ISSUE BRIEF

NEW AMERICA FOUNDATION
WORKFORCE & FAMILY PROGRAM

Issue Brief #2 February 2006

ECONOMIC GROWTH FINALLY HAVING ITS EFFECT ON FAMILY WAGES

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This week, the White House submitted its annual Economic Report of the President to Congress. It was a positive forecast driven by continuing strong consumer spending, business investment and export growth. Despite high energy prices and Hurricane Katrina, the White House had a lot of good news to trumpet on the economy from four years of largely uninterrupted economic growth.

Overall economic production as defined by the gross domestic product is estimated to increase 3.4 percent in 2006. The Dow Jones Industrials hover near 11,000, the highest level in more than four years, and more Americans own stock than ever before. Productivity growth remains strong, retail sales are at their highest level in over six years, inflation remains under control and overall unemployment in January fell to 4.7 percent. Revenues to states have exceeded expectations, as have federal receipts. For example, revenues from the lower capital-gains tax rate came in $62 billion higher over the last three calendar years than congressional estimates.

The major thorn in the President's side on the economy has been wages. Real wages of workers, their wages adjusted for inflation, have been stagnant or at best less than in other expansions. Impacted by manufacturing layoffs, global competition, automated machinery and immigration, workers in some industries have not seen the increases in their wages that many might expect. Returns on financial assets over the past decade, first on equities in the late 1990's and then in real estate since the turn of the century, have increased income inequality in America.

The good news is that wages, the reward for work, are starting to come back. For the first time since before the economic shocks of September 11, 2001, the number of high-paying jobs is now growing faster than lower-wage employment. According to the Bureau of Labor Statistics, average weekly earnings are up 3.6 percent from last year—the best result since 2000. Personal income increased 6 percent in the year ending in January, up from 4.5 percent from October.

Wages are starting to rise because the labor market is starting to tighten. The Department of Labor reported that for January, the unemployment rate fell to its lowest level since July 2001. The four-week average of jobless claims fell last month to its lowest level in six years.

As a result, confidence in the economy is growing. In a recent Ipsos Public Affairs poll, the more than 26 percent of respondents rated the strength of their local economy a 6 or 7 on a scale of 1 to 7, with 7 being the strongest—up 6 percentage points since early January. Some 43 percent of respondents said they are more confident now about job security for themselves and those close to them than they were six months ago. That is up from 37 percent in January. Forty-six percent said the next 30 days will be a good time to invest in the stock market, and 44 percent said the same for purchasing real estate—both 5-point gains since January.

Wage growth, which has lagged other economic indicators, is starting to return. However, in order for this growth to continue long into the future, America must address its long term fiscal challenges. Entitlement spending is the fastest growing part of the budget and in another decade will crowd out all other discretionary spending or require large tax increases. The commission on entitlement reform that the President called for in his State of the Union speech is better than nothing, but does not guarantee real change.

The current increase in wages shows the importance of job skills and job training. The industries where wage acceleration is most pronounced, such as health care, construction, education, and technology, are the ones that the President's High Growth Job Initiative tries to steer job seekers towards. The best way for lower income Americans to advance is to acquire job skills.

Despite the positive news, there are industries, such as manufacturing, transportation, and utilities, where wages are still stagnant. America should resist the temptation of protectionism, and invest in job retraining to shift workers towards these higher paying industries in order to keep its economy competitive and its wages growing.

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