

Why wages don't rise with a tighter labour market

Demise of the Phillips Curve



AN OPEN DIALOGUE

As the US celebrated Labour Day on September 3, millions of the working majority were wondering what happened to the powerful labour unions or the promise of rising wages in a

growing economy. Unlike the May Day holiday observed in other countries, Labour Day in the US is anything but a celebration of labour power or a show of strength for better working conditions. And the mystery persists: Why are real wages stagnant in a booming economy? Even the *Wall Street Journal* (WSJ), the mouthpiece of US business, echoed this puzzlement. "One of the lingering mysteries of the economic expansion that began nearly nine years ago: Why has growth in Americans' paychecks remained anaemic despite the unemployment rate plunging to its lowest level in 17 years?" it moaned.

The disconnect between wage gains and falling unemployment is creating a bit of headache for the academics and policymakers. Until recently, it was held as an axiom that if the unemployment rate falls, the tighter labour market leads to an acceleration in wage gains. To put it simply, lower unemployment level raises the compensation for workers, i.e. wages. This simple relationship, known as the Phillips Curve, has been a lynchpin of almost all standard economic models. The Phillips Curve has not been working, or has been weak, as evidenced by recent experience in all major market economies. With the US mid-term elections approaching, the media and political commentators—not to speak of economists—are now scrambling to come up with plausible explanations for low wage growth in the last decade.

You can hear the rumblings everywhere:

"Workers are not getting their fair share of the pie or the fruits of their labour." Senator Bernie Sanders pronounced that wage gains were zero last year due to inflation, and added, "The average American worker today, despite the strong economy, is not getting ahead." And this frustration can be heard across the Atlantic and the Pacific. "The traditional relationship between economic growth and pay growth seems to have broken down in a significant number of mature

many national economies are growing and companies report higher profits a decade after the financial crisis, only those at the very top are feeling the benefit. The cost of living has increased, but many workers have not seen their salaries rise accordingly and are worse off than they were a few years ago."

In the US, as in any other country, the economy is a thorn on the side of any incumbent seeking re-election. If things do not go as planned, or as the candidate

repeating that rosy scenario as the B-Day, March 29, 2019, approaches. In the US, the mid-term elections are due on November 6, 2018 and while the economy is in good shape, one of the key promises made by President Trump during the 2016 elections remains elusive. As a candidate, Trump excoriated his predecessor for slow growth in workers' incomes, lambasting Obama for not working hard enough to raise the wages of America's "forgotten man and woman".

"Household incomes are over USD 4,000 less today than they were 16 years ago," he had said during a campaign rally in Pensacola, Fla., in September 2016. "We'll get your salaries and your wages up, up, up."

Guess what! Trump's promise of higher real wages did not materialise. According to a report by Bloomberg News, "Real wages have remained mostly stagnant, despite an expanding economy, record stock prices, soaring corporate profits, and a giant deficit-fuelled stimulus from Trump's tax cuts." Once the impact of inflation is included, ordinary Americans' hourly earnings are lower than they were a year ago. Even WSJ on September 8 wrote, "According to the Bureau of Labor Statistics' latest report on real earnings, as of July average hourly earnings had increased 2.7 percent over the preceding year, while inflation was 2.9 percent, due in large part to a surge in oil prices—a slight decrease in real terms."

The mystery of the zero or low wage gains has bedevilled academic journals, not to speak of popular media that have been searching for an acceptable explanation of the demise of the Phillips Curve. Some academics have used powerful quantitative tools to prove that the Phillips Curve has flattened. Others point the finger at weaker unions, an aging population, and low growth of labour productivity. Some others have advanced the hypothesis that overseas competition as well as the pool of underemployed has exercised a restraining effect on wage growth. The more

quantitative economists are arguing that the "natural rate of unemployment" is much lower than the 4 percent previously considered, and that means that the theory is solid but the data is lying.

What does all this mean for policymakers? First of all, one cannot count on falling unemployment or job growth to automatically improve workers' income. Minimum wage laws must be enforced and labour unions and better training and education need to be supported. To quote Prof. John Buchanan of the University of Sydney Business School, "Institutional agencies and minimum wage structures emerged to discipline employers, so if you weaken them then you take that discipline away." Some progressive parliamentarians such as Senator Elizabeth Warren in the US have introduced legislation to require corporations to nominate employees to their board of directors. The Accountable Capitalism Act is an effort in that direction. Secondly, central bankers have so far blindly relied on Phillips Curve to provide guidance on interest rate policy. However, if wage increases do not follow low unemployment, or do not trigger price increases, monetary policy can no longer be based on old economic models incorporating Phillips Curve!

As a result, one wonders if the major G-8 central banks—the Federal Reserve System, Bank of England, and the Bank of Japan—are currently operating with a broken compass. Prof. Alan Blinder of Princeton University and a former vice chairman of the Fed wrote in the *Wall Street Journal* a few months ago, "The Fed needs to know whether the Phillips Curve has died or has just taken an extended vacation."

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PHOTO: REUTERS

economies," says Duncan Brown of the Institute for Employment Studies in the UK. "There's evidence that the rate of pay growth has slowed even as economies have recovered. In some cases, that means real incomes have stagnated. That's something we've probably not [sic] since the 1860s or 1870s."

BBC Capital goes even further: "While

promised during the previous election, evidence of increasing unemployment or inflation, or falling wages, become a deal-breaker. For example, when the Conservative party won the Brexit referendum in the UK in 2016, supporters of the Leave movement assured the British electorate that the UK would be a big winner financially should it choose to get out of EU. Well, nobody is

Technology can help close the gender gap in Bangladesh

Technology can drive economic growth and gender equality in the workplace

EHSRAT WARIS

Each morning at 6am, across from the American Embassy in Dhaka, hundreds of day labourers wait in hopes of finding an employer. Garments, domestic, and hospitality workers walk on either side of the street toward factories, homes, and hotels.

In Bangladesh, about 85 percent of jobs are in the informal labour market. These are not only jobs in construction, garments, and domestic work, but also graphic designers, beauticians, IT support, and mobile phone technicians. Their daily wages depend on how effectively they can negotiate salary, learn new skills, and develop relationships with employers.

According to the Bangladesh Labour Force Survey, more than 90 percent of working women are in informal employment; and more than one half of women in the informal economy have little or no education.

Bangladesh has made significant economic strides in the last two decades, but in order to continue its rapid growth, the country must invest in new solutions for one of its fastest-growing workforces: women.

Across the country, women earn about half as much as men; this gender gap is only exacerbated in the informal market where, for example, a male construction worker can

make one and a half times more than his female counterpart.

This is both a social concern and an economic one. There are significantly less women in the workforce as compared to men, especially in Bangladesh. Between 2003 and 2010 women's workforce participation barely increased: from about 27.5 percent to 37 percent of women were working as compared to 90 percent of men. This puts Bangladesh below other lower-middle income countries and far lower than the average for middle-income countries (48 percent).

More concerning? The percentage of working women actually decreased by six percent between 2010 and 2016. Research done by the World Bank shows that women have less access to high-quality jobs as compared to their male counterparts. They are unable to access jobs and also struggle to maintain employment when they do. Globally, women's economic equality could add as much as USD 12 trillion to Gross Domestic Product. To foster the economic growth we envision for Bangladesh, we need to ensure that women have equal access to jobs and break down the barriers to employment that stand in their way.

As a manager for BRAC's Skills Development Program, I have seen firsthand how successful job placements can increase employment in the short- and long-term. For

the last five years, our programme has secured jobs for 95 percent of our more than 39,000 participants. To drive these results, we train disadvantaged youth, especially women and people with disabilities, through on-the-job apprenticeships. Women leave the programme equipped with skills to repair motorcycles and cell phones, work in hospitality, or graphic design, or in the garment sector. Our evaluations show 77 percent of our 2014 graduates are still employed and their income increased six times.

But despite training women to competitively enter the workforce, there are still significant barriers that can compromise their productivity and wage equity. Initial research shows female participants dropping out of the market at a higher rate than their male counterparts, which is cause for concern. Many female graduates of BRAC's skills programme report difficulty navigating the job market and employers on their own. Where should she go to find a new job? How might she improve her skills? How can she grow in her current job or move into a higher position? How does she address discrimination or violence in an unregulated workplace?

There are remarkable opportunities for new technology to address these systemic issues. A platform designed for working

women could create an inclusive marketplace, with resources for her to develop her skills and access jobs. A recent article in *Fast Company* highlights the role technology can play in creating an online community and support network that empowers women workers and addresses harassment. Other sites like Glassdoor provide workers with transparent information about how much their peers are making across industries. Platforms like these, specifically for Bangladeshi women in the informal market, could foster mentorship, provide ongoing training, and improve salary negotiations—giving women the insight and tools they need to get ahead. It could also illustrate to employers the incentives for hiring women whose skills are on par with their male counterparts.

Technology products specifically designed for women have had marked success and offer a counterpoint to those that market to women as an afterthought. Companies like Ellevest, an investment company that offers advice for women, have had profound success with this approach. Ellevest advises women on their investments, keeping in mind their unique financial situation: compared to men, they live longer, take more career breaks because of children, and make different investment decisions. Services targeted at women, especially those provided digitally,

must be created with a woman's life, habits, and lifestyle in mind if they are going to be effective and adopted widely.

There are also significant opportunities for employers—from small firms to large enterprises—to leverage technology to close the gender pay gap, ensure transparency for shareholders, while also fostering high productivity to deliver on their bottom line. In Mozambique, the mobile platform Biscate is helping companies hire workers who have been vetted and rated based on their previous work experience. Companies can also advertise services, products, or job openings to workers while also assessing industry trends. There are more than 1,000 female workers on the platform who can access the same job opportunities as men. Putting systems like these can both positively impact employees while also increasing profits with more efficient and effective hiring processes.

We have the opportunity, and challenge, of using technology, coupled with effective programmes and adoption by employers, to close the gender gap in the workforce. It is not just socially responsible for us to prioritise a solution that works; but Bangladesh's future, both socially and economically, depends on it.

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CROSSWORD BY THOMAS JOSEPH

ACROSS

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- 3 Throws in
- 4 Outcome
- 5 Irritate
- 6 Long swim trunks
- 7 Matador's foe
- 8 Snakehaired
- 9 Gorgon
- 10 Fond of
- 11 Excuse from punishment
- 12 Pillage
- 13 Enjoy one's triumph
- 14 Sense of self
- 15 Sicilian city
- 16 Fellows
- 17 Flamenco cheer
- 18 -- culpa
- 19 Diamond part
- 20 Cut off
- 21 Radius' place
- 22 "Norma --"
- 23 Neither Dem. nor Rep.
- 24 Lurk in the shadows
- 25 Different
- 26 Place at the table
- 27 Suppress
- 28 -- culpa
- 29 Diamond part
- 30 Followed convention
- 31 Cut off
- 32 Long swim trunks
- 33 Scorching
- 34 Brewpub choices
- 35 For each
- 36 Broad
- 37 Forward fall
- 38 Parts of hearts
- 39 Verified
- 40 Make better
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- 43 Brewpub choices
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