EMPLOYBRIDGE®

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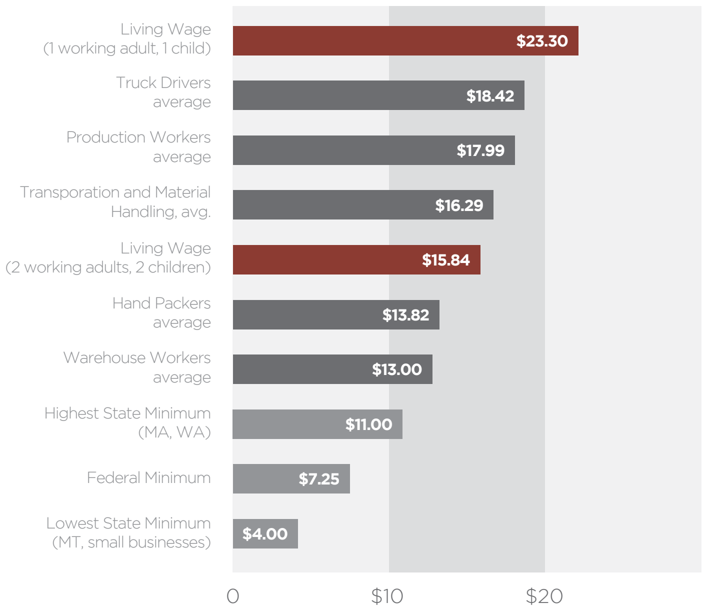
Hourly Pay Rates—Not a *Zero Sum* Game

Increase pay for competitive advantage and good business stewardship

> *With higher wages, companies are looking to attract more loyal and more dedicated employees who aren't distracted by financial woes. It's not a brand new idea. Henry Ford was ahead of his time when he raised his employees' salary to $5 a day in 1914 (about $120 today)—and he drew more reliable and productive workers to his Ford production line immediately. – Laurie Kulikowski,* ***The Street,*** *April 15, 2015*

Wage Data



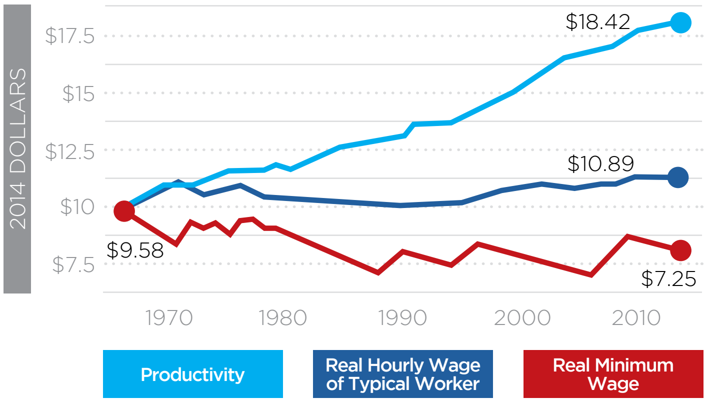
Sources: Bureau of Labor Statistics, MIT Living Wage Calculator, U.S. Department of Labor, National Conference of State Legislatures, Salary.com

Low-wage workers in manufacturing, logistics, and transportation are in a bind. So are their employers.

Workers' wages haven't kept pace with the cost of living, so their standard of living has declined. Wage growth has trended down since a pre-1980's high. One worker in a plant in rural Iowa exemplifies this: "What hasn't changed much is Mr. Smith's hourly wage, which is still about $16 an hour, the same as when he started 37 years ago. Had his wages kept up with inflation, he would be earning about $47 an hour," reported Patricia Cohen of the *New York Times* on May 29, 2017.

Poor compensation gives workers little incentive for company loyalty and may account for discouraged workers remaining outside the workforce—more than 350K of them according to the Bureau of Labor Statistics. As explained in the ResourceMFG article (a sister brand of EmployBridge), "Hurdling the Skills Gap," employers continue to struggle with absenteeism, turnover, and unfilled positions, especially in higher-skilled jobs. These phenomena result in losses in productivity and profitability.

The minimum wage would be over $18 had it risen along with productivity. The real value of the federal minimum wage compared with its value had it grown at the rate of productivity and average hourly wages, 1968-2014.



Note: Real average hourly wages are of production / nonsupervisory workers in the private sector, and productivity is net productivity of the total economy.

Source: Economic Policy Institute analysis of data from the U.S. Department of Labor's Bureau of Labor Statistics and Labor Wage and Hour Division.

The Broken Phillips Curve

The Phillips Curve has historically described how low unemployment leads to higher wages, as companies try to attract and retain workers in a tight job market. But this textbook economic relationship was broken in the 1980's.

Currently, unemployment has reached pre-recession lows according to the Bureau of Labor Statistics—4.3% in May—but wages have remained stagnant. While some predict wage inflation will follow economic recovery, it hasn't so far—the Phillips Curve may no longer be in effect. What other solutions can address growing economic inequality and related business malaise?

Seeking Solutions

Legislation was recently introduced to increase the federal minimum wage to $15 per hour. This would move more Americans toward a living wage (see Wage Data graph). However, this unprecedented jump is unlikely to pass in a Republican Congress. Further, some think higher minimum wages may penalize small and mid-size businesses, who provide the majority of U.S. jobs, according to Oliver Garret in *Forbes*, March 18, 2017, and may actually result in fewer jobs.

> **living wage**—wage sufficient to provide for basic needs given the cost of living in an area

However, several states and cities have increased minimum wage to try to address inequality, and some data is now available: **"Relatively high minimum wages in Seattle and in Washington more broadly have had their intended impact and have been perfectly compatible with a strong economy,"** reported Jared Bernstein, August 10, 2016, in *The Washington Post*.

Taking the Initiative

Don't hold your breath waiting for solutions like market self-correction or higher minimum wage. **Businesses can make the needed course correction themselves to help address pay issues as well as improve their own bottom line.** Consider offering more pay for the following reasons:

<u>Attract and retain workers:</u> "Companies might need to possibly offer higher wages to attract talent from a smaller pool"—Gene Balas, *Seeking Alpha*, May 31, 2017. **A positive reputation for decent pay also draws new workers from the community.**

<u>Increase productivity:</u> "Some employers, including the mega-retailer Walmart, have examined this problem and found that by paying somewhat more in wages, they get a more productive work force"—Neil Irwin, *The New York Times*, May 26, 2017.

<u>Competitiveness in the low-wage market:</u> In 2016, Walmart announced an increase to $13.38 for a full-time hourly associate, in addition to paid time off. That same year, Costco reported a pay increase to $13.50 an hour.

ProLogistix surveys in past years have indicated that pay remains workers' top consideration in taking or leaving a job (see the Warehouse Employee Opinion Survey). ProLogistix research also indicates that increases in pay of $1 per hour or more have tangible payoffs in terms of attendance, turnover, workforce stability, and productivity. **Businesses would be well-advised to value pay rates.**

EmployBridge supports increasing pay as a way to start addressing problems in the current economy for both employers and employees. **EmployBridge is ready to help clients assess pay rates that fit their workplace and their workforce.**

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