NEW LABOR MARKET INDICATORS
UPDATED TRENDS THROUGH THE 2ND QUARTER OF 2005
ALTERNATIVE MEASURES OF LOW PAY

ISSUE 2

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1] SIGNIFICANT TRENDS

- The SCEPA underemployment rate has hovered around 35%, since early 2002, after fluctuating around 33% in 2000-1. The last two quarters suggest that the underemployment rate may be improving, pulled by the recent declines in the unemployment rate.

- Since the start of 2002, the SCEPA adequate employment rate has been fairly stable, fluctuating between 41.1 and 42.3%. This compares to a rate in the neighborhood of 44% in 2000-1.

- The distinctive feature of both these new indicators is that they take into account low wage employment. The low wage share of employment has been quite stable at around 30% since early 2002. Four years into the recovery, we have seen no significant improvement in this measure job quality.

- Comparing six alternative low wage thresholds, since the 2001 recession, underemployment has ranged from 27% to 44% of the labor force and adequate employment from 35% to 52% of the working age population.

2] INTRODUCTION

Our previous Labor Market Indicators report (Issue #1) introduced two new indicators designed to supplement two of the government’s key labor market indicators, the unemployment rate and the employment rate. These new indicators are intended to add a job quality dimension to better measure the nation’s labor market performance. The SCEPA Underemployment Rate measures the share of the labor force that is unemployed, paid very low wages, or works involuntarily part-time. The SCEPA Adequate Employment Rate measures the share of the working age population employed at jobs paying above the low-wage threshold and not working involuntarily part-time.

Issue #1 described in some detail the justification and methodology for constructing these measures and we refer the interested reader to this discussion. This report updates our indicators through the 2nd quarter of 2005 and includes a discussion of the measurement of low pay.

How we measure the incidence of low paid employment is of particular interest since the primary distinguishing feature of our new SCEPA labor market indicators is that they take into account low pay. Since there are many reasonable low wage thresholds, it is important to put the one we have chosen to use in perspective.

Our low wage threshold is defined as 2/3 of the median wage for full-time workers, the same as that used by the Organization for Economic Cooperation and Development (OECD) for their measure of low pay across countries. In this report, we show how this low wage threshold compares to three alternatives “relative” measures: 1/2 of the median, 2/3 of the mean, and 1/2 of the mean. We also present two “absolute” measures: the 2/3 median in 1979, adjusted by changes in the cost of living; and the government’s 3-person family poverty wage, assuming full-time work (1750 hours). For each of these alternative cutoffs, we then show the low wage share of employment and our two SCEPA labor market indicators: the underemployment and adequate employment rates.
As can be seen in Table 1, the official unemployment rate of the Bureau of Labor Statistics fell in the first quarter of 2005 from 5.4 percent in the fourth quarter of 2004 to 5.3 percent and fell again to 5.1 percent in 2005:2. This is a substantial improvement over the 2002-4 average of 5.8 percent, shown on the right side of this table.

The SCEPA Underemployment Rate (SCEPA-UR) also fell sharply in the first quarter of 2005, from 35.3 percent in 2004:4 to 34.3 percent, but rose slightly to 34.7 percent in the 2nd quarter.

Chart 1 provides slightly longer quarter-by-quarter perspective. Clearly, both the standard unemployment rate and the SCEPA-UR have edged down over the last two years, but remain well above their pre-recession levels. It is also notable that the two indicators appear to move together (e.g., unemployment peaked in the middle of 2003 and the SCEPA-UR peaked at the end of 2003, and both have been falling since). After fluctuating around 33 percent in 2000-1, since early 2002 the SCEPA underemployment rate has hovered around 35 percent. The last two quarters suggest that it may now be moving downward, pulled by the recent declines in the unemployment rate.

Table 2 breaks out the three components of the SCEPA-UR to provide an indication of what is driving this recent improvement. These components are the unemployed, wage and salary workers paid low wages (less than 2/3 of the median wage of full-time wage and salary workers), and all involuntary part-time workers. Again, the SCEPA-UR is the ratio of these underemployed to the wage and salary labor force (the wage/salary employed and the unemployed; the self-employed are excluded).

Table 2 shows that the rise in the SCEPA-UR (34.3 percent to 34.7 percent) over the last two quarters reflects an increase in the low wage rate (from 27.8 percent to...
28.3%), which eliminated about half of the reduction (improvement) in the low wage share between the two previous quarters (2004:4 to 2005:1). The wage data are unstable quarter to quarter so it is not surprising that the very large decline in 2005:1 was partly compensated by an increase in 2005:2. As Table 2 shows, the low wage share of the labor force in 2005:2 was nearly identical to the 2002:1-2004:4 average (28.3% versus 28.4%).

This stability in the main component of the SCEPA Underemployment rate can also be seen in a closely related, underlying indicator: the low wage share of employment. Chart 2 presents the low wage share of wage/salary employment for the period since 2000. The 3-quarter moving average (the dark line) shows nearly perfect stability in the low wage share of employment at around 30% since early 2002. Four years into the recovery, we have seen no improvement in this measure job quality.

Table 3 presents the standard employment rate and our new SCEPA-Adequate Employment Rate (AER), which measures the share of the working age population employed at wages above 2/3 of the median wage of full-time workers and not working involuntarily part-time. While the standard employment rate improved slightly in 2005:2 (from 62.3% to 62.7%), the SCEPA-AER declined slightly to 42% (from 42.3%). Both indicators remained close to their 2002-4 averages.

Chart 3 shows that both the standard employment rate and the SCEPA-AER remain well below their pre-recession levels. Both indicators show steady declines (worsening) from 2000 through mid-2003 and stability since (though there is a hint of improvement in the most recent two quarters).

Table 2: Components of the SCEPA Underemployment Rate

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<tbody>
<tr>
<td>Unemployed share of the labor force</td>
<td>5.3%</td>
<td>5.3%</td>
<td>5.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Low-wage share of the labor force</td>
<td>28.3%</td>
<td>27.8%</td>
<td>28.7%</td>
<td>28.4%</td>
</tr>
<tr>
<td>Involuntary part time share of the labor force</td>
<td>1.1%</td>
<td>1.1%</td>
<td>1.0%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

1 These figures are for the wage and salary labor force (they exclude self-employed workers). As described in issue #1, we exclude the self-employed because we have no wage data with which to determine the quality of their jobs. See Technical Definitions in SCEPA: “An Introduction to the SCEPA Labor Market Indicators.”
Chart 3 also shows that, broadly speaking, the SCEPA-AER tracks the standard employment rate over this period. But the changes in the low wage share of employment, shown in Chart 2, are visible here. While the decline in the employment rate took place mainly during the recession (the shaded area), the sharp decline in the SCEPA-AER occurred after the recession, reflecting the striking rise in the share of low wage jobs that appears in Chart 2. With the stability of the low wage share since mid-2003, the SCEPA_AER has, like the standard employment rate, been stable. Since the start of 2002, the SCEPA adequate employment rate has been stable, fluctuating between 41.1 and 42.3%.

5] USING ALTERNATIVE LOW-WAGE THRESHOLDS

We present the 2000-5 annual trends for six alternative low wage thresholds in Chart 4. Four are measured by reference to the mean or median for all full-time workers. Two others are more “absolute” in the sense that they measure a standard at one point in time and their trends reflect only changes in the cost of living: the 2/3 median for full-time workers in 1979, and the 3-person family poverty wage (assuming 1750 hours per year).

All show upward trends of similar magnitudes since 2000. The cutoff we have chosen for our underemployment and adequate employment rates is the 2/3 median for full-time wage and salary workers, which was $10.59 in the 2nd quarter of 2005.

Using the median as a reference point makes sense if you think low pay should be defined in relative terms, since by definition half of those employed are paid above and half below it. But the median changes over time in real terms (what it can buy), so we have also included the real value of 2/3 of the 1979 median. As the chart shows, using the 1979 wage would lower the cutoff to $10.13.

Three other alternatives also produce lower wage cutoffs (and fewer low wage jobs): ½ of the mean ($9.34), the poverty wage ($9.13), and ½ of the median ($7.94). On the other hand, if the reference point

Table 3: Employment and Adequate Employment Rates, 2002-2005

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<tbody>
<tr>
<td>BLS Employment Rate</td>
<td>62.7%</td>
<td>62.3%</td>
<td>62.4%</td>
<td>62.4%</td>
</tr>
<tr>
<td>SCEPA Adequate Employment Rate</td>
<td>42.0%</td>
<td>42.3%</td>
<td>41.7%</td>
<td>41.8%</td>
</tr>
</tbody>
</table>

2. The low wage share of the labor force includes the unemployed in the denominator (the labor force consists of the employed and the unemployed). By looking at the low wage share of employment we can more clearly see the relative contributions of unemployment and low wage employment to changes in the SCEPA Underemployment rate.
is the mean and we were to stay with a 2/3 criterion, since there has been so much growth at the top of the wage distribution, we would have a much higher low wage cutoff, $12.46 (and many more low wage jobs!).

By these criteria, has the real value of these low-wage jobs risen in recent years? Chart 5 shows that, since 2000 the answer is no for the two mean measures and only slightly for the two median ones. This reflects the well-documented stagnation in earnings for the vast majority of wage and salary earners since the late 1990’s business cycle peak.

Charts 6 and 7 present the SCEPA underemployment and adequate employment indicators for each of the six alternative low wage cutoffs for 2000 through 2005:2.

Chart 6 shows that SCEPA underemployment using our 2/3 median measure has been stable since 2003 at about 35%, above the 2000-1 levels. This was also the case for the 1/2 median cutoff, which produces an underemployment rate of 20-1%. In contrast, using the mean as a reference point, underemployment in the post 2002 period is about the same as
in 2000-1: about 27-8% with the 1/2 mean criterion, and about 43-4% if 2/3 of the mean is the cutoff.

The six alternative cutoffs produce SCEPA adequate employment rates that have been fairly stable since the 2001 recession, ranging from 51-52% for 1/2 of the median to 35-7% for 2/3 of the mean.

One way to interpret these results is that unless we choose a low wage cutoff that is currently below $8 per hour, the U.S. economy produces enough “adequate” jobs for less than half of the workforce (defined as the civilian, non-institutional working age population).