CHAPTER 1

Introduction

America is confronting a jobs crisis, and that crisis has two faces. The first face 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. Following the financial crisis and Great Recession that began in 2007, unemployment has remained stubbornly high, with devastating consequences. The historian Stephan Thernstrom studied the effect of the Great Depression of the 1930s on the careers of young people who entered the job market at that time and found that they suffered permanent disadvantage.[1] Today's young people confront a similar fate, and their parents, many of whom are out of work, face even more desperate circumstances. The impact on families and communities is incalculable.

The second face of the jobs crisis is more subtle but no less serious. Far too many jobs fall below the standard that most Americans would consider decent work. Nearly one-quarter of working adults–adults, not young people–find themselves in jobs that do not pay enough to support a family at a minimally acceptable level. 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.

The Great Recession brings home another point: the proliferation of poorly paying jobs affects a far broader swath of Americans than is often understood. Consider the example of Dale Szabo, who in 2011 was fifty-three years old, held an MBA degree, and worked as a manager at Briggs and Stratton.[2] He lost his job in 2003, applied for over one thousand new positions, and finally landed one: as a janitor in the local school district, earning $9 an hour. His comment: "It's very hard work. I never dreamed I would be doing it, but I have to pay the bills." Consider also Monty Blanton, a former electrical worker who, when asked to reflect on the direction of the job market, commented that "the gap between the low and the middle is collapsing."[3]

Mr. Szabo and Mr. Blanton have found themselves in the middle of the low-wage labor market, and their situation is far from unusual. Careful studies of worker displacement show that when people are laid off from previously stable employment, they take a wage hit—if they are lucky enough to find work—of over 20 percent, and this gap persists for decades after the job loss.[4] Americans feel that these risks have grown: successive national surveys show a long-term upward trend in perceived risk of job loss, a trend that remains even after removing the effects of the business cycle and changes in the demographic composition of the workforce.[5] Adding to the evidence is a large literature that examines whether earnings volatility has increased over time—that is, whether people are now at greater risk of sudden falls in their earning capacity. The consensus of these studies is that volatility began to grow in the 1980s and has remained at the new higher level ever since. This is a pattern that prevails in addition to, and separate from, the uncertainty created by business cycles.[6]

The broad relevance of job quality to a wide swath of Americans is also apparent in debates concerning future sources of American employment growth in the face of fierce low-wage overseas competition. Some discussions are focused on emerging industries, such as green technologies or biotechnology. Others focus on programs such as the Manufacturing Extension Service—housed in the U.S. Department of Commerce and replicated by many states—that seek to spur a revival of our manufacturing base. Many of these discussions have centered on technologies and markets, but a core issue is the quality of the jobs they may create. Will these new jobs support families? And if so, what will it take to ensure that this comes to pass? Good answers to these questions require that we understand how firms make decisions regarding the characteristics of the jobs they provide, the public policies that help shape these decisions, and the politics that lie behind those policies. All of these themes are addressed in the chapters that follow.

Job quality is also directly linked to another social ill we confront: widening inequality. When we add up all the nation's income gains accrued from 1979 to the start of the recession in 2007, we see that the bottom fifth of all earners received less than half of 1 percent of that growing pie while the top fifth got over three-quarters. Remarkably, the top 1 percent of earners took home 38 percent of all of the nation's income gain.[7] Inequality in wealth has also taken off.[8]

This remarkable record of growing inequality is due in part to concerns that lie outside this book: the ability of senior management to influence their own pay through manipulation of compensation committees, the capacity of Wall Street to pay itself enormous bonuses, and even the role played by sports and movie stars as they reach for ever more wealth. But without doubt a big part of the story lies in the operation of the everyday job market, and the persistence of low-wage work should be understood in this larger context.

In the years between World War II and the late 1970s, a strong set of institutions helped create and sustain millions of middle-class jobs. These supports have been progressively weakened.[9] Firms used to view their employees as stakeholders whose welfare had a claim almost equal to that of stock owners, but this is no longer true. Unions have been battered and are less effective. The government has steadily withdrawn from its role of strengthening the labor-market floor and upholding employment standards. All of this adds up to a steady erosion of the quality of employment.

The obvious solution is to upgrade the quality of jobs, but our passivity about how jobs are generated gets in the way. Why? To a surprising extent, the obstacles are conceptual and embedded in a worldview that pervades both policy discourse and popular perceptions. One challenge is a belief in the power and correctness of the market. In part, this belief flows from the central tenets of standard economic theory, one version of which is that market outcomes are optimal and the costs of interference are substantial. This presumed optimality has been increasingly challenged, even within the profession, but the subliminal message remains. Linked to this presumption is a widespread belief that policy is doomed to failure. In this view, the lesson from several decades of government efforts—beginning with the War on Poverty and the Great Society of the 1960s and extending to the present time—is that interventions simply do not work. The claim is that even if we wanted to find ways to improve job quality, we simply do not know how. As a result of this thinking, the conventional wisdom that dominates most public debate focuses almost entirely on two strategies: improving education so that people can escape the low-wage job trap, and for those who cannot, providing some level of support through programs such as the Earned Income Tax Credit (EITC), which is an income supplement conditioned on work.

Improvements to education and provision of the EITC are unquestionably worthwhile, but the policy menu they form is strangely truncated because it takes the nature of jobs as given. The basic idea is to let the economy generate jobs of whatever quality is chosen by firms and then, if necessary, to compensate by enabling people to avoid the bad ones or by shoring up people who are stuck in them. But ultimately this approach is naive. There will always be hotel room cleaners and food servers and medical assistants and the myriad of other low-wage jobs. Furthermore, the evidence (reviewed later in the book) is clear that most adults holding these jobs will not escape from them over their working lives. Prescriptions that rely entirely on education and transfer payments will condemn millions of workers to a lifetime of lousy jobs.

We respect alternative perspectives and take them seriously. There is a skills problem that needs to be addressed. There are limits to how far policy can safely push up wages before the costs exceed the benefit. Not all programs work well, and they are often much harder to implement at scale than is suggested by the success of small demonstration efforts. All of this is true. But we believe that it is both possible and desirable to address job quality directly and to encourage employers to provide better work for those at the bottom. There is a great deal of evidence that a combination of carrots and sticks can lead to considerable progress, and we believe that the nation will be much better off for the effort.

How Bad Is Low-Wage Work in America?

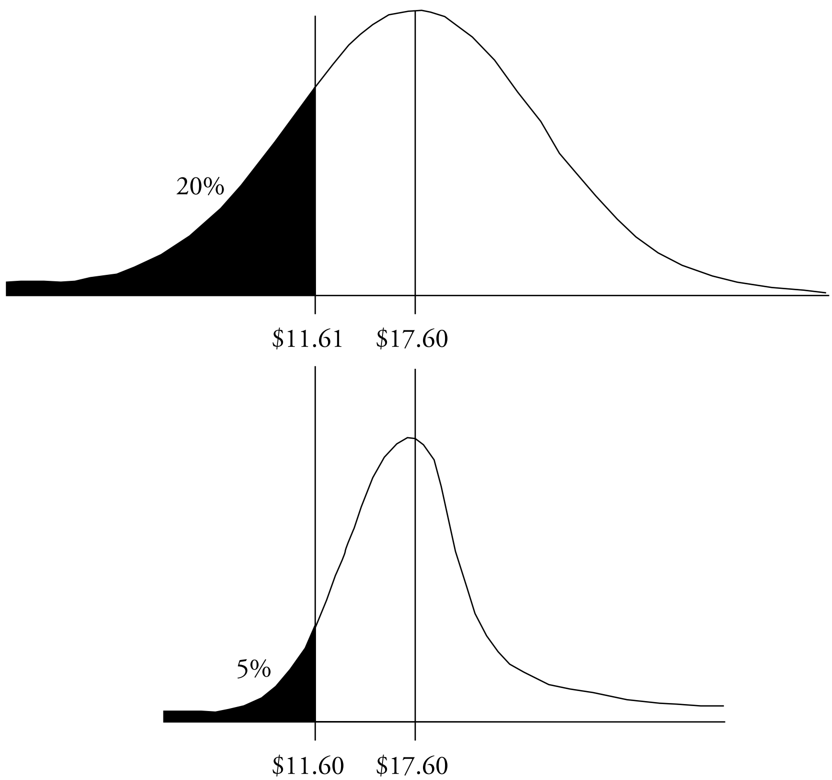
How can we define a "good" job? This is a question that many people have thought and written about, and the answers take two tracks. There is a large literature in sociology and economics that asks about the correlates of reported job satisfaction. What traits of a job—wages, autonomy, interesting work, prestige, security, and so on—are correlated with the degree of contentment that people express about their work?[10] This research is interesting, but not really on point for us. We want to know about minimum standards. What is the baseline that we should insist that all jobs provide? There has been a considerable amount of thinking on this second track as well.

Even a casual consideration of this question leads quickly to the conclusion that there is no easy answer and that any measure used is bound to be controversial. What aspects of a job should we consider? What level of each of these characteristics is required? Neither of these questions has clear answers, and the uncertainty is compounded by a series of technical issues, such as how to account for cost-of-living differences throughout the country and for different kinds of families with varying needs. And of course, the question is political since different groups have divergent interests in whether the answer indicates that things are going well or badly.

All this being said, everyone agrees that wages are the most important feature of work, and so we begin there. We use two standards: the poverty line and a measure of relative wages. For the relative wage our measure is the fraction of people whose earnings fall below two-thirds of the median income, and for the poverty line it is the fraction of people whose hourly wage would not get them above the poverty line for a family of four if they worked full-time and year-round.

As we will see momentarily, there is only a modest difference between the poverty line measure and the measure of two-thirds below the median; we have chosen, however, to focus throughout the book on the latter measure (although we present both here for comparison) for two practical reasons. First, as is well known, the poverty line is both conceptually flawed and set at a level well below that needed to sustain a family. Second, the two-thirds-of-median standard is used in many other countries to define low-wage work, and hence using it greatly facilitates international comparisons. Beyond these pragmatic considerations are more principled reasons for going this route.

Figure 1.1 Two Distributions of Hourly Earnings



Source: Authors' figure.

The core idea is social inclusion: if people's earnings fall too far below the average, then in some important sense they are not part of society. They lack the resources to fully participate, and they are distanced from the ordinary experience of their fellow citizens. It turns out that many Americans share this view about what it takes to be a full participant in society. A recent review of the literature on job quality summarizes public opinion poll data by saying that Americans think the minimum wage is a wage that enables a family to "get by."[11] And in these polls respondents peg "getting by" at a level between 60 percent and 70 percent of the median.

Understanding what it means to fall below the poverty line is straightforward, but the below-two-thirds-of-the-median criterion may be confusing. To clarify the logic, consider the two graphs in figure 1.1, each of which represents possible distributions of earnings. In each graph the median earnings is the same. All that is different is the shape of the distribution below the median. The spread is wide in the top graph: 20 percent of the overall workforce earns less than two-thirds of the median. In the bottom graph a job quality threshold has been set and enforced, and very few people earn below the two-thirds measure. The point here is that the standard we use is about the distribution below the median; our choice of standard has nothing to do with changing the overall median or people's opportunities to get rich.

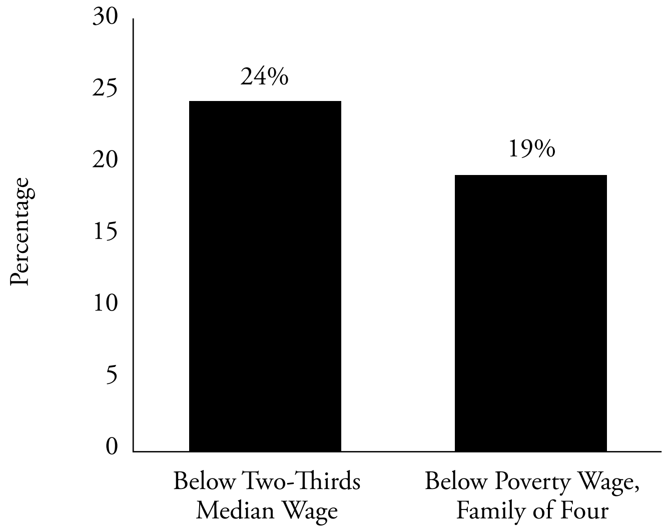
How many people fall below a reasonable standard for decent work? In this chapter's tables and figures and throughout the book, we limit our calculations to adults between the ages of twenty-five and sixty-four. It is certainly true that there are young people who need to work to support their families, but many others are in casual jobs that are transitory, and it would confuse the analysis to include youth in the analysis. Although we prefer the relative wage standard (falling below two-thirds of the median) for comparison, we also show the results from using the hourly wage that is necessary to lift a family of four above the poverty line. The hourly wage cutoff in 2010 for the relative standard was \$11.61 (since the median wage was \$17.60), and for the poverty line it was \$10.65.

The results of both calculations are broadly similar, as is shown in figure 1.2. The standards translate into 27.8 million adults, ages twenty-four to sixty-four, who earn less than two-thirds of the median and 22 million whose hourly wage puts them below the poverty line for a family of four. By any measure these are very large and very troubling numbers. (The technical details regarding how we worked with the data are provided in the appendix of this chapter. Unless we specifically indicate otherwise, all tables in the book use data from the same source described in the appendix, are limited to adults, and are processed the same way.)

It is also worth noting a remarkable and discouraging fact: in 1983, when the unemployment rate of 9.6 percent was exactly the same as the rate in 2010, the fraction of adults falling below both thresholds was also identical. We have made no progress in nearly thirty years in reducing the size of the low-wage workforce.

Before moving on, it is important to emphasize that we have provided a very conservative estimate of the extent of low-wage work in America. First, our measure does not take into account pensions or health care; as we will see in the appendix, when these are considered, the number of workers in difficulty rises a good deal. Second, many observers believe that it is desirable to construct what they term a "basic needs budget" by starting from the consumption requirements of a family rather than starting, as we do, from the distribution of hourly wages. A recent careful effort to do this concluded that a family of four, with two working adults and two children, would need to have each adult earning \$16.10 an hour to meet minimum standards. This is

Figure 1.2 Working Adults Whose Hourly Wages Fall Below the Basic Standard, 2010



Source: Authors' calculations. See chapter 1 appendix for further details on data sources.

a good deal higher than the wage standard that we employ here. The fact that the number of people in low-wage jobs is so high even using our conservative standard makes the case all the more compelling.

Returning to the standard that we use, who are the people whose earnings put them in the low-wage group, and where do they work? Table 1.1 provides some initial clues using, for simplicity of presentation, just one of the two possible standards.

It is not surprising to learn that women and nonwhites face a higher chance of holding a below-standard job (where "below-standard" means falling below our wage cutoff), since these are the groups that have long faced difficulty in obtaining the best jobs, at least in part because of differential treatment. Despite considerable progress, women's wages continue to lag behind those of men, and occupational segregation is pervasive.[12] With respect to race, there is evidence that even in the low-wage labor market racial discrimination remains a challenge.[13] All of this being said, it is also worth noting that over half of all low-wage workers are white and that 40 percent are men. Although race and gender are clearly important and certainly worthy of careful study, we focus here on the broader structural characteristics of employment that drive the pervasiveness of below-standard work for all groups.

It is also not surprising to learn that better-educated people have better

Table 1.1 Working Adults Whose Hourly Wages Fall Below a Decent Work Standard, by Various Characteristics, 2010

	Below Two-Thirds-of-Median Standard	All Workers Below the Standard
All	24.0%	100%
Men	19.7	40.1
Women	28.5	58.1
High school dropout	60.4	21.4
High school degree	35.3	39.2
Some college	22.9	26.9
College degree	8.2	12.4
White	18.4	53.4
African American	33.2	13.9
Hispanic	43.1	28.2
Asian	21.8	4.3

Source: Authors' calculations. See chapter 1 appendix for further details on data sources.
Notes: Whites, Asians, and African Americans are non-Hispanic. Hispanics can be any race. Non-Hispanics who report themselves as multiple races (for example, Asian–African American) are excluded. After these exclusions, the data on race-ethnicity includes 97.6 percent of the population.

jobs. Indeed, the effect of education is dramatic: the chances of holding a substandard job are nearly 60 percent for high school dropouts and under 10 percent for college graduates. In later chapters we discuss strategies for raising people's skill levels, which we certainly believe are important. At the same time, however, we show that if everyone had a college education and nothing else changed, the number of below-standard jobs would not greatly diminish.

We Can Do Better

Throughout this book we return repeatedly to a simple point: that it is possible to redesign "bad" jobs so that they are better. What is normally low-paid work can be improved, and people in those jobs can have a real future. The path from here to there is difficult, with multiple obstacles, both in people's lives and in the environment. But progress is very possible. We saw this vividly when we visited a nursing home that has worked to build a career ladder for certified nursing assistants (CNAs).

CNA jobs are very tough, and the pay is very low. With responsibility for the daily care of patients, a CNA must do a great deal of lifting and carrying, not to mention showing goodwill and patience. The quality of patients' lives depends crucially on the attitude and commitment of CNAs, yet they typically earn about $9 an hour. The CNAs we spoke with were Haitian immigrants. Some had been professionals in Haiti, but others could not do high school math or speak basic English at that level.

The CNAs we interviewed were all in a program sponsored by their employer that would help them move into licensed practical nurse (LPN) jobs, a step that would add about $5 an hour to their pay and give them more varied work. The two-year program involved a day a week of classes the first year and three days a week the second, a schedule for which the nursing home provided paid released time. This program paid all costs (tuition, books, and so on), and many of the classes were taught on-site in order to minimize family and transportation complications. In addition to the formal course work, the employees worked with a career coach who provided a variety of support services. When we visited, twenty-eight CNAs, out of a total of four hundred, had moved into LPN jobs.

The impact of this program on employees' lives was clearly dramatic. We heard comments like, "You can go for your dream," "I have enjoyment here," and "You know you're working in a place that will help [you]." By contrast, some of the CNAs who had worked in other nursing homes said that the employees in those workplaces "came to work angry" because there was "no hope" there. In addition to the training, the CNAs emphasized the importance of the career coach, who taught them how to study and how to manage their time. This person was "someone pushing you to go," someone who "calls you or sends you an email to congratulate you when you accomplish something."

From the perspective of the nursing home, the LPN training program had substantial benefits. People came to work on time and did not call in sick because they were "happy for something." The bottom line was expressed powerfully by one employee, a single mother of two teenagers who had just adopted an orphan from Haiti. She had been at the nursing home for six years, worked in another nursing home on a per diem basis to make ends meet, and had needed to study for and take the GED high school exam in order to qualify for the LPN program. When we asked her how her life would change when she graduated, she replied, "The joy is you've been assigned to a person and one day the person will get out of the hospital because of your care." The lesson from this example is clear: a bad job can be made into a much better one, and there are gains to the employer when this happens. Of course, getting from here to there and assessing the costs and benefits are not straightforward tasks for employers, and we will deal with these complications. But the core lesson is powerful.

Americans Care

In the late summer of 2009, Hyatt Hotels in Boston laid off one hundred housekeepers and replaced them with staff from a temporary help firm. The fired employees were making about $15 an hour plus benefits; the new employees made half that much. The political reaction was immediate. The governor of Massachusetts attacked the hotel and vowed that the state would no longer do business with it, and the city of Cambridge made a similar decision, as did a range of local churches and other organizations. The mayor of Boston described the Hyatt's move as "a crude business decision that will have devastating effects on real people who work hard every day." He vowed that "my administration stands with these workers and will continue to fight for fair wages for all of our people."[14] The *Boston Globe* covered the story intensively, and Hyatt partially retreated by offering the laid-off housekeepers medical benefits for a year.

Hyatt never reinstated the housekeepers, and the reality is that its actions were nothing unusual. As we will see, outsourcing and subcontracting are increasingly common strategies for driving down wages; we return later to the question of what, if anything, should be done about these actions. For now the point is that the reaction against Hyatt's move was broad and immediate. There is also good evidence that popular support for improving job quality and preventing deterioration is widespread, and that this support extends well beyond press statements by politicians and includes the broader public. It is manifested in opinion polls and, more importantly, when people "walk the talk" in voting booths.

The minimum wage is the most visible policy aimed at pushing up job quality, and the polling evidence on it is quite clear: in 2010, in a large representative sample, 67 percent supported increasing the minimum wage from the current $7.25 an hour to $10 an hour.[15] This result is consistent with those of earlier surveys, such as the NBC/*Wall Street Journal* survey in which 64 percent supported a minimum wage increase.[16] In a 2001 survey by Peter Hart, a representative sample was asked how important it was that employers offer a "living wage that provides an income above the poverty line for a full-time worker"—which the minimum wage does not provide—and 87 percent responded affirmatively.[17] Finally, the best evidence of all is how voters actually behave. In 2004, a Florida ballot proposition to raise the state minimum wage was supported by a remarkable 70 percent of the electorate despite the opposition of the governor. Then in 2006, a similar initiative was on the ballots of six states and was approved in every one. In conservative Arizona, 66 percent of the voters approved, while in Middle America Ohio the yes vote was 56 percent. The other states were Colorado, Missouri, Montana, and Nevada. During the same period, legislatures raised the state minimum wage in Illinois and California. It seems impossible to doubt the broad political support for raising job standards.

What Does It Mean to Hold a Low-Wage Job?

Why should we care about the profusion of low-wage jobs? There is an ample literature documenting the health and social welfare consequences of low income, and we will touch on this shortly, but we begin by describing a region of the country where there has been much job growth—of the wrong kind.

If the great cities of Texas would look familiar to most Americans, the same cannot be said of southern Texas and the Rio Grande Valley. For decades, the Valley, anchored at one end by the port city of Brownsville and at the other end by McAllen, was agricultural. The Valley today seems dominated by endless strip malls filled with fast-food restaurants, but the area has benefited from a booming medical establishment, growing government employment (mainly schools), and jobs flowing from trade with Mexico. What has also come to the Valley, in addition to the suppliers to Mexico's factories, are call centers and a somewhat random collection of labor-intensive low-skill manufacturing sites. Job creation in all of these sectors—tourism, health, services, government—is driven by population growth. The annual influx of "Winter Texans"—older people from the North who come to Texas to escape the cold in a cheaper setting than Florida—and the attraction of the beach resort South Padre Island bring tourists to the region. These visitors increase the demand for health care, as does the natural population growth and the influx of new immigrants.

In the past decade, job growth in the Valley has been strong, yet many, if not most, of those jobs have been for very low wages. Between January 2000 and January 2010, employment in the Valley grew by a remarkable 42 percent compared to an anemic national growth of 1 percent.[18] The struggle has been over wages. The median wage for adults in the Valley between 2005 and 2008 was a stunningly low $8.14 an hour (in 2008 dollars), and fully 25 percent earned less than $6.19 an hour.[19] The Dallas Federal Reserve reports that per capita income in the two standard metropolitan statistical areas (SMSAs) in the Valley ranks the lowest and the second-lowest in the nation among all SMSAs (Gilmer, Gurch, and Wang 2001). Among all American counties with populations of half a million people or more, Hidalgo County in 2009 had the highest share of people receiving food stamps, at 29 percent.[20] It is true that the cost of living in the Valley is below the national average, but this cannot obviate the impact of low wages: the cost-of-living difference between the Valley and the national average is between 14 and 20 percent, but wage differences are much greater.[21]

To understand the impact of low wages we visited the area and talked to a wide range of people: four focus groups of residents, three priests, a school principal, and two directors of public health clinics. We came away with a dramatic portrait of the consequences of a low-wage economy.

The People

Everyone we spoke to described the constant struggle to juggle household finances, just trying to get by. One month they might pay the phone bill, and then let that bill go unpaid the next month while they pay the utility bill. Everyone knows how long each company will carry an unpaid bill before cutting services. People spoke of their fear of an unexpected crisis, such as a car needing repairs or an illness. They used the phrase "one paycheck away from homelessness." Even predictable events become crises. In September, with the new school year, people have trouble buying school supplies for their children. Something has to give before they can save the money.

They told stories about themselves or their neighbors. Because they cannot afford day care, their children sometimes move from house to house, between different relatives or neighbors, watching too much TV and sometimes not doing their homework. Older children grow up too fast because they become caretakers for their younger siblings. Couples fight over money. People said, "It breaks the family or it makes the family." Several of the people with whom we spoke suffered from depression and had spent time in hospitals trying to recover. Everyone made comments like, "Every single moment something is on your mind," or "All you think about is which bill is more important."

The Priests

A frequent theme heard by priests in confessions is the strain on marriages because of economic stress. People work too hard, they are stretched, they blame themselves, they blame their spouse. They cannot afford a quinceañera (a party for a daughter turning fifteen). Their children see what other kids have and they do not. In church youth groups, young people question why they should stay in school if all they can get is low-wage work.

The School Principal

Many children are latchkey kids and are unsupervised when doing their homework. Accidents happen, such as when an elementary school student badly burned himself doing a science experiment with only his older brother watching. The father could not take time off from work to visit him in the hospital. Kids come to school sick because there is no one at home to take care of them. Parents miss teacher conferences because they cannot afford to lose the few hours of pay. One student failed to turn in a science project because the parents could not afford the material for a display.

The Health Clinics

The health clinics in the Valley are open to any resident for a very minimal copay. At these clinics, patients can see a nurse or primary care doctor and receive other services, such as wellness training. We talked with the directors about the impact of the low-wage economy from their point of view. The answers were clear. Type 2 diabetes is a scourge in the Valley, and people do not take care of themselves. Because healthy food is more expensive, people eat badly. Even more tragically, because someone with the disease can feel well for many years, people do not spend money on medicine. Then, with the passage of time, they become desperately ill, often losing a limb or their eyesight. In a clinic that has nearly seventy thousand visits a year, the director estimated that half of all patients had medical notations in their record that they suffer from anxiety or depression due to their economic situation. Many times people cannot make it to the clinic either because they are working and cannot afford to lose the time or because the gas is too costly. When they do come, they bring their entire family with them because they have no child care.

A clinic director referred us to an epidemiological study that surveyed Valley residents and conducted blood tests on the sample. The survey respondents were asked about their income levels. The rate of undiagnosed diabetes (that is, diabetes that showed up in the blood test administered by the researchers and about which the respondent was unaware) was three times as high among people whose earnings put them in the lowest quartile compared to people in the third quartile.[22]

Stepping back from these stories, it would be easy to conclude that the Valley is a place of little hope. But this is far from the truth. Teachers stay late to provide a place for kids to do their homework, and they make home visits to conduct parent-teacher conferences. The health clinics work overtime. Many of the people we spoke with have organized, through the community organization Valley Interfaith, to expand training opportunities and conduct living wage campaigns to press at least some employers to pay better. People enter training programs to put themselves in a position to loosen the economic vise. People go to church and build a community. More generally, people speak with genuine hope of a better future. There is no "culture of poverty" and no passive acceptance of their fate. But at the end of the day the corrosive and tragic consequences of a low-wage economy are dramatic and visible.

It would be easy to think that the stories from the Valley are somehow unique because of the region's border location and large immigrant population. But this is not true. A large research literature using national data confirms the lessons. There is an enormous amount of evidence that health outcomes, for both adults and children, are linked to income levels.[23] Indeed, there is good evidence that life expectancy is directly affected by income loss and, strikingly, that the impact extends to the life chances of children of parents in economic stress.[24] This has a direct effect on the individuals affected, but it also reverberates down generations and, for those who care about accounting, ultimately hits the public treasury as people spill into emergency rooms or require subsidized health care. The point is that low wages for some affects us all.

It is too easy to paint the plight of poor people trapped in bad jobs as foreign to the experience of most Americans and not relevant to mainstream debate. But that is far from true. The story of the people in the Rio Grande Valley has a great deal in common with the story we told earlier of Dale Szabo, the former highly educated manager who now works as a janitor.

The costs of low-wage work are greater than the purely material or physical. The political philosopher Michael Sandel wrote: "The republican tradition teaches that severe inequality undermines freedom by corrupting the character of both rich and poor and destroying the commonality necessary to self-government."[25] What does this mean in concrete terms? Consider the example of the father in the Valley who misses parent-teacher conferences and school board meetings because he cannot leave his low-wage, hourly paid job. As such, he is not a full citizen—he does not have the opportunity to participate fully in the life of his community. Ultimately, low wages and high levels of inequality are corrosive to democracy. Certainly the case for raising wages can be made in terms of humanity and basic levels of dignity: in a wealthy nation everyone should be entitled to decent work. But the case is broader than that. We all have a stake in our democracy, and that democracy is at grave risk when inequality explodes and people cannot participate in society.

The Difficulty of Translating These Concerns into Action

Why is it so hard to make progress on improving job quality? One obvious explanation is that it is in the interest of some powerful actors to keep wages low. This is sometimes true, but as we argue later, many low-wage employers themselves feel trapped and under tremendous pressure. For most of them the desire to suppress wages does not flow from greed or heartlessness, but from the real constraints they face. How can these pressures be eased? And what about other obstacles? Politicians and economists who are sympathetic to the need to improve job quality frequently fail to act. Why?

A sense of the challenge can be gained by looking at what happened during the first two years of the Clinton administration. Democrats controlled the White House and both houses of Congress. The minimum wage stood at $4.25 an hour, which at the time was 39 percent of the average private-sector nonsupervisory wage and near an all-time low. (When President Kennedy took office in 1960, the minimum wage had stood at 48 percent of the average wage.) During his campaign Bill Clinton had promised to raise it. Seemingly nothing stood in the way of doing so, and yet, despite pressure from many voices in his constituency as well as from the secretary of labor, the president took no action for nearly two years. What went wrong?

It is tempting to conclude quickly that in the end President Clinton did not care about the fate of low-wage workers. However, this conclusion would be unfair. During these same two years he proposed a progressive welfare reform package (quite different from what eventually was enacted), and he also pushed hard to vastly expand the Earned Income Tax Credit, a program that directed substantial funds to low-wage workers. The real problem, in addition to political pushback from many business associations, lay in the intellectual framework that shaped the debate. The dominant view, among Democrats as well as Republicans, was that it is good economic policy to let the market generate jobs and earnings and then to mop up afterward, if necessary, with transfer payments. In this view, any efforts to change market outcomes should be limited to education and training—that is, to improving the quality of the workforce itself so that people can do better in the unfettered market. This perspective leads to a basic unwillingness to confront directly the challenge of improving job quality. Much of this book is devoted to making a different case. We argue that it is both possible and appropriate to improve job quality more directly and to confront earnings inequality more directly as well.

What History Teaches Us

In making this case, we understand, importantly, that history is on our side. It is not new or unusual to shape or reshape the quality of the work generated by the market. It is true that there is a strong and pervasive popular acceptance of the virtues of the free market, and it is also true that the Horatio Alger myth of the self-made man holds considerable sway. But another equally powerful current in American history points in another direction, toward long-standing and successful efforts to set basic standards, to insist on fairness and equity, and to use politics and policy to improve working lives.

The story of job standards goes back at least as far as the Progressive era. The Triangle Shirtwaist Factory fire of 1911 led to health and safety regulations, and since then the trend has been a steady improvement in employment protections. Employment standards also were put into place, by political means, in the very core of the American economy. Consider the situation at the turn of the twentieth century when workers who sought employment in America's factories faced a daunting situation. Sanford Jacoby, a leading historian, described the so-called drive system:

> The foreman's control over employment began literally at the factory gates. On mornings when the firm was hiring . . . a crowd gathered in front of the factory, and the foreman picked out those workers who appeared suitable or had managed to get near the front. At one Philadelphia factory the foreman tossed apples into the throng; if a man caught an apple he got the job. . . . New foremen might dismiss current employees to make room for their friends and rela-

> tives. . . . The foremen relied on ethnic stereotypes to determine who would get a job and which job they would get. . . . Workers often resorted to bribing foremen with whiskey, cigars, or cash. . . . Assignment to a job was determined in large part by favoritism or ethnic prejudice.[26]

By the end of the twentieth century, most employment had been transformed. In both union and non-union settings, strong personnel rules governed hiring, job assignment, and job security. The foreman at the factory gate was a long-forgotten symbol of past abuse. In our terms, "bad" jobs had been made into "good" jobs—not flawless jobs, but nonetheless good jobs. Certainly a large part of this story rests on productivity growth, which created wealth that could in turn flow into higher wages and better working conditions. But productivity had also grown rapidly from the end of the Civil War until the early twentieth century, the time of Jacoby's account.

Part of the story were unions, which pushed many firms to improve working conditions. For example, union contracts often contained provisions governing job assignments, grievance procedures, and job security. These provisions spilled over into the non-unionized sector in part because they came to be perceived as more efficient and in part because adopting them could limit the threat of unionization. It would be a mistake, however, to ignore the role of government in improving the quality of work. Prior to World War II, the Fair Labor Standards Act forced firms to establish uniform record-keeping systems in order to comply with overtime provisions, and the National Labor Relations Board encouraged firms to establish uniform procedures regarding hiring and job assignment to help them avoid being charged with discrimination against union members. However, the biggest government impact came during World War II. The War Manpower Commission required firms to develop staffing plans based on the federal Dictionary of Occupational Titles (DOT), and this led to more orderly job descriptions and promotion paths. The War Labor Board pushed for standardized classifications, permitted wage increases only for merit or equity (which in turn required firms to maintain uniform data and personnel procedures) and encouraged the explosion of nonwage benefits because these were exempt from wage controls.

Even as unions lost influence, the impact of these government policies encouraged uniform personnel procedures that continued to spread throughout the American labor market. In the postwar period the government role in improving job quality grew and expanded into other areas, including the Occupational Health and Safety Act (OSHA) and the Employment Retirement Income Security Act (ERISA). Providing an even more direct example of the impact of public policy on promotion paths and opportunities for career advancement are the equal employment opportunity policies that began with

President Kennedy's executive order 10925 and continued with the passage of the Civil Rights Act of 1964 and many other subsequent pieces of employment legislation. All of these examples should make it clear that the trajectory from a workplace characterized by the drive system of arbitrary supervisory behavior to the workplace that provides decent employment was shaped by many forms of public policy. The government made bad jobs into good ones. There is much to be proud of in this history, but it is a story with several chapters yet to come. The point of revisiting this history here is to emphasize that the next step, improving the quality of work in the low-wage labor market, is of a piece with what America has already done in other parts of the job market. We have a legitimate tradition and much experience in improving work quality, and what remains is to continue the forward movement.

The Plan of the Book

The next several chapters are devoted to developing the intellectual case for directly improving job quality. It is essential to do this for two reasons. First, as already noted, powerful interests and players hold the view that such interventions are inappropriate, and these need to be confronted. In addition, it is important to lay the conceptual foundations for policy and not simply jump into a list of proposals. In chapter 2, we take up what we term the "myth" that has bedeviled action—the myth that market interventions inevitably cost jobs and lead to economic inefficiency. We show that both domestic and international experience give the lie to this argument. We also address three other myths. First, we show that a "rising tide" most assuredly does not lift all boats: even in periods of low unemployment, low-wage jobs held by adults persist in large numbers. Second, we show that when people find themselves in these jobs they have a great deal of difficulty climbing out. Horatio Alger–style upward mobility is a chimera for most people. And finally, we show that the persistence of low-quality work cannot be laid at the door of immigration patterns.

With this underbrush cleared away, we turn in chapter 3 to the argument that the master solution lies in education and training. There is no question that in the long run education contributes to economic growth, and there is also no question that it is good advice to any young person to stay in school. But education and training alone will not transform the low-wage labor market, nor will they enable the adults who are trapped in it to climb out. We carefully review the evidence on these points and show that, if we want to improve job quality, more direct policy is essential.

This logic then leads us to think about the firms that make up the job market, the topic of chapter 4. An easy—and too facile—argument is that firms are greedy, on the one hand, and consistently in violation of employment law, on the other. It is certainly the case that too many firms do squeeze their workforce, and some do violate the law. But the problem is deeper than these concerns. Firms in the low-wage labor market are under intense pressure in low-margin businesses and see only one way of competing: to drive down their labor costs. It is too risky for them to think about another strategy, and in any case they typically lack the managerial capacity to execute it. As a consequence, they use a set of employment strategies that push down employment standards. Of course, there are bad players out there who deliberately violate the law, but the core problem is the low-level trap in which most firms are caught. Policy thus has two challenges: creating an environment in which low-quality work is no longer an acceptable option, and providing firms with the tools they need to operate successfully in that new environment.

What will lead firms to offer better wages and attach jobs to ladders that lead upward? Just posing this question suggests why the answer is so hard. For example, about one-third of low-wage jobs are in small firms, and it is simply not realistic to expect these firms to offer well-developed job ladders. There is a great deal of diversity in the low-wage labor market, and this diversity poses significant challenges for policy. Another source of variation lies in the markets that firms serve. Many firms that offer low-quality jobs are public or semipublic, such as organizations in the large health care sector. These organizations have a real interest in being good corporate citizens, and although this interest is not their only concern—they also worry about minimizing costs—it does offer a handhold for policy. At the other extreme are those firms that are basically invisible to consumers and regulators and with whom the sources of leverage are more limited.

The size and diversity of the American labor market clearly pose significant challenges for policy. It is easy to see why people rail against a one-size-fits-all approach to regulation, and it is just as easy to see why one set of policy prescriptions works in some settings but not in others. It is important to respect these problems, and we do. We describe a policy strategy that has a strong central focus yet is adjustable around the edges for the varying circumstances of employers.

In chapters 5, 6, and 7, we make these ideas concrete. Chapter 5 centers on the role of government: regulation and the deployment of everyday government activities—zoning, purchasing, economic development incentives—in the cause of better-quality work. The next chapter examines the role of voice, unions, and community groups. We then turn in chapter 7 to the question of how to enable firms to respond to these pressures, and we describe a range of training and technical assistance efforts that have shown considerable promise in recent years. These policies can also be tweaked to be responsive to the special circumstances of employers, particularly the large and important small-firm sector.

It is one thing to have good ideas, but as history has shown, making them happen is something else altogether. Progress is difficult and much depends on political will. This raises the question of just what happens when efforts are made to improve the quality of low-wage jobs. What happens on the ground when new jobs are created? What happens when efforts are made to upgrade existing jobs? An excellent laboratory for answering these questions is weatherization work, a traditionally low-paid occupation but one that has grown a great deal, owing to federal support, and attracted the attention of a wide range of advocacy groups that have pushed to upgrade the quality of the jobs. In chapter 8, we report on an in-depth case study of how the struggles to make these new "green" jobs into good jobs has played out in several cities and at the national level.

The final chapter pulls together our arguments and makes a case for the continued importance of creative public policy, which is particularly important in an era when government is under withering attack. We also address a fundamental dilemma: How do we think about a trade-off between job quality and low consumer prices? Is substandard work the price that must be paid to enable consumers to purchase low-cost goods? We acknowledge the dilemma but argue that an open public discussion and political process can lead us as a society toward a solution that respects the importance of decent work.

It is a cliché to say that in a country of America's wealth, widespread poverty is not just unacceptable but unnecessary. But the cliché is true. We are not dealing with the mysteries of curing cancer. If we want to substantially improve the quality of jobs, we have at hand tools that will take us a long way. The challenge is to pick up those tools and put them to work. What we hope to show here is that the problem of low-wage work is large and important, that the arguments put forward against action are fallacious, and that we can make progress if we have the will.

Appendix

In this appendix we first describe the data with which we work and then turn to health care and pensions as additional characteristics of good jobs.

Studying the incidence of job quality requires a large national data set, and the best such source is the Current Population Survey, administered by the Bureau of Labor Statistics, which is executed every month for a very large sample and is the standard source of data used by all researchers and policy analysts to understand trends in earnings and benefits. These surveys collect data on earnings and, in some months, also ask about health insurance and pension coverage. The CPS has some limitations: the surveys do not ask about other dimensions we consider to be important in a good job—for example, support for family care issues—and it is also likely that the surveys underrepresent undocumented workers. Nonetheless, the CPS is the best and most credible source of information available. We use what is termed the outgoing rotation groups (ORGs), in files prepared by the National Bureau of Economic Research (NBER), because these contain the most accurate wage data.

We limit our analysis to people between the ages of twenty-five and sixty-four who are wage and salary employees (that is, not self-employed) and who are in the civilian labor force (not in the armed forces). We eliminate young people because it is well known that many are in transitory low-wage jobs and including them in the calculations would distort our findings. The employment circumstances of the self-employed and people in the armed forces are sufficiently distinct from those of wage and salary workers that mixing these groups would confuse the patterns. There are other technical issues, particular regarding wages, and in dealing with these we follow established standards in the literature.[27]

Beyond Wages: Health Insurance and Pensions

As we discussed, a job that meets basic quality standards should also bring with it health insurance and pensions. For a variety of reasons, however—some technical and some conceptual—this question is much harder to answer than the question about the wages that people earn.

We can relegate the technical issues to the endnotes, but the conceptual ones are more serious.[28] Consider health insurance. There is a widespread national concern that far too many people lack insurance, and this is certainly justified. According to data in 2007, 15 percent of working people between the ages of twenty-five and sixty-four were not covered by any insurance. (The uninsured figure is larger when unemployed people and children are considered.) Furthermore, many of those who were covered either found themselves paying too much or were covered by programs such as Medicaid instead of through their employer. However, to point out these facts is different from the question we ask here: what fraction of jobs are failing to meet basic standards by providing insurance?

This question is more difficult to answer because data on health insurance are not directly on jobs (as they would be if we surveyed firms) but rather on the decisions made by people who are holding jobs. In the case of wages we can assume that no one is turning down a higher wage that their employer might offer, but this is not true for health insurance. For example, if we observe in our data that someone is in a job from which they are not getting health insurance, it may be that their firm does not offer health insurance, but it may also be that the person turned down such an offer because they are

Appendix Table 1A.1 Employees Without Employer-Paid Health Insurance, 2007

	All Employees	Below Decent Wage Standard	Between Decent Wage Standard and 1.6 Times the Median Wage	Above 1.6 Times the Median Wage
Employees with no employer-paid health insurance	39.1%	67.5%	33.1%	21.9%

Source: Authors' calculations. See chapter 1 appendix text for further details on data sources.

covered by someone else's insurance, such as a spouse. Another example might be a highly paid independent contractor, such as a software programmer. That person would report receiving no health insurance from an employer, but few of us would regard that as a problem. The Current Population Survey data that we must use here (because the CPS is the only nationally representative source of data on wages, pensions, health insurance, and demographic characteristics) does not enable us to make this distinction. The bottom line is that a tally of people who report that they are not covered by health insurance provided by their employer is likely to overstate the problem, yet this is what we must report. There are similar, though less serious, ambiguities with respect to pensions.[29]

Appendix table 1A.1 provides the basic facts. Nearly 40 percent of all employees and a stunning 67 percent of workers below our wage standard do not have health insurance that is at least partially paid by their employer. The last two columns of the table show that the numbers improve as earnings increase, but even among the highest-paid group a substantial number lack employer-provided health insurance (though keep in mind the earlier point about well-paid consultants who are able to purchase their own insurance). It is also worth noting that even after taking into account all forms of health insurance (Medicaid as well as privately purchased insurance) among people below our wage standard, 34.1 percent have no health insurance whatsoever.

When it comes to pensions, the patterns are much the same as with health insurance except that the baseline is much worse: as appendix table 1A.2 shows, 46 percent of all employees are not included in their employer's pension plan. Not surprisingly, the figure is much worse for those below the decent wage standard.

Appendix Table 1A.2 Employees Who Are Not Included in an Employer Pension Plan, 2007

	All Employees	Below Decent Wage Standard	Between Decent Wage Standard and 1.6 Times the Median Wage	Above 1.6 Times the Median Wage
Employees not included in a pension plan	46.8%	77.3%	41.6%	25.7%

Source: Authors' calculations. See chapter 1 appendix text for further details on data sources.