Measured In Gold, The Story Of American Wages Is An Ugly One

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By Keith Weiner

Workers' wages buy less and less. In fact, workers have lost purchasing power during the past half-century. Comparing prices to wages, the Consumer Price Index (CPI) rose more than six times from 1965 to 2011—while the minimum wage rose less than five times.

Professionals also suffered. According to the Engineering Workforce Commission, a senior engineer's salary has gone up about five and a half times. In short, workers work longer to earn money to buy the same goods.

Today's minimum wage employee works 12 percent longer to earn a gallon of milk compared to 1965, according to the Bureau of Labor Statistics. Today's senior engineer works almost twice as long to buy a gallon of gasoline, according to the Department of Energy.

So, in real terms, wages have fallen. The drop is larger than it appears. Look at costs to see why.

Dairy farm statistics show that a cow produces two and a half times the milk compared to yesteryear's cow and the Department of Commerce reports that labor per cow has fallen by two thirds. These two improvements alone—there are others—eliminate about 87 percent of the effort to make milk.

Efficiency is not the only way for companies to reduce costs. Businesses also remove certain features that consumers don't want to pay for. For example, milk used to be delivered to a home in a glass bottle. Today it comes in cheap plastic containers that consumers pick up at the store. A more recent example is wine, which is moving from expensive corks to cheaper screw tops.

Yet as fewer labor hours go into producing goods, workers work longer to buy the goods. Using the hour as a measure of costs, we can calculate how much more work a wage earner must produce to buy milk today. But it's harder to measure the reduction of work that goes into production. We know that it's less by empirical evidence, but we only get a sense of it.

By switching to gold, we can measure both wages and prices on an absolute scale—in ounces—and we can make precise comparisons. To convert the price of anything to gold, just divide the price by the current gold price. For example, in 2011 if a big-screen TV was $785, then divide that by the gold price of that year; the television set cost half an ounce of gold.

The bottom line is that, in terms of gold, wages have fallen by about 87 percent. To get a stronger sense of what that means, consider that back in 1965, the minimum wage was 71 ounces of gold per year. In 2011, the senior engineer earned the equivalent of 63 ounces in gold. So, measured in gold, we see that senior engineers now earn less than what unskilled laborers earned back in 1965.

That's right: today's highly skilled professional is making less in real, comparative terms than yesterday's unskilled worker.

When measured in dollars, wages and prices appear to be rising and, comparing wages to prices, we see only a small loss of purchasing power. However, prices do not tell the whole story, because they reveal nothing about costs. Costs also fell and this explains why the apparent drop in the real wages seems small.

But measured in gold—and this is crucial to understanding why we need a gold standard—we see reality with clarity.

Incomes are about one tenth what they were in the 60's. Prices are down too, but not as much.

People who work for a living—those who produce every good and service—are being steadily and severely marginalized.

Business constantly seeks and often finds ways to reduce costs and increase production. Goods are produced more efficiently today than they were 50 years ago. In a single hour, a worker today produces more than a worker did in the past. So the wage from an hour's worth of effort ought to be able to buy more than it did, then. Everyone should benefit by producing more with less.

Yet the opposite is true, which is a profound injustice. Not only does the worker not benefit from higher productivity, he is falling farther and farther behind. This explains why today's worker, skilled or unskilled, feels powerless—stuck on a treadmill with no stop button. The first step to liberating him is measuring prices and wages in gold.

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