

WAGE INEQUALITY

By

Grant G. Murray

Recently, I served as a moderator for a discussion group dealing with the topic of wage inequality, sometimes referred to as wage inequity or wage disparity.

While doing my research preparing for this task, I learned two things which I find very worrisome and I decided to write down my thoughts.

First, it will be extremely difficult, some say impossible, to restore let alone expand the earnings, ranks and stature of the middle class in the current economic environment.

Second, there is a growing consensus that it will also be most difficult, if not impossible, to reverse the trend to widespread inequality in the broadest sense unless there is some catastrophic or seismic event which will change the prevailing mindset across society.

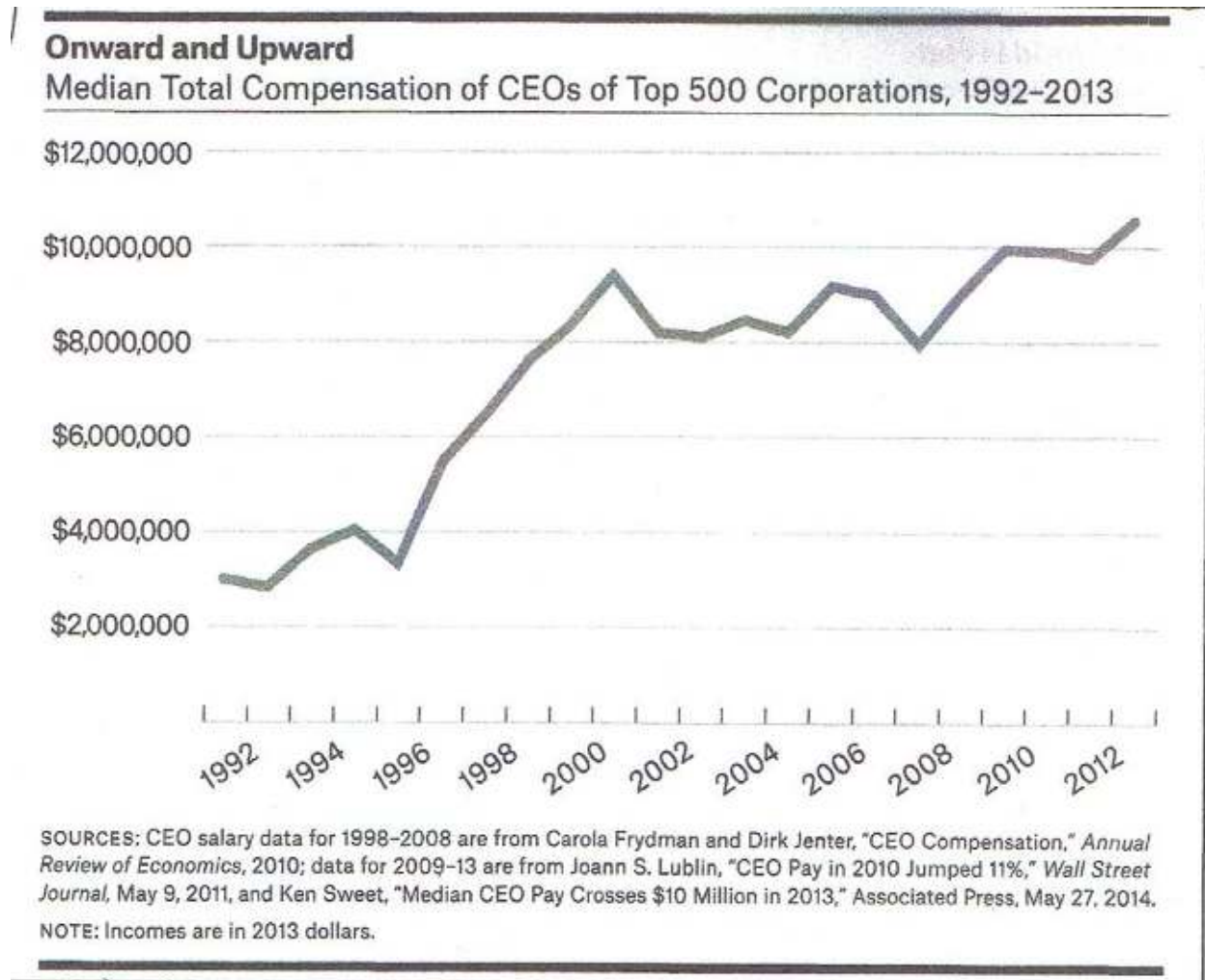
Prior to discussing these two subjects, it should be noted that there are several spheres of equality, e.g. moral, political, social, legal and economic to name a few and clearly all of these are at times interconnected and interdependent. However, this analysis will focus on the economic dimensions of wage equality.

Also, the statistics relied upon are based on U.S. data because similar Canadian data could not be found. However, given the similarities between the two economies I think we can safely extrapolate the U.S. data and the conclusions to the Canadian environment.

As Fareed Zakaria would say, Let's Get Started!

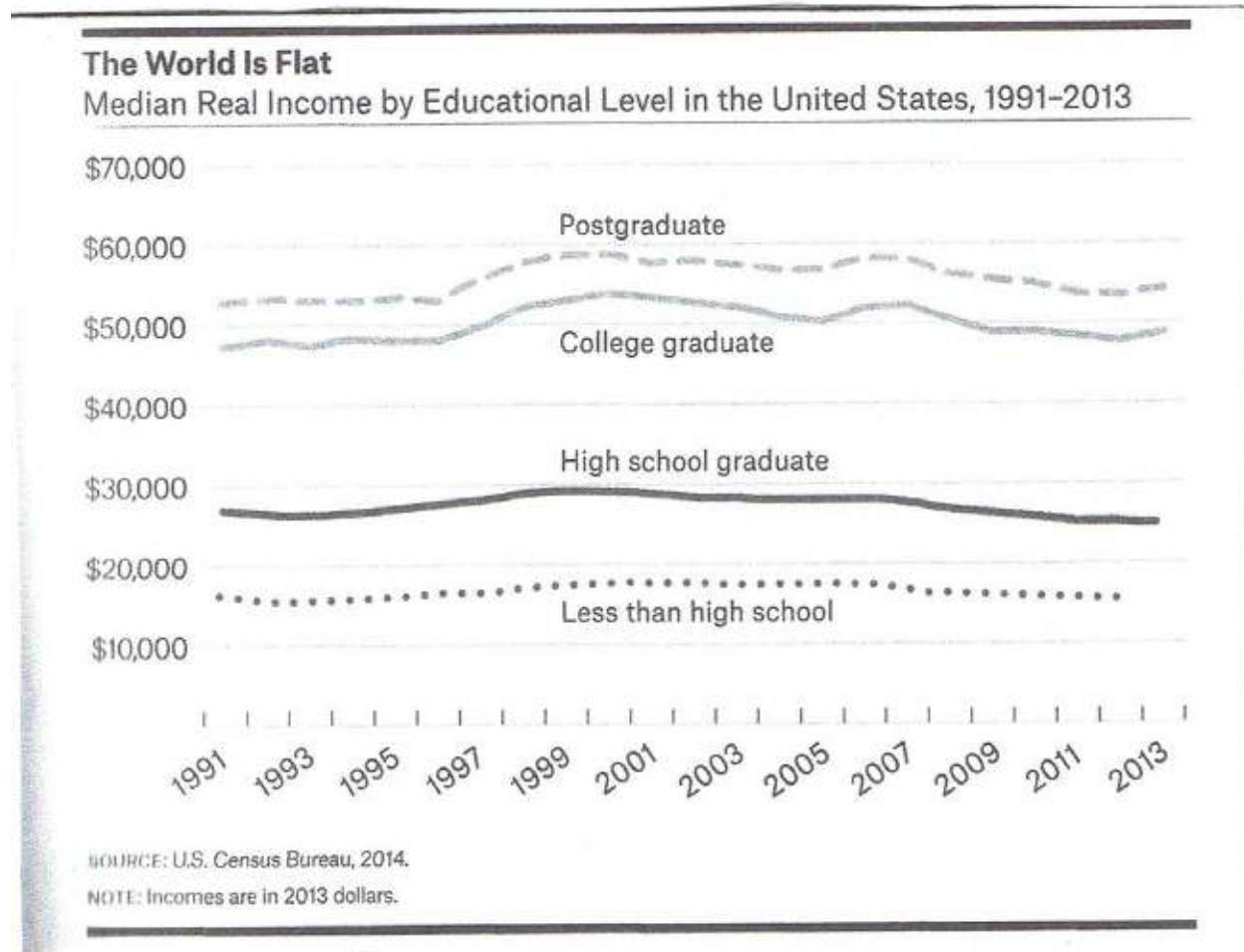
The Middle Class Crisis

The following graphic depicts the stratospheric and, as many say, the immoral rise in CEO compensation in the U.S. from 1992 to the end of 2012.



Measured over a longer period, the increase is even more startling. In 1965, the average CEO pay at the largest 350 U.S. companies was 20 times higher than the pay of the average worker. This differential was in line with the views of the well-known management guru, Peter Drucker. By 1989 it was 58 times higher. By 2012 it had become 273 times higher which by any measure is an astounding gap.

The next graphic charts the median real income by educational level from 1991 to 2013.

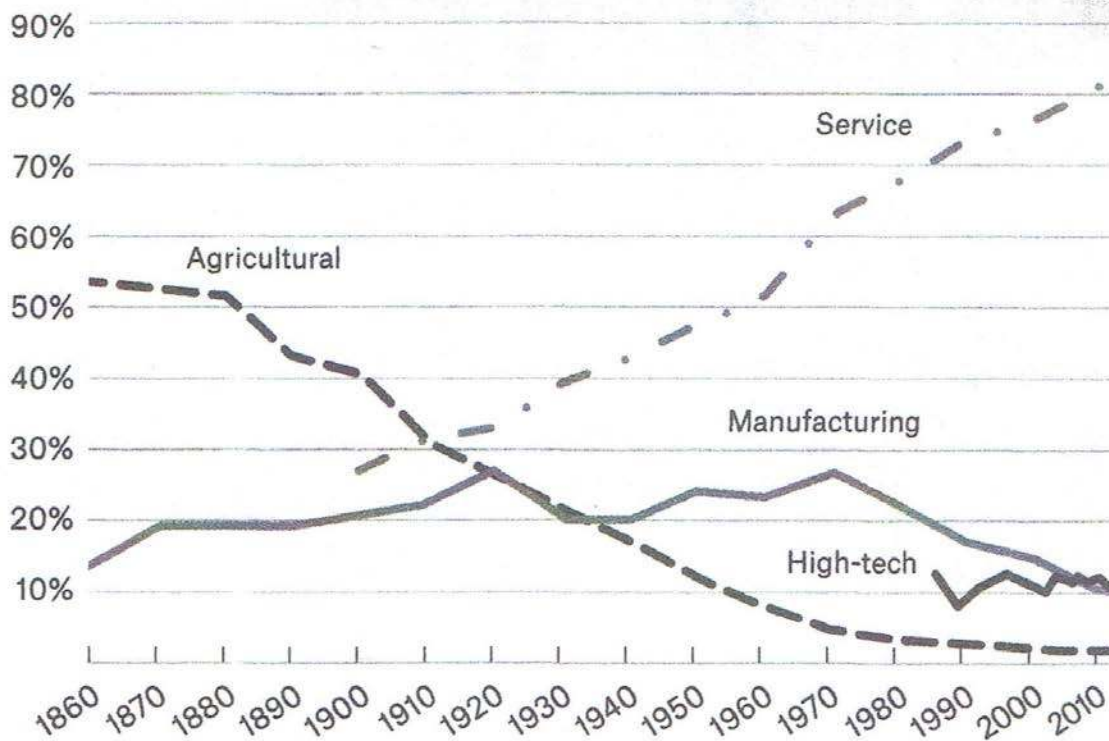


This data confirms that the income of the vast majority of the population has in fact been largely stagnant over this timeframe regardless of education. It is clear that meaningful increases in income have only been enjoyed by a fortunate few, such people as financiers, entrepreneurs, top level managers, entertainers and professional athletes. The data also confirms that it is not only the unskilled workers whose incomes have been suppressed but that the middle class has suffered the same fate. To make matters worse, the purchasing value of each dollar is much less over this time frame.

Next, it is necessary to look at the composition of the workforce. The following graphic confirms the massive shifts in the distribution of workers from as far back as 1860 through to 2010. The trends underlying the data on this graphic hold some ominous messages for the security and, hence, the wages and the economic well-being of the middle class in every sector.

From Farm to Table

Composition of U.S. Work Force by Sector, 1860–2012



SOURCES: Paul Hadlock, Daniel Hecker, and Joseph Gannon, "High Technology Employment: Another View," *Monthly Labor Review* (U.S. Bureau of Labor Statistics), July 1991; Daniel E. Hecker, "High Technology Employment: A NAICS-Based Update," *Monthly Labor Review* (U.S. Bureau of Labor Statistics), July 2005; Stanley Lebergott, "Labor Force and Employment, 1800–1960," in *Output, Employment, and Productivity in the United States After 1800*, ed. Dorothy S. Brady (National Bureau of Economic Research, 1966), 117–204; National Science Board, 2014; U.S. Bureau of Labor Statistics, 2014; U.S. Census Bureau, 1977.

NOTE: Data are not available for the service sector before 1900 or for the high-tech sector before 1986.

For starters, there is one surprising message in this graphic. Contrary to popular belief, the newly tracked high tech sector has not produced that many new jobs which for the most part would be higher paying jobs. High tech employment, in this context, involves the workers who design, market and implement high tech applications not the technicians who operate or use the technology. Worse, employment in this area as a percentage of all jobs is not increasing to any extent and so, unlike the transition from agricultural to manufacturing, we are not seeing any explosion in new jobs in this new sector.

The negative trend line for the agricultural sector is not surprising and will likely continue albeit at a more modest rate. To a large extent, the agricultural community has already discovered the benefits of the economies of scale and the benefits of technology. Farms are still predicted to grow even larger and to become even more efficient and productive. The old "farm hand" that we knew is a disappearing breed.

The manufacturing sector is not expected to fare much better and will be under ongoing and probably increasing negative pressures.

The Canadian manufacturing sector, as a whole, is already weak in several areas e.g. low productivity, poor innovation, lack of scale, lack of connections to global linkages, to name a few. Further, employment in this sector has been dropping steadily.

Unfortunately, from a strictly Canadian point of view, the assault on the manufacturing sector is predicted to get worse. Two factors will continue to drive employment down in this sector. First, the continued rush to globalization, nurtured by multinational trading blocs, will drive more and more manufacturers (Canadian and multinationals) to locate or relocate in those countries with lower wages and more attractive employment laws and tax regimes. In order to survive, Canadian manufacturers who remain at home will of necessity have to become even more automated and more productive and this will mean even less manpower will be needed to produce greater output.

As well, it should be noted that the significant decline in private sector union membership and the increase in right to work legislation in several jurisdictions will also have a negative impact on job security and wage levels in the manufacturing sector.

All told, this means there will be fewer employment opportunities and less job security in this sector and this will have a negative effect on wages resulting in further wage inequality.

This leaves the services sector which currently comprises 80% of the workforce and is growing. If this sector is going to solve our economic inequality problems it is going to have to punch well above its weight and the prognosis for this happening is not good. There are a number of factors which lead to this glum outlook.

A substantial number of unskilled Canadian workers are in the services sector and there will continue to be a demand, even a growing demand, for these workers. Given governments' reluctance to enforce already weak employment standards laws and their unwillingness to lift minimum wages to a decent level, the prospects for these workers to earn better wages are pretty dim.

There are a growing number of lowly skilled workers in the services sector. People who are employed as hospital workers, retail workers, clerical workers, hospitality workers, gardeners, for instance, are usually paid lower wages and have few benefits and are often subject to exploitation. Further, they usually do not have any voice. Given all the circumstances, it is very unlikely there will be any meaningful increase in their wage levels.

Skilled workers in the services sector are probably somewhat better off because there is an increasing demand for many of their services and in some areas there are shortages of trained workers. As well, policemen, firefighters, tradesmen, government workers, etc. are often unionized or belong to guilds and this gives them more bargaining power. Nevertheless, their wage levels have to bear some relativity to wages in general which means these workers will not be given a blank cheque. Indeed, there is already a growing backlash against the wage increases some of these workers are enjoying and this will, in many cases, serve to keep these wages down.

Highly skilled workers such as engineers, managers, doctors and lawyers continue to have an important role in the services sector. But, surprisingly, the earnings of many of these workers are being threatened. Many parts of their jobs are being taken over by technology and, hence, some of their skills or a subset of their skills are not required or are less marketable. Not only does technology eliminate the need for some of their skills but it means that many highly skilled practitioners must themselves invest in costly technology and continuing education which increases their overheads and impacts their take home pay.

There is another point to be made. Experts are predicting that the advancements in artificial intelligence will accelerate the use of robotics in the workplace. If they are correct, this will significantly impact job content and, hence, job creation.

Finally, there is a major and dramatic change in the nature of employment which is having a huge negative impact on wages, benefits and job security. This growing trend to different working arrangements may be the most significant threat of all to job security and wage equality.

I am referring to the proliferation, indeed explosion, of outsourcing and contract, part time and temporary work throughout the services sector.

Blaming a need to control and reduce overheads to be competitive and, hence, a need to avoid long term commitments, employers have been turning to this type of work at an alarming rate. Even governments are now doing the same thing although they often disguise the practice as "probationary" employment. Most of the career advertisements for lawyers in the Ontario Law Reports are for contract jobs. Most jobs in the retail sector are part time with unpredictable working hours. And the list goes on and on and impacts both the unskilled and the highly skilled.

These jobs have no job security and provide few, if any, benefits. Worse, this type of employment has a very negative impact on wages because the wage levels tend to be lower but also because the hours worked during a given week are usually much fewer and less predictable. Among other things, this uncertainty also has a major impact on the quality of life.

Clearly, these work arrangements have major advantages for employers and major disadvantages for employees so there is little motivation for employers to slow down on the rush to these work arrangements.

Although there is more discussion as to the problems this kind of employment are causing, there is no sign of any improvement. To the contrary, the problems are being allowed to get worse.

So, as a result of my research, I am much more pessimistic than I was before I started.

As I'm sure you have noticed, there are increasing calls for a system of guaranteed wages and it is easy to see why. It should be noted that critics are already expressing concerns

about such a system (see the Editorial on p.1N16 of the Toronto Star published on February 13, 2016).

Nevertheless, it is most concerning that politicians of all stripes and in all jurisdictions keep promising that, if elected, they can create new jobs, more wealth and a kinder gentler world but they seldom say how. Sometimes they continue to peddle old ideas which will not work in today's world. Increasingly, all they say is "trust me, I can do it".

Sad to say, this type of rhetoric is not helping the cause. By fudging the facts, and huffing and puffing that they can resurrect the middle class and create a multitude of high paying jobs by waving their magic wands, the politicians and other are interfering with any realistic hope for meaningful solutions which are based upon facts and economic realities. The governed deserve better.

How Did We Get Here?

Having looked at the problems which now exist, it is worth considering how we got to this state of affairs.

There are, of course, many theories as to how this happened. However, while doing my research, I came across one theory which at first glance did not seem to make much sense but which, on further examination, I feel has a lot of credence.

This theory holds that in times of fear and uneasiness there is less economic inequality whereas in times of reduced stress and greater prosperity there is an increase in economic inequality.

From the early 1900's to the later 1950's there were a number of factors and events, particularly in North America and Europe, which created widespread fear, stress and uneasiness to societies at large. During this time frame, there were two world wars, crippling economic depressions, threats of communism, a risk of nuclear proliferation, a cold war, labour strife, food shortages, to name a few. However, it was under these conditions that governments and societies came together to implement a great many measures for the collective good. They came together to adopt the Marshall plan, to form the United Nations, to implement the New Deal, to allow trade unions to survive, to pass minimum wage laws, to create government health care systems, government pensions, and fair employment laws. Social democracy flourished particularly in Europe. And the list goes on and on.

In other words, a number of events were occurring to create more equality and a more level playing field across all segments of society. One writer describes this era as time of "de-individualism". Another said " if you are standing beside your buddy in the trenches in France or if you are an unemployed banker standing beside an unemployed clerk on a bread line on Wall Street you quickly develop more compassion and respect for your fellow man".

Starting in the fifties, many of the disruptions causing the fear and uneasiness had faded or were fading away.

Currently, while there are irritating and dangerous localized conflicts, there are no world wars. There is no major global economic depression. The cold war is history. Communism is out of favour. The major nations have signed a nuclear treaty. The United Nations is still functioning, sort of. Standards of living are improving everywhere. Comparatively speaking, all is quite well.

However, according to the author who coined the word "de-individualism", the Americas and Europe suddenly shifted to a society centered on individualism and had moved away from a collective approach to dealing with society's problems. We became immersed in the "ME" generation. People at all levels of society developed an attitude of entitlement. In the United States, for instance, there are an increasing number of conservatives led by the zealous supporters of such organizations as the Tea Party who want to dismantle the modern model of government with all its checks and balances and return to a pioneer society where it becomes the survival of the fittest and the individual rules. In Canada, it can be argued we were certainly headed down the same road under the Harper government.

Scholars point out that the issues which are receiving the most attention today are social issues such as gay marriage, abortion, black lives matter, voter discrimination, to name a few. These are important issues which need to be dealt with but they are mostly dealing with individual concerns and individual rights.

Economic issues such as job security and wage disparity which affect all of society are, for the most part, flying under the radar.

Admittedly, there have been sporadic protests such as Occupy Wall Street but these have had no staying power. Probably, the loudest and, so far, the longest lasting protests are coming from Bernie Sanders in his campaign for President of the United States. However, it is doubtful that he can incite the revolution he is urging everybody to support.

Sad to say, that at the same time, many of the economic achievements which were introduced prior to the fifties are being neutered or dismantled. Minimum wage laws are being allowed to languish and more than ever fail to provide a living wage. Employment standard laws are not being enforced

or are being cancelled. Right to work laws are replacing collective bargaining rights. Social security benefits are under attack. Public pensions are not keeping up with cost of living indexes. Private sector pensions are being compromised and, in many cases, disappearing. The tax laws have not only become more complex but they definitely favour the very rich. Taxes related to sources other than income are spreading and unfairly burden the middle class and are usually regressive. The very nature of employment has changed and employment has become less secure and earnings much more precarious.

The scholars who are writing about these things are saying is it any wonder we are seeing a growing wealth gap and an already significant wage gap across almost all elements of society?

The bottom line is that, according to this theory, less fear and uneasiness in society has led to a rise in individualism and away from a more collective approach to dealing with economic issues and this has been a major factor in sowing the seeds of wage inequality.

If one subscribes to this theory.....and there are a number of valid arguments in support of the theory.....then tinkering at the edges with such things as the employment laws, the tax systems, etc. will not change the current mindset.

That leaves the question. Will it take another catastrophe or series of catastrophes to drive the much needed reforms to achieve more equality in society? Who knows?