National Economic Trends

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What Do You Get for "Sixteen Tons"?

You load sixteen tons, and what do you get?
Another day older and deeper in debt.

—Merle Travis

The chorus from Travis's 1947 song about the plight of coal miners might ring true for someone looking at average hourly earnings (AHE) of production and nonsupervisory workers. By this measure, as shown in the chart, the pay for an hour of work fell in real terms by 3 percent between 1975 and 2006. Is the average worker actually receiving less per hour of work today than 31 years ago? The answer is likely no. In fact, an alternative measure of compensation, national labor income per hour, increased 44 percent during this period. What accounts for these conflicting results and why do we conclude that the average worker's real compensation per hour has increased since the mid-1970s?

Both the AHE and the national labor income series are adjusted for inflation. However, AHE is adjusted using the consumer price index for all urban wage earners and clerical workers (CPI-W), while national labor income per hour is adjusted using the personal consumption expenditures (PCE) implicit price deflator. To calculate the purchasing power of an hour of work, it is more appropriate to use the PCE implicit price deflator to adjust for inflation because this index better reflects the basket of goods and services actually consumed. Contrary to the CPI-W, which assumes that the same basket of goods and services is purchased for several years, the PCE deflator is calculated using expenditures from the current and preceding period. After applying the PCE deflator, AHE show an 11 percent increase rather than a 3 percent decrease between 1975 and 2006.

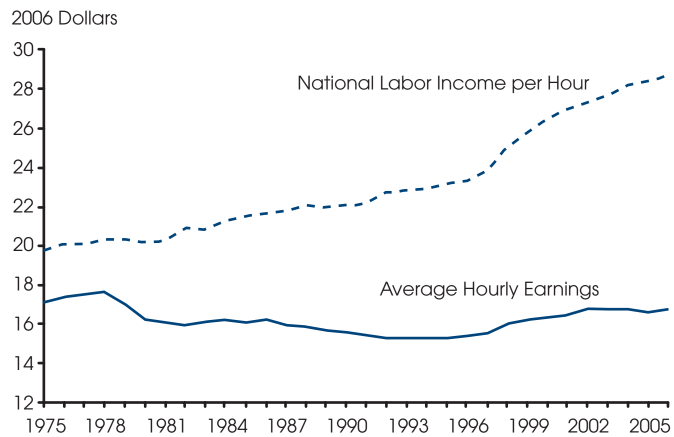
Another difference in the construction of the two data series is that national labor income per hour includes not only wages and salaries, but also fringe benefits. Given the importance of benefits to a worker's standard of living, we think many would disagree with the use of the label "fringe." The benefits of employer contributions to worker's pension and insurance funds and to government social insurance are included in national labor income per hour, but are not in the AHE series.[1] These benefits have become a larger share of worker compensation over time, rising from 14 percent in 1975 to 19 percent in 2006. Once the AHE data are adjusted to include estimated benefits per hour and the PCE deflator is applied, the calculated increase in real wages and benefits reaches 16 percent between 1975 and 2006.

Without question, the 16 percent increase in average hourly earnings following the two adjustments described above remains far short of the 44 percent increase in national labor income per hour. What accounts for the remaining difference is unclear. Part of the difference is likely due to the fact that the AHE is restricted to production and nonsupervisory workers. What is clear, however, is that the average worker is receiving more in 2006 for "sixteen tons" than 31 years ago.

—Cletus C. Coughlin and Lesli S. Ott

[1] For details on the construction of national labor income per hour and insights on distributional issues, see Fitzgerald, Terry J. "Has Middle America Stagnated? A Closer Look at Hourly Wages." Federal Reserve Bank of Minneapolis *The Region*, September 2007; www.minneapolisfed.org/pubs/region/07-09/wages.cfm.

Average Hourly Earnings vs. National Labor Income per Hour, 1975-2006



SOURCE: Bureau of Labor Statistics, Bureau of Economic Analysis.