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The Agenda to Raise America's Pay

This is the policy agenda of Raising America's Pay, a multiyear research and public education initiative of the Economic Policy Institute to make wage growth an urgent national policy priority.

There is now widespread agreement across the political spectrum that wage stagnation is the country's key economic challenge. Wages for the vast majority of American workers have stagnated or declined since 1979—and wage stagnation's reach has broadened over the last dozen years to include college-educated workers.

This is not a crisis of overall income growth. Over the same period that most workers' wages have stagnated, economy-wide productivity has risen by 64 percent. In short, the *potential* has existed for adequate, widespread wage growth over the last three-and-a-half decades—but these economic gains have not trickled down to the vast majority.

As EPI's Raising America's Pay initiative shows, wage stagnation is not inevitable. It is the direct result of public policy choices on behalf of those with the most power and wealth that have intentionally suppressed wage growth.

Because wage suppression stems from intentional policy choices, it can be reversed by making different policy choices. To boost Americans' wages, policymakers must intentionally tilt bargaining power back toward low- and moderate-wage workers. The following policies will generate robust wage growth and ensure that America's prosperity is broadly shared.

Section 1: Labor market institutions, labor standards, and business practices

Several of these policies concern the anti-worker business practices, eroded labor standards, and weakened labor market institutions that have reduced workers' individual and collective power to bargain for higher wages in recent decades. To raise America's pay, policymakers should:

1

Raise the minimum wage

In 2015, the inflation-adjusted minimum wage is about 25 percent below what it was in 1968—even though productivity has doubled and the education and skills of those in the bottom fifth have greatly improved. Moving the minimum wage to $12 by 2020 would benefit about a third of the workforce directly and indirectly.

2

Update overtime rules

The share of salaried workers eligible for overtime has fallen from 65 percent in 1975 to just 11 percent today. This is largely because only those earning less than $23,660 (a poverty-level wage) are covered by the Fair Labor Standards Act regardless of their workplace duties. Fortunately, President Obama has instructed the Department of Labor to revise this salary threshold. If we move the threshold to the value it held in 1975—roughly $51,000 today—we would provide overtime protections to 6.1 million more workers. This would provide them with higher pay and/or more leisure time, while providing incentives for companies to hire more workers.

3

Strengthen collective bargaining rights

The single largest factor suppressing wage growth for middle-wage workers over the last few decades has been the erosion of collective bargaining, which has affected both union and nonunion workers alike. Making it easier for willing workers to form unions, increasing penalties for corporate violations of labor laws, and halting and reversing the spread of so-called right-to-work laws will help give workers the leverage they need to bargain for better wages and benefits and set high labor standards for all workers.

4

Regularize undocumented workers

Undocumented workers are vulnerable to exploitation by unscrupulous employers. Consequently, they earn lower wages than workers who have greater access to legal protections and are able to switch jobs more readily. Executive actions to regularize undocumented workers, such as those the Obama administration is pursuing, or comprehensive immigration reform that provides a path to citizenship are polices that will enable these workers to earn higher wages. Regularizing undocumented workers will not only lift their wages, but will also lift wages of those in the same fields of work.

5

Provide earned sick leave and paid family leave

The United States has failed to adopt new labor standards that respond to emerging needs. In particular, we need updated standards to assist workers and their families in achieving a better balance between work and family. Providing earned sick leave and paid family leave would help to raise workers' pay—and would give them more economic security.

6

End discriminatory practices that contribute to race and gender inequalities

Generating broader-based wage growth must also include efforts to close race and gender inequities that have been ever-present in our labor market. We need consistently strong enforcement of antidiscrimination laws in the hiring, promotion, and pay of women and minority workers. This includes greater transparency in the ways these decisions are made and ensuring that the processes available for workers to pursue any violation of their rights are effective.

7

Support strong enforcement of labor standards

The enforcement of labor standards in the United States is so weak that hundreds of thousands of employers routinely fail to pay minimum wage or overtime, fail to protect employees from workplace hazards, fail to pay payroll taxes or worker's compensation premiums, or fail to provide family and medical leave. Wage theft alone costs employees tens of billions of dollars a year, and lack of worker's compensation coverage, unemployment insurance coverage, or Social Security coverage can cost them billions more. More enforcement and tougher penalties are needed to deter these violations, and access to the courts must be available to injured workers. Employers' growing use of forced arbitration—where employees, as a condition of employment, give up their right to sue in the public courts and are shunted into secret, private proceedings that can both be more costly and provide poorer remedies—must be stopped and reversed. As government enforcement resources decline, it is vital that workers have effective remedies in state and federal courts for labor standards violations.

Section 2: Full employment

A necessary condition for ending wage suppression is economic policy that ensures every worker who wants a job can find one. The reason for this is simple. In the absence of full employment, employers do not need to offer significant wage increases to attract and retain employees, as the number of willing workers is far greater than the number of available jobs. To restore full employment and raise America's pay, policymakers should:

8

Prioritize very low rates of unemployment when making monetary policy

Federal Reserve Board policymakers are now considering when and how much to raise interest rates. In essence, a decision to raise interest rates is a decision to slow the economy and weaken job and wage growth. Given that wages have stagnated and that many communities have yet to adequately benefit from the recovery, it is imperative that monetary policymakers keep their foot off the brakes and allow the recovery to proceed as quickly as possible. Policymakers should not seek to slow the economy until growth of nominal wages (wages *unadjusted* for inflation) is running comfortably above 3.5 percent (which is consistent with ongoing productivity growth of 1.5 percent and a target inflation rate of 2 percent).

9

Enact targeted employment programs and undertake public investments in infrastructure to create jobs

To obtain full employment for all, we need policies that can direct jobs to particular areas that suffer from high unemployment even when the national labor market is largely healthy. These policies can include public and nonprofit employment programs that create jobs by meeting unmet needs. Additionally, undertaking a sustained (for at least a decade) program of public investment can create jobs, raise our productivity, and spur economic growth.

10

Reduce our trade deficit by stopping destructive currency manipulation

Many of our major trading partners engage in intentional currency manipulation—buying up dollar-denominated assets on global financial markets simply to depress the value of their own currency. This depressed currency value makes imports cheaper in the U.S. market and U.S. exports more expensive. This results in a larger trade deficit and slower job growth. Eliminating currency manipulation could reduce the U.S. global trade deficit by between $200 billion and $500 billion each year, which could increase overall U.S. GDP by between $288 billion and $720 billion and create between 2.3 million and 5.8 million U.S. jobs. Congress and the president should reject any trade treaties that do not have enforceable provisions to combat currency manipulation.

Section 3: The top 1 percent

A final piece of the puzzle for raising wages for the vast majority is to restrain the growth of top 1 percent incomes. The major forces behind the doubling of the top 1 percent's income share since 1979 have been the expansion of the finance sector (and escalating pay in that sector) and the remarkable growth of executive pay. Economic research indicates that the increased incomes in finance and for executives do not reflect a corresponding increase in their efficiency. Rather, they are simply a zero-sum redistribution away from the rest of the economy and toward finance and corporate managers. Restraining the growth of such income will not adversely affect the size of our economy. It will instead allow the vast majority to claim a larger share of economic growth. To raise wages for the vast majority, policymakers should:

11

Use the tax code to restrain top 1 percent incomes

Tax preferences for executive pay can be eliminated or their use tied to the executive's firm giving wage increases equal to productivity growth. Others have recommended tying corporate tax rates to the ratio of executive pay to median worker pay, as well as changes to corporate governance procedures. Additionally, imposing a financial transactions tax can steer investments toward productive uses and away from speculation, and restrain unproductive financial activity and pay. Finally, higher top marginal tax rates can reduce the incentive for financial-sector professionals and corporate managers to rig markets or suppress wage growth to make more income flow their way.