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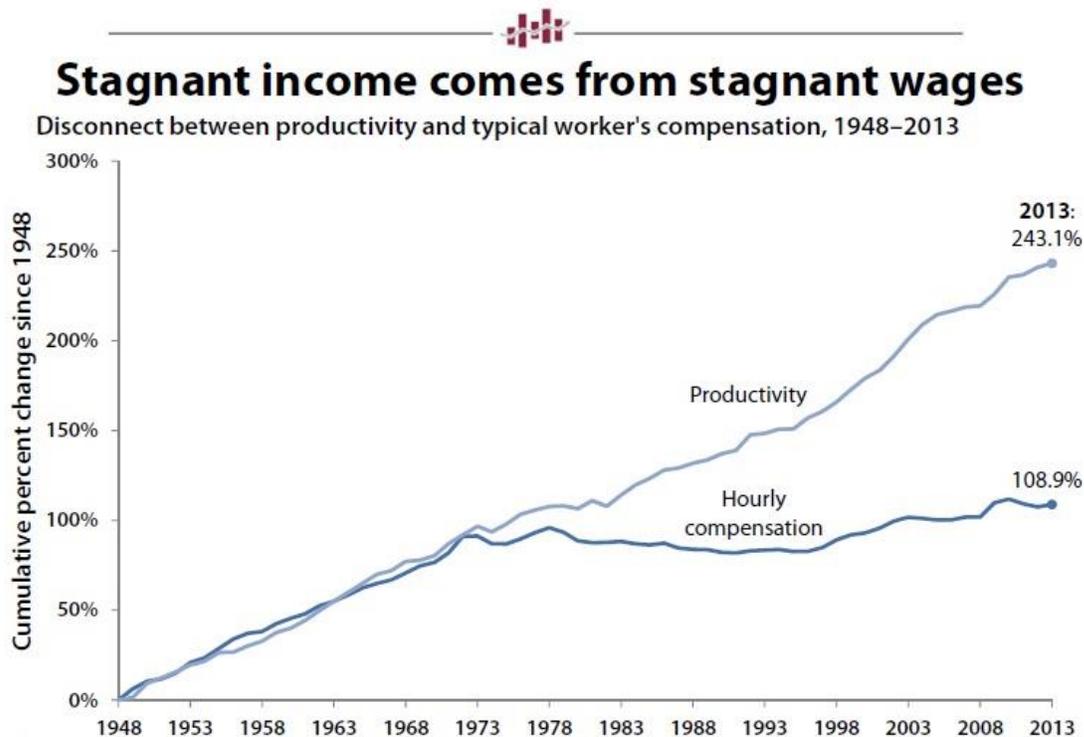
Presentation by David Cooper, Economic Policy Institute, December 9, 2014

Poverty, Wage Stagnation and Employment Policy

The United States has become wealthier over the last generation, but many Americans have not benefitted from wealth creation. Historically, there has been a correlation between increased productivity and rising incomes, but since 1979, the incomes of the bottom 90% of the population have stagnated, while the incomes of the top 1% have grown by 244%. This inequality has had a negative impact on society as a whole.

If the minimum wage grew at the same rate as our productivity since 1979, it would be approximately \$19 per hour. Americans are working harder to make ends meet--the majority of household income gains have resulted from increased work hours rather than increased wages. If our nation's economic growth during the *entire* post World War II period had had been distributed more equitably (and not just between 1948 and 1973), it is estimated that the average family income would be 25% higher and poverty rates would be close to 0%. Instead, our social welfare system is being stretched as a growing number of working people become eligible for public benefits due to low wages.

Globalization and the rise of the financial sector have contributed to inequality, but the negative impact of these economic processes could be ameliorated through policy making and regulation. The decline of unionization and collective bargaining, as well as the emergence of detrimental labor and employment policies -- such as Right to Work laws and the failure to raise the minimum wage -- have also been significant factors contributing to inequality.



Note: Data are for compensation of production/non-supervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked. Source: EPI analysis of unpublished Total Economy Productivity data from Bureau of Labor Statistics Labor Productivity and Costs program, wage data from the Bureau of Labor Statistics Current Employment Statistics, Bureau of Labor Statistics Employment Cost Trends, and Bureau of Economic Analysis National Income and Product Accounts

There are many arguments for raising the minimum wage. The minimum wage was established as a matter of justice, and stemmed from the idea that a full-time worker should earn enough to make ends meet. In most OECD countries,¹ the minimum wage increases at the same rate as productivity increases, and is indexed at 50% of the median wage. In the U.S., the minimum wage has fallen to 36% of the median wage. Higher wages also serve an economic function; our economy is based on consumption, and it is difficult for people to consume if they have low wages. Declining buying power of workers hurts the economy as a whole.

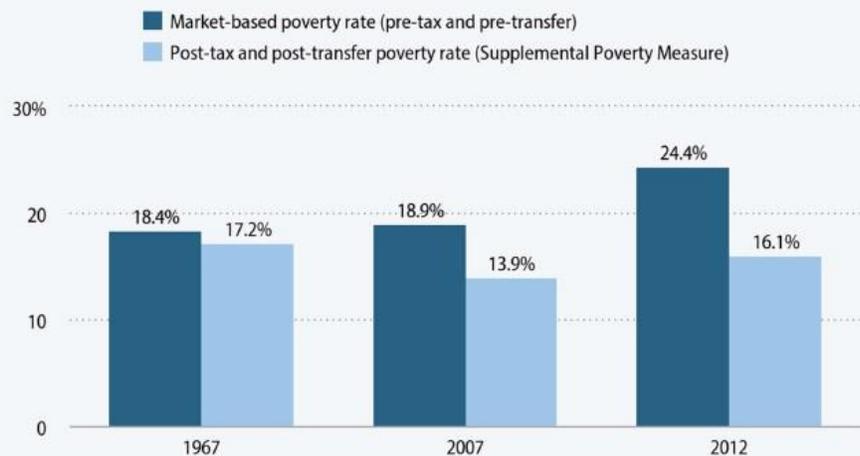
The Economic Policy Institute estimates that 27.8 million people would be impacted if the federal wage was raised to \$10.10 -- approximately 16.7 million would receive wage increases to comply with the new federal wage, and an additional 11.1 million would receive pay increases to preserve wage ladders. As of January 2015, 29 states that have minimum wages higher than the federal standard of \$7.25.²

Those who oppose the minimum wage argue that wage increases may hurt local economies and raise the price of consumer goods. However, this concern is not substantiated by the research. First, the majority of low wage workers are employed by large companies, so wage increases have a negligible effect on small businesses. Second, there is an established body of research which has found that wage increases reduce poverty without damaging local economies. This is because the costs of wage increases are offset by a reduction in turnover costs, improved productivity, and increased consumer demand spurred by higher wages. There are some price increases, but they do not outweigh the benefits of wage increases. A 10% wage increase typically results in a 1% increase in consumer goods. Furthermore, a 10% wage

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Things would be much worse without safety net

Non-elderly poverty rates, market-based and post-tax, post-transfer, 1967, 2007, 2012



Source: Authors' analysis of data supplied by Fox et al. (2014)

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¹ The Organization for Economic Co-operation and Development member nations are largely high-income economies that rate highly on "human-development indexes." These are nations with market economies and some form of democratic government.

² <http://www.dol.gov/whd/minwage/america.htm>.

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increase has been found to reduce poverty by 2.4%. Approximately \$45 billion in public assistance goes to low-wage workers. If the minimum wage was raised, those savings could be reinvested to create a more robust social safety net.

In addition to raising the minimum wage, there are several policies that could improve the quality of life for low income households. The first is to eliminate the “tipped wage,” a policy that sets some service workers’ wages as low as \$2.13 per hour. Workers who receive tips (\$30 or more in tips per month) are excluded from

minimum wage legislation. They are vulnerable to wage theft (employer underpayment of tips received and under-reporting of hours worked). Consequently tipped workers have higher rates of poverty than service workers who receive the minimum wage. Employment policies that protect workers from wage theft, unpaid overtime, worker misclassification, and “just-in-time” scheduling are also extremely important. Paid sick time and more robust child care and family leave policies are essential, along with increased protections for labor organizing and the strengthening of unions.

Discussion Summary and Implications for BPI

Several points were made clear during this session. First, inequality is having an impact on a large portion of our society, and is negatively affecting middle- and low-income workers and their families. It is also taxing the social safety net, hurting the economy, and hindering social mobility. Second, increased wages and labor protections do not have a negative impact on job growth, and are likely to stimulate local economies. These points are not widely discussed or understood by the general public. What role could BPI play in raising awareness on these issues?

The problem of economic inequality is multifaceted and requires several remedies, including increased regulation, more equitable taxation, a strong public benefits system, and the creation of political will through public awareness campaigns. How could BPI best contribute to these efforts?

Further Reading and Additional Resources

Gordon Lafer (Economic Policy Institute 2013) authored a paper on state policies that have negatively impacted bargaining entitled *The Legislative Attack on American Wages and Labor Standards* <http://www.epi.org/publication/attack-on-american-labor-standards/>

Arin Dube is a prominent economist who studies the impact of employment policies, including to the minimum wage. Links to his research can be found at: <http://arindube.com/published-articles-and-book-chapters/>

Jeannette Wicks-Lim and Robert Pollin (Political Economy Research Institute 2012) studied the relationship between EITC and the minimum wage and found that these policies work best

when used in tandem.

http://www.peri.umass.edu/fileadmin/pdf/published_study/PERI_WorkPay.pdf

In *Winner Take All Politics* (Simon & Schuster 2011) Jacob Hacker and Pierson discuss the relationship between rising inequality and American policy making.

Josh Bivens, Elise Gould, Lawrence Mishel, and Heidi Shierholz. “Raising America’s Pay: Why It’s Our Central Economic Policy Challenge.” Economic Policy Institute Briefing Paper #378. Washington, DC: EPI. June 4, 2014. <http://s1.epi.org/files/2014/raising-americas-pay-report-final.pdf>

David Cooper. “Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost.” EPI Briefing Paper. Washington, D.C.: Economic Policy Institute, December 19, 2013. <http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/>

The Center for Popular Democracy. *Raise Chicago: How a higher minimum wage would increase the wellbeing of workers, their neighborhoods, and Chicago’s economy.* Chicago: CPD. Spring 2014. http://populardemocracy.org/sites/default/files/RaiseChicago-Layout_final_rev2.pdf