

## ECONOMICS

# Boosting Wages Is Really Hard to Do



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By [Noah Smith](#)

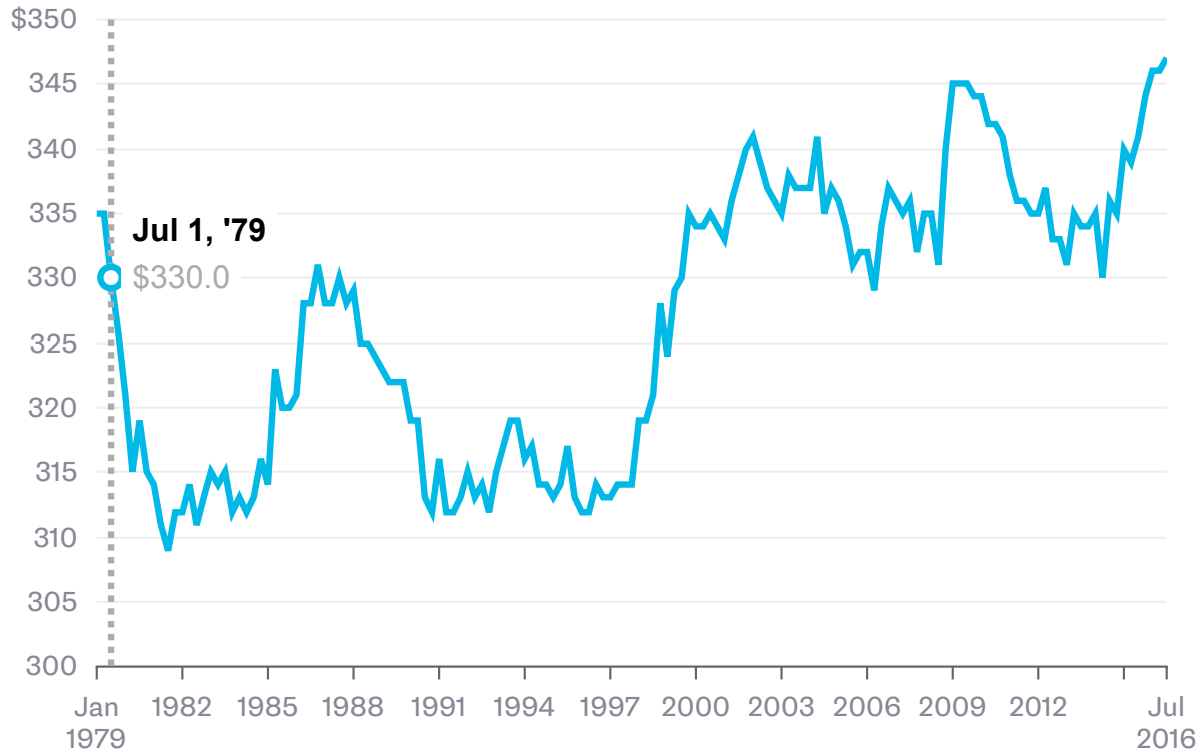
For most people, two things are paramount for their economic well-being -- jobs and wages. A lot of discussion goes into how to raise employment, but increasing wages turns out to be a much thornier problem. In countries such as the U.S., where unemployment is already relatively low, leaders like President-elect Donald Trump need to wrestle with this difficult challenge.

Wages haven't risen strongly in the U.S. for quite some time. One of my favorite measures is real median weekly earnings per full-time employee. This number isn't distorted much by very high earners, inflation or changes in the number of hours

worked. Here's what that looks like for the U.S.:

## Ups and Downs, Little Progress

Median real weekly earnings per full-time worker, 16 and older



Source: Federal Reserve Bank of St. Louis

This number has barely budged during the past three decades, rising just 3.5 percent. Changing that situation, without throwing large numbers of people out of work, is a priority.

So what raises wages? If you ask most economists, they'll give you a simple answer: productivity. The more a worker produces, the more he or she should be able to charge in exchange for his or her services. For this reason, economists generally recommend education as the main tool for boosting wages.

In the past, that was good advice -- universal public education created a skilled U.S. workforce that was crucial to industrialization, which raised wages immensely. But education probably has diminishing returns -- we might boost wages a bit with

cheaper college and vocational education, but the big gains from things like universal literacy have already been mined.

Fortunately, productivity isn't just about individual skills. Production isn't done independently, it's done in teams and organizations. By making organizations more efficient, we can increase the size of the corporate pie, some of which will flow to workers. Recently, economists have realized that there are big disparities in productivity between different companies, and that these differences **matter for wages**.

So another wage-boosting measure is to help those lagging companies catch up. This could mean easing intellectual property protection or banning **noncompete** agreements. Making it easier for ideas and people to flow between companies could raise productivity across the board.

But productivity isn't the only thing that determines wages -- bargaining power is also important. Economists think of the combination of an employer and employee -- a "match," as it's called -- as a sort of pie, which the worker and the company bargain to divvy up. Giving workers more bargaining power vis-à-vis their employers would reduce profit margins and drive up wages.

Some tout stronger labor unions as the way to give workers more bargaining power. But unions can increase costs for the companies and governments, lowering productivity. They can also push up wages so much that they make companies uncompetitive globally, hurting employment. So unions are a tricky weapon to use in the push for higher wages.

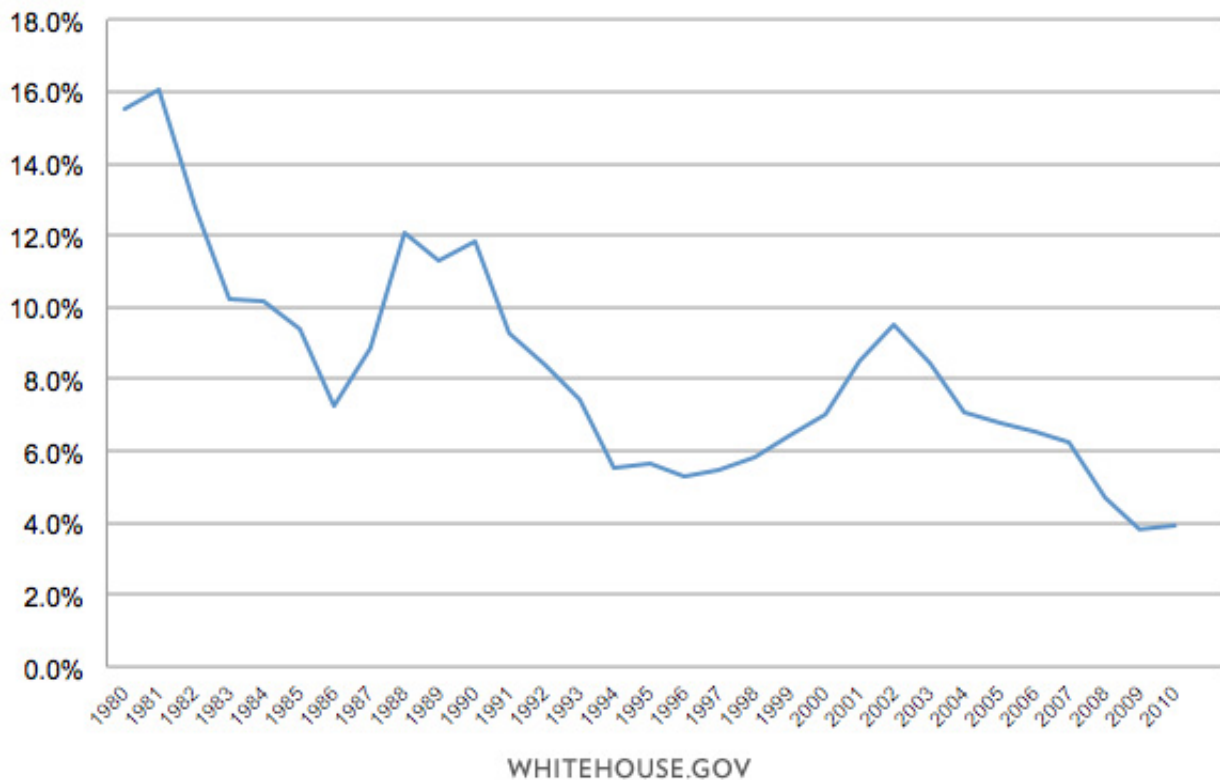
A better way to boost wages is to fight monopsony power. This is the econ term for when some companies are so important to the local ecosystem that their bargaining power becomes excessive. In recent years, the Barack Obama administration has **begun to think** about how to curb monopsony power.

Yet another tactic for raising wages involves taking advantage of the power of cities.

Denser urban areas are more productive, because it costs less to transport goods and people across short distances, and because cities allow people and ideas to flow between companies more easily. By building better urban infrastructure and repealing laws that limit dense development, governments can help raise wages by making the population more urban.

Finally, controlling health-care costs is essential for raising wages. The graph shown above depicts only earnings, but health insurance is also a big part of compensation for many working Americans. The more health care costs, the less companies can afford to boost wages. It's not totally clear yet, but some parts of Obamacare may have [acted to slow](#) health-cost growth. Here, via a White House report, is a picture of how costs have decelerated recently:

## U.S. NATIONAL HEALTH SPENDING GROWTH



So the parts of Obamacare responsible for restraining health costs should be

continued.

So although raising wages is tough, there are many things the government can do. The problem is that the Obama administration was already either doing, or talking about doing, most of these. That fact will increase pressure on Trump to reverse the policies, in order to differentiate himself from Obama, satisfy Republicans in Congress, or simply make liberals angry. But if Trump wants to satisfy the needs and the demands of his working-class supporters, he should sustain and enhance the departing administration's initiatives.

*This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.*

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