Statement of William E. Spriggs

"Government support of middle income America: Americans need a Raise"

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Restoring the Trust for Families and Working-Age Americans

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Thank you to Chair Tom Price and Ranking Member Chris Van Hollen for this invitation to give testimony before your committee today on issues of restoring faith by families and working Americans that its government is on their side. I am happy to offer this testimony on behalf of the AFL-CIO, America's house of labor, representing the working people of the United States.

From 1946 to 1979, the wages of American workers grew with their productivity. And, income gains were roughly equally shared by each quintile of the income distribution. There were many federal policies that invested in the American people and put the government on the side of raising wages. In sum, these policies promoted shared prosperity, so incomes grew at each income quantile. Economists are converging on a consensus that equality promotes faster economic growth. And, equality provides the basis for enhancing social mobility and a more meritocratic society.

Several key federal programs stand out for enhancing shared prosperity. The GI Bill gave many World War II veterans access to college by paying their tuition and giving them living stipends; and home ownership through reduced down payments and low interest loans—two tickets to the middle class.

The introduction in 1946 of federal legislation to establish a national school lunch program decreased the food insecurity of children. Participation of children in interventions to address basic food needs has been shown to improve the health of children and have lasting impacts on educational attainment.[1]

During this period, broad political consensus maintained a neutral National Labor Relations Board that maintained balance in labor management relations. The period allowed for the continued ability of workers to exercise their right to organize. So, during this period, the share of workers who were organized rose, as did their diversity. At higher levels of union density all workers benefit, both union and non-union in striking deals to divide the benefits of rising productivity.[2]

Each President during this period signed legislation to raise the minimum wage and keep all wages in step with general growth in productivity and wage gains. This spread the benefits of increases in productivity to the wages of the lowest quantile; insuring that work paid. Increases in the minimum wage are linked to reducing food insecurity and lowering low-birth weight and premature births for less educated women.[3]

Republican President Dwight Eisenhower, when the former Soviet Union launched Sputnik in October 4, 1957, got the Democratic Senate to pass legislation in less than one-year to launch the National Defense Student Loan program that assured American students could borrow enough money to cover an Ivy League education at interest rates below the prime rate. Students who were supported by the loans but accepted jobs in K-12 education had their loans forgiven. American became the world's most educated country with the highest share of its workforce

[1] Craig Gundersen, Brent Kreider and John Pepper, "The impact of the National School Lunch Program on child health: A nonparametric bounds analysis," *Journal of Econometrics,* Vol. 156 (January 2012): 79-91; Peter Hinrichs, "The effects of the National School Lunch Program on education and health," *Journal of Policy Analysis and Management,* Vol. 29 (Summer 2010): 479-505.

[2] Daniel Tope and David Jacobs, "The Politics of Union Decline: The Contingent Determinants of Union Recognition Elections and Victories," *American Sociological Review,* Vol. 74 (October 2009): 842-864; Jake Rosenfeld, Patrick Denice, and Jennifer Laird, "Union decline lowers wages of nonunion workers: The overlooked reason why wages are stuck and inequality is growing," Economic Policy Institute, (August 30, 2016) at http://www.epi.org/files/pdf/112811.pdf

[3] George Wehby, Dhaval Dave and Robert Kaestner, "Effects of the Minimum Wage on Infant Health," National Bureau of Economic Research, NBER Working Paper No. 22373 (June 2016); William M. Rodgers III, "The Impact of the 1996/97 and 2007/08/09 Increases in the Federal Minimum Wage on Food Security," manuscript, Rutgers University (September 2015) at https://www.researchgate.net/publication/266023361_The_Impact_of_the_199697_and_20070809_Increases_in_the_Federal_Minimum_Wage_on_Food_Security

holding college degrees. The NDSL provided the money for the teacher corps that then produced the inventors of the personal computer and internet.[4]

President Eisenhower also launched one of the largest peace time government programs in creating our current modern interstate highway system. Not only did this create many middle class construction jobs, it vastly improved America's infrastructure and lowered transportation and production costs for American business. It spurred the expansion of new industries like motels and reduced the isolation of rural communities.

In the 1960's, President Lyndon Johnson expanded the role of the federal government in investing in the early education of America's children. The Head Start program, launched in 1965 has proven to be a valuable program in changing the long-run prospects for children from low-income families: increasing their success in school, earnings in adulthood and lowering criminal activity.[5]

Also in 1965, President Johnson put in place Medicaid and Medicare. Medicaid has been shown to increase the educational attainment and earnings of women who had greater access to Medicaid as children, and boosts the taxes paid by young adults who were helped by Medicaid.[6] Medicare ended racial segregation in the provision of health in the United States, improved the lives of older Americans and began narrowing the life expectancy gap between whites and African Americans.

These investments in American children and the American people, and the investment in public infrastructure, put the federal government clearly on the side of empowering Americans to achieve a high level of productivity. It provided American corporations the largest pool of

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[4] Public Law 85-864 (September 2, 1958) https://research.archives.gov/id/299869; Saul B. Klaman, "The Postwar Pattern of Mortgage Interest Rates," in Saul B. Klaman (ed.) *The Postwar Residential Mortgage Market* (Princeton University Press, 1961) sited from: http://www.nber.org/chapters/c2341.pdf, University of Pennsylvania, University History, Tuition and mandated fees, Room and Board and other educational costs at Penn since 1900: 1950-1959 web page: http://www.archives.upenn.edu/histy/features/tuition/1950.html

[5] Patrick Kline and Christopher Walters, "Evaluating Public Programs with Close Substitutes: The Case of Head Start," National Bureau of Economic Research, NBER Working Paper No. 21658 (October 2015); Hilary Shager, Holly S. Schindler, Katherine A. Magnuson, Greg J. Duncan, Hirokazu Yoshikawa and Cassandra M. D. Hart, "Can Research Design Explain Variation in Head Start Research Results? A Meta-analysis of Cognitive and Achievement Outcomes," *Educational Evaluation and Policy Analysis*, Vol. 35 (March 2013): 76-95.

[6] David W. Brown, Amanda E. Kowalski and Ithai Z. Lurie, "Medicaid as an Investment in Children: What is the Long-Term Impact on Tax Receipts?" National Bureau of Economic Research, NBER Working Paper No. 20835 (January 2015).

highly educated and healthy workers to propel American growth. And, the government was clearly on the side of American workers in getting their fair share of the increased productivity. Wages that rose with productivity insured all the correct market signals in the labor market would encourage Americans to make the investment in their skills. And, by keeping unemployment rates low, fiscal and monetary policy gave incentives to firms to train workers, invest in their productivity and aim at retaining those workers.

Since that era, most of those policies have been undermined. In the 1980s and again in the 2000s the NLRB too often took positions favorable to management to limit workers organizing; raising the minimum wage went from a bipartisan effort to a partisan battle; the wages for the middle stagnated and the wages at bottom fell. Profits as a share of national income rose, but taxes from corporate America shrank, putting more of the nation's tax burden on workers as the wage share of national income fell. Once the United States stood out for its highly educated work force, as recently as 1995 ranking first for the share of workers with college degrees, but by 2012 the United States ranked 19th among 28 advanced economies.[7] In 1975 state and local governments provided 63% of all expenditures on higher education, by 2010 that figure fell to 34.1% resulting in a trend of ever rising tuition for individual students.[8]

Americans see politicians that argue for tax breaks for the top 1%, and a retreat on policies to invest in them while their wages stagnate and corporations are given support to suppress those wages, hours and working conditions. This is a great source of cynicism as they no longer believe in "trickle down" economics.

Now most economists agree. The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) find that income inequality hurts growth.

The IMF finds that near term growth over the business cycle, roughly five years, is slower and of shorter duration in those advanced economies where net income inequality is higher (net income inequality is defined as market-based income (wages, rents, profits and interest income or gross inequality) net of income transfer programs (taxes, safety-net and other redistributive

[7] Liz Westin, "OECD: The US Has Fallen Behind Other Countries in College Completion," Business Insider (September 9, 2014) at http://www.businessinsider.com/r-us-falls-behind-in-college-competition-oecd-2014-9
[8] Thomas Mortenson, "State Funding: A Race to the Bottom," American Council on Education (Winter 2012) at http://www.acenet.edu/the-presidency/columns-and-features/Pages/state-funding-a-race-to-the-bottom.aspx

programs)).[9] There are various reasons for this. At high levels of inequality, those at the bottom of the income distribution are more vulnerable and lack resiliency to absorb downward shocks in income. They also become highly leveraged to keep up when the economy expands, increasing systemic risks for the economy. Importantly, they find that redistribution of income has no effect on growth, but inequality does. This means that concerns that safety-net programs slow growth by reducing labor supply and effort is not shown in the data. But, the effects of inequality do show. So, the net benefit of redistribution that lowers inequality is clear.

Focusing on income distribution more specifically, the IMF finds that when growth goes disproportionately to the top 20% of the income distribution that national income growth—GDP per capita—falls. Clearly, policies that aim to increase the post-tax income of the top do not trickle down; they instead slow overall growth. They further find that programs that increase access to education and health in particular, that help the middle class and the poor specifically, reduce inequality and spur growth.[10] And, that labor market policies that do not exclude the poor from accessing middle income jobs spur growth. In short, the very policies pursued by the United States across Democrat and Republican Presidencies during the 1946 to 1979 era.

The IMF further investigates and finds that the growth in inequality is mainly driven by gains at the top 10% and is tied hand-in-hand with a reduction in share of workers in labor unions to bargain for a higher share of gains for the middle and the lowering value of minimum wages that protect earnings at the bottom. The report also found evidence that declining top marginal income tax rates increases inequality, as does financial deregulation. Technological change was not a driving force.[11]

The OECD research finds a sizable impact on growing inequality and slowing growth. In particular, the decline in the share of income for the bottom 40% of income distribution hurts growth the most. The OECD finds a clear link between the shrinking income share of the bottom 40% and a drop in educational investment. Clearly, rising inequality can be mitigated by

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[9] Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, "Redistribution, Inequality, and Growth," IMF Staff Discussion Note, SDN/14/02 (February 2014) at https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf

[10] Era Dabla-Norris, Kalpana Kochhar, Nujin Suphaphiphat, Frantisek Ricka and Evridiki Tsounta, "Causes and Consequences of Income Inequality: A Global Perspective," IMF Staff Discussion Note, SDN/15/13 (June 2015) at https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf

[11] Florence Jaumotte and Carolina Osorio Buitron, "Inequality and Labor Market Institutions," IMF Staff Discussion Note, SDN/15/14 (July 2015) at https://www.imf.org/external/pubs/ft/sdn/2015/sdn1514.pdf

increasing public investment in education targeted toward the bottom 40 percent. They also find that policies that can increase women's labor force participation, like supporting child care, paid sick days and family leave, also reduce inequality and promote growth. And, raising labor standards to reduce non-standard and irregular work, reduces poverty and inequality and promotes growth.[12]

OECD also finds that increased centralized bargaining structures, like those that can come from higher labor union density, help to reduce the risk of extreme failures from economic shocks. And, it is also the case that higher minimum wages reduce the risks of very negative extremes from economic shocks,perhaps explaining stability in the United States economy during the 1946 to 1979 period.[13]

The evidence from the IMF and OECD that has been built on a growing economic literature on the effects of inequality are reassuring in understanding what helped form greater political and social cohesion in the United States from 1946 to 1979 when U.S. productivity, income growth and educational attainment led the world. The loss of faith of American workers in the system has risen with policies that have promoted inequality, that reversed patterns of investing in America and Americans and led to rising inequality that has slowed economic growth. There can be little social cohesion when policies consistently favor those at the top, as they do not help growth.

The path forward to restoring trust in the political system is clear: restore policies aimed at investing in the education and health of the American people, aimed specifically at the middle and bottom of the income distribution; increase investments in public infrastructure to help keep the economy efficient; raise the minimum wage to keep all wages moving with productivity growth; enhance policies to help increase the quality and supply of labor by investing in education; create policies for paid sick days and family leave; expand support for child care to all families; and restore full access to American workers to organize. Increasing equality also increases social mobility, which helps maintain social cohesion. Those are the policies that built

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[12] OECD, *In it Together: Why Less Inequality Benefits All*, (OECD Publishing: Paris, 2015) at http://www.keepeek.com/Digital-Asset-Management/oecd/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en#.V-FiwCgrKhc

[13] Aida Caldera Sanchez and Oliver Roehn, " How do Policies Influence GDP Tail Risks?" OECD Economics Department Working Paper (forthcoming)

trust in our political system, and renewing and updating those policies is the key to rising wages, and a government that is pro-growth.