Mind the Gap:
How the Federal Reserve Can Help Raise Wages for America's Women and Men

Summer 2015

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Executive Summary

The American economy remains too weak. Over the past 35 years, the vast majority of workers have seen their wages stagnate. And, racial and gender wage gaps have persisted. The failure to aggressively target and achieve genuine full employment explains a large part of this disappointing performance. And this failure looks poised to continue. Despite these indicators that we are far from full employment and the fact that the inflation rate remains below the Federal Reserve's target rate, pressure is mounting on the Federal Reserve to raise interest rates to slow the pace of economic expansion and job growth in the name of fighting hypothetical future inflation. It would be a terrible mistake for the Fed to yield to this pressure.

This paper makes the case that the Fed should pursue genuine full employment that features robust wage growth, rather than be satisfied with job growth that is consistent but does not boost the pace of wage growth. The paper considers the shifts in gender and racial wage gaps since 1979 and highlights the fact that because the vast majority of American workers have seen near-stagnant wages even as economy-wide productivity growth has consistently risen, there is ample room for wage-gaps to close without any group suffering wage declines.

Key findings:

- A significant portion of the limited progress towards closing the gender wage gap in recent decades has been due to the outright *decline* of men's wages.
- Although there is greater gender wage equity among the bottom 10 percent of earners than among higher wage-earners, the gap between men and women has closed very little since 1979
- Wage disparities between white earners and Latino or Black earners have *increased* in the past 35 years
- Productivity growth—which measures the average amount of income generated in each hour of work in the economy—has remained strong. At 64.9 percent over the 35-year period, productivity growth represents the *possible* increases in every worker's wage throughout the economy. White women, the group whose median wage growth has been strongest over the period, gained at roughly one-third the rate of productivity.

The Federal Reserve plays a powerful role in shaping labor market trends. To be sure, these wage gaps among groups of workers result from a long history of discrimination within the labor market, education, housing, wealth-building, and criminal justice policies, and require a full array of economic, social, and political policies.

However, until we reach genuine full employment, a Federal Reserve decision to slow the economy will hamper the ability of workers' wages to rise.

Key recommendations:

- The Federal Reserve should set a clear and ambitious target for wage growth, which will provide an important and straightforward guidepost on the path to maximum employment. Wage targeting can be fairly easily tailored to the Fed's price-inflation target and pegged to increases in productivity.
- The Fed should maintain a patient, but watchful posture. The history of the past 35 years shows a generally steady downward trend in price inflation and that prematurely slowing the economy results in higher than desirable unemployment.
- The Federal Reserve should not consider an interest-rate hike until indicators of full employment—particularly wage growth—have strengthened.

Raising interest rates too soon will slow an already sluggish economy, stall progress on unemployment, and perpetuate wage stagnation for the vast majority of American workers. This harm will be disproportionately felt by women and people of color, who are concentrated in the most vulnerable strata of the workforce.

Introduction

The vast majority of American workers across race and gender have seen their wages stagnate over the past 35 years, even as CEOs have seen their compensation grow 937 percent. Over the same period, racial wage gaps have increased and the seeming progress toward closing the gender wage gap has resulted, in part, from significant leveling down—the decline of men's wages—rather than leveling all workers up. These wage numbers show that the labor market is still far too slack.

Despite this weak employment picture, the Federal Reserve (the Fed) might raise interest rates as early as this month, a move that would slow down job creation and inhibit wage growth. The justification for raising interest rates is generally that it will prevent wage costs from pushing up inflation. But, with inflation still below an already too-conservative target and the labor market still far from full employment, the pressure on the Fed to raise interest rates is profoundly damaging. Raising interest rates prematurely would put the brakes on the economic recovery, stall progress on unemployment, and slow wage growth even further for the vast majority of American workers. In short, hiking interest rates too soon will prevent robust full employment—and full employment is a necessary condition to give low- and moderate-wage workers the bargaining power they need to achieve real (inflation-adjusted) wage gains. The Federal Reserve should not consider an interest rate hike until indicators of genuine full employment have strengthened.

One of the Fed's core mandates is to promote maximum employment consistent with stability of inflation, which begs the question of how to determine just what "maximum employment" is. Currently, the Federal Reserve estimates that 5.0–5.2 percent unemployment is likely to be the lowest rate consistent with inflation stability. The Federal Open Market Committee (FOMC)—the group of Fed governors and presidents that makes these decisions—sensibly lowered this estimate of the "natural rate of unemployment" from 5.4 percent in recent months, as actual unemployment approached this level without generating any discernible upward price pressure. Yet, even the current (5.0–5.2) estimate of full employment is too meek; the Fed should allow much lower unemployment levels, so long as no accelerating inflation results.

Substantial evidence supports pursuing this more tolerant approach to falling unemployment. The late 1990s saw much lower rates (4.0 percent for two full years in 1999 and 2000) without sparking accelerating price inflation. Also, ample evidence shows that the headline unemployment rate today is disguising how much slack still remains in the labor market: millions of workers have given up looking for work (and hence are not officially classified as unemployed) yet would likely return to the labor

PHILADELPHIA

MyAsia Reid

I am a 25-year-old college graduate. I work part-time as a charter school tutor 9 hours a week and part-time as a stylist 20 hours a week. From the outside looking in, it might look like I am not sure what I want to do in life, but there is a story behind it all.

In 2011, I graduated from Elizabeth City State University, with a bachelor's degree in Computer Science. While I was in college, I made the most of my experience —I traveled across the county presenting research; I interned each year; I built strong networks. I worked hard to make sure that when I graduated I would land a job in my field.

But, after a year of an active employment search with no results, I had to develop my plan B and C: cosmetology and graphic design. In 2012, I attended cosmetology school and started designing flyers to make ends meet.

In August 2013, I landed my first paid job through AmeriCorps. I was happy to serve the community, but I made less than $12,000 for the year after taxes. When that 1-year contract ended this past July, I designed flyers to make ends meet because I still could not land a job.

It's so challenging but I continue to try to contribute by volunteering in the city. Because of my volunteering, I made it to a second interview with Temple University but, ultimately, did not get hired.

I strive to continually stay positive and motivate my students towards what we once considered the American dream. Monthly I attend networking events and stay active so that my focus remains on growing professionally and giving back regardless of my employment.

force if the labor market were stronger. And voluntary quits remain too low—indicating that workers are too scared to quit their current job to search for better ones because they lack confidence that the economy is generating enough jobs. Finally, and most relevantly, wage growth remains extraordinarily weak.

The failure of wages to rise since the Great Recession ended is key and direct evidence of remaining labor-market slack. Until the economic recovery pushes up labor force participation and pushes down unemployment, wage growth for the vast majority of American workers will remain weak. We know this largely because real (inflation-adjusted) wages for the bottom 70 percent of American workers have been essentially stagnant since 1979, even when including the late 1990s, which saw robust growth across the board. After 2000 (yet before the Great Recession), the problem became even worse.

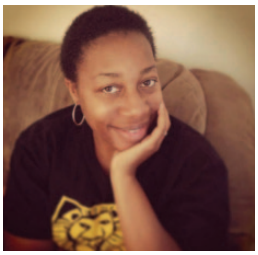
The Problem

Wage stagnation has been broad-based. Although median wages for women have risen faster than for men, women's wages still remain significantly lower than men's. In 1979, women earned 64-cents for every dollar earned by men (at the median); today that number is 83 cents. At first glance, this seems like unambiguous good news. But looking below the surface and providing some needed economic context shows that the story is not so simple, for two reasons.

First, the gender wage gap at the median has closed more than at either the low or the high ends of the wage range. And, racial wage gaps at every level are worse now than they were in 1979.

Second, neither median male or female wages nor the median wages of any group defined by race and gender have risen anywhere near as fast as the rate of economy-wide growth in productivity (or, the total income generated in the economy by work). That is to say, workers are not reaping the benefits of their enhanced productivity and increased skills. This implies that closing median wage gaps across race and gender need *not* be a zero-sum affair of one group gaining only when another loses. However, in recent decades, while wages for the vast majority of the entire American workforce have stagnated, this zero-sum logic has largely held. The gap between median male and female wages, for example, has closed by roughly 30 percent in the last 35 years, but more than a quarter of this closing was due to male wages *falling*.

KANSAS CITY

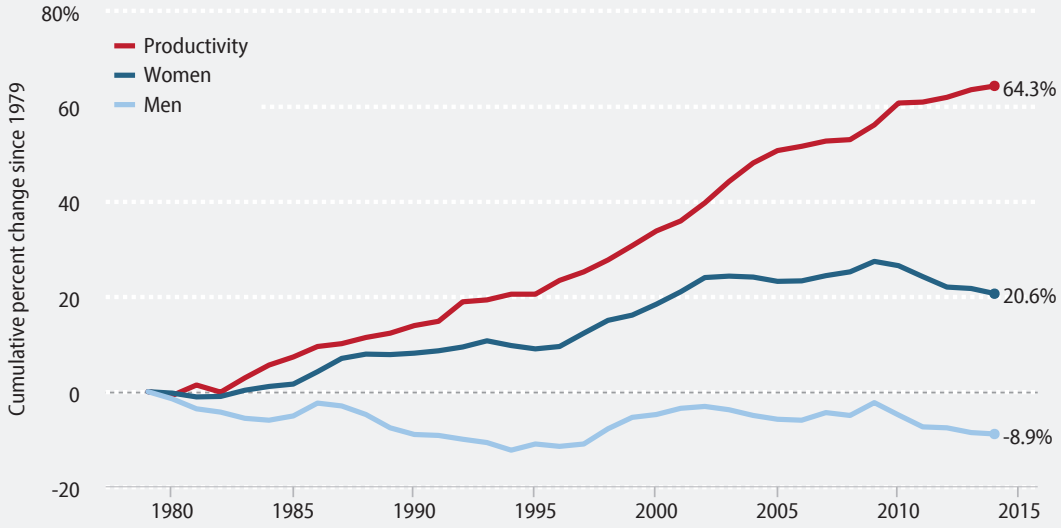


Eboni Maze

Eboni Maze works for a cruise line. She is the sole breadwinner for her family of 6, because her husband has been unable to find work for a very long time. To support her family, Eboni has to work nearly 60 hours per week, picking up shifts over the weekend to make ends meet.

Eboni and her husband are also victims of predatory loans. Back in 2013 she and her husband got behind on rent and took out a title loan on their car to pay the rent. They fell behind on payments and the car was repossessed, causing them to seek out pay-day loans to purchase another car. Despite the low interest rates at the Fed, the outrageous interest rates on this loan took her nearly 3 years to pay off after taking out multiple loans.

Cumulative median wage growth by gender, versus economy-wide productivity growth, 1979–2014

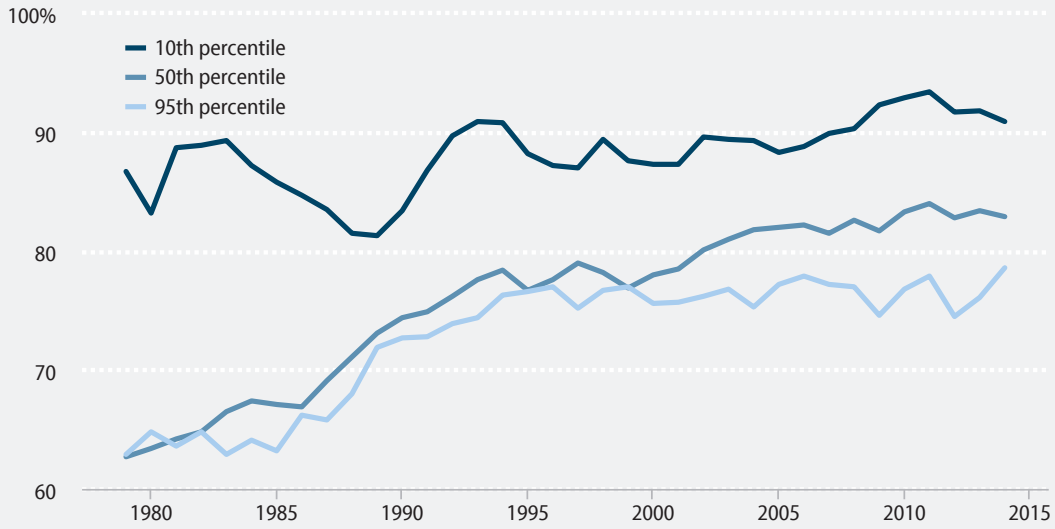


Source: EPI analysis of unpublished Total Economy Productivity data from Bureau of Labor Statistics Labor Productivity and Costs program, and Current Population Survey Outgoing Rotation Group microdata

The median gender wage gap is not the only standard for inclusive wage-growth

Generally, reports of wage gaps focus on the amount between median (50th percentile) earners of different groups. However, progress in closing the gender pay gap has been greater at the median than at either the low end (10th percentile) or the high end (95th percentile) of the earnings spectrum. In other words, the standard focus on the median pay gap presents too optimistic a picture about the overall prospects of gender wage equity.

Women's hourly wages as a percent of men's hourly wages at the 10th, 50th, and 95th wage percentiles, 1979–2014



Note: The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

ST. LOUIS

Cassandra Willis

Over the last several years, Cassandra Willis has experienced an extremely turbulent ride in terms of employment and wages. She has a Master's degree in health administration. After having made more than $50,000 annually as the director of student support services at a college, she relocated to St. Louis 8 years ago. She started substitute teaching in St. Louis, but that didn't pay very much.

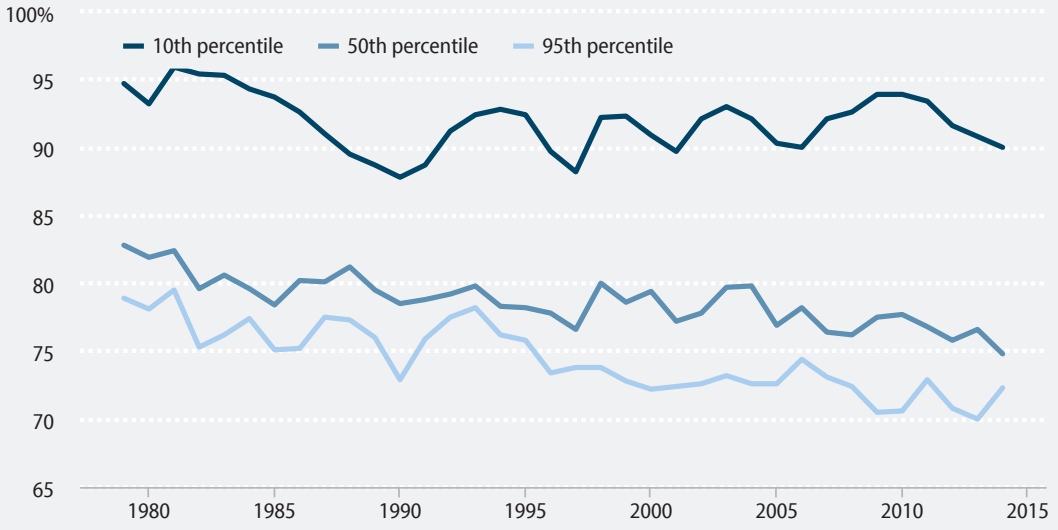
Cassandra was applying for many jobs when she found a job with FedEx Office in the position of customer consultant. Though she was over-qualified, she accepted a salary of $13/hour which was more pay than substitute teaching. She worked at FedEx for three years and she only ever received a one dollar per hour raise.

Cassandra was laid off at FedEx and had about 4 months of unemployment, which depleted her savings and caused her to lose her car. She then worked at a call center because it was an easy job to get. She was paid only $8 per hour. She worked there for 5 months. After the call center, she found herself out of work for another six months, then got a short term position with a home health care company working to increase the clientele in a nursing home. That job paid only $12 per hour plus commission, but with high quotas. Cassandra was hounded about increasing her output until she was let go after about 4 months.

Women represent a disproportionate share of workers at or near the minimum wage. Because the 10th percentile of wage earners are largely covered by minimum wage laws, they see the greatest pay equity as well as the least pay sufficiency. The gender wage gap at the 10th percentile has closed very little (greater parity is signified by the lines trending upwards) during the past 35 years, as the federal minimum wage and its purchasing power have atrophied. Neglect of this vital labor standard has hampered progress in closing gender wage gaps in the low-wage labor market. In the 95th percentile, gender wage gaps were closing until the late 1990s, after which progress completely stalled.

Similarly, the racial wage gap remains stubbornly entrenched. As with the gender gap, the greatest wage equity is at the bottom of the pay scale, where workers of color are disproportionately represented and the failure of federal lawmakers to keep the minimum wage current has the greatest effect. However, unlike the gender median-wage gap, racial disparities at all wage levels have actually grown in the past 25 years.

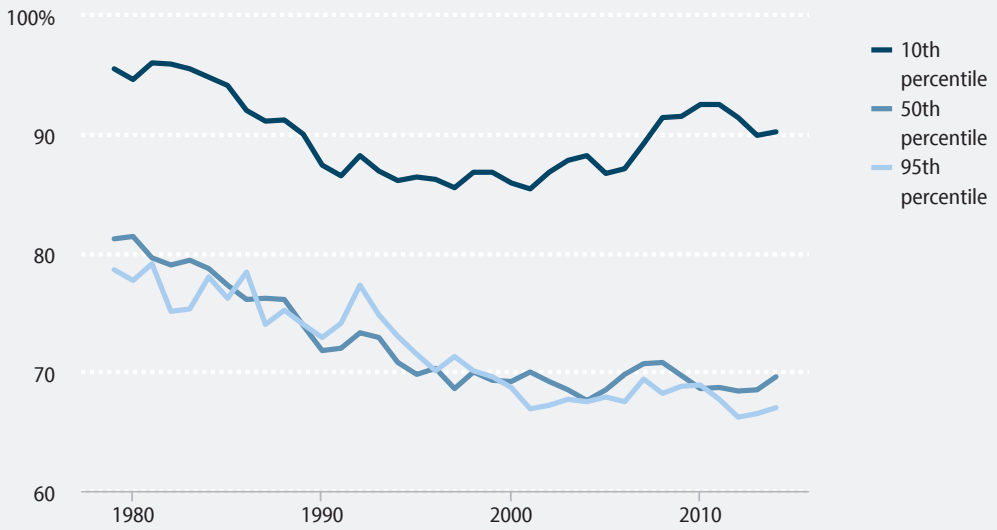
Black workers' hourly wages as a percent of white hourly wages at the 10th, 50th, and 95th wage percentiles, 1979–2014



Note: The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more. Race/ethnicity categories are mutually exclusive (i.e., white non-Hispanic and black non-Hispanic).

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

Hispanic workers' hourly wages as a percent of white hourly wages at the 10th, 50th, and 95th wage percentiles, 1979–2014



Note: The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more. Race/ethnicity categories are mutually exclusive (i.e., white non-Hispanic and Hispanic any race).

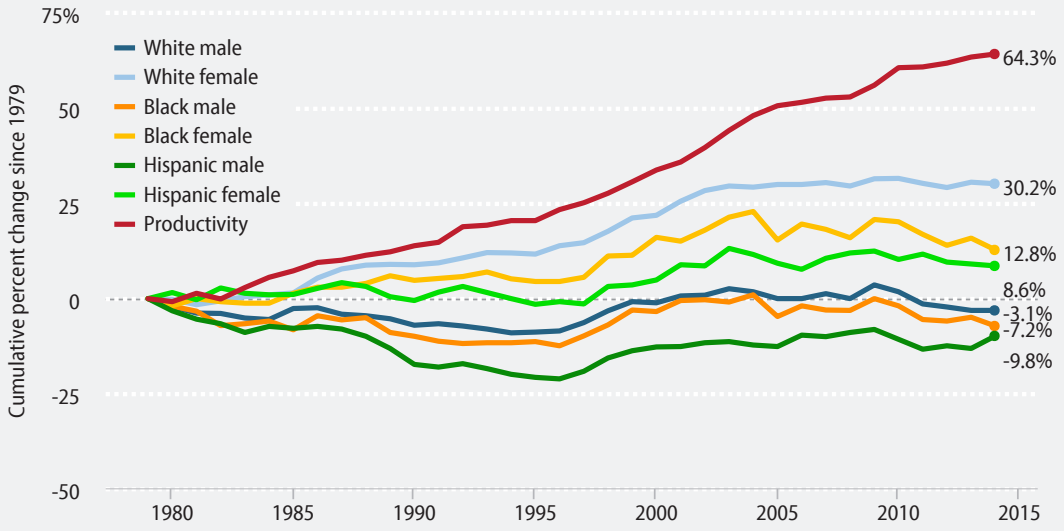
Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

The right comparison is not between the wages of different groups of workers, but between workers' wages and overall productivity

The narrative that the median women's wage growth is at the expense of men's wages is deeply flawed. The comparison of women's and men's wage growth is not a reliable measure of progress; instead, wage growth for each must also be compared to the growth of economy-wide productivity. Productivity is a measure of the average amount of income (wages, profits, rents, and interest payments) generated in each hour of work in the economy. Economy-wide productivity has risen by over 64 percent since 1979—this is the potential for wage growth that could have been realized by all American workers. By comparison, the growth in women's wages is downright anemic.

Even for white women, the group that has seen the greatest gains since 1979, median wage growth has almost flat-lined since the end of the near-full employment period of the late 1990s.

Cumulative median wage growth by gender and by race and ethnicity, versus economy-wide productivity growth, 1979–2014



Source: EPI analysis of unpublished Total Economy Productivity data from Bureau of Labor Statistics Labor Productivity and Costs program, and Current Population Survey Outgoing Rotation Group microdata

The wedges between the line for economy-wide productivity and wages for different groups of workers represent income escaping the paychecks of these workers and instead accruing to those at the top of the wage distribution, as well as a shift *from* labor earnings to corporate profits. CEO pay grew 937 percent in the 35-year period between 1978 and 2013—double the rate of stock market growth and 92 times greater than the growth in workers' compensation over the same period.[1]

Further, there is no evidence that redistributing more and more of the economy's income upwards in recent decades has done anything to improve overall growth or boost economic efficiency.[2] But, there *are* plenty of reason to think that this upward redistribution has actively slowed growth in recent years, as income has accumulated in the hands of richer households that are more likely to save than spend it, which hampers overall demand.

In other words, paltry wage growth for workers across the board is the price we pay as a society for the income gains of corporate managers, investors, and other capital owners. Indeed, the share of corporate-sector income accounted for by labor compensation fell off a cliff in the early stages of recovery from the Great Recession.

CHICAGO

Daphne Bracey

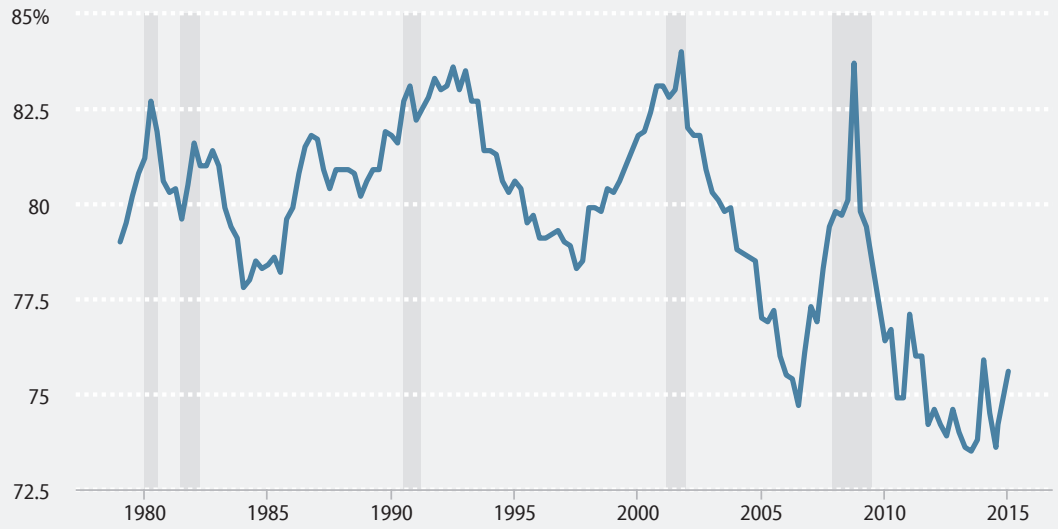
Daphne is employed by United Center, home of the Chicago Bulls and Blackhawks. During game seasons, Daphne can get consistent hours up to 40 hours a week at $11.75 an hour, but because of the nature of the work, employees often don't get breaks to eat or use the washroom. But, in the offseason, employees must call a hotline to beg for work hours.

Daphne's take-home pay during the season is roughly $300-$400 every two weeks. Each pay period, she faces the same choices between paying her utilties, putting money on her already costly bus card, or putting food on the table for herself and her son. Usually, she is able to pay just enough of her electric bill to keep the lights on. Daphne owns very few personal items and shops for the essentials—groceries, soap, toilet paper—at the Dollar Tree.

In order to balance the necessary costs of living and her low pay, Daphne has to wash all of her clothes in the bathtub without real soap, walk halfway to work because she can't afford full bus fare, and rely increasingly on debt as her unpaid bills stack up.

Workers' share of corporate income hasn't recovered

Share of corporate-sector income received by workers over recent business cycles, 1979–2014



Note: Shaded areas denote recessions. Federal Reserve banks' corporate profits were netted out in the calculation of labor share.

Source: EPI analysis of Bureau of Economic Analysis *National Income and Product Accounts* (Tables 1.14 and 6.16D)

Historically, this general pattern (if not the magnitude) has characterized business cycles: the capital share of income falls during recessions because volatile profits fall faster than wages; then, profits rapidly rebound early in recoveries. Typically, as recoveries mature and labor markets tighten, US workers regain a measure of bargaining power and labor's share of corporate-sector income eventually tends to begin rising again. But, in the current recovery—even a full 6 years after the Great Recession officially ended—the labor-share rebound has barely begun.

While this is bad news for today, it represents an opportunity for the future: *all* groups of wage earners can see significant wage growth without having to cut into the gains of *any* group.

The Fed's crucial role in facilitating wage growth

Raising pay for the vast majority of American workers needs to become a top policymaking priority and it requires action across every part of our economic policy, including labor market regulation, trade, tax and budget, and regulatory policy. Macroeconomic policy—particularly the monetary policy controlled by the Federal Reserve—is no exception.

In fact, for the next 2 or 3 years, monetary policy essentially has veto power over the question of whether or not wages for American workers will be allowed to rise. This veto power comes

MINNEAPOLIS

Cantaré Davunt

I'm a former Customer Service Manager (CSM) at Walmart in Apple Valley, Minnesota. I have worked for Walmart twice, totaling over 5 years. Even with a degree from the University of Minnesota Duluth, it took almost 2 years to become a manager. Every year after the Holiday shopping season, Walmart cut our hours, so we were lucky if we got 25–30 hours a week. Our income dropped, but our expenses don't—we still have to pay for heat, electric, water, rent, food and transportation in the coldest month of the year. I often had to walk to work in temperatures 20 degrees below 0 because I couldn't afford to call in sick and transportation is unreliable and expensive.

Frankly, even in the summer, it was hard to pay my bills on the hours Walmart gave me at $10.10 per hour. In August I had no money after paying rent because I had just moved into my apartment in July, but my hours had gone down from 38 in June, to 30 in July. The last thing I wanted to do, was show my landlord that I couldn't afford rent, just after moving in. Thankfully I have a roommate and no children, so I could still eat.

In January 2015, I was illegally fired for speaking up about working conditions.

in the form of raising the ultra-low short-term interest rates that the Fed lowered to fight the Great Recession and spur a faster recovery. There is an open question about just how effective these low rates have been in boosting recovery, particularly as the fiscal decisions made by Congress actively dragged on growth. Yet, there is no question that a too-rapid pace of interest rate increases in the coming years would slow growth, stall progress in reducing unemployment, and severely curtail the prospects for wage growth for most American workers.

Since 2008, the Federal Reserve has been an admirable stand-out among American policymaking institutions by focusing exclusively on boosting economic activity and employment, even while Congress (led by the Republican-controlled House of Representatives since 2010) has thwarted all attempts to use fiscal policy to boost the recovery. The Fed and its Chairs (former Chair Ben Bernanke and current Chair Janet Yellen) over this period deserve much credit for this. But the past history of Federal Reserve decisions indicates that the FOMC might be too quick to raise rates in the face of falling unemployment. Prematurely hiking interest rates to target low inflation instead of a tighter labor market could be profoundly destructive to wage growth.

NEW YORK

Glorivee Caban

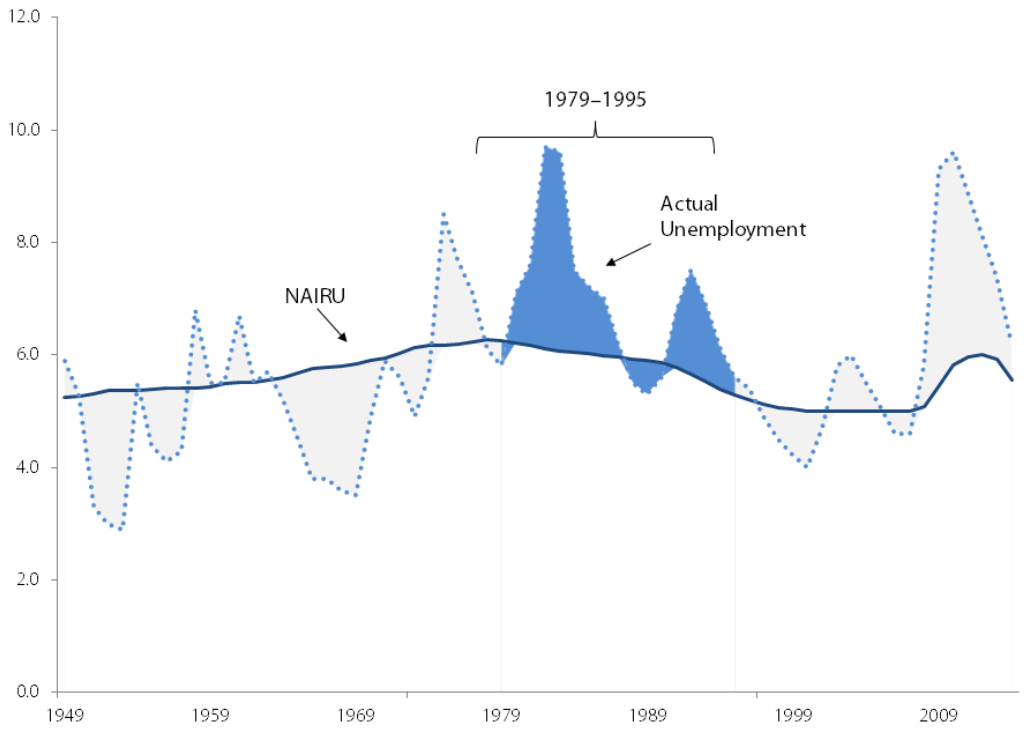
Glorivee Caban, a Navy veteran, had to leave her job at Banco Popular. She worked at the bank for years, but never made more than $13.50. A native of Queens, New York, Glorivee had to move to New Jersey because she could no longer afford to live in her hometown. But, this move required her to wake up at 4 in the morning to get into New York and left her exhausted by the time she got home.

This challenge was made worse by her inconsistent schedule. The managers would often assign her to split shifts—or, a shift with an unpaid hours-long break in the middle of it—or send her home early from an assigned shift because customer traffic was low. After gas and tolls, she paid more to go to work on those days than she made.

She finally found two part-time jobs in New Jersey, closer to home. They are not paths to a career.

Between 1979 and 1995, in particular, the Fed used interest-rate increases to effectively keep actual US unemployment higher even than estimates of the natural rate of unemployment.[i] (The natural rate

NAIRU versus actual unemployment rate, 1949–2014



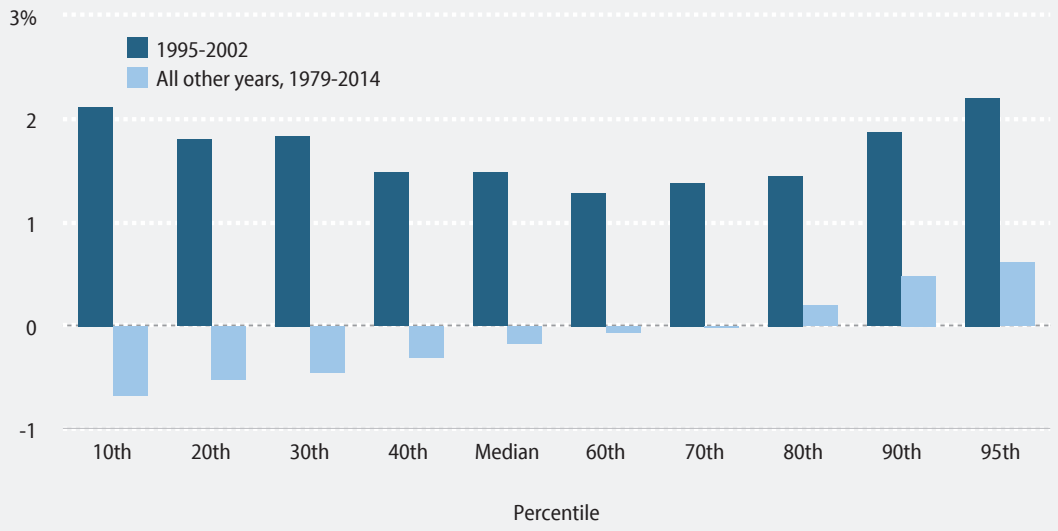
[i] The natural rate is sometimes referred to as the NAIRU—or the non-accelerating inflation rate of unemployment.

is supposed to be the rate of unemployment consistent with stable inflation. Unemployment rates lower than this natural rate are considered, in this model, unsustainable because they would lead to ever-accelerating price inflation.) These estimates of the natural rate are likely far too conservative and deeply damaging in themselves. But, even if we accepted for argument's sake, the figure below makes clear that the US economy has spent far more time above this estimated natural rate than *below* it since 1979.

By contrast, the 30 years following the end of World War II saw the US economy sit on average below the natural rate, with income growth broadly shared across the income distribution. Current calls for the Fed to raise rates sooner to forestall excessive inflation, even when inflation is historically low, are very troubling. These calls, if heeded, will repeat the cycle that characterized much of the post-1979 period, cutting recoveries short before they reached the wages of most Americans. These calls should be resisted.

The stakes of Federal Reserve decisions to allow or not allow the economy to get to full-employment are high. During the one extended period where the actual unemployment rate hovered below the estimated natural rate (in the late 1990s), wages rose rapidly across the wage distribution. In the other years, wages for the vast majority of workers suffered badly.

Growth of average wages, by decile, 1979–2014



Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

The growth of average wages in periods with unemployment rates below the so-called natural rate suggests that the "natural rate" is not in fact a useful prospective guide. Recent experience confirms this skepticism. Prior to April, the Federal Reserve's central estimate of the natural rate of unemployment was 5.4 percent. Yet as actual unemployment got closer and closer to this number, no wage-growth acceleration occurred. Sensibly, the Fed reduced its estimate of the natural rate following the April meeting (to 5.1 percent). This adjustment, although sensible, suggests that the "natural rate" of unemployment is likely not an effective policy guide for Fed actions.

The Fed's Role in Reversing Wage Stagnation

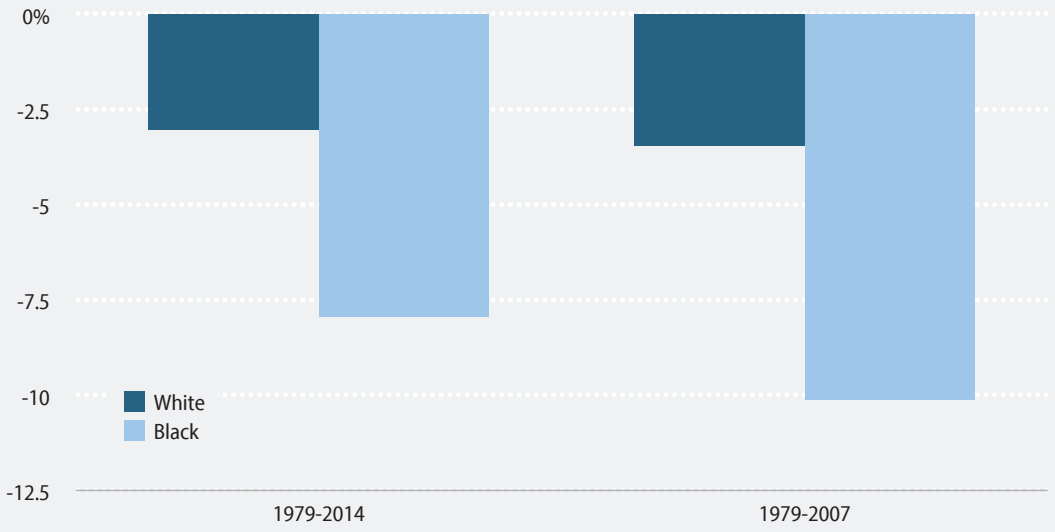
Much like physicians take the Hippocratic Oath committing to "First, do no harm," policymakers at the Fed should first commit to not inflicting unnecessary pain on American workers. As shown in the previous section, for much of the 30 years leading up to the Great Recession, the Fed kept the US unemployment rate higher than even too-conservative official measures of the "natural" rate of unemployment indicated was necessary to forestall accelerating inflation. This implies that the Fed was assigning more importance to keeping inflation low and falling than keeping unemployment rates low and falling. This set of priorities needs to flip. The Fed should experiment aggressively with letting the unemployment rate fall as low as possible before raising interest rates. As many have put it, the Fed should see the whites of inflation's eyes before it fires against it with interest rate increases.

This prescription raises the following question: what kind of wage growth should the Fed be looking for before it considers tightening? We argue that relatively specific wage-targets can be set by looking at just a couple of readily available economic indicators.

Wage targeting provides a vital guide-post to a healthy economy

In another paper, we have argued that setting a clear and ambitious target for wage growth provides an important guide-post.[3] A key advantage of wage targeting is that it does not require policymakers to make large assumptions about how wage growth might respond to falling unemployment, which is the core issue in the Fed's decision to begin raising interest rates. Raising interest rates is meant to forestall excessive inflation; higher rates accomplish this by slowing economic activity and increasing labor-market slack, which will, in turn, restrain wage growth and reduce upward pressure on overall prices. Given this, the Fed could usefully skip the intermediate step of tracking unemployment and forecasting its likely impact on wage growth. It could instead focus directly on wages as a guide to its policy.

Effect on median real hourly wages from doubling the unemployment rate, by race, 1979–2007 and 1979–2014



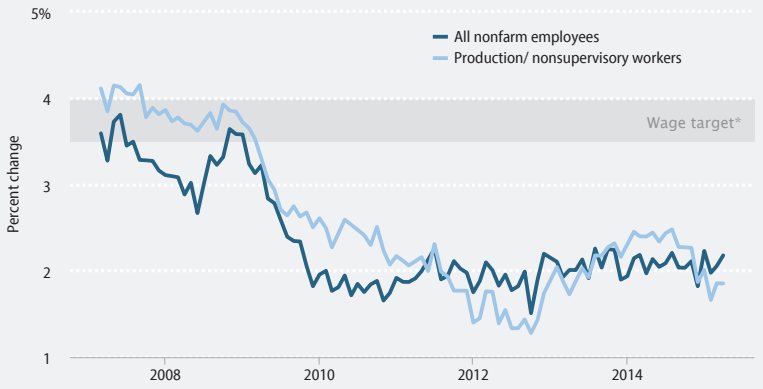
Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

Wage targeting is fairly easy to tailor to the Fed's overall price-inflation target, currently set at 2 percent. Setting aside the many reasons to believe that the economy would be better served by a 4-percent target, the 2-percent target means that labor costs can rise by 2 percent each year without putting upward pressure on the overall target.[4] But, crucially, rising productivity (output produced in a given hour of work) *reduces* costs, which translates into falling prices. Except during recessions, productivity rises steadily nearly every year, at about 1.5 percent annually. This means that each year labor costs will fall by 1.5 percent due to the influence of productivity. The 1.5 percent cost reductions spurred by rising productivity combined with the Fed's 2-percent inflation target means that the Fed should not be satisfied with anything less than nominal wage growth of roughly 3.5 percent.

The current wage-growth rate is only half of this target and there is little (if any) evidence of any pickup in wages since the recovery began.

Nominal wage growth has been far below target in the recovery

Year-over-year change in private-sector nominal average hourly earnings, 2007–2015



* Nominal wage growth consistent with the Federal Reserve Board's 2 percent inflation target, 1.5 percent productivity growth, and a stable labor share of income.

Source: EPI analysis of Bureau of Labor Statistics Current Employment Statistics public data series

For workers to claw back some of the corporate income shares lost during the early stages of recovery will require that nominal wages actually rise faster than 3.5 percent yearly. Even with wage growth at a rate twice that of productivity, it would require 2 to 3 years to make up the lost ground. Even accepting the too-conservative inflation target of 2 percent, wages should grow at about 4 to 4.5 percent annually before the Fed should be satisfied that a genuinely health recovery is under way.[5]

"Shooting ahead of the duck" shoots economic recovery in the foot

A criticism of this approach argues that while these wage-growth targets are decent measures of where wage and price inflation *should*

ATLANTA

Erin Hurley

I have worked at Bath & Body Works on and off for a total of almost 5 years since 2008. I had enjoyed my experiences there before. So, after I graduated from Valdosta State University and returned back home in 2014, I went back to Bath & Body Works. This time everything was different.

I was hired to work as a sales associate making $8.00 per hour. Although I told my managers that I wanted to work as much as possible, they only promised me between 10-20 hours per week. I needed a job, so I took it, hoping there would be opportunities to get more hours. Unfortunately, I was wrong. On average, I only worked about 12 hours per week. Do the math—that's not even close to what it takes to make ends meet.

So, I wanted to get a second job. But, every week I was scheduled for 2 to 3 on-call shifts—when I was on the schedule and had to assume that I was working, but I was required to call an hour before my shift to find out if they needed me to come in. Often times they didn't. Sadly, I was one of the lucky ones. I had co-workers who were only ever scheduled for on call shifts.

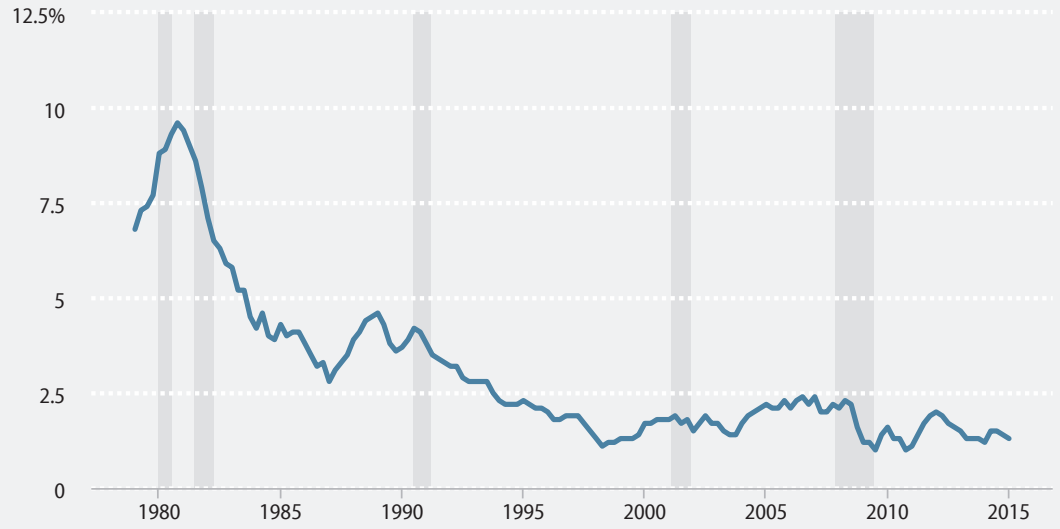
This caused me so much stress. Here I was—a 26 year old college graduate who was forced to live at home with my mom because I couldn't afford to rent my own place. I had to take out a loan to buy a car to get to work, but my schedule was so unreliable that I never knew whether or not I would make enough to make payments every month. I couldn't even make plans with friends, because I never knew whether or not I had to work each day.

end up in equilibrium, they are bad targets for monetary policy action as the economy recovers because raising interest rates takes time to be effective. If monetary tightening is delayed until these targets are hit, goes the argument, the Fed will be behind schedule, playing catchup, and will have to curb the expansionary economic momentum with a steep and sudden monetary contraction (that is, interest rate hike) to keep inflation anchored. So, opponents of wage targeting would posit that we need to slow the economy by raising interest rates before we reach the wage target. The euphemism for this kind of thinking is summed up by former Dallas Federal Reserve Chair Richard Fisher's metaphor about "shooting ahead of the duck."[6]

Is there anything to this worry? Not really. History argues that the duck flies *really* slowly.

Over the past 35 years, wages for the vast majority of American workers have not been hard to restrain; instead, the evidence seems to clearly indicate that wages are actually quite hard to move forward, and that this wage restraint has put steady *downward* pressure on prices in recent decades. Both key measures of inflation in the US—the Consumer Price Index (which measures purchases by households) and the Personal Consumption Expenditure Index (which focuses on sales overall)—show declines since 1979.

Year-over-year change in core personal consumption expenditures deflator, 1979–2015



Note: Shaded areas denote recessions.

Source: BEA NIPA Table 2.3.4

In this figure, recessions are shaded.The behavior of prices since 1979 shows essentially no evidence that price pressure grows and grows during recoveries and expansions until it needs venting through a recession. Instead, after steep declines in the early 1980s, there has been a generally steady and consistent downward trend in price inflation, even during the very tight labor market of the late 1990s. In short, shooting ahead of the duck is a strategy unfounded by the data.

The Fed's crucial role in generating racial and gender wage equity

The Federal Reserve plays a powerful role in shaping labor market trends. Obviously, gender and racial wage gaps result from a long history of discrimination, directly in the labor market, as well as in education, housing, wealth-inheriting opportunities, and criminal justice policies. A full array of policies —economic, social, and political—need to address these factors.

However, as long as the economic recovery remains fragile for most Americans, the Federal Reserve essentially has veto power over the ability of workers' wages to rise. Any policies put in place by other bodies will be much more effective economically—and much easier to implement politically —in a healthy overall labor market. The goal of closing racial and gender wage gaps is not to level down, but to level up. And, there is no economic constraint to leveling up, given the healthy growth of productivity.

There are many reasons that a robust economy will help women and people of color.

First, by targeting wage growth and holding interest rates down until wage-growth rates have made up lost ground, the Federal Reserve can ensure a tight labor market. By improving the prospects for finding work, tighter labor markets can disproportionately benefit women and people of color even without directly closing gender and racial gaps in hourly wages. One reason that a tight labor market benefits women and people of color is that it makes discrimination more difficult. When employers with job openings can chose from among many different potential employees, they have greater flexibility to offer women or people of color lower wages. In a tight labor market, when employers have fewer job candidates, they are less able to discriminate, and must offer higher wages to attract qualified workers. A strong economy and a tight labor market is therefore particularly important for closing racial and gender wage gaps.

Further, tighter labor markets affect the annual hours worked (the ability to get good full-time jobs, essentially) by people at the lower end of the income distribution much more than for workers at the top. These gains in hours for less-advantaged working families provide a powerful boost to incomes, even if hourly wages do not rise. However, we know that the ratio of median black family income to white family income rose faster in the near-full-employment late 1990s than at any other time during the past 50 years except the high Civil Rights era (1947–1967). Further, we know that, among women who are paid on an hourly basis, part-time workers are 8 times more likely to earn $8 or less than their full-time counterparts.[7] In other words, not only do workers earn more because they are paid for more hours, they also earn more *per hour* when they have full-time hours.

Finally, there is some suggestive evidence that Federal Reserve policy that prioritizes full employment could well have direct salutary impacts on hourly wage gaps. The hourly wages of low- and moderate-wage workers are clearly more sensitive to unemployment rates than wages at the top of the distribution.[8]

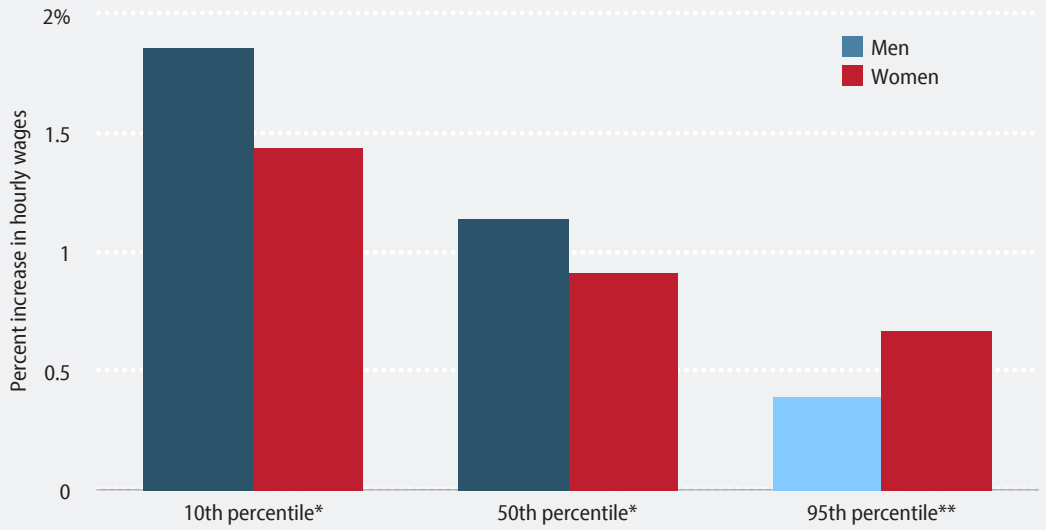
DALLAS

Claudia Golinelli

Claudia Golinelli is an electrician who works in the Dallas Metroplex. She is the mother of two children, her 8-year-old daughter and her 7-year-old son. Originally from El Salvador, she went to school to become an electrician and then honed her skills for 10 years on the job in the United States. As a woman in an industry sector that employs few female workers, Claudia describes how she has experienced significant discrimination, sometimes receiving less pay than her male counterparts and putting up with offensive comments on the job.

Claudia's husband is also an electrician, and in fact, Claudia trained him how to do the job. Claudia and her husband frequently work together for the same company and her husband frequently has to advocate for her to get paid more than him because she is more experienced. One employer recently insisted that Claudia earn $5 less per day than her husband "so that her husband wouldn't feel bad."

Effect on hourly wage growth of 1 percentage-point decline in unemployment, by wage percentile and gender



* Estimates for men and women are not statistically significantly different.
** Estimates for men are not statistically significant.

Note: Regression of hourly wages changes on contemporaneous unemployment rate, lagged value of productivity growth, time-period dummy variables, and lagged value of inflation.

Source: EPI analysis based on method described in Lawrence Mishel, Josh Bivens, Elise Gould, and Heidi Shierholz, *The State of Working America,* an Economic Policy Institute book published in 2012 by Cornell University Press

These low- and moderate-wage workers' wages are harmed more by excess unemployment and benefit more from low unemployment. In other words, low rates of unemployment have direct equalizing effects on the overall wage distribution. Because Black and Latino workers are more concentrated in the lower portions of the wage distribution than white workers, this implies that their wages are likely more sensitive to the levels of unemployment. One recent study found that Black workers' wages are almost 3 times more sensitive than white workers' to rising and falling unemployment rates.[9] The same logic applies to female workers relative to male workers.

Conclusion

The economic recovery has not reached most Americans as it has reached CEOs, investors, and business owners. The continuing wage stagnation for most workers provides clear evidence that the labor market is still slack, even 6 years after the Great Recession was declared over. With inflation still below an already too-conservative target and the labor market still so far from full employment, inflation hawks are courting disaster when they call on the Fed to slow the economy. Nonetheless, Fed officials have indicated that they intend to raise interest rates this year, even as early as this month. But, until wage growth has made up lost ground—as measured by its parity with productivity growth—the Fed should resist the calls to raise interest rates. Raising interest rates now will slow an already sluggish economy, stall progress on unemployment, and perpetuate wage stagnation for the vast majority of American workers. This harm will be disproportionately felt by women and people of color, who are concentrated in the most vulnerable strata of the workforce. The Federal Reserve should not consider an interest-rate hike until indicators of full employment—especially wage growth—have strengthened.

Notes

1 Lawrence Mishel and Alyssa Davis, "CEO Pay Continues to Rise as Typical Workers Are Paid Less," Issue Brief #380, Economic Policy Institute, June 12, 2014: 1-2.

2 On the growth and inequality nexus, see Bivens and Mishel (2013), "The Pay of Corporate Executives and Finance Professionals as Evidence of Rents in Top 1 Percent Incomes." Journal of Economic Perspectives, 27(3): 57-78. On the rise in inequality holding back economic growth, see Cynamon, Barry and Steve Fazzari (2014). "Inequality, the Great Recession and the Slow Recovery". Working Paper.

3 Bivens, Josh (2015). "If you must target something, target nominal wage-growth". Discussion Paper, Full Employment Project, Center for Budget and Policy Priorities.

4 The most important reason why a higher price inflation target is warranted is that it simply provides more room for unemployment to fall before the Fed feels great pressure to raise rates. Further, a price target too close to zero provides too many chances for the economy to fall into the zero lower bound (ZLB), or liquidity trap, condition wherein short-term interest rates are zero even when the economy is weak, thereby depriving the Fed of its primary recession-fighting tool. Finally, with high levels of household debt still prevailing, faster inflation allows the nominal value of this debt to erode more quickly and free up purchasing power to support recovery.

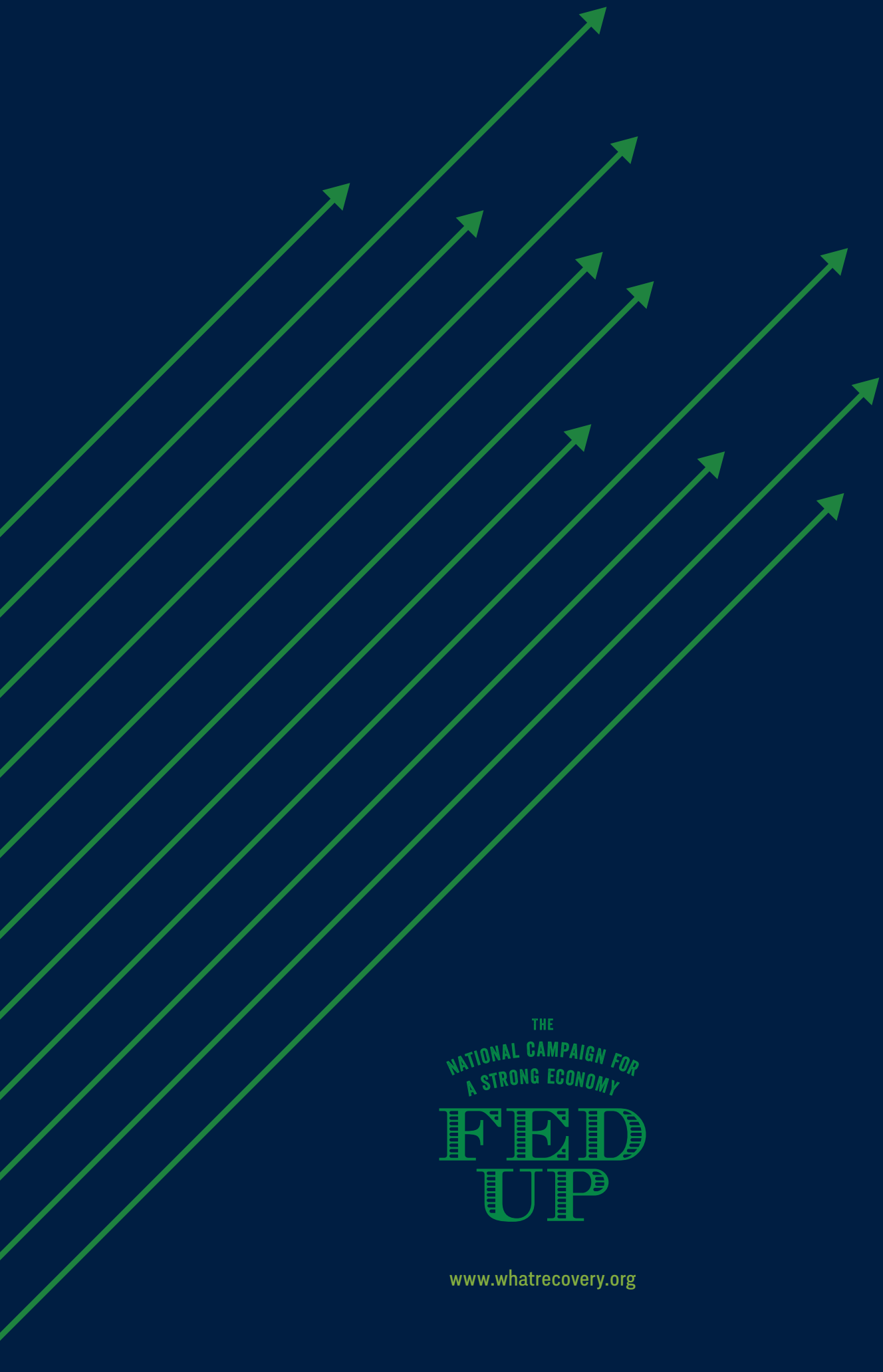
5 So long as productivity assumptions do not change, the wage target should rise one-for-one with any increase in the Fed's overall price inflation target. So, an overall price inflation target of 4 percent would yield a nominal wage target of 5.5-6 percent (price inflation target plus trend productivity growth).

6 Fisher, Richard (2014). "Monetary Policy and the Maginot Line". July 16 Speech at the University of Southern California. http://www.dallasfed.org/news/speeches/fisher/2014/fs140716.cfm#n4

7 Aditi Sen and Connie Razza, "Hour by Hour: Women in Today's Workweek," Center for Popular Democracy, May 2015: 15.

8 See Mishel, Bivens, Gould and Shierholz (2012). The State of Working America, 12th Edition. Economic Policy Institute.

9 Valerie Wilson, "The Impact of Full Employment on African American Employment and Wages," Economic Policy Institute, March 30, 2015.



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