BOOK REVIEW

Are You Really Paid What You're Worth?

You're Paid What You're Worth: And Other Myths of the Modern Economy, by Jake Rosenfeld (Harvard U. Press, 2021)

Reviewed by Kyle Mastroni

In America today, a fair day's work is supposed to get you a fair day's pay. This principle has long defined the mindset of many workers, but Jake Rosenfeld asserts that it may not actually be true in his book You're Paid What You're Worth: And Other Myths of the Modern Economy. He designed this book mainly for economists searching for a new way to examine the labor market but also for workers seeking to understand how they get paid. A Professor of Sociology at Washington University in St. Louis, Rosenfeld's new work builds on top of his 2014 book What Unions no Longer Do, as well as his writings for sources like Harvard Business Review and the Washington Post. You're Paid What You're Worth ultimately constructs a new, nuanced approach to the labor market that diverges from past theoretical frameworks.

The author begins by defining four factors that influence the labor market before critiquing modern wage-setting theories. Afterwards, he proposes critical solutions to ensure that American workers are paid what they are worth. Pay and wages impact everyone, so we must examine Rosenfeld's arguments carefully to assess their value. My conclusion from doing so is that, for all his valuable analysis of the labor market status quo, the book can be faulted for a lack of tangible solutions or practical methods of implementing needed changes.

Before delving into Rosenfeld's arguments, we must understand the four underlying factors that he asserts ensure workers are not paid what they are worth: power, inertia, mimicry, and equity. In the context of wage setting, Rosenfeld states that power pertains to the control that an employer has over employees and how it increases an employer's control of wages. Powerful employers exert influence to hinder a worker's ability to get paid fairly by manipulating inertia, mimicry, and equity, making it arguably the most important of the aforementioned factors. When the employer is in control, employees lose leverage in the marketplace and the ability to pursue higher wages. Next, inertia surrounds how past struggles to increase wages legitimize current wage rates, making it difficult to push for higher wages afterwards. For example, if fast food workers successfully win the fight for $15, getting paid more than $15 becomes exponentially more difficult because they just proved to and agreed with employers their labor was worth $15.

The third factor is that businesses engage in mimicry, replicating the policies and wages of other competitors to produce a seemingly stable 'market rate' to produce a facade of fairness. When employers mimic each other, employees lose the ability to use the wages of competitors to bargain for higher pay in their own company or seek employment elsewhere. Lastly, there is equity, which is the pressure on employers to provide people with wages that give workers their fair share. Workers who know they are not getting their fair share grow disgruntled and unproductive, making equity a counterbalancing force against business desires to keep wages low. Given these factors, Rosenfeld depicts a world where wages are largely shaped by the historical context of past labor movements as well as the power and leverage of businesses with the slight counterweight of employee demands for equity.

After laying out the tenets of what guides the labor market, Rosenfeld targets two leading wage-setting theories to demonstrate the necessity of his framework. Leading wage theories claim that employers either set wages equal to somebody's performance or set wages to coincide with specific jobs both do not encapsulate labor market nuances. Rosenfeld first dissects the human capital theory idea that companies set wages based on performance. The model suggests that a worker's value is derived from their productivity and training done to increase said productivity. The most compelling reason for this theory's shortcomings is its reliance on implausible assumptions for the real world, such as perfect access to information and competition. Firstly, companies implement specific policies to prevent employees from knowing if they are being paid fairly. For example, companies bar employees from discussing their pay to prevent wage comparisons. Such policies are crippling to employees, because people can only advocate for fair pay when they know they are being underpaid. Such policies are why actress Saoirse Ronan was secretly paid less than male counterparts for years until a Sony hack revealed the pay differential. When pay data was openly accessible to employees, however, pay was on average 5% higher compared to companies where pay data was secret, a clear demonstration that pay information suppression suppresses pay itself.

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Furthermore, employers limit competition through noncompete clauses that limit a worker's mobility to move to competing firms and no-poaching agreements which prevents competing companies from taking workers from other firms. By eliminating the ability to seek out higher wages elsewhere or use the threat of doing so to negotiate higher pay, imperfect competition further hurts workers. The existence of imperfect information and competition coupled with issues such as concentration of power, difficulties in defining and measuring performance, and a duty to provide benefits to shareholders at the expense of workers attacks the theoretical legs upon which the performance theory stands on. In doing so, Rosenfeld proves its lackluster ability to capture how our labor market works and causes it to crumble.

Rosenfeld then critiques the idea of paying set wages for specific jobs, which seems rational in theory until we consider how 'good jobs can go bad' and 'bad jobs can turn good.' First, good jobs can go bad, given how declining unionization and reclassification have damaged traditionally good jobs with strong pay and benefits. Declining unionization rates reduce the potency of a critical employee bargaining tool used to maintain fair wages. Jobs that benefited from unionization and its wage premium now have lower wages despite demanding the same labor. Furthermore, union and non-union workers performing the same job can have two different paychecks. Similarly, reclassification is damaging jobs. For one, previously full-time jobs are becoming temporary, outsourced positions that key employment protection laws do not apply to. As a result, workers doing the same work get paid less depending on who hires them. Additionally, labor shortages push workers into new positions without training or additional compensation to make ends meet in the business, meaning they are getting paid the same to do more.

These examples depict extraneous factors outside of the job itself influencing pay. When nothing about the job changes but the pay does, we must raise the question of if the job theory of wage setting is an applicable theory. Rosenfeld further obfuscates the job theory by proving that bad jobs can become good. The job theory suggests that workers in the same position in different areas would receive the same pay, but a study of the US and Denmark challenges this. In Denmark, 'bad' American jobs are appreciated because the factors that make them bad, such as, "... poor pay, unpredictable schedules, lack of benefits, and occupational risks," are not present. As a result, a Danish Burger King worker made $20 in 2014, compared to anywhere from $7.25-15 in the US. This country-to-country analysis further demonstrates that workers performing identical work can receive incongruent paychecks. On both ends of the spectrum, we see that jobs and the pay that they offer ultimately do not correlate with the actual work done, meaning that employees are not being paid what they are worth, just what people think they are worth. Exogenous influences upon wages crystallize the foolhardiness of asserting that wages could be tied to specific jobs alone. In a dynamic labor market, fluctuating circumstances will always influence wages, limiting the value we glean from a theory which attaches a set wage to specific jobs.

After challenging the two traditional methods of examining the labor market and wage setting, Rosenfeld explains why wage inequality exists and proposes a myriad of solutions. Initially, Rosenfeld claims that unequal pay is due to flat earnings for average workers, extreme financial gains for the elite, and growing pay differences between workers of similar skill levels and occupations. Given this framework, Rosenfeld proposes we fix wage inequality by raising the pay floor, expanding the middle, and lowering the ceiling.

These solutions sound appealing, but further examination proves that they lack tangible next steps. Rosenfeld starts with raising the floor. The most efficient way to do this is increasing the minimum wage. Rosenfeld provides a plethora of statistics and case studies to back up his proposal but fails to determine a way to get such a policy implemented. In fact, Rosenfeld admits that we essentially need to wait for the elites in Congress who oppose minimum wage increases to retire before implementing the policy. Granted, there are other policy options such as reforming and expanding the Earned Income Tax Credit (EITC) and establishing wage and standard boards. These policies have broader support than a minimum wage increase because of their less direct distortions on wages but are also evidently less effective. The EITC gives low-income workers, "... a credit to defray their tax obligations," but it also subsidizes companies who pay poverty-level wages and incentivizes workers to work these positions by providing benefits that seemingly offset the poor pay, essentially not raising the floor but simply making the floor slightly more bearable. Wage and standard boards are another option, promoting organizing in hard-to-unionize positions like Uber drivers, but they are another subpar solution because they can only help negotiate pay and have no legitimate authority to make change. Until we can guarantee the most straightforward, effective, and ideal policy of increasing minimum wage can be passed by Congress, Rosenfeld's argument for raising the floor is greatly hamstrung by leaving us with the choice of either pursuing unfeasible or less effective policies.

This issue is compounded given how Rosenfeld's arguments for expanding the middle hinge upon an increase in the floor. He asserts that spillover effects from the increases in minimum wage will make it so that employees who are making just above minimum wage will demand wage increases as well to continue staying above the minimum. But this argument feels flimsy when Rosenfeld provides no tangible mechanism to increase the minimum wage. Furthermore, Rosenfeld admits that other options to expanding the middle, such as creating internal labor markets, are not universally enforceable, stating that, "a clear-cut policy intervention to mandate the creation of internal labor markets is unavailable, alas." Barring a national policy that uniformly expands the middle class, Rosenfeld subjects his solutions to the same issues he calls out by creating a patchwork of different state systems for pay which produces inequality across the country.

Lastly, Rosenfeld proposes we shrink the ceiling, but fails to propose any modicum of reasoning as to why this may be feasible. He suggests raising taxes for the top, overturning rules that enable stock manipulation, and ensuring employee representation on company boards, but when the people at the ceiling are the ones in positions of power, they have undue influence over wage setting and even policy making to a point where they could help block tax changes and policy changes and water down the voices of employees. Until there is a surefire way to curb said influence, Rosenfeld's solution seems to be more of a dream than a reality. Therefore, because of Rosenfeld's inability to address the core issue of how we can implement his policy propositions, his suggestions fall flat because without a feasible method of implementation, they are nothing more than words on paper.

Ultimately, Rosenfeld's work is a useful description of the historical and theoretical context of our labor market and is a testament to the value of political economy. It demonstrates an undeniable need for change and new policies to promote welfare and a fair labor market. However, it falls short of providing next steps to making sure people are truly paid what they are worth. Rosenfeld offers solutions while simultaneously acknowledging that we are not currently in a position to truly realize said solutions. So I would suggest that this book should best be seen as a foundation for future research, providing an excellent starting point and theoretical foundation for anyone hoping to create or consider future wage-setting policies.

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