MR. HARRIS: Thank you, Richard. So, I think that was a fascinating panel, really interesting. I hope that the second panel can live up to the high bar that you've set.

Let me start with a few words of thanks. First, to all the people watching online, thank you for being part of this. Second, thank you to the Brookings Institution for partnering with the Biden Foundation. The Biden Foundation has a few key pillars, one of which is middle class economics and we wanted to have an event that could feature the Vice President and give his remarks on the middle class, but also tease out some of these ideas we're talking about today. And so we sat down with Camille and Richard, put together this event and so I'm thrilled that it happened today.

And if I can just also add a plug: if you're interested in middle class issues, one of our key outputs to the Biden Foundation is the Biden Forum, which is designed to be a discussion on middle class issues. So, if it's something you like talking about or you like reading about, please visit the Biden Forum.

Let me just start with some really quick words of introduction. This is an all-star panel. It's rare in D.C., I think, when you can think of the four people you want to have on a panel, call them all up, invite them to an event, and they all say yes. I mean, these are our first choices, this is the dream team, so I'm thrilled to have them here today. Really quickly, I'll just mention their current titles and if you want to read about all their accomplishments, you can find that online.

To my left is Melissa Kearney. She is a professor of economics at University of Maryland and also a nonresident senior fellow here at Brookings. Then we have Ben Olinsky. Ben is the senior vice president for policy and strategy at the Center for American Progress. Next, we have Heidi Shierholz, who is a senior economist and the director of policy for the Economic Policy Institute. And finally, we have Michael Strain, who is the director of Economic Policy Studies with our next-door neighbor here at Brookings, the American Enterprise Institute. So, thank you so much for being part of today's event.

The last panel was about a lot of things, including the importance of the movie Jerry Maguire. But -- (laughter) so but it was largely focused on --

SPEAKER: Oh, you should see it.

MR. HARRIS: -- definitional issues. And so the idea is here we want to talk about the middle class through the lens of the labor market. We wanted to talk about both how the middle class is doing today and what are some of the strategies that could help get to a better future for the middle class tomorrow. This is not a future of work panel. We're sort of -- let's just sort of agree to a five to 10-year timeframe right now. We're not talking 20 years out, we're not talking 30 years down the line, but we're talking about today and the near future.

So, let's start with just a question I'll ask all four of you. You can go down the line and we'll start with Melissa. But let's start by talking about the U.S. labor market. So, by conventional measures we now have kind of a good labor market and we got 3.9 percent unemployment. Wages are growing at -- at least they're growing. So, can you talk about, you know, one thing that you see as being a positive aspect of today's labor market and one thing that keeps you up at night that you're worried about?

MS. KEARNEY: Okay. Can I start with what keeps me up at night because --

MR. HARRIS: Yep.

MS. KEARNEY: -- that's more salient to my mind and then I will try and tell you how I get myself back to sleep. So, what I do really worry about is that even unemployment is low and we've sort of moved beyond the recovery at this point and all that's very good news, there are still a lot of people in this country who are left behind. We heard a lot of that -- those themes mentioned on the first panel. We could talk about what came up very clearly in the first panel, was rising in equality in terms of income.

I also worry a lot about the decline in employment rates and in particular among people who in previous generations, I think, we would have thought of as middle class folks. So, folks with high school degrees and some college, their employment rates have declined by 9 percentage points over the past 20 years. And even though employment is low, employment among prime age individuals is still very low by historical standards. So, last I checked, 25 to 54-year-old men, 85 percent of them were working; that's better than five years ago, but it's lower than anytime, you know, in sort of more modern history before 2000. And so this sort of retreat from the workforce of prime age and young individuals keeps me up at night.

The optimistic spin on that is that college attendance and educational attainment is rising, so I very much see this through the lens of educational categories and it is that middle educated category with high school degrees, some college, but not college degree that's gotten, I think, crushed in the labor market and with wages. But the memo seems to have gotten out there. Access to school seems to be expanding such that more people are going to college, women and men across race and ethnic groups. So, that's good. We're up to about 36 percent of 25 to 29-year-olds now have college degrees. It's not enough and we need to do much more, but the trend is in the right direction.

One, like, caveat to that is folks outside metro areas are not increasing their educational attainment at the same rate and so hopefully, we'll have time to come back to it. Those, you know, rural Americans -- and I think this also relates to the conversation of who used to be middle class who feels like they're not middle class anymore -- those groups don't seem to be increasing their educational attainment at the same rate and that does not portend well for their labor market prospects.

MR. HARRIS: And we'll get to the retreat from the workforce in a second, but -- so, Ben, one good thing, one bad thing.

MR. OLINSKY: Okay. I'll start with the good thing. First, as we've seen a tightening of the labor market, I think we've started to see businesses and society generally start to realize we need to bring in folks who have been excluded from the labor market. Think about people who have been just as involved in the past and who have been excluded from employment for that reason, you're now starting to see businesses starting to bound the box. You're starting to see places like Pennsylvania where the state legislature has passed a clean slate law that would basically say for minor non-violent offenses, those will be sealed so that those would not impact on future employment and that would be automatic.

And that's really sort of a first of its kind effort that I think augers well for additional action through the country. And I think as you see these businesses seeking out new employees and finding that they're having a hard time hiring folks, they often talk also about the skills gap, but they don't seem to be willing to raise their wages to actually set the signal that they need more labor in that particular field. But they are opening their aperture of who they're bringing in, so I see that as a very good thing.

In terms of the negative, I will agree entirely with Melissa. If you take a look at it, there's a really significant problem when you think about non-college workers and I'll say specifically those without a bachelor's level degree. And so just as an experiment and to make this a little more interactive, who here has a bachelor's degree? Just raise your hand. So, that is very much not representative of the country, (laughter) which you might expect at Brookings. But by one measure overall --

SPEAKER: It's okay that you all went to college.

MR. OLINSKY: Yeah. (Laughter) It's good. It's -- don't feel bad about it. But when you look across the country, almost two-thirds of workers do not have a bachelor's degree. Right? And so that's the middle class that I want to be thinking about and talking about. And when you think about their wages, they have been stagnant. So, they've been about the same from 2000 to today.

As Melissa noted, the employment rate is particularly problematic for prime age workers. It's 3.4 percentage points below 2000 generally, it's 5 percentage points below 2004, those without a college degree, and it's 7.6 percentage points below 2000 levels for black men without college, which is really significant. And the working class is not exactly who you'd imagine those without a college degree; it's 46 percent women. It's people of color. It's not just this white working class that the President is often talking about.

But overall, when you think about the combination of wage stagnation and also declining employment, you really see actual drops in household incomes. And that makes sense because you hear voters say Americans -- about half of Americans will say that they have faced serious problems finding good jobs with decent wages. And what I would posit is that this is as a result of a structural decline of demand for these workers. It's not just cyclical; this has been going on for men since the 1960s and we have seen a peak for women entering the workforce in 2000 and then the -- you've seen stagnation there.

So, why is this happening? Why are we seeing less demand for these workers? While we have global competition for a low-skilled work, we see also automation, which allows a smaller number of individuals to produce the same amount of output. You see monopsony, a fancy word just saying that businesses have more ability to set the prices for their inputs and you have a decline of unions, which have historically -- and other bargaining power for workers, which have just historically gotten a wage premium for those folks. We've had release valves. Those release valves have been things like more debt, working more hours to accommodate as these trends have occurred, but we've kind of exhausted those and that's kind of what brings us to where we are today.

So, to sum it up, I just want to share one anecdote I once heard from someone, which is: back 30, 40 years ago, you could graduate from high school, get a manufacturing job, and that would pay a really good wage. You'd have health insurance, you'd have a stable job. Today, you have to probably get an associate's degree, you're going to be paid less and you're going to have no stability and security in your employment. And that -- when people talk about manufacturing jobs, what they're really talking about is that old kind of manufacturing job. And so that -- that's what I'll leave you in terms of the trend that we're facing.

MR. HARRIS: Heidi.

MS. SHIERHOLZ: Okay. So, my main -- I'm going to echo a lot of the things people said about concerns. My main concern in the labor market is that -- a profound and rising inequality that we've seen for most of the last 40 years and there's been lots of already discussion about the causes of that. I just do want to echo what Janet said, that it is not a natural outcome of a high tech modern economy. These are policy choices that we have made over and over and over again for the last four decades that have led to these outcomes, which means they -- with the political will, they could be reversed.

Another component -- and I know this is one concern, but I'm just whipping another thing into this concern that one other component of the high inequality that we've been seeing that I'm also concerned about are the persistent and high gender wage gaps and racial wage gaps. So, even when you control for education, age, geography, a set of things, there are still big gaps in wages and the earnings between men and women and between black and white workers. And one of the more positive trends is that the improve -- there has been a steady improvement in the gender wage gap over time, but that is not the case for the racial wage gap. We are not seeing improvement in any -- if anything, we're seeing somewhat of a deterioration in the racial wage gap, so there's serious issues that we need to attack there. So, those are -- that's one concern.

And then one trend I'm really happy about and actually is a little bit different or the -- sort of the flip side of what you guys said is, even though we are -- we did see a huge drop in labor force participation in the aftermath of the great recession, so it's depressed right now, we are actually seeing it grow. So, since the prime age labor force participation hit its trough in the third quarter of 2015 and for the last more than two-and-a-half years, it's been pretty steadily increasing. That's great news for those workers, it's great news for the economy, and it also is a very good lesson for all of us.

In two -- starting in 2011, I think, when the labor -- when the employment rate was still incredibly high, we started to see a whole class of pundits saying -- and I think they were saying it because they wanted to support their agenda of a return to austerity -- saying that, "The high-end employment that we have is due to workers not having the right skills. These workers are never coming back into the labor market. This is sort of where we are now." They were wrong. The labor market since then has steadily improved as aggregate demand has increased, so it's just a really useful lesson to all of those when you hear people saying, "Oh, what's going on now? These terrible outcomes are natural and structural," it's like, keep that in mind to -- maybe you want to dig in that there are policy solutions to some of those things. Thanks.

MR. HARRIS: Michael.

MR. STRAIN: So, my -- the thing that worries me is the same as Melissa's has been echoed in some other comments: the decline of employment rates. This is a seven-decade long problem. So, I think it is the case that over the last several decades, a lot of this can be explained by reduced labor demand driven by changes in technology and reduced labor demand driven by globalization for lesser-skilled workers. But this problem actually predates those trends.

This problem goes all the way back to when we started measuring the data and coming up with a, you know, consistent, unified explanation for this has been extremely difficult for economists. And the trends show, you know, the kind of longer-term structural trend doesn't show any signs of reversing, which is, I think, deeply problematic for both economic reasons, but also for social reasons, despite the fact that participation has been rising in terms of the business cycle since the great recession.

But since that was Melissa's, I'm going to also cheat and give another one. I am concerned about how little we know about the labor market today. Existing government surveys are plagued by increasing non-response. Existing government surveys are plagued by increasing, you know, increasingly inaccurate data. We know less than we used to, we know less than we should. Given the surveys, the statistical agencies need more resources in order to modernize the surveys so that they can better capture what's happening in a 21st Century economy. You know, all sorts of things we don't know.

We don't know much at all about how felons are faring -- people who have a felony conviction are faring in the labor market. We don't know much at all people who, you know, may be working off the books and who are confused by the way that survey questions are designed, or people who are working in the gig economy and are confused by the way that survey questions are designed, you know, to the point that there is legitimate debate among economists about, how important is the gig economy; how important are these things?

We know when you look at the official statistics that fewer and fewer and fewer prime age men are working, but we also, you know, don't see prime age men piling up on the streets in terms of homelessness or prime age men piling up on the streets in terms of starving to death. And so, you know, are -- is this all kind of like a Cosmo Kramer from Seinfeld thing? I'm going to try and beat Richard and do an earlier (laughter) dated reference. You know, what is going on? And in having a more robust statistical system that can get at some of these questions and then can be modernized to reflect today's economy, I think, is important.

What's making me feel good? I'll steal Heidi's answer that we do see -- there was a lot of talk about, you know, people just aren't employable and they're never going to come back into the labor market and, you know, that has been proven wrong so far and we've seen increases in prime age employment, for example. And that's been very edifying to see.

Again, I'll -- I'm going to cheat and do one of my own, too. We've learned something about the 2018 macroeconomy, as well. We've learned that we can run an economy hotter for longer than we thought. When the unemployment rate dipped below 6 percent, you started hearing some voices say, you know, "We better look out. Price inflation is coming up." And then when it fell below 5 percent, we heard even more voices say, you know, "The Fed better be watching this. We're going to see some price inflation."

Now, we're below 4 percent and, you know, we do see some price inflation, but what we're seeing is a return of consumer prices to the Fed's target. We're not seeing any sort of rapid acceleration that would make you concerned about inflation, per se. You know, that is not something that professional forecasters would have predicted, it's not something that Congressional Budget Office would have predicted, it's not something that, I think, most economists would have thought, that you could get the unemployment rate down into the three's and still have trouble hitting the inflation target.

So, the lesson here is that we can run the economy hotter for longer than I think we thought. We can pull more people into the workforce, which is very good, and we can pull some of these hard-to-employ people into the workforce, which is even better. Now, I could be eating my words when we all wake up six months from now and we're living in the hyperinflation, so I feel glad that I don't have Jay Powell's job, but, you know, for now it seems like this experiment is accruing to the benefit of these marginal workers and these workers who were displaced during the -- these vulnerable workers, excuse me, and these workers who were displaced during the recession.

MR. HARRIS: So, just two observations on your answers and your collective answers. One is that after sort of a decade of leader market expansion and with a 3.9 percent unemployment rate, you're still concerned about participation almost across the board. One and two, you're -- the things you were concerned about are worse than the things that you were happy about. Like, you're (laughter) a little bit pessimistic as a group --

SPEAKER: That's our job. (Laughter)

MR. HARRIS: -- which is interesting, given -- well, yeah, but just an observation. So, let's just follow-up on this sort of theme of our participation. Melissa, you wrote this great paper --

MS. KEARNEY: Thank you.

MR. HARRIS: -- I think it was a great paper --

MS. KEARNEY: Thank you.

MR. HARRIS: -- with Katharine Abraham on why -- explaining why we're seeing what we're seeing with the e-pop, with the employment to population ratio. Can you explain just, you know, it was like a 90-page paper so maybe just, you know, distill it down to what were the main themes? One, what's -- what exactly is the decline and, two, why are we seeing what we're seeing?

MS. KEARNEY: Sure. I'll give the cliff notes version. So, you know, the first part of the paper, Katharine and I thought it was important to just get out really what are the facts in employment decline. And a lot of it's been mentioned, so I will just briefly sort of four key facts, which is, one, employment has been steadily trending downward. This decline in overall employment rates is driven by young and prime age workers, so every 10-year age group from 16 to 54 has seen their employment rates decline over the past 20 years. That has been offset and masked to the fact that older workers are working more. And it seems not because they're feeling financially insecure, but because they tend to be healthier and more educated than past gen -- past cohorts. Okay. So, those are two things.

The third, as I already mentioned, the largest declines are among, I think, those who would have previously been considered, like, target for the middle class, those with high school degrees and some college. So, college-educated workers are still working at very high rates. Non-high school, you know, folks without high school degrees still have pretty low employment rates, but they always have, so it's really that middle group that's getting hit. And the fourth thing I want to point out because there's, you know, a narrative out there that a lot of the employment rate decline is driven by the aging of the workforce.

Now, that's important if you're thinking about macroeconomic trends in productivity. That is true, the workforce has gotten older, but as I said, older workers are working more, so in some sense that masks the importance of the decline in prime age workers. And by our decomposition calculations, the decline in work among prime age workers can account for 80 percent of the decline in overall employment in the past 20 years.

Okay. Then what we do is we critically survey over a hundred-and-thirty academic studies. Okay, so this was a labor of love, but there -- there's a lot written. Michael's point notwithstanding, there's still a lot we don't know, but there's been a lot of careful work by a lot of rigorous scholars. And so we survey that evidence and draw conclusions what we think the best estimates from the literature are about the causal effect of a whole variety of factors on employment rates. And then we combine the best evidence that exists from the literature with data on actually what happened.

So, for example, we survey the literature on what's, you know, what's the relationship between the adoption of robots and employment outcomes and then we combine that with data on the number of robots that have been adopted in U.S. industries. We look for the best estimates on what's the causal impact of being imprisoned on subsequent earnings, combine that with data on what actually happened to imprisonment rates.

Our conclusions are that decline and demand for a subset -- subsets of workers has been the driving factor leading to employment rate declines. Okay, so in particular, increased import competition from China since 2000 and the adoption of robots has really led to sizable declines in employment. So, I think it's important to note that, you know, this leads me to respectfully disagree with the suggestion that's been made by other panelists today that it's not about global labor market trends, it’s more about policy choices. You know, I think we have failed to respond to these trends and there is much more policy can do, but there are these large global forces that I think we have to acknowledge. They’re not going to go away and if we don’t acknowledge their existence, we could further disadvantage U.S. workers.

Okay, so that’s what I -- that’s what we’ve concluded about demand for workers. There have also been supply side factors that have been less important, but non-negligible. So, expanded access to and generosity of disability insurance through Social Security and the Veterans Affairs Department that has led some workers who were on the margin of, you know, retraining or taking a low-wage job, they are choosing disability insurance instead. It’s not to say that’s not a program we should have, but it’s a program that we probably need to think about and reform.

Increases in effective minimum wages across states and localities have led to not massive, but non-negligible reductions in employment for young and low-skilled workers in particular. And the increase in incarceration in terms of the overall aggregate employment rates, it’s probably had a modest effect on overall employment -- not negligible, again, but probably modest, and a lot of that is because the folks who we see going to prison, most of them had very little labor force attachment to begin with. So, you know, that suggests that we should be doing more to make sure that those folks are engaged with the labor market and there’s an opportunity to use to reform our prisons to use them more as places as contact with folks who have low labor force attachment. Let’s do what other countries do, make it more about labor market training reform when they’re in prisons. But anyways, so that’s what we put in that.

Just real briefly, you know, because there’s a long list of things that we looked at, the types of hypothesis that are thrown around in policy conversations. Some we conclude that there’s enough evidence to suggest that they haven’t been important. Ones where we think are provocative, potentially important, but the evidence is still unclear includes, you know, changing social norms. Nick Everson has written about that, like, why are young men just willing not to work? That’s really hard to quantify in the data, but I think some good ethnographic research is needed there.

Increased opioid prescription, really hard to separate out the cause and effect there. Increasing leisure, technology, and the fourth one is occupational licensing, which gets a lot of attention.

Our, you know, Katharine and I view that as certainly welfare-reducing, probably inefficient. The extent to which it's actually led to a reduction in job or job growth, I think, we need more research to definitively say.

MR. HARRIS: Great. And so let's just transition now quickly to taxes. 2017 saw a massive --

SPEAKER: Hard transition.

MR. HARRIS: What's that?

SPEAKER: That's a hard transition. (Laughter)

MR. HARRIS: It's a hard transition. But -- so 2017 saw a massive tax cut. Michael, your former colleague, Kevin Hassett, who's now chair of CEA, said that the corporate tax cut from 35 percent to 21 percent had a major impact on wages or will have a major impact on wages. Do you agree with Kevin? Will it boost wages by $4,000 a year down the line?

MR. STRAIN: Well, I don't think it'll boost wages by $4,000 in the near term, but I do think that it will increase wages. You know, what the -- what a reduction in the corporate tax rate does -- which, by the way, is something that the Obama Administration was behind, that economists of all, you know, political views typically have been behind, relative to where it was in current law. Of course, the Obama Administration wanted to reduce it by significantly less than the Trump Administration ended up reducing it. But there was widespread agreement that the rate was too high where it was.

It makes investment after taxes a little bit more profitable. And that's going to induce some additional investment on the part of businesses. Some additional investment on the part of businesses is going to make workers a little bit more productive. And if workers are a little bit more productive, their wages are going to go up. That kind of chain of events, that story is essentially true. And so we should expect to see wages go up. We should not expect to see wages go up six months after the rate went down because it takes a while for businesses to invest, it takes a while for workers to increase their productivity. You know, whether it's a year-and-a-half later or three years later or five years later, I mean, a lot of that is really context-specific. But the question whether the reduction in the corporate tax rate will increase wages, I think the answer to that question is, yes.

Now, there are a lot of caveats to the extent that corporate profits are driven by rents and not driven by investment, then this will not have an effect. Certainly, some corporate profits are driven by rents; certainly, not all corporate profits are a rent. So, the precise magnitude of the wage effect is something that will be studied and that we'll know a few years from now, but I'm confident in predicting that a reduction in the corporate rate of that magnitude will increase wages.

Now, there are a few caveats. One caveat is that a lot of the stimulative parts of the bill expire, so the ability to deduct all your expenses immediately, for example, that has an impact on investment that expires. That'll probably be extended, but, you know, that introduces some uncertainty. A major complicating factor is the increase in the national debt that's driven by the overall tax bill, not just by the reduction of the corporate rate, but by everything that was included in the tax bill. That increase in the national debt will work against increasing business investment by pushing up interest rates and making it more expensive for businesses to invest. So, over a long time horizon, if we don't do something about the debt, it's very possible that the overall tax bill will push wages down by about the same amount that the increased incentives to invest will push wages up and you could have something that's closer to a wash.

And the third point that I would make is that, you know, while it is the case that reducing the corporate tax rate is a good thing to do for worker wages, it is also the case that it is not a sufficient thing to do for worker wages, particularly for low-wage workers, which is where I think the majority of the concern should be. So, we should not say, "Oh, okay. We cut the corporate rate. We've done what we need to do for the low-wage labor market." We should be thinking about other things that are specifically targeted at the low-wage labor market, as well.

MR. HARRIS: And so transitioning to labor policy now, Heidi, you served as the Chief Economist at Department of Labor for the Obama Administration --

MS. SHIERHOLZ: Mm-hmm.

MR. HARRIS: -- up until the very end. We are now, I don't know, a year-and-a-half into a new Administration. Can you comment on just, you know, are there -- what -- I'm just going to assume that you're troubled by what's happening (laughter) in the Trump's Administration and ask you, (laughter) what troubles you about what's happening with the Trump Administration with labor policy?

MS. SHIERHOLZ: So, I think at the Department of Labor, the umbrella way to describe it is there's just been a shift from prioritizing the concerns of workers and their benefits and wages and safety and retirement savings to prioritizing the concerns of their bosses. And you can see that show up in, like, every little thing that the Department is doing. And I will just -- I'll mention a couple, but the most salient one actually turned out well for workers, but it's a very stark descriptor of sort of the values shift at DOL and that's this thing that the -- this proposed rule they put out last December that would have shifted -- it would have allowed employers to take control of workers' tips.

And I think that DOL thought that they could sort of slip it through quietly because they did it under the guise of tip pooling, but there are a lot of people that are paying very close attention to what DOL is doing and got out the word that this rule is about allowing employers to take workers' tips. There was a huge outrage. It was fueled by this great investigative reporting that showed that DOL had actually done their own cost benefit analysis showing that this rule would have been terrible for workers and because of that, they just buried it. But it then got out through the -- through great investigative journalism. So, DOL was sort of on the run because they're being bled dry by all of this stuff going on, so they actually came to the table to compromise.

So, embedded in the omnibus spending bill was an amendment to the Fair Labor Standards Act that says employers cannot take workers' tips. Workers' tips are the property of the workers who got them. So, that ended up fine, but it is sort of -- it nevertheless shows where this DOL is. The National Restaurant Association has wanted to get control of workers' tips forever and they've never been able to find an Administration that would attempt to do it for them and this one did. So, that was a big thing, but it turned out okay.

Other things that are not turning out okay, I'll just quickly list a couple. The overtime rule, the 2016 overtime rule that increased the value -- the threshold below which workers must be paid overtime pay if they work more than 40 hours a week, that rule has been completely abandoned by the Labor Department. I think what is going on right now is that they're writing a -- another rule, going through another rulemaking that will drastically reduce the 2016 threshold.

And another big one for retirement savers is the total abandonment by the Trump Administration of what is known as the Fiduciary Rule. And that's the rule that just said, "Like your doctor is already required to do, like your lawyer is already required to do, your retirement investment advisor has to actually act in your best interests and they can't do things like steer you towards investments that give you a lower rate of return but give your advisor a bigger commission." The rule would have outlawed stuff like that. The rule has been totally abandoned by the Trump Administration and is -- at this point, it's -- the curtain has closed on that rule.

So, there's a -- there's more -- there's a -- it's sort of deaf by a thousand cuts at the -- (laughter) in the -- what's going on there, but those are a couple biggies, but it really is just this big value shift towards protecting workers, which is the mission of DOL to much more prioritizing the needs of their bosses.

MR. HARRIS: Thanks. Now, so, Ben, you were also like Heidi, you were a leader in the Obama Administration when it comes to labor policy. I'm sure you have thoughts on that last question, but let me ask you a different one instead. You've written a lot about the connection between the size and health of the middle class and mobility and we heard about this a little bit in the past panel. Why does -- can you just talk about why exactly a healthy middle class matters for mobility, what are the mechanisms that impact it, and what you found in your own research?

MR. OLINSKY: Sure. I'd be happy to, though I can't resist just making (laughter) one comment on that last question and to build on something that Heidi mentioned on the overtime rule. You know, a stated purpose of the Fair Labor Standards Act was actually to spread work around.

SPEAKER: Yeah.

MR. OLINSKY: So, it is very telling to me that as this panel really focused on sort of the employment rate and the issue of labor force participation and the availability of decent jobs, it really seems to me that the overtime rule, which has two effects, raising wages and creating more work, which, you know, even would be acknowledged by many industry groups, like, is very telling that, that was actually -- the rug was pulled out from under it when you have this policy that could have really helped.

But on to mobility. I want to start just with a brief story about my grandfather. He grew up in poverty, as did my grandmother, on my mom's side and he went into the workforce, of course, and then he worked in produce for his entire life. Attained a high school degree and was able somehow, during that generation's time, to buy a house, put kids through college, get a pension, a real defined benefit pension, and even today lives independently up in Robe Island, based on his own savings and pension. And I have really thought about this a lot as to, could someone coming out of high school now get to do those things? And I think for many, the answer is a very loud no. And so this goes to the heart of the American dream. Right?

So, 97 percent of Americans agree that we should have equality of opportunity. 97 percent of Americans don't agree on almost anything, but they agree that there should be an equality of opportunity for Americans. Yet, we're behind other countries on the American dream. If you take a look at the chance that someone born at the bottom of the income distribution in their family's household gets to the top, we are behind other countries. In Canada, you have a twice -- you're twice as likely to get to the top if you're born at the bottom. That's really striking to me.

And so what we've seen from especially Raj Chetty's work, which was referenced earlier, intergenerational mobility has been flat in term -- relatively, but in absolute mobility there's been a sharp decline. And so if you think about this, in the cohort he studied, roughly, those born in 1980, only half have surpassed their parents' income. And the other thing that we learned from some of Raj Chetty's research is that place matters. Where you're born matters for your intergeneration mobility. But one challenge that we're also seeing is that people aren't moving as much as they used to. So, you don't have that geographic mobility that allows you to achieve some of that economic mobility.

And so I took a look at -- this was, I guess, four or five years now. I took a look at Raj Chetty's work with a colleague of mine at the Center for American Progress, Sasha Post. And, you know, he had at that point looked at 28 different correlates of mobility seeing what factors were correlated with higher mobility. And they range from everything from commute time, right, to inequality to endemic poverty, et cetera. But one factor he had not looked at was the size of a region's middle class. So, taking a look at what percentage of that region, a commuting zone, he looked at, fell between the 25th and 75th percentiles in the national income distribution.

And, you know, we had this hypothesis that places with a strong middle class do things like investing education, have better civic engagement, invest in other critical social services. So, our hypothesis -- and this also based -- is based a lot on some of the foundational work that Heather Boushey from the last panel had done around middle economics. We had this hypothesis that you would see greater mobility in those places. And sure enough, when you look at the size of the middle class, that was stronger of a correlation than 26 out of the 28 correlates he looked at. And that's even after accounting for making sure we're not just -- we weren't just pulling in the density of poverty in those regions. So, this was really, really striking to us.

And what that roughly means is, for every 10 percentage points increase you have in a community's middle class, you would see 5 percentiles that someone born at the bottom would rise by the time they got to be 30. That's really striking.

Now, I also want to caveat, as we did in the paper. It's not causation, so, you know, we have a belief that there are a number of reasons one might think this does lead to these outcomes. The other thing I will note is, this didn't work across all racial groups. What we saw was in general, this did apply across racial groups in area -- in most areas, but for areas with high concentration of black residents, you saw -- you still saw that positive correlation, but it was mitigated; it wasn't as strong.

And I think I would associate myself with many of the comments from Kilolo from the previous panel, because I think what you do see is issues like structural racism and discrimination in housing and employment that leads to that sort of mitigated effect of having a large middle class in some communities. But still, you still saw a positive correlation and it really told me or instructed me that by building middle classes, by putting in the investment to having a strong and robust middle class, that helps people not just in the middle, but at the bottom also have a chance of rising it.

MR. HARRIS: So, let's talk a little bit about labor market competition and its impact on the middle class. We'll start with Michael and move this way. But, you know, we're starting to hear more and more about competition or lack of competition, what's driving it. Brookings had an event in February on it. Heidi, you had a paper as part of that Hamilton project event. Michael, from your perspective, is there a lack of competition labor market, is it getting worse, and if so, what needs to be done to fix it?

MR. STRAIN: So, I'm not overly concerned about this issue, which probably puts me at odds with some of the people on the panel. You know, I do think that there are regulations in the labor market that clearly affect the competition in a negative way, things like occupational licensing, for example, that are kind of blindingly obvious things that need to be fixed. When you hear about, you know, non-compete agreements for people who are making sandwiches at Jimmy John's, you know, that obviously is ridiculous.

SPEAKER: Yeah.

MR. STRAIN: I think occupational licensing has a real effect. I'm just not sure whether those Jimmy John's non-compete agreements are actually enforced on a broad enough scale that they would have an effect, but they seem kind of silly when you think about them. So, you know, there are certainly kind of specific things you can point to, I think, in the labor market and say, "Well, you know --

SPEAKER: Yeah.

MR. STRAIN: -- it shouldn't take 2,000 hours of training to be an interior decorator or a cosmetologist," or whatever. But in terms of, you know, a systematic problem that is something that should, you know, rise into the top three or four things we're concerned about in the labor market, you know, it's -- it does not even approach the top three or four things that I am concerned about. And, I think, you know, when -- I mean, my -- you know, again, I think, the right place for policy to be focused is on the lower end of the wage distribution and among lower-wage workers.

And there, you know, it seems to me, you know, if anything, that part of the labor market can be more competitive than segments of the income distribution that are higher up, you know, where there are, you know, more legitimate needs for licensing, things like surgeons and lawyers and where, you know, there's -- there are fewer employers and so there actually is more opportunity for the kinds of salary collusion that people are concerned about and things of that nature, so --

MR. HARRIS: So, what about industry concentration? Does that worry about, you know, we're -- we talked about non-competes and you talked about occupational licensing. What about increased concentration among employers? Is that something that you worry about?

MR. STRAIN: Well, so those are separate issues. Again, I'm not overly concerned about industry concentration. You know, I do think that, you know, by some statistics, you know, the top 4 percent and the top four firms in the industry or whatever, you do see more concentration. I think a lot of the conversation ignores the benefits that come from size. There are real economies of scale and that really accrues to the betterment of consumer welfare.

A lot of this conversation is currently around big tech issues, which is confusing to me because when I learned economics I thought that monopoly meant that the price goes up and the quantity goes down, but Gmail, Twitter, Facebook are all free and supplied an infinite quantity.

So, you know, again, I mean, this is just not -- this is not, you know, I mean, look, there are real problems, right? People aren't working, it's difficult for people who have criminal histories to get into the workforce, people are not getting skills beyond the high school level when they should be, there are serious problems with family structure that have labor market implications, there are serious problems in some parts of the country with discrimination that have real labor market discrimination -- or, I'm sorry, real labor market effects, we aren't subsidizing earnings enough for people without children on the lower end of the labor market. I mean, there are so many issues beyond the non-compete agreement with Jimmy John's that may or may not be enforced that it's really hard for me to let, you know, this rise to the top of my list.

MR. HARRIS: Interesting. Heidi, what's your take?

MS. SHIERHOLZ: I might be able to help because I think there -- I think I got something that could help bridge what may be -- there is this very interesting conversation going on right now about increased concentration, about reduced competition in the labor market, but I -- there's something about what you said that I think is perhaps useful. I -- the -- so one of the things, if you are trying to explain the trends that we've seen in inequality over time, over the last 40 years, we've seen massively increasing inequality, how much of increasing concentration right now can actually explain that?

And I don't necessarily think that, that -- I think there is -- we -- non-competes are an issue, increasing concentration is an issue, but I don't think it has a lot of power to explain a huge portion of that massively increasing inequality over that period. But here --

MR. STRAIN: I totally agree. (Laughter)

MS. SHIERHOLZ: So, here's a -- but here's a potentially useful way to think about what might -- how these things might be connected, concentration or lack of competition and rising inequality. Let's think about what perfect competition really is. Perfect competition is like this workers utopia. What it means is that employ -- essentially, employers have to pay workers the value of what they produce. And if they don't pay workers the value of what they produce, their workers will immediately quit, immediately find another job at an employer where they will get paid the value of what they produce, and the employer that tried to pay them less will go out of business.

That's what the model of perfect competition says and that's bonkers. Like, we all know that that does not describe huge swaths of the labor market and it never did. Employers have always had power in various parts of the labor market to set wages below a worker's marginal product. And so the thing that's different now from 40 years ago is that 40 years ago there were countervailing standards and institutions that gave workers power to counterbalance that employer power to set wages lower. Workers had unions, workers had stronger labor standards. As those things have eroded over the last 40 years, we haven't then had the things that was a check on the employer power that was due to the lack of competition that was all -- the lack of perfect competition that was there all along.

So, I think that there's a -- it's a little bit of a twist on what you're saying, but gets back to the, you know, it sort of gets back to the things that you -- that are -- should be front and center when we think about how to address lack of competition in the labor market, is we need unions. We need labor standards. We need the things that give the countervailing power to workers to -- as a check on employer power.

MR. HARRIS: So, Melissa, let's get your take, and then Ben.

MS. KEARNEY: Okay, great. So, there's a lot to -- a lot here. I think I tend to agree more with -- well, you both agree that increasing firm concentration has not been a key driver of either inequality or the reduction in employment, but there's three points that I want to make, based on what I've heard said so far on this point.

The first is, let me give a counter-story to the idea that sort of firms with market power are capturing rents and not sharing with workers. One of the things we do know that has been a key driver and increasingly important in wage dispersion is dispersion across firms. So, what I mean is that there is more dispersion sort of within jobs, within occupations, within industries across firms than there is within a firm, okay? So, let me put it differently. For whatever job you have, what wage you will get is increasingly determined by what firm you work for. So, if you are an engineer, you will do better at Google than an -- at some engineering firm in a small town in the Midwest. Okay? That's for the same level of skill.

That sort of spins this story differently, which says that, you know, these firms that have greater market power, they're more profitable and they're sharing in those profits or productivity with their workers. That has a very different policy implication than thinking about larger firms as capturing rents from workers. Because the policy implications there are, we have to figure out why are some firms better at turning inputs into output. Why are they more productive? And what can we do to facilitate the spread of ideas or their organization or management practices or whatever in a way that benefits more workers? Okay, so I think the role of firms is really important, but it's a little bit more nuance than just big firms, bad for workers. In fact, the data poses almost the opposite relationship.

The second thing, though, that's related to this is that increasingly there is what Enrico Moretti refers to as the geography of jobs. And so, you know, these firms in high productivity places -- New York, San Jose, San Francisco -- they're doing really well and the workers and people who live there are doing really well. Okay? So, why is it that those places are growing and other places are declining? And why is it that workers are less likely to move than they were in the past? So, this is one way in which we have sort of, you know, in dying labor market, there is one employer left. And yes, they have market power over the workers. But part of the reason they have market power over the workers in not because the workers aren't unionized, necessarily; it's because the workers have limited skills, limited places to work, and they're not leaving. Okay?

So, we have to think about why workers seem to be stuck in these distressed areas. How much of that is, they don't have the information about where to go, they don't have the liquidity or cash to move, they don't have the skills where they feel like they could get jobs? We really need to take those challenges seriously.

And the third point, like, you know, it -- I just -- I worry that the more we push on institutions -- like, I would love to be able to say, "Let's give workers back their bargaining power with a higher minimum wage or increased unionization," but the truth of the matter is, there are these other forces that we can't ignore, right? So, I'm enough of my mother's daughter that it makes me sad when I walk into a restaurant and I have to put my, you know, my order into an iPad. Okay? My mom wouldn't get an ATM until two years because she thought that was really not nice to bank tellers. Like, I get that and it's sad, right? But I'm also enough an -- of an economist to know that if, you know, a small restaurant owner has to pay $15 to his sort of low-skilled worker, he's going to get a lot of robots or iPads and we have to -- like, that's a tension that if we really want to help workers in the middle class, I think, we really have to be honest about.

MR. HARRIS: Ben, what's your take on competition?

MR. OLINSKY: I have to respond to what Melissa just said. I think we've agreed on a lot of other things, but here, I think I disagree pretty strongly. When you take a look at care jobs, these have not been roboticized and we don't pay them well.

MR. HARRIS: Right.

MR. OLINSKY: And so --

MS. KEARNEY: Yeah, we know robots can't, like --

MR. OLINSKY: And --

MS. KEARNEY: -- do that.

MR. OLINSKY: And so I would posit that bargaining power plays a much bigger role than Melissa in conceding, understanding that there are also other trends that I've acknowledged in my earlier remarks around globalization and automation.

I want to tell a story. I'm not an economist like the rest of the folks here, so I'll tell a story, which is that you had a much more robust worker bargaining position back a number of decades ago and that there's been a vicious cycle and that this will lead back to competition, which is businesses sought to be able to depress wages for obvious reasons. They did not want to have their workforces unionized, so they attacked unions in the courts, in the legislatures, with employees. And ultimately, union density started to decline.

At the same time that that happened, there's a political economy story, which is, as there was less of an institutional worker representation to push back in the political arena on things like minimum wage, on things like overtime, you saw business were able to suppress some of the stronger labor protections that you saw historically. And then we sort of see the next iteration, which is around competition. So, I don't think that it is driving a lot of what we're seeing today, but I think it is a very dangerous trend.

So, whether you're talking about non-competes at Jimmy John's, which I think we all up here would agree is kind of ridiculous and is only an anti-competitive practice, I would also posit there are other practices that have been creeping in, things like non-disclosure agreements, things like mandatory or forced arbitration. So, even in light of this most recent Me Too movement in which you are seeing people come forward, many people have felt in the context of sexual harassment they couldn't because their employment contract had a mandatory arbitration clause and a non-disclosure agreement that they couldn't get around. And, in fact, many employers are using these mandatory arbitration clauses to get around claims around wage theft, which is really ridiculous. So, as you have firms that have increased political power and are donating all this money and have an outsized voice in Congress, they're also able to put the squeeze in competition in the labor market.

MR. HARRIS: Can I just ask you guys to spend one minute on the final question. We just have a few minutes left. Let's say you are the U.S. Labor Secretary and the President calls you up and says, "What do we need to improve the labor market for middle class workers," what's your just quick -- please take no longer than a minute. What's your answer? (Laughter) Let's just start with Heidi and then go to Michael, then come down here.

MS. SHIERHOLZ: Okay. All right. Can I -- I'm going to first start and say if I didn't have to pick just one, it would be a suite of things, like we need to raise the minimum wage and overtime protections and paid sick days and fair scheduling laws and good enforcement of all of those things. (Laughter) I get that I -- I can't do -- I have the -- each of those would be their own initiative; I have to pick just one. If I'm going to pick just one, I would pick the thing that would be the most likely to sort of cover all of those things and that's boosting unionization. All of those things are things that people negotiate in a collective bargaining agreement, so it has a -- boosting unionization gives you really big bang for the buck in terms of creating a fairer economy.

So, I -- do the things we need to boost unionization, like make sure that workers who want to join a union are able to do so free from retaliation and intimidation by their employer like through massively increasing penalties for unfair labor practices. Make sure that workers who do join a union are able to get to a first contract through things like mandatory mediation if contract negotiations are breaking down. Ban so-called right to work laws that are the things that mean that we're -- that unions cannot be a -- cannot require workers who get the benefits of union representation from paying for their fair share of that union representation. So, it's those set of things, the suite of things that we could do to boost unionization, which, I think, is the biggest bang for the buck, if I had to pick one.

MR. HARRIS: Michael, you have 60 seconds.

MR. STRAIN: I assume Congress isn't involved -- I get -- (laughter)

MR. HARRIS: You can assume whatever you want. It's a hypothetical exercise. (Laughter)

MR. STRAIN: Congress tends to screw things up. I -- if I had to pick one thing, I think it would be to look very seriously at significantly expanding earning subsidies for low-income households. I think given what we know about the effect of globalization and the effect of technological advancements over the last 20 or 30 years on the low-wage labor market and specifically on the wages that are offered in the low-wage labor market, that's a very effective solution to that challenge, given what we know about how previous expansions of those earning subsidies have pulled millions of people into the workforce, I think that -- I would expect that that would happen again. And given that we know that every year, millions and millions of people, including several million children, are lifted out of poverty as a consequence of those subsidies, making them bigger makes all the more sense.

MR. HARRIS: Okay. Ben, one minute, please.

MR. OLINSKY: One minute, okay. Well, I associate myself with everything that Heidi said, so I'm going to cheat, too.

MR. HARRIS: Me, too, maybe. (Laughter)

MR. OLINSKY: I definitely agree with expanding it.

MR. HARRIS: Excellent.

MR. OLINKSY: What I will say is that -- to expand and go even further down a line that Heidi did, I think we should explore things like sectoral bargaining and wage boards so that we are dealing with wages not just for the very bottom with the minimum wage, but also in the middle. And if you take a look, it's really hard for one -- for a firm to unionize when that firm is saying, "Well, look. I'm going to have to compete against this lower cost sort of low-road firm over here," and so you take a look at some other countries and how they've, you know, seen better histories of wages. They have more sectoral-wide bargaining and I think we've started to see wage boards being used here in California, in New York with fast food workers with the Fight For 15. And so I think that's a place to go.

I think the other thing tied to sectoral bargaining is apprenticeships and really making sure that we're promoting the kind of rigorous, high-quality apprenticeship, registered apprenticeships that have led to $300,000 in increased earning and benefits over the lifetime for workers, historically, but trying to massively expand them to sectors in which we just don't see them here today. So, building on what we've done in the building trades, but getting them into tech, getting them into the healthcare so that you have a greater investment by business in training while also leading to higher wages for workers.

MR. HARRIS: Thank you. Melissa, final word.

MS. KEARNEY: Sure. I'm going to push for a, like, huge dedicated commitment to massive skill upgrading of non-college educated Americans, something on the order of what we did in the early 20th Century when we made secondary education available for everybody. We need to make sure that individuals who have been dislocated, displaced, or don't have the skills demanded in today's economy have a productive opportunity to contribute and prosper. Build on things that were started with the previous Administration in the Department of Labor, labor these guided pathways models that are being implemented around the country.

Community college, high school, private sector partnerships where we're taking kids, young individuals, and giving them guided pathways into the workforce. Community colleges, like, let's double down on them. Millions of students go to community colleges; we need to make sure they're getting a return on the investment, we need to make sure the American taxpayer is getting a return on the investment. We have lots of loans and funding for those schools for individuals. Completion rates are low, students aren't sure what to study. Enhanced student supports and advising can really just sort of capitalize on that whole institution.

And I'm going to combine it because they all have -- I'm going to combine it with active labor market policies where we're just way behind what European countries are doing in terms of active labor market policies, so let's make sure we have vouchers for adults to get accredited, directed training. Let's make -- let's expand existing DOL programs for moving vouchers for people to leave economically distressed areas and go in search of jobs. I'll stop there.

MR. HARRIS: Thank you. So, as everyone stays in your seats, please, for -- as we transition into the third and final segment of today's program, can you please join me in thanking our outstanding panelists today? Thank you. (Applause)