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Coming soon: paychecks with more zeros

After a fallow period, Greenspan and others see business expanding and wages rising.

By Ron Scherer | Staff writer of The Christian Science Monitor

NEW YORK - Last year Alan Greenspan received a very modest 1.5 percent pay raise, moving his salary up to $174,500 per year. The year before was only a little better: an increase of 3.1 percent.

Even if most Americans don't make that much money, those small salary increases will resonate with most wage earners. But, according to Mr. Greenspan, better days are ahead. He recently told a congressional committee that he could foresee a time during this economic cycle when business would expand, adding new jobs. The labor market would tighten and *voilà*: Companies would pay more for their carpenters, pipe fitters, and draftsmen.

"The way that happens is that they start to hire and bid up wages in the process, and that's the process by which compensation of employees rises relative to the national income and eventually starts a new cycle," says the Federal Reserve chairman.

If Greenspan is correct, it would be a big, and potentially important, change in the economy. Every 1 percent rise in salaries adds about $53 billion to the economy. That's equal to one-third of this year's tax cut, some of which will then expire. A 1 percent rise in salaries may be enough to power consumer spending, which represents about two-thirds of the economy. And it might keep the economy from faltering next year.

"We will need rising incomes to sustain economic growth in the absence of a tax cut and low interest rates," says Sung Won Sohn, chief economist at Wells Fargo Banks in Minneapolis.

If employers do become more generous, it would mark a change. Last year, wages rose 2.9 percent and the year before 2.7 percent. By contrast, during the boom years of the 1990s, they rose as much as 5 percent.

At the end of this week, investors will get a chance to see if there has been much change when the government releases the first-quarter employment cost index, which measures how much wages are rising. Economists are anticipating another modest gain.

"It [the ECI] has been as high as 1.3 percent and is averaging about 1 percent per quarter," says Roger Kubarych, an economist with HVB Group, Germany's second largest bank. "If it goes much beyond that, it would be a red flag to the Fed" because of inflation concerns.

Mr. Kubarych, who closely watches labor trends, agrees with Greenspan's conjecture that wages will start to rise. But he expects the timing to take longer. "I think there's another year when wages and salaries will show only a slight increase," he predicts.

One reason that compensation is remaining modest is that wage hikes are not high on workers' negotiating lists. Instead, the major issue is health benefits, since employers are trying to rein in or transfer rising costs to workers. Last year, healthcare costs grew by 6.5 percent and in 2002 increased by 4.7 percent. "In virtually every negotiation, unions are under serious pressure to make

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concessions on healthcare," says Paul Clark, a professor of labor studies and industrial relations at Pennsylvania State University.

That's one of the major issues between the Communications Workers of America, representing 100,000 workers, and SBC, the Denver-based telecom company. It was also a major bargaining point between food workers and Giant Foods and Safeway. They agreed to a modest wage increase of $1.25 per hour over four years and an increase in their healthcare deductible and copay on prescription drugs.

"There is an insistence by the unions who feel it [healthcare] is a bedrock benefit they must hang on to," says Richard Bank, director of the Center for Collective Bargaining at the AFL-CIO in Washington.

Another reason wages have not risen much is the large overhang of workers waiting to get back in the market. According to the Bureau of Labor Statistics, about 8.3 million workers are looking for a job. That has allowed companies like Phoenix-based SurfNet Media Group, which has 60 employees, to keep costs down. "We are able to hire at very favorable wage rates," says Robert Arkin, the CEO. "Wages have remained level, but in a few cases they have gone down."

Other businesses, however, are starting to see a change. In Washington, Bill Angrick, CEO of Liquidity Services Inc., which is an online auctioneer of surplus industrial equipment, has had to increase wages from 3 to 10 percent. And to keep and attract new people, the company is absorbing an 18 percent increase in healthcare costs.

"We are in a very competitive market," says Mr. Angrick, "and as a business that is intent on retaining and hiring the best people for the job, we have stepped up."

Phoenix-based Duffy Group Inc., an executive search and business consulting firm, is also seeing signs of rising compensation. As client companies have exit interviews with departing workers, the interviewers are finding that compensation is one reason employees are leaving. They then turn to Duffy to find out what they should be paying. "A lot of companies are now doing surveys with us to make sure what they are paying is at or above the market," says Scott Smith, senior vice president.

Greenspan figures that companies can now afford to pay more since their profits have soared. And as long as they don't pass the costs on, he's not concerned about any inflationary effects. But he adds, "Should such an acceleration of costs persist, however, higher price inflation would inevitably follow."

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