THE BROOKINGS INSTITUTION
INTERSECTIONS PODCAST
Raising wages and strengthening economic progress for American workers
Wednesday, March 14, 2018

PARTICIPANTS:

ADRIANNA PITA
Host

JARED BERNSTEIN
Senior Fellow, Center of Budget and Policies Priorities

JAY SHAMBAUGH,
Director of the Hamilton Project, Senior Fellow at Brookings

* * * * *

(MUSIC)

PITA: Welcome to Intersections, part of the Brookings Podcast Network. I am your host, Adrianna Pita. While the US economy has made a slow and study recovery from the Great Recession, the question of whether those gains are being felt equally by workers up and down the economic spectrum remains. Unfortunately, the evidence shows that economic progress has not been felt by many of the labor force and that real wages, how much money in a worker's paycheck is worth have been largely stagnant over the last 30-40 years. With us, today to discuss why that is and most importantly to offer some solutions are Jared Bernstein, Senior Fellow at the Center of Budget and Policies Priorities, and Jay Shambaugh, Director of the Hamilton Project, Senior Fellow at Brookings and also Professor of Economics and International Affairs at George Washington University. Gentlemen, thank you very much for being here with us today.

BERNSTEIN: Thank you for inviting us.

SHAMBAUGH: Thanks for having us.

PITA: You have each have written papers that are a larger series of analysis from the Hamilton Project of the different dynamics affecting wages and running through a series of proposals of all sorts of different kinds of policies to help support wage growth and help workers see their share of economic growth. I'll ask you to start off by situating our listeners in this situation. Since wages do normally track much more closely with how the economy is doing, when employment rates go up, wages should go up with it. Why have we been in such an extended period of stagnation? Why are we in this situation?

BERNSTEIN: I would say one thing just from a starting point from a very long run perspective, even with ups and downs in the business cycle from 1973 to today. What you think of regular workers' production and nonsupervisory workers, which is about 80% of the wage distribution -- real wages for that group have been going up by .2% a year. When you think about that, you think 2% after a decade or a little bit more, but my way of thinking of it is it would take 350 years to double at that rate. So that is basically entirely stagnant. Even more so, if you looked since 1979 when we had better data across which workers, you see the top 20% of workers have gotten some wage gains, real wage gains. The next 20% have gotten some, but not that much, but some. But the bottom 60% of workers have gotten next to nothing. I think that suggests, yes you see more wage growth when the economy is doing well then when it is not, but outside of a period, in the mid to late 90s, most workers really haven't seen much real wage gains for a long time.

SHAMBAUGH: That is true. And, just to be clear, Jay is talking about real wage gains, so we are adjusting for inflation, here. That is important when we are talking about the buying power of your paycheck. What my paper tried to do was to look at one of the reasons, and by the way, there are a bunch of reasons for this. You know the old movie Murder on the Orient Express, spoiler alert. It is really an old movie, so maybe that is okay. Instead of one person being the perpetrator, it was like fifteen or something like that. That is kind of analogous to the multi-causality of this phenomenon that we are discussing. One of the things that I drill in on is slack in the labor market, and that is when the job market just isn't very tight which happens a lot more often than people think then worker bargaining power is diminished. It is one of the important reasons for the result that Jay just took us through.

BERNSTEIN: If I could just add to Jarad's point about the multi-causality. It is in some ways the Hamilton Project we wanted to do this as a book, with a whole bunch of proposals because in some sense we felt like there are a lot of things one person could say, well we should do this. But any single one of them is useful but in someways insufficient and the point was wage growth is a pretty complicated process and given how stagnate it has been for how long, you need to throw a lot of things at it. All of them would work together and help together to improve wage growth.

SHAMBAUGH: Let me underscore something. Jay, in his presentation about stagnation earlier, mentioned that there was this period in the latter 90s that, in fact, wages were growing quickly across the board. This was very influential to me because at that time I was an economist at the Economic Policy Institute tracking precisely the measures that Jay has been talking about for many years and not seeing much action at all especially for folks in the bottom half. Well, I started to notice in that period that wage gains were not just growing, but accelerating, starting to grow at the rate of overall economic growth, something we had not seen for decades. At the same time, the job market was uniquely tight. The unemployment rate fell to below 4% for a couple of months in that period at some point. That tautness – you are reading articles in the newspaper, employers saying boy I can't find the workers I need. I remember being in an airport at the time and hearing these two employees of the airport talk about how they knew each other. Turned out that they had met in jail. This was pre-9-11, so I guess some of the rules had changed in that regard. We are actually seeing articles now as the unemployment rate, as we speak, is around 4%. The employers are actually giving people with criminal records a closer look which by the way is actually a very positive thing because many of those folks need to get into the job market. I was alerted to the importance of tight labor markets as a key factor among the many that Jay is talking about in the book. One that is interestingly kind of overlooked.

PITA: Jay you also talked a little bit about one of the many factors that have kept wages low is that workers haven't been able to switch jobs as easily. That is usually a really easy way for people to get a rise in their wages is to change their job either because their current boss is afraid they are going to leave, and so they pay them better, or you make the switch, and you get a better wage. You look at the fact that interstate migration, so the people's ability to move in search of those better jobs has also similarly been in decline since 1981. What are some of the factors that are affecting migration?

BERNSTEIN: Job switching in general both across state and in general job to job transitions are down. As you said, that is one of the things we really worry about if you look at wage data, a big chunk of the wage increases that people get is often when they switch jobs. You are doing your job well, someone else notices that they offer you a raise to hire you away. While firms may not always love that, it is an important part of the economy is that kind of climbing the wage ladder by switching job to job. That has been steadily declining for years, decades actually. In terms of why I think there are a lot of reasons. I think actually Jared's point is definitely one of them. Since 1980, as Jared's paper really has a fantastic figure in it, which you can go to our website and look and look at it if you would like, is that we have been below full employment for just too much of the time. So, when there are a lot of unemployed workers around, firms don't need to poach workers from each other, because they don't want to have to give a raise to steal someone, they can take someone who is not employed right now. There are also though shifts in rules. You see more and more firms using non-compete contracts which means I can't move to a competitor firm because I have signed an agreement saying for six months after I leave this job I am not allowed to work for someone else in this industry. That makes it really hard to do job switches. It makes it really hard to bargain for wage gains from your employer. You can't threaten to walk out the door. More and more firms as a paper of Allen Krueger and Eric Posner show, more and more firms are using no-poach agreements within their franchises.

SHAMBAUGH: Which are not always legal.

BERNSTEIN: They are almost certainly not. That is the point of the papers is that the Justice Department or Congress, or someone should make clear that this shouldn't be legal, right. You shouldn't be able to say well look you are a great line cook at McDonalds, but I am not allowed to hire you to be an assistant manager at mine.

SHAMBAUGH: Check that out. What he just said is important because if you think of non-poach agreements or non-disclosure agreements, often time they apply to people with trade secrets. You know something that a competitor would need to know about how computer code work, something high—

PITA: If you are working on an F-35 –

SHAMBAUGH: Bingo. But what Jay and Krueger and others are pointing out is that these clauses are applying to low wage workers and believe me there is no great trade secret as to what they are doing. So that is pure non-competitiveness. Economists of all stripes, I don't care how liberal or conservative you are, should be very much against that sort of thing.

BERNSTEIN: Absolutely. The very last thing I would say, and this is the one harder to explain in some cases it is just also one of the reasons people are not switching jobs as much is there aren't as many new firms. What we often call firm dynamism is down, as the startup rate of firms has gone down. It is a complicated process. They are a lot of reasons we might think. Some could again be rules about non-competes, you can't leave to start your own firm. Some could be regulations that make it harder for a new firm to start. Some could be preferences given by states and localities to older firms to try to lure them there. You are kind of giving the startup's competitor this existing firm a tax break. Part of it could also just be we have seen too much concentration on the product market side. It is just harder to crack in if you have these huge behemoths in the industry. I guess I would say overall this is again one of these things where it is bad for the economy not just for workers. Job switching is great for the worker, they get a raise. It is good for the economy because generally they are going to a more productive firm and so it lifts productivity, it lifts economic growth, and it lifts wages. So, it is the kind of thing that as Jared said everyone should be in favor of.

SHAMBAUGH: By the way, there is an interesting wrinkle in what Jay just said. The growth rate of productivity in the US Economy has actually been quite slow in recent years. That is a real problem because that is one of the key factors of overall growth, how efficiently we produce. It is really, a determinant at least on average, of living standard. And, as Jay was describing if these dynamics are dampening something kind of productive, or efficiency enhancing, happening in the economy, that may be one of the reasons why productivity growth has been sluggish. I want to make sure though that we have time to talk about what to do about all of this.

PITA: Yes, absolutely. One of the focuses we like to have on this podcast is to think useful thoughts, and happy thoughts about we can do to fix the problems that we are having. Jared this probably a great opportunity to dive into your paper.

BERNSTEIN: Through you an alley-oop pass.

PITA: One of the things that I found really fascinating is that you would tackle the problem from so many very different perspectives. You had monetary policy, you had a fiscal policy, you had trade issues, so I want you to walk us through some of the factors that you were looking at, the different mechanisms.

BERNSTEIN: The problems we are trying to solve here is the one Jay mentioned that the economy has been to slack for too much of the time for much of the past 34 years. I suggest four policy changes to addresses that. Monetary policy, that is really the work of the Federal Reserve how they move interest rates around. Fiscal policy is the tax and transfer system that I think of as a Federal Government function, although states do the same thing. Trade policy, which is important and interesting and often left out of these discussions. Related to fiscal policy I think one of the more important plans I suggest in there, and I am not the only one suggesting it these days, is a direct job creation plan. There is a lot in there, and rather than unpack every little piece, you tell me what you think our listeners would like to hear most about, given those four things – monetary, fiscal, direct job creation, and trade policy.

PITA: I had two different things I talk to you on that. On the Fed question and monetary policy, I wanted to make it a little relevant to something that happened at the beginning of the month. The jobs report came out at the beginning of February. It did show some small wage gains from the year 2017, and the stock market took a bit of a downturn there. There were some really interesting columns and some really interesting twitter threads about "Are Investors Freaking Out" because they saw wage growth and went oh my God

Inflation is right around the corner. The Feds is going to raise the rates. All of our profits are going to be gone. Can you talk a little bit about that and how that plays into your monetary policies?

SHAMBAUGH: Sure, investors overreacted, I think. But the basis of their thinking is actually a logical chain which is hum – wage growth is accelerating which as you suggested wasn't really in the data. You can't make too much of a one month blip. Wage growth is accelerating, and that is going to lead to faster inflation, and that is going to put pressure on the Fed to raise interest rates more quickly than they otherwise would. That is going to slow the economy down and shave into profit margins, and ultimately the value of the stock market is a function of realized and expected profitability. At the end of that chain is a slower growing economy and less profitability then they expected. The thing that I suggest -- I am not that concerned with the stock market, it is kind of manic these days. I am not the psychiatrist, I am the economist. I suggest in terms of a Fed policy, and again, I am not alone, Jay has been in this debate as well, lots of people including former Fed officials are saying that we need to look differently at the way we manage our dual mandate. The Fed has a job of making sure we maximize employment at stable prices. One of the things we have to do is make sure that the unemployment rate is the lowest it can be, yet at a rate where inflation isn't accelerating. I stressed in my paper that we don't really know that rate. So, we kind of have to look at wages, and we have to look at inflation very carefully. The current rules I think have a bias to tightening too soon at a time like this. I suggest a set of rules, and again I and many others are suggesting a set of rules that would lead the Fed to be less likely to hit the breaks too hard when wages start growing, and they start to sniff a whiff of inflation and be a bit more lenient on that front. That is part one. But Jay you may want to speak to that.

SHAMBAUGH: I would agree exactly with what Jared was saying about the kind of chain of logic that was going on as well as the idea that one month where you saw one wage series perk up to 2.9% growth over 12 months. When the economy is going really strong, those series are often around 3.5 – 4.0 percent.

BERSTEIN: Nominal

SHAMBAUGH: Nominal before inflation.

BERSTEIN: Nominal before inflation and so the idea that 2.9 has people running for the hills, there was a part of me that was a little surprised by that. But, if you are worried, as Jared said, the Fed will tighten at the first hint of inflation then it is a rational concern. I think one of the key parts of Jared's proposal is clarifying we need to have some rules established and a framework established that won't make people think that is what is going to happen. In some sense, the Fed tries often to state very clearly that their two percent inflation target which is supposed to be their goal. That is a target, not a ceiling. That may sound somewhat odd to listeners, but the crucial difference is are you okay with inflation around one to one and a half percent, but if it gets close to two percent you tighten interest rates a lot. Or, are you saying two and one-half percent and one and one-half percent are the same to you? You are both one-half a point away from your target. I think frameworks that push the Fed more toward that second style, which is in theory what they state their target is, would make people less worried when you see the slightest hint of inflation would make them say oh good, we have been below target for a long time. We should be above target for a little while too.

SHAMBAUGH: I have a very concrete proposal in my paper about how to get from here to there. You know the Fed doesn't just turn on a dime and say okay today we are going to do things very differently then we did before. It has to go through a deliberative process, signal to people who watch it closely what they are up to. I suggest a process that maybe take 6 to 12 months. Other countries central banks do this, by the way, especially the Canadian one and just relook at your framework, reexamine it with all of these concerns in mind.

PITA: I like one of the things you suggested about that process was that by telling everyone this is the year-long process, we are going to take this. And, we are going to do it very publically, and very transparently that will help take a little bit of that pressure off where everyone goes oh my God did the Fed Chair scratch his nose. What is he thinking. It would take some of the pressure out of that.

SHAMBAUGH: I would like to say a little bit about this direct job creation program, if I may.

PITA: That was going to be next.

SHAMBAUGH: Here we are closing in on full employment in the current employment. The unemployment rate is 4.1% which historically is pretty low, and there are still pockets of unemployment or people who can not find their way into the labor force across the land. Many of them are in rural places, but they are also by the way not all that many miles from here where we are sitting in Washington, DC, near Dupont Circle. There are always pockets and that 4% is an average with a wide variance around it. The Black unemployment rate is well north of 7% right now. There are always pockets of a disadvantage if even in full employment, and so there is nothing in this field that clear to me then the need for some sort of direct job creation program. I am not necessarily talking about going back to the days of the New Deal where the government puts a bunch of people in the woods to build a dam. Don't just think of that. There are other alternatives, and I suggest having a fund, a full employment fund which is a flexible set of resources the government can use to channel to these places. In many cases we are just talking about subsidizing employers to hire someone who they wouldn't hire anyway because this person may have challenges and may have been out of the labor force for a long time, maybe has some skill or health issues. There has to be probably a training, maybe an apprenticeship component to this as well. I try to present this continuum of subsidized employment that is the least aggressive intervention, all the way to very direct job creation because I really don't believe we are going to get to true full employment without it.

BERNSTEIN: If I could say that there is one thing in Jared's proposal that is important which is of a somewhat automation nature of it. One of the reasons I think that is so important is that when an economy hits a slow down, it is sometimes harder than people might think to get politicians to spend money. Often economists sit there and write about these the propeloget politicians who will throw money out the window all the time. That is not always the experience you see. Trying to get this fund working in a way that it is spending the money when it is needed and it is spending less of it when it is less needed is a really very important piece of this. You look around back in 2010 and 2011 and the unemployment rate was quite, quite high at the time. We kept having the employment insurance extension benefits expire because you couldn't get people to agree that even though the unemployment rate was 8%, we should extend those benefits. They would always extend them eventually. But, it went through a lot of heartache and confrontation over it and people winding up going six weeks without their benefits or things like this. Doing these things in a more automatic way is just a way to try to smooth through this and make it more effective than it otherwise would be.

SHAMBAUGH: The key is automatic, and people may have heard this idea, automatic stabilizers. This is the idea that fiscal policy kicks in. We were talking about monetary policy. Now we are moving from monetary policy, and now we are moving to fiscal policy. Fiscal policy kicks in automatically when the need is there. I detail some triggers that might kick that off. I also want to say something about current events. So that is what economists call counter-cyclical spending. That is when the economy is down, the fiscal boost goes up. Economy down, fiscal boost goes up. That is counter-cyclical. Right now we are doing pro-cyclical fiscal policy. The economy is really pretty well by a lot of the measures we have mentioned, along carving out the disparity point I made, but low unemployment, steady growth, all the rest and what is Congress doing, throwing hundreds and hundreds of billions of fiscal stimulus at the economy when it is doing really well. It is precisely the opposite of what Jay was just talking about and what I am trying to get to in my plan. I will say that this fiscal policy helps knocked the unemployment rate down from four to three and one-half percent. I am going to think that probably a useful thing. We need a serious revamp of our Federal fiscal policy.

BERNSTEIN: One thing that I would say there is one of the issues again if you are looking at the present day is I think Jared said, there are pockets of both demographics, you have certain types of people or certain regions where jobs are really still hard to come by. You could target that with a full employment fund. You could still be going after that even when the economy is doing pretty well. That is the type of spending you should be doing when the unemployment rate is at 4.1%. You should not just be throwing money kind of in a blanket way across the economy when unemployment is at 4.1%. Because, frankly, if anything that you are going to do, back to monetary policy for a second, is quite likely get the Fed to tighten faster than it otherwise would have and you don't really wind up having done anything to help the economy.

PITA: You gave an example, Jared, of when that sort of kind of strategy had been used in the past, working through the TANF funds and I think the citation was from Florida where it showed that there had been some actual good long term effects. The money did not just go to people for those eight months in which the economy was weak, and you came back and looked at those same people a couple of years later. They showed continued benefits.

BERNSTEIN: That is a really important point Adrianna, because what is embedded in your comment is the fact that we have actually done some of this before. Listeners may be thinking well boy this sounds really outside the box. It is actually pretty inside the box. I worked for the Obama Administration back then. My office played a role in helping to implement the program you are talking about. It is really a flow of funds to local areas of the type Jay mentioned, where employment support was needed. A quarter of a million people got work and as you suggested one of the things that this program did by subsidizing the wage to the tune of 80 or 90 percent that is going to an employer often in the private sector in saying we will pay for this worker, essentially, for six or eight months, is that it helped that worker gets over a barrier because she was having trouble getting into the job market. It also helped that employer often see somebody who he or she may have discriminated against before. Oh, they have been out the labor market before or maybe something more nefarious on the discrimination, and they see, hey, that he is a good worker. After the subsidy ended, as you pointed out in this controlled study, many people stayed on.

PITA: I want to make sure that we don't skip the education portion. We have been talking a lot about the demand for workers and of course improving the lot of workers themselves making them better able to get good jobs is a big part of that. One of the papers, and Jay this is one of the papers that you worked on, looked at more than 10 years of a lot of the work that the Hamilton Project has put into looking at education, everything from early childhood, K-12, higher education and also into specific workforce development training programs. I am not going to go through all of them because there are a ton of policy proposals. I recommend that our listeners check that out.

One of the things that I noted was the US spending on public K-12 education still hasn't recovered after the great recession. The Federal Government kicked in to help states, but most states are still pre-recessionary levels. Given all this wealth of evidence of how much we know education does for workers, why is there still this gap?

BERNSTEIN: I think the why there is a gap is more a political economy question in some sense. Right. It is I think to some extent because for a lot of states and localities education is a pretty big ticket item on their budget and when they saw revenues decline they had to find somewhere where they could cut, or they could trim. I think on the flip side of it, on the purely economic side of it is what we have seen is there have been really good studies that have shown this matters. It mattered in this recession that the education outcomes are worse where you cut the spending. Sometimes people may say that sees pretty obvious. But, economist like to check these things. We cut spending for pupils in some places, and that was bad. We should not have done it. I think in this chapter you are referencing we went back because we realized that we had done something like 50 proposals on education over ten years so we wanted to pull them together in a different way. But we also went back through some of the evidence on education. One of the things that really just keep showing up time and again is one of the most straight forward ways to raise an individual's worker's wages is to get them more education. Higher quality preschool matters. Higher quality K-12 matters. Staying in school longer K-12 matters. Getting to community college matters. Getting to college matters. At every step of the way, it tends to be better. Now as the overall book is suggesting, that is not sufficient for the overall economy. If you don't have enough bargaining power for workers, if you don't have enough demand in the economy, that is not going to drive wages for everybody overall, but certainly for individuals and certainly in the very long run. As much as you can do on bargaining power, as much as you can do on demand, in the long run, you also need productivity growth. One of the most straight forward ways to make workers more productive is to have them have better skills, better training, and better education. That is why we thought it was important to include.

SHAMBAUGH: I think that is all very much correct. Economists argue about every single fact under the sun. I think there is one thing that every labor economist agrees on is that there is a wage premium associated with the higher levels of education. That said I don't want to lose the thread and Jay referenced this, if you actually look at the wages of college-educated workers, especially younger ones, they have also been stagnant for about 10 years. Now the levels are well above those with less education. If anybody who hears my voice, including my children, is thinking are thinking I shouldn't go to college, the earnings data forcefully explain why.

I do want to talk a little bit about this political economy question of taxes, and I know a little bit about this largely from the work folks at the Center on Budget Priority who focus exclusively on this issue. There are all states out there who are disinvesting in education, and that is a very unfortunate thing to do. One of the reasons they are doing that is because there is this massive long-term movement in this country against collecting revenues, against taxes. Some of it is driven by the market ideology that is really quite corrupt. The idea that taxes are always bad and the markets can replace everything that taxes do. Well of course with education that is well understood to be wrong because this is a key public good. One of the things that Congress did in the tax plan, Republican's in the tax plan was to significantly reduce the amount of state and local taxes that people can deduct from their taxes. In some ways, it wasn't the greatest tax policy anyway. I wasn't that sad to see it largely go. But, in fact one of the problems is that if people can't deduct from their state and local taxes, their Federal tax liability, which they could before, it is going to be harder for states to raise revenues because people can't write off those tax payments to the local authorities against the Federal one. That is going to make it even harder to fund local education. I really think you have identified an important problem.

PITA: I want to go back to something that you both talked about at the beginning of this which is that the goals of getting workers better wages, the goals of increasing worker bargaining power, the goals of improving productivity, and the goals for employers. These things are not at odds when so often they are characterized as being in opposition. If wages go up, profits must go down. Can I ask you both to talk a little bit about that concept and why it is really important and why the idea of them being opposition is still so strong?

SHAMBAUGH: Great Question.

BERNSTEIN: That is. I think the reason that the perception is there is because there is in an all-else-equal world, if the worker gets a raise, there is less money left over for profits. I think the insight which hopely isn't that hard to grasp is we don't live in an all-else-equal world. Lots of other things are taking place at the same time. So, as I said earlier, a lot of these things that we view as worker bargaining power issues around non-competes or around ways you can encourage -- Abigail Wozniak has a terrific proposal in here about ways to encourage worker mobility both on the way into college and on the way out of college. That is something that would help workers by making them more educated and help them land in better jobs -- all things that would lead to higher wages for those workers. It would also lead to more productivity in the economy because they would be more educated and they would be in jobs that fit their skills better. You look at that and say that is good for everybody. That doesn't crowd into profits. That means firms have better-educated workers. Yes, they are paying them more; but, that is because they are more productive and they can make more per hour. In that sense, you don't have to see a conflict. And, again some of these things like non-competes letting workers start new firms or go to work for a more productive firm, you can see how the firm itself that has the worker doesn't want to let them go because that is bad for their profits. But, for the economy overall it is not because they are moving to a different firm where they can be more productive and generate more economic output. I think it is really important. It is one of the things that we try to really emphasize in the book in spots is these things don't have to be in opposition. I will turn to Jared because I think Jared's proposal is another example where you can see more growth and higher wages as well.

SHAMBAUGH: I definitely agree with that framework. Let me give you a slightly different one that is completely consistent with what Jay said but looks at it through a different angle. I am going to start out saying something technical and annoying which is dual-equilibrium. I think we live in a dual-equilibrium world which really in English means there is a high road and a low road. The high road is the one that Jay just described. That is a pro-growth set of policies that builds in the benefits of growth accruing not just to the top but to everybody. I think a lot of people probably like us and maybe our listeners think well sure yes, sure, that is the way to do it. And, again as Jay said in my paper I am trying to explain where the high road lies in terms of labor markets and full employment. But, I think reality has to force us to admit and acknowledge that there is also a low road. On that road employers basically, look at raising worker's wages as the absolute last thing you want to do because it will crimp profitability. It will signal the stock market that you are not aggressively pressuring and pushing back on workers. It could reduce the value of dividends and share buybacks in the short-term. It could push back on this kind of inequality concentration that for many people is a problem but for the group at the very top is going pretty well. The unfortunate reality, and this is kind of unique to the US economy, is that both of those roads can be taken. I think that there are many macroeconomic costs to the lower road, but demonstrably I think it in many ways it has been on that road for decades. Jay run the Hamilton Project, so I apologize for characterizing the Hamilton Project. But one of the reasons I would characterize the project, one of the things I like so much about it, is to me it is a bunch of signposts saying this way to the high road and a bunch, and in some cases that I might argue for more of these, roadblocks against the low roads. So I say block the low road, show me the signposts to the high road, and that is what I would argue we are trying to do in this book.

BERNSTEIN: I think that is right. I think that sometimes you hear firms or people representing firms say things like this when they say if you make us pay higher wages we are just going automate some of these processes out. There is a part of me that looks and people will say we don't want to lose those jobs. And, there is part of you that says so wait you are telling me if you have to pay higher wages you will invest more in capital and technology and make workers more productive on an hourly basis at which point you can pay them more.

SHAMBAUGH: Exactly. We should ever be never be swayed by this if you make me raise wages I will have to automate. To that is kind of thing like if you make me raise wages, we won't be like a third world country anymore. Or, we cant follow the Mexico-path or the low road. The idea here is that these kinds of wage pressures must be a message or a signal in an economy to do precisely the kinds of investments that Jay mentioned. By the way, this is a really important empirical point, one of the things we can see in the productivity accounts is that those very type of investments have been lagging in recent decades. I have written about, without proof I must admit, something I call the full employment productivity multiplier. So this is more theoretical than true. This is the idea that at full employment you create the wage pressures that set off the very dynamics, the investment dynamics, Jay was just talking about and sets you off on the high road.

PITA: I think that leads us really excellently into what I want to wrap things up on which is talking why this questions of wages and taking the high road can matter to more than just the economists. There is a quote from the frame and paper that you start the book off with, Jay, where you basically connect the issues of wages to our current political situation and the quote is "Working year after year without a meaningful rise in wages weakens workers confidence in the economic system. Even more, it undermines their faith in democratic institutions to make the necessary changes in public policy, to deliver robust improvements in their standards of living." Can I ask you both to wrap us up on that theme about some of the political crisis we are facing right now? Why and the goal of wages and employment and having a robust democracy.

BERNSTEIN: The economist in me when I hear that quote and I think about what we were trying to do here, I think about the fact that in particular for lower education workers, and in particular for lower education men, we have seen for five decades their participation in the labor market on a decline. I am someone who believes that a job is not just a paycheck. A job is something that for a lot of people brings a lot of meaning to them, and it is an important part of their life, not just their livelihood. I think when the job market is functioning in a way that people just don't feel like they are getting any return on their investment and their time, it is something that undermines society more broadly than just the paycheck. That said, I should be clear, just because I am an economist, the paycheck part is incredibly crucial. You are dealing with looking around seeing people where living standards have not gone up for a generation for certain type of workers, and that is so contrary to what we talk about as the American dream. I have always thought that American dream suggested each generation does better than the next and I think the evidence in this book -- there is a great paper by Fatih Guvenen looking at lifetime income data where he basically says that is not what it looks like any more in particular for certain types of workers. I think if you don't think the American dream is showing for you in the way you were told it would, I think it is pretty fair to think that would lead people to feel that the political class is failing them in some way or another.

SHAMBAUGH: I don't know if I can say it any better than that. The idea that the economy is rigged surfaced in the last election and for people for whom that construct resonated, and I have to say I was one of them because I have been tracking these dynamics for so many decades, I documented that if you look at the compensation of the median worker, just middle-income worker right in the middle of the pay scale, that group along with productivity growth from the 1940s to the late 1970s, productivity doubled, median compensation doubled. After that, productivity is up over 70%, median compensation is up 11%. That gap between economic growth and how the middle-income worker is doing very much lead to this notion that the economy is rigged against you and I won't repeat what Jay said because I thought he put it really eloquently. I will only say the following, and here I am going to get real political. There is a toxic interaction in the US economy between the concentration of wealth and the extent to which money influences politics. It is not just that donor class can fund the politicians the like, it has deteriorated to the point where they are buying the policies they like and the facts they like. I think that is not a sustainable characteristic of a democracy.

PITA: Gentlemen thank you both very much for being here and going through all these ideas with us. I want to remind our listeners that they can find all of the papers that make up the book both at Hamiltonproject.org or they can go to Brookings.edu. All the papers are in both places. They, of course, can follow Intersections and the rest of the Brookings Podcast at network@policypodcast. They can follow the Hamilton Project@Hamiltonprog. They can follow Jay@Jaycshamba and Jared@econjared if you are interested more on any of these issues. Gentlemen thank you both so much.

SHAMBAUGH: Thank you.

BERNSTEIN: Thank you.

PITA: In case you missed it you can hear more on this issue in the March 9 Episode of the Brookings Cafeteria where Fred Dews talks to Alan Krueger about Monopsony - how large employers dominate the local labor markets to keep wages low and contribute to rising inequality.

* * * * *