One Reason for Slow Wage Growth? More Benefits

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By Binyamin Appelbaum

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WASHINGTON — One of the most perplexing questions about the nation's economic recovery is why a tight labor market has not translated into faster wage growth. Part of the answer appears to be that American workers are receiving a growing share of compensation in the form of benefits rather than wages.

The average worker received 32 percent of total compensation in benefits including bonuses, paid leave and company contributions to insurance and retirement plans in the second quarter of 2018. That was up from 27 percent in 2000, federal data show. The rising cost of health insurance accounts for only about one-third of the trend. And the data do not include the increased prevalence of nonmonetary benefits like flexible hours or working from home, or perks like gyms and "summer Fridays."

Best Buy, the electronics retailer, began in July to offer four weeks of paid time off to its employees, including part-time workers, to take care of family members. The company decided that paid leave was the best way to show appreciation for its employees, said Jeff Shelman, a company spokesman. "Our philosophy is that our employees are our most important asset, and we want to take care of them and allow them to take care of the people that matter most to them in their lives," he said.

For many workers, the returns from one of the longest economic expansions in American history have been paltry. Wages have grown more slowly than the economy in the wake of the 2008 crisis, and faster growth in recent months has been offset by rising inflation. Between August 2017 and August 2018, the most recent available data, average hourly wages increased by 2.9 percent, but after adjusting for inflation, the increase was just 0.2 percent, according to the Labor Department's flagship survey.

Even including nonwage benefits, the growth of compensation is very slow by historical standards.

But the shift toward nonwage compensation has helped to persuade the Federal Reserve to keep pushing up interest rates. The central bank is expected to increase its benchmark interest rate on Wednesday for the fourth consecutive quarter, to a range between 2 and 2.25 percent. Asset prices already reflect the full increase, leaving only the formality of the Fed's announcement, scheduled for 2 p.m.

Some economists outside the Fed argue the weakness of wage growth is evidence that employers are still tapping a plentiful supply of workers. While the unemployment rate is just 3.9 percent, they note that an unusually large proportion of American adults are neither working nor looking for work.

Fed officials have predicted faster wage growth is on the way. But in the September edition of its "beige book" survey of economic conditions, the central bank also noted the turn toward nonwage compensation. The survey said that companies seeking workers, rather than baiting their hooks with wage increases, "were increasingly using benefits — such as vacation time, flexible schedules and bonuses — to attract and retain workers, as well as putting more resources into training."

The Boyd Group, a Canadian auto repair company that operates in the United States as Gerber Collision & Glass, said it was struggling to hire enough technicians to meet the demand for repairs. So the company plans to spend $4.5 million this year to sweeten benefits for its United States workers, including additional paid vacation and larger contributions to employees' 401(k) retirement accounts.

"The objective is to make ourselves a more attractive employer within the context of the collision repair industry and, therefore, take advantage of opportunities to attract people from our competitors," Brock Bulbuck, the company's chief executive, said on a conference call with investors in May.

The White House Council of Economic Advisers arguedthis month that the economic performance, and the benefits for workers, should be judged by the growth of total compensation rather than wages.

Even using the White House measure, there is no sign of an acceleration in compensation since President Trump took office, but Michelle Meyer, an economist at Bank of America, said it made sense to use broader measures. "I think it goes back to the idea of whether our old models are as valuable as they once were," she said. "The story changes over time, and I do think the fact that there are other ways of being compensated means that simply looking at average hourly earnings is not going to be a comprehensive measure of how the economy is responding to tightness in the labor market."

Companies have kept most of the benefits of economic growth in recent years in the form of higher profits, so the shift toward benefits appears to be a rare example of workers getting something they want, albeit a consolation prize. There is longstanding evidence that workers would prefer a larger share of compensation in the form of benefits. Unionized workers, who have greater leverage to negotiate the mix of wages and benefits, have long used that power to insist on better benefits. The average unionized worker last year received 40 percent of their compensation in the form of benefits, compared with just 29 percent for the average non-unionized worker, the federal data shows.

“Employers mostly care about the level of compensation, so the composition of it, they’d generally be glad to do what their workers want them to do,” said Josh Bivens, the director of research at the liberal Economic Policy Institute. “When workers actually have an effective voice, the benefit share tends to be a little higher.”

Employers, too, may prefer to offer increased compensation in the form of benefits, because they may find it easier to cut benefits during a downturn.

“You can increase benefits, bonus payments and other perks to keep your workers happy without creating a permanent adjustment in how they’re compensated,” Ms. Meyer said. “If they go away, it doesn’t give the same perception of a change in their value to the company.”

The rise in nonwage benefits is not spread evenly across the work force. Jared Bernstein, an economist at the Center on Budget and Policy Priorities, calculated that benefit compensation has increased 15 percent since 2009 for workers in the 90th percentile of the income distribution, while workers in the 10th percentile are receiving less such compensation than they did in 2009.

For the median worker, benefit compensation has increased 5 percent.

“When I talk with blue-collar or service workers, they’re generally pretty unhappy about wage stagnation and about inadequate benefits,” Mr. Bernstein said.

The benefit that appears to be in the highest demand is paid time off.

The Society for Human Resource Management, which conducts an annual survey of the benefits offered by more than 3,500 corporations, reported that the share of participants offering paid maternity leave increased to 35 percent in 2018 from 26 percent in 2016. It also reported a significant increase in the share of companies offering paid leave to fathers, adoptive parents and surrogate parents.

One recent survey reported that the share of Fortune 1000 companies offering “summer Fridays” — days on which employees were allowed to leave early for a long summer weekend — doubled from 21 percent in 2015 to 42 percent in 2018.

The White House Council of Economic Advisers calculates that increasingly generous paid leave benefits mean that the average American worker is getting an additional half-day of paid leave each year, compared with five years ago.

Large companies are more likely to offer such benefits. In February, Lowe’s became the last company among the nation’s 20 largest employers to offer paid parental leave to its salaried and full-time hourly employees. The company now pays for mothers to take 10 weeks of leave, and for fathers to take two weeks off.

In surveys, younger workers often place a greater emphasis on benefits, and some analysts expect the shift toward nonwage compensation to continue as the millennial generation replaces the baby boomers in the work force.

Ms. Meyer, the Bank of America economist, pointed to the tech industry as a harbinger. The median employer in the tech industry, she said, spends about 2.5 times as much on paid leave benefits as the median employer across the economy as a whole.

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