The Daily Dish

The Wages, Stupid

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Eakinomics: The Wages, Stupid

During the 1990s, Clinton electoral strategist James Carville coined the phase "The economy, stupid." It signaled an unwavering focus on the top issue. The comparable phrase today should be "The wages, stupid." This reality was reinforced this past week with the release of the Census Bureau's annual "Income and Poverty in the United States." The Bureau, and most commentators, focused on the following top-line finding: "Median household income was $59,039 in 2016, an increase in real terms of 3.2 percent from the 2015 median of $57,230. This is the second consecutive annual increase in median household income."

Sounds great, right? Unfortunately, when AAF's Ben Gitis dug more deeply into the data, a mixed picture develops. The good news is that the growth in median household income is real. That growth, as well as reductions in poverty mainly accrued to demographic minorities, immigrants, the undereducated, and urban dwellers. Put slightly differently, the growth in incomes occurred because there were more full-time workers. As the labor market healed, part-time workers moved to full time and some people who were not working entered the labor force. This drove reductions in poverty and increases in real earnings. This is also good news.

But it cannot continue. The United States is very near to full employment. It is a matter of debate how much more can be attained by simply putting people to work, but the debate is between a small number and a smaller number. As a matter of logic, it also means that future increases in earnings must come from having those workers earn more in their jobs.

Here's the bad news. The real earnings increase of those workers who worked full-time for the full year 2016 was zero. That's right, zero. For an economy that is operating (on average) at full employment, rises in real wages are the central route to a higher standard of living. It is "the wages, stupid."

As a corollary, it is not enough to simply have wages go up; there has to be growing labor productivity. If labor market tightness causes wages to rise without productivity growth, this will simply translate into cost growth and upward pressure on prices. In contrast, rising productivity permits higher wages without upward pressure on prices — the recipe for rising purchasing power of wages.

As the Trump agenda of regulatory relief, tax reform, infrastructure investment, and more develops it is important to focus on the evolution of productivity and real wages.