during the comparable period following the 2001 recession experienced anemic growth for median workers (0.7 percent) and extremely strong growth for earners in the top fifth (2.4 percent), far different than the 4-percent wage drop in the current recovery. Unfortunately, the true extent of inequality in wages across the entire spectrum of the state's wage earners is actually much starker than presented in Figure 3. Since the end of the recession in June 2009, hourly wages for highest 10 percent of all earners only shrank by 2 percent (from $35.68 to $34.90)—half the percentage loss experienced by the median earner and less than a third of the losses experienced by the lowest fifth of wage earners.

Conclusions

In a critical departure from previous recoveries, North Carolina's workers in the aftermath of the Great Recession are not being rewarded for their improved productivity, and as a consequence, they are experiencing sluggish job growth, falling wages, a two-tier labor market, and greater wage inequality. In order to address these challenges, it is essential for the state to invest in attracting and retaining high-growth and high-wage industries and in workforce development programs capable of preparing workers for these jobs in these industries. Perhaps most critically, the state needs to promote career pathway programs—a series of connected education and training programs and student support services—that enable individuals to secure a job or advance in a skill-demanding industry or occupation.[15]

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1 Analysis of Current Employment Survey data for April 2012 by the Economic Policy Institute. All other jobs data discussed in this report use the Local Area Unemployment Survey.

2 Freyer, Allan. (2012). The Greater the Fall, the Tougher the Climb: North Carolina Struggles to Replace Jobs Lost to the Great Recession. BTC Brief

3 Freyer, Allan. (2012). Going, Going, Gone: Offshoring, Job Losses, and the North Carolina Economy. BTC Brief.

4 Mishel, Lawrence. (2012). The Wedges Between Productivity and Median Compensation Growth. Economic Policy Institute.

5 All productivity figures are taken from BEA Regional GDP and Personal Income and measured by Real GDP in millions of chained 2005 dollars.

6 Comparable wage data from the Current Population Survey is only available through the end of 2011, a time period of 30 months from the formal end of the 2007 recession. As a result, the wage analysis in this report compares recoveries across 30 months, rather than the 34 months used in the employment analysis.

7 Moody's Global Credit Research. (2012). Announcement: US Corporate Cash Pile At $1.24 Trillion, Over Half Located Overseas. Moody's Investment Services, March, 2012.

8 Mishel, Lawrence. (2012). The Wedges Between Productivity and Median Compensation Growth. Economic Policy Institute.

9 Sirota, Alexandra. (2011). Making Ends Meet After the Great Recession: The 2010 Living Income Standard for North Carolina. NC Budget & Tax Center.

10 *Ibid.*

11 NC Workforce Commission Report (2011).

12 Bailey, T., & Bernhardt, A. (1997). In search of the high road in a low-wage industry. Politics and Society, 25(2), 179-201.

13 Osterman, P. (1999). The changing structure of the American labor market and Restructuring within firms: The shifting employment contract. In, Securing prosperity (pp. 20-70 and pp. 90-115). Princeton: Princeton University Press.

14 All wages presented in inflation adjusted 2011 dollars, using CPI-u

15 See The Career Pathways Model: Connecting North Carolina's Workers, Supporting Growing Industries, BTC Reports.