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Raise America's Pay

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I am Lawrence Mishel, and I am representing the Economic Policy Institute Policy Center. Thank you for inviting me to testify today.

My testimony will focus on the key economic challenge we face: how to generate robust wage growth for the vast majority.

As a nation we are having a “wages moment.” There is now nearly universal recognition that wage growth for nearly all workers, both white-collar and blue-collar, has been inadequate. Unfortunately, too many people believe that wage suppression is an inevitable consequence of immutable forces such as globalization and technological change. In actuality, it is the predictable result of policies implemented over the last four decades that have eroded workers’ ability to command higher pay. The good news is that we can raise Americans’ pay with different policies that increase their economic leverage.

It is critically important that the policy agenda you advance highlights the many ways we can grow paychecks for the vast majority—not only for low-wage workers, but for middle-wage workers as well. This is the path to shared prosperity, an expanding middle class, reduced poverty, and enhanced social mobility.

Wage growth: The facts

Wage trends lay at the heart of income stagnation. This is just common sense; after all, middle-class families rely almost completely on what they earn from their jobs to support their consumer spending since these families do not own many financial assets that produce income. This is also true for low-income households, who obtain 70 percent of their income from wages. Raising households into the middle class and fueling middle-class incomes thus boils down to generating widespread wage growth.

It is a welcome development that policymakers and candidates in both parties now understand that stagnant wages are a critical economic challenge.

It is instructive to establish some of the basic facts about what I refer to as *wage suppression*:

- Between 1979 and 2014 the wages of the top 1 percent of earners grew 149 percent, while the wages of the bottom 90 percent grew just 16.7 percent, with most of that growth occurring in the late 1990s. Had the highest-earning 10 percent not received a disproportionate share of wage growth, wages for the bottom 90 percent would have grown twice as fast.
- Since 1973 productivity has grown 72.2 percent, yet the compensation (wages and benefits) of a typical worker grew far less, just 9 percent (again, mostly in the latter 1990s). Thus, wage and benefit stagnation is a long-term trend. It is not simply due to insufficient economic growth, since a growing economy over the last four decades did little to raise pay for the vast majority.

- It is important to note that there has been widespread wage stagnation for the last dozen years or so, affecting both blue-collar and white-collar workers and both high school and college graduates. Wage stagnation occurred over the last recovery from 2002–2003 until 2007, as well as during the Great Recession and its aftermath.

How the rules were rigged to create wage suppression

The failure of wages to grow for the vast majority was not the result of economic forces beyond our control. Rather, the culprits are policy choices made on behalf of those with the most income, wealth, and power that have weakened the individual and collective power of most workers to earn a decent paycheck. In other words, the rules of the labor market were rigged to expand profits and redistribute wages upward. As a result, the vast majority no longer benefits from rising economy-wide productivity. This is a marked contrast with the early postwar period, a time when prosperity was broadly shared.

Policy choices that have suppressed Americans' wages include:

- Macroeconomic policy failures that allowed excessively high unemployment for most of the last four decades. When unemployment is high, employers don't need to increase wages to get and keep the workers they need.
- Erosion of numerous labor standards (and their enforcement), as reflected in a far-too-low minimum wage, fewer workers covered by overtime protections, millions misclassified as independent contractors, and wage theft by employers that is three times greater than all the money stolen in robberies each year.
- New business practices such as subcontracting, franchising, and temporary employment that have been used to cut pay and erode economic security.
- An assault on collective bargaining that was the single largest factor undercutting the pay of middle-wage men.
- Globalization under terms that have hollowed out manufacturing and undercut wages for non–college educated workers.

At the same time, other policies have strengthened and expanded the financial sector and launched an exorbitant growth of executive pay. These factors fueled the enormous growth of wages and incomes for the top 1 percent and redistributed money upward that otherwise would have been available for the vast majority.

The good news is that because policies (either of commission or omission) created wage suppression, it is within our power to create policies that will reestablish robust, widespread wage growth and shared prosperity. It would be advantageous to organize your economic policy recommendations around a narrative that explains how they will generate robust wage growth so that once again the vast majority will benefit from a more productive economy.

Policies to generate robust wage growth

Create jobs and achieve persistent low unemployment

Creating jobs and achieving lower unemployment will create a “high-pressure economy” in which employers compete for workers through higher wages, an environment that will help low- and middle-wage workers the most.

The most consequential decisions affecting job and wage growth in the next few years will be made by the Federal Reserve Board. It is important that higher interest rates do not prematurely shut down the recovery before it reaches disadvantaged communities and generates decent wage growth. Changes in Board governance to ensure decision-makers are representative of the American people can help to improve future policy decisions.

Bold investments in infrastructure, clean energy, and scientific and medical research can raise future productivity while supplying needed jobs in the near term. Additionally, a public service employment program targeted at high-unemployment areas (which will disproportionately be communities of color and rural areas) can provide needed services and lower unemployment.

Rebuild labor standards and step up enforcement

High labor standards are necessary to provide an adequate floor of worker protections, to set the norms of the market, and to support overall wages and working conditions. Our basic standards have eroded tremendously—and as enforcement has weakened, so has compliance with even these weaker standards. It is critically important to restore and improve existing standards such as the minimum wage and overtime protections, and to also modernize our standards by expanding them to include earned sick leave, parental leave, and fair scheduling.

The most prominent labor standard is the minimum wage, which is now at least 25 percent below its 1968 level, even though the economy is twice as productive. We need bold proposals—far more aggressive than those of the past three decades—to overcome the dramatic erosion of the minimum wage that occurred in the 1980s. We should follow the lead of several states and cities and target $12 or $12.50 by 2020, and $15 several years later. This would lift wages for at least the bottom third of the workforce. Together with an expansion of the earned income tax credit (including adding childless workers), this policy would move us closer to providing an adequate standard of living to full-time workers. Improving work supports such as a universal, comprehensive child care program would further improve families’ living standards and help them balance work and childrearing.

We also need more aggressive enforcement of our laws to prevent the extensive worker misclassification that has taken hold in trucking, construction, and the taxi industry, and is now moving beyond those sectors. We need similar enforcement efforts to end pervasive wage theft that now reduces wages for the bottom 60 percent by 3 percent each year. Last, the Obama administration's new rules on overtime have extended protections to roughly a third of salaried workers, up from just 10 percent—benefitting over 12 million middle-class workers. This new rule must be protected from congressional efforts to overturn it.

Rebuild our collective bargaining system

Rebuilding collective bargaining is essential for ensuring that economic growth reaches middle-wage workers, and for giving working people an effective voice in our democracy. The single largest factor suppressing wage growth for middle-wage workers over the last few decades has been the erosion of collective bargaining (which can explain one-third of the rise of wage inequality among men, and one-fifth among women). One of the greatest impacts of the decline of collective bargaining has been that nonunion workers in industries or occupations that previously had extensive collective bargaining no longer receive the higher pay that their employers used to provide (given concerns that their best workers might leave for a union job, or that their workers would choose to bargain collectively). We should enhance penalties for violating labor laws. But tinkering is not enough. We need to undertake a wholesale revision of labor laws to establish sectoral and occupational bargaining.

Make undocumented workers legal citizens

It is frequently overlooked that making today's undocumented workforce (some 5 percent of all workers) legal would raise wages for them and for those in similar industries and occupations. Undocumented workers are vulnerable to exploitation. Consequently, they earn lower wages than workers who have greater access to legal protections and are able to switch jobs more readily. Regularizing undocumented workers will not only lift their wages but will also lift wages of those in the same fields of work. Similarly, we must improve labor standards in guestworker programs so that these workers earn at least the median wage in the relevant occupation and have the right to switch employers. There is no basis for expanding these programs when many Americans are still seeking jobs, especially low-wage workers.

End forced arbitration

A majority of large firms force their workers to give up their access to court and government agency remedies and agree to settle disputes over wages and discrimination in arbitration systems set up and overseen by the employers themselves. Collective action through class action suits is also denied to many workers. Such practices limit workers' options and facilitate age, gender, and race discrimination and violations of wage and hour laws.

Modernize labor standards to include sick leave, paid family leave

Not only have New Deal–era labor standards eroded, the United States has failed to adopt new labor standards that respond to emerging needs. In particular, we need standards to help workers achieve a better balance between work and family. The most prominent examples are standards relating to sick leave, paid family leave, and work scheduling (particularly standards that address underemployment of part-time workers, on-call scheduling, and erratic scheduling). More support for child care is also necessary to assist workers and their families, especially low- and moderate-wage workers whose child care choices are limited and of uneven quality.

Close race and gender inequities

Generating broader-based wage growth must also include efforts to close race and gender inequities that have been ever present in our labor markets. Many of the policies already mentioned—though not overtly race- or gender-based—would disproportionately raise wages for women and people of color, who are more likely to work the kinds of jobs impacted by such policies. We also need consistently strong enforcement of antidiscrimination laws addressing the hiring, promotion, and pay of women and minority workers. Additionally, we must tackle social issues such as mass incarceration that limit employment opportunities and pay for countless ex-offenders, particularly African American men. Finally, improving adult education opportunities can help better integrate immigrant workers into our economy and our communities.

Address the top 1 percent

The policies discussed so far will strengthen the ability of the vast majority to get a better deal on the job, pushing their wages higher. We also must limit the ability of those at the top to capture a rising share of all income, which leaves less income left over for everybody else. Why do we need to explicitly address the rising share of income going to the top 1 percent? For the same reason that robbers target banks: That’s where the money is, and is going. Policies to limit financialization of the economy are essential: This includes everything from strengthening Dodd–Frank, establishing a financial transactions tax, and limiting payday loans to ending tax preferences for unearned income. Likewise, it is essential to curtail runaway executive pay through changes in corporate governance and tax policies (such as ending the preference for “performance pay”). Higher marginal tax rates on top incomes will curtail the incentive to seek further “rents” at the expense of others.

Do not pursue tax cuts

The erosion of paychecks over the last 40 years has not been due to what government has taken out of them, but from what employers no longer put in them. Tax cuts are seen by some as a way to provide some cash to ease families' financial struggles. The problem is that wage stagnation is an ongoing challenge—and one-time tax cuts are, at best, a short-term Band-Aid. We need those revenues for robust public investment programs, to enhance our safety net (including Social Security), and to provide expanded work supports such as child care subsidies.

Conclusion

Because wage stagnation was caused by policy, it can be solved by policy. Through policies that give workers more leverage to command higher pay, we can ensure that an increasingly productive economy benefits everybody—not just those at the top. Through policies that foster shared prosperity, we can expand the middle class, reduce poverty, and enhance social mobility so that America is a land of opportunity for all.

Resources

The following EPI resources provide more information about wage stagnation and how to fix it:

Raising America's Pay: Why It's Our Central Economic Policy Challenge, EPI Briefing Paper by Josh Bivens, Elise Gould, Lawrence Mishel, and Heidi Shierholz, June 4, 2014

How to Raise Wages: Policies That Work and Policies That Don't, EPI Report by Lawrence Mishel and Ross Eisenbrey, March 19, 2015

Causes of Wage Stagnation, EPI Report by Lawrence Mishel, January 6, 2015

Understanding the Historic Divergence Between Productivity and a Typical Worker's Pay: Why It Matters and Why It's Real, EPI Briefing Paper by Josh Bivens and Lawrence Mishel, September 2, 2015

The Erosion of Collective Bargaining Has Widened the Gap Between Productivity and Pay, EPI Report by David Cooper and Lawrence Mishel, January 6, 2015