DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST

"How workers got left behind in the pandemic while shareholder wealth soared"

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Episode Summary:

Molly Kinder, a fellow in Brookings Metro, discusses with host David Dollar her new report, "Profits and the pandemic" (co-authored with Katie Bach and Laura Stateler), which examines pay practices and financial outcomes during the pandemic-era of 22 of the nation's largest companies. Kinder notes that most of the large companies enjoyed record financial gains during the pandemic, and that while a few did provide workers with pay raises that exceed a living wage, most did not, and the modest wage gains workers did receive have been wiped out by inflation.

DOLLAR: Hi, I'm David Dollar, host of the Brookings Trade podcast Dollar and Sense. Today, my guest is Molly Kinder, a fellow in the Metro group at Brookings. She and her colleagues have just put out a report entitled "Profits and the Pandemic." As shareholder wealth soared, workers were left behind. So this is our topic today. We're going to go through the main findings.

Before we get to the conversation with Molly, I'd like to introduce another new show, this one from Lawfare called "Allies." It's about the Afghan interpreters, translators and contractors the U.S. government left behind when our troops left Afghanistan.

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> SPEAKER: The withdrawal from Afghanistan ended in chaos at an airfield in Kabul. But despite the efforts of veterans, lawmakers, and senior leaders in the military, even more were left behind.
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> SPEAKER: I moved my family from location to location three times.
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> SPEAKER: He was just banging his head against the wall trying to figure out, how do I unstick this?
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> SPEAKER: Problem was not the idea. The problem wasn't the legislation. The problem was the execution.
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> SPEAKER: The Taliban knew all this? That's why they used to shoot at them first.
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> SPEAKER: Why is it so hard to track the number of interpreters, translators, and contractors killed as opposed to U.S. soldiers?
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> SPEAKER: Because nobody wants to know the number.
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> SPEAKER: Our story takes you from the front lines of the war to the halls of Congress to find out how did this happen. From Lawfare and Goat Rodeo, this is Allies, a podcast about how the U.S. government failed the Afghan translators, interpreters, and partners who fought alongside the US. Coming this may.

DOLLAR: Welcome to the show, Molly.

KINDER: Thanks so much for having me, David.

DOLLAR: So, your report focuses on 22 giant companies. Can you give us an overview of who these companies are, what they do, how many people they employ?

KINDER: Absolutely. So my colleagues, Katie Bach, Laura Stateler and I conducted a fairly extensive analysis of some of the leading companies in the country, and we were very purposeful in how we chose them. We looked at the largest companies that employ very significant numbers of what we would consider hourly frontline workers. It's not surprising the sectors we would have chosen, if you're thinking about big companies that employ hourly workers, we chose the largest companies in retail and grocery, in e-commerce, and package delivery hotels, fast food. So, big names. These are all household names. So, think of Home Depot and Amazon and Starbucks and Wal-Mart and Hilton and Disney. And collectively, these 22 major companies employ over 7 million workers. So, it's actually a very sizable share of the labor force.

And part of the reason why we chose this particular set of companies is the vast majority of these companies, about two and a half years ago signed a big pledge. They're part of this business roundtable, which is essentially a lobbying group of major corporations. And the CEOs of 181 major companies in America signed a big pledge on something called stakeholder capitalism, which was basically saying that the purpose of a company was not just to enrich shareholders, but to benefit society, workers, the environment. And when we thought about that pledge, we wanted to understand, well, what about the subset of those major companies that have a large hourly workforce, that have a lower paid workforce? And so that's how we ended up with this set of companies. And essentially in each of those major sectors, we chose the biggest, so the largest companies in fast food and in retail and grocery and hotels.

DOLLAR: I would just note as an aside that most of those companies are deeply involved in international trade, distributing things, or in the case of hotels, you know, international tourism, travel, that's all part of international trade. But this seems to me most of the firms are not directly competing with imports. So I just noticed that as an aside.

KINDER: Yeah, David, that's a good point. And they're all headquartered—we chose company major companies that are the largest American companies, but most of them are multinational corporations where they have, you know, some of them have a fairly significant share of their workforce even overseas. So, Wal-Mart and Starbucks and Hilton have a significant number of workers also overseas.

DOLLAR: Yeah, you know, I lived in China for many years and the Starbucks were ubiquitous.

KINDER: Oh, yeah. I mean, on their earnings calls China is a major factor in their business.

DOLLAR: All right. But anyway, let's get back to the report. So right now, we have a historically tight labor market. We had that before the pandemic. Then, of course, we had this relatively brief surge in unemployment. But we're back to a pretty tight labor market. So, what's happened to the nominal and real wages in these firms?

KINDER: You know, that's a really interesting story that when Katie, Laura and I started this analysis, it was almost a year ago. And that was only when this very tight labor market was kicking off. We were just coming off the first year of the pandemic where the headline was really not a tight labor market. In fact, there was huge amounts of unemployment and laid off workers. And the majority of the companies we looked at stayed open during the pandemic and were essential businesses.

So, that was really the theme of the first year was most of the companies we looked at, if you think about a UPS or you think about a Home Depot or a Kroger or an Amazon, these are the companies where we were applauding their essential workers for working through the pandemic. And the headline in that first year was really temporary wage increases through hazard pay. And then at some of these companies, like the hotels and Disney and some of the clothing companies like Gap and Macy's, they actually did quite poorly in that first year because many of them had to close. I mean, Disney completely shut down their theme parks. A lot of the hotels shut down. So, some of the headlines for those companies were layoffs and furloughs, and we were not seeing wage increases. In fact, we were seeing a big need for those workers to go on unemployment.

So, the first of the two year period we looked at in the pandemic, the first year was really one of temporary pay bumps at the essential businesses and furloughs and layoffs and reduced hours at some of the others.

And then we went into the second year of the pandemic, and now we've entered this territory of this historic tightening of the labor markets. You know, these businesses bounced back with a vengeance, many of them, they suddenly had to staff up. Even the ones that stayed open, like Amazon, have had to hire so many workers.

And so when you think about the headlines of where you're seeing the highest quit rate, where you're seeing the highest nominal wage increases, it's many of the sectors where we looked. So it's fast food, it's leisure, it's retail.

And so what we did was we timestamped what were wages like just before the pandemic started? So January 2020. And then we compared that to almost a full two years into the pandemic. So that gets us to through October. So up to November 1. And we communicated with all the companies. We analyzed public information. We asked them for their wage data to paint a picture of how much did workers see their wages really rise. And we expected going into this to see significant wage increases for the reasons we were just discussing: essential workers, public sympathy for gratitude for the work of Amazon warehouse workers and grocery cashiers, this historic tightening of the labor market. And every earnings call we tuned into, we're hearing CEOs talk about the difficulty of hiring enough employees and having to raise wages and profits were elevated.

So, we had all these reasons to think wages were going to go up and we wanted to better understand how much have they gone up nominally and in real terms. And the headline there is going into the pandemic in January 2020, most workers did not earn enough to get by at these companies. These are low wage workforces. So at most, about four companies paid at least half of their workers what we call a living wage. And I can get into that a little bit more.

But, and when you zoom out to almost two years later and all these things have happened, you know, workers have risked their lives, companies are scrambling to get enough workers, wages are nominally up. How much do they did that really changed? And what we found is on average across these 22 companies, wages did go up nominally, but inflation took such a big bite out of those wages that really the headline is not very substantial. So, we estimate somewhere between 2 and 5% in real terms was the average across all companies in wage increases through October. And from January 2020 through October of last fall, inflation was up around 7%. But since then, we've seen it even go up even higher. So, we just got the new April inflation numbers yesterday, I believe it was. It's now over 12% since January 2020, is inflation. That's taken almost all the bite out of these wage increases. We don't have fully updated wage numbers through April because we confirmed our numbers with companies through October. But the reality is, unless these companies raise wages further, it could have eroded all of the wage increases we saw since the start of the pandemic.

And Amazon is an interesting example because they're actually, they had the highest nominal wage increase of all the companies we looked at. And that's not too surprising. And we all know Amazon grew like crazy during the pandemic. They've had to hire over half a million workers. Their average wage went from 15.75 an hour in January 2020 to 18.50 today. And that was 18.50, it's the same as it was in October when we did our math. And I've confirmed with the company's it's 18.50. That sounds like a big increase. But if you see what happens with inflation, that's a 17% nominal increase. But when you adjust it for inflation through till today, it's less than 5%. So, inflation has really taken a huge bite out of those pay raises. And as a result, the headline for workers is not nearly as rosy as one might think. When you hear all about the great resignation and worker wages on fire, they started low, as we document, they did increase nominally, but inflation took such a big bite out of it that the reality is at the end of all this, the vast majority of workers at these very successful companies today earn less than what they would need just to pay their bills.

DOLLAR: So, let's dig a little bit more deeply into this issue of a living wage. So, how do you define a living wage and how would you summarize where these companies stand in relation to a living wage, like what share of their labor force is earning a living wage?

KINDER: We really wanted to use a living wage because there's a lot in the zeitgeist about a minimum wage in this country where society has landed on $15 an hour as an aspirational number. Turns out, $15 an hour in most of America is not going to allow you to cover your basic expenses. So, Katie, Laura, and I really leaned on MIT and their methodology for calculating something called a living wage. And really that is meant to showcase how much would a household need to earn to pay just the basics, nothing more. This is not about saving for the inevitable day where your car breaks down or investing. It's just paying your basic expenses.

And what we used was MIT's living wage national number. And it's for a four person household, basically divide it in half. So, two working adults and two children. And there the assumption is both of the adults would be making at least this living wage. And what that translates into when you, especially when you updated for today's inflation, is that a living wage nationally today is a little bit more than 18.50 an hour. That's what it would take for one working adult, working alongside another working adult, earning at least that much and providing for two children just to pay their basic expenses. And 18.50 turns out to be significantly higher than the median or average wage at the vast majority of these companies.

So, when we looked at January 2020, we could only confirm around four companies paid at least half of their workers the benchmark of a living wage. And there are some really notable companies, like UPS has a much better wage than some of the fast food companies, for instance. Costco is a real darling of our report. They really stand out. I mean, their average wage today is $24 an hour. That's their average wage, and their starting wage is 17. So they pay almost all of their workers a living wage, but that's really the exception.

Starting in the pandemic, we had a minority, only about four companies met what we would consider a very minimal standard of paying at least half of your workers enough to pay their bills. It doesn't even seem like that aspirational. And then at the end today we can confirm at most five out of 22 companies meet that bar. Most companies, their median wage or their average wage is significantly less than a living wage.

You know, this all sounds very sort of numerical and theoretical, but that really has consequences. I mean, throughout the pandemic, I've been in conversation with so many hourly frontline workers and talking to them about what they're experiencing. And when you earn less than the living wage, you cannot meet your basic expenses. You can't provide for your family. And, you know, we've interviewed grocery workers who discuss how their own colleagues who all day long bag groceries for customers, pay for their own groceries with food stamps. This is just not acceptable, in my view, in America in this day and age, particularly at this group of very successful companies that have made all sorts of commitments to doing better by their workers. And we can talk more about their financial performance, but it's clear that not enough companies have a business model where they are paying their workers enough just to meet a sort of a subsistence level of living.

DOLLAR: So, we've covered the labor side of this pretty well and that's a real strength of the report is a lot of detailed information on wages and living costs, inflation, et cetera. So now let's turn to the corporate profits and the shareholder wealth gap, the kind of the other side of the labor capital divide, what's been happening for these 22 firms?

KINDER: Well, the big headline there is that most of these companies are what we would consider the big winners of the pandemic in terms of their financial gain. So we actually categorize the 22

companies as winning, mixed performing, and the really the struggling companies—12, which is a little over half, fall into that category of just clear pandemic winners. And among these companies, they've had some of their best years in history. Profits are up an average of 45%. At those 12 winning companies, they've added $56 billion in additional profit just in those first seven pandemic quarters. or just shy of a full two years.

And this is not surprising. When we think about which companies did extremely well when people were shopping online from home or delivering packages to their door, we think of Target, we think of FedEx, we think of Amazon, Home Depot has ridden the wave of people fixing up their houses. So just really clear financial performance out of most of the companies.

And there's a handful of companies that were a little more mixed. Think of the fast food companies. The first year of the pandemic, you know, McDonald's and Starbucks didn't have in-person dining. They took a hit to their profits the first year. But in the second year, they've come back with a vengeance. Chipotle has had its best year ever.

And then we've had a few strugglers at the end. So Disney and Marriott and Hilton, some of them have still not, have had some of their worst years in history and are just catching up now.

But the big headline is, overall, these companies have done extraordinarily well. The average share price is up 55%. So we asked a big question of what happens when times are really good at some of these companies. They've made these pledges to do better for their workers, to not just enrich their shareholders, but who really benefits from big financial success. And it turns out the pandemic window has been a fascinating case study because so many of these companies have had this extraordinary moment of financial performance. And what we found is, as we just explained, workers did marginally better. Their wages are up. But when you take into account inflation, they're up only sort of modestly. And still, most workers don't earn enough to survive.

And then you compare that to shareholders and company executives, and the story is completely reversed. So shareholders, what we document is just in these first 22 months of the pandemic, I think one of the most staggering sort of graphics and data points that's gotten a lot of viral reaction on social media is our comparison of the shareholder wealth gains versus how much worker pay went up. So we find that in the first 22 months of the pandemic, just these 22 companies generated a trillion and a half dollars of additional wealth for their shareholders, which is triple the previous 22 month period and it's just a huge sum of money. And that is more than 50 times all the additional pay to the 7 million workers at those same companies. Pay went up with bonuses and permanent pay increases and temporary pay increases by $27 billion for those 7 million workers. But the shareholders are a trillion and a half dollars richer in that time period.

And I'm sure your listeners are very attuned to this, but, you know, shareholders are typically very wealthy. So the vast, vast majority of that trillion and a half dollars in wealth went to people who are already the wealthiest households in the country. I think the bottom 50% of all shareholders got something like 1 or 2% of all of that wealth. So really lopsided gains is what we're seeing is that the shareholders did extremely well. Workers really only did modestly better.

And when you kind of unpack the wealth gains, the real headlines are the wealthiest households who own the most stock. It's the billionaire founders and heirs. It's the people like Jeff Bezos and Howard Schultz and the family that owns half of all Gap shares. It's the Walton family who own half of all Walmart shares. It's some of the billionaires who have this outsized percent of the shareholding. And it's also the corporate executives. It's the CEOs whose pay comes in the form of performance pay, and a lot of it is in stock holding. So really, I think the, what we've documented very clearly is that in this moment of financial windfall that these companies have generated, it's

really the wealthy and the shareholders who benefited in an outsized way where workers only benefited modestly.

DOLLAR: I could just add a couple of things to that. So as you say, Molly, the stock ownership is concentrated very heavily among very wealthy people. But I think it's also the case that about a third of the New York Stock Exchange value is owned by foreigners. So you've got very wealthy people in other countries who are benefiting from this.

KINDER: Absolutely. And in fact, I spent several days doing the calculations to figure out how much of that wealth went to U.S. versus foreign. And we factor about a third is foreign owned. So then we sort of looked at within the U.S. household ownership, where did that go. But you're right that this is not just a U.S. story of the wealthiest Americans, but also, of course, overseas as well.

DOLLAR: Yeah. And the other point I would make is that as we talk in May 2022, there's obviously been some correction in the stock market, but so far it's relatively small compared to the kind of numbers you're citing.

KINDER: Yes, so now we're in into May and the economy in just in the last two months or so we've seen the stock market start to turn, not at all these companies. So you take a Hilton, for instance, Hilton stock is still up 30% and many of these companies are still overperforming where they were. But a company like Amazon, which had seen such a meteoric rise, some of them are coming back down to earth. And so the shareholder wealth gains haven't sustained at every company.

But I think the clear headline has been, and I don't think anyone will be surprised by this, is that during this pandemic some of the real economic loss and pain was concentrated among those with the least. A lot of the sacrifice in terms of who risked their lives to do these jobs were workers who had the least and earn the least. And the real winners have been homeowners, has been stockholders, it's been shareholders. And it's really been a case study, I think, in fairly acute inequality on many fronts, which is something that we document in our report.

DOLLAR: One of the issues you zero in on is the stock buybacks, the companies buying back their own stock. So, what role does that play in these findings?

KINDER: Well, something that we were really careful to point out is that this picture that we paint of inequality is not all attributable to the decisions that companies make. The fact that our stock ownership in this country is racially and socioeconomically so lopsided is not what Walmart's fault, per se. There's many decades of reasons behind some of this inequality. Some of the stock price increase is because of Fed policy, for instance. There's a lot of things that have gone into making this situation as unequal as it is. So we have a whole section where we focus in on the active choices companies made that were in their control, that ultimately bias some of these results and favor shareholders over workers.

And a really big one that I think surprised us how big it was—I can think of many conversations I had with my coauthor, Katie Bach about how this was actually much more striking than we even realized going into it—is that these 22 companies spent five times more rewarding their shareholders during this period of time through dividends and stock buybacks than they did in raising pay. And dividends are not that much of a huge story because it stays fairly constant. But really the concept of a stock buyback is meant to be excess cash. When a company has more cash than they really need for their business operations or for investing in workers, they sometimes return that cash to their shareholders by buying up stock, which what that does is that drives up the price of the shares and ultimately enriches shareholders and executives who own stock.

We actually undercount the quantity of stock buybacks because we end our analysis in the third quarter of last year. If you continued on and you finished out 2021 and went into 2022, the headlines would be even more eye popping, the billions and billions of dollars these companies spent buying back their own shares.

What we did was we did a little analysis to figure out how those companies, instead of just buying back their shares and rewarding shareholders, instead invested that amount of money in worker pay, what would that have looked like from the workers' perspective? And again, this was surprising to us just how big it was. On average, the companies that did stock buybacks, if they had, again, redirected that money instead to their frontline workers, the median annual compensation would have gone up 40% on average.

But that masks a lot of, you know, some companies did huge stock buybacks, some companies only did a little. So if you look at some of the companies that really spent, I mean, more than 100% of their profits on stock buybacks, the pay increase could have been enormous. Lowe's was one of the biggest offenders of stock buybacks. They could have increased pay 149%. I mean, they could have raised their median pay from under $25,000 to over $60,000. Home Depot is another one dollar general. These are companies that spent huge amounts of money rewarding their shareholders and really didn't raise pay very much at all. So I think that was something that was very striking to us, is what are companies doing with this, what they consider excess cash? Are they investing in workers or are they rewarding their shareholders? I think the headlines for 2022 are going to be even more lopsided. The analysis I've seen predicts there's going to be even larger windfalls for shareholders.

DOLLAR: So, we do not see this level of disparity in all of the advanced capitalist countries. Some others have pretty high levels of disparity. But there are quite a few where we don't see such a differentiation between ordinary workers and senior executives, shareholders, et cetera. So, are there lessons we can take from some of those countries?

KINDER: A country that really stands out that we wrote about in our, in some of our policy recommendations is Germany with this concept of co-determinism and co-determination, the idea that workers have more of an actual voice in management and leadership in corporate governance. A lot of other countries have a much higher percent of their labor force who are in unions and are in trade unions. have more bargaining power when it comes to negotiating for their wages and benefits, have more voice in governance and the key decisions that I think ultimately result in these lopsided outcomes.

My colleagues and I analyzed all seven pandemic quarters of earnings calls for all 22 companies, that was like 140 earnings calls, and listened to the kind of questions that investors asked of these corporate leaders and didn't ask. Like in the height of the pandemic, when workers were risking their lives or out of work, I mean, Gap—they furloughed almost all of their frontline workforce, and none of the investors were asking about the welfare of these workers. They were asking about hot trends in denim, for instance, and investors pushing the CEO of McDonald's to say, just as the Delta wave was taking off and half of McDonald's workers are unvaccinated, put these questions about how soon are you going to open all in room dining? Because we know that's the way to maximize our profits.

So we can hear the kind of investor pressures and how much these American mega corporations are, the incentives they face to really maximize returns for shareholders in the short run is partly it's partly because of our system of corporate governance. I kept thinking, what would it look like if you had workers in some of these calls, or if in boardrooms there were actually workers there when they're making decisions on CEO pay or on stock buybacks or on worker wages or on decisions

around opening all in in-room dining of McDonald's at a time when their profits were already elevated, and yet most of their workers were not vaccinated.

So, I think where we are with our minimum wage, with our labor laws, with the percent of workers who are unionized, with our system of corporate governance, you really just don't have a meaningful role for workers, and the power in this country is so overwhelmingly tipped toward corporations and shareholders compared to workers.

I don't think these CEOs are trying to be heartless to their workers. Many of them have embraced racial equity pledges and shareholder capitalism pledges. You know, they say they want to do the right thing, the reality is our system is the power imbalance is just so lopsided. And until there's real policy reform, you're not going to see companies bucking the trend and choosing to invest more in workers, especially if there's a perception that in the short run that's going to harm share price.

DOLLAR: So, to wrap up, Molly, how would you summarize your main recommendations for creating a more inclusive form of capitalism?

KINDER: Well, one thing we feel strongly about is that workers should have more power. And we've seen so many headlines recently about Starbucks baristas unionizing and victories in Staten Island with Amazon's union. They're still the exception. And I think it's very clear that our labor laws are broken and they don't really allow workers in a meaningful way to organize and successfully form unions and then collectively bargain. So, I think that one of our biggest recommendations is we need labor law reform to make it easier for workers to organize.

I think our findings on wages show that even at these hugely successful companies, the lack of a federal minimum wage that's higher than 7.25 an hour, but nowhere near a living wage, is a real problem. So a minimum wage would really help.

Rethinking corporate governance so that workers have a real voice in some of these decisions.

And one that probably isn't as punchy, but the truth is we don't know enough about wages at these companies—companies are not required to disclose a lot of this data. And so I think it's hard for researchers like me and the press and the public and customers to hold them to account. So more requirements of companies to be forthcoming with this data would help to.

DOLLAR: I'm David Dollar, and I've been talking to my colleague Molly Kinder about the new report, "Profits in the Pandemic," focusing on some very large American companies that have done quite well, most of whom did quite well during the pandemic, and how the benefits have been allocated between workers and top management and capital. And thank you very much, Molly, for the discussion.

KINDER: Thanks, David, for having me. It was a lot of fun. I really appreciate it.

DOLLAR: Thank you all for listening. We release new episodes of Dollar and Sense every other week. So if you haven't already, follow us wherever you get your podcasts and stay tuned. It's made possible by support from producer Fred Dews, audio engineer Colin Cruickshank, and other Brookings colleagues. If you have questions about the show or episode suggestions, you can email us at podcasts@Brookings.edu.

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Until next time, I'm David Dollar and this has been Dollar and Sense.