Scary New Wage Data

By David Cay Johnston

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The news media and even bloggers entirely missed the latest 2009 wage data report showing a sharp drop in the number of people who had any earnings but a stunning explosion of top salaries.

Now for some really scary breaking news from the latest payroll tax data.

Every 34th wage earner in America in 2008 went all of 2009 without earning a single dollar, new data from the Social Security Administration show. Total wages, median wages, and average wages all declined, but at the very top, salaries grew more than fivefold.

Not a single news organization reported this data when it was released October 15, searches of Google and the Nexis databases show. Nor did any blog, so the citizen journalists and professional economists did no better than the newsroom pros in reporting this basic information about our economy.

The new data hold important lessons for economic growth and tax policy and take on added meaning when examined in light of tax return data back to 1950.

The story the numbers tell is one of a strengthening economic base with income growing fastest at the bottom until, in 1981, we made an abrupt change in tax and economic policy. Since then the base has fared poorly while huge economic gains piled up at the very top, along with much lower tax burdens.

A weak foundation cannot properly support a massive superstructure, as the leaning Tower of Pisa shows. The latest wage data show the disastrous results some of us warned about, although like the famous tower, the economy only lists badly and has not collapsed.

Measured in 2009 dollars, total wages fell to just above $5.9 trillion, down $215 billion from the previous year. Compared with 2007, when the economy peaked, total wages were down $313 billion or 5 percent in real terms.

The number of Americans with any wages in 2009 fell by more than 4.5 million compared with the previous year. Because the population grew by about 1 percent, the number of idle hands and minds grew by 6 million.

These figures show, far more powerfully than the official unemployment measure known as U3, how both widespread and deep the loss of jobs was in 2009. While the official unemployment rate is just under 10 percent, deeper analysis of the data by economist John Williams at http://www.shadowstats.com shows a real under- and unemployment rate of more than 22 percent.

Only 150.9 million Americans reported any wage income in 2009. That put us below 2005, when 151.6 million Americans reported wages, and only slightly ahead of 2004, when 149.4 million Americans held at least one paying job.

For those who did find work in 2009, the average wage slipped to $39,269, down $243 or 0.6 percent, compared with the previous year in 2009 dollars.

The median wage declined by the same ratio, down $159 to $26,261, meaning half of all workers made $505 a week or less. Significantly, the 2009 median wage was $37 less than in 2000.

To give this some perspective, from 1992 to 2000 the number of people earning any wages grew by 21 million, but nine years later just 2.8 million more people had any work.

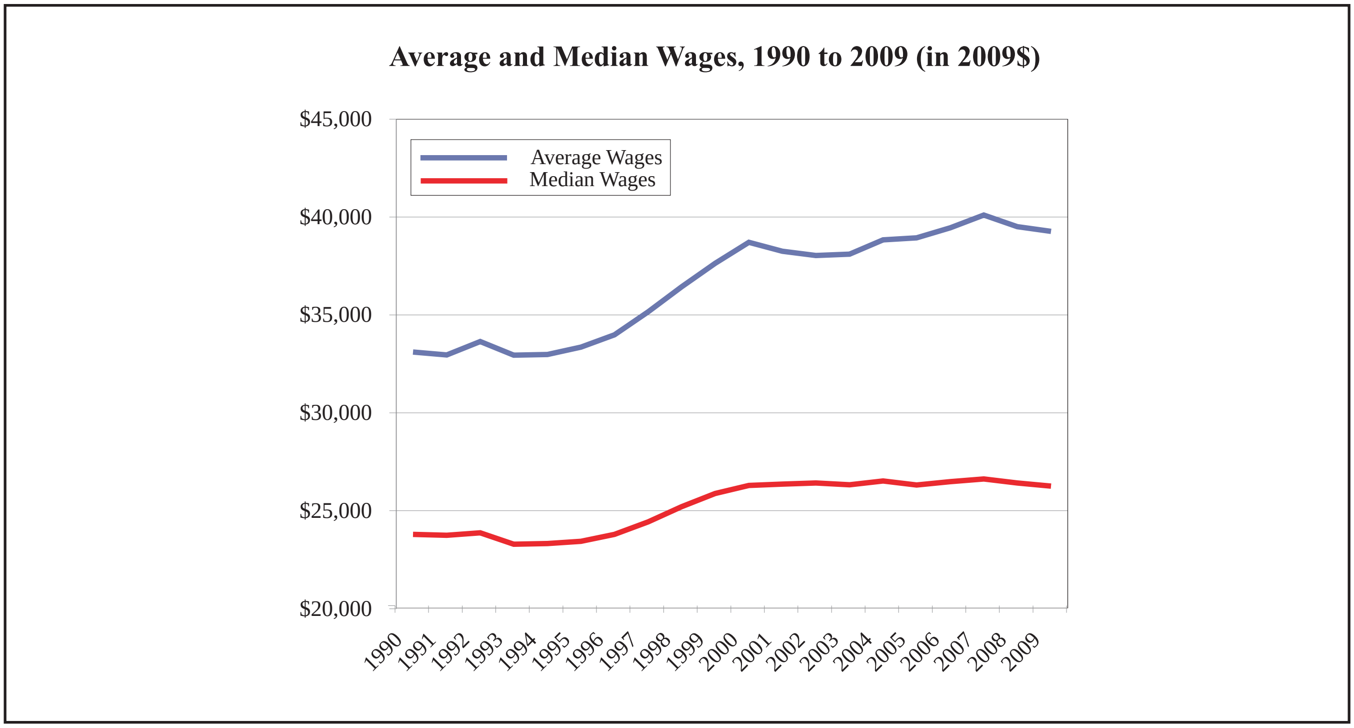
These wage data, based on the Medicare flat tax on all compensation, tell us only about the number of people who earned wages and how much. They tell us nothing about whether these individuals were underemployed, had to work more than one job, earned fringe benefits, or were employed at a level commensurate with their abilities.

But they do give us a stunning picture of what's happening at the very top of the compensation ladder in America.

The number of Americans making $50 million or more, the top income category in the data, fell from 131 in 2008 to 74 last year. But that's only part of the story.

The average wage in this top category increased from $91.2 million in 2008 to an astonishing $518.8 million in 2009. That's nearly $10 million in weekly pay!

You read that right. In the Great Recession year of 2009 (officially just the first half of the year), the average pay of the very highest-income Americans was more than five times their average wages and



bonuses in 2008. And even though their numbers shrank by 43 percent, this group's total compensation was 3.2 times larger in 2009 than in 2008, accounting for 0.6 percent of all pay. These 74 people made as much as the 19 million lowest-paid people in America, who constitute one in every eight workers.

Back in 1994, when the top category the government reported on was $20 million or more of compensation, only 25 people were in that rarefied atmosphere, and their average earnings came to just under $45 million in 2009 dollars.

What does this all mean? It is the latest, and in this case quite dramatic, evidence that our economic policies in Washington are undermining the nation as a whole. We have created a tax system that changes continually as politicians manipulate it to extract campaign donations. We have enabled "free trade" that is nothing of the sort, but rather tax-subsidized mechanisms that encourage American manufacturers to close their domestic factories, fire workers, and then use cheap labor in China for products they send right back to the United States. This has created enormous downward pressure on wages, and not just for factory workers.

Combined with government policies that have reduced the share of private-sector workers in unions by more than two-thirds — while our competitors in Canada, Europe, and Japan continue to have highly unionized workforces — the net effect has been disastrous for the vast majority of American workers. And of course, less money earned from labor translates into less money to finance the United States of America.

This systematic destruction of the working class and middle class has come during an era notable for celebrating the super-rich just for being super-rich. From the *Forbes 400* launch in 1982 and Robin Leach's *Lifestyles of the Rich and Famous* in 1984 to the faux reality of the multiplying *Real Housewives* shows, money voyeurism has grown in tandem with stagnant to falling incomes for the vast majority. There has also been huge income growth at the top and the economic children of income inequality: budget deficits and malign neglect of our commonwealth.

This orgy of money exhibitionism has created a society in which commas — it takes three to be a billionaire — count more than character. We have gone so far down this path that we bailed out bankers, allowing them to keep the untaxed wealth in their deferral accounts and, with a few exceptions, retaining shareholder value, while wiping out investors in General Motors and Chrysler as a condition of their bailouts. And while autoworkers had to take severe pay cuts, bonus time on Wall Street is at new record levels.

The American economy in the three decades before Ronald Reagan's election did not produce a mass audience for celebrating wealth. In that era, books that emphasized character sold better than today.

During the years from 1950 to 1980, the share of total income going to those at the top declined, and the real incomes of the vast majority grew much more quickly than did nearly all incomes at the very top.

In those years, America had the money, and vision, to invest in the future through education, research, and infrastructure.

In nearly three decades of Reaganism, however, we have become a society of mine-here-and-now. Now what we hear from Washington is about today, not tomorrow. War without sacrifice (or a congressional declaration). Savings without interest. More government services while lowering taxes.

In this era, the incomes of the vast majority have barely grown while incomes at the top have soared. Reaganism has trimmed the base of the income ladder while placing a much heavier weight on the top. Narrowing the base while adding weight to the apex does not make a stable structure.

Here are some numbers that may surprise those ages 50 and under, taken from the latest analysis of tax return data by Emmanuel Saez and Thomas Piketty, who have won worldwide praise for their groundbreaking work examining changes in income distribution:

Bottom 90 Percent Income Share Changes	
1950	64.44%
1980	65.37%
Change	+0.93 percentage points increase
2008 Change	51.77%
Since 1980	-13.59 percentage points decrease

So a three-decade era in which the bottom 90 percent increased their share of all income slightly was followed by a 28-year period at whose end income had fallen sharply. The 2009 data show that it has only gotten worse since then.

While the vast majority must get by on a much smaller share of the national income pie, the re-slicing resulted in concentrated benefits at the top. The top 10 percent enjoyed a nearly 40 percent increase in their share of the income pie. But within the top 10 percent, the re-slicing of the income pie between 1980 and 2008 was also heavily weighted to the top.

Those in the 90th to 95th percentile income category saw their income share rise by just 0.24 percentage points. The 95th to 99th income category got 2.43 percentage points more slice of the national income pie.

That means that of the 13.59 percentage points of increased pie going to the top 10 percent of Americans, the top 1 percent earned almost 11 percentage points of it. Now look at how the pie was sliced within the top 1 percent:

Income Share Gains, in Percentage Points, In 2008 Over 1980 for Top 1% of Earners			
99 to 99.5	99.5 to 99.9	99.9 to 99.99	99.99 to 100
1.21	2.73	3.23	3.76

Notice that as you move to the right, the numbers of taxpayers shrink, but the percentage points grow. The theme: more and more for fewer and fewer.

Income shares tell us about how groups are doing relative to one another. But you can't spend income shares, so let's look at incomes.

From 1950 to 1980, the average income of the bottom 90 percent grew tremendously. Not so since then:

1950	$17,719	1980	$30,941
1980	$30,941	2008	$31,244
Increase	$13,222	Increase	$303
% Increase	74.6%	% Increase	1%

Had income growth from 1950 to 1980 continued at the same rate for the next 28 years, the average income of the bottom 90 percent in 2008 would have been 68 percent higher, instead of just 1 percent more.

That would have meant an average income for the vast majority of $52,051, or $21,110 more than actual 2008 incomes. How different America would be today if the typical family had $406 more each week — less debt, more savings, and more consumption.

So how about the top? This is where the changes in incomes in these two eras become interesting, very interesting.

What the figures below show is that the closer you got to the top of the ladder in the era from 1950 to 1980, the smaller your relative increase in income, except for the very top, whose gains were slightly more than those of the bottom 90 percent. Since 1980, however, the bottom 90 percent of Americans have seen their incomes go nowhere, while on the highest steps of the income ladder, the further up you are, the greater your gains.

Add in today's decreased number of jobs, and all these data add up to policies that can be described with one word: failed.

Your thoughts? E-mail me at *JohnstonsTake@tax.org*.

(Tables continue on next page.)

Reversing Trends*						
Percentile:	**90-95**	**95-99**	**99-99.5**	**99.5-99.9**	**99.9-99.99**	**99.99-100**
1950-1980	$48,041	$61,352	$73,950	$90,175	$ 137,764	$2,419,070
Percent	96.8%	78.0%	43.3%	29.3%	15.8%	80.1%
1980-2008	$29,497	$71,460	$198,404	$479,870	$2,228,724	$21,904,288
Percent	30.2%	51.0%	81.1%	120.5%	220.7%	402.8%

*From 1950 to 1980, the higher your income the less it grew, except at the very top. Since 1980 that trend has reversed, as shown by the percentage lines in the table above.

Slow Growth in Wages Continues

Year	Median Wage	Average Wage	Average to Median Gap
1990	$23,799	$33,112	$9,313
1991	$23,747	$32,958	$9,211
1992	$23,870	$33,644	$9,773
1993	$23,296	$32,947	$9,651
1994	$23,333	$32,987	$9,654
1995	$23,439	$33,363	$9,924
1996	$23,797	$33,991	$10,195
1997	$24,431	$35,168	$10,737
1998	$25,215	$36,441	$11,226
1999	$25,887	$37,640	$11,754
2000	$26,298	$38,708	$12,409
2001	$26,369	$38,258	$11,889
2002	$26,418	$38,040	$11,622
2003	$26,324	$38,102	$11,778
2004	$26,526	$38,839	$12,313
2005	$26,322	$38,941	$12,618
2006	$26,489	$39,458	$12,969
2007	$26,630	$40,106	$13,476
2008	$26,420	$39,511	$13,091
2009	$26,261	$39,269	$13,008
Change			
1990-2009	$2,462	$6,157	$3,695
Clinton	$2,428	$5,064	$2,636
G.W. Bush	$122	$804	$682
Obama	-$159	-$243	-$84

Source: Social Security Medicare Tax Database.

Fewer Workers at the Top and Bottom

	Number of Workers 2008	Number of Workers 2009	Change
Total workers	155,434,562	150,917,735	(4,516,827)
Income			
Under $45,000	113,150,737	107,761,758	(5,388,979)
$45,000 to $500,000	42,056,508	43,077,828	1,021,320
Above $500,000	363,177	299,184	(63,993)
Addendum			
Above $1 million	110,287	78,149	(32,138)
Above $10 million	3,065	1,620	(1,445)
Avg. income under $1 million	$37,895	$37,856	$(39)
Avg. income $1 million+	$2,519,583	$2,766,569	$ 246,985

Source: Social Security Medicare Tax Database (in 2009$).