

A Just Social Wage and a Job Guarantee

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In the USA, the UK, and Australia, as in many other countries, the benefits of growth over half a century have not been shared equitably. This needs to be put right. Policy makers should use a job guarantee to raise the real wage for the lowest paid, end involuntary poverty and reduce income inequality. \$US 16 per hour would be a just minimum hourly wage in the USA and Australia, and about \$US 14 per hour would be the current equivalent in the UK.

The US federal minimum wage, as set by Congress, has been \$7.25 per hour for almost a decade. It is not raised automatically over time in line with the cost of living, and does not apply to a variety of workers, including those reliant on tips. In 2011, nearly 4 million Americans were paid on or below the federal minimum wage, making up more than 5% of all hourly paid workers (Bureau of Labor Statistics 2016). This results in not just relative poverty, but absolute poverty. A full-time minimum-wage job pays about USD 15,000 a year. It is impossible to live with independence, security and dignity on that wage, even for a single adult with no dependents.

As of September 2017, 29 states and Washington DC had minimum wage rates above the federal minimum, but none match the recommended minimum wage for the US in this policy note. The low paid do not receive their fair share of income in the USA, and this has been true for many years.

The national minimum wage in Australia is \$AU 18.29 per hour, a figure which is revised every year by the Fair Work Commission. There are fewer exemptions than there are in the US, and casual workers get at least a 25% addition to this hourly rate. Converting the rate to US dollars at the PPP exchange rate of \$AU 1 = \$US 0.68, this equates to a minimum hourly wage of \$AU 12.44, or more than 70% above the current US federal minimum. The standard full-time working week in Australia is 38 hours, as opposed to the 40 hours for US workers, but even so a full-time worker on the Australian minimum would make about \$AU 36,000, or \$US 24,500. Australia's national minimum wage looks generous by current US standards, but the recommended minimum for Australia workers in this policy note will nevertheless be significantly above its current level.

In the UK, the minimum wage – recently re-named the national living wage -is revised by the Government each year, but it does not provide much of a living at its current rate of £ 7.50 per hour. Admittedly this is close to \$US 11 per hour, at a PPP rate of exchange of £ 1 = \$US 1.44, and since the UK first introduced a legal national minimum wage in 1999 those relying on it in the UK have done far better than their US counterparts. Working a 40-hour week, as in the US calculation, it implies an annual income of £ 15,600, or about \$US 22,500. Once again, this is far above the US level, but not high enough to operate as a just minimum.

The US had a federal minimum wage back in 1970, and Australia had something equivalent. There was no legal minimum wage in the UK, prior to 1999, but by looking at how well the bottom 5% or so of the income distribution were fairing, it is possible to come up with a rate for 1970 we can use as a benchmark today.

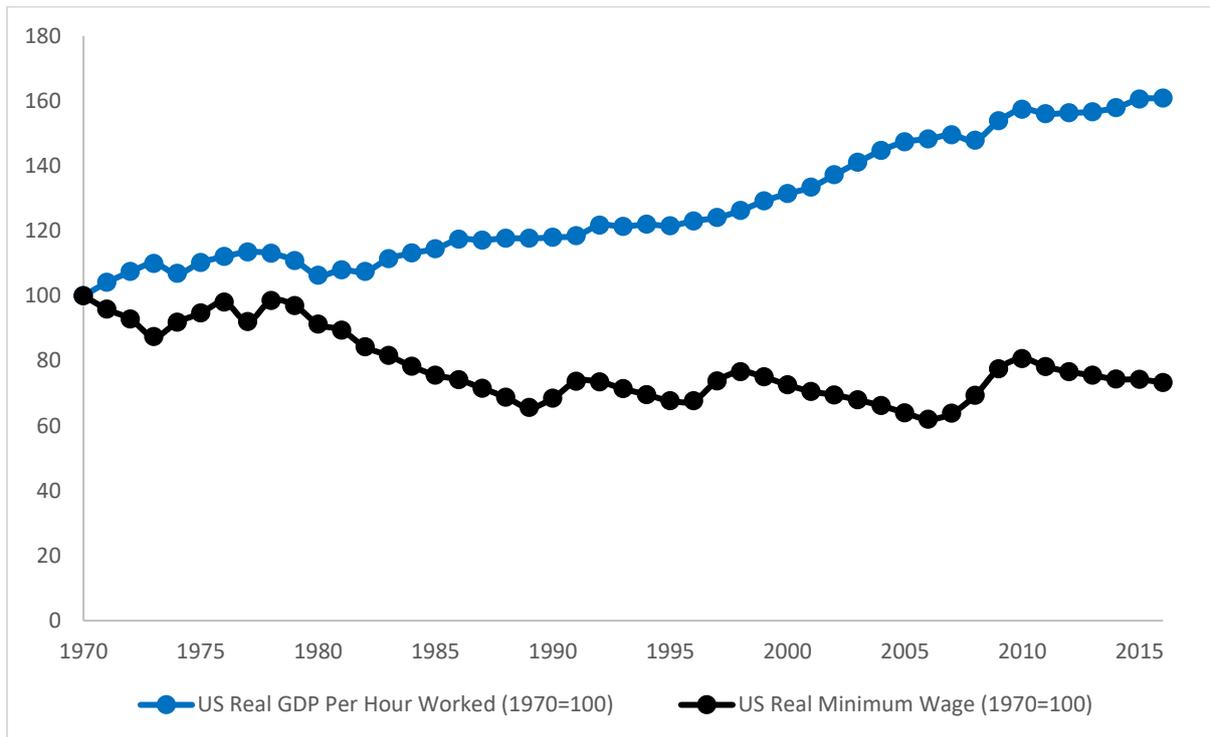
There are a variety of reasons for taking 1970 as a benchmark. It was the end of a decade of social revolution; there had been 25 years of close to full employment; it was just before the collapse of the Bretton Woods System, the first oil price spike and the era of stagflation; it was the beginning of the first of the two decades in which the surrender of the political left to what became known as neoliberalism would take place (Mitchell and Fazi 2017); it was close to the point where the low paid stopped participating in the benefits of rising productivity. The post-war era of a more equal distribution of income and wealth than had existed before was about to come to an end.

From the perspective of 2017, the relative position of the lowest paid workers in the distribution of income in 1970 serves as a point of comparison we can associate with a greater degree of social justice. It is important to identify approximate minimum wage rates in the USA, Australia and the UK which we would need to apply now to return to the lowest paid their share in the benefits of national productivity, and to explain how to make good a promise of restoring this just minimum social wage as a right for all.

We begin by comparing what has happened to the real value of the minimum wage, or its equivalent, in each country, with what has happened since 1970 to real GDP per hour worked.

Figure 1 makes the comparison for the US. Charts, showing how median hourly wages have not kept up with productivity, or how income has been redistributed from labour to capital, or from the bottom 90% to the top 10%, or 1%, or even 0.1%, have become familiar in recent years. It comes as no surprise, therefore, that those on the federal minimum wage have done particularly badly. In an economy which has for many years been productive enough to end absolute poverty for good, millions of people have been left in poverty, for reasons rooted not in economics, but in ideology.

Figure 1: US Labor Productivity and the Federal Minimum Wage (1970 = 100)



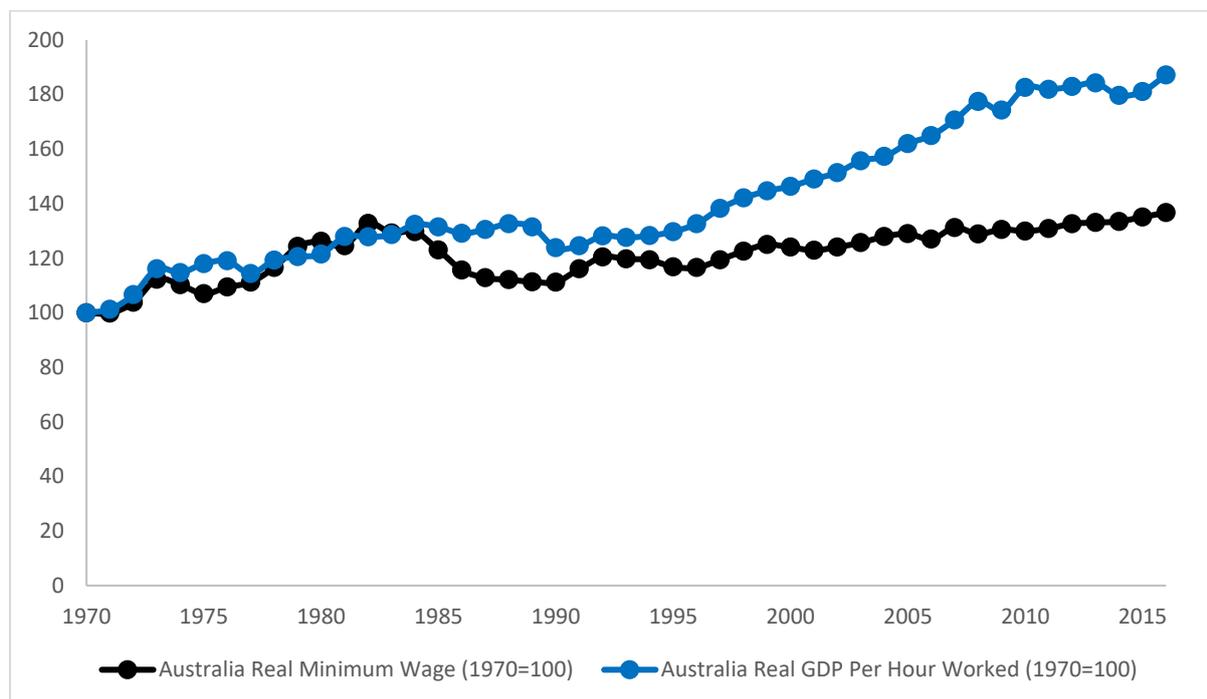
It is not just that those on the federal minimum have not shared in the benefits of rising productivity over time. In the USA, uniquely among these three countries, they have not even kept up with the cost of living. The real minimum wage in 2016 was 27% below its 1970 level.

For those in full-time employment, to maintain the real value of the federal minimum wage at its 1970 level, it should by 2016 have been not \$US 15,000 a year, but \$US 20,500. To raise the real federal minimum wage in line with increases in US labour productivity, the wage should now be not \$US 20,500, but over \$US 33,000. In other words, the federal minimum wage needs to be more than doubled, just to restore the lowest paid to their relative position of fifty years ago.

A just federal minimum wage should be close to \$US 16 per hour. Bernie Sanders was entirely correct in his call for at least \$US 15 per hour, and indeed this is not enough to be just, given the productivity of the US economy. The issue is then how, in the modern US economy, to guarantee people the right to work as many hours as they might choose, up to the normal full-time working week, at a guaranteed social wage of at least \$16 an hour.

Turning in Figure 2 to the case of Australia, things look slightly better for the lowest paid than they do in the US, but they still do not appear entirely fair.

Figure 2: Australia Labour Productivity and Minimum Wage Rates (1970 = 100)



The attack on the low paid did not happen in Australia until later than it occurred in the US, and even then, did not involve a major decrease in the real minimum wage. The real value of the national minimum wage, or its earlier equivalent, in Australia has essentially gone nowhere since 1982. However, over the same period real GDP per hour worked has risen substantially. To identify a socially just national minimum wage in Australia, we need to close the gap between the blue line and the black line in Figure 2.

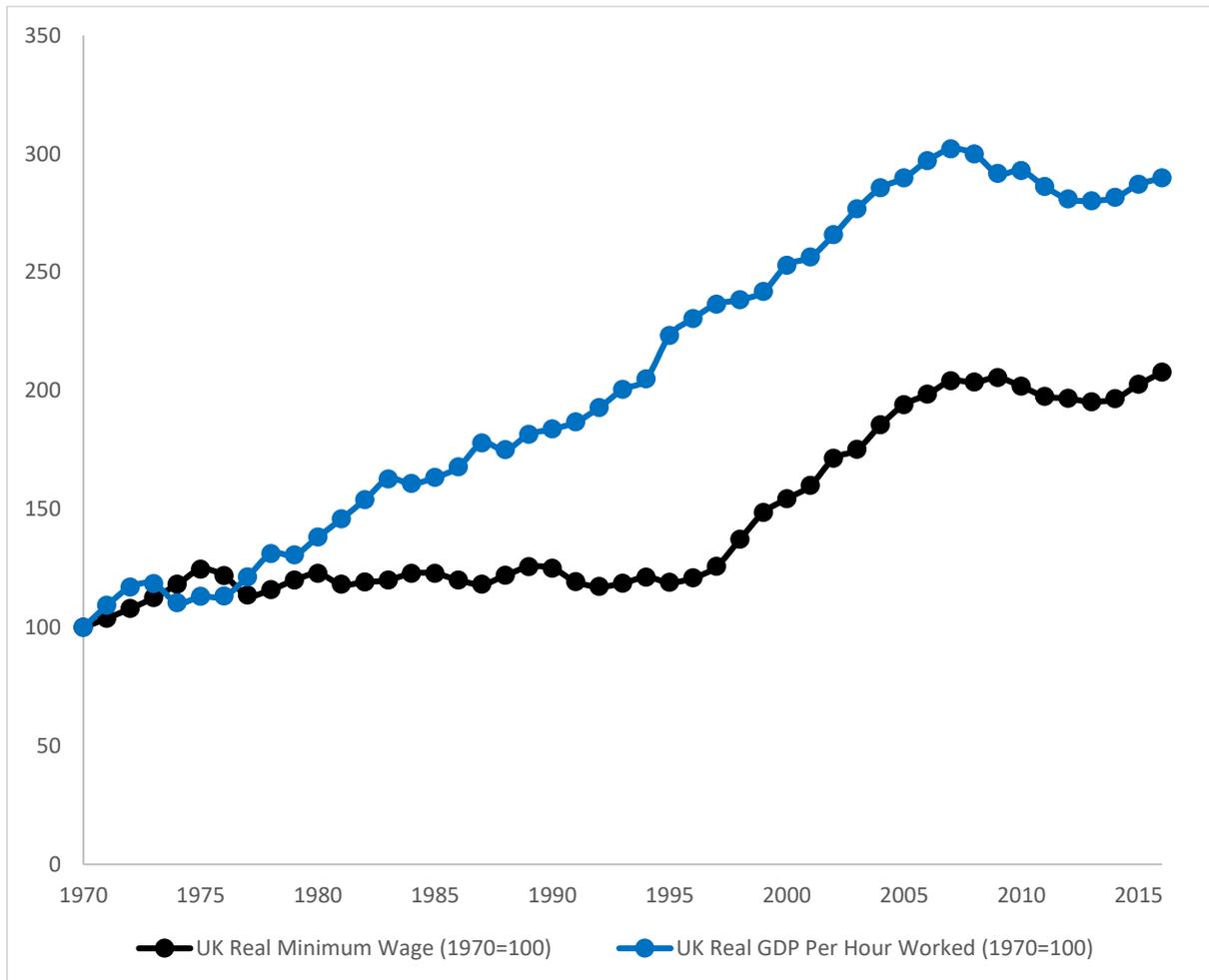
This would have required a minimum annual wage in full-time employment of about \$AU 47,000 in 2016 (\$US 32,000), which is close to \$AU 24 an hour. Australia does not need to double its national minimum wage, unlike the USA. However, it does need to increase this wage rate substantially, by more than 30%. Even one of the world's highest national minimum wage rates has not kept pace with the benefits of technological change and rising labour productivity. Australia's national minimum wage is far too low. It should be the equivalent of about \$AU 16 per hour, which is the recommendation we have already made for the USA.

Australia in 1970 was a very equal society, though this is no longer the case in 2017. The USA in 1970 was not so equal, and its low paid were not treated so equitably as in Australia. Given higher labour productivity in the USA than in Australia, there is an argument that we should be looking to take low paid American workers beyond their relative position in 1970, in which case \$17 or even \$18 an hour might be an appropriate federal minimum wage across the USA. The Sanders-endorsed push for \$15 an hour seems moderate, and not a radical suggestion at all. \$16 per hour for the US and \$24 (Australian) per hour for Australia are realistic.

Comparisons with the past are more difficult in the case of the UK. There was no national minimum wage at all before 1999, and even the old wage councils did not exist for most of the 1990s. Consequently, the data for the UK is less reliable, but still good enough for us to identify

an approximate just minimum wage in that economy in 2017. The UK data is shown in Figure 3.

Figure 3: British Labour Productivity and Estimated Minimum Wage Rates (1970 = 100)



The first things to strike the eye in Figure 3 are the improvement in the position of the lowest paid workers on the introduction of a national minimum wage in the late 1990s, and the unusual decrease in labour productivity in the UK during the post-Great Recession period of austerity, zero hours contracts and falling wages. Overall, the real wages of the lowest paid improved over time, but almost the whole of this improvement happened during the Labour Government of 1997-2010. The conservative years of 1979-97 saw labour productivity rise nearly 80%, but no increase in the real incomes of the lowest paid at all – only an increase in the likelihood of their unemployment, underemployment or insecure employment, and a far less progressive system of taxes and transfers.

Taking productivity per hour worked into account, a just full-time minimum wage in the UK by 2017 would be about £ 20,000, or \$US 28,800 at the PPP rate. This equates to an hourly rate of £ 9.50, or \$US 13.70. It is slightly lower than for the USA or Australia, since the UK is a lower productivity economy. Nonetheless, it involves a more than 25% increase in the UK's

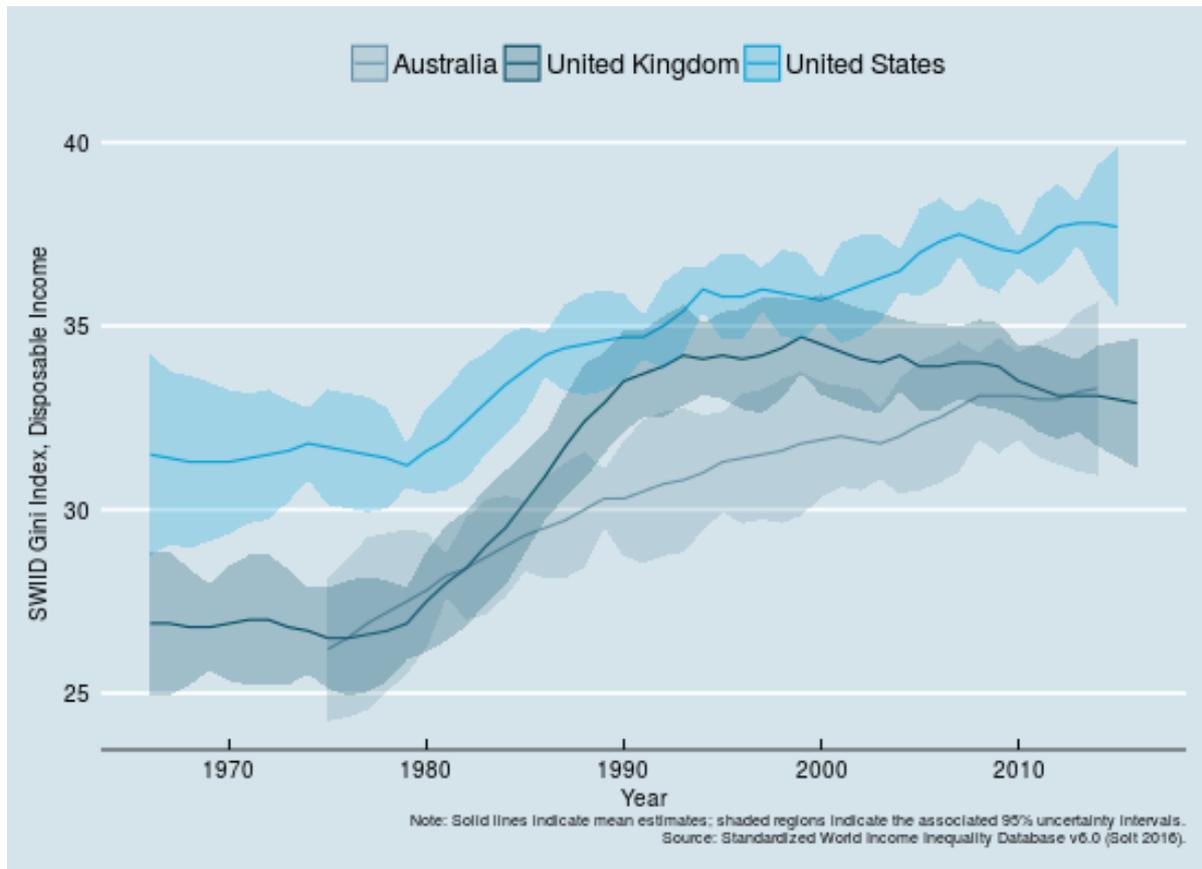
national living wage. It would raise it slightly above the current voluntary living wage as promoted by the UK Living Wage Foundation, and paid by many employers, which applies to more than 150,000 workers across the UK.

There is clearly a need, based on a right for all to participate in the benefits of rising national productivity, as well as on any reasonable calculation of how much it is necessary to earn to enjoy a secure and dignified life, to raise national minimum wages rates dramatically, in both Australia and the UK, to more than double the federal minimum rate in the USA, and to never again let it fall behind the cost of living and the progress of the economy.

Politicians, without justification, used to complain that people were being paid more than they had earned (Callaghan 1976). Generations of politicians on the right, with the acquiescence of those on the left, have changed the world so that people are now earning for others what they are not being paid themselves. We have allowed our leaders to facilitate a shift from labour income to capital income, and we have let them use the threat of unemployment to keep people on poverty wages, and in insecure jobs.

It is not just the lowest paid who have fallen behind. Even those on average incomes have failed to enjoy the benefits of rising productivity (Mitchell 2013). Those benefits have increasingly gone to the rich and the super-rich. This has been reinforced by a shift to a far more punitive system of social welfare and a much less progressive system of taxation in each of these countries. In each case, levels of inequality which have not been seen in many decades have been restored. The rising inequality of disposable incomes is shown in Figure 4. Australia and the UK have become more unequal societies than the US was in the 1970s, and inequality in the USA has increased to a level comparable with that of a low-income country dictatorship. This must be reversed.

Figure 4: Comparable Disposable Income Gini Coefficients for Australia, the UK, and the US



An essential tool for restoring the relative position of low income groups in all these societies is a significant, and in the case of the USA very dramatic, increase in national minimum wage rates. However, the minimum wage is not the minimum if you are in an excluded occupation, young, unemployed or underemployed. For a radical increase in the statutory minimum wage rate in a country to transform the lives of the lowest paid, it must be combined with a guarantee of employment at that minimum wage. A job guarantee at the minimum social wage is a requirement for a just and sustainable society.

This is achievable in each of the countries considered in this policy note. All we have done is to allow for rising average labour productivity. The benefits of fifty years of growth have not been shared with the low paid, and this is especially true in the USA. It is time to share those benefits more widely than before, to create a more equal and healthy, more sustainable society.

Our aim should be that families could, if they chose, get by on a single, secure income. The low paid should not be driven into debt, or forced to take multiple jobs at poverty wage-rates. Given tight full employment at a just social wage, absolute and extreme relative poverty, and extremes of inequality, could be eliminated, as should have happened long ago, and each country would be a very different place. Many of the social problems we face today would be more manageable (Wilkinson 2006).

It requires a shift back from capital income to labour income, and that means challenging the income shares and political influence of the 1%. It means reversing the trend towards inequality

which has in fact been facilitated by more than 30 years of neoliberal politics and economics, and contributed towards a wide variety of social ills (Wilkinson 2006). It requires a commitment to full employment and to a society with not only equality of opportunity but a far greater equality of outcomes.

It requires the support of a federal job guarantee, offering just social wage rates to those the private and non-guarantee public sector does not employ. It would put pressure on the private sector labour market to raise low wages. It would encourage the automation and gradual elimination of some low productivity jobs, which would free those workers to do better and more sustainable jobs, and it would be the responsibility of the government to guarantee that better and more rewarding jobs are available (Forstater 2003, 2016).

A gradual further shift over time to minimum hourly wage rate close to USD 20 an hour (at 2017 prices) would allow people to transition to a shorter working week and shorter working lives, without forcing them into poverty.

The potential for a centrally-funded but locally administered, universal and permanent job guarantee to set an effective minimum social wage which will eliminate involuntary poverty; to extend the human right to paid and socially productive employment to all; to act as a counter-cyclical macroeconomic stabiliser; to progressively transform the definition of work deemed worthy of remuneration; to enhance the well-being of millions of people, and to contribute towards social inclusion and social stability; and to do this in a way which does not compromise ecological sustainability has been explained in depth in an extensive literature (Kaboub 2007; Mitchell 1998; Tcherneva 2014).

The real value of this minimum social wage should be set immediately at a level which restores to the low paid their fair share of national income distribution, accounting for increases in both the cost of living and the benefits of technological change and rising labour productivity over the past half-century. It should not be seen as a mechanism to keep wages down, as is the case with the threat of unemployment at the moment. Instead, the goal should be to raise the relative wage of the low paid, and by doing so to engineer a much greater degree of income equality (Mitchell 2013).

Any inflationary consequences should be negated by an increase in tax rates on those at the top of the wealth distribution, to create space for the low paid to spend more out of their higher incomes, without pushing the economy beyond its productive capacity. A movement towards a more progressive tax system, such as the one which existed fifty years ago, alongside a radical increase in real minimum wages rates, supported by a job guarantee, would play a major part in a transition to a future of sustainable prosperity (Tcherneva 2015).

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