Decent Jobs Forum

A Series of the Next Social Contract Initiative

Making Work Better for Everyone[I]

Paul Osterman
Nanyang Technological University Professor of Human Resources and Management, MIT Sloan School of Management

June 2011

America confronts a jobs crisis and that crisis has two faces. The first is obvious and greets us every morning when we read the newspapers or talk with our friends and neighbors. There is simply not enough work to go around. The second jobs crisis is more subtle but no less serious. Far too many jobs fall below the standard that most Americans would consider decent work. These people work in factories and hotels, in restaurants and hospitals, on construction sites and in day care centers. The problem spans all races and ethnic groups and includes large numbers of native born Americans as well as immigrants.

How many people work in low quality jobs? If we ask only about wages (hence being conservative by ignoring health insurance, pensions, and other attributes of decent work) and focus only on adults (hence ignoring transitory jobs held by young people) then in 2010, 19 percent of adult workers earned an hourly wage below that necessary to raise a family of four above the poverty line ($10.65 an hour).[1] This is a very conservative estimate because it is widely accepted that the poverty line is flawed and underestimates what it takes to maintain a basic living standard. Indeed, a recent study estimated a basic needs budget for a family of four; if we use the wage required to achieve that level then 44 percent of adults fall below the standard.[2] In addition, this shockingly extensive problem is not a function of the recession; roughly the same fraction of adults has held poverty jobs in good times and in bad.

Should we worry? One might argue that even for adults, low wage work is transitory and a great many will find ways to climb up the ladder into better jobs. However, the unfortunate fact is that this is not true: most low wage workers remain trapped.[3] There is also extensive evidence that low incomes have negative effects on families in terms of health of the adults and the educational achievement of the children.[4] In a deeper sense, people who are scrambling to hold themselves and their families together economically cannot be fully functioning citizens or participants in society.

The extent of bad jobs touches directly on broader challenges. There is widespread dismay at growing inequality and while some of this can be attributed to excesses at the very top, it is clear that any real solution must address the labor market circumstances of millions of Americans in low paying work. In addition, middle-class Americans in good jobs are confronting the reality of

[1] This essay draws from Paul Osterman and Beth Shulman. Good Jobs America: Making Work Better For Everyone. New York: Russell Sage. September, 2011.

losing work and being forced, if they are lucky, to take employment in the low wage labor market. Improving these jobs is in their interest, too.

The conventional wisdom that dominates public debate focuses almost entirely on improving education so that people can escape the low wage job trap. Education is unquestionably worthwhile, but the policy menu is strangely truncated because it takes the nature of the jobs as given. The basic idea is to let the economy generate whatever quality of jobs that firms choose and then, if necessary, compensate by enabling people to avoid the bad ones. But ultimately this is naïve. There will always be hotel room cleaners and food servers and medical assistants and the myriad of other low wage jobs. Prescriptions that rely entirely on education will condemn millions of workers to a lifetime of lousy jobs.

No doubt there is a skills problem that needs to be addressed and conversations with responsible employers who are working to upgrade their low wage employees confirm this. But it is possible and desirable to directly address job quality and to encourage employers to provide better work for those at the bottom. There is a great deal of evidence that, through a combination of carrots and sticks, considerable progress is possible and that the nation will be much better off for the effort.

Why Education Is Not Enough

Better education, improved skills and, at least in some cases, improved behaviors are part of the solution. It is common sense to believe that there is a link between a worker's productivity and what he or she can command from the job market, and it is also common sense to believe that education is linked to productivity. Even casual reflection reveals that many jobs are more complex today than they were in 1950 and that on average skill demands have grown. An extensive scholarly literature confirms this observation.[5] The most basic evidence supporting these beliefs is the simple relationship between education and wage levels. For example, in 2010 the average earnings of an adult high school graduate $14 and a college graduate $26.

All this said, the education story is an incomplete explanation of the persistence of low wages. One way to see this is to note that within narrow groups there remains considerable wage variation. For example, among 31 to 39 year old male high school graduates, 26 percent earned $20 an hour or more while 23 percent earned $10 an hour or less. The spread is similar for women. The fact that there is so much variation with a narrowly defined age/education/gender group shows clearly there is more to the story than just schooling. Adding weight to this point is the fact that scholars who study the explosion of wage inequality that occurred in the 1980s and early 1990s agree that rates of return to schooling are only part of the story: weakening labor market institutions—unions, the minimum wages, and norms--played important roles.[6]

Another way of making this point is to imagine would happen if somehow we were to radically increase the number of people with a college education. Would this eliminate the low skill/low wage labor market problem? The rub here is that all of the evidence commonly cited about the benefits of education focus on what economists call the margin, that is, the payoff if one additional individual improved his or her education. Telling your nephew to stay in school is clearly good advice. But perform a thought experiment: what if all the employees in low wage jobs suddenly acquired a community college degree or better? Would the jobs they hold disappear? Would all of their wages rise? The exact answer to this question differs depending on the time horizon, but over any reasonable period the answer would seem to be no. The high returns to education that are commonly cited refer to the gains that an individual can expect, not to the gains that would accrue to millions of people if somehow schooling and training was increased very broadly.

In the very long run, the general increase in education might encourage employers in other sectors of the economy to invest in technologies that that make use of new skills, and this could create openings for better opportunities. This is the broad idea behind the belief that education leads to economic growth, and there is theoretical basis for believing that such an outcome is possible.[7] However, this trajectory is of little help for adults working today in low wage jobs and is perhaps not even for their children.

A Framework for Policy

If education is necessary but not sufficient, what is the missing element of effective policy to reduce the prevalence of low wage work and to improve job quality? The key is to find ways to work with firms to shift the decisions they make regarding employment conditions. The key insight is that firms have options and could improve employment conditions and offset the costs via reduced turnover and improved employee commitment. There is a great deal of evidence in both the scholarly literature and in the practical experience of program operators that firms have discretion regarding their employment practices, such as wages, the amount of training they provide their workforce, and whether there are opportunities for upward mobility.

Employers choose sub-optimal strategies in part because they are unaware of any alternative and in part because they are under too much day to day competitive pressure to rethink their employment systems. Everyone connected with organizations – and that means all of us – can easily think of times when it has been obvious that matters could have been arranged more efficiently. Research supports these impressions. [8] Nudges – in the form of standard-setting and enforcement – and assistance – in the form of training incentives – can make a considerable difference. Of course, not all firms will be willing or able to upgrade their work practices and in these cases we need to make a societal decision to insist on decent work.

Another way of seeing if any of this makes sense is to ask about the evidence that improving circumstances of employees can pay off for the firm. One channel is turnover, which is costly to firms in terms of lost investment in training, recruitment and hiring expenses, as well as the costs associated with reduced productivity while new employees learn the job. Every human resource management textbook makes these points and the professional HRM literature is full of discussions regarding how to reduce turnover. To the extent that turnover is reduced by progressive employment practices, and the evidence shows that it is, then the firm benefits.

The second channel is employee effort. In virtually all employment settings employees have opportunities to work hard or less hard, to put extra care into their work or not, to treat customers well or treat them badly. These behaviors are discretionary and no amount of management monitoring or discipline can fully control them. The choices that employees make can have substantial impacts upon product quality, productivity, and customer satisfaction and in turn these choices are affected by the quality of the employment relationship.

These points may seem reasonable in principle, but are they true in practice and in particular are they true in the low wage labor market? As it turns out, a wide range of evidence supports them.[9]

It is also true that from the firm's perspective, the gains to so-called "high road" employment practices are uncertain and taking the path in that direction is very risky in terms of competitive position and survival. And, it must be recognized, for some firms the gains do not offset the costs. For both of these reasons active policy is important to assist firms that wish to upgrade their employment practices and to push other firms in that direction.

A Broader Policy Menu

Public policy can induce some firms to improve their employment practices and reap the benefits from this, and can also compel recalcitrant employers to upgrade work. What this requires are higher standards, more effective enforcement, and assistance to firms in training their employees.

As matters stand there are two problems with standards: they are too low and are poorly enforced. With respect to enforcement, consider the results of a project executed by a network of researchers in New York, Chicago, and Los Angeles that surveyed frontline (non-managerial, non-professional, and non-technical) employees in industries such as restaurants and home health care.[10] The survey uncovered widespread violations. Indeed, a shocking 68 percent of all the employees captured by the survey lost some earnings over the course of the prior year due to minimum wage, overtime, or other violations. This outcome is not surprising when one considers the very limited resources than Federal and state officials devote to enforcement.[11]

Enforcement is only part of the story, because current standards are too low. As already noted, the fall in the value of the minimum wage contributed importantly to the explosion of inequality in the 1980s and early 1990s. Today, someone working full time at the minimum wage would not earn enough to be above the poverty line for a family of four. There is certainly scope to lift the minimum wage since the evidence is that increases over a reasonable range do not cost jobs.[12] More generally, strong standards are not job killers: in a number of European nations—including France and Germany—that have higher employment standards than we do (as well as a less unequal wage distribution), the surprising fact is that the proportion of adults who are employed exceeds ours and has done so for over a decade.[13]

The government itself can lead the way in improving job quality just as it did in the early twentieth century when the Federal government, via Civil Service Reform, created an employment model that was emulated by many private sector firms. A recent analysis of contracting data reported that 20 percent of federal contract employees earned less than the poverty level for a family of four, as opposed to 8 percent for direct federal workers.[14] States could insist, as some now do, that employment-related tax incentives, such as those used to attract firms to an area, meet a decent wage standard. Public reimbursement schemes, particularly in medical care, put downward pressure on wages in industries such as nursing homes and home health care and this acts to the detriment of both patients and employees.

Standard setting should be complemented by assistance, and sophisticated policy can help firms improve their practices so that upgrading work is not costly. There are numerous examples of programs that work effectively with employers to help them train their workforce and create job ladders. These programs, often termed "intermediaries," have seen success in health care, hotels, and manufacturing. They have been positively evaluated by respected scholars and national research organizations.[15]

The simple but often overlooked fact is that we know how to improve job quality and we have the tools at hand to make considerable progress. At the end of the day the task of improving low wage work and reducing inequality is a political challenge. Good policy is within our grasp. What we lack today is the will to move forward.

[1] This calculation is based on the Current Population Survey Outgoing Rotation Group. The data are for people 25-64 years old in civilian employment. For more information on how the data are analyzed see: Good Jobs America: Making Work Better For Everyone. New York: Russell Sage. September, 2011

[2] "Wider Opportunities for Women: The Basic Economic Security Tables For The United States, 2010." Washington, D.C.: Wider Opportunities For Women. 2011.

[3] One study found that among low earners over six years starting in the early 1990s, a period of remarkable economic strength, only 27 percent raised their incomes enough to rise consistently above the poverty line for a family of four (Harry Holzer. "Encouraging Job Advancement Among Low-Wage Workers: A New Approach." *Brookings Institute Policy Brief #30*. May, 2004.) A more recent study looked at low earners in the years 1995-2001 and found that six percent of those working full time and 18 percent of those working part-time in any year had dropped out of the labor force by the next year. Among those who did stay in the workforce 40 percent experienced either a decrease or no change in their earnings (Brett Theodos and Robert Bednarzik. "Earnings Mobility and Low Wage Workers in the United States." *Monthly Labor Review*. July, 2006.) Using a third data source, this time tracking mobility from 2001 to 2003, researchers found that 44 percent of the employees at poverty wages in 2001 had no better wages in 2003 and an additional 22 percent were not even employed. (Pamela Lopreste, Gregory Acs, Caroline Ratcliffe, Katie Vinopal. "Who Are Low Wage Workers?" *ASPE Research Brief*. Washington, D.C.: Department of Health and Human Services. February, 2009.

[4] A useful review of this literature is Richard Wilkinson and Kate Pickett. "Income Inequality and Social Dysfunction." *Annual Review of Sociology*. 2009. pp. 493-511.

[5] A useful review of this literature can be found in Margaret Hilton, ed. Research on Future Skill Demands: A Workshop Summary. Washington: National Academy Press. 2008.

[6] John DiNardo, Nicole Fortin, Thomas Lemieux. "Labor Market Institutions and the Distribution of Wages, 1973-1992: A Semi-Parametric Approach." *Econometrica* 64(5). September, 1996. pp. 1001-1044

[7] Daron Acemoglu. "Technical Change, Inequality, and the Labor Market." *Journal Of Economic Literature* 40(1). March, 2002. pp. 7-72.

[8] Nicholas Bloom and John Van Reenen. "Why Do Management Practices Differ Across Firms and Countries." *Journal of Economic Perspectives* 24(1). Winter 2010. pp. 203–224.

[9] This literature is reviewed and analyzed in Osterman and Shulman, op.cit.

[10] Annette Bernhardt et.al. Broken Laws, Unprotected Workers: Violations of Employment and Labor Laws In America's Cities. New York: National Employment Law Project. 2009.

[11] The Obama Administration as one of its early actions added about 250 inspectors to the Wage and Hours Division of the Department of Labor bringing the total to 900. Even so, over the past decades Federal inspection resources have not kept pace with the growth of the workforce and the probability of any firm being inspected is very low. There are about 8 million workplaces for these inspectors to cover and as an example the probability that a fast food restaurant affiliated with a national chain would be inspected in any given year was .008. The current state of affairs reflects a long term decline in resources. (David Weil. Improving Workplace Conditions Through Strategic Enforcement; A Report To the Wage and Hour Division. Boston, MA: Boston University. 2010.) The General Accounting Office has been very critical of labor standards enforcement. ("Case Studies from Ongoing Work Show Examples in Which Wage and Hour Division Did Not Adequately Pursue Labor Violations." Statement of Gregory D. Kutz. July 15, 2008. GAO-08-973T.) States have their own inspectors but adding up across all states only adds about 600 additional inspection staff and these people have multiple duties not just employment law enforcement. (Sarah DeCarlo and Zach Schhiller. "Investigating Wage Theft: A Survey of the States." Policy Matters Ohio. 2011)

[12] Arindrajit Dube, T. William Lester, and Michael Reich. "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties." *Review of Economics and Statistics* 90(2). November, 2010. pp. 945-964.

[13] This evidence is reviewed at length in Osterman and Shulman, op.cit.

[14] Kathryn Edwards and Kai Filion. "Outsourcing Poverty: Federal Contracting Pushes Down Wages and Benefits." Washington, D.C.: Economic Policy Institute. *Issues Brief 250*. February 11, 2009

[15] Osterman and Shulman, op.cit.

MAIN OFFICE
1899 L Street, NW
Suite 400
Washington, DC 20036
Phone 202 986 2700
Fax 202 986 3696

CALIFORNIA OFFICE
921 11th Street
Suite 901
Sacramento, CA 95814
Phone 916 448 5189

NEW AMERICA FOUNDATION

WWW.NEWAMERICA.NET