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**Columnists**

## Wages Lagging Behind Prices

• Inflation has outpaced the rise in salaries for the first time in 14 years. And workers are paying a bigger share of the cost of their healthcare.

By Nicholas Riccardi, Times Staff Writer

For the first time in 14 years, the American workforce has in effect gotten an across-the-board pay cut.

The growth in wages in 2004 and the first two months of this year trailed inflation, compounding the squeeze from higher housing, energy and other costs.

The result is that people like Victor Romero are finding themselves falling behind.

The 49-year-old film-set laborer had to ditch his \$1,100-a-month Hollywood apartment because his rent kept rising while his pay of \$24.50 an hour stayed flat.

"There's no such thing as raises anymore," Romero said.

This is the first time that salaries have increased more slowly than prices since the 1990-91 recession. Though salary growth has been relatively sluggish since the 2001 downturn, inflation also had stayed relatively subdued until last year, when the consumer price index rose 2.7%. But wages rose only 2.5%.

The effective 0.2-percentage-point erosion in workers' living standards occurred while the economy expanded at a healthy 4%, better than the 3% historical average.

Meanwhile, corporate profits hit record highs as companies got more productivity out of workers while keeping pay increases down.

Some see climbing profits and stagnant wages as not only unfair but also ultimately unsustainable. "Those that are baking the larger pie ought to see their slices expanding," said Jared Bernstein, an economist with the liberal Economic Policy Institute in Washington.

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But higher wages could hurt the economy by stoking inflation further. Employers might pass the costs on to consumers in higher prices, and that in turn might prompt the Federal Reserve to raise interest rates more aggressively, possibly slowing the recovery or even triggering a recession.

For now, workers' wallets are being pummeled by something of a perfect storm of economic forces: a weak job market, rising health insurance premiums and other inflationary pressures.

The biggest factor is the slack employment market, which means there is little pressure on businesses to boost pay. "They take advantage of you because there's no work and anyone will work for anything," Romero said.

Although the unemployment rate has dropped to a relatively low 5.2%, that figure doesn't count the hundreds of thousands of jobless people who've given up their searches and dropped out of the labor market at a greater rate than anytime since 1988. At the same time, the cost of health premiums has skyrocketed, eating into the pool of corporate cash set aside for raises. Although pay rose only about 2.4% last year, benefit costs jumped almost 7%.

With benefits factored in, workers' total compensation did outpace inflation in 2004, even if they didn't see it in their paychecks. But employers also are requiring workers to pay a greater share of their premiums.

"Healthcare has eroded the wage base," said Janemarie Mulvey, chief economist with the Employment Policy Foundation, a business-funded think tank in Washington.

"In the long run, we can't continue like this. If healthcare keeps crowding out wages forever, something's got to give."

The squeeze is especially intense on the 47% of the workforce whose employers don't directly provide their health insurance. For lower-income workers, who are more likely to be uninsured, the falling value of their wages is even more serious because they're more likely to live paycheck to paycheck. And rising food and energy prices take a proportionately higher toll on the poor than on the rich.

Historically, periods when wage growth is outpaced by inflation rarely last more than 18 months. That's partly because businesses don't want their employees' living standards to fall, as that injures morale, said Trewman Bewley, a Yale University economist who has studied wage activity during economic downturns.

Many economists figure it's only a matter of time until workers can pry more money out of their employers to catch up to inflation again. If economic growth remains robust, as many forecasters predict, workers may gain greater leverage to negotiate wage hikes.

"Chances are that those workers that have problems getting by because of higher fuel prices will probably tell their employers, 'I can't make it,'" said John Lonski, chief economist at Moody's Investors Service.

That hasn't played out for Brian Chartier. The 29-year-old Glendale resident handles inventory for a Los Angeles manufacturing company. No one there, he said, has gotten a raise in two years.

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"They're able to do this and I haven't quit, because where am I going to go?" he said. "There are no jobs."

While his salary remained flat, rising healthcare premiums kept eating up more and more of Chartier's take-home pay, so he dropped out of his employer's insurance program. His rent is also climbing.

As Chartier loaded bags of groceries into his Honda Civic last week, he boasted that they were full of bargains. "I don't get a single thing that's not on sale," Chartier said. "I can't afford to anymore."

Despite the failure of their wages to keep pace with inflation, American consumers have kept shopping. Consumer spending has continued to rise. Analysts say that's partly because some shoppers are thinking less about their paychecks and more about their biggest asset: their homes.

Home prices rose 21.1% in Southern California and 9% nationwide from February 2004 to February 2005, sheltering consumers, and the economy, from much of the pinch of higher prices.

"There's been a wealth effect afoot throughout much of the recession and the recovery," said Bernstein of the Economic Policy Institute, "because no matter what people's incomes were doing, their wealth was improving — their biggest assets, their homes, were accruing."

As inflation sparks higher interest rates, most economists expect the housing market to cool, making shoppers more dependent on their paychecks. And even those who have seen their paper wealth rise phenomenally aren't happy about rising costs and stagnant pay.

Corina Swatz has seen the value of her Silver Lake home triple in about a decade. But neither she nor her husband has gotten a raise in more than a year. Meanwhile, gas prices have forced them to shell out \$55 to fill the tank of their Chevy Tahoe.

"I used to spend \$600 a month [on groceries]. Now I spend \$800," Swatz, a mother of two, said as she made her weekly Costco run last week. The increased value of her home gives her only so much solace. "We're hanging in there."

The danger is that people like Swatz, despite their home equity cushion, may pull the rug out from under the economic expansion by reining in their spending.

That's what Gabriel Torres has done. The 56-year-old cook, who lives in Hollywood, hasn't gotten a raise in years but pays ever-higher prices to fill his Nissan Xterra. He and his wife have come up with a solution: Cut down on driving.

"We don't go out much," Torres said. "We used to. But now we only drive when we really have to."

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