THE FAIR WAGE GUARANTEE: A ONCE-IN-A-GENERATION OPPORTUNITY TO RAISE WAGES AND ACCELERATE OUR ECONOMIC RECOVERY

ISSUE BRIEF BY **BHARAT RAMAMURTI** AND **LINDSAY OWENS** | JULY 2020

INTRODUCTION

For decades, American workers have seen their power diminish and their wages barely budge. In the coming weeks, Congress has an opportunity to begin to reverse these trends and accelerate our economic recovery.

The unemployment insurance (UI) supplement that Congress enacted in March has been an enormous success. Millions have been able to sustain their income in unemployment, and millions more are now bringing in *more* from UI than they did at their former lower-wage jobs, promoting spending that has boosted the economy. Meanwhile, there is little evidence that the UI boost has deterred people from looking for jobs or returning to work in sectors or states where it is safe to do so. Instead, unemployment benefits are allowing workers to stay home, which helps to stop the spread of the virus. With limited job openings and more new COVID-19 cases now than there were in March, Congress should extend the supplement before it expires at the end of July.

But an extension alone will not insulate millions of Americans from a steep drop in income in the months ahead. To maintain their UI benefits, people must actively search for work and must not turn down a job offer with wages comparable to their last job—even if that pay is less than what they currently receive in UI. As employers pick up hiring, millions could experience painful income cuts as they return to work. Our economic recovery will be at war with itself: Economic expansion and hiring will produce income losses and contraction.

Congress can address this problem by adopting what we call a **fair wage guarantee.**

The fair wage guarantee would give laid-off workers leverage to bargain for higher wages that allow them to sustain their current, higher levels of income, while offering tax credits to employers to encourage them to offer those higher wages. According to an economic analysis of the guarantee conducted by Mark Zandi, chief economist of Moody's Analytics, the guarantee would promote hiring unemployed people and speed

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up our economic recovery by delivering an average raise of $320 a week to lower-wage workers who have had to live through a generation of stagnant pay. Given the sheer volume of unemployed workers, and the reductions in revenue many businesses are facing, declines in real wages could be substantial in the months and years ahead. The guarantee would help avert that painful outcome.

HOW THE UI SUPPLEMENT HELPS PEOPLE AND THE ECONOMY

Because many workers work for low wages—especially in the retail, leisure, and hospitality sectors that have been hit hard by COVID-19—the federal $600-a-week UI supplement has raised incomes for millions of people who were fired. The UI program typically provides laid-off workers with a fraction of their former salary. While the exact percentage varies by state, it is roughly 50 percent in the average state (Ganong et al. 2020). In an average state, therefore, a laid-off worker who used to make $480 a week (or $12 an hour for a 40-hour workweek) would receive $240 a week in unemployment benefits. Now, with the UI supplement, that person would receive $840 a week in benefits (or the equivalent of $21 an hour for a 40-hour workweek).

According to research from the University of Chicago, 68 percent of laid-off workers are receiving more income in unemployment than in their previous jobs (Ganong et al. 2020). The Economic Policy Institute has estimated that, as of July 4, 32.4 million workers are currently receiving or have been approved to receive unemployment benefits (Shierholz 2020). **The combination of those two findings suggests that as many as 22 million people—around 15 percent of the entire American labor force—have higher incomes on UI than from their previous jobs.**

Certain groups have benefited most. Unemployed people who were in the bottom 20 percent of income-earners before being fired are making more than double what they made before (Ganong et al. 2020). And the UI supplement has been particularly helpful for Black and Latinx workers, who are overrepresented in the lowest-wage jobs and also are more likely to be fired than their white counterparts (Jan and Clement 2020) (Cohen and Casselman 2020) (Acs and Loprest 2009) (Cooper 2018).

That income boost for low- and middle-income people—who are likely to spend the money on necessities—has raised consumer demand, propping up the economy and keeping millions more Americans employed (Bivens 2020). New research from Columbia University suggests that poverty rates may actually have dropped slightly, despite historically high unemployment levels, thanks in part to the UI supplement (Parolin et al. 2020).

But even if Congress extends the UI supplement past the end of July, the benefits to lower-wage workers and the economy could be fleeting. People lose UI if they turn down an offer of "suitable work." The definition of "suitable work" varies by state, but it generally means a job with wages comparable to those for the person's last job and prevailing wages in the industry. That means our former $12-an-hour worker would lose their present $21-an-hour benefits if they passed up a $12-an-hour job offer—or even a less generous offer, in many states (New York State Department of Labor n.d.). Even though their current benefits are higher than their former pay, the UI rules do not give them leverage to use their higher benefits to bargain for higher wages.

Thus, to preserve the full individual and macroeconomic benefits of the $600-a-week UI supplement, Congress must both extend the supplement and empower workers to bargain for wages that sustain their new, higher level of income. That is what the fair wage guarantee accomplishes.

THE DESIGN OF A FAIR WAGE GUARANTEE

The fair wage guarantee has two parts:

- **Change the "suitable work" rules of the UI program so that people lose UI only if they turn down offers with wages comparable to their current unemployment benefits or their former job's wages, whichever is higher.** That ensures people can sustain their higher level of income either by continuing to receive UI benefits or by finding a job that provides a similar level of income.
- **Provide employers with a tax credit that covers the full difference between unemployed workers' former wages and their new wages (capped at the weekly wages equal to their current benefit levels).** That would encourage employers to offer these higher wages to currently laid-off workers. For example, if an employer hires our former $12-an-hour (or $480-a-week) worker at their new $21-an-hour (or $840-a-week) income level, then the employer would get a tax credit equal to $360 a week for that employee.
    - **Delivery:** Employers can claim this tax credit by reducing their quarterly employment tax deposits, similar to the design of the employee retention tax credit (ERTC). If an employer doesn't have sufficient employment tax deposits, the employer can get an advance payment, as they can through the ERTC.
    - **Self-employed workers and part-time workers:** For employers that hire formerly self-employed workers who are currently receiving pandemic unemployment assistance (PUA), the employer would be required to cover

wages equal to the state minimum wage or the person's current PUA benefit, whichever is greater, and the tax credit would cover the difference between that amount and the worker's total benefit amount. The tax credit for hiring former part-time workers would be calculated the same as for former full-time workers.

- **Enforcement:** The IRS can enforce this credit easily because it can obtain a newly hired employee's current wages from the filing employer and the employee's former wages from the relevant state unemployment office.
- **Duration:** The full tax credit will stay in effect until the national unemployment rate is under 6 percent for three consecutive months. The subsidy would then phase out by 10 percentage points per quarter until it phases out entirely after 10 quarters.

THE BENEFITS OF A FAIR WAGE GUARANTEE

There are four primary benefits of the fair wage guarantee: It raises wages for millions of formerly low-wage workers and provides a long-term boost in their incomes, accelerates our economic recovery, drives down the unemployment rate by promoting the hiring of unemployed people, and begins addressing historic racial inequities in the labor market.

The Fair Wage Guarantee Will Raise Wages for Millions

For decades, the average American worker has seen their real (adjusted for inflation) wages barely budge. Recessions further depress wages, particularly for people who lose their jobs. Unless Congress makes a concerted effort to raise wages for lower-income and middle-income workers now, the US is likely to experience another extended period of stagnant wages. The fair wage guarantee would deliver that long-overdue wage increase.

Unemployment is associated with a number of negative outcomes, but one of its strongest negative effects is on future earnings. Compared to continuously employed workers, unemployed workers who are rehired experience wage drops as high as 15 percent (Nichols et al. 2013), on average. These declines have long tails, leading to reduced lifetime earnings (nearly three years of lost earnings, on average, for men who lose jobs during periods of high unemployment) (Davis and von Wachter 2011).

Drops for the long-term unemployed (those unemployed for six or more months) are even greater. Incomes of the long-term unemployed fell 40 percent during the Great Recession, and the long-term unemployed were four times as likely to be in poverty as those who found jobs in fewer than six months of unemployment (Nichols et al. 2013). With more than 30 million Americans out of work, and COVID-19 caseloads surging again in many parts of the country, we are likely to see millions of Americans among the ranks of the long-term unemployed. Millions more will be permanently unemployed.

Income disruptions are always difficult, but they are particularly difficult for the lowest-wage workers who don't have any cushion in their budgets. Job losses during the pandemic have been especially concentrated among the lowest-wage workers, in part because they have been concentrated in the leisure and hospitality sectors (Kolko 2020). These low-wage workers will already experience the steepest drops in income if they go back to work at their former wages. Further wage cuts could be devastating.

The guarantee empowers these workers to seek out work that will provide a wage increase. And while the tax credit for employers that offer them higher wages will ultimately phase out, it is likely that wages will remain elevated even after the subsidy expires because wages are "sticky"; for a variety of reasons, employers typically don't reduce wages substantially once they have gone up (Grigsby et al. 2019). The design of the guarantee reinforces this stickiness because the tax credit will stay in place until the labor market is competitive again, and then will phase out gradually thereafter.

Without intervention, employers are likely to offer lower wages. Nearly 750,000 businesses have applied for small business funding to cover payroll and basic expenses, and millions of businesses across the country are still closed or only partially opened, receiving only a fraction of their former revenue. **The guarantee would be a powerful tool for ensuring that employers can provide millions of unemployed workers with *higher* wages—$320 a week higher, on average, according to an analysis of the guarantee conducted by Mark Zandi—and that those wages remain higher long past the end of our present economic crisis.** Because even small increases in wages can produce substantial lifetime increases in income (Guvenen et al. 2019), the guarantee will fundamentally change the income trajectory of millions of Americans.

The Fair Wage Guarantee Provides a Powerful Economic Stimulus

The fair wage guarantee ensures that millions of currently laid-off workers can sustain their current, higher levels of income either through unemployment insurance or a higher-paying job. Millions of people are relying on this higher level of income now to pay for basics like groceries and rent. By ensuring that they can maintain this level of income for several months—and setting the stage for years of higher wages thereafter—the guarantee provides a powerful economic stimulus.

Mark Zandi modeled the economic growth impact of the guarantee relative to two leading proposals to extend the UI benefit—the proposal in the House-passed HEROES Act to extend the $600-a-week supplement through January 2021 (HEROES Act 2020), and the proposal from Senators Chuck Schumer (D-NY) and Ron Wyden (D-OR) to extend the $600-a-week supplement and phase down the weekly supplement amount as the unemployment rate declines (American Workforce Rescue Act 2020). **The model found that the guarantee increased economic growth relative to the HEROES Act by just over 0.6 percentage points in the year ending in the third quarter of 2021, and just under 0.6 percentage points relative to the Schumer-Wyden proposal.**

The Fair Wage Guarantee Promotes Hiring Unemployed Workers

For employers looking to hire back their former workers, the fair wage guarantee is no different than a simple extension of the UI supplement. While employers will have to pay their former workers more if those workers had been making more on UI, the tax credit fully offsets that additional cost. But an added benefit of the guarantee relative to a simple extension of the UI supplement is that for employers looking to hire *new* employees, it creates an incentive to hire out of the pool of unemployed workers—especially low-wage unemployed workers.

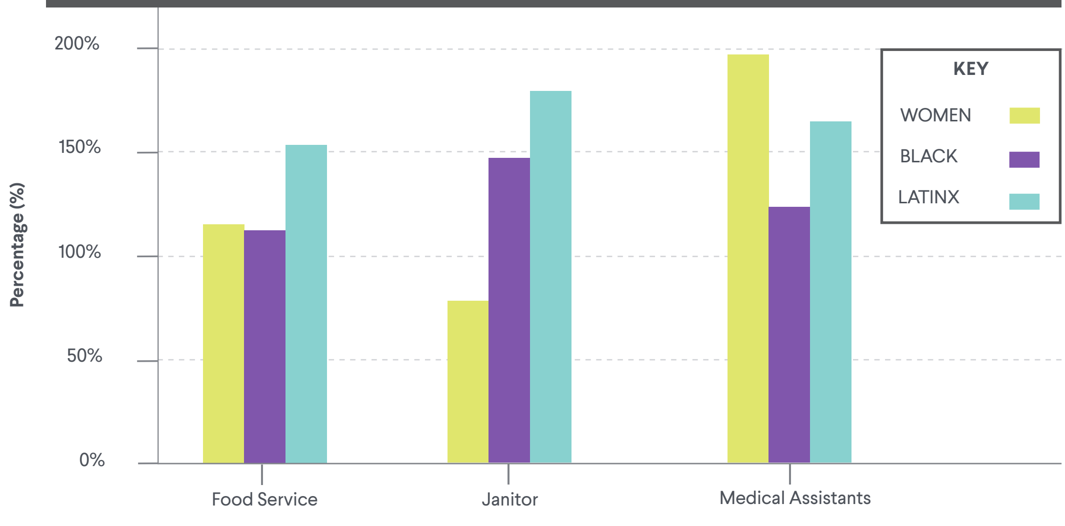
Consider a company that decides to start hiring for a new position that pays $21 an hour. If they hired someone from another company, they would be responsible for the full cost of that new employee's wages. But if they hired someone who is currently receiving UI and used to make $12 an hour at their last job, they would be responsible for only $12 an hour of that new employee's wages. The government would pick up the rest through the fair wage guarantee credit. The credit would be even larger if the employer hired someone who used to make $10 or $8 an hour.

In that way, the guarantee creates a financial incentive for employers to seek out qualified people who are currently unemployed, helping drive down the unemployment rate and giving qualified workers a shot at higher-paying jobs they might not have had a chance to compete for otherwise. **Zandi's economic analysis of the guarantee found that, by late 2021, it would create an additional 505,000 jobs compared to the HEROES Act, and an additional 424,000 jobs compared to the Schumer-Wyden proposal. The guarantee would reduce the unemployment rate by about 0.3 percentage points compared to both proposals.**

The Fair Wage Guarantee Starts to Address Racial Inequities in the Labor Market

The fair wage guarantee would also begin to correct racial inequities in the labor market because it would provide a particular wage boost for Black and Latinx workers. According to a recent paper from the Becker Friedman Institute, typical benefits with the addition of the UI supplement are greater than 150 percent of median earnings for three of the top 10 occupations: food service workers, janitors, and medical assistants. Workers in these three occupations are therefore likely to see the greatest benefits from the fair wage guarantee. Black and Latinx workers are overrepresented in all three occupations, and female workers are overrepresented in two of the three occupations.

FIGURE 1. WOMEN, BLACK, AND LATINX WORKERS ARE OVERREPRESENTED IN LOWEST-WAGE OCCUPATIONS



Notes: Figure derived from data available at BLS 2020a. The "percentage" on the Y-axis measures the number of workers of each race and gender in that employment category divided by the total number of workers one would expect given the overall composition of the labor market.

The guarantee would therefore provide a particular wage boost to low-wage Black and Latinx workers, who have actually seen real wage *decreases* over the last 40 years (Congressional Research Service 2019).

THE FAIR WAGE GUARANTEE IS BETTER FOR WORKERS THAN A “BACK-TO-WORK BONUS”

The fair wage guarantee is much better for workers and for the economy than a “back-to-work bonus”—a one-time bonus that a worker receiving UI benefits would get for accepting a job (Committee on Ways and Means 2020) (Hughes and Wise 2020). The bonus would create downward pressure on wages because the employer can offer a lower wage to a worker, knowing the government is offering the worker a signing bonus as additional income. President George W. Bush directed his Department of Labor to study similar back-to-work bonus proposals during the recession in the early 2000s but ultimately abandoned the program, with one of his economic advisers noting the proposal’s potential to decrease wages (Wandner 2012).

This negative effect on wages is likely to be even more pronounced now. With nearly four unemployed workers for every job opening (BLS 2020b), employers will have leverage to use the bonus to make a lower-wage offer. For example, an employer seeking to rehire a former worker whom it used to pay $12 an hour may offer only $10 an hour, knowing that the government-funded signing bonus will make the overall package attractive to the worker.

Employers are likely to capture some or all of the value of the bonus. The fair wage guarantee, by contrast, is designed to ensure that workers pocket the full value of the government subsidy in the form of higher base wages, an average of $320 per week according to estimates from Mark Zandi.

ADDRESSING POTENTIAL CONCERNS WITH A FAIR WAGE GUARANTEE

Why Not Just Raise Wages by Increasing the Minimum Wage?

We support raising the minimum wage to $15 an hour—as well as other proposals to ensure that workers get a larger share of what they help produce—and Congress could pursue those options alongside the fair wage guarantee. The unique advantages of the guarantee are that it builds off the historic increase in UI benefits expiring soon, promotes hiring unemployed workers, and raises wages for a broad spectrum of lower-wage workers—including workers who already made more than $15 an hour. Raising wages now, through the guarantee, will also make it easier to pass minimum wage legislation later because more businesses will already be paying at least the new minimum wage.

Will Employers Hesitate to Hire Workers at Higher Wages Because They Won't be Able to Accommodate Those Higher Wages after the Federal Subsidy Phases Out?

We believe the benefits of the guarantee to employers will outweigh concerns. The guarantee offers employers a large financial incentive to hire out of the pool of currently unemployed workers. It also helps employers hoping to bring back their former workers, but concerned about paying them significantly less than their UI benefits. We believe this will outweigh longer-run concerns, particularly since the credit for employers stays fully in place until the economy is stronger and then phases out only gradually thereafter. Employers will also benefit from the macroeconomic boost the guarantee provides.

Won't Employers Just Fire Workers or Cut Wages Once the Subsidy Ends?

We think either outcome is relatively unlikely. First, the subsidy does not begin phasing out until the labor market has tightened significantly. At that point, it will be harder to find workers to replace fired workers, and employers will already have invested considerable time in training their workers. The same dynamics protect against large pay cuts—in a tighter labor market, workers are more likely to walk if an employer cuts pay. Further, the rigidity, or "stickiness," of wages suggests that even if employers don't maintain the full fair wage guarantee pay rates, they are likely to maintain much of them, resulting in substantial long-term increases in pay for workers. At the very worst—if after the tax credit phases out, every employer reduces wages to what they would have been without the guarantee—the guarantee would still have provided a massive stimulus to the economy in the form of higher incomes for millions of lower-income Americans.

Isn't the Guarantee Unfair to Workers Who Were Never Fired?

We support pairing the guarantee with premium pay (House Committee on Appropriations n.d.) for essential workers and other proposals that would empower people who have had to work during this public health crisis (Block et al. 2020). Employers may also feel substantial pressure to create parity between their workers and may respond to the fair wage guarantee with raises for existing workers—a good thing for workers and the economy.

Isn’t the Guarantee Expensive?

The guarantee is an inexpensive way to deliver a large economic stimulus and significant wage increase for millions of American workers. According to an estimate from Mark Zandi, the guarantee would cost $172 billion more than the HEROES Act and $144 billion more than the Schumer-Wyden proposal. Factoring in the increase in growth and revenue spurred by the guarantee, the cost drops to $143 billion more than the HEROES Act and $120 billion more than the Schumer-Wyden proposal.

CONCLUSION

As Congress considers whether and how to extend the UI supplement, it should seize the opportunity to raise wages for millions of low-wage workers—particularly Black and Latinx workers—while accelerating our economic recovery. The fair wage guarantee would ensure that we don’t lose the increased purchasing power of the UI supplement—which is providing important macroeconomic benefits—and would put millions of people on a path to higher lifetime earnings, bestowing benefits for years and even decades to come.

Workers waited nearly 10 years after the Great Recession to see even modest wage growth, and that sluggish growth held back our economic recovery. This time can be different: Congress should learn from the mistakes of the past and adopt the fair wage guarantee to raise wages now.

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ABOUT THE AUTHOR

Bharat Ramamurti is the managing director of the corporate power program at the Roosevelt Institute and a member of the Congressional Oversight Commission. He formerly served as the top economic adviser on Sen. Elizabeth Warren's presidential campaign and as senior counsel for banking and economic policy in her Senate office.

Dr. Lindsay Owens is a fellow at the Great Democracy Initiative at the Roosevelt Institute, where she researches labor markets, income inequality, and housing affordability. Her writing and research have appeared in leading academic and popular outlets including *Public Opinion Quarterly*, the *Annals of the American Academy of Political and Social Science*, the *New York Times*, the *San Jose Mercury News*, and the *Boston Globe*. She formerly served as a top adviser to Sen. Elizabeth Warren (D-MA) and Reps. Keith Ellison (D-MN) and Pramila Jayapal (D-WA).

ACKNOWLEDGMENTS

The authors thank Jared Bernstein, Nick Bunker, Indivar Dutta-Gupta, Martha Gimbel, Kitty Richards, Heidi Shierholz, Betsey Stevenson, and Mark Zandi for their feedback and insights. Roosevelt staff Matt Hughes, Kristina Karlsson, Tayra Lucero, Julie Margetta Morgan, and Michelle Sternthal also contributed to the project.

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