NATIONAL CENTER FOR POLICY ANALYSIS

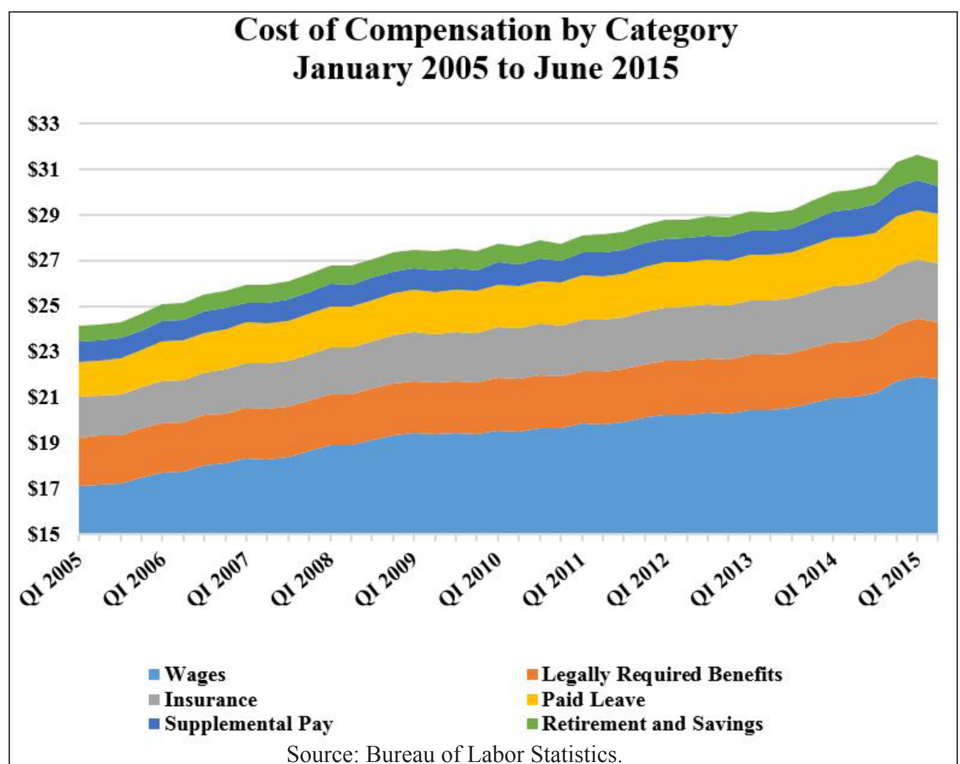
How To Raise Wages

Brief Analysis No. 827 by Pamela Villarreal May 25, 2016

Since the Great Recession, the unemployment rate has steadily fallen from a high of 10 percent in October 2009 to the current rate of 4.9 percent. However, job gains and a low unemployment rate have not been matched by accelerated wage growth. Wages have only grown about 2 percent annually since 2012. This is quite lower than the average 3 percent annual growth that occurred before the recession. Some politicians claim companies are simply being greedy, but it is important to look at other factors — the cost of employment, in particular.

The Cost of Employment. While wage growth may be staggering along, the cost of employment is increasing. The cost of employment includes mandated and voluntary benefits that are not explicitly in the employee's hourly or salaried pay. These benefits include health insurance, worker's compensation, unemployment insurance and contributions to pensions or retirement accounts.

- In the first quarter of 2005, the average hourly wage across private industry and all occupations was $17.15.
- Employer-provided health insurance, paid leave and legally required benefits increased the "implicit" wage an additional $5.40 per hour [see the figure].
- By first quarter 2015, the average hourly wage across private industry was $21.94.



Source: Bureau of Labor Statistics.

Dallas Headquarters:
14180 Dallas Parkway, Suite 350
Dallas, TX 75254
972.386.6272

www.ncpa.org

Washington Office:
202.830.0177
governmentrelations@ncpa.org

- Add in health insurance, paid leave and legally required benefits at $7.27 an hour and the employer's cost was $29.21. When factoring in employee retirement plan contributions and supplemental pay (such as overtime), the hourly cost rose to $31.64 an hour.

While there has been some slight variation from quarter to quarter, the growth of compensation costs has generally outpaced the growth of wages. In fact, since 2005, quarterly growth of health insurance, legally required benefits and paid leave has averaged 0.71 percent, 20 percent higher than the average quarterly wage growth of 0.59 percent. The point is that employers are paying more for labor per hour each year. These costs will naturally have an effect on workers' wages, workers' hours or the number of workers hired. So what could be done to bump up wages?

Solution: Corporate Tax Reform. The mere suggestion of corporate tax reform is controversial, as progressives accuse reformers of siding with "big, greedy" companies and ignoring the plight of the worker. But Laurence Kotlikoff, economics professor at Boston University, has found that the burden of the corporate income tax falls on the worker in the form of reduced wages. In an NCPA study, "Abolishing the Corporate Income Tax Could Be Good for Everyone," he estimates that replacing the corporate tax entirely with a wage or consumption tax would boost wages by up to 12 percent. It would also boost gross domestic product immediately by 6 percent!

Solution: Wage and Benefit Flexibility. Rather than relying on costly labor mandates, the government should consider policies that increase workplace flexibility. For instance, many employees would prefer to receive compensatory time off in lieu of pay, or vice-versa, but the Fair Labor Standards Act (FLSA) requires overtime work to be compensated with time-and-a-half cash wages. Other employees may wish to forgo paid time off in exchange for additional cash wages. Since the 1970s, federal and state employees have been allowed to substitute comp time for overtime wages.

Solution: Flexible Health Plans. One benefit that is sapping young workers of wage increases is the requirement that they must purchase a "bells and whistles" health care policy under Obamacare. Young workers, who tend to earn less on the age/earnings continuum, can no longer purchase limited benefit plans (mini-med plans) that fit their budget and allow them more take-home pay to spend on other goods. High medical spenders tend to be older individuals, and Obamacare has forced young, healthy workers to subsidize older, sicker individuals.

Solution: Less Regulatory Burden. Mandated benefits are just a portion of the regulatory burden faced by businesses, especially smaller, start-up firms. According to the Small Business Administration, regulatory costs are nearly $11,000 per employee for firms with less than 20 employees. This means more money going to compliance, less going to investment in capital and workers. On the bright side, the JOBS Act, passed in 2012, eased some of the securities regulations for small businesses created under Sarbanes-Oxley. But more needs to be done.

Solution: Support High-paying Jobs and Skill Enhancements. The news often highlights the plight of workers in service industries, such as retail and fast food. But instead of wages that must accommodate skill sets, how about skill sets that accommodate wages? If workers want $15 or more an hour, why not learn the skills that pay $15 or more an hour? Not only would this require public policy change by resisting the temptation to mandate a $25 wage for a fry cook, but attitude change by individuals as well. According to the Bureau of Labor Statistics, among 20 of the highest paying jobs are surgeons, anesthesiologists, psychiatrists, dentists and family and general practitioners. For those not interested in years of med school and six figure debt, but who are willing to complete a bachelor's degree, other well-paying jobs include nurse anesthetists, architectural and engineering managers, petroleum engineers, information systems managers, marketing managers and air traffic controllers. All have a median annual salary in the six figures.

Conclusion. While some policymakers may just shrug and insist that slow wage and GDP growth are the "new normal," others seem to believe that simply bumping the minimum wage to $15 an hour or more will fix everything. But promoting high-paying jobs, easing the burden of labor costs and allowing workers to negotiate their benefits would go a long way in at least increasing individual take-home pay.

Pamela Villarreal is a senior fellow with the National Center for Policy Analysis.