AUTOMATION AND THE WORKFORCE & 13 OTHERS

Biden’s back door to wage hikes

BY **VICTORIA GUIDA** | 06/04/2021 12:47 PM EDT

A man walks out of a Marc's Store in Mayfield Heights, Ohio. | Tony Dejak/AP Photo

President Joe Biden’s pledge to offer American workers a path to higher income and more jobs is getting a boost from an unlikely source: the country’s struggle to fully emerge from the pandemic.

Labor shortages in key industries are giving many workers their best shot in years to bargain for substantial wage increases, with some companies ramping up pay to attract employees, particularly restaurants.

Biden, who in April cheered worker advocates by renewing his call on Congress to nearly double the federal minimum wage to $15, is likely to benefit politically from the trend if it continues.

“The ‘shortages’ we are seeing in lower-wage jobs and the accompanying wage pressures are an early sign of success” for the president's agenda, said Julia Coronado, founder of MacroPolicy Perspectives.

That success may be short-lived. Higher wages could be among the biggest factors in pressuring the Federal Reserve to raise interest rates if clear signs of an inflation spike appear. They also risk slowing hiring for those who will increasingly seek to return to the workforce as the pandemic subsides, as companies try to keep costs down. That’s why workers’ pay was a major focus for Fed officials in Friday's U.S. employment report for May. They want to see wage gains for the workforce — but what’s behind those raises matters.

Wage growth “is positive if it reduces hardship, reduces inequality and is not eaten away or reversed by higher inflation,” said Tim Duy, an economics professor at the University of Oregon and a former U.S. Treasury economist. “But we should be cognizant of the possibility that we’re inducing more inflation.”

Income growth has been relatively strong, particularly in the last couple of months, despite disappointing overall job growth. Wages were up about 2 percent in May compared to the year before, and that number likely underestimates the real amount of income growth for technical reasons; lower-wage workers disproportionately lost jobs last year, making the overall average for those who kept their positions look higher then, and the opposite effect is now occurring as Americans return to the labor market.

"Anyone looking at the 2.0% increase in yr/yr wages is missing the story," Jason Furman, a Harvard professor and former top economic adviser to President Barack Obama, said in a tweet. "Nominal wages up 1.2% in April/May. That is a 7.4% annual rate. That is huge."

The pressure to do more to attract employees could continue to grow in certain public-facing industries. According to the Labor Department‘s jobs report, about 2.5 million people are still being held back from looking for work because of the pandemic. Wages for non-managerial leisure and hospitality workers grew 1.3 percent last month and are up 3.7 percent compared to May 2020.

At the heart of the fight for higher pay is a desire for workers to share in a greater portion of the nation's economic rewards after decades of sluggish wage growth — the result of the weakening of labor unions, companies shifting production overseas and increased use of job-displacing automation. This would ideally show up as bigger raises as the economy expands faster.

But if higher wages are instead passed along to customers at higher prices, that can create an inflationary cycle, as opposed to the one-time price increases that many experts believe the economy can absorb as people's behavior, and global supply chains, return to normal.

"In the near term, I wouldn't say this is necessarily a dangerous situation if we're just raising wages for a group of people who have been traditionally disadvantaged," Duy said. But the longer there are shortages that make employers feel more comfortable raising prices as well as wages, "that's where you get into this potential shift in the psychology where the wage gains and the price gains become linked."

Heidi Shierholz, director of policy at the left-leaning Economic Policy Institute and a former chief economist at the Labor Department, said Americans are not seeing the type of widespread shortage-induced wage increases that would be cause for concern.

"Things are re-normalizing; it's not like things are out of whack," she said, adding that some of the wage increases for leisure and hospitality workers might have come from a return to normal tipping practices as restaurants reopened.

"I have longer-run concerns," she added. "The wages were too low in that sector before Covid hit, so re-normalizing is not exactly where we want to be."

For its part, the Fed is pursuing a state of "full employment," where wages rise because most people have jobs, and the central bank has said it's willing to tolerate inflation above its 2 percent target to get there.

But the hesitance by some workers to return to the labor force is only creating the illusion of that dynamic, said Adam Ozimek, chief economist at Upwork.

"If employers are raising wages right now due to temporary shortages, then that risks slowing job growth when those temporary shortages are gone," with millions still out of work, Ozimek said.

"If we were at full employment, and we were seeing inflationary pressures, that wouldn't concern me at all," he added. "You're getting it because of good and sustainable reasons. That's not the same thing as inflation due to temporary supply shortages."

Worker advocates, by contrast, argue that higher wages will ultimately help the economy heal faster — and more equitably.

"I don't think there's any forecast that wages would go up so much as to constrain economic growth," said Andrew Stettner, a senior fellow at the Century Foundation, a progressive think tank. "If anything, raising wages is one of the best ways to transition the economy off of stimulus."

Even Ozimek said there's plenty of room for optimism, saying the possibility for hyperinflation is remote.

"The policy experiment we are running is that instead of providing just enough support to get out of a recession, you err on the side of doing more than you think you might need," Coronado said. "This creates a high-pressure recovery."

"If all goes well, we will be left with an organic positive feedback loop between hiring and spending" that boosts growth, she said.

Constance Hunter, chief economist at KPMG, said there might also be inflation pressures from higher-income workers who didn't lose their jobs to nearly the same extent as lower income brackets last year. That means that part of the labor market is much closer to where it stood before the pandemic, when the jobless rate had fallen to as low as 3.5 percent.

"If you look at the unemployment rate for people who can work from home, it's 3 percent," she said. "Because the averages don't tell the story, you need to consider that there might be wage inflation among some of the higher-paying jobs."

For sectors like retail or restaurants, "you probably are seeing pockets of the country where it's really hard to hire," she said, though in some cases businesses are just finding additional ways to automate rather than boosting pay.

"Is what we're seeing the white of the eyes of inflation, or is it something else?" Hunter said. "It's probably transitory, but I'm going to be looking closely at the data. This is not something you want to miss."

More on this topic

FILTER: RULES NEWS

JUN 2021

2nd

NEWS Newsletter — **Wyden prepares to take on unemployment**

MAY 2021

24th

NEWS Newsletter — **Wall Street CEOs in the dock this week**

14th

NEWS Article — **Editors' Notebook: Big business is winning over some Democrats on corporate tax hikes**

APR 2021

9th

NEWS Article — **Why big-spending Biden can shrug off GOP warnings of inflation**

FEB 2021

24th

NEWS Article — ‘The job is not done’: Fed's Powell warns against complacency

OCT 2020

8th

NEWS Article — Family insurance plans cost nearly $22,000, new Kaiser analysis finds

AUG 2019

15th

NEWS Article — Study: Costs for families with large employer coverage spiked 67 percent in a decade

9th

NEWS Article — Fed, facing populist anger, embraces ‘those left behind’ by economy

JUL 2019

3rd

FEDERAL Proposed Rule — The Expedited Funds Availability Act (Regulation CC)

APR 2019

1st

FEDERAL Completed Actions — Microbiology Devices; Classification of In Vitro Diagnostic Devices for Bacillus Species Detection

LOAD MORE

YOUR ACCOUNT MANAGEMENT TEAM

Thomas Zhang
Senior Account
Manager
tzhang@politico.com
(703) 236-7925