Statement of William E. Spriggs

"Trends in the U.S. Labor Market: Americans need a Raise"

Testimony prepared for

US House of Representatives Subcommittee on Health, Employment, Labor and Pensions

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Hearing on

Growth, Opportunity, and Change in the U.S. Labor Market and the American Workforce: A Review of Current Developments, Trends, and Statistics

June 21, 2018

Thank you, Chair Tim Walberg and Ranking Member Frederica S. Wilson and members of the Subcommittee, for the opportunity to provide testimony on policies and trends impacting the workforce. I am testifying today on behalf of the AFL-CIO, America's house of labor, representing the working people of the United States; and based on my expertise as a professor in Howard University's Department of Economics and as the former Assistant Secretary of Policy in the U.S. Department of Labor.

Today, I want to highlight that the labor market is continuing trends that began almost eight years ago. The primary focus of policy needs to be to continue the trends in job growth but to focus on raising wages, which is clearly emerging as the hurdle left to overcome. At this stage in the recovery, market forces alone cannot boost wages. There are nonmarket forces causing imbalances that need to be addressed to restore bargaining power to workers.

Beginning in October 2010, the U. S. labor market started its greatest uninterrupted string of monthly job gains since records began in 1939. By January 2017, during a 76 straight month period, job growth increased workers on payrolls by a net of 15,331,000 jobs. During that period, the unemployment rate fell from 9.4 percent to 4.8 percent. Those trends in job creation and falling unemployment rates continue, though at a slightly slower rate since January 2017.

The recovery was from the worst labor market since records began in 1939. Beginning in February 2008, the U.S. labor market suffered 21 straight months of job losses. The job losses were so severe that in January 2009 fewer workers were on payroll than there had been on January 2001--the first time that in over an eight-year period there was net job loss. Yet, by January 2017, the unemployment rate returned to its previous peak reached in 2007, as did the unemployment rate for men, women and the race and ethnic groups the U.S. Bureau of Labor Statistics measures. And, payroll employment was 11,641,000 higher in January 2017 than in January 2009.

Figure 1 shows the trend in unemployment rates from October 2010 to January 2017, and a trend line with projections through June 2018. It also shows the actual unemployment rate from January 2017 to May 2018. So far, the unemployment rate is very close to the pre-2017 trend.

Figure 1

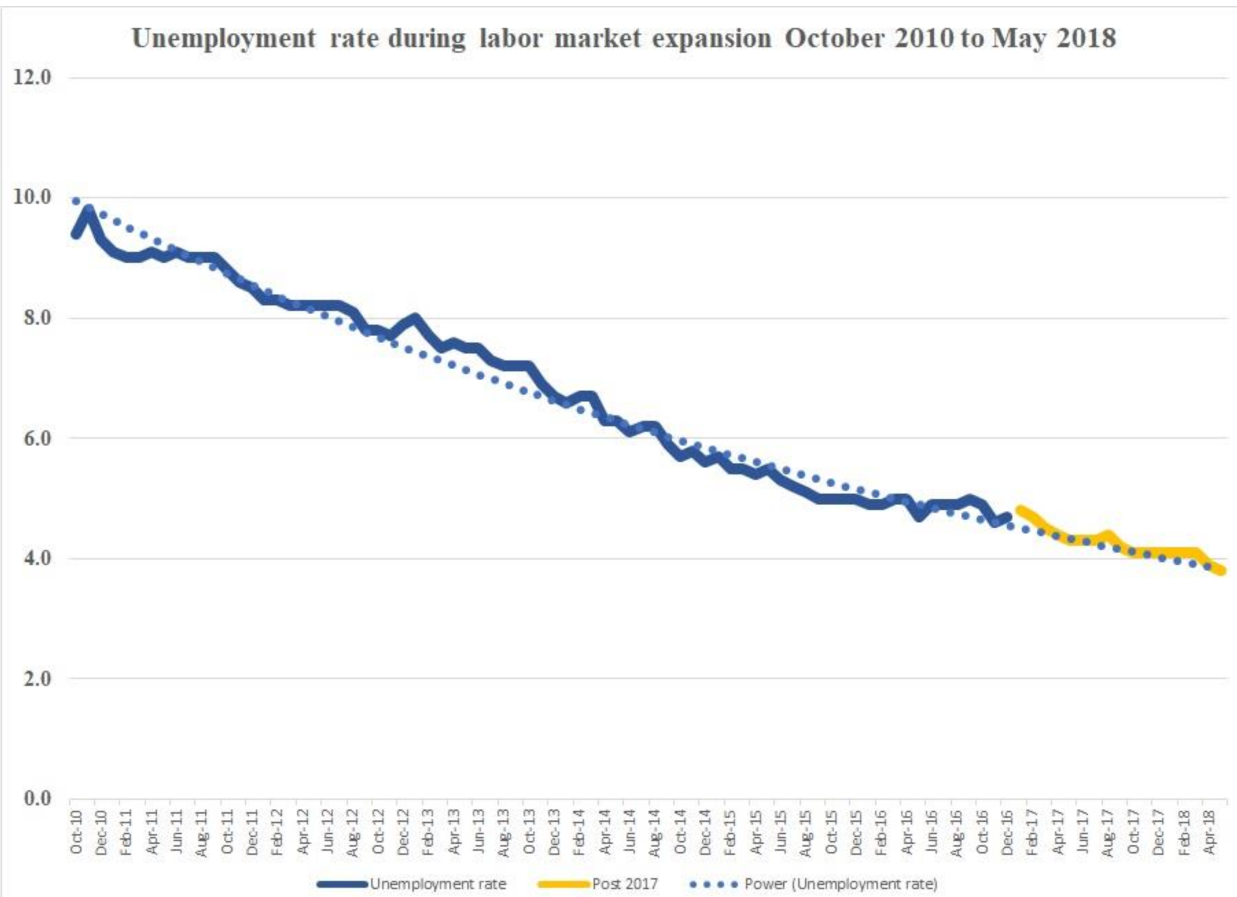
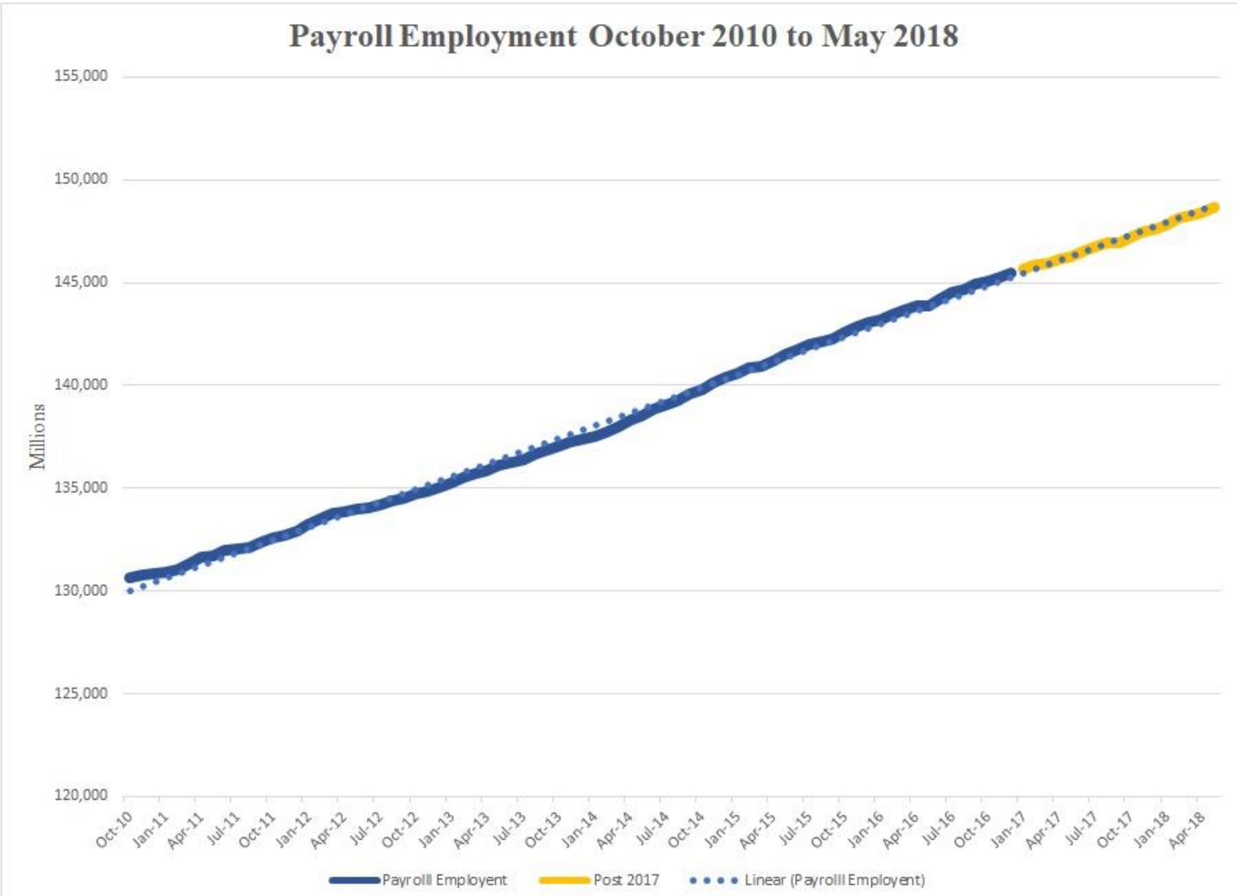


Figure 2 shows the trend in payroll employment from October 2010 to the preliminary figures April and May 2018. The projected payroll numbers for the post 2017 data are on trend with the figures from the October 2010 to January 2017 data. So, there is no appreciable change in the payroll data either.

Figure 2

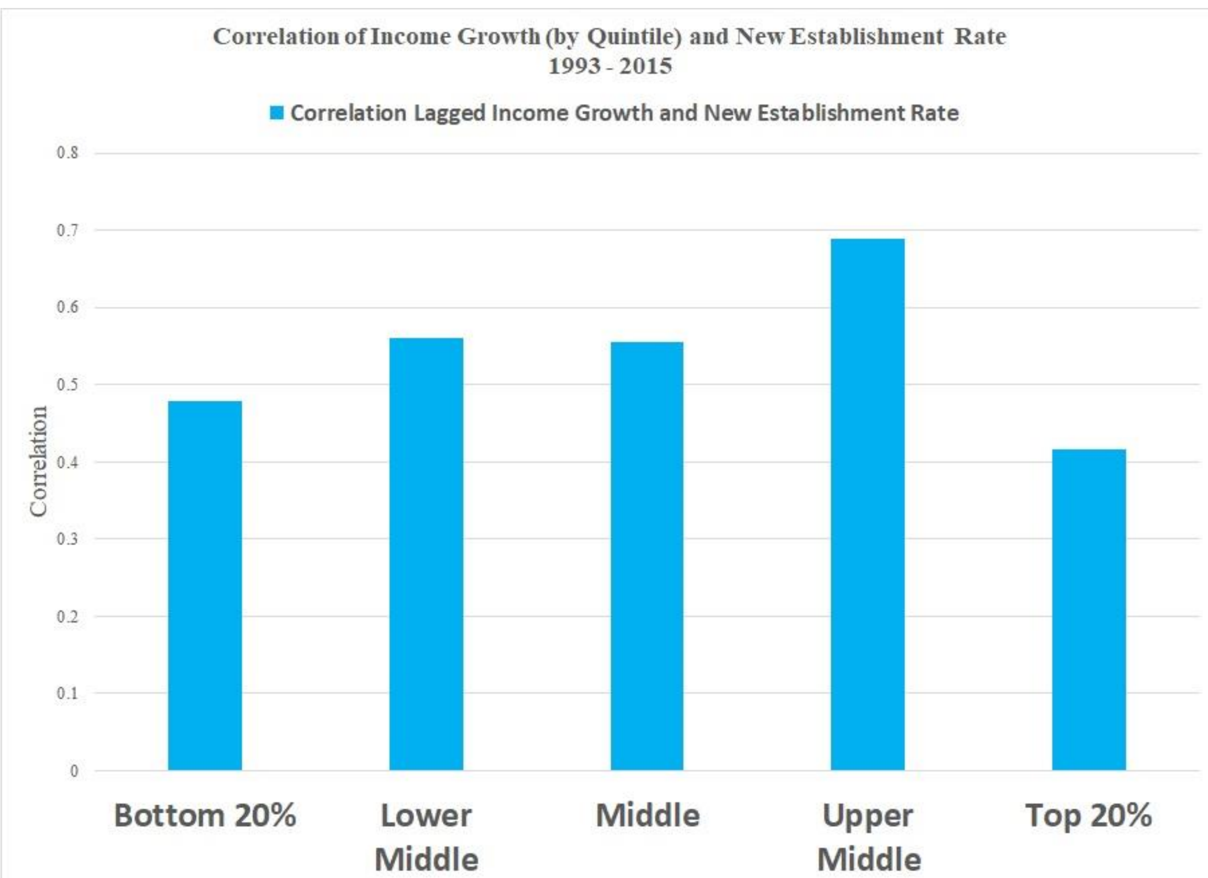


The labor market recovery was driven by private sector employment. Public sector employment still lags behind it 2008 peak. Because a large part of the public-sector job deficit is in public school teachers, it means we are continuing our underinvestment in critical K-12 public education. To keep up with the growth in student population, local public education was short almost 327,000 jobs this past school year, and it was still shy almost 128,000 jobs compared to its pre-recession level in 2008, according to calculations by Elise Gould of the Economic Policy Institute.[1] This is unfortunate at a time demand for skills in the American workforce is growing.

[1] Elise Gould, Local public education employment may have weathered recent storms, but schools are still short 327,000 public educators Economic Policy Institute: Washington, DC October 6, 2017

The approach to economic recovery taken in the American Recovery and Reinvestment Act to balance benefits across the income distribution was important. Policies that promote broad based income growth promote new firms because they maximize the number of potential new customers in the market. Private sector employment recovered because the positive dynamics of new firm formation recovered in 2010, and picked up in 2014 as incomes recovered, particularly for the bottom 80 percent of the income distribution. New firm formation lags income growth, it is most highly correlated with growth in income for the bottom four quintiles of income in the previous two years. This is shown in Figure 3. That is why policies that promote broad based income growth are important. The bias of the Tax Cut and Jobs Act (TCJA) toward high income earners is not likely to be as much a stimulus to business formation and job growth as a tax plan that was more equally shared by all, or one that was more slanted toward benefiting the bottom 80 percent of the income distribution.

Figure 3



Though net job growth from new firm formation and older firm exits—so called creative destruction, is only a small share of net job formation, still, during the economic downturn, in 2008, the collapse of demand forced the closing of more firms and losses of jobs, than could be made up for by new firms creating jobs. The expansion from 2010 returned dynamism to that part of growth. And, that trend continues to be a source of growth. This is shown in Figure 4.

Figure 4

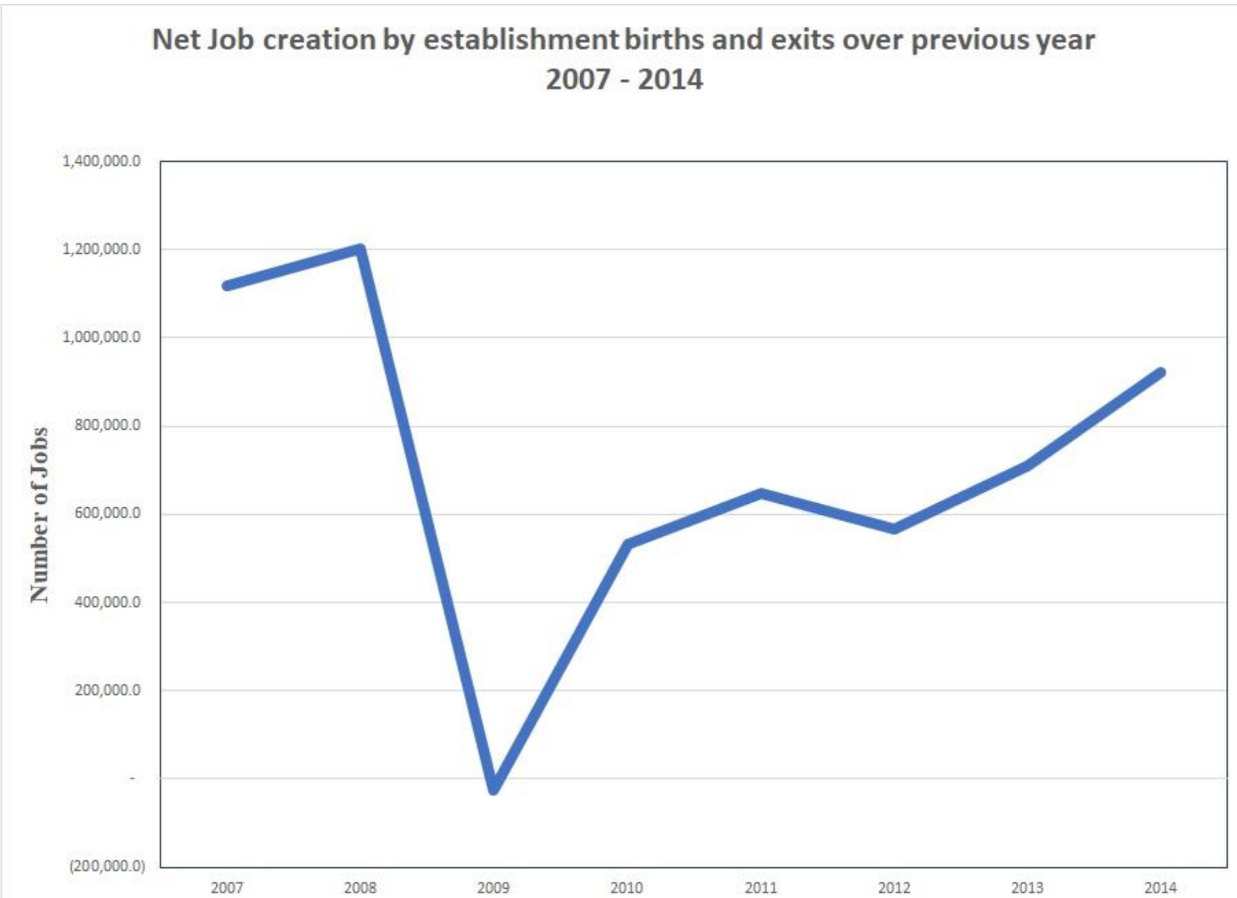
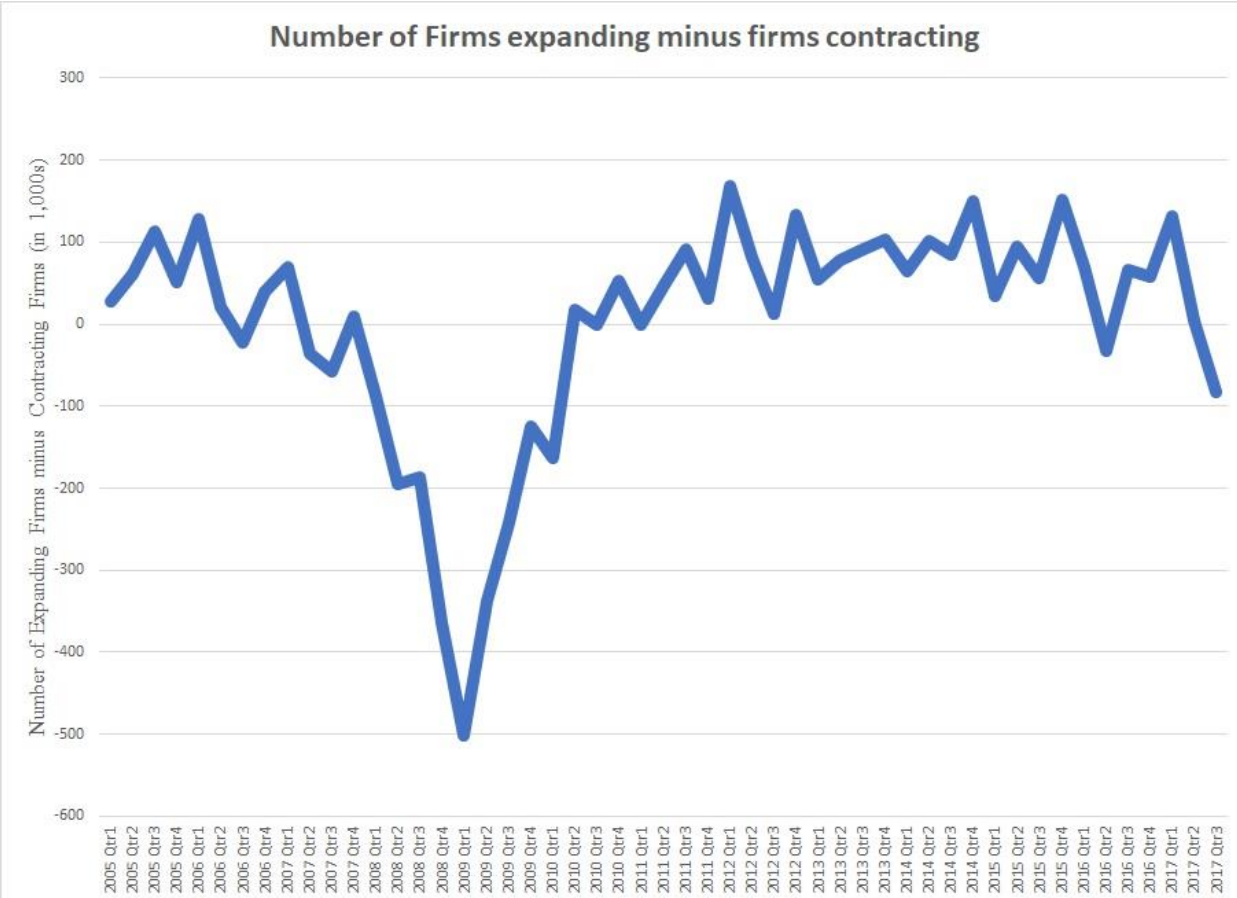


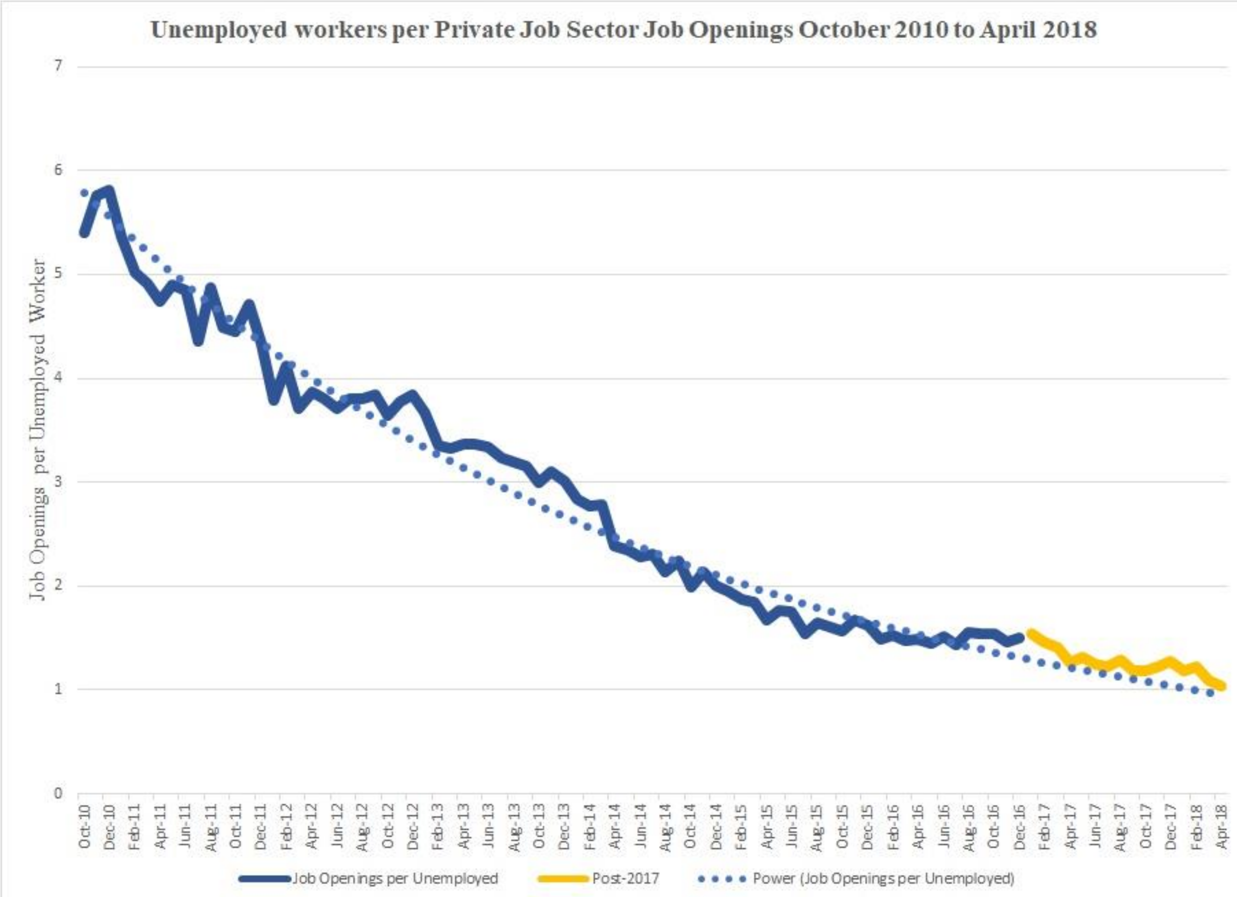
Figure 5 shows a different perspective, which is to compare the number of firms that are expanding compared to the number of firms that are contracting. Again, when most firms are expanding employment it is a likely indicator that job search will be easier. During the expansion, this indicator clearly recovered. However, it has begun to falter in 2017.

Figure 5



Despite the downturn in 2017, with more firms contracting in the third quarter than were expanding, the number of job openings continues to grow on pace so that the ratio of openings to job seekers continues to improve. This is shown in Figure 6. The trend of increasing job opportunities that began in October 2010 has continued. Current improvements in the ratio since 2017, have closely followed the trend prior to 2017.

Figure 6



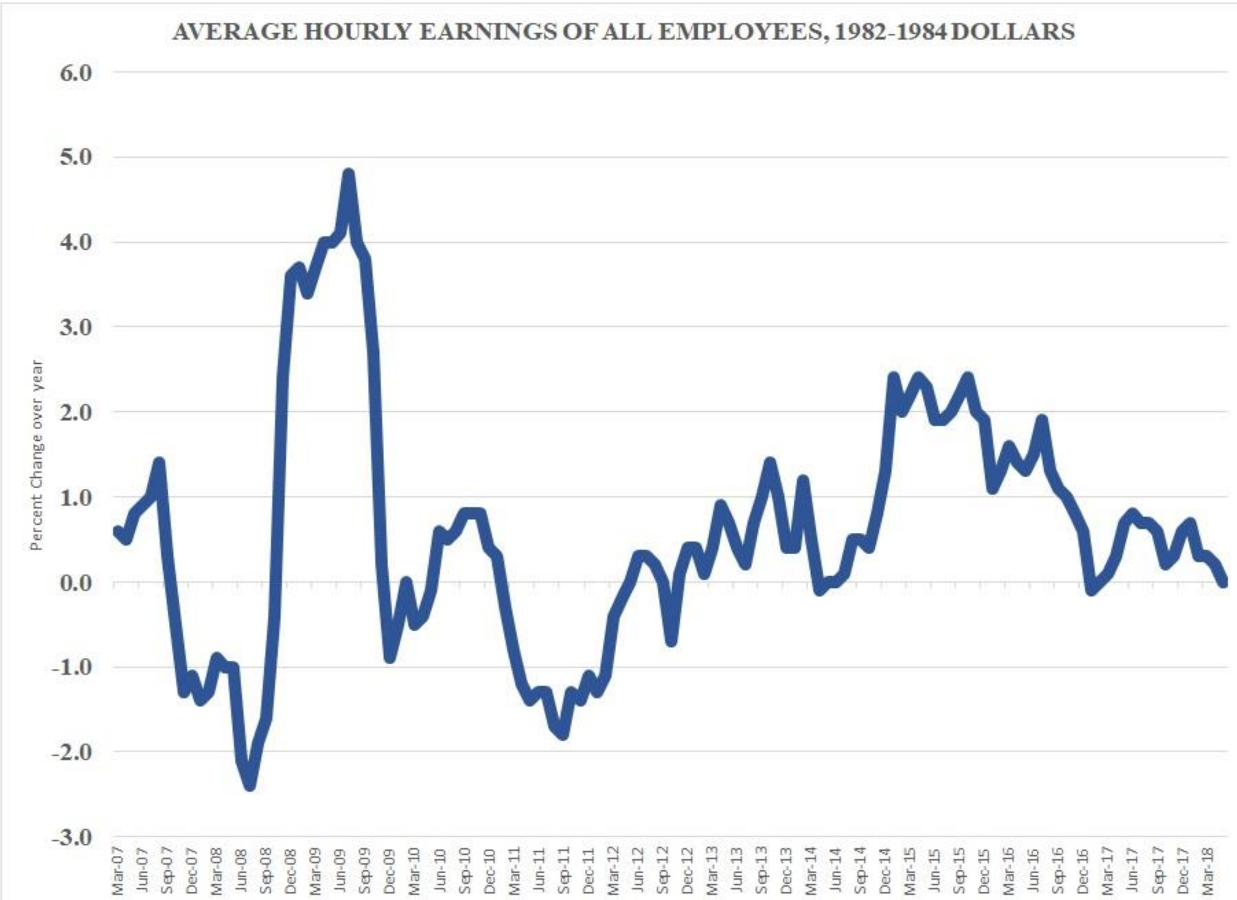
Though the major positive elements of the improving labor market that were put in place in October 2010 continue, there are still challenges for the labor market. The challenge will be the restoration of public sector job growth, especially given the headwind TCJA gives to local governments raising the revenue and sustaining investment by forcing potential double taxation on their citizens. The TCJA also exacerbates income inequality, when more equal income growth yields more new business formation.

Challenges in the Labor Market—Wages

The biggest challenge facing the labor market is wage growth. Wage growth has remained tepid throughout the recovery. In part, this reflected weakness in the labor market. In part, it reflected low inflation. Yet, now with the labor market continuing to tighten, it is becoming clear that non-market forces are slowing wage growth. Figure 7 shows that after a short spurt in wages in

2015 and early 2016, real wage growth has flattened. It includes the most recent data from the U.S. Bureau of Labor Statistics showing that in May, over the year, real wages fell 0.1 percent. There are two leading possibilities for the wage stagnation.

Figure 7



First, is growing evidence of monopsony power on the part of firms. One possible source, is the growing consolidation of market power. This is evidenced in agreements struck by major firms in Silicon Valley to collude on wages and prevent competition for workers,[2] combined with heavy lobbying by Silicon Valley firms to expand the H-1B visa program—which is overwhelmingly used to hire computer programmers—despite the underutilization by Silicon Valley of the diversity of the American computer work force documented by the GAO in a report

[2] Brian Fung, What the Apple wage collusion case says about Silicon Valley's labor economy, Washington Post, April 23, 2014

requested by ranking member of the Committee, Congressman Bobby Scott.[3] Further evidence is mounting in the use of agreements in low wage sectors to limit labor mobility through the use of various non-compete clauses, as work by Alan Krueger and Orley Ashenfelter have shown.[4]

In the past, the U.S. made successful use of the National Labor Relations Act of 1935,[5] and the minimum wage[6] and overtime pay to counterbalance monopsony power in firms. For instance, economic research suggests a significant portion of wage inequality that grew in the 1980s between earners at the bottom ten percent of the wage distribution and median wage earners was because the federal minimum wage was unchanged between 1981 and 1990.[7] Further, declines in the purchasing power of the minimum wage are also significant in explaining the growth in overall income inequality, as measured by the Gini coefficient, a broad measure of income inequality.[8] In October, the federal minimum wage will tie the second longest period it has gone unchanged since it was passed in 1938; and in June 2019, it will break the record the for the longest it has gone unchanged. Those states currently with the lowest minimum wages are those linked to the lowest levels of income mobility. And, those same states are among those who diminish the bargaining strength of workers by have very few or no inspectors to enforce wage and hour laws.[9] This is further complicated by efforts at the U.S. Department of Labor to roll back key protections that help balance the voice of workers with employers, heard in testimony before this committee earlier this year. Proposals that roll back updating overtime pay rules, that let employers claim tip money earned by workers and failing to protect workers' interests in the management of their retirement accounts, weakening worker safety by speeding up hog slaughter

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[3] GAO, DIVERSITY IN THE TECHNOLOGY SECTOR: Federal Agencies Could Improve Oversight of Equal Employment Opportunity Requirements, GAO-18-69: Published: Nov 16, 2017

[4] Alan Krueger and Orley Ashenfelter, Theory and Evidence on Employer Collusion in the Franchise Sector, Princeton Industrial Relations Section Working Paper 614, September 2017

[5] National Labor Relations Act of 1935 (Wagner Act), 29 U.S.C. §§ 151–169 (2010).

[6] *History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938—2009*, DEP'T OF LABOR, WAGE AND HOUR DIV. HTTPS://WWW.DOL.GOV/WHD/MINWAGE/COVERAGE.HTM

7. David H. Autor, Alan Manning & Christopher L. Smith, *The Contribution of the Minimum Wage to US Wage Inequality over Three Decades: A Reassessment*, 8 AM. ECON. J. APPLIED ECON. 58 (2016); John DiNardo, Nicole M. Fortin & Thomas Lemieux, *Labor Market Institutions and the Distribution of Wages, 1973—1992: A Semiparametric Approach*, 64 ECONOMETRICA 1001 (2016); David S. Lee, *Wage Inequality in the United States During the 1980s: Rising Dispersion or Falling Minimum Wage?*, 114 Q.J. OF ECON. 977 (1999).

8. FLORENCE JAUMOTTE & CAROLINA OSORIO BUITRON, INT'L MONETARY FUND, INEQ. AND LAB. MKT. INST. (2015), https://www.imf.org/external/pubs/ft/sdn/2015/sdn1514.pdf

[9] Marianne Levine, Behind the minimum wage fight, a sweeping failure to enforce the law, Politico, February 18, 2018 https://www.politico.com/story/2018/02/18/minimum-wage-not-enforced-investigation-409644

lines and workers exposure to beryllium are examples of shifting the power balance between workers and employers.[10]

While there has been much buzz that American workers are no longer in traditional work settings, the release by the Bureau of Labor Statistics clearly shows no big increase in workers relying on the "gig" economy as the primary source of their work. While the survey does not rule out workers' may have a growing reliance on "gig" jobs as their primary source of work, the idea that labor standards need to watered down to accommodate some new work style is very premature.

The rise of monopsony power without a balancing force from labor is another key issue. Research points to the importance of unions in lowering inequality in the United States. Using data from the Gallup Poll researchers Henry S. Farber, Daniel Herbst, Ilyana Kuziemko and Suresh Naidu are able to identify the role of labor unions in fighting inequality from 1935 to 1986. Covering the period before the 1970s is important, because it includes the period of rising union density through the peak in the early 1970s. With this new data they are able to show that despite changes in the skill of union members relative to non-members, and over a long period of rapid technological change and increasing productivity, unions are an important factor in why inequality was lower when density was high, and inequality has been rising since density began to fall.[11]

Efraim Benmelech, Nittai Bergman and Hyunseob Kim show that local labor market concentration in the U.S. increased over the 1997 to 2009 period, but at rates that varied by location. Their key findings are that where concentration increased most, wages grew slower. And, that where unions were stronger, the negative effect on wages was attenuated.[12]

Using international data and a comparative approach, Florence Jaumotte and Carolina Buitron are also able to attribute a large increase in inequality in the United States from the decrease in

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[10] Heidi Shierholz, Hearing on "Regulatory Reform: Unleashing Economic Opportunity for Workers and Employers," U.S. House of Representatives Committee on Education and the Workforce, Subcommittee on Workforce Protections, 115th Congress, 2nd Session (May 23, 2018)

[11] Henry S. Farber, Daniel Herbst, Ilyana Kuziemko and Suresh Naidu, UNIONS AND INEQUALITY OVER THE TWENTIETH CENTURY: NEW EVIDENCE FROM SURVEY DATA, NBER Working Paper 24587 (May 2018).

[12] Efraim Benmelech, Nittai Bergman and Hyunseob Kim, STRONG EMPLOYERS AND WEAK EMPLOYEES: HOW DOES EMPLOYER CONCENTRATION AFFECT WAGES?, NBER Working Paper 24307 (February 2018)

union density.[13] Jake Rosenfield, Patrick Denice and Jennifer Laird take a different approach to show the effect of union strength on raising the wages of non-union workers. They show that the decline in union density had a larger negative effect on wages than the increase of trade with China between 1979 and 2013.[14]

The imbalance in current labor law frustrates the desire of Americans to belong to unions. Work by Tom Kochan, William Kimball, Duanyi Yang, and Erin L. Kelly points to the rising share of Americans who want to belong to unions. In a survey just completed this year, nonunion workers were asked if they would vote for a union at their work today if they could, and the response was so large that if nonunion workers were given a real chance to vote, union membership would be higher by almost 55 million members—increasing union membership back to above 20 percent density in the private sector.[15]

Legislation to raise the minimum wage and update labor laws would go a long way in boosting the health of the labor market. Rising wages would be a boost to increasing labor force participation.

Second, it is possible that the raising of interest rates now by the Federal Reserve reconfirms expectations of employers that raising wages above the current level would be counterproductive. So, the firms are holding wages in check. And, given the state of household debt, that is not a wise policy for the Fed to pursue now. Instead, it needs to focus on getting wages and incomes to rise, and to have incomes outrun the household debt overhang that is slowing automobile sales and serving as a drag on employment in the automotive manufacturing.

It is early on, but there are no indications so far that the TCJA is leading firms to raise wages. More firms have announced stock buy-backs than have announced wage increases. And, the size of the announced buy-backs, according to S & P Dow Jones, will come close to $1 trillion in 2018—virtually the price tag of the corporate tax cut. The Federal Reserve's monitoring of new

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[13] Jaumotte and Buitron, op. cit.

[14] Jake Rosenfield, Patrick Denice and Jennifer Laird, Union decline lowers wages of nonunion workers, Economic Policy Institute, Washington, DC: August 30, 2016. https://www.epi.org/files/pdf/112811.pdf

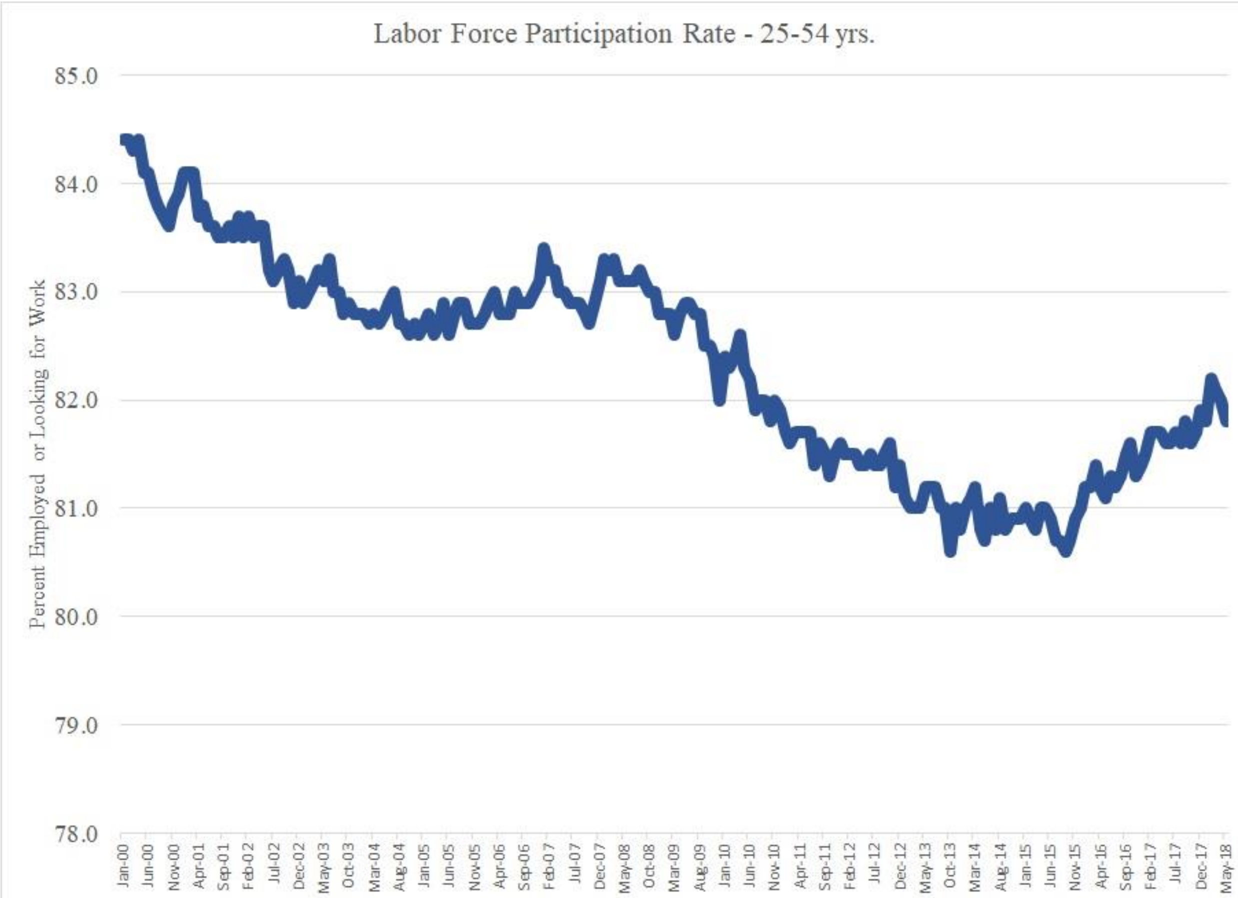
[15] Tom Kochan, William Kimball, Duanyi Yang, and Erin L. Kelly, Worker Voice in America: A Current Assessment and Exploration of Options, http://iwer.mit.edu/wp-content/uploads/2018/01/worker-voice-paper-1_16_18_tablesintext12pt.pdf

orders for non-defense capital goods has remained flat since last summer, indicating there are not any new investments that would boost productivity and lead to wage increases later.

Challenges in the Labor Market—Labor Force Participation

The other puzzle of the labor market recovery is the slow recovery in labor force participation. Most marked is the labor force participation of prime age workers. Figure 8 shows the labor force participation rate for prime age workers over both the 2001 and 2008 recessions. It is clear, that participation has not recovered from the 2001 recession. Employment to population ratios, the share of people employed, cannot recover if labor force participation remains low. Labor force flow data is showing that people who are not in the labor market are more likely to land a job in the following month than to simply end up in queue looking for work. That is a likely indication that many who are listed as "not in the labor force" are doing some type of job search activity. And, workers appear less discouraged, since it is now more likely that someone who is unemployed is more likely to find a job or remain looking than to drop out of the labor force. The latter point is a key reason that labor force participation rates have been slowly recovering, since the flow out of the labor market has slowed.

Figure 8



Several studies looking at the U.S. in comparison to other labor markets in industrialized countries recovering from the Great Recession have found that the U.S. stands out for losing ground in women's labor force participation. The focus has been on women in a number of international studies. The decline in population growth rates, means national economies need to look at increasing labor force participation. And, this can mean trillions of dollars in a large economy the size of the United States. The U.S. is now surpassed by the United Kingdom, Germany and Japan, three nations which once had lower women's labor force participation. Key factors include greater access to free or affordable child care, paid maternity leave and greater certainty in scheduling for those working part-time. Another problem with the TCJA is that is squeezes out fiscal room to expand child care and pre-Kindergarten programs or assist states in establishing paid maternity leave or to implement paid maternity leave at the federal level.

Claims that demography is driving lower labor force participation point to the aging of the workforce. The potential workforce is defined as those over age 16. But, a higher share of people over age 16 are now at ages above 55 than before. So, that shifts the population to include a higher share of workers who are less likely to work. However, this explanation does not address the puzzle of prime age workers. Nor does it solve another puzzle. If a higher share of workers are flowing out of the labor force to retirement, then the net new jobs the economy must produce to satisfy new entrants is smaller. More new entrants can simply fill-in to those slots that are becoming open. So, that would make the job market even tighter. And, so it is a puzzle why more young people are not choosing work and school, and are instead choosing full-time post-secondary education over part-time work and post-secondary education?

A Key Opportunity, the Labor Force is showing increased diversity

In several places, it has been noted that the unemployment rate for African Americans has reached new lows. But, as it is true for the labor market as a whole, the trend of improvement for African Americans began during the recovery of the labor market. What has been less noticed is that the labor force participation rate for African Americans has been rising and is now almost equal to the labor force participation rate for whites. This is key, because even though African American women have nearly twice the unemployment rate of white women, because African American women have a much higher labor force participation rate, their employment-to-population ratio is higher than white women's. Because the African American labor force participation rate has grown, the employment-to-population ratio is moving closer to its 2007 level. The employment-to-population ratios are not on a similar clear path to return to 2007 levels.

Figure 9 shows the clear path of decline for the African American unemployment rate that began falling in 2010. The post 2017 downward trend simply follows the trend from 2010 to 2017. The implication is that the work force is growing more diverse. This is an opportunity to see how the nation can respond to insuring the proper investments are made to keep producing a modern workforce. In particular, both African American and Latino college students are more reliant on Pell Grants than is true for college students as a whole. With tuitions at four-year schools still rising above the maximum Pell Grant it will be important to understand the barriers our new workforce will be facing in acquiring the skills needed to succeed. And, it will be important to understand the supports needed for the colleges and universities that are leading in producing this skilled workforce. And, a growing reliance on Latino workers means we have to think about the Dreamers who can provide us with a ready pool of well educated workers already among us with the soft skills sensitivities needed in the American market place and on the job.

Figure 9