

WHAT'S NEW WITH KIDS?

September 2016

Wage Stagnation

Many workers in the United States have been subject to stagnant real wages – a measure of wages that tracks the purchasing power of an individual's earnings (i.e., wages that have been adjusted for inflation) – over the past 15 years (Mishel, Gould, and Bivens, 2015). This rather alarming statistic provides the closest measure of objective well-being since wage earnings are the largest source of income for most people in the United States (Cain, 1984). Hindrances to rising real wages, therefore, directly offset an individual's well-being. Furthermore, changes in real wages are associated with trends in household spending and income inequality, which further affect the local economy (Rios-Avila and Hotchkiss, 2014).

Analysts often attribute the persistence of stagnant wages to a slowly recovering economy, declining unionization, and increasing globalization among other things (Mishel, 2015). But the continuation of stagnant real wages throughout the country is strange, since unemployment continues to decrease and worker productivity has increased throughout the nation (Mishel, Gould, and Bivens, 2015). With lower unemployment, employers should need to increase real wages to attract and retain talented workers. And higher labor productivity means that employers earn a higher return on each employee, which would make each employee more profitable.

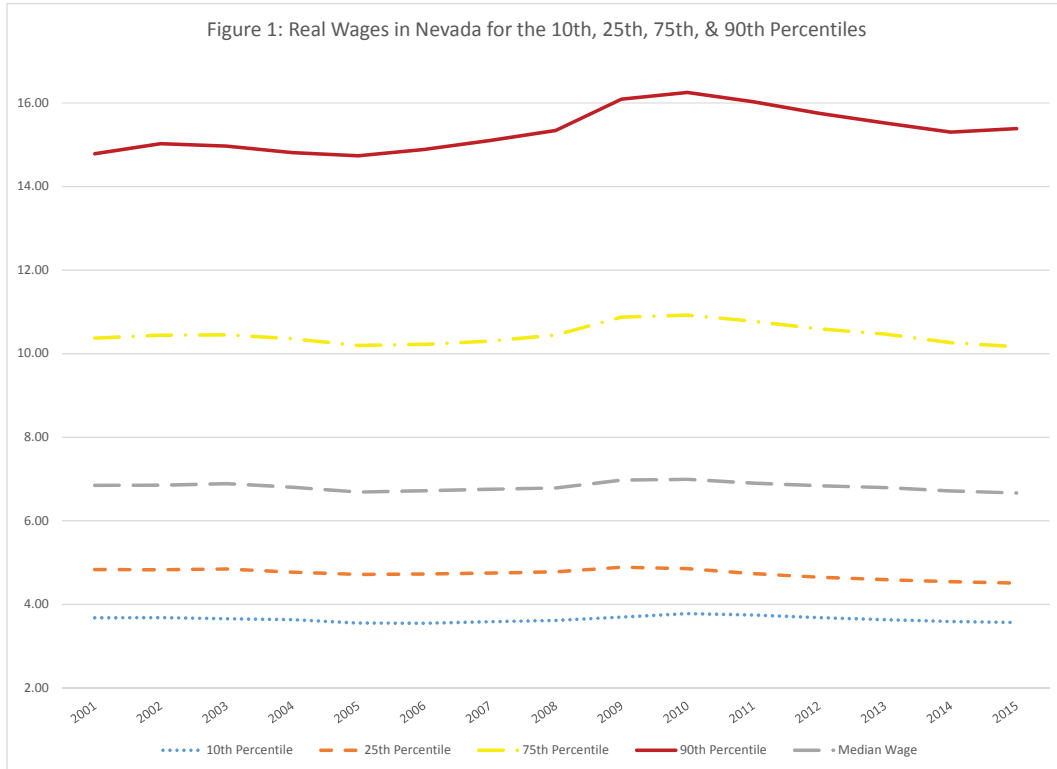
Real Wages

Both the mean and median real wage have been stagnant in Nevada over the past 15 years, with more visible fluctuations in the mean real wage, especially during the Great Recession (Figure 1). But the average real wage can be easily skewed by extreme values on either end of the distribution. Looking at different percentiles we see that fluctuations become more pronounced the higher the wage distribution. Still, it can be difficult getting a clear picture from level data. Looking at the growth of wages may provide a better picture.

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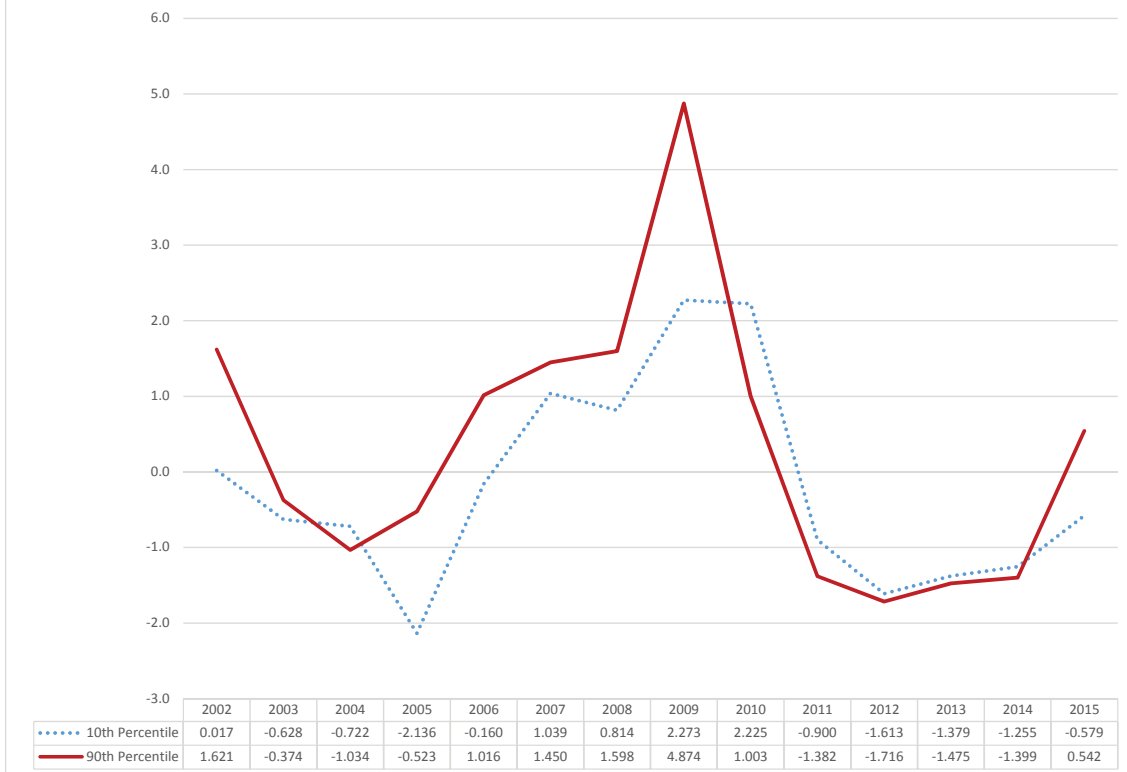
Sources: U.S. Bureau of Labor Statistics. (2016). Databases, tables & calculations by subject: Consumer price index – all urban consumers. Accessed August 15, 2016, http://data.bls.gov/pdqSurveyOutputServlet?data_tool=dropmap&seriesid=CUUR0400SA0, CUUS0400SA0. U.S. Bureau of Labor Statistics. (2016). Occupational Employment Statistics. Accessed August 15, 2016, <http://www.bls.gov/oes/tables.htm>.

Figure 2A reports the year-over-year percentage change in real wages for the 10th and 90th percentiles. We can see that wages generally declined from 2003 to 2006 and then grew from 2007 to 2011. While growth is present, these periods of slight positive and negative growth cancel out leaving the stagnant wages we observe. All wage earners seem to experience increases and declines in their wages around the same time, but during times of increases, those in higher percentiles experience greater percentage increases in real wages than those at the bottom, and during times of decreases they experience similar percentage declines in real wages – see Figure 2B in the appendix.

Unemployment Rate

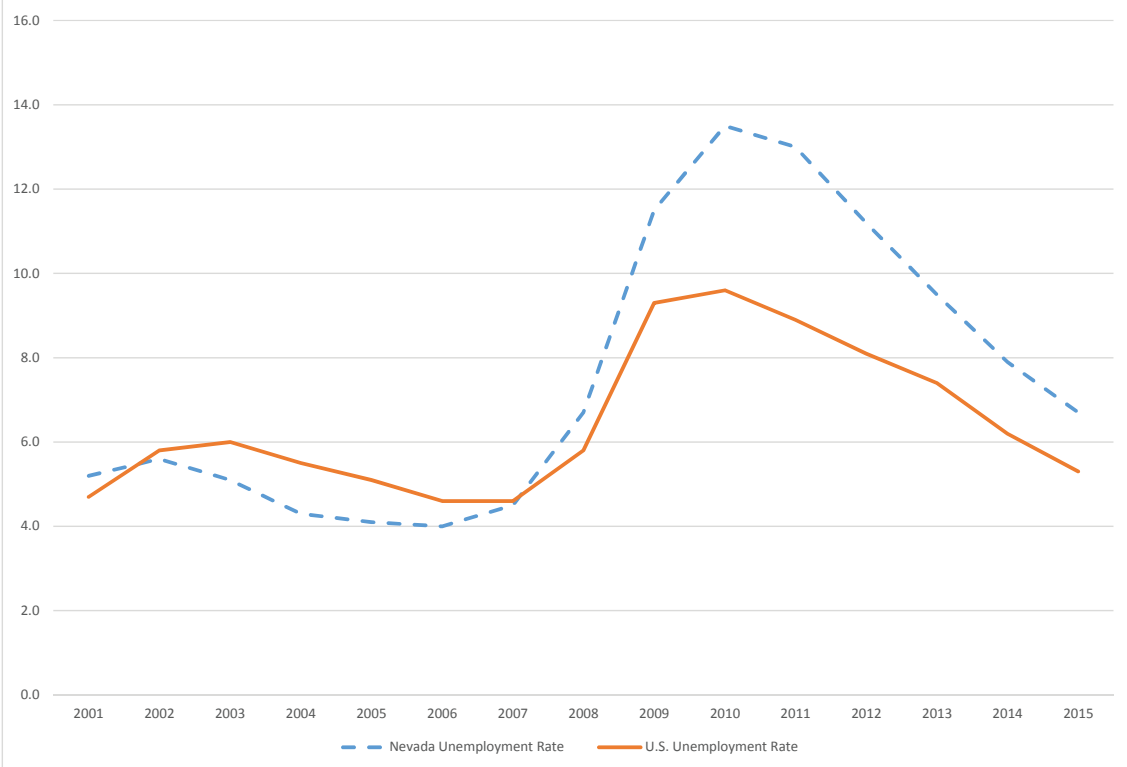
Figure 3 reports the unemployment rate for Nevada. We see that it has, indeed, been on the decline. The unemployment rate soared in the aftermath of the Great Recession, and it reached its peak in August of 2010 at 13.5 percent. More recently, the unemployment rate has been steadily declining, moving toward full employment. Yet, labor productivity in Nevada has been relatively stagnant over the last six years.

Figure 2A: Percentage Changes in Real Wages for the 10th and 90th Percentiles



Sources: U.S. Bureau of Labor Statistics. (2016). Databases, tables & calculations by subject: Consumer price index – all urban consumers. Accessed August 15, 2016, http://data.bls.gov/pdqSurveyOutputServlet?data_tool=dropmap&series_id=CUUR0400SA0,CUUS0400SA0.
 U.S. Bureau of Labor Statistics. (2016). Occupational Employment Statistics. Accessed August 15, 2016, <http://www.bls.gov/oes/tables.htm>.

Figure 3: Nevada & U.S. Annual Unemployment Rate, Seasonally Adjusted

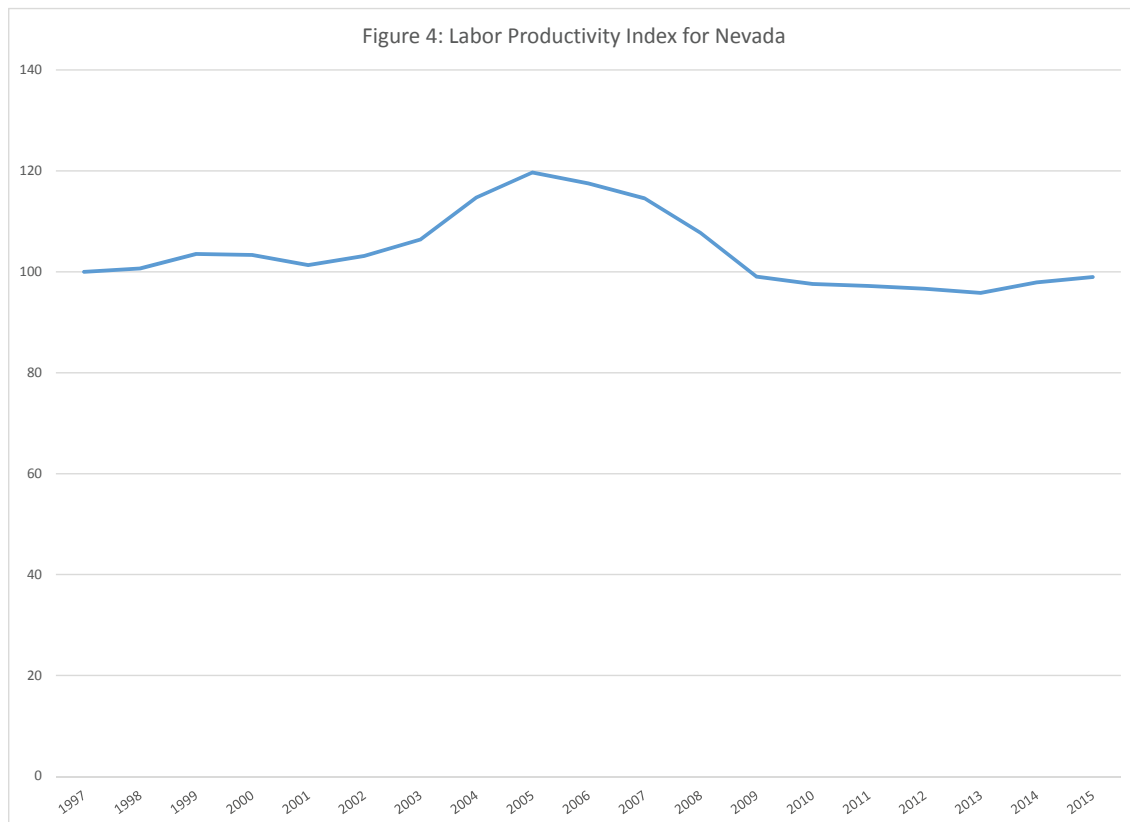


Sources: U.S. Bureau of Labor Statistics. (2016). Civilian unemployment rate [UNRATE]. Accessed September 14, 2016, <https://fred.stlouisfed.org/series/UNRATE>.
 U.S. Bureau of Labor Statistics. (2016). Unemployment rate in Nevada. FRED, Federal Reserve Bank of St. Louis. Accessed August 15, 2016, <https://fred.stlouisfed.org/series/NVUR>.

Labor Productivity

Figure 4 reports labor productivity for Nevada. Using 1997 as the reference year, we see that labor productivity rose during the housing bubble; whereas during the collapse, we see a deep decline in labor productivity. The Nevada economy experienced little change in labor productivity during the economic recovery following the Great Recession, but more recently it improved slightly. The decline in labor productivity might reflect a weak economic recovery and a decrease in the availability of skilled labor and an educated workforce, especially those with knowledge of fundamental computer science (Andes and Lee, 2015).

Regardless of the reason for the slight setback, an ongoing divergence between labor productivity and real wages has occurred over the past 40 years (Mishel, Gold, and Bivens, 2015). Workers have become significantly more productive, while hourly compensation has only increased slightly (2015). This allows the businesses who manage and own the companies to prosper, while workers for them continue to struggle.



Labor productivity in 1997 is used as the reference year when compiling the index.

Sources: U.S. Bureau of Economic Analysis. (2016). Real total gross domestic product for Nevada. FRED, Federal Reserve Bank. Accessed August 15, 2016 <https://fred.stlouisfed.org/series/NVRGSP>.

U.S. Bureau of Labor Statistics. (2016). Civilian labor force in Nevada. Federal Reserve Bank of St. Louis. Accessed August 15, 2016, <https://fred.stlouisfed.org/series/NVLFN>.

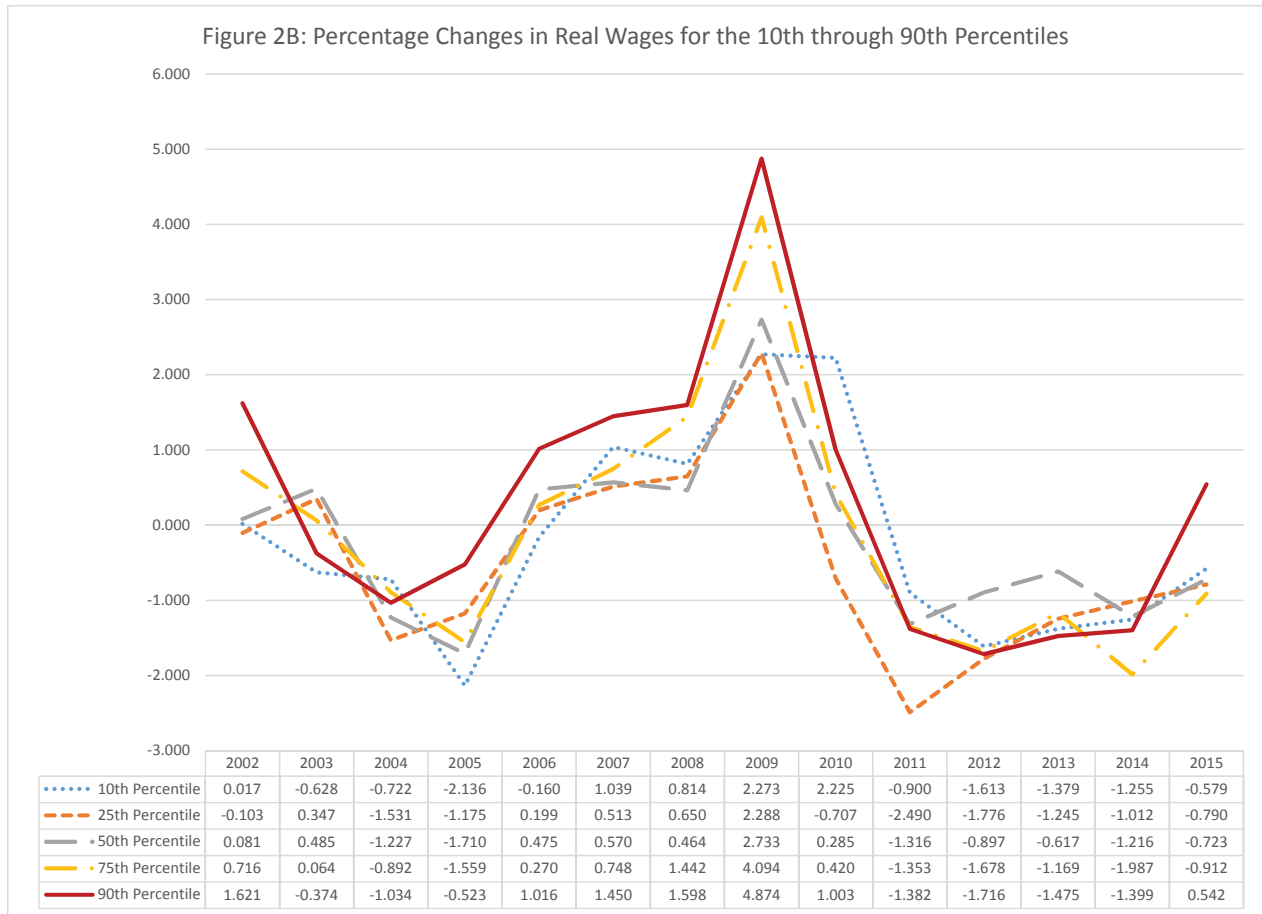
In 2015, 20 percent of hourly workers in Nevada earned at or below the federal minimum wage. This estimate did not include workers who earned slightly above the minimum wage or workers who earned the state mandated minimum wage (BLS Characteristics, 2016). The Economic Policy Institute estimates that 88 percent of U.S. workers who would be affected by an increase in the minimum wage would exceed 20 years of age (Essrow and Cooper, 2013). Thus a moderate increase in the minimum wage would greatly assist struggling families, including many children. That is, in 2015, 48 percent of children in Nevada lived in low-income families (AECF, 2016).

Research has shown that living in low-income families leads to negative outcomes, similar to those outcomes of families living in poverty (Cooper and Stewart, 2013). Poor people in the United States report having the highest levels of stress. High stress levels relate to worse health outcomes, lower levels of life satisfaction, and an inability to plan for the future (Graham, forthcoming). Children in low-income families generally receive inadequate nutrition, receive little or no preventative medical care, and live in low-income housing (Acs and Nichols, 2006). Furthermore, research has shown that being poor, or of relatively low income, not only affects an individual's material well-being, but also limits his or her potential for upward mobility and access to opportunities that come with higher income (Graham, forthcoming). Children who live in conditions of economic inadequacy experience worse cognitive, behavioral, and academic outcomes than their wealthier counterparts (Cooper and Stewart, 2013). Recent research shows that living in situations of inadequate income associates with smaller brains, less gray matter (Noble et al. 2015) and lower academic performance among developing youth between the ages of 3 to 22 (Hair et al., 2015).

Conclusion

Real wages in Nevada have been stagnant for the last 15 years despite growing employment and output. Stagnant wages negatively affect families' material and emotional well-being and the development of children in low-income families. Some potential approaches to combating the negative effects of wage stagnation include increasing the minimum wage, increasing earned income tax credits, subsidizing child care, and providing labor market training. Such policies could improve and maintain the well-being of our families.

Appendix



Analysis based on data from the Bureau of Labor Statistics up to 2015.

Sources: U.S. Bureau of Labor Statistics. (2016). Databases, tables & calculations by subject: Consumer price index – all urban consumers. Accessed August 15, 2016, http://data.bls.gov/pdqSurveyOutputServlet?data_tool=dropmap&series_id=CUUR0400SA0,CUUS0400SA0.

U.S. Bureau of Labor Statistics. (2016). Occupational Employment Statistics. Accessed August 15, 2016, <http://www.bls.gov/oes/tables.htm>.

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