Off the Deep End

The Wall Street Bonus Pool and Low-Wage Workers

Institute for Policy Studies

March 11, 2015

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Design: Tiffany Williams.

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Wall Street banks handed out $28.5 billion in bonuses to their 167,800 employees last year, up 3 percent over 2013, according to [new figures from the New York State Comptroller](). These annual bonuses are an extra reward on top of base salaries in the securities industry, which averaged [$190,970]() in 2013.

To put these figures in perspective, we've compared the Wall Street payout to low-wage workers' earnings. We've also calculated how much more of a national economic boost would be gained if similar sums were funneled into the pockets of the millions of workers on the bottom end of the pay scale.

Wall Street Bonuses v. Minimum Wage Earners

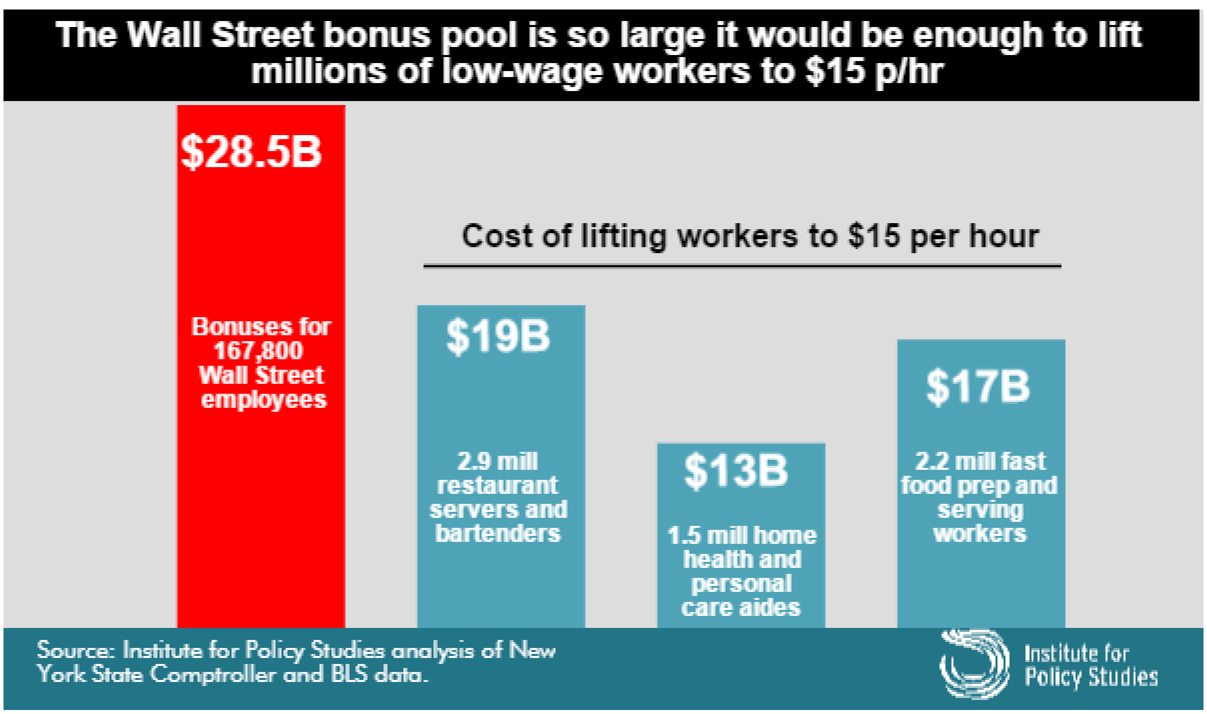
The $28.5 billion in bonuses doled out to Wall Street employees is double the annual pay for all 1,007,000 Americans who work full-time at the current federal minimum wage of $7.25 per hour. Wall Street bonuses rose 3 percent last year, despite a 4.5 percent decline in industry profits. The size of the bonus pool was 27% higher than in 2009, the last time Congress increased the minimum wage.

Wall Street Bonuses v. Low-Wage Service Workers

Wall Street's bonus culture, we learned from the 2008 financial industry meltdown, creates an incentive for high-risk behaviors that endanger the entire economy. A large share of low-wage earners, on the other hand, spend every workday meeting basic human needs, such as providing food services and taking care of the disabled and elderly.

Low-wage workers in many sectors have united around a call for "one fair wage" of a minimum of $15 per hour. A few cities, including Seattle and San Francisco, have already adopted $15 minimum wages. While this is more than double the current federal minimum wage of $7.25, the size of the Wall Street bonus pool puts these figures in perspective.

The bonus pool is so large it would be far more than enough to lift all 2.9 million restaurant servers and bartenders, all 1.5 million home health and personal care aides, or all 2.2 million fast food preparation and serving workers up to $15 per hour.

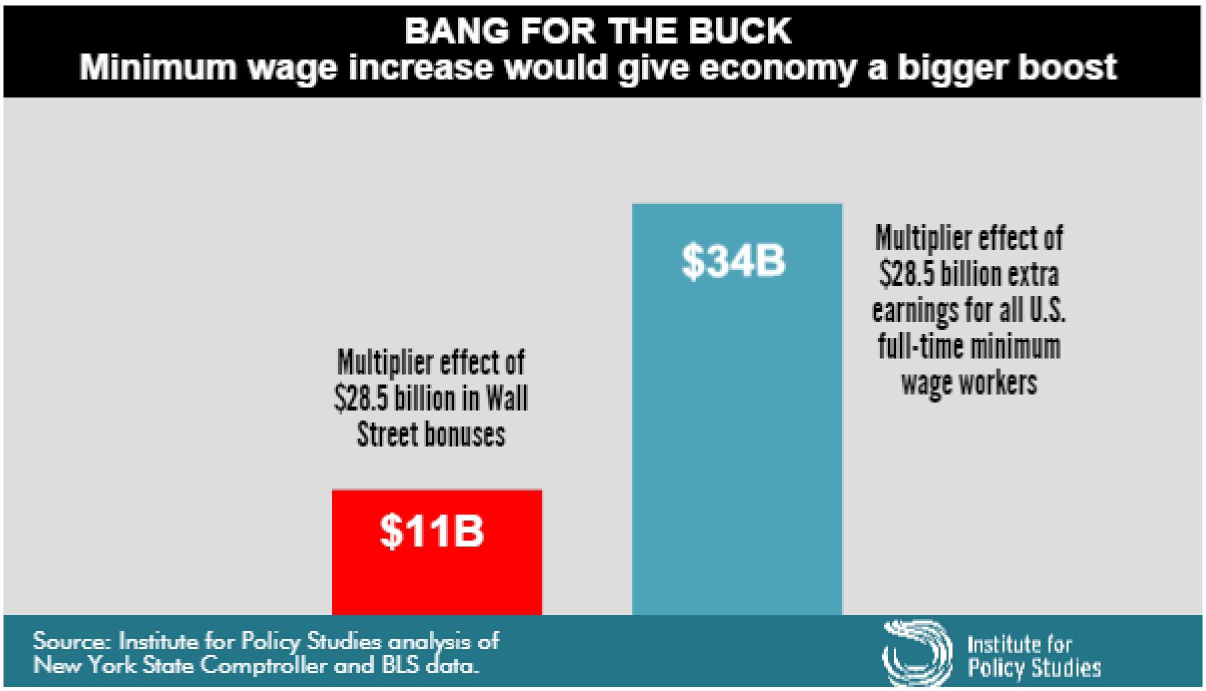


Wage Increases Would Create Bigger Bang for the National Buck

Wall Street bonus season may coincide with an uptick in luxury goods sales, but a raise in the minimum wage would give America's economy a much greater boost. To meet basic needs, low-wage workers tend to spend nearly every dollar they make. The wealthy can afford to squirrel away more of their earnings.

All those dollars low-wage workers spend create an economic ripple effect. Based on standard fiscal multipliers established by Moody's Analytics, every extra dollar going into the pockets of a high-income American only adds about $0.39 to the GDP. By contrast, every extra dollar going into the pockets of low-wage workers adds about $1.21 to the national economy.

These pennies add up considerably on $28.5 billion in earnings. If the $28.5 billion Wall Streeters pulled in on bonuses in 2014 had gone to minimum wage workers instead, our GDP would have grown by about $34.5 billion, over triple the $11.1 billion boost expected from the Wall Street bonuses.



Wall Street Bonus Reform is Long Overdue

While workers' wages stagnate, the Wall Street bonus culture is flourishing—in part because of regulatory foot-dragging. Nearly five years after the Dodd-Frank financial reform was signed into law, regulators have still not implemented Section 956 of that law, which prohibits financial industry pay packages that encourage "inappropriate risks." The proposal regulators released in 2011 ignores key lessons from the last half-dozen years of financial scandals. It would only apply pay restrictions to top executives, leaving off the hook traders and other employees whose activities could put the financial system at risk. The only specific pay restriction relates to the timing of bonuses. Bankers would have to wait three years to collect half of their annual bonuses, which doesn't amount to much of a disincentive to short-term recklessness. The European Union now limits bonuses for key bank staff to no more than 100% of their base salaries, or up to 200% with shareholders' approval. Americans for Financial Reform has put forward detailed proposals for strengthening the proposed U.S. regulation.

Sources and Methodology

Wall Street bonus pool: New York State Comptroller report issued March 11, 2015. The figures are for annual bonuses for 2014. Financial firms typically calculate year-end bonuses after they have reported their fourth-quarter financial results.

Full-time minimum wage workers: U.S. Department of Labor, Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers, 2013." Since the BLS defines "full-time" as 35 hours or more hours per week (See footnote #2 to Table 1), we used this figure from Table 9. Wage and salary workers paid hourly rates with earnings at or below the prevailing federal minimum wage, by usual hours worked per week on primary job, 2013 annual averages.

Combined annual earnings of all full-time minimum wage workers: Calculated by the author based on $7.25 per hour for 37 hours per week for 52 weeks.

Cost of lifting low-wage workers up to $15 per hour: Calculated by the author based on U.S. Department of Labor, Bureau of Labor Statistics data. Hourly mean wages and number of workers are most recent from the BLS Occupational Employment Statistics. Figures for average hours worked per week for all food services workers are from BLS data for Production and Nonsupervisory Employees--Food Services and Drinking Places (NAICS 722). For home health workers, the average hours worked per week is from the National Home Health Aide Survey conducted by the Centers for Disease Control.

Occupation	Average hourly wage	Average hours worked per week	Number of workers
Waiters and waitresses (OES 35-3031)	10.04	25	2,403,960
Bartenders (OES 35-3011)	10.46	25	555,560
Home Health Aides (OES 31-1011)	10.60	31	806,710
Personal Care Aides (OES 39-9021)	9.71	31	734,720.0
Food preparation and service workers-limited-service eating places (OES 35-3021)	8.69	25	2,118,090

Using this data, we calculated the difference between each occupation group's current annual earnings and what they would make if each worker in that group earned $15 per hour. Robert Pollin and Jeannette Wicks-Lim of the University of Massachusetts-Amherst have done a more detailed analysis of the cost of raising the minimum wage for fast food workers to $15 per hour, accounting for the upward pressure on wages for those currently earning more than the federal minimum. See: A $15 U.S. Minimum Wage: How the Fast-Food Industry Could Adjust Without Shedding Jobs.

Economic multipliers: Based on the macroeconomic multipliers calculated by Moody's Analytics Chief Economist Mark Zandi, which estimate the one-year dollar change in GDP for a given dollar reduction in federal tax revenue. For the low-wage worker multiplier, we followed a methodology developed by the Economic Policy Institute and averaged Zandi's stimulus multipliers for the Earned Income Tax Credit (within the parameters of the American Recovery and Reinvestment Act) and Making Work Pay (ARRA's refundable tax credit for working individuals and families) for a multiplier of 1.21. For the high-income multiplier, we used Zandi's multiplier for dividend and capital gains tax cuts, for a multiplier of 0.39. Capital gains are heavily concentrated among high-income individuals. According to the Center on Budget and Policy Priorities, the top 1 percent of taxpayers received 71 percent of all capital gains in 2012.