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Report: Low pay derailing recovery

By Stephen J. Glain, Globe Staff | August 7, 2004

WASHINGTON -- Not only has the rate of new job growth stumbled badly, as shown by yesterday's payroll report, but the jobs that are being created do not pay enough to sustain the country's fragile economic recovery, according to economists.

The preponderance of low-paying jobs coupled with high gas prices are undermining consumer spending, the economy's sole engine of growth as the stimulative impact of tax cuts and rising defense spending exhaust themselves. Consumption in June fell to its lowest level since the terrorist attacks of Sept. 11, 2001.

"The labor market will continue to remain tough for both the employed and those persons seeking new jobs," said Peter Morici, an economics professor at the University of Maryland. "Wages will only grow modestly, more workers will be compelled to accept positions without health benefits, and benefits packages generally will continue to deteriorate."

The rate of new job growth has slowed dramatically in the past two months after an encouraging spring and an average economic expansion in the past three quarters of 5.4 percent, the most robust sustained growth rate in 20 years. Despite yesterday's dismal jobs report, the economy has added 177,000 new jobs per month this year on average, according to the labor department, similar to the pace of new employment recorded during the booming 1990s.

But many of the new jobs either pay too little to invigorate consumer spending or are part-time positions that offer no benefits, economists say. Of the 3.1 million jobs created since last August, nearly two-thirds are in low-wage industries, according to several reports issued recently by banks and economic research groups. For the labor market as a whole, according to Stephen Roach, chief economist for Morgan Stanley, inflation-adjusted wage growth has declined, with average hourly earnings growing by 2 percent on a year-to-year basis, compared with 3.1 percent growth in consumer prices.

Analyzing inflation data for June, the pro-labor Economic Policy Institute last month reported that the average inflation-adjusted hourly wage of blue-collar workers in manufacturing and non-managers in services was \$15.65 last month, compared with \$15.69 in November 2001, the month widely regarded as the end of the recession that began in March 2001.

Higher productivity means much of the jobs shaken out by the recession are gone for good, economists say. At the same time, they add, employers unnerved by external events -- primarily high oil prices and the conflict in Iraq -- are making do with temporary hires. The number of part-time workers rose by 5.2 percent, according to CIBC, a Canadian investment bank -- slightly outpacing the growth in full-time employment since 2002. Meanwhile, the number of self-employed workers rose by just less than 5 percent, well ahead of the 1.7 percent growth among regular employees. Of the recently self-employed, one in three started their own businesses out of necessity, according to CIBC, rather than choice.

Indeed, one of the few employment-growth sectors is in temporary hiring. Tom Gimbel, chief executive of The LaSalle Network, a Chicago-based temporary-employment agency, says business has grown by 100 percent in the past 2 years.

Economists disagree over how long it will take for wage rates to return to pre-recession levels. Roach said sluggish payrolls are the byproduct of "global labor arbitrage" -- what some analysts call outsourcing -- as companies cut overheads by moving high-paying jobs overseas. But Mark

Zandi, an economist at Economy.com, says wage growth is traditionally a lagging indicator of a rebounding economy.

"This is to be expected," Zandi said. "I would not anticipate the quality of new jobs would remain this poor for an extended period."

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