



**Testimony of Amy Traub  
Senior Policy Analyst, Demos  
Ad Hoc Hearing of the Congressional Progressive Caucus  
on Low-Wage Work on the Federal Dime: How Our Tax Dollars Drive Inequality**

**May 21, 2013**

Good Afternoon. My name is Amy Traub and I am a senior policy analyst at Demos. We are 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. I would like to thank the Progressive Caucus for this opportunity to provide testimony on our recent research.

For our report “Underwriting Bad Jobs: How Our Tax Dollars Are Funding Low-Wage Work and Fueling Inequality,” my colleague Robert Hiltonsmith and I analyzed data on federal contractors, health care spending, Small Business Administration loans, federal infrastructure grants and Public Buildings Service property leases.<sup>1</sup> We found that through these sources of federal funding, nearly two million private sector workers are employed, doing jobs we have decided are worthy of public funding, for wages of \$12 an hour less, in some cases much less. There is no single private sector employer responsible for this many low wage employees.

The United States has a history of working to ensure that our tax dollars provide decent jobs. 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.<sup>2</sup> In 1936, the Walsh-Healey Act extended similar protections to workers manufacturing goods to be used by federal agencies, including the military.<sup>3</sup> 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.<sup>4</sup> While these statutes continue to offer important labor protections, we find that federal prevailing wage laws have not succeeded in consistently raising wages above \$12 an hour.<sup>5</sup>

While we did not track the growth of the publicly-funded private sector workforce over time, there are three trends we can see contributing to its current size. The first is the dramatic growth of federal contracting, which doubled between 1996 and 2009, as much work formerly

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performed by public employees was outsourced to private companies.<sup>6</sup> Second is the increase in federal health care spending through Medicare and Medicaid, which flows to the private health care system that includes many low-wage employees.<sup>7</sup> Third is the growth of low-wage employment in the private economy overall. Since 2001, the number of low-wage jobs created has outpaced the growth of better paying work and this trend has become worse since the recession.<sup>8</sup> Without an effective wage standard to protect workers funded by public dollars, their wages mirror those of the larger private economy.

Low-wage workers funded by our public dollars work in nearly every sector of the economy and in every part of the country. For example, we find 392,000 low-wage workers employed in home health care services.<sup>9</sup> 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.<sup>10</sup> 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.<sup>11</sup> Yet two-thirds of the home health care services industry is supported by our tax dollars, primarily through Medicare and Medicaid.

We also find 60,000 low-wage retail workers supported by public dollars. Retail is not a sector we might typically think of as being federally supported, but retailers 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. 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.<sup>12</sup> Widespread practices of involuntary part-time work and unstable scheduling push incomes in this sector even lower.

I will discuss one more industry, which is transportation equipment manufacturing. On the whole this is not a low-wage industry, 85 percent of employees earn more than \$12 an hour.<sup>13</sup> But with \$108.6 billion in federal contracts in 2012, primarily from the military, the footprint of the federal government in this industry is so large that we still find 35,000 federally-funded workers across the country who earn low wages. It's worth noting that this industry is largely in business as a result of 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.

I have referred to home health care, retail, and transportation equipment manufacturing to suggest the diversity of industries and sectors that include low-wage jobs funded by federal dollars. This is just a small sample of the industries impacted. The low-wage federally-funded private sector workforce includes Americans from every region of the country, of every race, and draws from the entire working-age population.

In conclusion, I would like to emphasize that when federally funded workers are paid low wages, taxpayers are, in effect, subsidizing their jobs twice. First we pay for the work itself. But we pay again when workers earn so little that they require public benefits, such as Medicaid, food stamps, and housing assistance, to support their families. The existence of this double subsidy suggests that raising wages for these workers would be more cost-effective than it might appear. In addition, 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.

Thank you for your time. I would be pleased to answer any questions.

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<sup>1</sup> Amy Traub and Robert Hiltonsmith, ““Underwriting Bad Jobs: How Our Tax Dollars Are Funding Low-Wage Work and Fueling Inequality,” Dēmos, 2013. <http://www.demos.org/publication/underwriting-bad-jobs-how-our-tax-dollars-are-funding-low-wage-work-and-fueling-inequali>

<sup>2</sup> Davis-Bacon Act, 40 U.S.C. 3141 et seq.

<sup>3</sup> Walsh-Healey Public Contracts Act, 41 U.S.C. § 35 et seq.

<sup>4</sup> McNamara-O’Hara Service Contract Act of 1965, 41 U.S.C. 351 et seq.

<sup>5</sup> For details on the Dēmos methodology, see Traub and Hiltonsmith p. 24. “Appendix II: Federal Contracting Laws and Low-Wage Workers”

<sup>6</sup> Authors’ calculations based on federal contracting data from USASpending.gov

<sup>7</sup> National Health Expenditure Accounts (NHEA) Data, Centers for Medicare & Medicaid Services.

<sup>8</sup> “Low Wage Recovery and Growing Inequality,” National Employment Law Project, 2012.

[http://www.nelp.org/index.php/content/content\\_about\\_us/tracking\\_the\\_recovery\\_after\\_the\\_great\\_recession](http://www.nelp.org/index.php/content/content_about_us/tracking_the_recovery_after_the_great_recession)

<sup>9</sup> For the sources and methodology behind these calculations, see Traub and Hiltonsmith, 2013.

<sup>10</sup> Bureau of Labor Statistics, Occupational Employment Statistics. “May 2012 National Industry-Specific Occupational Employment and Wage Estimates.”

<sup>11</sup> “The Home Health Care Industry Under the Fair Labor Standards Act,” U.S. Department of Labor Wage and Hour Division, 2008.

<sup>12</sup> Bureau of Labor Statistics, Occupational Employment Statistics. “May 2012 National Industry-Specific Occupational Employment and Wage Estimates.”

<sup>13</sup> Bureau of Labor Statistics, Occupational Employment Statistics. “May 2012 National Industry-Specific Occupational Employment and Wage Estimates.”