Stagnant earnings since the late 1980's

I have been working, earning via weekly or bi-weekly paycheck since the late 1980's. Why is it that in 2020 the yearly salaries are the same as they were over 25 years ago? The salary of $40,000 earned in the 1990's also was a higher dollar earning than it is now, it bought more in 1990's. Today, in job postings the numbers are still the same numbers as they were over 25 years ago. Why?

There are numerous claims made in this question that I believe are not accurate, but I am not sure what the actual concern is. I will try to answer the questions as I interpret them, but first, it is important to explain what the facts are.

Annual compensation includes wages and salaries, but also benefits. Benefits including federal social insurance taxes, pensions, health insurance, but also paid leaves, bonus pay, and overtime have become more important over time.

Total compensation is tied to worker productivity because it is output that pays for inputs. Figure 1 shows the time path of real labor productivity and real compensation since 1947. (Real wages mean correcting for inflation, so this is the purchasing power of wages denominated in 2019 purchasing power.) Changes in labor productivity explain 99% of changes in wages with a 1% increase in productivity resulting in a 0.9% increase in wages.

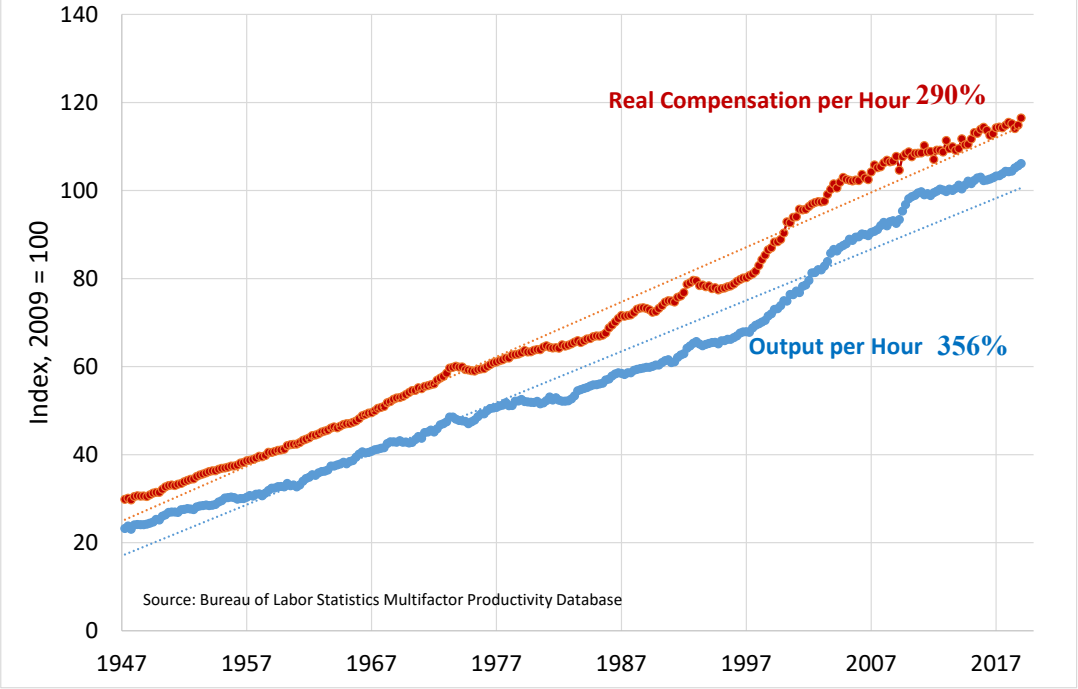
Correcting for inflation, hourly compensation is 83% higher than in 1980, 59% higher than in 1990, 29% higher than in 2000, and 7% higher than in 2010. Because the cost of health insurance has risen almost 3 times faster than inflation since the mid 1980s, firms providing health insurance as a benefit had to hold back on other forms of compensation including wages.

So it is not true that real compensation has not changed since the 1980s, the 1990s, the 2000s or after. It is true that the rate of increase has slowed. Look again at Figure 1. There was a slowing of the growth of labor productivity around 2010 when there was a corresponding slowing of the growth of real compensation. More generally, wages and productivity have grown more slowly since 2000 than the growth between 1980-2000. The slowing in wage growth is directly attributable to the slowing of labor productivity.

The salary of $40,000 earned in the 1990's also was a higher dollar earning than it is now

Due to inflation, $40,000 in 1990 is worth about $20,000 today. But real compensation has risen 59% since 1990. So the equivalent pay in 1990 for someone who experienced the wage growth over the subsequent 30 years would be $63,600 in 1990. The average worker in 2019 was much better off than the average worker in 1990.

Figure 1: Compensation per Hour and Productivity, 1947 - 2019, nonFarm Business



In job postings the numbers are still the same numbers as they were over 25 years ago

As I showed in Figure 1, this is just not true. However, it is a fair description of what has happened over the past 10 years. In 2010, productivity growth visibly slowed, and wage growth slowed at the same time. As shown in Figure 2, median real wages have only rise 0.5% between 2009 – 2020, and median real benefits have only increased 4.8%. That is the slowest pace of decadal real change in compensation in the postwar period.

The median does not reflect the changes at the tails of the pay distribution. As shown in Figure 3, real compensation has risen for workers at the lower and upper tails, even as it has remained relatively stable in the middle. All of the gain in compensation at the bottom 10% of the wage distribution is in wages and salaries and none in benefits. At the 90th percentile, benefits grew 18% while wages grew only 5%. Consequently, your individual perception of wage growth may depend on whether you are in a job with compensation that is benefits intensive or wage intensive.

Figure 2: Median Real Wages, Benfits, and Total Compensation, March 2009-2020

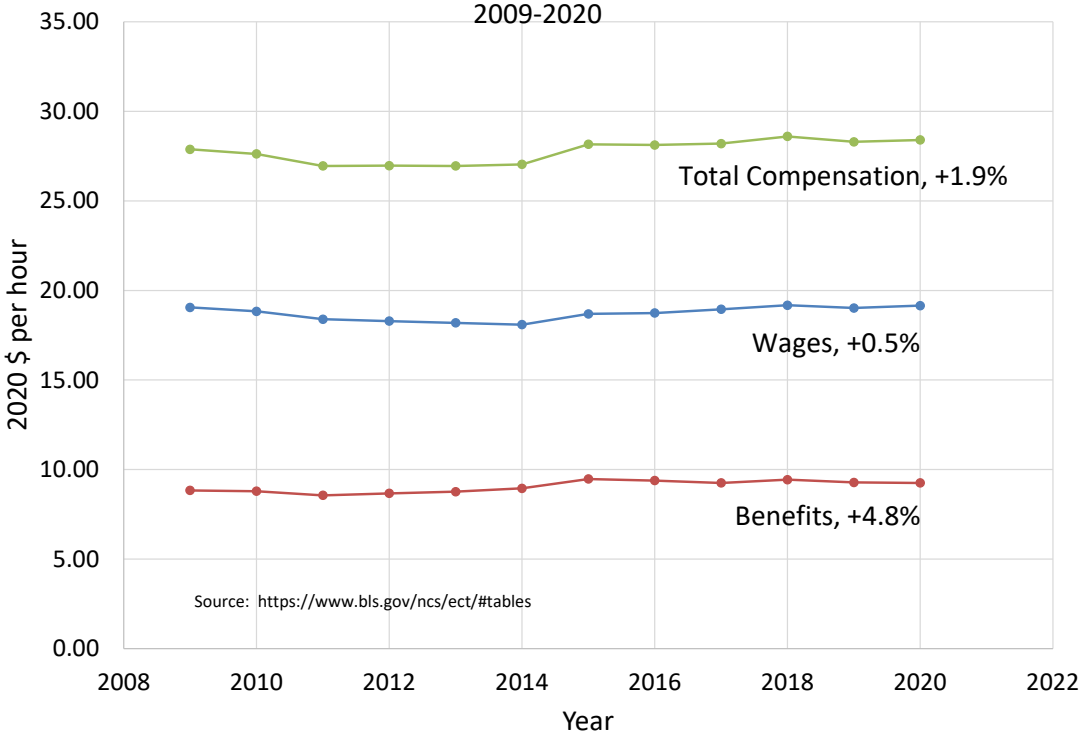


Figure 3: Real Hourly Compensation by position in the earnings distribution, 2009-2020