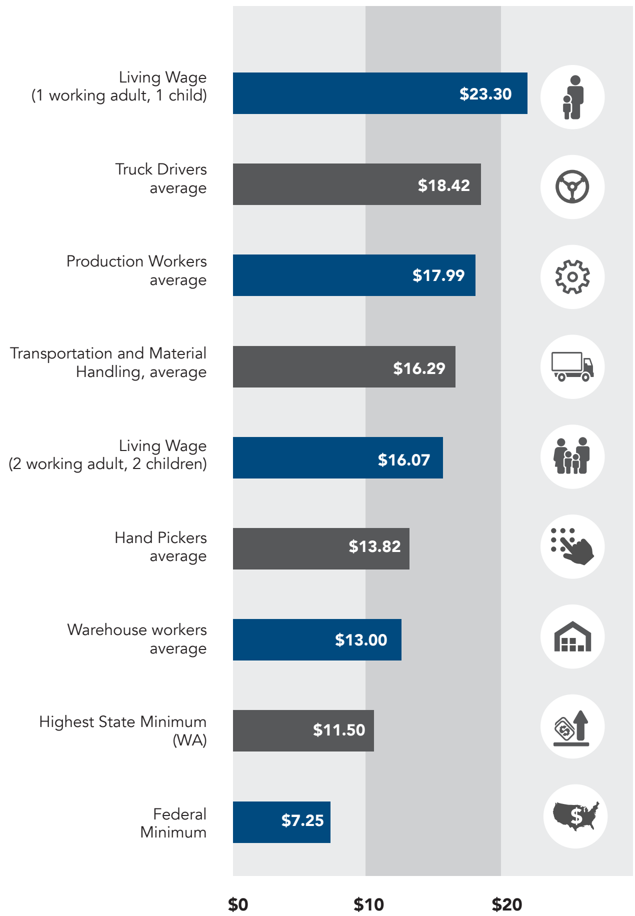
# HOURLY PAY RATES–NOT A ZERO SUM GAME

## Increase pay for competitive advantage and good business stewardship

*" little over a century ago, Henry Ford doubled the minimum pay of his workers to $5 a day. When other employers followed suit, it became clear that Ford had sparked a chain reaction. Higher pay throughout the industry helped lead to more sales, creating a virtuous cycle of growth and prosperity. Could we be at another Henry Ford moment?"*
*– Harvard Business Review, February 21, 2018*

## 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,"

Patricia Cohen, *The New York Times* , May 29, 2017.

**POOR COMPENSATION GIVES WORKERS LITTLE INCENTIVE FOR COMPANY LOYALTY AND MAY ACCOUNT FOR DISCOURAGED WORKERS REMAINING OUTSIDE THE WORKFORCE—**
more than 180K of them according to the Bureau of Labor Statistics. As explained in the article, "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 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 the lowest levels in a generation at around 4%, but wages have remained relatively 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, and may actually result in fewer jobs.

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:

#### ATTRACT AND RETAIN WORKERS:

"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.**

#### INCREASE PRODUCTIVITY:

Many eading employers are increasing wages to boost productivity and deliver better business results. Announcing a wage increase, a Walgreen's executive told the *Chicago Tribune* in March 2018: "A happy employee is an engaged employee, and an engaged employee helps customer satisfaction."

#### COMPETITIVENESS IN THE LOW-WAGE MARKET:

In early 2018, Walmart and CVS increased starting pay to $11 while Target moved to $12. In June 2018, Costco said it would pay new hires $14 or $14.50. A month earlier, a Chick-fil-A location in California raised starting pay to $17.

In past years, surveys from several sister divisions of Westaff have indicated that pay remains workers' top consideration in taking or leaving a job (see the Manufacturing Employee Opinion Survey). Related 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 (see "The Power of Pay"). 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. **Westaff is ready to help clients assess pay rates that fit their workplace and their workforce.**

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**"Living wage–wage sufficient to provide for basic needs given the cost of living in an area."**

*Presented by Keith Wisner, Vice President, Customer & Workforce Insights.*

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