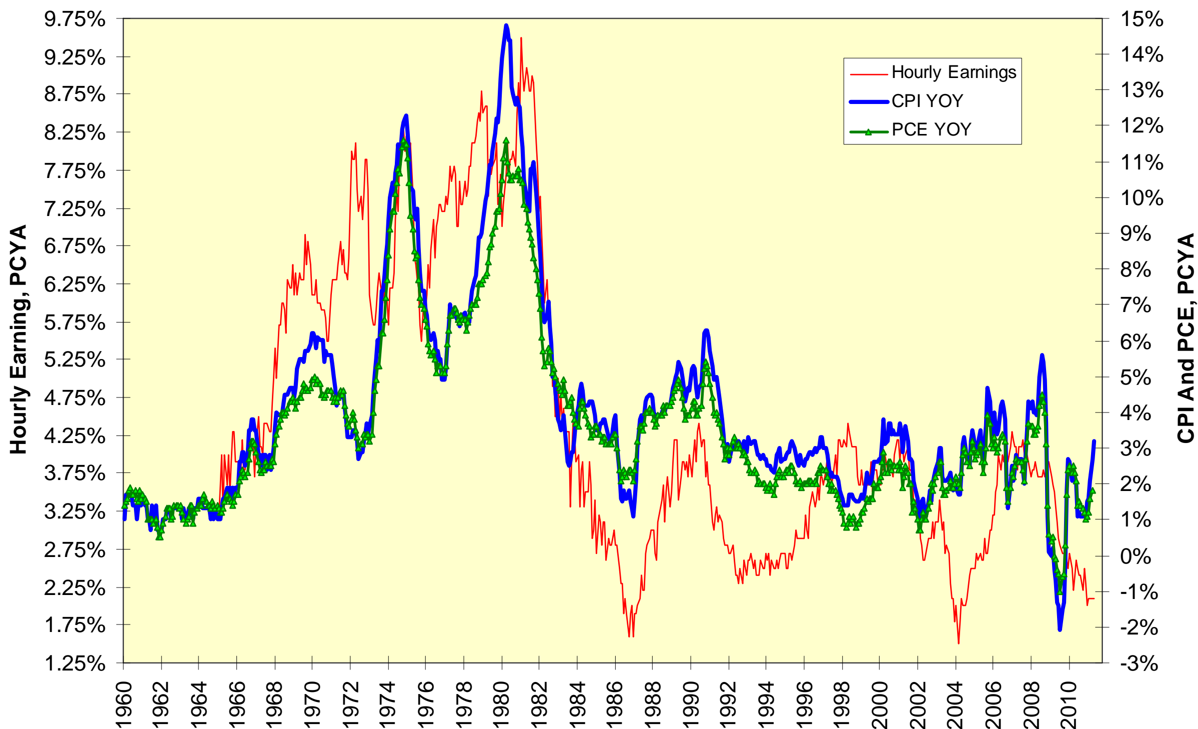
The Wage Squeeze Continues

Is there anything more tendentious than claiming to speak for the middle class in a country where most people classify themselves as middle-class? The actual answer is, "Yes;" just listen to someone claiming to represent "consumers" and wonder who is left out of this category. However, people organize themselves according to income levels, wealth levels and prospects (see yesterday's discussion of the permanent incomes hypothesis) and not according to whether they are a consumer or not. Moreover, you are taxed mostly on the basis of income and wealth levels and to a far lesser extent on consumption.

Yearnings For Earnings

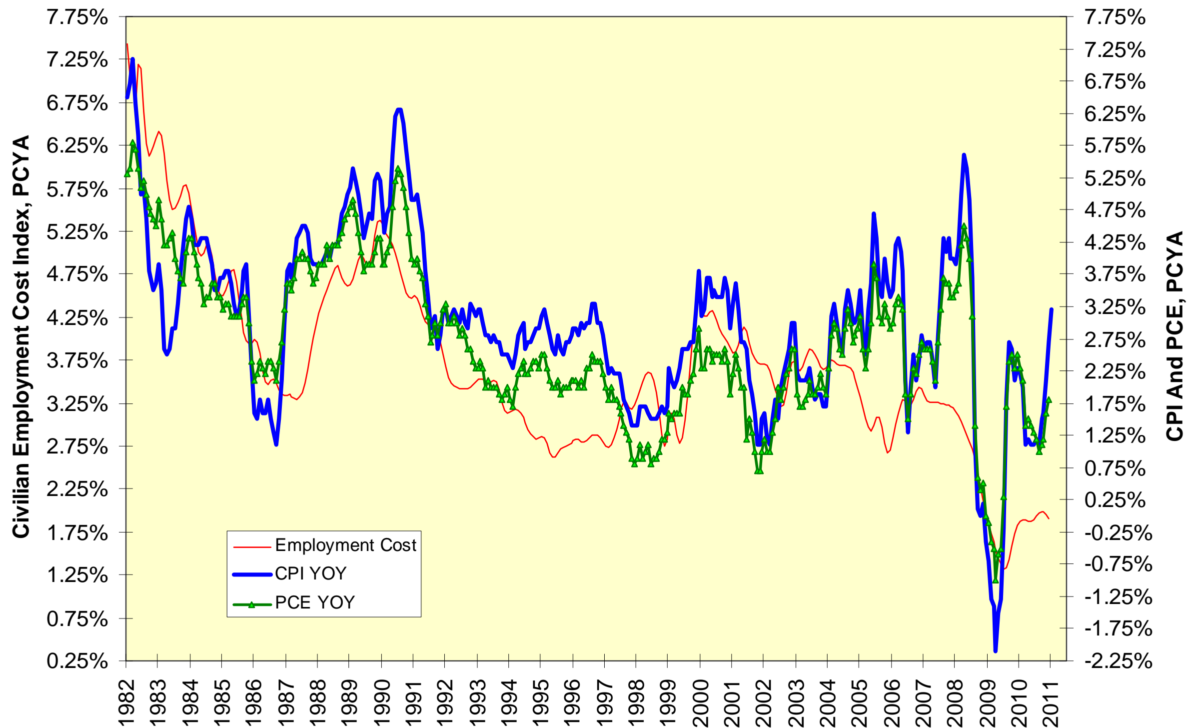
Prior to the last two stock market busts, the year-over-year changes in hourly earnings and consumer prices, whether measured by the Consumer Price index or the Personal Consumption index, tended to match each other; one prominent exception was the 1973-1974 outburst of inflation that paved the way for Richard Nixon's early retirement. As both the Greenspan and now Bernanke Federal Reserves have fought the aftermath of previous bubbles with ever-lower monetary stimulus and as Congress has decided national debt levels in excess of $14 trillion are a little too tight for comfort, we have been forced into two cycles of consumer prices rising relative to hourly earnings.

Hourly Earnings And Consumer Inflation



Somehow the argument we should not worry about rising food and energy prices spilling over into inflation expectations because we are not getting a raise falls a little flat in the how-to-win-friends department.

The same phenomenon is visible when we depict the income measure using the Civilian Employment Cost index. This measure has been on a declining growth path for a decade while consumer prices have been on the rise with the exception of the 2008-2009 financial crisis. This employment cost measure can be broken down further into a wage component and a benefit component. Benefits costs, which include health care and employer-paid contributions to Social Security and Medicare, have been rising by mandate while wages have stagnated. Until and unless we can make a political decision to reduce these transfer payments, which are someone else's income and are part of all potential retirees' expected income, we will see stagnant wage growth as a result.



The prospects for rising real wages are not good. As I noted last October, the drive toward cheaper capital increases its use as a factor of production, and we can be assured technology is going to improve over time. This makes labor globally more redundant and American labor in particular more expensive. If we do not increase our investment in human capital via education and training, two areas where we have not excelled, the marginal productivity of American labor will decline relative to global competition.

This will lead toward the European model, one familiar to Marx and his argument over capitalism requiring a reserve army of the unemployed. It also will lead to a situation where the concept of mass retirement, itself an artifact of affluence, will disappear: The demographics of the massive Baby Boom retiring and being supported by smaller younger generations themselves struggling to get established are intractable.

The notion of "retire when you want to" will be replaced by the reality of "work for as long as you can." We had best get used to that idea as I think it is inevitable.