Economic Policy Institute

A real agenda for working people

How to raise wages, protect workers' rights, and fix our rigged economy

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Restore full employment as a primary policy target

Creating an economy in which employers compete for workers would raise wages

In an economy genuinely at full employment, unemployment is low enough to make employers constantly compete for workers. Because employers must offer wages that rise in line with economy-wide productivity, wages of most workers rise year after year. American workers have not had this kind of leverage for at least 15 years, and have had it only sporadically since 1979. As a result, even as productivity has increased, workers' wages have essentially stagnated. Meanwhile the benefits of income growth have gone disproportionately to those at the top.

The unemployment rate has fallen from a peak of 10 percent at the height of the Great Recession to just under 5 percent today. Evidence shows that unemployment could dip to 4 percent or less without wage pressures triggering inflation. The stakes in aggressively pushing unemployment lower are huge, and the benefits progressive. Workers of color and workers without four-year college degrees—who have substantially higher unemployment—*gain* the most when the economy approaches genuine full employment. To make employers genuinely value their low- and middle-wage workers—no matter where they live or what credentials they hold—we must drive the unemployment rate down until we achieve healthy inflation-adjusted compensation growth that matches productivity growth.

We're short of full employment today because the economy is still short of demand (spending by households, businesses, and governments). To boost demand and lower unemployment, policymakers should:

- ***Launch a long-term trillion-dollar public investment program that provides an immediate increase in jobs but also ensures long-term productivity gains.*** After years of a public investment drought, America needs bold investments in infrastructure, clean energy, scientific and medical research, early child care, education, and health care delivery. If done right, such investments would create jobs right away and yield higher productivity in the future. EPI specifically proposes a 10-year, $1.2 trillion dollar public investment program. To provide an immediate economic stimulus, the first two years of the program would be paid for with borrowing. To minimize the long-run impact on the public debt, the final eight years would be financed through progressive tax increases. A straightforward, taxpayer-funded effort would ensure that the benefits of investment flow through to the Americans and the communities that need them. A plan that relies on giving tax credits to unaccountable private partners, as has been floated by the Trump administration, could bypass underserved communities unable to provide profitable revenue streams while transferring too much ownership of public goods to private firms.

- ***Reverse damaging spending cuts pushed through Congress in 2011.*** The reversal of across-the-board federal budget cuts mandated by the Budget Control Act of 2011 would give a fiscal boost to growth over and above the public investment program.

- ***Nominate and retain Federal Reserve Board governors who will pursue full employment and wage growth.*** Some of the most consequential decisions affecting job and wage growth in the next few years will be the monetary policies made by America's central bank (the Federal Reserve, or, the Fed). It is important that the Fed not prematurely shut down the recovery with interest rate hikes while there's still room to grow before reaching full employment. Specifically the Fed must not raise interest rates until the expansion starts generating sustained wage growth that matches productivity growth. Too often in the past the Fed has prioritized keeping inflation, rather than unemployment, very low. This is not an accident: regional Fed bank presidents are chosen by boards in which finance and corporate sectors have an outsized share of board seats, and these sectors hate unexpected inflation and like having workers who do not feel secure enough to demand large wage increases. Fed governance rules must be changed to ensure that decision-makers represent all interests in the economy, not just business and finance.
- ***Create public employment programs specifically for areas with unemployment rates that are substantially higher than the national average and with large concentrations of low-wage workers.*** We cannot declare victory in reaching full employment until historically disadvantaged communities are also thriving. Preventing interest-rate hikes that would cut off the march to full employment before it reached these still-struggling communities is a critical but only first step. We also need targeted public employment programs that provide the jobs that too often have been scarce for communities of color and in rural areas.

2

Strengthen—not gut—rules that support good jobs

Preserving and expanding the rules that support good jobs (high pay, benefits, decent work-family balance, and freedom from discrimination and wage theft) would create economically secure families and a fairer economy

The Trump administration has engaged in an unprecedented attack on regulations. But many regulations help ensure that the economy creates good jobs in which American workers, who are increasing their productivity, get their fair share of economic growth. Other rules enable work-family balance by carving out protections for American workers from excessive or unscheduled corporate demands on their time. Policymakers should not be undercutting American families by destroying the regulations that support them. Instead, local, state, and federal lawmakers need to strengthen the regulatory safeguards that support good wages, help workers balance work and family needs, raise living standards, and ensure greater equity. And they need to fix an immigration system in which employers who exploit and underpay immigrant workers bring down wages for all workers.

To support rising wages and work policymakers should:

- ***Raise the federal minimum wage to $15 by 2024 and index it to wage growth.*** For some employers, economists, and even policymakers, $15 sounds high. But had the federal minimum wage risen alongside productivity since 1968 (the way it had for the first 30 years of its existence) it would be well over $15 today. Instead the value of the minimum wage has been routinely beaten down by inflation between increases. Today it languishes at $7.25. A $15 minimum wage, combined with the Earned Income Tax Credit and other social supports, would ensure that even the lowest-paid workers could attain a decent standard of living if they work full time. A $15 minimum wage would lift the earnings of the bottom third of the workforce, generate robust wage growth overall, and fuel economic growth. Indexing the minimum wage to growth in the median wage would provide economic certainty to both employers and workers and tie the minimum wage to economic fundamentals rather than the whims of politicians.

- ***End forced arbitration in employment contracts and consumer financial services agreements.*** An increasing number of companies are requiring consumers or employees to waive their right to sue, to participate in a class action lawsuit, or to appeal arbitration rulings as a condition of employment or when buying a product or service. Instead, the employee or consumer must submit any dispute that may arise to binding arbitration. In disputes between parties that have substantially equal bargaining power, *voluntary* agreements to arbitrate are a practical and well-established way of resolving issues without litigation. However, binding arbitration is bad for consumers and employees. Arbitrators friendly to corporate interests conduct secretive, and often inferior, forums in which companies are more likely to prevail. Even if employees or consumers do prevail, they are less likely to recover their due, and once a dispute is decided by an arbitrator, there is no effective right of appeal. Forced arbitration makes it much harder to fight gender and racial discrimination, wage theft (when employers don't pay workers for all their hours), employee misclassification (when employees are called "contractors" so that they don't get the benefits and protections), and other wage and hour violations.

- ***Build a universal child care system.*** A nationwide child care system could provide economic security to families, improve educational outcomes, and narrow achievement gaps between white and minority students and high- and low-income students. Federal legislation should expand public funding for home visits by nurses trained to help parents make healthy choices before and after childbirth; give all families access to high-quality child care provided by professional staff trained to provide early childhood education; and boost the wages and benefits, and training and advancement opportunities offered to early childhood caregivers and teachers. In the meantime, Congress should boost the generosity and reach of the child tax credit (CTC) and the child and dependent care credit (CDCC).

- ***Enact paid sick leave.*** Allowing workers to earn paid sick leave would lead to stronger, healthier, and more economically secure families. Access to this workplace benefit is vastly unequal. Working parents, particularly lower-wage ones, are often forced to choose between staying home with a sick child and earning a paycheck. When parents cannot take off work, children are sometimes sent to school ill, diminishing their learning experience and exposing other students, teachers, and staff to infection. When employees go to work sick, they endanger their own health and the health of their colleagues while jeopardizing the safety and quality of their work. At the same time, staying home and putting one's own health first can result in unpaid bills and insufficient food.

- ***Enact paid family leave.*** Although the Family and Medical Leave Act of 1993 guarantees 12 weeks of job-protected family leave, half of workers are not qualified to receive it (because it only applies to large employers and workers with a minimum job tenure), and the act does not require the leave to be paid. Because there is currently no national standard regarding paid family leave, each worker is left to the whims of individual company policies, which often means no paid family leave at all. Therefore, workers have to make difficult choices between their careers and their caregiving responsibilities precisely when they need their paychecks the most, such as following the birth of a child or when they or a loved one falls ill. The lack of paid family leave particularly affects women, as they currently take on the lion's share of unpaid care work. They often leave the paid labor force to care for loved ones when the need arises, forcing these women to forgo opportunities for career advancement and to end up with lower lifetime earnings (and therefore lower retirement income) than their male peers. Poorly constructed measures for paid leave that provide tax credits that do not help lower-income households and restrict leave for pregnant mothers are not acceptable substitutes for intelligent, progressive leave policies.

- ***Promote sensible and fair work scheduling.*** Irregular and unpredictable work schedules are bad for workers. Often, these schedules so disrupt employees' work-family balance that children suffer from lower educational achievement. Responsible policy should protect the most vulnerable workers against excessively unreasonable demands for total flexibility from their employers. Workers deserve to have a life away from work, and to be able to schedule when doctor visits and teacher meetings and other personal commitments happen. Legislation to insure predictability in scheduling should be passed at state and federal levels.

- ***Increase by 50 percent the Department of Labor's budget authority for labor standards enforcement, including employee misclassification, wage theft, and prevailing wage violations.*** Strengthening the capacity of the Wage and Hour Division at the Labor Department could put hundreds of millions of dollars into workers' wallets and into the economy. Wage theft, whereby companies fail to pay wages that workers are legally entitled to, costs workers tens of billions of dollars a year. By essentially transferring income from low-wage employees to business owners, wage theft worsens income inequality and hurts workers and their families. The misclassification of employees as independent contractors also exacts a huge economic toll. Misclassified workers often are denied access to critical benefits and protections such as the minimum wage, overtime compensation, family and medical leave, unemployment insurance, and safe workplaces. And because companies don't pay taxes on their misclassified employees, state and federal budgets, unemployment insurance, and workers' compensation funds suffer, hurting taxpayers and the economy.

- ***Use all the tools at our disposal to eliminate discrimination in hiring, promotion, and pay.*** Public policymakers, employers, and the educational system should work together to attack the factors that harm labor market opportunities of women and workers of color. These factors include not just overt discrimination but differences in how our culture and education system steers men and women into different careers. Unequal divisions of labor at home and unnecessary employer demands for excessive and irregular hours are particular impediments to women. The solutions are as far-reaching as paid family leave policies, which can reduce the gender wage gap—particularly when men share in leave-taking responsibilities. And solutions are as basic as requiring employers to demonstrate that differences in hiring, pay, and promotion are based on factors other than sex or race, strengthening penalties for equal pay violations, and eliminating the separate and lower minimum wage for tipped workers. Because women and people of color make up a disproportionate share of restaurant servers and others who rely on tips for a living, the subminimum wage for tipped workers widens gender and racial wage gaps and results in worse economic outcomes.

- ***Reform immigration laws to provide legalization and a path to citizenship for unauthorized immigrants.*** Legalizing and providing work authorization to the current unauthorized immigrant workforce (approximately 5 percent of all workers) would raise wages. Because unauthorized immigrant workers fear employer retaliation based on their immigration status—which can often mean deportation—they are practically unable to complain about workplace violations and wage theft. This leaves them vulnerable to exploitation and willing to accept lower wages than similarly situated U.S. workers, and this, in turn, puts downward pressure on the wages of all workers in the major occupations in which unauthorized workers are employed. Legalizing unauthorized immigrant workers would eliminate this source of downward wage pressure.
- ***Reform—rather than expand—guestworker programs so that temporary migrant workers are not underpaid and have access to labor standards and workplace protections.*** At present, thanks to inadequate regulation and enforcement, U.S. employers are exploiting guestworker programs to keep wages low in major guestworker occupations (such as landscaping and information technology), to undercut labor standards for U.S. workers, and sometimes even to replace U.S. workers with indentured and much lower-paid temporary migrant workers. Guestworkers—who make up approximately 1 percent of the U.S. workforce—arrive indebted to labor recruiters who connect them to U.S. employers, and may only work for the employer who sponsored their visa. As with unauthorized immigrant workers, this means that they are practically unable to complain about workplace violations and wage theft, because complaining about wages or working conditions can mean getting fired, which means losing their visa status and becoming deportable. As a result, some categories of these "legal" guestworkers earn wages similar to wage levels of unauthorized immigrant workers. For guestworker programs to be fair to both U.S. workers and temporary migrant workers, laws should be reformed to allow U.S. workers to have the first opportunity to apply and be hired for job openings in the United States, and guestworkers should never be paid less than the local average wage in their occupation.

3

Protect the basic human right of worker organization

Protecting workers' right to collectively bargain for better wages and working conditions would help restore broad-based wage growth

In the debate about wage stagnation, the decline in union power has not received nearly as much attention as globalization and technological change. But unions, especially in industries and regions where they are strong, help boost the wages of all workers by establishing pay and benefit standards that many nonunion firms adopt. Rebuilding the collective bargaining system is essential to restoring broad-based wage growth. Independent, democratically run worker organizations provide workers with leverage to bargain for better wages and a voice to counterbalance the influence of corporate interests in politics.

To enhance worker rights, policymakers should enact the WAGE Act. The Workplace Action for a Growing Economy Act would amend the National Labor Relations Act (NLRA) to strengthen protections for working people who organize and promote change through collective action. Specifically, the law would increase workers' rights and protections by:

- Tripling the back pay that employers must pay to workers who are fired or retaliated against because they engaged in collective action, regardless of immigration status.
- Providing workers whose rights are violated with a private right of action to bring suit to recover monetary damages and attorneys' fees in federal district court, just as they can under civil rights laws.
- Providing for federal court injunctions to immediately return fired workers to their jobs.
- Ensuring that the employers that actually control wages and working conditions will be jointly responsible for violations affecting workers supplied by another employer.

The WAGE Act would put an end to the financial incentives for employers to interfere with workers' rights by allowing the National Labor Relations Board (NLRB) to impose financial penalties—including on officers and directors, and to force companies to the bargaining table when their violations prevent a fair union election.

4

Level the playing field that trade agreements slanted against workers

Globalization depresses wages—and our trade policy makes it worse

Textbook economics and real-world evidence correctly predicted that globalization—particularly trade with lower-wage nations—was going to be hard on the wages of most American workers. Policymakers should have responded by providing compensation for those on the losing end—compensation on the scale of the harm. Instead, they amplified the wage-suppressing effects of globalization by allowing the U.S. dollar to become overvalued (which made U.S. goods more expensive than the goods of our trading partners) and by signing trade agreements that eroded workers' power while protecting corporate profits.

Anger over the impact of international trade on jobs, wages, and opportunities likely played a role in Donald Trump's election. Trump now promises to negotiate "fair bilateral trade deals that bring jobs and industry back onto American shores." But the quest for better trade agreements has gone on for decades with no success because the entire process is effectively captured by corporate interests. The solution is not better negotiating—and certainly not faith-based reliance on a billionaire to negotiate worker-friendly agreements. The solution is stopping the process of omnibus trade agreements altogether.

To return to an international economic policy that promotes the interests of all workers, policymakers must:

- ***Fight exchange rate misalignments that have inflated the dollar to levels that hamper U.S. exporters and lead to trade deficits.*** Large U.S. trade deficits have slowed economic recovery, destroyed jobs, and depressed wages. Indeed, the growth of trade deficits since the late 1990s has eliminated millions of U.S. manufacturing jobs. Reducing trade deficits requires confronting the intentional currency manipulation by our trading partners and the speculative excess in global financial markets that push the value of the dollar too high to balance trade. Figuring out how is easy—plenty of well-established proposals would work. What's needed is the political will.

- ***Enforce trade laws that help American workers.*** American workers could get a fairer chance to compete in global markets if provisions of trade laws already on the books were enforced. Enforcement includes action against dumping—when state-backed enterprises produce more than their domestic market demands and export the surplus at below-market rates. Excess capacity and dumping drive down global prices and damage American producers. A key first step would be creating a chief trade enforcement office that can initiate trade cases without waiting for affected industry representatives to begin the process. Enforcement of trade laws that protect American workers should not hinge on whether firms have the will and resources to begin enforcement proceedings.

- ***Reject the Trans-Pacific Partnership (TPP) and other trade agreements that protect American and multinational corporations but not American workers.*** The proposed TPP followed a model that amplifies the upward redistribution of income caused by globalization. Like previous trade agreements, it was designed to erode workers' protections but make it safer and more profitable for U.S. corporations to invest in foreign countries. Particularly egregious provisions are the investor-state dispute system, which gives corporations a forum to sue countries that take actions that diminish their profits, and excessive intellectual property protections given to pharmaceutical, software, and entertainment sectors. The TPP should be the last omnibus trade agreement modeled on NAFTA ever negotiated. And it should never become law.
- ***Reorient international economic policy away from trade deals.*** There are genuine challenges confronting the United States that need international cooperation. Cracking down on international tax havens and harmonizing policies to slow greenhouse gas emissions are just two obvious examples. Policymakers should spend their time and efforts on these challenges, not on the corporate-friendly distractions of traditional trade agreements.

5

Use policy to restrain the economic power of the top 1 percent and restore power to the bottom 90 percent

The top 1 percent—particularly CEOs and the finance sector—do not need tax cuts that increase their incentive to further rig the economy's rules

Collectively the top 1 percent of Americans have enjoyed extraordinary income growth since 1979, doubling their share of all income. This disproportionate capture of the fruits of economic growth is due in great part to the expansion of the financial sector (and escalating pay in that sector) and the monstrous growth of executive pay. Crucially, there is little to no evidence that escalating incomes at the top were driven by the soaring productivity of finance and corporate managers. Instead, gains at the top were essentially zero-sum transfers from the bottom 90 percent that did not generate any economy-wide benefit. This means that measures that give the bottom 90 percent some leverage to secure a more proportionate share of income growth will *not* harm overall economic growth. Rather, providing this countervailing power is critical to increasing wages and incomes for the vast majority. President Trump's appointments of corporate and financial titans to top spots in his administration do not suggest that he will soon be dismantling the policies that direct new wealth and income to the very top.

Progressive taxes take a larger share of income from high-income earners than from low-income earners. A range of progressive tax increases would provide needed financing for social insurance and safety net programs as well as public investments. They would also help ordinary workers and their families claim a fairer share of the economic pie.

- ***Eliminate tax preferences for executive pay or make deductions for executive pay contingent on granting rank-and-file wage increases equal to productivity growth.*** Effective rules to make executive pay levels transparent—revealing what executives make relative to worker pay—can help limit the explosive growth in executive pay. But a more powerful fix requires legislation. Such legislation would eliminate corporate tax deductions for excessive executive pay and create tax incentives for firms that provide wage increases for workers that equal increases in productivity. Higher marginal income tax rates on top earners are also essential.

- ***Implement a financial transactions tax (FTT).*** A well-designed FTT—a small levy placed on the sale of stocks, bonds, derivatives, and other investments—would generate tax revenue progressively and efficiently. Gross revenues from the tax would likely range from $110 billion to $403 billion. As the U.S. economy continues to recover from the 2008 financial crisis and the Great Recession, an FTT would help ensure that the financial sector compensates other sectors of the economy, particularly U.S. families, for the damage inflicted by its abuses. Through generating tax revenues, decreasing the fees Americans pay on their investments, and shrinking unproductive parts of the financial sector, an FTT would help Wall Street work for Main Street.
- ***Raise top marginal income tax rates.*** Higher marginal income tax rates would reduce the economic payoff of the zero-sum transfers of income to the top 1 percent—transfers that have driven much of the increases in executive and financial sector pay in recent decades. The revenue derived by higher tax rates would provide needed financing for the public investments, social insurance, and social supports that America's families need.

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