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Lowest-paid workers will likely feel the pinch of cooling economy first

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A big part of what the Federal Reserve is trying to achieve by pulling out all the stops to fight inflation is to cool down the "extremely tight" labor market of the past few months. Jay Powell has said it before and he said it again Thursday on Capitol Hill.

The operative metaphor includes the keywords "goose" and "golden egg." The goose is the incredibly strong job market, while the golden eggs are lots and lots of job openings, very low unemployment and wage growth — especially for the least-educated and lowest-earning workers.

So, in this metaphor, what the Fed is doing is trying to take away some of those golden eggs without killing the goose.

It's pretty much a maxim of labor economics that the least-educated and lowest-paid workers tend to be the last hired and first fired and face the slowest recovery from recession. But things have been really different since the pandemic, said **Bernard Baumohl at The Economic Outlook Group.**

"We have seen — really for the first time in modern economic history — people who have been stuck in low-wage jobs, menial jobs, be hired and trained to get better-paying jobs."

Overall, wages are growing at 5.2% a year. But wages for some of the lowest-paid workers — those in bars and restaurants, truck-driving and warehousing — are up well over 11%. There's simply been too much demand for service workers and not enough supply. But this dynamic is fragile, according to Heidi Shierholz at the Economic Policy Institute.

"Faster-than-normal wage growth was already starting to moderate," she said. "The Fed action will really accelerate that. We will see a lot of slowing of wage growth."

And, as job growth slows further and there's less competition for workers, "there is really no sugar-coating this: Using the Fed to get inflation down causes hardship," said Claudia Sahm, a former economist at the Federal Reserve. "And we know that anytime there is hardship, it always goes at the people who have the least."

On the Fed's current course, said **Bernard Baumoh**l, slowing job and wage growth at the bottom is probably inevitable.

"Then, unfortunately, the very positive social change that we've seen in the job market will start to retreat," he said. "And that's really a tragedy."

There is one silver lining though: All of those wage gains racked up over the past two years are probably here to stay, because employers rarely cut wages once they've raised them.

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