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UNDERWRITING BAD JOBS

How Our Tax Dollars Are Funding Low-Wage Work and Fueling Inequality

BY AMY TRAUB & ROBERT HILTONSMITH

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DĒMOS IS A PUBLIC POLICY ORGANIZATION working for an America where we all have an equal say in our democracy and an equal chance in our economy.

OUR NAME MEANS "THE PEOPLE." It is the root word of democracy, and it reminds us that in America, the true source of our greatness is the diversity of our people. Our nation's highest challenge is to create a democracy that truly empowers people of all backgrounds, so that we all have a say in setting the policies that shape opportunity and provide for our common future. To help America meet that challenge, Dēmos is working to reduce both political and economic inequality, deploying original research, advocacy, litigation, and strategic communications to create the America the people deserve.

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Introduction

Every day, Americans benefit from public structures that contribute to our quality of life. When we walk into a clean, well-maintained post office; drive on federal highways; send our kids to school knowing they'll get a hot lunch; or call the Social Security benefits office with a question, we see our federal tax dollars at work, providing public services we rely on.

What most Americans don't know is that many of the workers keeping our nation humming are paid low wages, earning barely enough to afford essentials like food, health care, utilities and rent. Through federal contracts and other funding, our tax dollars are fueling the low-wage economy and exacerbating inequality. Hundreds of billions of dollars in federal contracts, grants, loans, concession agreements and property leases go to private companies that pay low wages, provide few benefits, and offer employees little opportunity to work their way into the middle class. At the same time, many of these companies are providing their executives with exorbitant compensation.

We find that nearly two million private sector employees working on behalf of America earn wages too low to support a family, making $12 or less per hour. This is more than the number of low-wage workers at Walmart and McDonalds combined.[1] Yet, if anything, this figure underestimates the total number of poorly-paid workers funded by our tax dollars. Our analysis encompasses U.S. workers employed by government contractors, paid by federal health care spending, supported by Small Business Administration loans, working on federal construction grants, and maintaining buildings leased by the federal government. This encompasses the largest share of poorly-paid workers funded by our taxes. However, other streams of funding have yet to be analyzed. For example, loans and subsidies from the Department of Agriculture fund giant agribusinesses that employ more than a million farm workers, while grants from the Department of Education fund low-wage assistant teachers, bus monitors and cooks in Head Start and other programs. Due to lack of data, retail and food service workers for concessionaires of the National Parks Service and other federal agencies also fall outside our analysis.

These are employees working on behalf of America, doing jobs that we have decided are worthy of public funding—yet they're being treated in a very un-American way. Our nation has a history of ensuring our tax dollars provide decent jobs. From the 1931 Davis-Bacon Act to Executive Order 11246 of 1965, and a host of other laws and executive actions, our laws have mandated that companies

AMERICA'S LONG-STANDING COMMITMENT TO PROTECTING WORKERS NOW FALLS SHORT

The idea that employees working on behalf of America should benefit from strong workplace protections has a long history in American law. The Davis-Bacon Act, passed in 1931, mandates that federally contracted construction workers be paid at least the prevailing wage within a particular area for their work. In 1936, the Walsh-Healey Act extended similar protections to workers manufacturing goods to be used by federal agencies, including the military. The 1965 Service Contract Act further mandates that employees of federal contractors or subcontractors who provide services to federal agencies should also be covered by prevailing wage standards. According to an analysis by the non-partisan Congressional Research Service, "the thrust of the statutes was to establish the federal government as a model employer to be emulated by the private sector. More directly, they were intended to provide economic protections to the targeted groups of workers." [3]

While these statutes continue to offer important labor protections, they are not enough to ensure decent standards for all private sector workers supported by public dollars. First of all, they largely apply only to employees of federal contractors and subcontractors, leaving out employees whose work is supported through other public funding streams, such as small business loans or Medicare spending. Second, because prevailing wages reflect local industry standards, they cannot guarantee adequate wages and benefits in low-wage industries or regions of the country. In fact, as Appendix II describes in more detail, we find that the Davis-Bacon Act, Walsh-Healey Act, and Service Contract Act have not succeeded in consistently raising wages above $12 an hour. Finally, prevailing wage laws do not address companies' records of compliance with workplace laws and protections. Private employees working on behalf of America need additional protection. ■

working on behalf of the American people are upholding high standards of employment practices. Yet as the nature and prevalence of federal contracting, lending and grant-making have changed, and some laws have been weakened, working people have fallen through the cracks.

When our tax dollars underwrite bad jobs, the economy as a whole is weakened and all of us are negatively affected. There is a ripple effect as low-paid workers and their families have little money to spend, hindering economic growth that could be creating more jobs. Poorly-paid workers also contribute less in taxes and are more likely to rely on public benefits to care for their families. In contrast, we would all benefit from an economy where workers earn good wages—and we have a special responsibility to see that the people working on behalf of our nation are paid and treated fairly. Raising standards for people working on behalf of America is one important piece to providing opportunities for workers to reach the middle class.

In his 2013 State of the Union Address, President Obama acknowledged the key role that middle-class jobs play in our economy, announcing that "it is our generation's task to reignite the true engine of America's economic growth—a rising, thriving middle class." President Obama outlined a powerful policy vision to strengthen the middle class and jumpstart the economy, from raising the minimum wage to making high-quality preschool accessible to all Americans. Yet these proposals will require Congressional approval. Legislative action would likely also be necessary to reach all of the 1.992 million low-wage private sector workers whose jobs are funded by the federal government. But through an executive order, President Obama has significant authority to improve the jobs of many of the poorly-paid workers whose work is paid for with our tax dollars.

At a time of budget cuts and austerity, lifting and broadening standards for employees working on behalf of America would not necessarily mean a significant increase in the tab for taxpayers. Evidence on the impact of local living wage laws and economic development agreements that incorporate job standards indicates that the cost to taxpayers does not rise dramatically when workers are paid decent wages.[2] In addition, companies that raise wages benefit from productivity gains and reduced employee turnover. By raising wages for these workers, there will also be public savings due to the reduction in demand for public benefits like food stamps. Finally, high salaries of executives at contracting firms suggest that there are substantial funds that could be better allocated. In many cases, raising wage standards for workers may not require any additional taxpayer dollars.

Today, we have an opportunity to do right by workers who are working on behalf of America by ensuring our tax dollars are providing decent and fair wages. This report provides an analysis of the current composition of poorly-paid workers whose jobs are funded with our tax dollars. These workers represent a large spectrum of occupations, from workers sewing military uniforms to hospital aides funded by Medicare, security guards with contracts to protect public buildings, and food cart vendors at the National Zoo. We look at the role of taxpayer dollars in fueling the low-wage labor market and explore the disparity between low-wage workers and highly-paid CEOs in the Washington D.C. area, where a disproportionate percentage of contracting dollars are spent. Finally, we offer policy recommendations outlining an executive order that could raise standards for low-wage employees who are working on behalf of our country.

DEFINING LOW-WAGE WORK

We define low-wage work as a job paying $12 an hour or less, equivalent to an annual income of about $24,000 for a full-time worker.[4] Nationwide, a family of four trying to subsist on $24,000 a year hovers near the poverty level. Even a single worker with no dependents would find no room in a basic budget for health coverage, a retirement nest egg, or building emergency savings.[5] At the same time, many low-wage workers cannot find full-time work and some live in parts of the country where the cost of living is higher than the national average. For these reasons, we define jobs paying $12 an hour or less as low-wage positions. About a third of U.S. workers are paid wages below $12 an hour. Importantly, two million of these poorly paid workers are employed not by Walmart or McDonalds, or another corporation aiming for the highest possible profit at the lowest possible cost, but ultimately by U.S. citizens through our tax dollars. ■

Streams of Federal Funding for Private Sector Jobs

American tax dollars contribute to poorly paid jobs in several different ways. This paper will focus on direct federal contracts as well as federal health care spending, loans through the Small Business Administration, federal infrastructure grants to states, cities, and counties, and janitorial staff who clean federal buildings leased from private companies.

table 1. | LOW-WAGE PRIVATE SECTOR WORKERS FUNDED BY PUBLIC DOLLARS

Jobs funded through direct federal contracts	560,000
Jobs funded through SBA loans	204,000
Jobs funded through Medicare spending	759,000
Jobs funded through federal Medicaid spending	425,000
Jobs funded through federal Child Health Insurance Program spending	2,000
Jobs supported by Public Buildings Service property leases	9,000
Jobs funded through federal infrastructure funds	33,000
TOTAL	1,992,000

Jobs Funded Through Direct Federal Contracts

Federal contracting has grown rapidly over the past decade doubling between 1996 and 2009 before decreasing slightly in the years since 2010.[6] In 2012, businesses were provided with $446.5 billion in taxpayer dollars to perform work in the United States under federal contracts. They employed an estimated 2.2 million U.S. workers. Many of these employees were well-paid engineers and scientific researchers, aerospace employees and skilled construction workers earning a decent income. Yet an estimated 560,000 Americans employed by federal contractors were paid $12 an hour or less. Most of these low-wage contract workers are clustered in sectors and industries like apparel manufacturing, retail trade, basic construction, facilities support, security services, and education. But, even industries such as scientific research and development services and aerospace product and parts manufacturing, often seen as high-wage sectors, included large numbers of positions paying $12 an hour or less in addition to more highly compensated workers. Overall, a study by the Economic Policy Institute finds that employees of federal contractors are far more likely to earn poverty-level wages than workers employed directly by the federal government.[7]

Jobs Funded Through Federal Health Care Spending

In 2011, (the latest date for which detailed figures are available) more than $1 trillion in federal tax dollars were spent on health care, including Medicare and Medicaid, the Children's Health Insurance Program, veteran's health care, the military health care system, health research, and other programs. Health care spending is expected to continue growing as the U.S. population ages. Looking specifically at funding for privately-run hospitals, nursing and elder care facilities, and home health care, federal spending totaled $552.4 billion and supported an estimated 3.7 million private sector jobs. An estimated 1.2 million of these jobs were low-wage positions, including workers employed as nursing attendants, medical assistants, hospital orderlies, and home health aides.

Jobs Funded Through Small Business Administration Loans

The Small Business Administration also subsidizes private sector jobs, principally through its 7(a) and 504 Certified Development Company loan guaranty programs. According to the agency's financial report, these two primary loan programs supported $30.3 billion in lending in fiscal year 2012, subsidizing 609,437 jobs.[8] An estimated 204,000 of these jobs were low-wage positions: about half of low-wage SBA-supported jobs were in the service sector and another quarter were in wholesale and retail trade.

Jobs Funded Through Federal Infrastructure Funds

In 2012, the federal government supported infrastructure projects by states, counties, and municipalities worth $74.1 billion, including building and repairing roads, bridges, and highways; constructing water, sewer, gas, power, and communication systems; and other heavy and civil engineering construction such as dredging, developing ports, and improving parks. Together, these grants supported approximately 266,000 jobs, most of them well-paid construction positions. Yet an estimated 12 percent of these grant-supported jobs—representing approximately 33,000 workers—were paid less than $12 an hour. Construction laborers and helpers were among the lower wage occupations in this industry.

Jobs Supported Through the Public Buildings Service

The U.S. General Services Administration's Public Buildings Service describes itself as "the landlord for the civilian federal government."[9] The division both acquires real estate on behalf of the federal government and serves as a caretaker for federally-owned property located throughout the nation. The Public Buildings Service interacts with the private sector workforce in a range of ways, but one is particularly stark when it comes to the low-wage employees. According to the most recent figures, the PBS leased 191.4 million square feet of property across the nation from private landlords.[10] This provided office space for over half of the federal workforce and someone to mop the floors, scrub the bathrooms, and dust the furniture throughout these buildings. We estimate 16,000 janitorial employees service these leased buildings, and an estimated 9,000 earn less than $12 an hour. Because federal prevailing wage law covers "service contracts" but not property leases, these workers are excluded from the law's coverage, even though they do identical work to janitors working in federally owned buildings.

A Closer Look at the Jobs and Industries Supported by Federal Funding

This section provides a more nuanced picture of some of the low-wage jobs we are underwriting with our tax dollars. We focus on the federal impact on employment standards in both some of the nation's largest low-wage industries (retail, food service), as well as smaller industries where the federal role is particularly significant.

Figure 1. | FEDERALLY-SUPPORTED LOW-WAGE EMPLOYMENT, SMALL INDUSTRIES/SECTORS

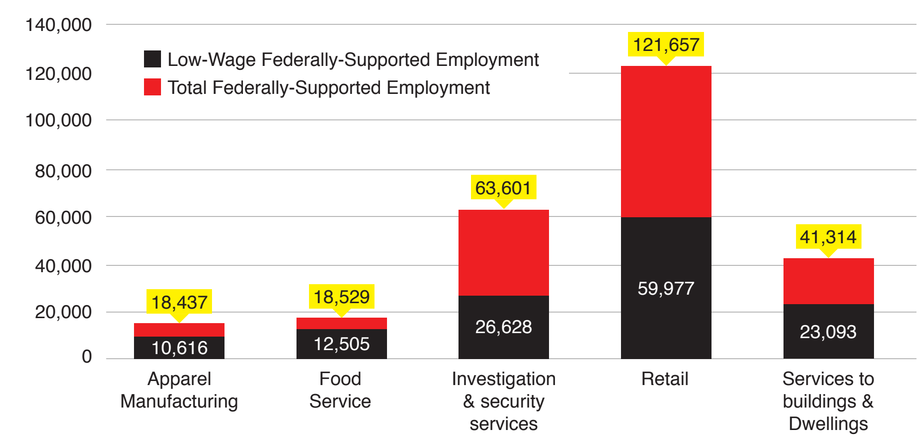
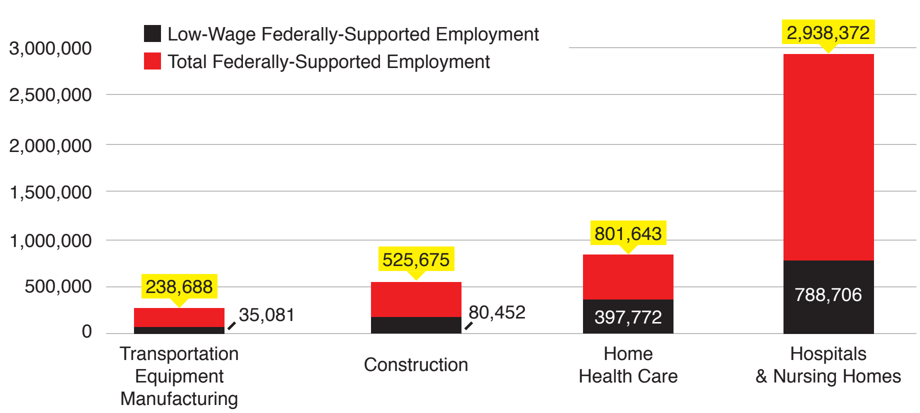


Figure 2. | FEDERALLY-SUPPORTED LOW-WAGE EMPLOYMENT, LARGE INDUSTRIES/SECTORS



SOURCE: *Dēmos analysis*

APPAREL MANUFACTURING

OUR TAX DOLLARS: At Least 11,000 Poorly-Paid Workers

The U.S. apparel manufacturing employment peaked in 1973, when 1.4 million Americans were employed making clothing.[11] Due to technological change and growing imports from abroad, just 133,000 Americans worked in the industry by 2012. Yet apparel manufacturing is worth highlighting because it is a predominantly a low-wage industry where nearly one out of every seven dollars in revenue comes from taxpayers. The clothing they make includes uniforms for the U.S. military. Overall an estimated 58 percent of U.S. apparel manufacturing employees earn $12 an hour or less: sewing machine operators, the largest occupational group, earn a median wage of $9.29; textile cutting machine setters, operators and tenders typically earn $9.90. More troubling still, a 2006 survey of workers at eight federal apparel contractors found that many employees were actually paid far less than the industry median, earning just $6.55 an hour on average.[12] Most of the workers surveyed had no health care coverage and reported labor and employment law violations, including forced overtime and hazardous work conditions.

Sewing Machine Operator:

*I have been working at [a federal apparel contractor] for 24 years and people coming in off the streets make more money. The production rates are too high and wages and benefits need to be improved. When I make production [quota] I get $10.25 per hour but I hardly ever do, so most of the time I'm making $7.25. They give us health insurance, but my deductible is $3000 and three years ago I had to file for bankruptcy.**

* This worker is employed by a federal apparel contractor in the United States and preferred to remain anonymous. Many apparel workers fear retaliation if they speak out about their jobs.

CONSTRUCTION

OUR TAX DOLLARS: At Least 80,000 Poorly-Paid Workers

Construction employment fell dramatically during the Great Recession and has still not fully recovered. Nevertheless, 5.85 million Americans were employed in the construction sector in 2012 and most were decently compensated, with median pay topping $19 an hour ($26.73 for construction workers represented by unions). Despite middle-class wages overall, about 18.5 percent of construction employees—primarily non-union laborers and helpers in various construction trades—earned $12 an hour or less. With close to $30 billion in federal construction contracts in 2012 and another $74.1 billion in federally funded public infrastructure projects, a significant number of these low-wage construction jobs are paid for by the federal taxpayer. In addition, the Small Business Administration reports that it supported approximately 66,000 construction jobs in 2012, an estimated 12,000 of which paid low wages. Between these three sources, an estimated 80,000 construction workers whose jobs were funded by our tax dollars earned low wages. Taxpayers' footprint in this industry is not insignificant: about 12 percent of construction industry revenue in 2012 came from either direct federal contracts or via grants to state and local governments. In sub-industries, like highway, street, and bridge construction, federal grant funding accounted for 70 percent of industry revenue. The large proportion of federally-funded work suggests that federal efforts to raise work standards for construction funded by taxpayers could boost low-wage workers across the industry.

FOOD SERVICE

OUR TAX DOLLARS: At Least 13,000 Poorly-Paid Workers

Restaurant sales exceeded $630 billion in 2012.[13] Yet the typical waiter or waitress earns just $9.89 an hour, including tips, while restaurant cooks earn $10.43. In fast food, the wages are still lower, with fast food cooks making $8.85 and even many first-line supervisors and managers earning less than $12 an hour. More than 9.5 million Americans work in food services (including employees of bars and other drinking places) and more than two-thirds of them are low-wage workers. In 2012, nearly a billion dollars in federal contracts went to this industry, subsidizing an estimated 13,000 low-wage jobs. While the federal footprint in the industry is small, additional low-wage food service jobs were subsidized through SBA loans and through the National Parks Service and other public agencies that grant concessions to low-wage restaurants, snack bars, food carts and other food service establishments to operate on public land.

My name is Fidelina Santana *and I am 40 years old. I have worked in the food court at the Ronald Reagan building for nine years. Even after so many years of hard work, I only earn $9.50 an hour and I don't have any benefits. To make ends meet, I need to work 73 hours a week. I don't even get overtime. I work so much because I am a single mother of three children. I need to feed them and put a roof over their heads, even if it's only a bedroom that I rent in my sister's house.*

HOME HEALTH CARE SERVICES

OUR TAX DOLLARS: At Least 398,000 Poorly-Paid Workers

According to the Bureau of Labor Statistics, the top two fastest growing occupations in the United States are personal care aides and home health aides, jobs that will grow by 70 percent and employ 3.2 million Americans by 2020.[14] Despite the important role they play in ensuring quality care and dignity for the ill, disabled or the elderly, these workers are among the lowest paid in our economy. Personal care aides, who assist the elderly or people with disabilities with daily living activities, earn a median wage of just $8.90 an hour in the home health care services industry, while home health aides, who perform routine medical duties such as changing bandages, dressing wounds, and applying medications, typically earn just $9.82. In the industry as a whole, which also includes visiting nurses and other medical professionals, the median wage is only $11.70 an hour. Many low-wage workers in the home health care industry are excluded from the minimum wage and overtime laws that protect other workers, suppressing wages in the home health care industry a whole. Yet two-thirds of the home health care services industry is supported by our tax dollars, primarily through Medicare and Medicaid, contributing to 398,000 poorly-paid home health care jobs.

HOSPITALS, NURSING HOMES AND ELDER CARE FACILITIES

OUR TAX DOLLARS: At Least 789,000 Poorly-Paid Workers

Health care is one of the fastest growing sectors of the American economy, with industries that care for an aging population, such as nursing homes and other community care facilities for the elderly projected to add more than half a million jobs by 2020. If present trends continue, nearly half of those jobs will pay low wages: today 1.1 million low wage workers labor in nursing homes and elder care facilities, and another 767,000 work in hospitals. Nursing attendants, medical assistants, hospital orderlies, and health aides are among the occupations with a median wage of $12 an hour or less. And tax dollars play a major role in health care and its low-wage sectors, with direct spending through Medicare, Medicaid, and other programs accounting for roughly 40 percent of hospitals, nursing homes, and elder care facilities' revenue in aggregate, subsidizing an estimated 789,000 low-wage jobs. As a result, citizens could leverage tax dollars to push for increased wages for low-paid health care workers. A federal push to raise pay for workers providing hospital and nursing/residential care funded by taxpayers could boost low-wage workers across the industry.

INVESTIGATION AND SECURITY SERVICES

OUR TAX DOLLARS: At Least 27,000 Poorly-Paid Workers

In 2012, 812,000 Americans were employed in investigation and security services, an industry that includes private detectives and armored car drivers. Most workers in this industry, however, have a more familiar job title: security guard. According to the Bureau of Labor Statistics, security guards have a median wage of just $10.91 an hour—in the industry as a whole, 42 percent of workers earned less than $12 an hour. With $3.6 billion in federal contracts to private investigation and security services companies in 2012, taxpayer dollars subsidized at least 8 percent of the industry, including 27,000 low-wage workers. Yet the overall federal footprint is likely to be larger: for example, many contracts including a security component appear to be classified as "facilities support services" contracts, bundling in security guards with a range of other workers. In addition, many federally-owned buildings leased by private companies also contract with security companies employing guards. Finally, some portion of Small Business Administration loans subsidize security companies—in fact security guard firms are among the companies touted as SBA success stories.[15]

RETAIL

OUR TAX DOLLARS: At Least 60,000 Poorly-Paid Workers

One in ten American workers is employed in the retail sector: half of them earn less than or equal to $12 an hour. Retail cashiers, for example, earn a median wage of just $9.13 an hour, stock clerks earn $9.80, and the retail salespeople who make up the bulk of employees in the sector make $10.09. Widespread practices of involuntary part-time work and unstable scheduling push incomes in this sector even lower. The retail sector received $3.7 billion in federal contracts in 2012, supporting an estimated 45,000 jobs, of which an estimated 22,000 paid $12 an hour or less. Small Business Administration loans subsidized another 38,000 low-wage retail jobs. Additional workers are employed through National Parks Service and other public agencies that grant concessions to gift shops and other retail outlets to operate on public land.

PROPERTY SERVICES

OUR TAX DOLLARS: 23,000 Poorly-Paid Workers

Nearly 1.8 million Americans are employed in property services, formally known as the "services to buildings and dwellings" industry. Most clean and maintain buildings inside or out, working as janitors, cleaners, housekeepers, groundskeepers or landscapers. The building cleaning workers who made up half the industry earned a median wage of just $9.48 an hour, while landscaping and grounds-keeping workers earn $11.25—overall 56 percent of industry employees earn less than $12 an hour, with more than a million workers earning low wages. In 2012, $1.96 billion in federal contracts flowed to the industry, fueling 14,000 low-wage jobs. The real number of contract workers is likely higher, since many contracts including janitorial and landscaping work appear to be classified as "facilities support services" contracts, bundling in these workers with a range of other occupations. An additional 9,000 low-wage janitorial workers cleaned buildings leased by the federal government from private companies which contracted for their own cleaning services. In addition, landscaping and grounds-keeping workers undoubtedly maintained the outside of federally-owned buildings, although their numbers were not calculated in this study. Small business loans to cleaning and landscaping firms may have enlarged the federal footprint in the industry, but the overall taxpayer role is small.

My name is Guadalupe Rodriguez *and I work for a janitorial company that cleans the commercial area of Union Station, a federal property. For 19 years I have cleaned this building, yet I only get $8.75 an hour -without any benefits. Throughout all these years, I have received increases only when the federal government raised the minimum wage, which helps, but is not enough to live on… I hope the company I work for would offer me health benefits someday.*

TRANSPORTATION EQUIPMENT MANUFACTURING

OUR TAX DOLLARS: 35,000 Poorly-Paid Workers

In general, transportation manufacturing is a high-wage sub-sector, with median pay ranging from $17.58 an hour for workers in motor vehicle parts manufacturing to $31.34 an hour for aerospace manufacturing workers. The need for highly skilled employees as well as a unionized workforce generally helps to maintain middle-class jobs in the industry. Yet production helpers, who assist other workers, often make less than $12 an hour. These employees are not apprentices but low-wage workers who, together with other poorly paid occupations, make up about 15 percent of equipment manufacturing employment. These industries are largely in business as a result of our taxpayer dollars: in 2012, aerospace manufacturing received 49 percent of its revenue from federal contracting, while boat and ship builders collected 57 percent of their revenue from federal contracts. Overall, the transportation equipment manufacturing industry took in $108.6 billion in federal contract funds, particularly from the military, subsidizing an estimated 35,000 low-wage jobs. SBA loans contributed to an unknown number of additional low-wage transportation manufacturing jobs.

OTHER INDUSTRIES, OTHER JOBS

OUR TAX DOLLARS: 565,000 Poorly-Paid Workers

Federal tax dollars fuel low-wage jobs in many other industries besides the ones highlighted here: warehouses, daycare centers, offices staffed by administrative workers, industrial laundries, slaughterhouses, and private prisons, among many others. These jobs are captured in the overall number of low-wage jobs funded by federal contracts, health care spending, and SBA loans.

High Pay for Contracting Executives

Not everyone working on behalf of America earns low wages. While workers sewing military uniforms, janitors sweeping the floors of our nation's grand public buildings, and health aides helping Medicare recipients to bathe are paid very little, taxpayers provide generous reimbursements to senior executives at companies with federal contracts.

Concerned about contracting executives netting a windfall at the public expense, Congress set a cap on compensation for defense contractors in 1995. In subsequent years, the cap was expanded to include all employees of all federal contractors (not only defense), but it may be doing little to restrain pay for top executives. By design, the cap never limited total executive pay, but rather stipulated that the federal government would not allow compensation costs above a specified amount to be paid for with tax dollars. The problem is that the maximum amount is pegged to the compensation levels of the nation's highest-earning corporate executives. As executive pay in the private sector has skyrocketed, so has the amount that the federal government will allow executives to be paid through our tax dollars. Today, contractors can be reimbursed for a maximum of $763,029 in compensation for any given employee.[16] The president of the United States, meanwhile, earns an annual salary of $400,000, while U.S. median household income is $50,054.[17]

My name is Roxanne Mimms. *I am a cook at the Smithsonian National Zoo… I dream to be able to provide for my family and to own a business that I can leave to my kids one day. I would like that business to be a restaurant. I graduated from Career Tech but haven't been able to find a job in my field. I've had to put my dreams on hold and am now working at the National Zoo. Wages here are too low for the work we do…*

The sharp disparity between low-wage contract workers at the bottom and executives at the top mirrors the growing income inequality of the nation as a whole. Between 1993 and 2011, real incomes for the top one percent of Americans grew 57.5 percent, according to economist Emmanuel Saez, while the rest of American families saw their real incomes grow just 5.8 percent over the

18-year period.[18] Since the Great Recession officially ended in 2009, the trend has become even more pronounced: the top one percent of Americans have enjoyed 121 percent of the income gains flowing to the economy as a whole. Growing inequality and a lack of economic mobility strike at the heart of America's promise to offer all citizens willing to work a chance at a decent life. This paper illustrates one way that destructive inequality is fueled and exacerbated on the taxpayer's dime.

WASHINGTON D.C: A MICROCOSM FOR THE INEQUITIES OF FEDERAL CONTRACTING

In 2011, 15 cents from every dollar in the federal procurement budget flowed through just one metropolitan area: Washington D.C. The Washington region, home to two percent of the nation's population, was the destination for $80 billion in contracting spending, according to analysis by Stephen Fuller of George Mason University.[19] The region is therefore an ideal place to observe the dynamics of federal contracting and its influence on the larger economy.

The rise in economic inequality in the region has been stark. An analysis by Deborah Nelson and Himanshu Ojha at *Reuters* find that the top five percent of households in Washington, D.C. made more than $500,000 on average in 2011, while the bottom 20 percent earned less than $9,500 in the course of the year. The level of inequality has risen dramatically over the past twenty years and is wider than most other American cities.[20] While contracting is far from the only factor contributing to the region's growing income disparity, its impact is visible at all levels of the economy.

At the high end, many of the mostly highly compensated executives of firms headquartered in the Washington D.C. region lead companies with billions of dollars in federal contracts. Wesley Bush of

Northrup Grumman, for example, was the D.C. area's third highest-grossing CEO in 2011, pulling in $21 million in total compensation as his company profited from more than $9 billion in federal contracts. Robert Stevens of Lockheed Martin, Jay Johnson of General Dynamics, and Michael Laphen of Computer Sciences Corp are similarly among the top ten most highly-paid executives in Washington even as their firms are among the top ten largest federal contractors.[21] *The Washington Post* notes that median pay for the region's top executives soared 22 percent in 2011.[22]

At the middle and low-end of the labor market, contracting and other forms of government outsourcing have also played a role in Washington. Stable jobs working directly for the federal government have increasingly been turned over to private contractors, who in some cases pay poverty-level wages or hire workers on only a temporary basis. A study by the Economic Policy Institute finds that the private sector is three times as likely to employ workers at poverty-level wages as the federal government, and that direct federal employees are far more likely to have employer-sponsored health or retirement plans.[23] While this dynamic exists throughout the country, it is magnified in the Washington, D.C. region, where both federal contractors and federal workers are concentrated. Increased outsourcing expands the gulf between those at the top and low-wage workers. ■

Policy Discussion

Through federal contracts, grants, loans, concession agreements and property leases, our tax dollars are currently fueling millions of poorly-paid jobs and exacerbating inequality. While doing business with the federal government can be highly lucrative for executives at contracting firms, nearly 2 million private sector employees working on behalf of America earn wages too low to support a family.

Through the use of his executive power, President Obama has the authority to call for improvements in workplace standards among companies that do business with the federal government or get special benefits from federal agencies. An executive order requiring federal agencies to take all possible steps to raise workplace standards and ensure that companies comply with applicable labor and employment laws has the potential to dramatically improve the lives of the low-wage workers that federal agencies depend on to accomplish their goals.[24]

The president should also act to improve oversight of companies doing business with federal agencies to ensure that this policy is enforced. Finally, in the case of federal contracts, the president can call on agencies to evaluate when work can be done more efficiently and effectively by government employees than private companies.[25] As agencies like U.S. Customs and Border Protection and the Internal Revenue Service have already found, bringing previously contracted services back into the public domain can save money, providing a better value for taxpayers.[26]

In the past, presidents have used their authority to improve job opportunities for Americans working or seeking to work for federal contractors. For example, starting in 1941, successive administrations issued executive orders to fight employment discrimination in the contracting workforce. This effort culminated with President Lyndon Johnson's signing of Executive Order 11246, mandating equal employment opportunity and affirmative action for all individuals working for federal contractors. An executive order to raise and enforce workplace standards for contractors, grantees, and other private companies that do business with the federal government would follow this powerful and effective precedent.

A different type of precedent is offered by the more than a hundred living wage laws and labor agreements for economic development projects enacted by American cities, counties and states over the past fifteen years. These regulations take many forms, but at their core is a requirement that public contractors, subsidized businesses, concessionaires and/or other private companies that receive special public benefits must meet baseline job standards, such as paying living wages, offering affordable employee health benefits, or hiring in the local community. Less rigorous policies simply favor contractors or subsidize recipients who pay living wages and offer benefits. Still other states and cities require that contractors and other companies doing business with the public meet a basic standard of responsible business practices which excludes companies that have repeatedly violated workplace laws, failed to pay taxes, or flouted other public protections. These many approaches to reforming relationships with public contractors and other private companies that receive special public benefits can serve as models for potential federal action.[27]

Research into the impact of living wage laws indicates that the cost to taxpayers does not rise dramatically when companies are required to pay their employees decent wages.[28] One reason is that companies that raise the pay of low-wage workers benefit from productivity gains and save money because of reduced employee turnover. With better paid employees and a more stable workforce, contractors may also be able to deliver more reliable and higher quality goods and services. With living wage agreements in place, taxpayers can benefit from other savings as well: better paid workers have less need to rely on public services, such as Medicaid and food stamps, so costs for these programs may be reduced. In many cases, raising wage standards for workers may not require any additional taxpayer dollars.

Improving standards for employees working on behalf of America will not, by itself, rebuild the middle class or fully reverse the trend toward growing inequality. But ensuring our tax dollars are providing decent and fair wages would complement President Obama's broader efforts to raise the minimum wage, advance universal health coverage, and promote affordable preschool. What's more, standards could be raised without action on the part of Congress. Not only would workers and their families benefit from improved contracting standards, but industries with a high proportion of jobs supported by the government might feel pressure to improve standards as well in order to compete for the best workers. These are employees working on behalf of America, doing jobs that we have decided are worthy of public funding—yet they're being treated in a very un-American way. We owe them more. ■

Appendix I: Methodology

This report analyzed five major types of private-sector workers supported by federal tax dollars: federal contractors, Small Business Administration-supported employment, health care workers paid through Medicare, Medicaid, and CHIP, workers on projects supported by federal infrastructure grants, and janitors at federally-owned buildings leased by private firms. Because the federal government does not compile statistics on the federally-funded private sector workforce, we estimated the number of workers and low-wage workers in each group using different processes based on the data sources available.

Federal Contracting Employment

We obtained detailed data on all federal contracts from usaspending.gov. In total, the federal government spent $516.8 billion on contractors in 2012;[29] however, some of this contracting work was performed outside of the United States. We eliminated these contracts, leaving us with $445.9 billion of federal contracts for work performed within the country's borders. The contracting data categorizes each contract by industry, using the standard North American Industrial Classification System (NAICS) codes. We chose to aggregate the data by 2-digit sectors, 3-digit sub-sectors, and 4-digit industries, since 4-digit classifications were the smallest categories our other data sources contained. We then calculated how many jobs in each sector and industry this contracting spending supported by matching it with 2012 data on total spending and employment by industry from the Occupational Employment Survey of the Bureau of Labor Statistics (BLS).[30] We then determined the share of each sector and industry that federal contracting spending accounted for, and then estimated that federal contracting employment accounted for the same share of total employment in each sector and industry to arrive at our figures for total contracting employment by industry.

To estimate the share of these jobs that were low-wage, we used 2011 wage and industry data (the most recent available) from the

American Community Survey, obtained through the Integrated Public Use Microdata Series (IPUMS) database, to calculate the share of total workers in each industry that earned our low-wage threshold of $12 per hour or less.[31] Because we found that the Davis-Bacon, Service Contracting, and Walsh-Healey Acts have a negligible impact on the wages of lower-paid contract workers (see the boxes on each act in the report text for our reasoning), we applied the overall share of low-wage workers in each sector and industry to our estimates of contracting jobs in each sector to arrive at the number of low-wage contractors detailed in the report.

Federally-Supported Health Care Employment

We used a nearly identical process to produce our estimates of the number of federally-supported health care jobs. Data on both federal and overall spending on hospitals, nursing and elder care facilities, and home health care aides ($552.4 billion in 2011) came from National Health Expenditure Accounts, obtained from the Centers for Medicare and Medicaid Services' website, cms.gov.[32] To calculate the federal share of each of these industries, we added federal spending on Medicare, Medicaid, and the Children's Health Insurance Program (CHIP) and divided by the total spending, both public and private, in each. Using the same employment numbers obtained from the BLS, we applied that share to total employment in each industry to estimate the number of jobs supported by federal spending. We then used the low-wage employment shares in each industry calculated from ACS data, using the same $12 per hour threshold, to estimate the number of low-wage federally-supported health care jobs.

SBA Lending-Supported Employment

Our figure for the total number of jobs created by SBA lending (609,437) is taken from a 2012 paper from the Census Bureau's Center for Economic Studies, authored by J. David Brown and John Earle.[33] The authors both estimate the total number of jobs supported by SBA lending and the shares of that lending by sector. We then used our previous estimates of the share of low-wage workers in each sector to calculate the number of low-wage SBA-supported jobs.

Federal Infrastructure Grant-Supported Employment

Data on the total spending in 2012 on infrastructure projects receiving federal funds was also obtained from usaspending.gov. We defined two categories of infrastructure grants: grants for highway, street, and bridge spending and for all heavy civil construction. To determine what share of total U.S. spending on infrastructure this represented, we used data from the Census Bureau's 2012 "Value of Construction Put in Place Survey,"[34] which contains estimates of both public and private construction by category. Since the data did not contain a direct estimate of heavy civil construction spending, we estimated it by adding their categories of Transportation, Communication, Power, Sewage and Waste Disposal, Water Supply, and Conservation and Development. We then divided total heavy civil engineering grant spending in 2012 ($19.7 billion) by this sum ($194 billion) to calculate such grants represented 10.2 percent of total spending on heavy civil engineering. We repeated the exercise for federal highway grants in 2012 ($54.4 billion) and total highway, street, and bridge spending ($77.5 billion) to come up with a 70.2 percent federal footprint in the sector. We then applied these shares to the BLS estimates total employment in these two sectors to arrive at our estimate for total federally-supported jobs, and applied our ACS-derived estimates of low-wage employment shares in the two industries to produce our figures for the number of low wage jobs in each.

Janitors at Federally-Owned Buildings Leased by Private Firms

To obtain these employment estimates, we used data from the General Services Administration (GSA) on the total square footage of space leased from private owners by the GSA (191.4 million).[35] We then used estimates from cleanlink.com, drawn from a survey by *Contracting Profits* magazine, to determine that janitorial firms employed in such buildings cleaned, on average, 992,190 square feet, and employed 85 employees.[36] Dividing the first number by the second yields and estimated 11,673 square feet cleaned per employee. We then divided the total number of leased square feet to obtain our estimate of 16,397 janitorial services employees in GSA-leased buildings. Finally, we used our ACS-derived estimate that 55.9 percent of workers in the "Services to Buildings and Dwellings" industry (NAICS code 5617) were low-wage to arrive at our estimate of the total size of this low-wage workforce.

Appendix II: Federal Contracting Laws and Low-Wage Workers

This report used the overall low-wage shares of private sector workers by industry to estimate the number of federal contractors working in each industry, including sectors and industries covered by the Davis-Bacon Act (construction), Walsh-Healey Public Contracts Act (manufacturing), and the McNamara-O'Hara Service Contract Act (services industries). We did so because our analysis of the effects of each of the acts indicated that while they sometimes had an effect on median- or upper-wage workers, they had almost no effect on lower-paid workers; such that overall private industry low-wage shares would apply.

For industries covered by the Davis-Bacon Act, we used data from a 2008 paper from the Beacon Hill Institute which compared Davis-Bacon Act wages to prevailing wages in 80 metropolitan areas.[37] Out of the 80 areas, in 16 Davis-Bacon Act-covered wages were lower than the average wage in all relevant occupations, while they were higher in just 13. The Walsh-Healey Act was effectively nullified by the *Wirtz vs. Baldor Electric Co.* decision of 1963, which ruled that the Department of Labor could not set wage standards under the act without disclosing supporting wage data collected by the Bureau of Labor Statistics, data which the Department of Labor is legally obliged to keep confidential.[38] Because no wage determinations have been made under the Walsh-Healey act since this decision, wages of manufacturing contractors likely mirror their industries as whole. For Service Contract Act covered industries, we analyzed the mean wages in select Service Contract Act -covered occupations in the 20 counties with the highest level of federal contract spending within the equivalent industry and compared them with national mean wages for similar occupations (shown in the table below). We found that mean wages Service Contract Act -covered jobs were actually lower than the comparable national means, indicating that using the national shares of low-wage workers would be a conservative estimate.

Table 2. | MEAN WAGES, SELECTED SCA-COVERED OCCUPATIONS AND NATIONAL AVERAGES

OCCUPATION (SOC CODE)	MEAN SCA HOURLY WAGE	MEAN NATIONAL HOURLY WAGE	DIFFERENCE
Janitors and Cleaners (372011)	$11.80	$11.95	$0.15
Security Guards (339032)	$12.43	$13.10	$0.67
Food Preparation Workers (352021)	$9.49	$10.05	$0.56
Food Servers, Non-restaurant (353041)	$9.49	$10.58	$1.09

Endnotes

1. We calculate that 1,992,000 U.S. private sector workers employed by government contractors, paid by federal health care spending, supported by Small Business Administration loans, working on federal construction grants, and maintaining buildings owned by the federal government are paid $12 an hour or less. See Appendix I for details on this calculation. The overall U.S. employment figures for Walmart (1.4 million) and McDonald's (859,978, including employees of franchisees) are from study of low-wage employers (National Employment Law Project, 2012). We then calculated the estimated numbers of low-wage workers at McDonald's by using the overall low-wage share (67.5 percent) for the food service industry. For Walmart, we used Jacobs et al's (2011) estimate that 64.4 percent of all WalMart workers make less than $12 per hour.
2. See for example, (Brenner & Luce, Wage Laws in Practice: The Boston, New Haven and Hartford Experiences, 2005), (Elmore, 2003), (Fairris, Runstein, Briones, & Goodheart, 2005)
3. (Whittaker, Federal Contract Labor Standards Statutes: An Overview, 2005, p. ii)
4. Based on the assumption of 50 work weeks at 40 hours per week
5. Based on the Basic Economic Security Tables (BEST) produced by Wider Opportunties for Women minus expenses for savings and tax payments. (Wider Opportunities for Women, 2010)
6. Authors' calculations based on USASpending.gov
7. (Edwards and Filion, 2009)
8. (U.S. Small Business Administration, 2012)
9. (U.S. General Services Administration, 2013)
10. (U.S. General Services Administration, 2010)
11. (Murray, 1995)
12. (UNITE HERE!, 2006)
13. (National Restaurant Association, 2013)
14. (U.S. Bureau of Labor Statistics, 2012)
15. (U.S. Small Business Administration, 2012)
16. (Federal Procurement Policy Office, 2012)
17. Figures from 2011 (Current Population Survey, 2012)
18. (Saez, 2013)
19. (Nelson & Ojha, 2012), (Fuller, 2012)
20. (Nelson & Ojha, 2012)
21. Based on the authors' analysis of data from the executive compensation research firm Equilar and federal contracting data from USASpending.gov (Equilar, 2012), (USAspending.gov, 2013)
22. (Douglas, 2012)
23. (Edwards and Filion, 2009)
24. This policy discussion is aimed primarily at the treatment of workers funded through federal contracts, grants, concession agreements and property leases. As we have discussed in this paper, workplace standards for employees funded through federal health care spending are also a serious concern—steps to address these employees deserve their own further consideration.
25. In addition to these recommendations for the President, Congress can also take action: lowering the cap on executive compensation that the federal government reimburses to contractors would both reduce contract costs and decrease the extent to which contracting encourages economic inequality.
26. (Chatterjee, 2012)
27. For a more detailed discussion of how state and local laws can serve as a model for federal reform, see the National Employment Law Project's excellent summary: (Sonn & Gebreselassie, 2009)
28. See for example: (Brenner & Luce, 2005), (Elmore, 2003), (Fairris, Runstein, Briones, & Goodheart, 2005)
29. (USASpending.gov, 2013)
30. (U.S. Bureau of Labor Statistics, 2013)
31. (Ruggles, S. 2012)
32. (Centers for Medicare and Medicaid Services, 2011)
33. (Brown, J. and Earle J., 2012)
34. (U.S. Census Bureau, 2013)
35. (General Services Administration, 2010)
36. (Contracting Profits Magazine, 2012)
37. (Glassman M. et. al., 2008)
38. (Hegji, 2012)

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