Wage Outlook in Minnesota

Labor Day 2004

The first in a series of reports on the State of Working Minnesota 2004-05

Though it has now been nearly three years since the recession officially ended, wage trends in Minnesota remain disappointing. In addition to comparing the wage trends of this decade to those of the 1980s and 1990s, this issue brief examines some of the causes of the current stagnation in wages for the state's workers. For example, since 2001, a startling 85% of corporate income growth went directly to profits, while only 15% went to workers. This distribution is exactly the opposite of all previous business cycles since World War II.[1]

Wage Growth Slow in the 2000s

Wage growth since 2000 has slowed dramatically compared to the increases in wages seen at the end of the 1990s. After wage declines in both 2001 and 2002, Minnesota workers saw modest wage increases in 2003. But it remains an open question what the post-recovery period will look like. Minnesota workers had very different experiences in the last two recovery periods, as shown in Table 1 below.

Table 1: Minnesota Hourly Wages, 1979 to 2003

	1979	1989	2000	2003	% Change 1979 - 1989	% Change 1989 - 2000	%Change 2000 - 2003
Low Wage	$8.16	$7.90	$9.59	$9.95	-3.2%	21.4%	3.8%
Median Wage	$12.89	$12.69	$15.33	$15.52	-1.6%	20.8%	1.2%
High Wage	$19.96	$21.36	$24.52	$25.09	7.0%	14.8%	2.3%

Source: EPI analysis of CPS data. Wages are adjusted for inflation and reflect the value of the dollar in 2003.

After reaching the peak of the business cycle in 1979, wages for most Minnesotans were stagnant in the 1980s.[2] In fact, hourly wages for low wage workers were 3.2% lower at the end of the

[1] Except where otherwise noted, the data in this report is provided by the Economic Policy Institute (EPI) in connection with its *State of Working America*. Research assistance for the State of Working Minnesota 2004-05 is provided by Carole Specktor.

[2] In this analysis, a low wage worker earns a lower hourly wage than 80% of all workers; a median wage worker is exactly in the middle, with half of all workers making more and half less; and a high wage worker makes a higher hourly wage than 80% of all workers.

The ***State of Working Minnesota 2004-05*** is a collaborative project of the JOBS NOW Coalition and the Minnesota Budget Project that examines how economic trends impact Minnesota's workforce.

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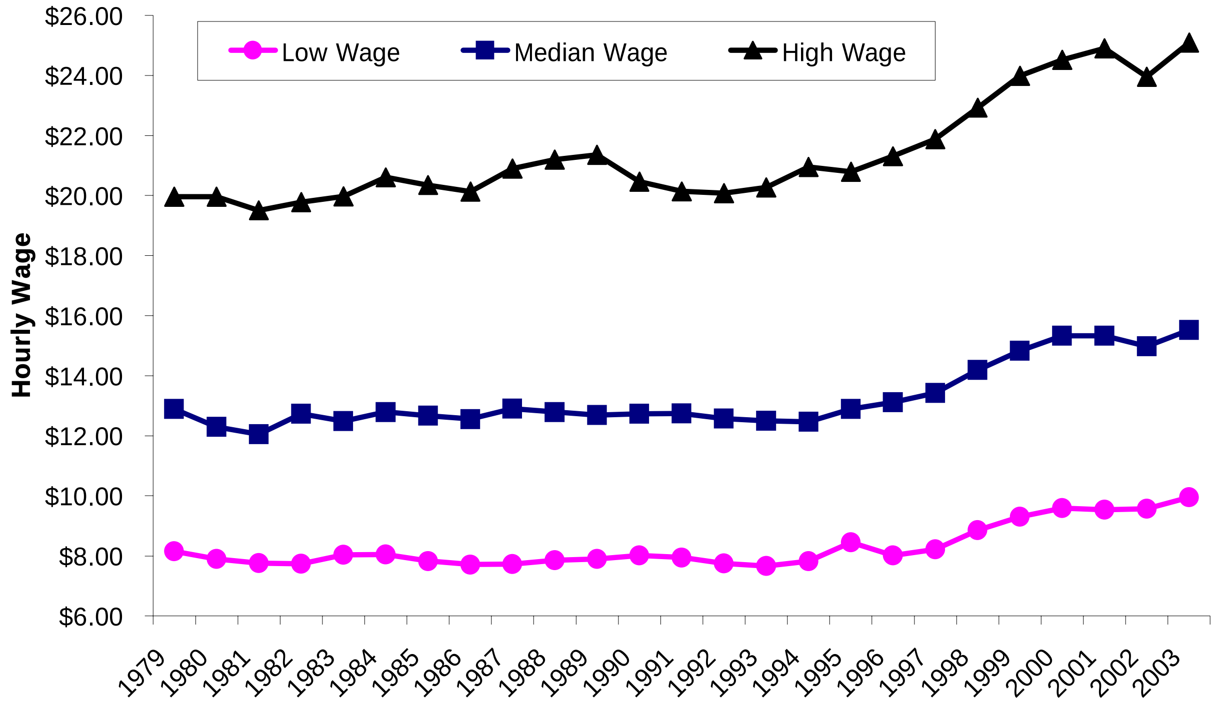
decade than at the beginning, and hourly wages for median wage workers were 1.6% lower. If families at these wage levels got ahead, it was only by increasing the number of hours they worked. Wage inequality increased during the 1980s, as the wages of high wage workers grew while all others fell. In contrast, during the 1990s, wages for all workers rose, particularly during the latter part of the decade.

As shown in Graph 1 below, stagnant wages for middle and low wage workers since 2000 represents a wage trend more like the 1980s, when wage inequality grew and wages remained flat, than like the 1990s, which showed much higher wage growth.

Graph 1: Minnesota Hourly Wages, 1979 – 2003



The Benefits of Growth Have Not Been Shared

Why have wages been relatively stagnant so far in the 2000s? One reason is that the benefits of economic growth are not being shared with the workers who have helped to create it. In this recovery, a much greater share has gone to corporate profits than in previous recoveries, while a much smaller share has gone to compensating the workforce.

- In the past eight business cycles, the share of corporate income growth going to corporate profits averaged 21%, and an average of 79% of corporate income growth went to worker compensation.
- In this business cycle, the pattern has reversed: 85% of corporate income growth has gone to corporate profits and only 15% to workers.

Higher profits mean higher stock prices, but most of these gains have gone to upper-income Americans. While it's often argued that we're all investors now, the truth is that most families own at most a few thousand dollars worth of stocks. In fact, the bottom 80% of Americans own less than 11% of all stocks. For most workers it is wages, not stock prices, that largely determine living standards.

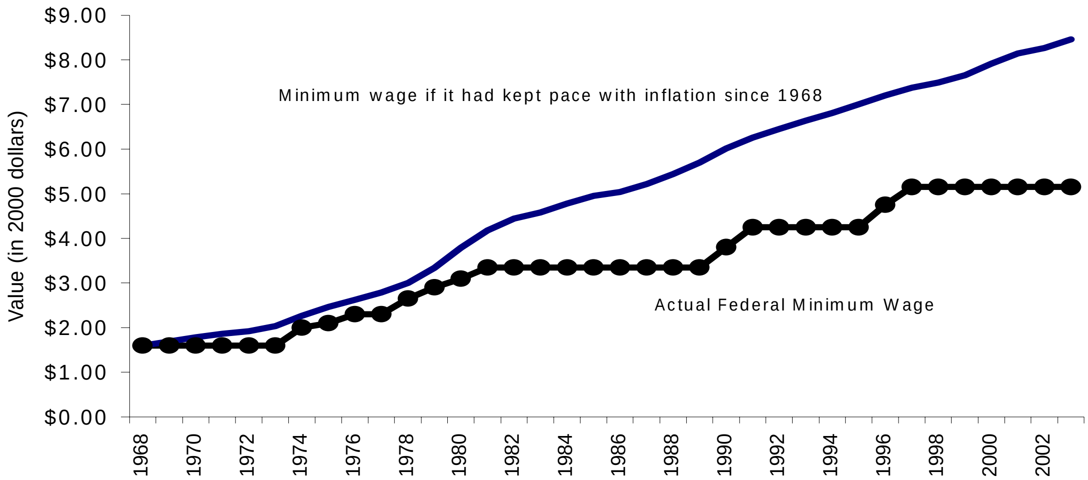
The Declining Value of the Minimum Wage

Another important factor that contributes to poor wage growth is the decline in the real value of the minimum wage. Until the early 1980s, regular increases in the minimum wage prevented market forces from driving down wages for the least skilled workers and thereby contributing to lower wage standards for all workers.

A minimum wage sets a standard for wages at the low end and thus plays an important role in determining the wages of the state's overall workforce, especially for workers with only a high school education and those living in rural areas.

The high point in the purchasing power of the minimum wage was 1968 when it was $1.60. The minimum wage would be $8.46 per hour if it had kept pace with inflation, rather than the $5.15 it is today.[3] As shown in Graph 2, the gap between the actual minimum wage and what it would be if it had kept pace with inflation is at an all time high.

Graph 2: Declining Value of the Minimum Wage, 1968-2003



Approximately 450,000 workers in Minnesota earn less than the inflation-adjusted minimum wage of $8.46 an hour.[4] While Minnesota's minimum wage is the same as the federal minimum wage, twelve states and the District of Columbia have minimum wages above the current federal level. Twelve of the thirteen have a minimum wage of at least $6.15 per hour — or at least one dollar higher than the federal minimum wage. Increasing the minimum wage and indexing it to inflation would help address the problem of stagnant wages for low wage workers.

[3] Authors' analysis using the U.S. Department of Labor, Bureau of Labor Statistics inflation calculator, http://www.bls.gov.

[4] Authors' analysis based on estimates by the Minnesota Department of Employment and Economic Development.

What Next?

Recent state reports indicate that the kinds of jobs that are being added in Minnesota are unlikely to bring about stronger wage growth.

The State of Minnesota's *Job Vacancy Survey* for the second quarter of 2004 shows that the median wage for all job openings in Minnesota is $10.00 per hour, and 60% of all job openings are in occupational groups with a median wage below $11.00 per hour — both well below the median wage of $15.52 for all Minnesota workers measured in 2003. These wage levels are also below what is needed to support a family. JOBS NOW's *Cost of Living* research shows that in a Minnesota family of four with both parents working, each worker must earn an average wage of $11.41 per hour just to meet their basic needs without any frills.

Other findings in the *Job Vacancy Survey* include:

- The three occupational groups with the most job openings — office and administrative support, sales, and food preparation and serving — made up more than one-third (34%) of all job openings statewide. The combined median wage for these occupational groups is $8.00 per hour.
- Manufacturing industry job openings are up 100% from a year ago; however, the median wage for openings in manufacturing has fallen to $10.00 per hour.

According to the *Minnesota Job Outlook to 2010* published by the Minnesota Department of Employment and Economic Development, of the ten occupations that will see the greatest number of new jobs in the 2000s, seven pay wages less than $12 per hour. (See Table 2 below.)

Table 2: Minnesota Job Growth Projections

Occupations that are expected to experience the greatest increase in number of jobs			
Occupation	**2000 to 2010 numeric change**	**2003 Median Wage**	**2003 Annual Median Wage**
Retail Sales	12,704	$8.78	$18,272
Computer Support Specialists	12,031	$19.13	$39,800
Combined Food Preparation & Serving, including fast food	11,852	$7.27	$15,128
General Office Clerks	11,536	$11.70	$24,337
Customer Service Reps	11,063	$13.35	$27,761
Registered Nurses	10,983	$24.45	$50,848
Cashiers	10,304	$7.98	$16,602
Computer Software Engineers, Applications	8,675	$32.87	$68,369
Waiters and Waitresses	7,267	$6.56	$13,642
Home Health Aides	6,742	$9.98	$20,766

Source: *Minnesota Job Outlook to 2010,* Minnesota Department of Employment and Economic Development, Labor Market Information Office.

Minnesota's primary job creation effort, JOBZ, provides local and state tax exemptions to businesses expanding or locating in Greater Minnesota. The JOBZ initiative has garnered strong interest, but its job creation outcomes may prove to be anemic for workers. In a recent JOBZ presentation by the Department of Employment and Economic Development, wage standards were a low priority: 48% of "policy criteria" have no wage requirement and 34% have a wage requirement below $9 per hour.[5] JOBS NOW's *Cost of Living* research shows that in a family of four with both parents working and living in Greater Minnesota, each worker must earn $10.12 per hour just to meet basic needs.

A wage trend like the 1980s, when wage inequality grew and wages remained flat, would be disastrous for Minnesota workers. Wage standards like the minimum wage are a key factor in establishing strong wage growth for all working Minnesotans. Economic development incentives that are tied to wages and other job quality standards also ensure that the state is investing in good jobs in Minnesota's communities.

Minnesota's economic advantage is the quality of its workforce. Economic development policies must build on that quality and not undermine workers' economic security. The most direct way is to maintain and promote high standards for job quality.

[5] MN Department of Employment and Economic Development presentation, *Evaluating the Deal: Criteria at the Local Level*, Hibbing, MN, August 18, 2004.