Congress and the Biden Administration Are Putting Policies in Place to Continue the Strong Wage Gains Workers Experienced in 2021

The United States has experienced a robust economic recovery under President Biden, with strong wage growth making up for much of the impact from recent inflation for many workers. In 2021 the United States added 6.7 million jobs and wages grew by 4.5%, the fastest rate in almost four decades. While disruptions from the coronavirus and Russia's invasion of Ukraine are depriving workers of the full benefits of the U.S. economic recovery, a strong labor market and rising wages will help families through the strain of higher prices. Trends in the labor market indicate continuing progress on wages and show that wage growth has occurred for workers who need it most.

- Low-wage workers experienced the strongest wage gains in 2021.
- Workers who switched jobs saw strong wage growth thanks to a tight labor market and low unemployment.
- Despite inflation, many workers saw real wage gains last year.

Congress and the Biden administration have taken action to lift wages and support high-quality jobs. Infrastructure investments passed by Congress will go towards projects that create good-paying jobs. The Biden administration has taken action to protect workers from wage theft, implement a $15 minimum wage for federal contractors and enforce the labor provisions of the new NAFTA for the first time to protect American workers.

In addition, President Biden has ordered a government-wide effort to fight corporate concentration of power and promote competition, increasing workers' bargaining power over wages.

Wage growth has occurred for workers who need it most

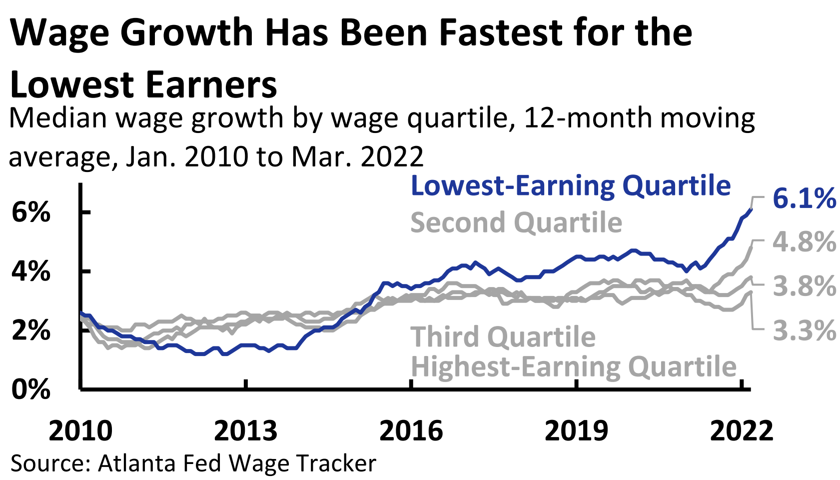
In 2021 workers experienced the fastest wage growth in almost four decades. These wage gains are consistent with the strong demand for workers and have been concentrated among those workers most in need of a raise: low-income earners and service sector workers. Confident they can find new and better-paying jobs, workers have been switching jobs at high rates. Workers who switch jobs have been rewarded for their risk-taking, receiving relatively higher growth in wages than workers who stay in their jobs.

Rising wages are consistent with the very strong rebound of the labor market in the wake of the pandemic recession. In 2021, the United States added 6.7 million jobs and unemployment dropped to 3.6% by March 2022, down from 6.2% a year before. Sectors that lost the most jobs in 2020, such as leisure and hospitality, were the sectors in which demand has returned strongly as coronavirus caseloads have fallen. Therefore, there has been a strong demand for workers to refill these jobs, which improves workers' bargaining power for higher wages.

Low-wage workers have seen the strongest wage gains

Since many of the same industries that are hiring aggressively are also among the lowest-paying, wage gains in these areas mean that lower-income workers are benefitting. The Atlanta Wage Growth Tracker shows that workers at the bottom of the income distribution are seeing the strongest wage gains.

Over the last 12 months, median wages for the lowest-income workers, those in the first and second quartiles of the income distribution, saw their wages increase an average of 6.1% and 4.8%, respectively. By contrast, the highest earners saw their wages rise just 3.3%. Continued high labor demand, like the demand that exists right now, benefits the lowest-income workers most.



Job switchers saw strong wage growth

Strong demand for workers means that workers are able to find new jobs more easily and they can negotiate for higher wages in that new job. As a result, workers who switched jobs saw median wage gains that were higher than those who stayed in their current jobs: Over the last 12 months, workers who changed jobs saw their wages rise 5.3% on average, versus workers who stayed in the same job, who received a 4% increase over the same period.

This trend fits with additional evidence that the recovery has led to a tight labor market with a strong demand for workers. It also indicates a virtuous cycle for those who switch jobs, where they are rewarded for taking a risk and quitting their current job to find employment that better serves them—especially through higher pay.

Despite inflation, many workers are seeing real wage gains

U.S. households are feeling the burden of inflation from the coronavirus pandemic, supply chain disruptions and the economic impact of Russia's invasion of Ukraine. Inflation is preventing workers from getting the full benefits of the robust economic recovery and rising wages. While private sector workers, in general, have received a 3.9% pay increase in 2021, a Peterson

Institute for International Economics analysis estimated that their wages had fallen 0.3% after adjusting for inflation.

Nonetheless, some groups of workers have experienced real wage gains even after inflation is taken into account. According to Employment Cost Index (ECI) data adjusted for inflation, workers in trade, transportation and utilities, wholesale trade, retail trade and leisure and hospitality have all experienced raises since December 2019 that hold up against inflation, reflecting strong consumer demand for both goods and services. Workers in leisure and hospitality have experienced the biggest wage gains and have seen their incomes increase 2%, even after accounting for inflation.

Federal policy is an effective tool for raising wages

While wage trends in 2021 are encouraging, and signs point to continued strong demand for workers that will further push up wages, there is also a role for policy to play to further increase wages. The Biden administration has been working to raise wages by ensuring workers get the pay that they have rightfully earned by increasing the minimum wage on federal contracts, encouraging workers' bargaining power and using the United States-Mexico-Canada Agreement (USMCA) agreement to encourage wage equality. In addition, the congressional bipartisan Infrastructure Investment and Jobs Act will create good-paying jobs and apprenticeships.

Infrastructure investments passed by Congress will go towards vital projects that create good-paying jobs

Over the next decade, the bipartisan Infrastructure Investment and Jobs Act will support approximately 772,000 jobs per year, according to the Economic Policy Institute. As investments from the bipartisan Infrastructure Investment and Jobs Act go into effect, Moody's Analytics estimates the United States will have an additional 600,000 jobs in 2024 and 800,000 jobs in 2025 as a result of the law's passage. The majority of new jobs will be subject to federal rules mandating higher wages and supporting local unions.

Many of the jobs created by the bipartisan Infrastructure Investment and Jobs Act will be subject to the Davis-Bacon Act. The Davis-Bacon Act sets wage and benefit rates for construction workers supported through federal contracts at existing market levels and ensures that they are not paid poverty wages. This will secure good pay for the 312,000 construction jobs and 763,000 green energy jobs created annually.

In addition, the bipartisan Infrastructure Investment and Jobs Act not only supports high-paying jobs but also creates career advancement opportunities through investment in apprenticeship programs. The legislation supports the creation of training programs and apprenticeships for the installation and maintenance of energy efficient building technologies and to learn about zero-emission vehicles.

The Labor Department is lifting wages for over 11 million tipped workers and protecting them from being underpaid for their work

The Department of Labor is reversing the Trump administration's actions that facilitated the underpayment of certain employees. By improving the guidelines for when employers can apply tips to meet minimum wage laws, the Labor Department is helping to ensure that more than 11 million U.S. workers attain the pay they deserve.

In the United States, tipped employees are paid differently than non-tipped workers. Federal minimum wage for tipped employees is only $2.13—provided they earn enough tips to reach the federal minimum of $7.25. Workers who earn only the tipped minimum wage include not just those employed at bars and restaurants, but also nail salons, parking garages and any other workplaces where employers might claim the "tip credit" to pay lower wages.

Since 1988 the Department of Labor used the "80/20 Rule" to clarify when employers were able to apply tips to reach federal minimum wage. The rule stated that workers must spend 80% of their time performing tip-producing tasks, which means any work performed that provides service to customers, in order to be paid the tipped minimum wage. Under the Trump administration, these guidelines were removed, allowing for employers to pay just $2.13 an hour when workers were performing non-tipped tasks. The Biden administration codified the 80/20 Rule and added a new limitation stating that employers cannot apply the tip credit to time spent performing side duties if the time exceeds 30 consecutive minutes. This change could help 11 million Americans who are employed in tipped work.

The Biden administration put in place a $15 minimum wage for federal contractors, helping over 300,000 workers

The Biden administration implemented a $15 minimum wage for federal contractors, a policy that economic research has shown will raise productivity and reduce racial inequality. The Biden administration raised the minimum wage of federal contractors to $15 from $10.95, effective January 30, 2022. This raise affects over 300,000 federal contract workers and will aide many more. A $15 minimum wage for federal contracts will increase competition to recruit and retain talent, which means that employers who compete with federal contractors for workers will feel pressure to increase wages too.

Increasing the minimum wage not only improves the economic security of individual workers, but also boosts productivity and is a boost to local economies. It ensures that hundreds of thousands of full-time workers will no longer live in poverty. Raising the minimum wage also has spillover effects and increases earnings growth for workers near the bottom of the income distribution. Overall, it reduces income inequality, narrowing racial and gender disparities in income.

Higher wages also generate higher quality of work by boosting worker's health, morale and effort and reduces absenteeism, turnover and supervisory costs, all of which increase productivity. Research has found that increasing workers' hourly wages by $1 increases productivity by more than $1, incentivizing firms to pay more. Workers who benefit from increases in the minimum wage are more likely to consume more nondurable goods, and because consumer spending is a largest driver of the economy, people spending more helps boost local economies and drives economic growth.

The Biden administration has, for the first time, used the labor provisions in the new NAFTA to protect American workers

The U.S.-Mexico-Canada Agreement (USMCA), signed into law in 2020, updated NAFTA with new powers. Specifically, the Rapid Response Mechanism was added to deal with longstanding concerns over the impact of lower Mexican wages on declining U.S. manufacturing jobs and wages. It protects workers' rights in North America and ensures U.S. workers do not compete against international workers who lack adequate labor protections and earn lower wages.

The Biden administration was the first to use the Rapid Response Mechanism to encourage economic security and lift wages in the United States. The continuation of strong enforcement of the labor provisions in the USMCA will ensure that companies can no longer exploit workers in Mexico to save on labor costs. As a result, companies will have less incentive to cut American manufacturing jobs and wages and ship jobs out of the country.

In addition to these provisions to improve worker conditions, USMCA also includes provisions aimed at directly improving wages. The deal requires 40-45% of an auto companies' products be made by workers earning at least $16 per hour in order to receive USMCA tariff relief. This requirement will improve the wages of those who work in the manufacturing industry by creating competition among U.S. employers for workers, encouraging all manufacturing employers to raise wages.

President Biden encouraged federal agencies to promote competition in the American economy, increasing workers' bargaining power over wages

In the United States, a small number of large companies have gained market power, stifled fair competition and suppressed workers' wages. In many instances, companies decrease competition and wages by requiring employees to enter non-compete agreements, which impacts 36 to 60 million workers. In addition, almost 30% of jobs in the United States require a license, compared to less than 5% in the 1950s, which can impede workers' job mobility without improving their work conditions or benefits. Companies are also able to collude to suppress workers' wages and benefits under existing guidance provided by the Department of Justice and the Federal Trade Commission to Human Resource personnel, which allows employers to share compensation data in certain cases.

President Biden signed an Executive Order to promote competition in the U.S. economy. In the Executive Order the President encourages Federal Agencies to ban or limit non-compete agreements and licensing requirements and to strengthen antitrust guidance to prevent employers from sharing wage and benefit information to suppress wages. This order will make it easier for workers impacted by non-compete agreements and licensing to change jobs and helps raise wages by increasing workers bargaining power.

Policy can further support continued wage gains in 2022 and beyond

Wage growth in 2021 was the fastest it has been in almost four decades and was strongest among workers at the bottom of the wage distribution. While there are promising signs that strong wage growth will continue, so far it has not been strong enough to outpace inflation. Furthermore, there is room for policy to help further boost wages for workers. Congressional action, like passing the bipartisan Infrastructure Investment and Jobs Act, and actions by the Biden administration, including ensuring that workers receive all of the wages that they are earn, raising the minimum wages for federal contractors and enforcing international trade agreements for the benefit of American workers are all policies that put U.S. workers on the path to continued wage growth.