

Reactions to Annals Papers on the Fortunes of the Working Class Since the Great Recession

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OUTLINE

- I. What we learned from these papers (Burtless)
- II. How we might have learned more (Burtless)
- III. Possible policy implications of the papers (Sawhill)
- IV. Policy issues not addressed (Sawhill)

I. WHAT WE LEARNED

Period examined

- Most authors examined the period ending in **2018** or **2019**
- They did not agree when the analysis period should begin
- The narrowest period: **2010 – 2019**
 - Note that **2010** is near the low point of the **2007-2019** business cycle
- A somewhat longer period: **2007 – 2019**
 - Permits us to compare late peak of **2007 – 2019** cycle with peak of previous (**2000 – 2007**) cycle
- Two full business cycles: **2000 – 2019**
- One paper – by Bangali, Daly *et al.* – compares **2009-2019** with **1991-2000**
 - Two lengthy business cycles

THE EXACT PERIOD WE EXAMINED CAN AFFECT THE CONCLUSIONS WE DRAW

- In most recent expansions, the “good news” for low-wage earners tends to be concentrated in later years of the expansion
 - Lowest unemployment rates
 - Fastest real wage gains
- If the expansion doesn’t last long, low-wage earners may never experience the “good news” part of the expansion
- A corollary: If analysts examine only the first years of an expansion, they may draw incomplete conclusions about low-wage earners’ gains

WHO IS IN THE “WORKING CLASS”?

- Our authors do not agree
- A few do not even venture a guess
- Jim Ziliak offers one definition (and attempts to justify it):
 - Adults 25-54 years old;
 - Highest degree less than a B.A. (4-yr college diploma)
 - Nonzero labor earnings (i.e., positive wages or nonzero self-emp. Income)
- Bengali, Daly *et al.*: Age 25-61

WHO IS IN THE “WORKING CLASS”? CONT.

- Biu *et al.*: Adults with highest degree less than a B.A.
 - No age restriction mentioned
- Addo and Darity: Contrast experience of “Productive labor” with “Nonproductive labor” –
 - Adults 25-64 years old;
 - Who are not retired, disabled, or out of the labor force
- Orrenius and Zavodny: Adults age 25-59
 - No other restriction mentioned
- Akee: Adults age 15-64, divided into two groups –
 - [a] High school diploma or less; [b] More than a h.s. diploma.

HOW TO MEASURE WORKING CLASS WELL-BEING?

- Again, Jim Ziliak is most precise –
 1. “Total net income” = Gross earnings + Cash nonwage + SNAP – Taxes
 2. Home ownership
 3. Health insurance coverage (regardless of source)
 4. Food insecurity
- Other favorites:
 - Real wages: Median as estimated in CPS-ASEC annual survey
 - Emp.-to-Pop. Ratio • Unemp. Rate • Family/Personal income
 - Webber: Lifetime net payoff from investment in 4-year college degree
 - Finlay & Mueller-Smith (justice-involved population):
 - Employment at least once in a calendar year • Annual earnings
 - Addo & Darrity (Wealth, race & the working class):
 - Net worth more than 3 months of P.L. income • 40th Pctl. Wealth or more

HAS THE WELL-BEING OF THE WORKING CLASS IMPROVED?

- Ziliak: Not always easy for me to read tiny charts, but
 - In all the low-educ. groups, wages tended to fall 2007-2014 & rise thereafter.
 - At bottom of income and wage scale, *income tended to improve faster than wages* over the full 2000-2019 period
 - In other words, the combined impact of public programs and taxes was more beneficial than impact of improving wages over the 2-business-cycle period
 - More working class adults were insured at end of period (thanks to ACA)
 - Homeownership declined and food insecurity fell over the full analysis period.
- My interpretation of Ziliak: Living standard gains of the working class were more favorable if we use “total net income” and “health insurance” than if we use wages, homeownership & food insecurity

HAS THE WELL-BEING OF THE WORKING CLASS IMPROVED? *CONT.*

- Webber (analysis of the value of 4-year college degree for new high school graduate):
 - Net payoff from degree is smaller because of lower state subsidies and greater financial risk of noncompletion.
- Finlay & Mueller-Smith (justice-involved adults):
 - Employment & earnings fell sharply in 2008 – 2010 recession; and climbed but did not return to pre-recession peak in 2010 – 2018 recovery
- Bengali, Daly *et al.*: Emp./Pop., earnings, and family incomes of disabled improved considerably in 2009-2019 expansion
 - The improvement for the disabled was considerably faster than in 1991-2000 expansion.

HAS THE WELL-BEING OF THE WORKING CLASS IMPROVED? CONT.

- Biu *et al.*: Black-White earnings gap seems more stable over the business cycle than the Black-White earnings gap among professional workers.
- Addo & Darity: Wealth rose substantially in percentage terms between 2010-2019 in working class families, but from a very low base; Wealth rose among White but fell among Black & Hispanic professional class families.
- Orrenius and Zavodny: The relative income position and poverty rate of both US-born and immigrant Hispanic adults improved noticeably 1994-2019, but from a very disadvantaged base.
 - Unemployment and Emp./Pop. are more cyclically sensitive among Hispanics.

II. HOW MIGHT WE HAVE LEARNED MORE?

- Though it is unrealistic in view of the variation in data sources used, most readers would benefit from a common period of analysis with common sub-periods (recession / early recovery / late recovery)
 - It is misleading to analyze only • [recession + early recovery] or
 - [early recovery + late recovery]
 - Low-wage groups seem to suffer declining real earnings during early recovery
 - Their progress over full business cycle is understated if late recovery is excluded;
 - Their progress over full business cycle is overstated if recession itself is excluded.
- Analyzing more than one full business cycle (as in Ziliak and Bengali, Daly et al.) is helpful for learning whether working class progress over the cycle has common features across business cycles.

II. HOW MIGHT WE HAVE LEARNED MORE? CONT.

- A common or at least broadly similar definition of the “working class” would help readers see the link between findings in different papers.
 - Title: *What has happened to the American Working Class since the Great Recession?*
 - Belle & I agree the “working class” does *not* contain a large number of workers in high-prestige jobs or in jobs paying wage rates in the top half of the earnings distribution.
 - But we also agreed most ordinary folks (including us) would not count as “working class” those breadwinners who, for two or more years in succession, rely *mainly* on public transfers rather than their own labor income.
 - At least one paper might have looked at the consequences of *different* plausible definitions of the middle class, helping readers to understand how well-being has trended (over time and over the business cycle) in different populations.

II. HOW MIGHT WE HAVE LEARNED MORE? CONT.

- Many readers are interested in bottom-line assessments:
 - What measure of well-being makes the most sense to the author(s)?
 - How has this measure of well-being varied over time?
 - Over the most recent business cycle?
 - Over past business cycles?
- Even if it is impractical to use the same measure(s) of well-being in each analysis, authors should be able to offer an assessment of whether well-being (under the analyst's preferred measure) has improved, stagnated, or declined.
- It is conceivable, as Ziliak's analysis shows, that one good measure – say, labor earnings – may stagnate or fall while another good measure – say, total net equivalized income – improves. Why is there a discrepancy?

III. POLICY IMPLICATIONS

QUERIES FOR THE EDITORS

- Can we get a firmer answer to question of why real wages have stagnated at bottom? Answer suggests different policy strategies.
- Might also be helpful to review some of proposals made over period 2008-2019 but not enacted. Example: reforms to UI
- Should the papers include more on policy? Or is that the role of the reaction papers?

WHY HAVE WAGES STAGNATED AT THE BOTTOM?

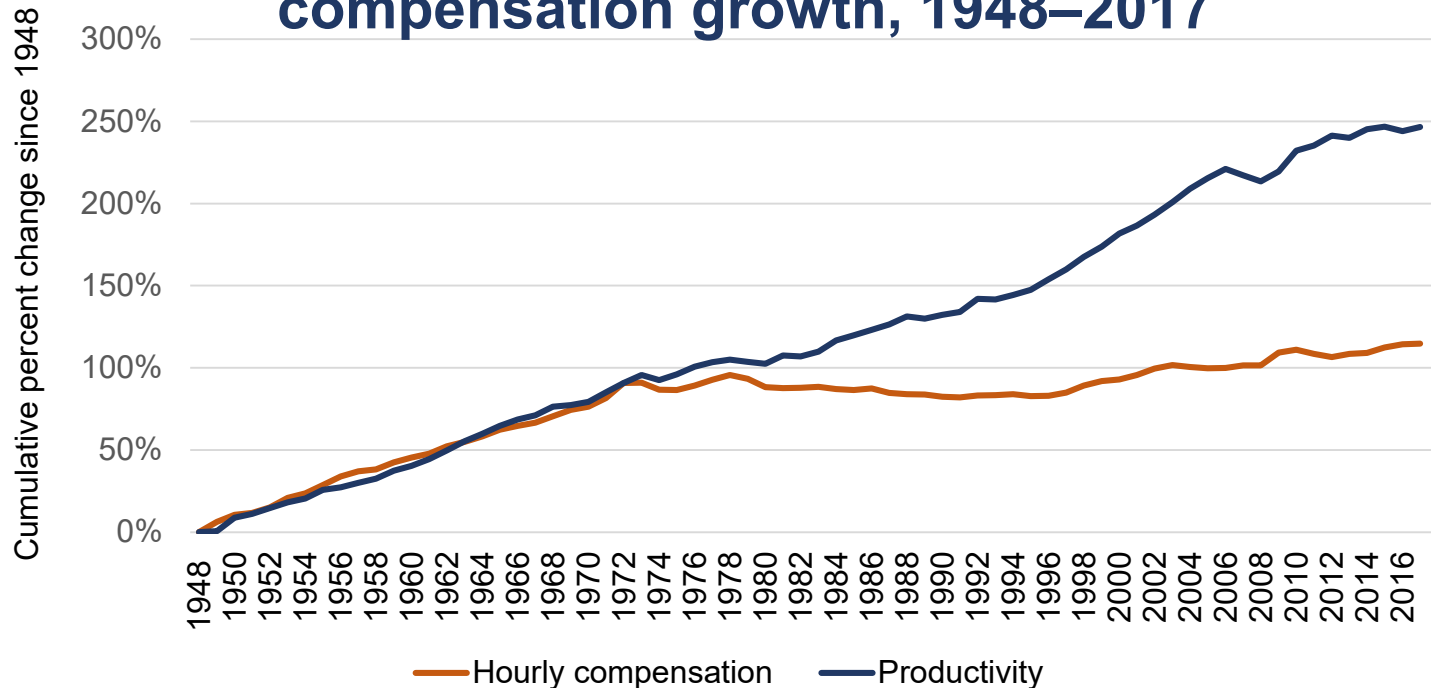
- Lack of skills, limited worker productivity, preparation for work
- Failure of wages to keep pace with productivity for institutional or other reasons
- These two explanations imply different policy responses

LACK OF PREPARATION FOR WORK

- 71 percent of Americans ages 17-24 would not have qualified to serve in the military in 2013 even if they had wanted to join because of such factors as drug use, obesity, knowledge, health, criminal record
- In 2016, 44% of employers said there were few or no qualified applicants for their job openings (but are their hiring standards too high and are they capable of doing more training themselves, especially of lower-wage employees?)
- U.S. spends one-fifth as much on labor market policies as the average OECD country (as ratio of GDP)
- Apprenticeships on the rise in U.S. but still very few opportunities relative to other countries

COMPENSATION HAS NOT KEPT PACE WITH PRODUCTIVITY

Productivity growth and hourly compensation growth, 1948–2017



Possible Reasons:

- Rising industrial concentration
- Decline in unions
- Shareholder capitalism run amok

Source: Recreated from EPI testimony before the U.S. House of Representatives in March 2019.

MACROECONOMIC POLICY

- The tightest labor markets draw in marginal groups and raise wages so it's critical to not pursue a restrictive fiscal or monetary policy too soon
- The new monetary policy framework should help
- Fiscal policy is needed because of zero lower bound
- Fiscal policy has been too erratic; need more automatic stabilizers
- Ongoing debate about how much deficits matter in short to medium term and thus how much stimulus is “affordable” as part of recovery from pandemic

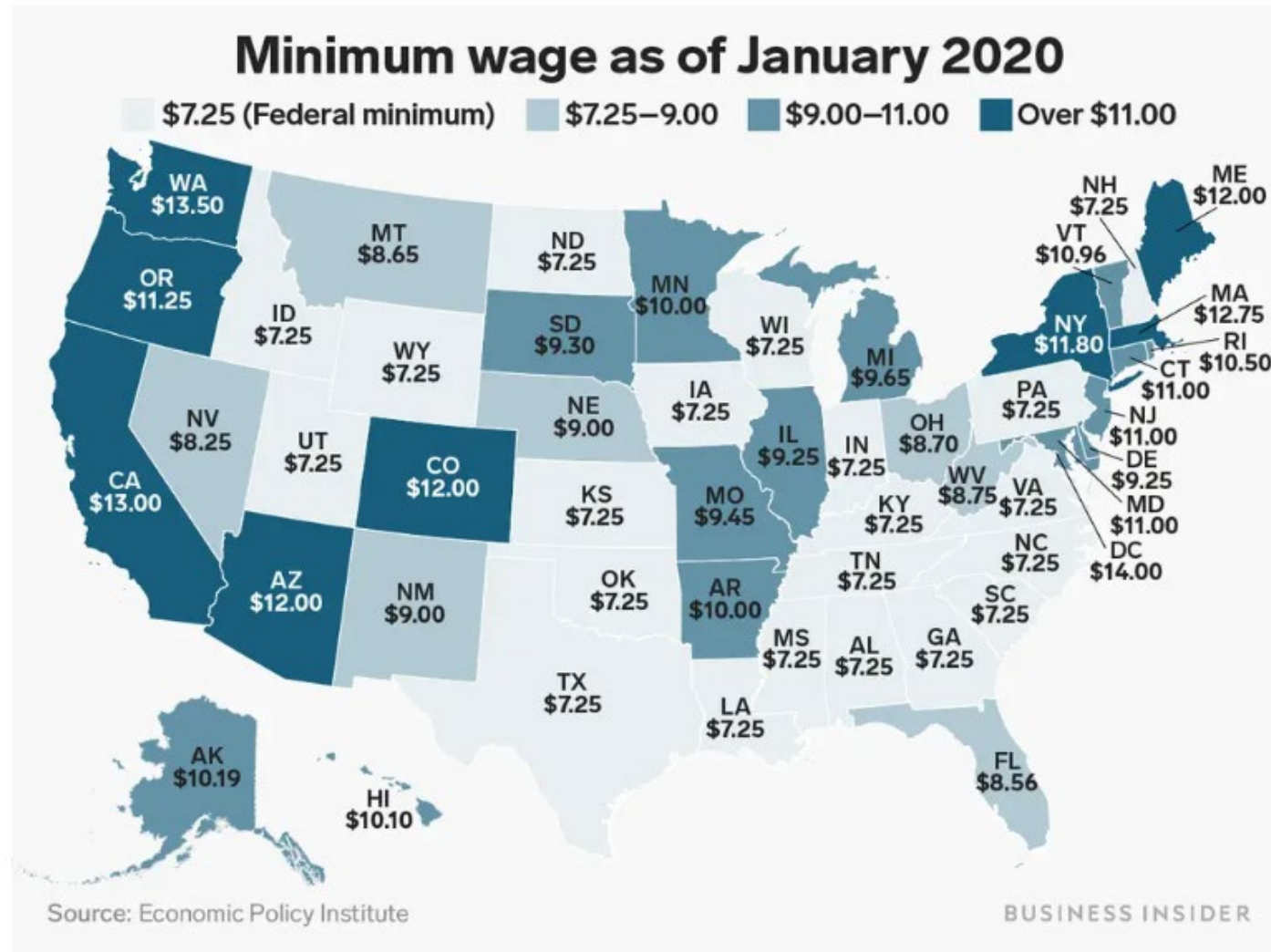
EDUCATION AND TRAINING

- More funding for community colleges but with emphasis on occupational training and student supports + institutional incentives that encourage completion
- Public employment and training programs have mixed record of success. More emphasis on sectoral employment (e.g. IT, health) and employer-led training
- Cost of higher education has skyrocketed but been offset by greater financial aid so far (Webber says opposite). Expand Pell further? Forgive up to \$10,000 of debt? Scholarships for service?
- What about apprenticeships? K-12 education?

MAKING WORK PAY: MINIMUM WAGE

- State minimum wage increases helped to boost wages during recovery from GR
- Real value of federal minimum has declined contributing to more inequality, less wage growth at bottom
- Raise the federal minimum. Public opinion and referenda in favor
- Possible hybrid approach such as \$12 federal minimum combined with state or city minimums that can be higher
- Adjust automatically with inflation or with real median wages
- Evidence on employment effects of higher minimum wage not covered

MINIMUM WAGE BY STATE



MAKING WORK PAY: WORKER TAX CREDITS

- Expand the EITC for singles
- Other reforms to EITC (e.g. more generous for families with young children)
- Create a worker tax credit based on individual earnings. Or support the kind of wage subsidies favored by Ned Phelps.
- For a full panapoly of proposed policies, see: <https://www.brookings.edu/research/lots-of-plans-to-boost-tax-credits-which-is-best/>

OTHER LABOR MARKET REFORMS

- Restore labor protections, collective bargaining
- Restrict non-competes, especially for lower-wage workers
- Fair scheduling, pay for scheduled time not used
- Occupational licensing (federalize or allow state reciprocity)
- Limit state pre-emption of local regulations
- How to balance equity and efficiency? Where do unions create rents vs. offset effects of monopsony or unequal bargaining power?
- What about tax incentives for profit sharing, employee ownership, more worker training on the job?

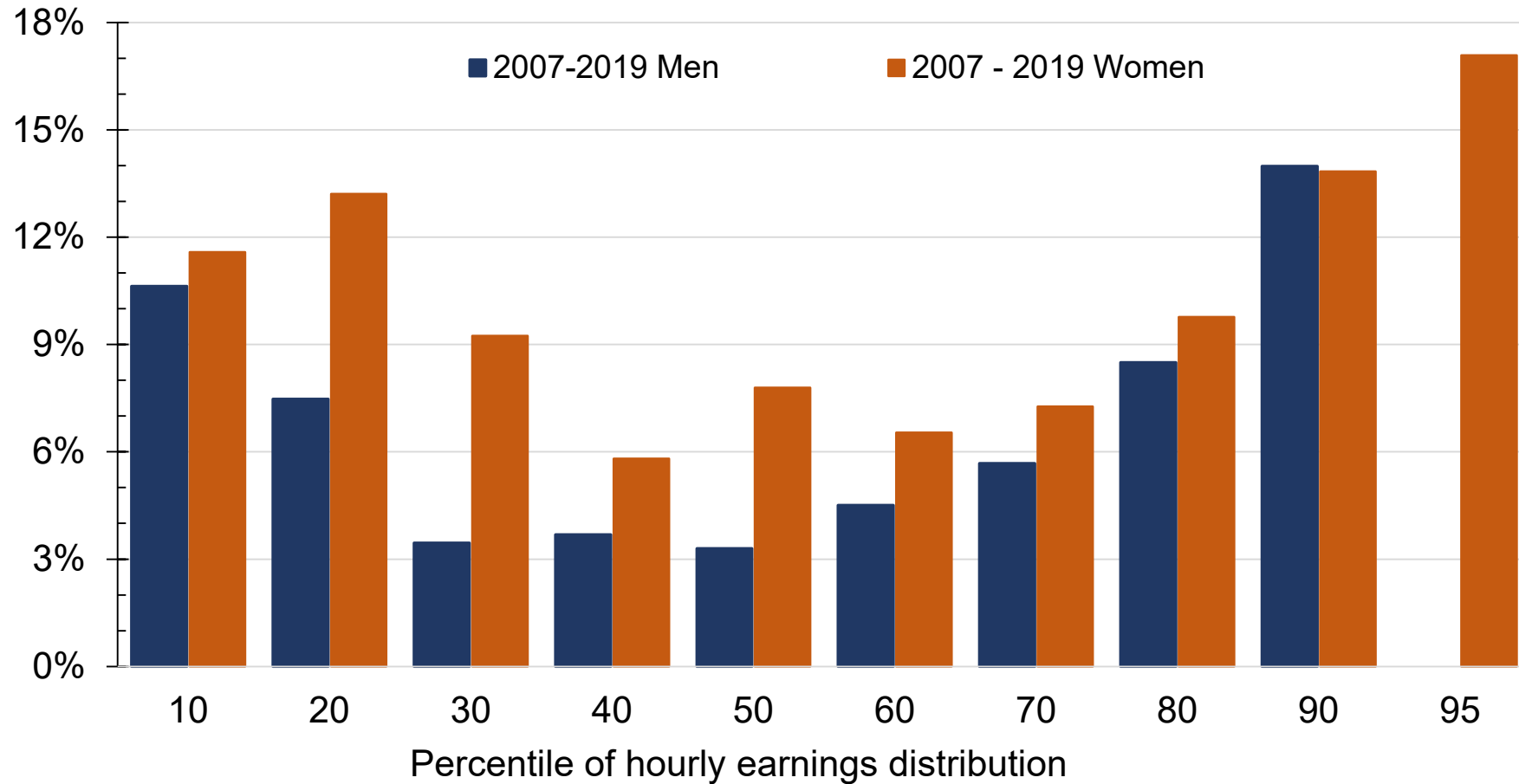
IMPROVE THE SAFTEY NET?

- Unemployment insurance reforms (gig workers? automatic triggers? Financing? Allowable uses, such as from short-time comp, relocation, retraining, reemployment bonuses?)
- Wage insurance
- Child care: expand block grant
- Paid leave: enact FAMILY Act (12 weeks with a cap)
- Health insurance; Medicaid expansion or buy-in?
- SNAP

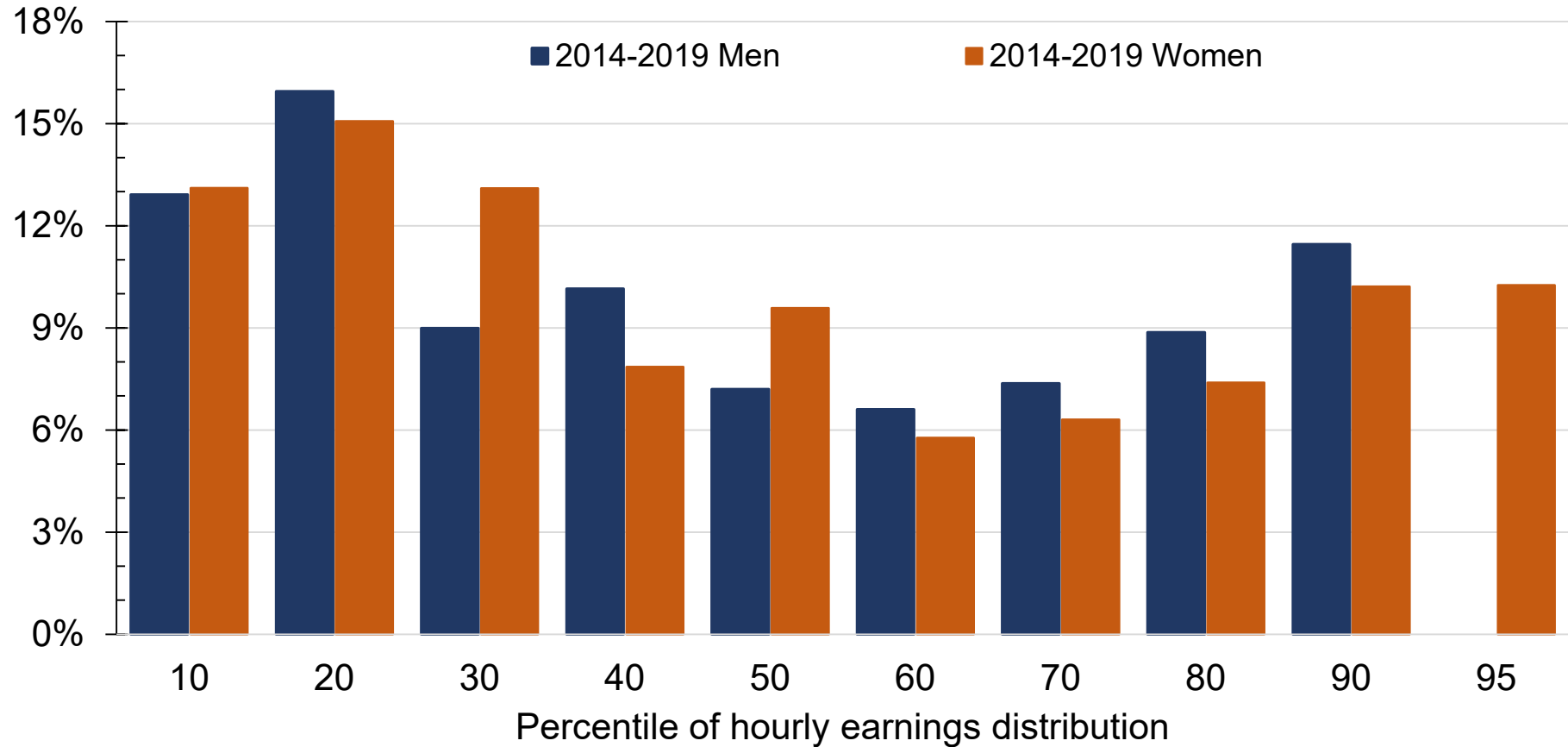
IV. RECAP OF POLICY ISSUES I DIDN'T SEE ADDRESSED IN PAPERS

- Wage subsidies
- Overtime rules
- Short-time compensation
- Apprenticeships
- Public employment programs/guaranteed jobs
- Impact of a higher minimum wage (evidence)
- Corporate governance
- Broad-based profit sharing and employer-provided training

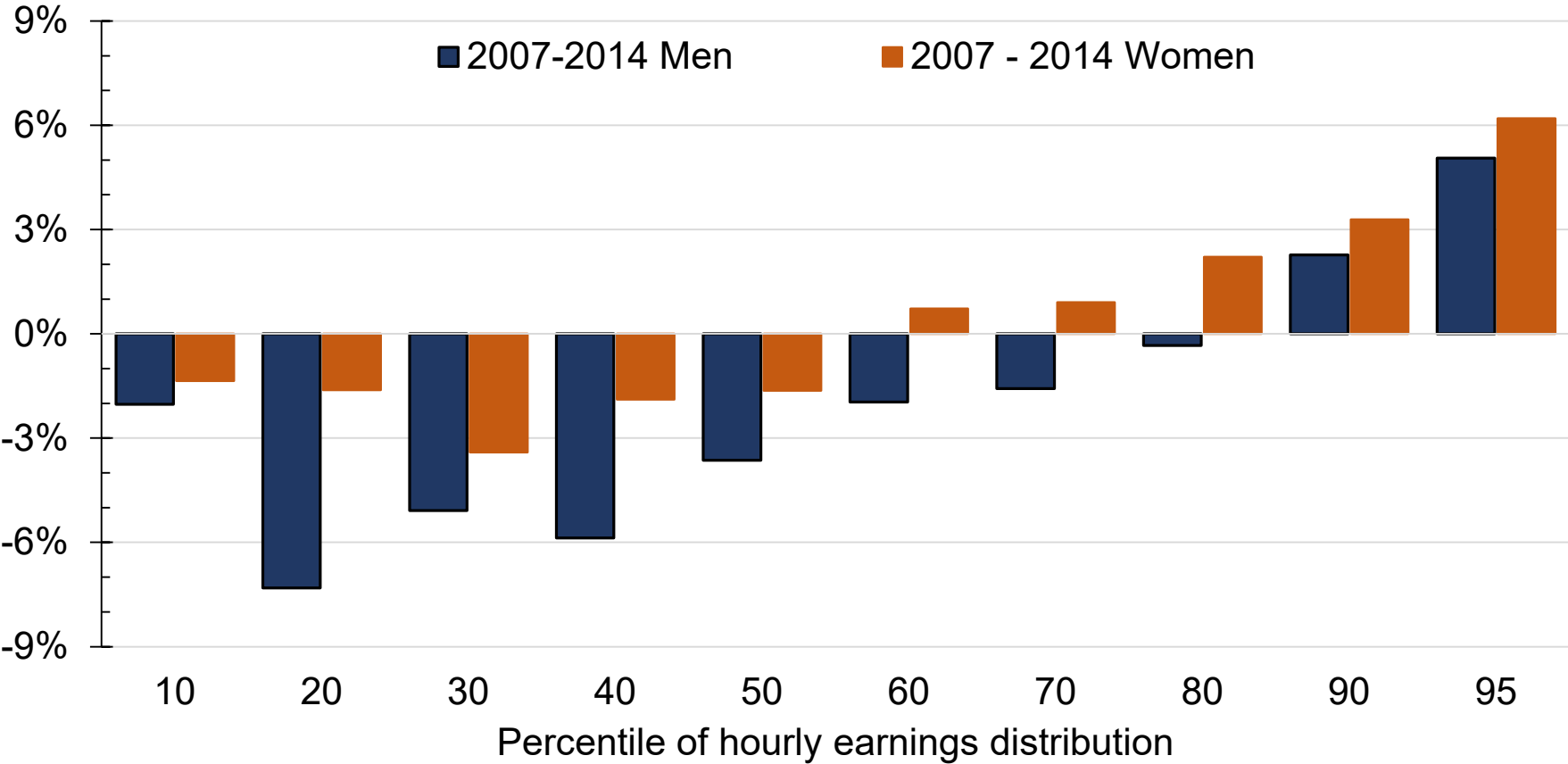
Real wage gains at selected points in hourly earnings distribution, 2007-2019, by gender (percent)



Real wage gains at selected points in hourly earnings distribution, 2014-2019, by gender (percent)



Real wage gains at selected points in hourly earnings distribution, 2007-2014, by gender (percent)



BROOKINGS