Real Action Is Necessary to Give American Workers The Raise They Deserve

Most American workers have not been benefiting from the economic growth of the last several decades. Wages for the average worker have barely budged in almost four decades, meanwhile wages for the highest earners have grown substantially, according to new research from nonpartisan organizations.

The Republican tax law will fail to address this issue, despite administration claims. Even if the tax cuts led to a large increase in productivity growth, there is little reason to believe that those gains will be broadly shared with workers. Instead, addressing these problems will take a robust policy plan that tackles the issues head-on. Democrats have laid out a platform, *A Better Deal*, which does just this and would boost wages for workers.

Key takeaways:

- Wages are not growing for many Americans: the real hourly wage for the median worker has grown by 6.1 percent since 1979, or less than 0.2 percentage point per year.
- The Republican tax cuts will not solve this problem—99.2 percent of the benefits of the tax law will go to the top 5 percent of households, once the law is fully implemented.
- Over the last several decades workers have been losing leverage, as policy protections have eroded, American workers face increased competition from foreign workers and technology, and bargaining power has declined.
- Meanwhile, employer leverage has increased, as market concentration has increased and firms have expanded the tools they use to keep wage growth low.
- A comprehensive agenda is needed to address these issues and help workers recognize broad wage gains.

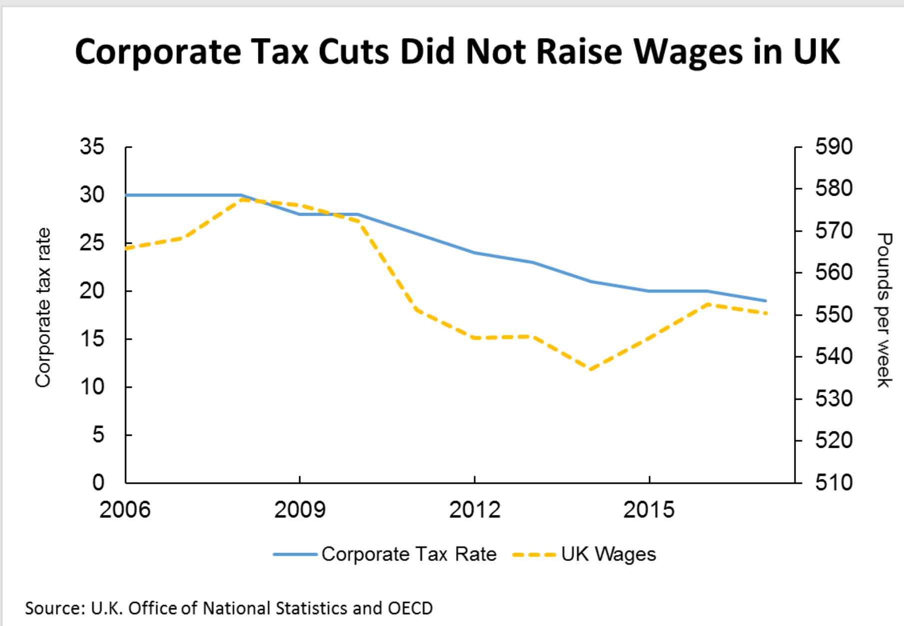
Republican Tax Law Will Not Solve Wage Stagnation

The Republican tax law will not lead to broad wage gains for working families, contrary to the administration and Congressional Republicans' claims. Their conclusion that the plan will lead to large raises for working families is based on two key mistakes. First, they overestimate the total gains that workers will see because of the corporate tax cut. Second, they ignore the factors that are contributing to wage growth becoming more heavily concentrated at the top and leading to a rise in income inequality. Instead of leading to broadly shared wage gains, the tax bill is likely to exacerbate the trends we are already seeing.

Little of the corporate tax cut will trickle down to workers

Economists largely agree that a small portion of the corporate income tax falls on workers, meaning that in the long-run part of the tax comes out of workers' wages. The Joint Committee on Taxation estimates that 25 percent of the tax falls on labor, while the Tax Policy Center (TPC) assumes 20 percent.[1] But the vast majority of the benefits of a corporate tax cut go to the owners of capital, who are the shareholders and owners of companies. Expecting corporate tax cuts to largely trickle down to workers does not align with past research, or history (see below box for example).

When the United Kingdom (U.K.) cut their corporate tax rate from 30 percent to 20 percent, wages actually declined. Part of this was due to the global recession, but when comparing the change to that of the United States (which also experienced the recession but did not change corporate tax levels during that time), the U.K. still experienced substantially higher declines in wages.[1]

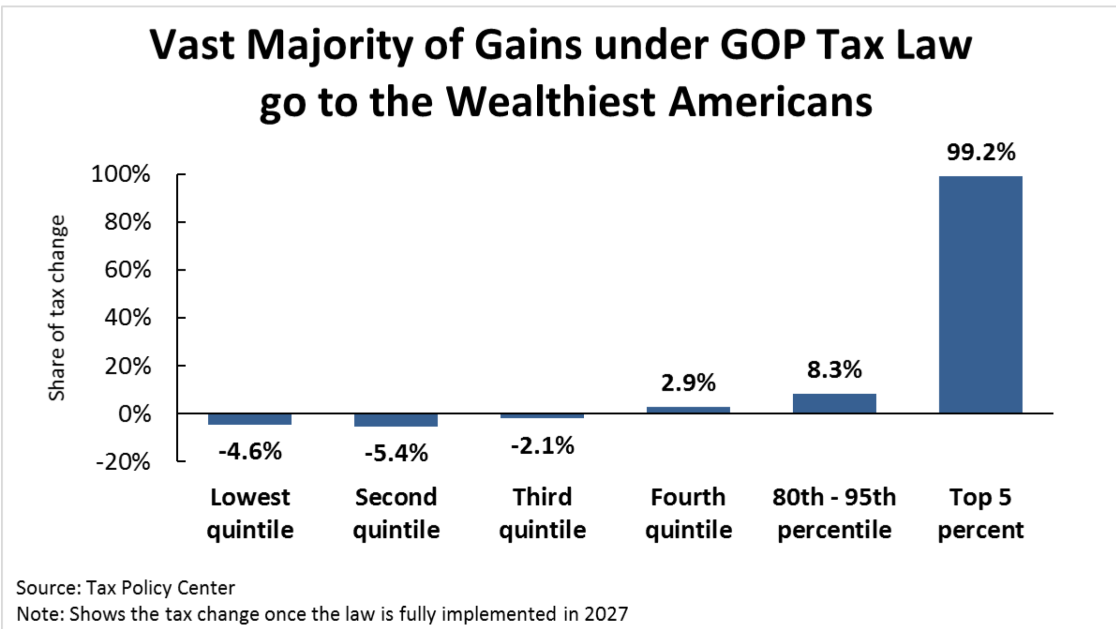


Shareholders, not workers, are the early winners of the tax cut

Early evidence shows that shareholders will be the big winners of the tax cut. A small share of corporate tax savings is going to bonuses and direct raises—although there should be doubt that these raises and bonuses are entirely due to the tax cut, instead of tightening labor markets. And a small portion is going to capital spending—again, though, it is difficult to give entire credit for this spending to the tax plan.[2] Meanwhile, companies announced more than twice as many share buybacks (where a company uses cash to purchase its own shares, driving up the stock price) through the first week of February as they had through the same point in 2017.[3]

The Republican tax law will worsen income inequality

The administration's claims on wage gains from the tax cut also fails to factor in the growth of inequality within labor income. Not only will the wealthiest Americans benefit the most from the share of the tax cuts going to owners of capital, what little benefit is left for labor will mostly go to the higher paid workers who are already thriving in the modern economy. This is reflected in nonpartisan scores of the Republican tax law, where once the temporary changes to the individual side sunset and most of the remaining cuts are the corporate tax cut, 99.2 percent of the benefits go to the top 5 percent of households. Without addressing the factors that have led to increasing inequality in income and wage growth, the tax plan will leave little for most working families.

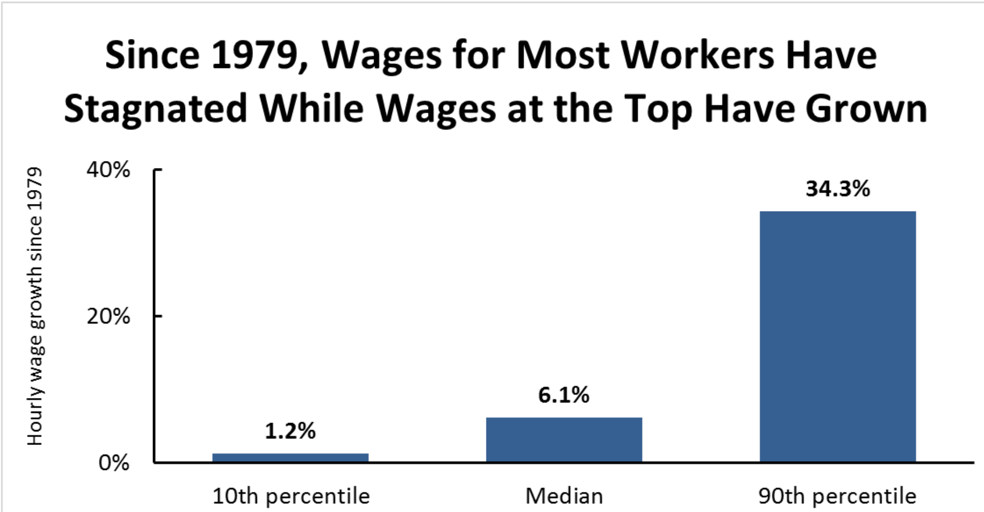


Wage Gains Are Not Broadly Shared Among Workers

The Congressional Research Service (CRS) and The Hamilton Project at Brookings have recently conducted robust analysis looking at wage growth in recent decades. Both came to the same conclusion: wages are growing slowly for the median worker, and are even falling for workers at the lower end of the income distribution. At the same time, workers at the top of the income distribution are seeing robust wage growth.[4]

According to CRS's research, the median worker's wages grew by only 6.1 percent since 1979, from $20.27 an hour to $21.50 an hour (in 2017 dollars), or less than 0.2 percentage point each year. For workers toward the bottom of the income distribution, wages have grown even slower—wages at the 10th percentile grew by only 1.2 percent over the same period, from $10.81

to $10.94. At the same time, workers at the 90th percentile have seen wages grow by 34.3 percent, from $37.53 to $50.40.[5]

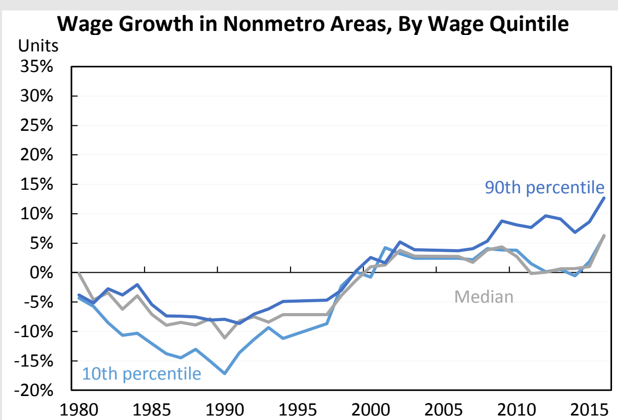


Source: Congressional Research Service
Note: Wage growth is adjusted for inflation; includes nonfarm wage and salary workers ages 25-64.

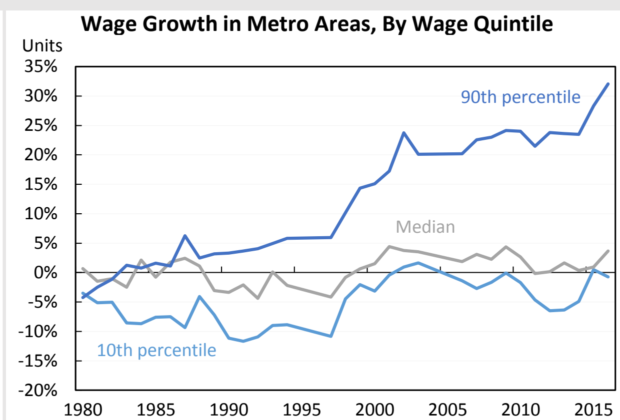
Workers without college degrees are seeing wages fall

There have been large differences in wage growth by education, where workers without college degrees have seen wages fall. CRS found that the median worker with a high school degree or less saw wages decline by 14 percent. Over the same period, the median worker with a college

Breaking down the data between metro (urban and suburban) and rural areas shows that there is also a divergence in wage growth regionally. Rural communities have not seen the same spike in inequality that metro regions have, but this is largely because wages across the board have been stagnant.



Source: Current Population Survey, Outgoing Rotation Group
Note: Due to coding concerns from 1995 and 2004, growth for '95, '96, '04' and '05 are interpolated



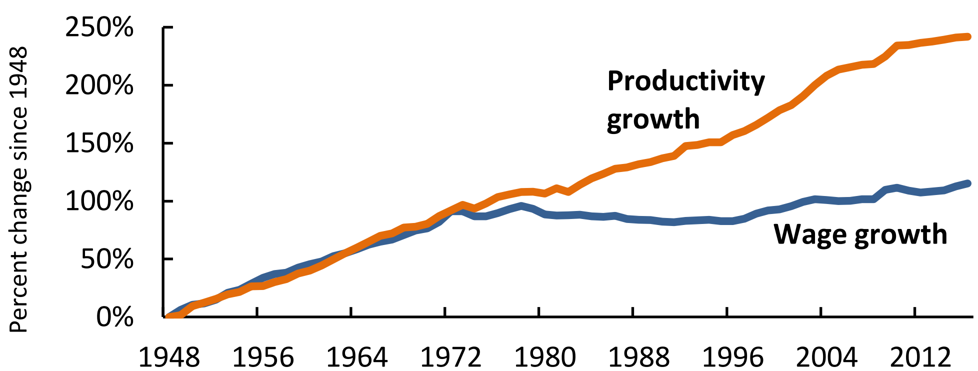
Source: Current Population Survey, Outgoing Rotation Group
Note: Due to coding concerns from 1995 and 2004, growth for '95, '96, '04' and '05 are interpolated

degree saw wages increase by 15 percent. Overall, workers with a college degree now earn roughly twice the hourly wage of those with a high school diploma or less.[6]

Workers are not seeing wages rise with productivity

As the workforce becomes more productive (i.e. workers produce more in the same amount of time), labor becomes more valuable and wages tend to rise. In the period following World War II, the relationship between productivity and wages was closely linked. That link has broken down in recent decades. Productivity growth still leads to higher wages for workers, but to a much lesser degree, indicating that there are barriers preventing many workers from sharing in recent economic growth.[7] Without addressing these challenges, higher productivity will not be enough to solve stagnating wages for most Americans.

Wages are not Keeping Up with Productivity



Source: Economic Policy Institute

Notes: Productivity growth shows the cumulative percent change in output per hour of work since 1948, net of depreciation; wage growth shows the cumulative percent change in hourly compensation of private sector production and nonsupervisory workers since 1948.

Multiple Factors are Causing Wage Growth Disparities

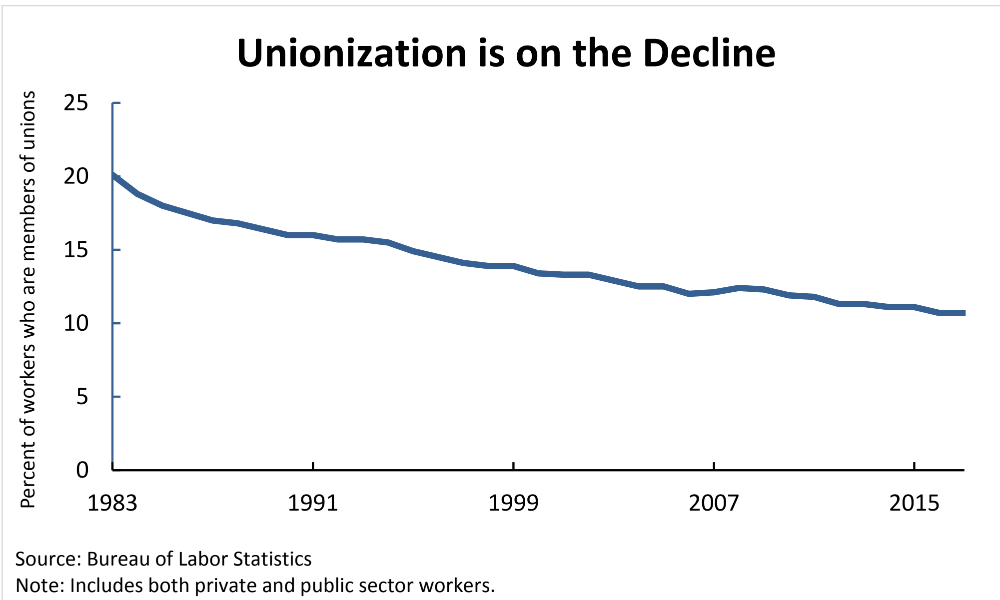
There are multiple factors that account for the gap between productivity growth and wage growth, according to the recent research. Many Republican commentators and economists say that the gap is overstated, pointing to factors such as the rise in non-wage benefits and technical issues with price indexes used. Even after accounting for those factors, though, recent researchers found that there is still a sizeable gap between productivity and wage growth.[8]

This remaining gap is a result of a decline in the share of overall income going to workers (as opposed to capital owners) and increasing inequality between the earnings of high-income individuals and other workers. More of the total income earned in the country is going to shareholders, business owners, and property owners and less is going to workers; and of the decreasing share going to workers, more is going to the highest-earners, like executives and highly-skilled professionals.

Workers are losing leverage

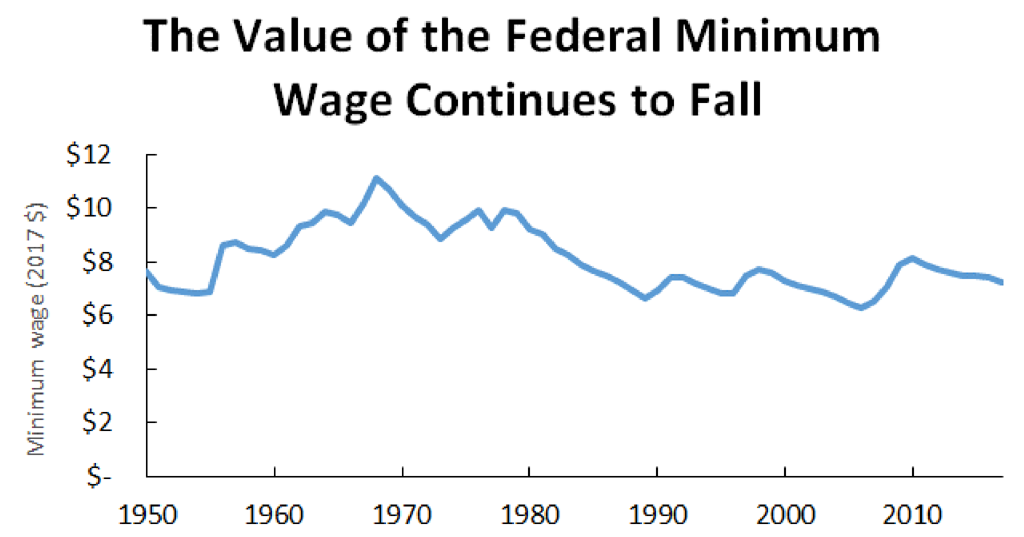
The wage that an individual earns is the result of a negotiation. When accepting a job, workers have a floor that they are willing to work for. When offering a job, employers have a maximum wage that they are willing to pay. The wage that a worker ends up taking is somewhere in-between these two numbers. There have been multiple trends in recent years that have tilted these negotiations in employers' favor, thus both suppressing wage growth overall and increasing wage inequality.

Collective bargaining helps counteract employers' advantage in these negotiations. Workers banding together carry more influence and information than each worker going at it alone. Nonunion workers earn 21 percent less than union members per week.[9] Unfortunately, the number of workers covered under collective bargaining has been declining for several decades. This has been driven in part by policies that weaken workers' ability to unionize and unions' ability to negotiate, such as right-to-work laws in many states. Last year just 11.5 percent of workers were in a union, and only 6.5 percent of workers in the private sectors were members.[10]



Workers in jobs that are easily outsourced or automated have also seen reduced bargaining power, as employers have more options to get work done. If an employer is able to move operations to another country where workers are willing to work for less (or where there are fewer labor protections), then American workers have less bargaining power to demand higher wages. Further, technological innovations have reduced demand for rote work in many fields, such as manufacturing, while increasing demand for more educated and skilled workers. These trends have affected a wide variety of occupations and industries, ranging from call centers to textile manufacturing, and have the potential to displace many more workers.

At the same time, protections for workers are eroding. The value of the federal minimum wage has declined by 45 percent since 1979, after adjusting for inflation, and 60 percent from its high point in 1968.[11] If the minimum wage had kept pace with average wage growth since 1969, it would be nearly $12, rather than the $7.25 level of today.[12] In fact, the federal minimum wage has not been raised since 2009.



Source: Bureau of Labor Statistics
Notes: Inflation adjusted using the CPI-U index

The ability of workers to earn overtime pay has also eroded. In 1975, nearly half of all salaried workers were eligible for overtime pay. Today, that number is less than 10 percent. The Obama administration attempted to raise the threshold, but that move has been blocked by the Trump administration.[13]

The balance could further shift against employees in the coming months. The Trump administration has proposed to let employers and managers take a share from tip pools, eroding protections for tipped workers to keep the money they earn.[14] The Supreme Court is also set to rule on a case that could undermine public sector unions, which could both weaken unions' ability to negotiate on behalf of workers and further erode membership.

Employers are gaining leverage

As workers have been losing bargaining power, employers have been gaining it. Over the last several decades, many industries have become more concentrated through a combination of mergers and acquisitions and declining startup rates have exacerbated the trend. Three-quarters of industries have seen an increase in concentration over the last two decades.[15] This leaves fewer employment options in many fields, and increases the bargaining power that each company has. For example, if an industry goes from 10 major players to three, there is less risk that firms will lose employees to each other. Heavily concentrated industries can also be more prone to collusion, where employers stop trying to hire each other's workers.[16]

Goldman Sachs estimated that market concentration has resulted in 0.25 percentage points lower wage growth each year since the early 2000s—more than the average annual wage growth the median worker has actually seen since 1979.[17]

Employers have also used other tools to keep wages down. Non-compete agreements, which prevent employees from leaving a company to work for a competitor, have become more common than ever before—nearly one in five workers is now covered by a non-compete agreement.[18] Once used to keep employees from leaving with proprietary information, they now function as a way to keep competitors from poaching workers with offers of higher wages. Additionally, in restrictions that are invisible to workers, many major franchises prohibit franchisees from hiring workers away from other locations, severely limiting potentially lucrative moves for those employees.[19]

Raising Wages Requires a Comprehensive Approach

Achieving broad wage gains will take an approach that tackles all of the factors that are holding back pay for workers. Building off of Democrats' *Better Deal* proposals will lead to higher wages and improved living standards for all Americans, not just the wealthiest families.

Invest in regional economies that have been left behind: The United States contains many regional economies with diverse experiences, assets, and needs. Federal policy should recognize this, and look at more than just national indicators when determining the health of the economy. While some regions of the country have thrived in recent years, others have stagnated, losing businesses and educated workers to large urban areas.[20] Policymakers must think about how to direct investment into regions that are being left behind.

Build talent pipelines that all students can access: Students that complete a college degree or postsecondary certification have a leg up on other workers in the modern economy, as shown by the gap in wage growth for those with and without degrees. Ensuring equal access to affordable college education for all students should be a priority for lawmakers. Non-traditional postsecondary options, like middle-skills pathways, can also set students up for success.

***Empower workers to negotiate for better pay and benefits*:** Ensuring that workers are on an even playing field when negotiating with employers is vital to creating an economy where all Americans share in growth. The power to collectively bargain is one critical aspect of this, as unions allow workers to unite together to maximize their negotiating leverage. Raising the minimum wage and overtime thresholds would help millions of workers as well. Additionally, reducing anticompetitive practices like non-competes and no-poaching agreements would give workers more opportunities and leverage.

Combat discrimination and close divides: The CRS research shows that wages for women have grown substantially in recent decades, but that women still earn substantially less than men. For the median black and Hispanic workers, wage growth has been particularly weak, and for Hispanic workers, wages have actually fallen over the past three a half decades. Closing these gaps requires deliberate action to combat discrimination and address the added challenges faced by many workers in the labor force.

Encourage innovative and competitive markets: One of the central foundations of healthy capitalism is competition, which spurs companies to invest in their workers and in innovation. Antitrust policy needs to be updated to account for the fact that a lack of competition hurts not only consumers, but also workers and the economy overall. Competition should also be promoted by helping innovators, entrepreneurs, and small business owners access the resources they need and grow their companies.

***Promote and maintain full employment*:** When there are plenty of job options open and unemployment is low, workers feel more confident in demanding raises or looking for jobs that pay more. Prioritizing getting back to full employment after economic downturns is important to long-term wage growth—one recent estimate finds that the United States has only been at full employment for 30 percent of the time since 1980.[21] Well-timed and substantial infrastructure investments can help boost demand for workers and lead to wage gains.

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[6] Note: The college wage premium has started to flatten in recent since the early 2000s, probably as a result in continued growth in the college-educated population. This means that increasing education options will improve economic mobility (giving pathways to success for more Americans), but cannot solve inequality on its own. More and better pathways to a good education must be complemented by other policies that increase demand for workers and raise wages for Americans that do not get degrees. Donovan, Sarah, and Bradley, David. Real Wage Trends, 1979 to 2017. Congressional Research Service. March 15, 2018.

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