The Economist explains

How Clinton and Trump plan to boost wages

Aug 2nd 2016, 23:38 by H.C.

IN 2014 the median American worker earned the same each week, in inflation-adjusted terms, as in 2000. Over the intervening period, GDP per person grew by 13%. But during this time, the country lost about a third of its 17m manufacturing jobs, which are often middle-paying, largely because of trade, technology and outsourcing. The global financial crisis battered the labour market. And the economy developed more acute winner-takes-all dynamics, in which the highly skilled thrive but less-educated workers suffer. (The workforce aged slightly, too, which may have affected earnings.) It is unsurprising, then, that wage stagnation has been a recurring theme in this year's presidential race. Both Hillary Clinton and Donald Trump promise to raise America's pay. How do they intend to do it?

Start with higher minimum wages. Hillary Clinton supports raising the federal minimum wage to $12 an hour, up from today's $7.25, and supports a higher floor in some cities. Donald Trump has—true to form—changed his position multiple times. His most recent view, which emerged on July 26th, is that the federal minimum wage should rise to $10 an hour. A higher minimum wage would help some workers in the low-paying food services and accommodation industries, but would not much boost the pay of middle-earners. It might aid those middle-income households that contain a low-paid second-earner (so long as the higher minimum did not destroy their job by making it unprofitable to employ them).

On trade, Mr Trump promises to bully firms into keeping middle-income jobs in America, and to bring many back. In reality, the trade barriers he would erect would harm rather than help the living standards of most Americans, by making imports more expensive. And protectionism would bring back far fewer manufacturing jobs than have disappeared, because of huge productivity increases. Mrs Clinton has a more modest, but still protectionist, position, promising “to put American workers first” in trade deals. That apparently means rejecting the Trans-Pacific Partnership, which is projected to boost GDP by about 0.5%. Mrs Clinton also pledges to introduce a “manufacturing renaissance” tax-break for companies investing in areas in which there have been mass-layoffs. Her most grabbing wage policy is to induce firms to share profits with their workers. This is less ambitious than it might appear. Firms would receive a rebate on their taxes worth 15% of the profits they share. But the rebate lasts for only two years, and would be phased out for high-income earners. It seems unlikely that such tinkering would have much of an effect.

The candidates’ best idea is to boost infrastructure spending. America’s greatest economic challenge is weak productivity growth, which has fallen from an average of 2.5% per year in the economic expansion of the 2000s to just 0.9% per year since the financial crisis. Over the long term, productivity determines wages. Better infrastructure would eventually boost productivity, and would also immediately create some middle-income construction jobs. Yet it is unlikely to happen so long as Congress rejects either raising taxes or allowing a big rise in deficits. So the odds of the next president having much of an impact on wage growth are slim. In spite of this, they may end up claiming success, thanks to recent economic trends. In the past two years, real median earnings have been up almost 5%. That is partly thanks to the one-off effect of cheap oil, but wages are also rising in cash terms: the median nominal pay rise over last year was 3.6%, according to the Atlanta Fed. The first aim of the next president should be to avoid obstructing this welcome trend.

- 

  ## Clinton’s and Trump’s convention speeches

  How do they compare with those of their predecessors?

  (http://www.economist.com/node/21703232)