

# Why Does the Lowest Paid Workers' Wage Rise in the Recession of the Past Three (2020-2023) Years in the United States?

Haozheng Pei

New Oriental Academy, Beijing, China

## Abstract

Starting from 2020, the United State entered a recession due to the outbreak of COVID-19, but the real wage of low-income worker increased rapidly during this recession. Recession refers to a decrease in real GDP for more than half a year, which happened in the first two quarters of 2020. Low wage workers refer to workers who earn below the poverty line in spite of working full time that mostly consisting of race minority groups. By identifying the reason and analyzing the impact of recent wage raise, the government can pare down the inequalities of minority groups and increase the life quality of low-income workers. Overall, during the periods of 2020-2023, governmental policy influenced the wage change in the labor market. This study will consider inequalities and labor movement and put forth some recommendations including increasing in minimum wage and changing in government regulation with regards to labor union to maintain wage growth of low-income workers.

## Keywords

**Pandemic; Low-income Workers; Labor Union; Labor Movement; Quantitative Analysis; Government Response.**

## 1. Introduction

Just as anthropologist David Graeber mentioned in *On the Phenomenon of Bullshit Jobs A Work Rant*, "in our society, there seems a general rule that, the more obviously one's work benefits other people, the less one is likely to be paid for it". Low-income workers need to be taken care of since a lot of them are performing jobs that are crucial to the development of the society. Meanwhile, the impact of COVID-19 on the low-income group is significant at the beginning stage. According to government policy records and quantitative data set from existing works, several causes for the phenomenon are concluded. Based on the causes of increase in wage, it is reasonable to conclude several recommendations based on the information, including economic and political recommendations. Government policy during the pandemic and change in labor markets causes the wage of low-income workers rise during recession.

Organization of the Text.

## 2. Context and Definition for Key Terms

Before I start to investigate the relationship between wage increases and recession, it is crucial to understand the definition and background information when the issue is happening.

Stijn Claessens and M. Ayhan Kose's article for IMF refers to recession as "Two consecutive quarters of decline in a country's real (inflation-adjust) gross domestic product (GDP)" [1]. Due to the impact of COVID-19 on national GDP, it is reasonable to categorize the economic impact of the COVID-19 pandemic as a recession. According to the Office of the Assistant Secretary for Planning and Evaluation in the United States, "We define low-wage workers as workers whose hourly wage rates are so low that even if they worked full-time, full-year their annual earnings would fall below the poverty line for a family of four". In this recession, the people who get the

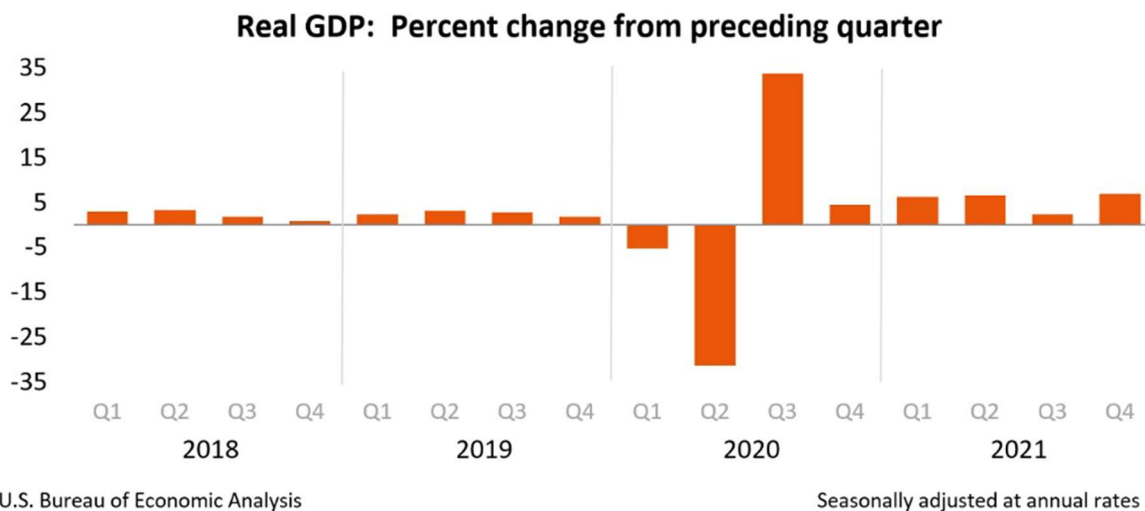
most affected should be low-income workers. In some cases, the influence can even be positive, including an increase in overall wages. Under all the causes, there were a lot of social movements under the impact of COVID-19.

Just as sociologist, Steve Matthewman mentioned, COVID-19 seems like “unprecedented social experiment” [2]. This “social experiment” includes challenges of freedom and rights, but also altruistic behavior around the world during the pandemic. People before the pandemic did not expect this at all, further changing people’s perception of globalization. The paper provides the cause and consequence of the phenomenon as caused by COVID-19. To understand the consequences of the pandemic, understanding the causes and initial impact is crucial. Due to the economic impact of the pandemic, all governments take action about the pandemic, which is crucial to people’s lives.

### 3. Literature Review

#### 3.1. Macroeconomics Perspective to Discuss Recession

The pandemic is one of the factors causing the economic recession of the United States. In the first and second quarters, the real gross domestic production in the United States declined.



**Figure 1.** Real GDP: Percent change from preceding quarter in the 2018-2021 periods

Meanwhile, this lack of economic development can also be found through slowing inflation rate. As shown in the chart, the inflation rate in 2020 is significantly lower than that in both 2019 and 2021-2023.

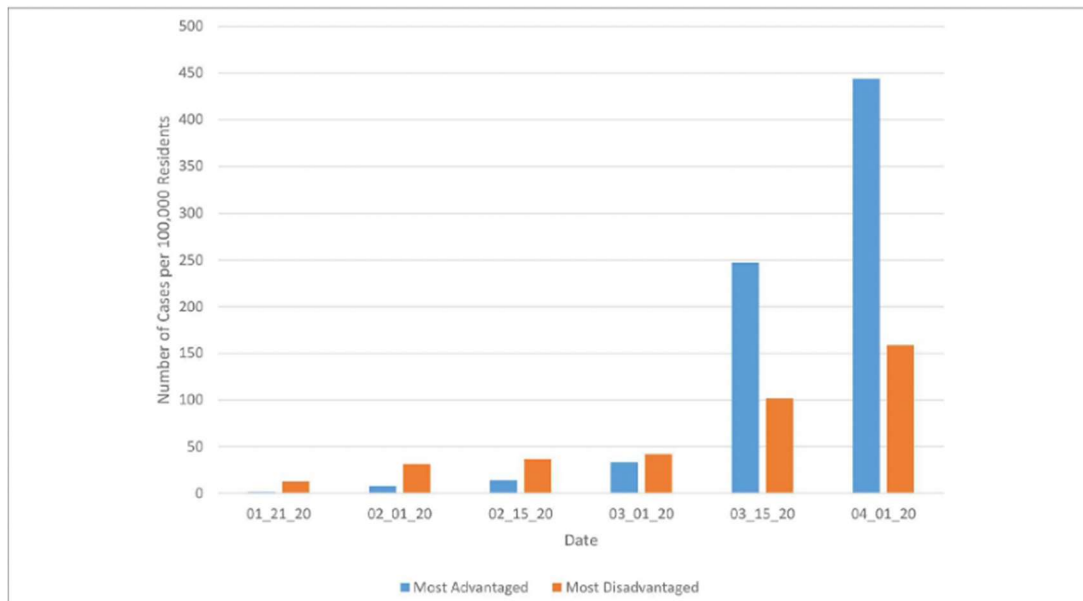
Download: [xlsx](#)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2
2019	2.2	2.1	2.0	2.1	2.0	2.1	2.2	2.4	2.4	2.3	2.3	2.3	2.1	2.3
2020	2.3	2.4	2.1	1.4	1.2	1.2	1.6	1.7	1.7	1.6	1.6	1.6	1.8	1.6
2021	1.4	1.3	1.6	3.0	3.8	4.5	4.3	4.0	4.0	4.6	4.9	5.5	2.6	4.5
2022	6.0	6.4	6.5	6.2	6.0	5.9	5.9	6.3	6.6	6.3	6.0	5.7	6.2	6.1
2023	5.6	5.5	5.6	5.5	5.3	4.8	4.7						5.4	

**Figure 2.** US inflation rate from 2019 to 2023 per month

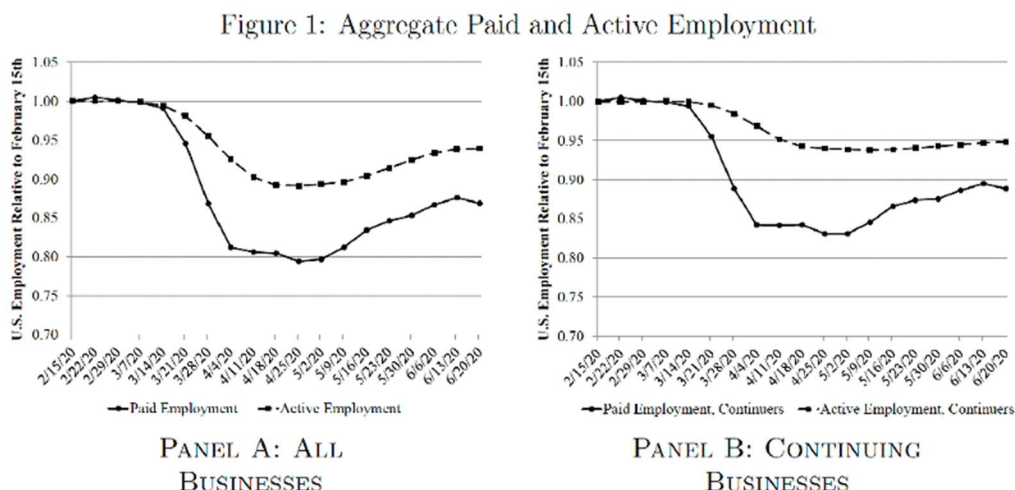
### 3.2. Rising Wages of Low-income Workers

Low-income workers, who are also known as most disadvantaged people, were affected the most at the beginning stage of the pandemic. Holmes Finch's paper includes "two statistical models were employed using SAS version 9.4. According to [3], In order to assess the relationship between poverty and the number of confirmed COVID-19 cases, multiple regression was used, with the independent variables being the date, the poverty index, and the interaction of the two variables". Then, he concludes that at the first stage of the pandemic, low-income groups had been affected the most in comparison to middle- and high-income groups.



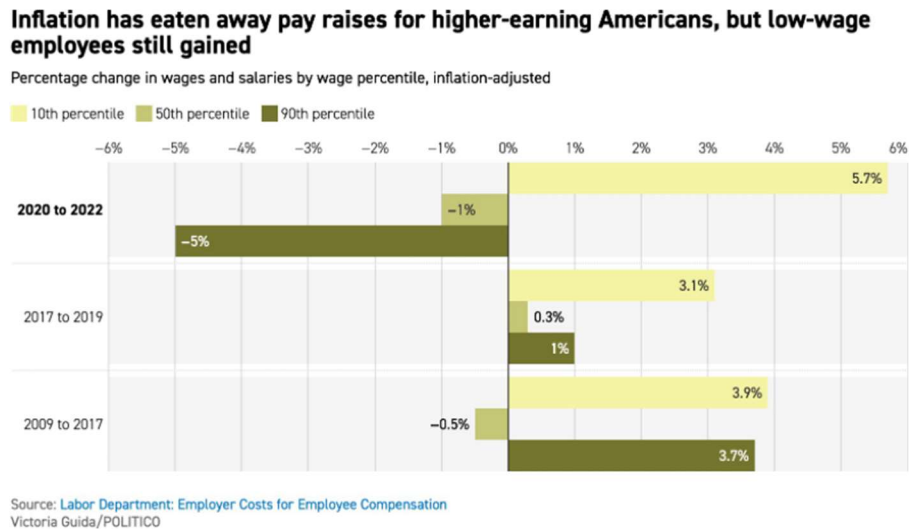
**Figure 3.** Number of cases of COVID in most advantaged and disadvantage workers

When the pandemic was prevailing, especially during the 2020-2022 periods, the overall wage stayed stagnant and even slightly fluctuated at the beginning of the pandemic. In research, Tomaz Cjner [4] analyzed the changes in aggregate employment in 2020 using the payroll data during the recession and concluded that after several years of finding, the aggregate payment recovers back to their original payment.



**Figure 4.** Aggregated payment and active employment

However, in addition to this overall tendency, the worker whose wage is in the 10<sup>th</sup> percentile experiences a tremendous increase in real wages. According to Victoria Guida[5], from 2020 to 2022, the middle- and high-income groups suffer from a decrease in real wages. On the contrary, wages of low-income group rise exceedingly, which even surpass their previous growth rate.

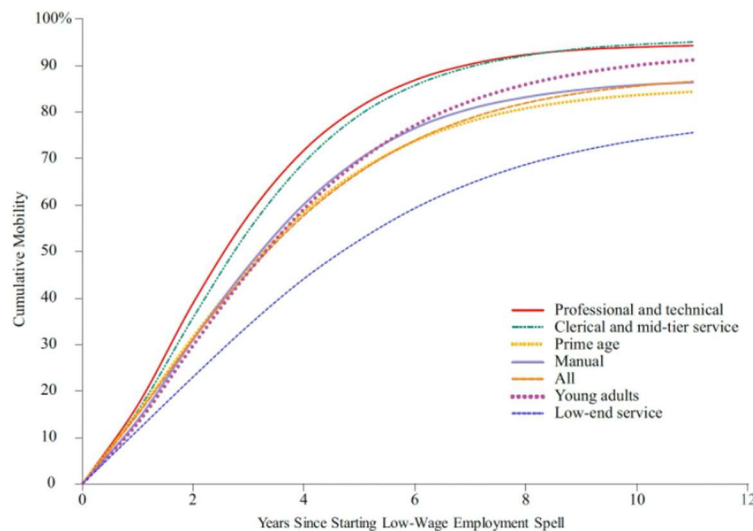


**Figure 5.** Percentages of changes in wages for different income workers in the 2009- 2022 periods

In view of the ongoing recession, the phenomenon of increasing wages for low- income groups is surprising and intriguing.

### 3.3. Government Policies

First, gaining experience from the previous recession, instead of waiting for the economy to recover by itself, the government needs to apply policies to relieving the economic burden on people. During the recession, people with low incomes tend to suffer the most. In the paper written by Michael A. Schultz[7], he analyzes the wage mobility for low-wage workers in a changing economy between 1968 to 2014. Low- end service workers are likely to have the lowest cumulative mobility when compared to all other workers, which means that they will be more easily affected by the changes in the overall economy.



**Figure 6.** Cumulative Mobility Out of Low-Wage Work across Employment Spells

Therefore, many governmental policies are favorable for low-income groups to counteract the impact of recession.

Moreover, economist Christina Romer summarized US fiscal policies in response to the recession caused by COVID-19 and provided estimates of the size and determinants of fiscal policy. To be specific, “the increase in payments, particularly the across-the-board extra \$600 per week provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, raised replacement rates to well over 100% for unemployed low-wage workers” [7]. By increasing unemployment insurance, the United States government particularly helps low-income workers to get through the pandemic.

In addition to unemployment insurance, there are several other executive fiscal actions. For instance, on August 10, 2020, Trump signed four executive actions focused on lost wages, student loan, interest, housing, and payroll tax deferral. Similarly, Biden extended student loan forbearance as an extended protection. Another example is that the White House has released a preparedness plan that ensures funding for testing and supplies for school and business openings, childcare facilities, sick workers, and services at public offices in March 2022.

All government policies counteract the negative effect of the pandemic on low-income workers. As a result, in terms of real wages, their real wages increase correspondingly.

### 3.4. Saturated Labor Market

Second, the phenomenon may also contribute to a saturated labor market. From 2010 to 2020, the overall unemployment rate constantly decreased. According to Wilson and Darity’s paper[8], the unemployment rate constantly decreased regardless of races. This shows that people who still did not have the job is more and more rare. reopen business after the lockdown of the pandemic, companies will need to use higher wages to attract more workers to work for them. As part of the labor market, low-income workers will be influenced by overall changes due to the pandemic in the labor market.

FIGURE F

### Unemployment rate by race and gender, 1978–2019

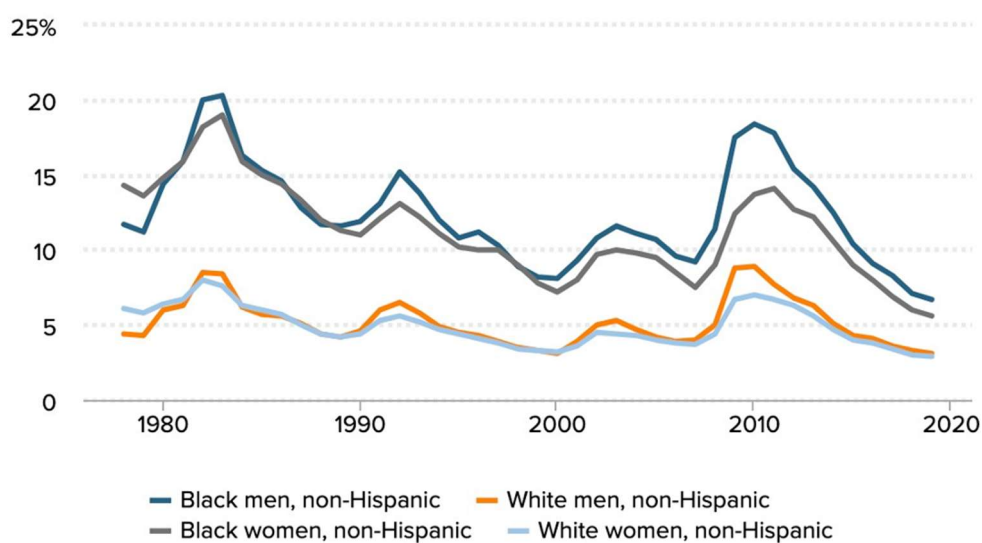


Figure 7. Unemployment rate by race and gender

Meanwhile, the shortage of labor force further exacerbates the problem. At the beginning of the pandemic, a lot of people lost their jobs. However, according to Gould and DeCourcy, “Once the employer-employee ties have been severed, employers’ power to rehire those same workers at

the same pay and working conditions is greatly reduced" [9]. In this case, companies are forced to increase workers' wages to reopen their businesses.

## **4. Recommendations Fort He Phenomenon about Equity and Equality**

### **4.1. Racial Inequality During the Pandemic**

The pandemic affects minorities more severely than majorities. Stefanie Stantcheva summarized inequalities about gender and income, analyzed government policies over the medium term, and made predictions about the long run. It is essential to specifically consider the inequalities of low-income groups. To be more specific, due to the lack of physical contact during the COVID-19 period, social networks, and racial disparities in the US have been further exacerbated. Due to the existence of inequalities, protests were commonly found during the period of COVID-19 pandemic. For instance, Paolo Gerbaudo provided explanations for the protests in Europe and the United States[10]. Similarly, Yao Li analyzed how a decrease in job opportunities for minorities causes the change of wages. Due to ethnicity and nationality, inequalities aggravate especially for migrant workers.

In conclusion, especially at the beginning stage of the pandemic, the poverty area is influenced the most in comparison to more developed regions. Meanwhile, it can be observed from the above data that the impact of pandemic is more severe on minorities, especially race minorities. Under lots of circumstances, there is a general relationship between race groups and income level.

### **4.2. Labor Movement Fought for Recession**

In the process of increasing life quality and recovering from the tremendous impact of the pandemic, labor unions play an essential rule in increasing wages.

The food industry, especially the fast-food industry, is characterized as low income. For example, Jalal Bohlouli analyzed the reason and consequence of being highly dependent on fast food during the pandemic period and how this vicious spiral in both fast food consumption and the immune system is formed[11]. Fast food cooking, as one of the typical low-income jobs, is a derivative demand for the fast food industry. Increasing demand for fast food will inevitably lead to increase in demand for cooking. To understand the changes in the labor market in the fast food industry, it is necessary to know about consumption patterns. Besides, Dimitra Rafalia explored how food consumption patterns are changed by the COVID-19 pandemic. At the same time, the waiter is also a typical low-income occupation. Likewise, Adane Asefa focused on analyzing the impacts of COVID-19 on Ethiopian waiters and made quantitative factor analysis on preventive behaviors, knowledge of COVID-19, and risk perception[12]. Those quantitative factors will be helpful to explain the reason for changes in wages. Apart from the food industry, other occupations such as cashier have also been typical low-income positions. Beyond that, Jennifer D. Robers contrasted the impact of COVID-19 on clinicians (a typical high-salary job) and cook and cashier (a typical low-income job)[13]. The author highlighted ways in which COVID-19 exacerbates existing socioeconomic vulnerabilities faced by EWs. Comparing those occupations laterally will help distinguish the impact of COVID-19 on low-income workers rather than overall macroeconomic changes. Under all unfairness and impacts, workers in fast food industry need to seek for a way to improve their life quality. In this case, unionizing or gathering together is the one of the options. Take "Fight for \$15" as an example, and it is aimed to increase minimal wage for low-income workers, especially in food industry. Starting from 2012, FightFor\$15 have gathered over 200 fast food workers from more than 20 restaurants of New York City to strike for increase of minimum wage. The Minimum wage of \$7.25 is far from enough to make the basic living hood under the inflation in the past few years. Under the impact of pandemic, the life quality of low-income workers gradually decreases. Therefore, it becomes

increasingly crucial to ask for the increase in minimum wage. According to Steven Greenhouse from The Guardian, “its impact for workers of color is significant. About 12 million workers of color have benefited and their additional earnings are \$76 billion a year.” For workers with increasing wages, this means an average raise of roughly \$6,000 a year” [14].

Besides the food industry, other new rising industries also actively participate in the labor union. Take gig workers as an example, Gig workers are usually not treated with equal rights of work time and payment, because they are not solely employees. According to Eliza McCullough, “California rideshare drivers’ net earnings are just \$6.20 per hour” [15]. At the time of the survey, the minimum wage in California is actually \$7.25, which is even more than earning of some drivers. Apart from poor payment, Uber also deactivates drivers merely based on complains and judgments of consumers. As claimed by Michael Sainato from The Guardian, “based on the survey responses from 810 rideshare drivers for Uber and Lyft in California, two-thirds of drivers are found to have experienced temporary or permanent deactivations of their accounts, with drivers of color and immigrant drivers disproportionately affected” [17]. Deactivating an account means that drivers are unable to make any money in Uber permanently or temporarily. In order to increase their wages and change the situation of unfair treatment for race minorities, Uber drivers unionized and started strikes in response to their unfair treatment. As pointed out by Sainato, “in Massachusetts, Uber and Lyft drivers rallied outside Uber headquarters in Saugus, Massachusetts, on March 1 in support of union rights through the rideshare driver’s justice bill of the state (HD2071 and SD1162), which will also enable reform of deactivation rights. Although Uber and Lyft had spent millions of dollars pushing to bring similar legislation as Prop 22 to Massachusetts, the ballot initiative was blocked in court in 2022” [17]. Under the joint efforts of labor union and workers, they successfully stopped Uber and Lyft from squeezing more value and depriving more right from the workers.

Indeed, lots of low-income workers are crucial for the operation of the society. Without them, the society may malfunction or stop working. Therefore, although this wage increase may be a short-term effect due to economical and sociological issues, low income workers deserve to increase their wages considering their contribution to the society.

First, federal minimum wage should be increase. Under this circumstance, double the wage would not be enough. Increase the minimum wage by triple it will improve the quality of life. According to the US department of labor, “\$7.25 per hour effective July 24, 2009.” This standard lasted all the way through 2023, which is already stayed unchanged for more than 14 years. However, according to CPI calculator from BLS, \$7.25 in 2023 will only be as effective as \$5.11 in 2009. This means that the government implicitly the decrease in minimum wage considering the rampant inflation happening. Therefore, in order to catch up the speed of inflation and improve the living situation for the low income worker, triple, the minimum wage should be adopted by the federal government.

Second, the decline of labor unions also represents the decline of the worker’s rights. As I mentioned above, labor unions indeed perform a role of protecting workers from unfair treatment and seek for more rights for workers. However, the percentage of worker unionize actually pare down gradually. According to BLS, in 1983, there are more than 20.1% of worker choose to participate in unions. On the contrary, in 2022, there is only 10.1% of worker choose to participate in unions. The decline in labor union can be partly due to anti-union activities held by corporations. Take Amazon as an example. According to Erik Loomis from The New York Times, “Amazon pulled out the same playbook that employers have used since the 1980s: hire an expensive anti- union law firm, shower employees with anti-union literature, force them to sit through anti-union meetings and bombard them with messages about union dues. This is all perfectly legal under a labor-law regime captured by corporations” [17]. In order to counteract the corporation’s anti-union behavior, PRO Act is proposed. According to Celine McNicholas, Margaret Poydock, and Lynn Rhinehart, PRO Act forbit corporation to take part in

the election of labor union, attend captive meetings, retaliate workers for their union behavior and so on. Those rights restrict the interference of employers for their employees when they are performing labor union related activities. Also, PRO Act granted employees, in the other word workers, rights such as file civil actions to their employers, guarantee them in “fair share” agreement, and so on. Those rights ensure that union activities will not negatively affect their working condition and wages. Therefore, in order to further protect rights for low income workers, government should start to grant some or all of the rights in PRO Act instead of declining it.

## 5. Conclusion

In conclusion, based on the definition from Claessens and Kose, it is reasonable to conclude that the first two quarters of 2020 indeed entered a recession based on real GDP and inflation rate changes. According to Matthewman and ASPE, in this “unprecedented social experiment”, according to SAS Institute, Finch, and Ciner’s paper, low-income workers were affected the most, especially at the beginning stage of the pandemic. However, Politico’s data suggests that the rate of growth of wages for low-income groups is significantly higher than for middle-income or high income, which is strange, especially considering the mobility of low-income workers mentioned in Schultz’s paper. According to Graeber, since a lot of low-income workers’ jobs are crucial to society, it is important to figure out the cause and impact of this phenomenon. This can mainly contribute to government policies such as one Romer’s paper mentioned, and a saturated labor market, according to Wilson and Darity’s paper, which has decreased the unemployment rate for last ten years. All of those factors cause the employer to need to increase wages to attract workers back to business, as mentioned in Gould and DeCourcy’s paper who argue. Overall, government policies and change in the labor market can be contribute to the wage growth of low income workers.

Based on the causes, some recommendations have been summarized. First, according to Stantcheva and Yao Li’s paper, there is a clear correlation between minority and low income. Second, according to Bohlouli, Rafalia, and Asefa’s paper, the food industry, which is usually characterized as a low-income group, organizes some labor movements to relief their economic pain during the pandemic. Also, in Robers’s work, by comparing different occupations, the paper concludes that low-income workers such as cashiers indeed are more vulnerable during the pandemic. Besides those traditional occupations, gig workers also suffered from a lack of pay after the inflation of the pandemic. According to McCullough and Sainato, Uber drivers, which is a typical gig worker job, organized strikes and labor movements to recover their rights. Overall, the tendency of wage increase should not be a short-term effect, considering their quality of life and increasing inflation.

## Acknowledgments

Natural Science Foundation.

## References

- [1] Claessens, Stijn, and M Ayhan Kose. Back to Basics: What Is a Recession? - Finance & Development - March 2009 - Stijn Claessens; M. Ayhan Kose. 2009.
- [2] Information on: <https://doi.org/10.1177/1440783320939416>.
- [3] Information on: <https://doi.org/10.3389/fsoc.2020.00047>.
- [4] Information on: [www.nber.org/papers/w27159](http://www.nber.org/papers/w27159).
- [5] Information on: [www.politico.com/news/2023/05/29/low-income-wages-employment-](http://www.politico.com/news/2023/05/29/low-income-wages-employment-).
- [6] Information on: <https://doi.org/10.7758/rsf.2019.5.4.06>.

- [7] Information on: [www.jstor.org/stable/27093821](http://www.jstor.org/stable/27093821).
- [8] Information on: [www.epi.org/unequalpower/publications/understanding-black-white-disparities-in-labor-market-outcomes/](http://www.epi.org/unequalpower/publications/understanding-black-white-disparities-in-labor-market-outcomes/).
- [9] Information on: [www.epi.org/publication/swa-wages-2022/#:~:text=The%20current%20business%20cycle%20is](http://www.epi.org/publication/swa-wages-2022/#:~:text=The%20current%20business%20cycle%20is).
- [10] Information on: [www.jstor.org/stable/26939966?searchText=labor+movement+covid+19&searchUri=%2Faction%2FdoBasicSearch%3FQuery%3Dlabor%2Bmovement%2Bcovid%2B19&ab\\_segments=0%2Fbasic\\_search\\_gsv2%2Fcontrol&refreqid=fastly-default%3A1419d351d486d1c6f51e398146d28d03](http://www.jstor.org/stable/26939966?searchText=labor+movement+covid+19&searchUri=%2Faction%2FdoBasicSearch%3FQuery%3Dlabor%2Bmovement%2Bcovid%2B19&ab_segments=0%2Fbasic_search_gsv2%2Fcontrol&refreqid=fastly-default%3A1419d351d486d1c6f51e398146d28d03).
- [11] Information on: <https://doi.org/10.1080/10942912.2021.1873364>.
- [12] Information on: <https://doi.org/10.2147/rmhp.s276257>.
- [13] Information on: <https://doi.org/10.1177/0748233720970439>.
- [14] Information on: [www.theguardian.com/us-news/2022/nov/23/fight-for-15-movement-10-years-old](http://www.theguardian.com/us-news/2022/nov/23/fight-for-15-movement-10-years-old).
- [15] Information on: [nationalequityatlas.org/prop22-paystudy](http://nationalequityatlas.org/prop22-paystudy).
- [16] Information on: [www.theguardian.com/business/2023/mar/10/uber-lyft-driver-suspension-deactivation-pay](http://www.theguardian.com/business/2023/mar/10/uber-lyft-driver-suspension-deactivation-pay).
- [17] Information on: [www.nytimes.com/2021/04/15/opinion/amazon-union-alabama.html](http://www.nytimes.com/2021/04/15/opinion/amazon-union-alabama.html).