Dēmos

UNDERWRITING GOOD JOBS

How to Place Over 20 Million Americans on a Pathway to the Middle Class Using Federal Purchasing Power

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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.

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EXECUTIVE SUMMARY

This report presents new research on the scope of federally-supported employment in the private economy and shows how, using our over $1.3 trillion dollars in federal purchasing, the President of the United States can place over twenty million Americans on a pathway to the middle class.

The United States was the world's first predominantly middle-class country, but today we are falling behind. Tens of millions of Americans are facing a crisis of living standards due to low wages and benefits that are not sufficient to maintain a middle class living standard or to lift people into the middle class. Our middle class is shrinking today, as decently paid, union manufacturing jobs are replaced by low-wage, non-union jobs in the service sector, along with other trends such as outsourcing, automation, and educational inequalities. In the meantime, 95 percent of national income gains in the three years following the Great Recession were captured by the top 1 percent of households, reflecting an economy that is utterly broken by measures of need, opportunity, and fairness alike. In the face of this crisis, our federal government has a responsibility to help America's working families, but, in reality, our federal dollars are helping to subsidize the expanding low-wage economy on a massive scale.

***Underwriting Good Jobs* is the third report in a Dēmos series that reveals how our taxpayer-funded federal contracting system contributes to growing income inequality.** In *Underwriting Bad Jobs* (2013), we demonstrated that the federal government funds nearly two-million poverty wage jobs that pay less than $12 per hour. In *Underwriting Executive Excess* (2013) we found that, at the other end of the spectrum, taxpayers are spending as much as $7.65 billion annually to finance exorbitant executive pay among federal contractors. In this third report, we extend these findings with additional comprehensive data that illuminate the scale on which federal purchasing heavily supports private employers while leaving millions of their workers in low-paying jobs or well-short of a middle class living standard.

Our report quantifies the size of what we call the "federally-supported workforce," and estimates the benefits of raising earnings and other workforce standards for lower-wage workers across the federal footprint:

- At least 21 million people—8 million workers and their families—rely on low-wage jobs in the federally-supported economy, that is, jobs with firms that receive a significant portion of their revenue from federal funds.

- Over 70% of these workers are women and nearly 45% are people of color—which makes the federal government the largest funder of low-wage employment for working women and people of color.

- With robust action to raise workforce standards in the federal footprint, more than 8 million lower-wage households and twenty million people will see at least a 20 percent increase in their living standards.

- Gains for these workers and their families will pay additional dividends in terms of growth, employment, and fiscal returns—we will see additional GDP growth of about $31 billion annually along more than 260,000 additional jobs; $6.8 billion in new tax revenue and nearly $9 billion in fiscal savings from the SNAP, EITC, and Medicaid programs can be expected annually.

- Higher workforce standards in the federal footprint could also help to raise workforce standards in the broader economy, particularly through competition effects within sectors but also by signaling that raising workforce standards is a national priority.

In our report, we also point to solutions. State and local governments have responded to America's inequality crisis by enacting living wage and responsible contractor policies and by requiring employers receiving public funds to respect the collective bargaining rights of their employees. The main focus of these state and local level initiatives has been to use the power of public spending to leverage change in the private sector. American workers are also starting to push back against the middle-class squeeze. Over the last two years, thousands of poverty-wage workers in hundreds of cities have gone on strike for higher pay. In Washington, DC, federally contracted food and janitorial workers have struck seven times since May 21, 2013, at landmark federal buildings including the Smithsonian Museums and the Pentagon, calling on President Obama to use his executive powers to provide them with living wages and benefits, as well as support their right to form a union.

Responding to these developments, President Obama has taken initial steps to address taxpayer-funded income inequality by lifting pay for contract workers at the bottom of the pay scale and capping salaries of contract executives at the top**.** The president used his 2014 State of the Union address to call for a "year of action" on inequality, and he subsequently signed an executive order raising the minimum wage for federal contract employees to $10.10 per hour. In addition, President Obama and Congress collaborated to reduce the pay of contracted CEOs by reducing executive salary reimbursements by nearly 50%. These are important first steps, but, given the scale and severity of our country's inequality crisis, a bolder course of action is needed.

When faced by past crises of this magnitude, our greatest presidents have not hesitated to make full use of their executive powers to take transformative action. Franklin Roosevelt brought millions of workers into the middle class by requiring federal contractors to sit down at the bargaining table with unions in order to end widespread labor unrest. Responding to citizens' moral outrage and mass unrest during the civil rights era, Lyndon Johnson opened the door to economic opportunity for women and minorities by ordering every firm doing business with the federal government to implement affirmative action and nondiscrimination policies. Today we face a similar crisis and need similarly decisive action:

- To put eight million working families and 21 million people on a pathway toward the middle class, the president should issue a Good Jobs Executive Order directing all key spending agencies to incorporate higher workforce standards in awarding and evaluating federal contracts and other forms of federal purchasing. Building on state and local precedents, a Good Jobs Policy for federal purchasing should include the following standards:

1.

Respecting employees' right to bargain collectively with their employers, without being forced to take strike action to win better wages and conditions.

2.

Offering living wages, decent benefits including health care and paid leave for sickness and caregiving, as well as fair work schedules that are predictable and stable.

3.

Demonstrating an exemplary standard of compliance with workplace protection laws, including laws governing wages and hours, health and safety, and other applicable business regulations.

4.

Limiting executive compensation to fifty times the median salary paid to the company's workers; in addition, the current cap on federal contract funds applicable for executive salaries should be substantially reduced.

INTRODUCTION

One of the most important responsibilities of our federal government is to provide goods and services that meet collective needs. While many public goods and services are provided directly by the government, such as food inspection and air transport safety, many others are provided through purchasing arrangements with the private sector in the form of contracts, grants, and concessions. The federal purchasing "footprint" is significant, or very significant, in many parts of the private economy, including manufacturing, health care, transportation and logistics, computer hardware and software, construction, building services, and agriculture. Across the two major categories of government purchasing—contracting for public goods and services and health-care purchasing through Medicare and Medicaid—federal spending totals about $1.3 trillion, and total revenues of federally-funded employers are about $2.2 trillion, or roughly 9 percent of gross output in the economy as a whole.

Our country's painfully slow recovery from the Great Recession has brought to light the economic importance of the federal purchasing footprint. According to the Congressional Budget Office, cuts in federal and state purchasing of goods and services, and public employment cuts, have been a major factor in our weak GDP growth in the twelve quarters following the recession.[1] Public purchasing has become an important lifeline in our economy, not least as a critical source of revenue for thousands of American businesses. Yet, while business profits and stock valuations in many sectors are now fully recovered from the Great Recession, or even reaching new record highs, middle- and low-income households continue to face profound economic challenges. At the heart of this divide, tens of millions of Americans face a crisis of living standards due to low wages and benefits that are not sufficient to maintain a middle class living standard or to lift people into the middle class. To make matters worse, millions of these workers are employees of federal contractors or of firms that otherwise depend on federal purchasing, which means that our tax dollars, not just "globalization" and other things we cannot fully control, are working against our democratic ideals of upward mobility and achieving a large and diverse middle class.

Much of the current debate about government's role in the economy has focused on monetary and fiscal policy, or the public debt. Yet we have largely overlooked what may be the most effective untapped resource for creating good jobs and growing the middle class—our federal purchasing footprint. The key question is: can we better harness this collective purchasing power, not only for better quality goods and services that bring a high return for taxpayers, but also for the benefit of the millions of workers who produce these goods and services and thereby serve our common needs? In fact, both of these public contracting principles have long traditions in federal policy history, but the latter principle, attaching social and labor obligations to the receipt of public funds, has been neglected in recent years.

In previous work on federal contracting standards, Dēmos has exposed the problem of low wages in our federal purchasing footprint, finding that nearly two million workers employed to perform federally-funded work are making below a living wage of $12 per hour.[2]

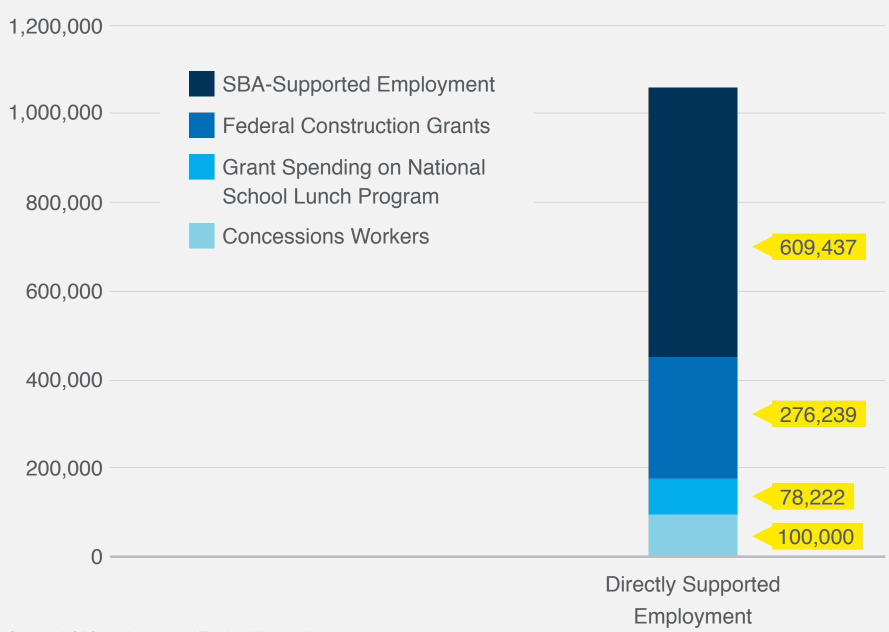
We have also found that taxpayers are spending as much as $7.65 billion annually to finance excessive executive pay among federal contractors.[3] In the following report, we extend these findings with additional comprehensive data that illuminate the need for robust action to raise workforce standards across the federal purchasing footprint. As a core strategy for supporting upward mobility and expanding the middle class, we need a comprehensive Good Jobs Policy for all types of federal purchasing. To achieve this goal, we propose implementation of a federal Good Jobs Policy for contracting and other aspects of the federal purchasing footprint. This would incentivize federally-funded employers to raise labor standards for their entire workforce, not just those directly performing federal work; thus, the impact would be much greater than we've seen with existing federal contracting standards such as prevailing wage laws. The essential elements of the Good Jobs Policy are outlined in the conclusion of this report.

Other Parts of the Federal Footprint

Though we focus on the two largest parts of the federal footprint in this report—federal contracting and Medicare spending—federal spending impacts nearly every industry in the private sector, from construction to agriculture. Below are some examples of federal spending's wider impact and the estimated employment it supports. Due to data limitations, we were unable to estimate the employment supported by this spending using the same methodology as elsewhere in the report. Hence, the employment figures instead represent the number of jobs directly supported by the spending.[4]

The federal government supports infrastructure projects by states and localities, including roads, utilities, and bridges, by providing more than $75 billion in grants, supporting more than 276,000 construction jobs. The National Parks and other federal agencies grant concessions to restaurants, food carts, and other food service establishments to operate on public land; these concessions support an estimated 100,000 jobs. The federal government also spends more than $17 billion per year on the National School Lunch Program, which subsidizes lunches and other meals for low-income K-12 students. We estimate that this spending directly supports more than 78,000 jobs in food service and agriculture. The Small Business Administration (SBA) also subsidizes private sector jobs by guaranteeing more than $30 billion in loans to small businesses, which supports an estimated 610,000 jobs at small businesses around the country.

Figure A. Other Parts of the Federal Footprint, Selected Sources



Source: USASpending.gov and Traub & Hiltonsmith (2013)

In targeting this policy, we demonstrate that nearly 16 million workers, about 14 percent of the total private-sector workforce, are employed by what we term "federally-supported" employers: contractors and other employers for whom a significant portion of their annual revenue comes from federal purchasing. Among the federally-supported workforce, we estimate that more than 8 million workers and their families, totaling 21 million people or roughly 7 percent of our total population, will benefit from a robust expansion of higher workforce standards in our federal purchasing footprint, moving many into the middle class or closer to it. To achieve such a policy, we emphasize the need for executive action, building on President Obama's important first step with his 2014 executive order raising the federal contractor minimum wage to $10.10.

A bolder course of action, for a more robust and targeted framework of contracting employment standards, is necessary today as a matter of both principle and need, while also being economically sensible. The core principle for such a strategy is based on the recognition that the federal purchasing systems are effectively a set of public markets, created by our democracy for social purposes; thus, public purchasing dollars are considered to bring a social price connected to our democratic ideals, and this has often taken the form of raising workforce standards in the purchasing systems, to support upward mobility and to promote social equality. More directly, a federal purchasing Good Jobs Policy is something that millions of workers and their families need, particularly so in the continuing absence of federal legislative action on wage policy, job security, and workers' bargaining power. The fact that Congress will not act to support American workers and their families as a matter of democratic responsibility only strengthens the case for executive action. Finally, as we will explore in more detail below, such an approach is inherently growth-promoting, and there are good reasons to believe it will be fiscally neutral for taxpayers despite added labor costs in the purchasing systems.

The report is structured as follows. First, by way of background, we briefly examine some of the data reflecting the urgent situation facing middle- and low-income workers in the United States. Next, we turn to the main body of the analysis, exploring in detail the scope and composition of the federal purchasing footprint, distributional aspects in the contracting/purchasing workforce, and potential economic effects of a federal Good Jobs Policy, both for the members of this workforce and for our society more broadly. Finally, we outline key aspects of a robust yet flexible policy framework designed to put millions of federally-connected workers and their families on a road into the middle class.

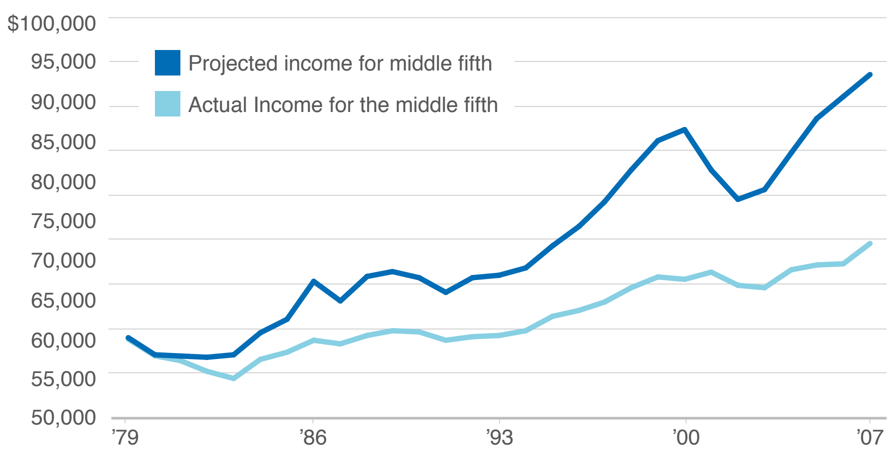
But before turning to the body of our report, we should define our key terms. When we use the term "federal purchasing footprint," we are referring to the broad spectrum of the private-sector economy that depends to a significant degree on federal purchasing in its many forms. The "federally-supported workforce" is the portion of the private-sector workforce that is employed by firms within this footprint that receive over 10 percent of their revenues from the federal government. Another key term is the federal "Good Jobs Policy," which refers to our proposed policy framework raising workforce standards across the entire federal footprint, including procurement contracts, medical purchasing, concessions and leasing, and grant programs. Unlike measures such as President Obama's minimum-wage executive order, this policy would apply to the entire workforce of federally-supported employers, thereby greatly amplifying its impact on the private sector economy.

WHY AMERICA NEEDS A GOOD JOBS POLICY FOR OUR FEDERAL FOOTPRINT

U.S. workers are very poorly protected compared to their counterparts in other wealthy countries. The rate of collective bargaining coverage in the United States has fallen to around 13 percent, compared to an average of about 62 percent in all OECD countries. Social supports for working families also lag far behind in the United States. Unlike virtually all comparatively wealthy countries, the United States has no national policies for paid sick or family leave, and our unemployment policies generally are much weaker in terms of benefit levels, time limits, and effective maintenance of workforce participation. Health care and higher education are treated as social entitlements in many countries, but in the United States such goods are considered to be private responsibilities (at least for non-poor working-age households in the case of health care). As a result, millions of American households face significant or extreme insecurity not only in terms of income but also in terms of these other critical aspects of well-being.[5]

Other trends point to fundamental unfairness in the U.S. system. For example, while economic growth was once something close to "a rising tide that lifts all boats," bringing broad-based gains in our society, over the last several decades a very large gap has opened up between GDP, which has basically doubled since 1980, and median

Figure 1. Middle Class Income Growth, Actual vs Projected, 1979-2007

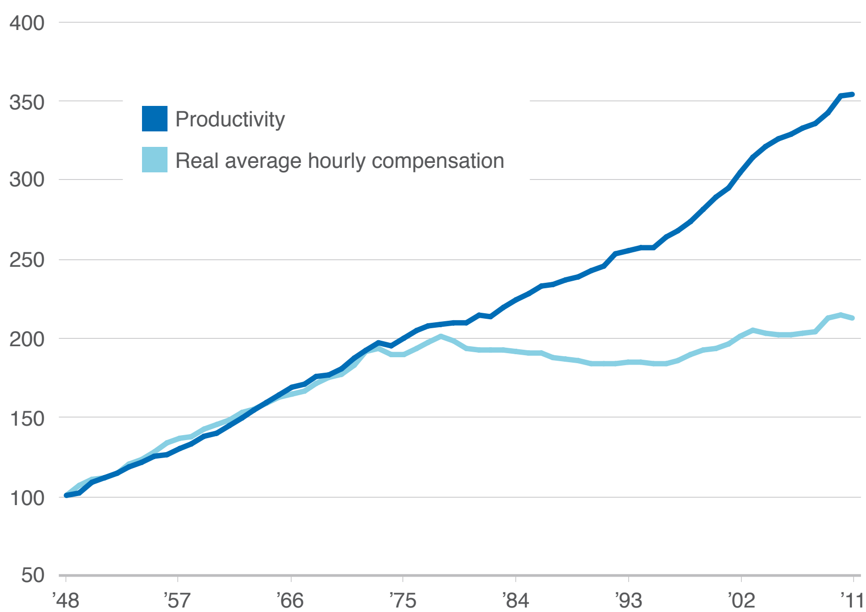


Source: Economic Policy Institute, State of Working America 12th Edition, "*Overview*" income, which has basically stagnated over the same period.

In fact, approximately 68 percent of national income growth between 1993 and 2012 was captured by the top 1 percent of U.S. households alone, and, astonishingly, the top 1 percent captured *95 percent* of national income growth between 2009 and 2012.[6] As a result of this accelerating trend of income concentration at the top, median income has fallen well below average income, with a gap that was widening even before the Great Recession. In *Figure 1*, we see how actual income growth for the middle fifth of households compares to the gains they would have enjoyed if their income had kept up with overall average income growth for households.

Relatedly—and in another radical departure from the post-World War II pattern—productivity gains essentially have been severed from workers' wages, as seen in *Figure 2.* We are producing more for less, in other words, but only a few people at the top are benefiting from our more productive economy.

Figure 2. Growth in Productivity and Hourly Compensation



Source: Economic Policy Insti vtute, *Raising Americas Pay*

These broader trends are also sharply reflected at the firm level, with the pay ratio between CEOs and average workers exploding from about 20-to-1 in 1965 to 272-to-1 in 2012, and reaching even higher in the lowest paying sectors (as high as 1200-to-1 in the fast food sector).

These startling disparities reflect an increasingly imbalanced and unfair economy which, as French economist Thomas Piketty has persuasively demonstrated, is moving our society toward levels of inequality that fundamentally threaten our democracy. Yet, in our federal purchasing power, we have at least one strong tool at our immediate disposal to move things in a different direction. As we consider our political options today—limited as they are by congressional gridlock—an executive-led federal purchasing Good Jobs Policy is the clearest option we have to enable much-needed income gains for millions of American workers and their families. With a significant majority of Americans now believing that the "U.S. economy is unfair to the middle class," and a similarly large majority also agreeing that "the government should work to substantially reduce the income gap between the rich and the poor," raising workforce standards in the federal purchasing footprint can and should be a top priority for the current administration and for future administrations which share these views.[7]

THE SCOPE AND IMPACT OF A FEDERAL PURCHASING GOOD JOBS POLICY

The Federally-Supported Private-Sector Workforce

Our federal purchasing footprint could improve the lives of millions of American workers by ensuring that every dollar we collectively spend on public goods and services and other public purposes supports high workforce standards. To get a picture of this impact we start by estimating the demographics of what we call the *federally-supported* workforce: the portion of private sector workers employed by firms that receive 10 percent or more of their annual revenue from federal dollars.

To estimate employment and wages of the federally-supported workforce, we limit our analysis to the two major channels through which the federal government does business directly with the private sector: federal contracting and Medicare spending. Using data from USASpending.gov, the Centers for Medicare & Medicaid Services, and the Bureau of Labor Statistics, we can provide a picture of the total federally-supported workforce, as depicted in *Figure 3*.

We find that firms receiving 10 percent or more of their annual revenue from contracting make up the great majority of federal contracting; they received 78 percent of all contracting dollars in 2013. Such firms collectively employ more than 6.6 million workers. For the "Medicare-supported" footprint, we estimate that Medicare spending supports significant shares of four subsectors/major industry groups: Nursing and Residential Care Facilities, Home Health Care Services, Pharmaceutical Manufacturing, and Private Hospitals. Because each of these subsectors is so heavily Medicare-supported, we chose to include the entire subsector in our federal-supported footprint. Collectively, they employ nearly 8.9 million workers. In total, federally-supported firms employ nearly 16 million workers, which is almost 14 percent of the entire private sector workforce. Notably, federal purchasing accounts for 29 percent of total revenue for employers in the federal purchasing footprint.

Figures 4 and *5* give a picture of the employment and earnings of the federally-supported workforce. The federal footprint is very concentrated in health care, manufacturing, and services. Overall, the federally-supported workforce is somewhat higher-earning than the private sector; however, these averages are raised by the portion of contracting in high-wage industries such as specialized services and defense manufacturing.

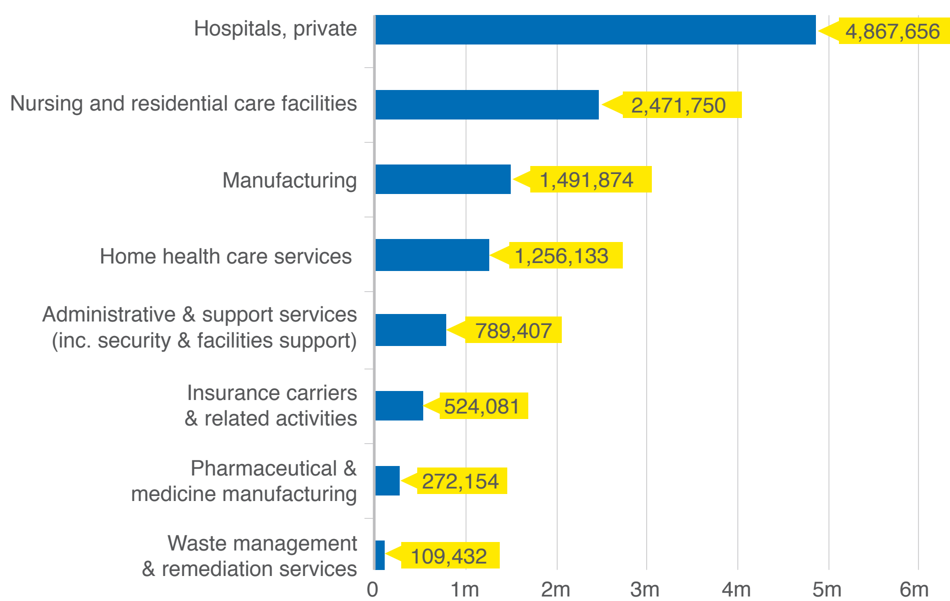
Figure 3. The Federally-Supported Private Sector Workforce

"Contracting-Supported" Workforce (Firms with ≥ 10% of total revenue from contracting)			
Total Contracting Revenue	Share of All Contracting	Total Revenue	Total Number of Employees
$342,995,415,369	78.1%	$1,069,671,053,630	6,636,515

"Medicare-Supported" Workforce (Industries receiving ≥ 10% of their revenue from Medicare)			
Industry	Medicare Spending, Share of Industry	Median Wage	Total Employment
Nursing/Residential Care	22.7%	$12.56	2,471,750
Home Health Care	43.4%	$11.93	1,256,133
Medicine Manufacturing	25.9%	$25.42	272,154
Hospitals, private	27.2%	$24.11	4,867,656
	Medicare Total:	**$19.21**	**8,867,693**

Total "Federally-supported" Workforce	
Total Employment	Share of Private Sector
15,504,207	13.5%

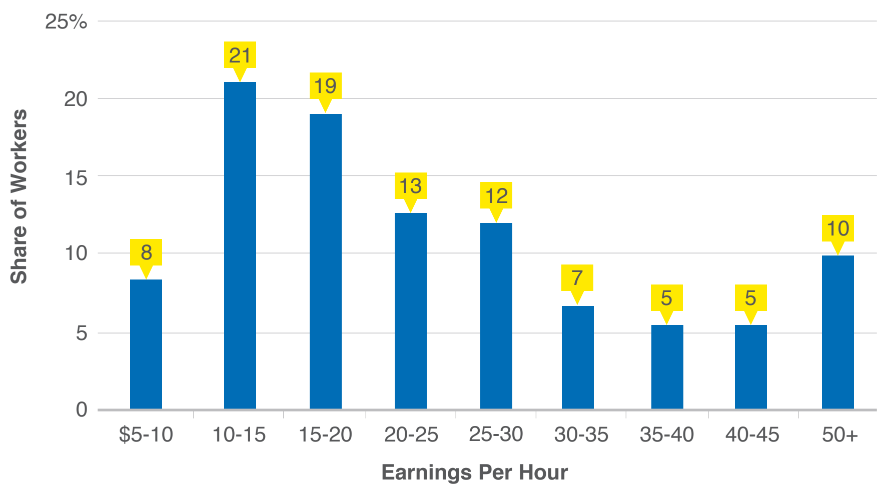
Figure 4. The Federally-Supported Workforce, Employment, Selected Sectors/Industries



Source: Author's Calculation

Despite this, a substantial share of the federally-supported workforce still earns too little to be considered middle class: one-third of such workers earn less than the private sector median wage of $15.84 per hour ($32,900 annually), and 38 percent earn poverty or near-poverty wages, earning less than 150 percent of the federal poverty threshold for a family of four.

Figure 5. Earnings Distribution of the Federally-Supported Workforce



Source: Author's Calculation

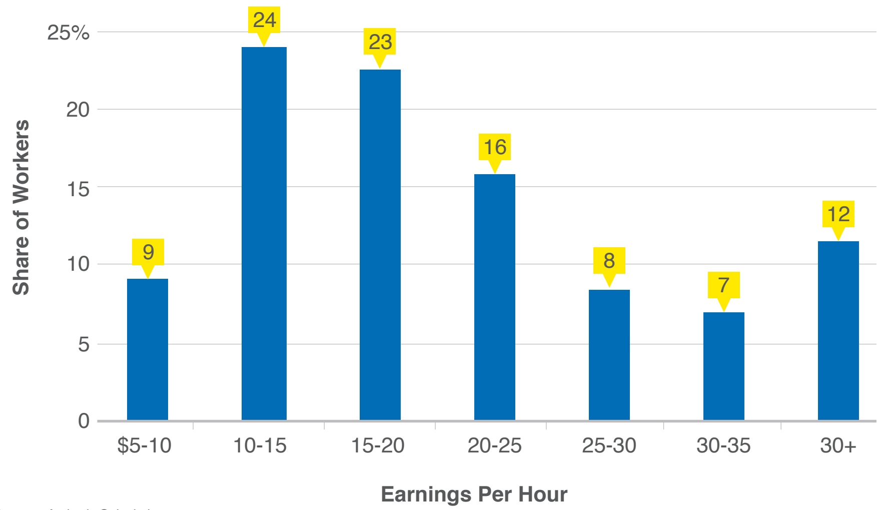
Industries and Sectors in the Federally-Supported Workforce

Here, we provide a more nuanced picture of some of the private-sector jobs we are underwriting with our tax dollars. We focus on the private industries and sectors with the largest federal footprint, and highlight industries that are generally low-wage, including facilities and waste management.

Waste Management and Remediation Services

This subsector encompasses firms that dispose of waste materials, operate recycling facilities, and provide "remediation" services: cleanup of contaminated sites. The subsector employed more than 380,000 workers in 2013, of which almost 110,000 (29 percent) worked for federally-supported firms. Employment in the subsector is projected to grow by 2 percent per year over the next decade, faster than the private sector as a whole, and will reach 455,000 workers in 2022. Workers in waste management and remediation tend to earn decent wages, with median earnings slightly higher than median private sector earnings. However, many workers in the subsector earn wages that, if they were the sole breadwinner, would put them in or near poverty: 46 percent earn less than 150 percent of the poverty line for a family of four.

Figure 6. Waste Management and Remediation Services, Earnings Distribution

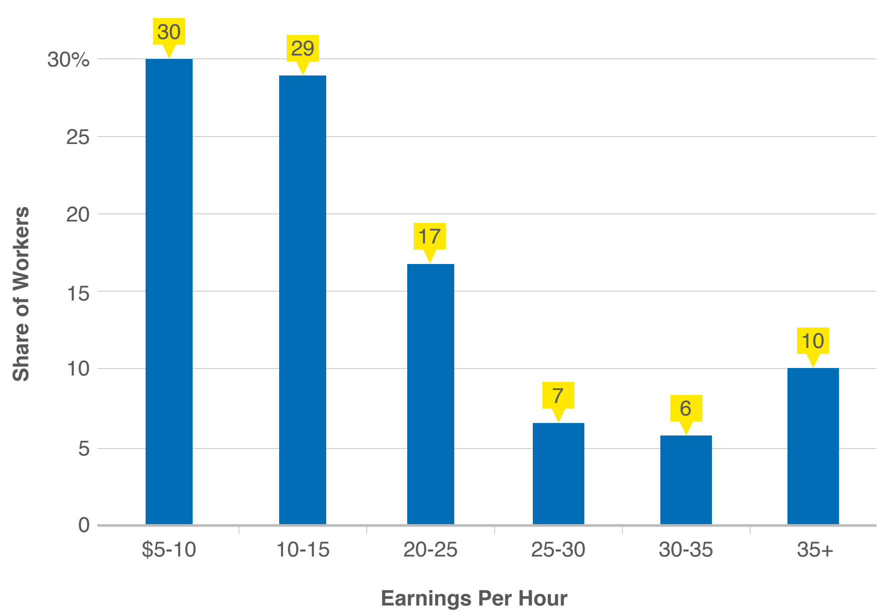


Source: Author's Calculation

Administrative and Support Services

This subsector includes employers that support the day-to-day operations of other organizations. Federally-supported firms in the sector are concentrated in janitorial, landscaping, and security services, providing many of the workers who clean and protect our federal buildings and sites. Firms providing administrative and support services employed 7.8 million workers in 2013, of which more than 789,000 (10 percent) worked for federally-supported companies. Employment in this subsector is projected to grow by 1.8 percent per year over the next decade, reaching nearly 9.2 million

Figure 7. Administrative and Support Services, Earnings Distribution



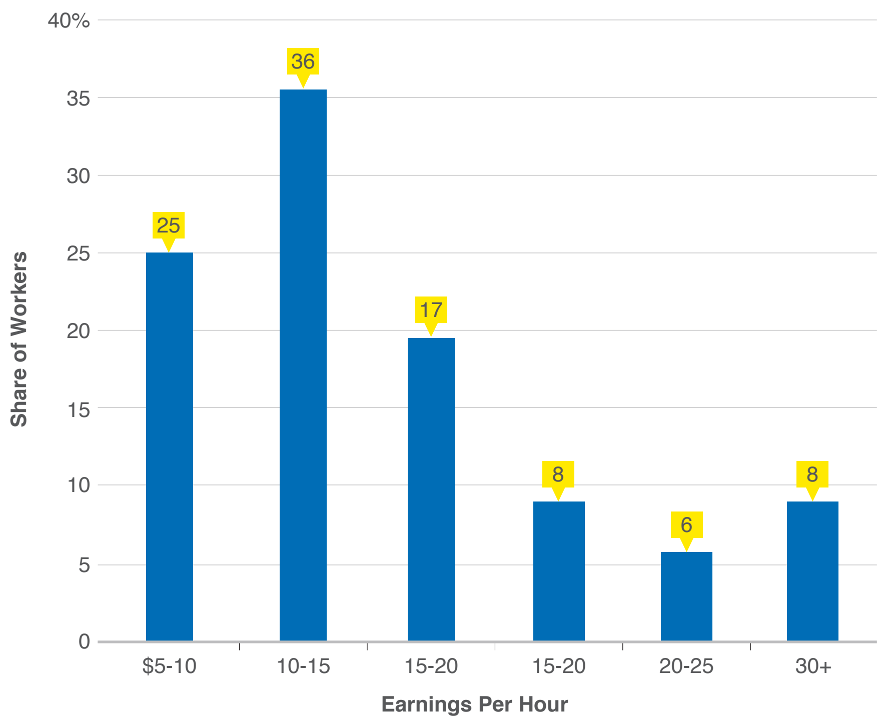
Source: Author's Calculation

workers in 2022. Administrative and support services workers earn some of the lowest wages in the private sector: more than 69 percent earn poverty-level or near-poverty level wages for a family of four, and a disproportionate share of these low-wage workers are people of color.

Nursing and Residential Care Facilities

Employers in this subsector provide nursing and other care to residents of residential care facilities. The subsector is one of the largest and fastest growing in the U.S. economy, employing nearly 3.3 million workers in 2013 (all of whom work for federally-supported firms) and growing by 2.2 percent per year to nearly 4 million in 2022. Nursing and residential care facilities have the lowest wages in the private sector: nearly 71 percent earn poverty-level or near-poverty level wages for a family of four.

Figure 8. Nursing and Residential Care Facilities, Earnings Distribution

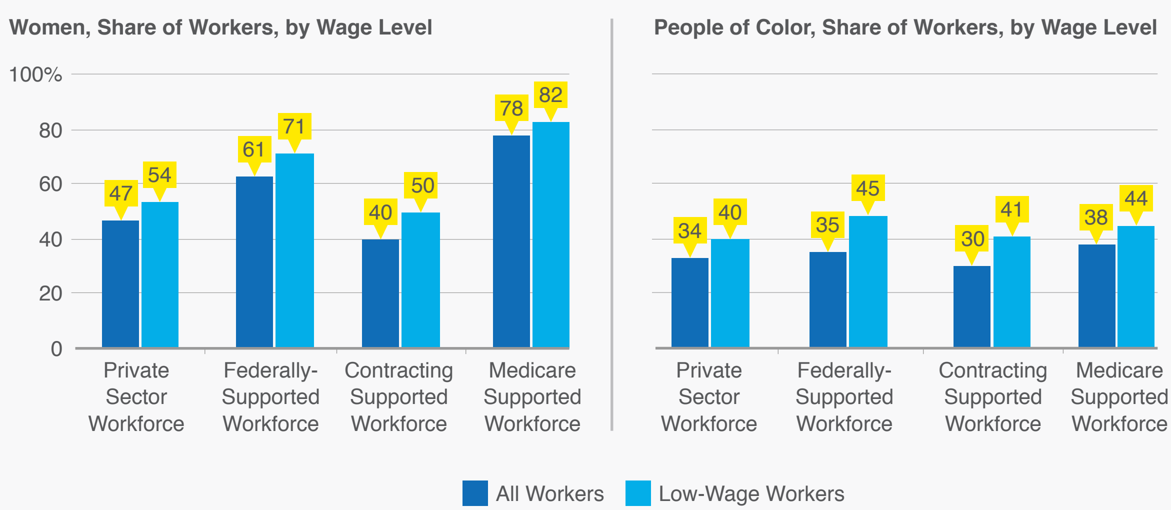


Source: Author's Calculation

Good Jobs For Women and People of Color

The impact of the Good Jobs Policy would significantly benefit women and minorities because they make up a large share of the low-wage workers in the federally-supported workforce. Women make up 61.1 percent of the federally-supported workforce, while people of color make up 34.8 percent, both larger than their shares in the overall private sector workforce, as shown in *Figure B* below. If we look at just low-wage workers, the over-representation of women and minorities in the federally-supported workforce is even more pronounced. Women make up 71.2 percent and minorities 44.7 percent of low-wage workers in the federally-supported workforce, far larger than their shares of the low-wage private sector workforce overall. A Good Jobs Policy for our federal footprint would therefore significantly help in reducing gender and racial inequalities in our economy.

Figure B. Good Jobs for Women and People of Color

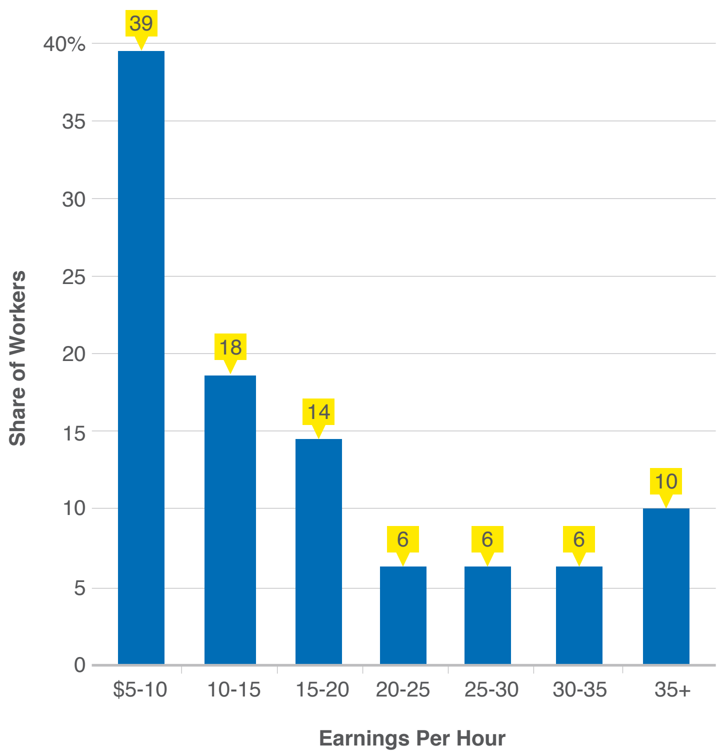


Source: Author's Calculation

Home Health Care Services

This industry comprises firms who primarily provide skilled nursing services in a patient's home, as well as providing a range of other health and wellness-related services. Home health care services is one of the fastest-growing industries in the U.S. economy, projected to grow from 1.26 million workers as of 2013 to more than 1.9 million by 2022. It is also one of the lowest-wage industries in the economy, though pay in the industry is very unequal, as *Figure 9* shows. Nearly 62 percent of all home health care services workers earn poverty-level or near-poverty level wages. The majority of these workers are people of color, and nearly all of them—almost 90 percent—are women.

Figure 9. Home Health Care Services, Earnings Distribution



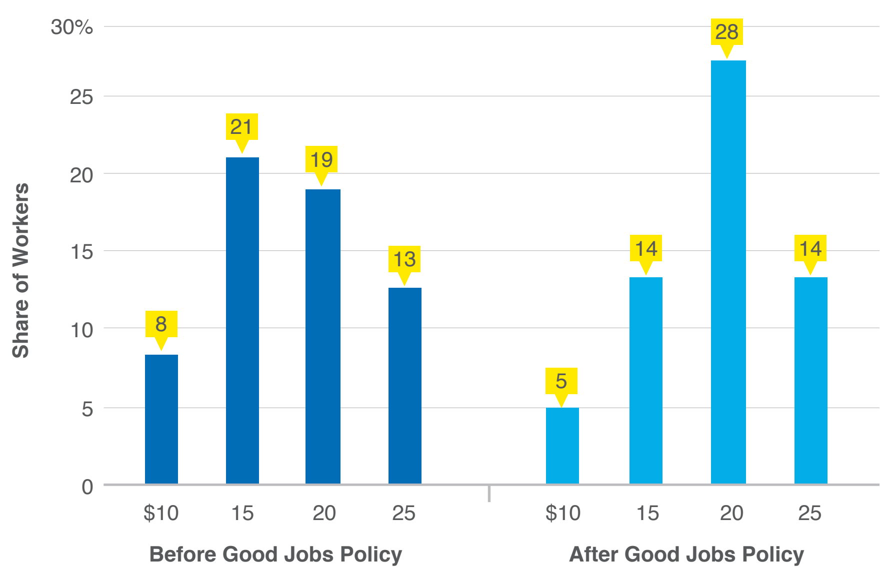
Source: Author's Calculation

The Effects of Good Jobs Purchasing Standards for Workers and Society

As the previous section shows, millions of workers at federally-supported firms earn too little to ensure a middle-class standard of living. We can and should do better. By implementing Good Jobs standards (as outlined in the final section) for employers that do business with the federal government, we can ensure that all of the federal dollars supporting the private sector create middle-class jobs and set a standard for the rest of the private sector to follow. These standards would give preference to employers who pay industry-leading wages and provide decent benefits (among other criteria), and also limit executive compensation in favor of higher pay for average workers and lower public costs. With more robust contracting norms along these lines, we can incentivize employers who depend on federal dollars to raise their workforce standards if they wish to continue doing business with the federal government.

To estimate the impact of a federal Good Jobs Policy we began by examining wage differences between competing employers, focusing on the most common low-wage occupations in the country.[8] Because the net effect of the Good Jobs standards would be to push lower-paying employers to raise their wages to compete with higher-paying employers for federal dollars, we argue that the differences in pay for low- and medium-wage occupations between competing

Figure 10. Earnings Distribution of the Federally-supported Workforce, Before and After Good Jobs Policy



Source: Author's Calculation

firms should provide a good estimate for the impact of implementing a Good Jobs Policy in our federal footprint. We found that for low-paid occupations—those with average pay of $12 per hour or less, such as cashiers, sales associates, pharmacy technicians, and customer service representatives—the highest-paying companies pay an average of 22 percent more than the lowest-paying firms across the occupations we examined.

Based on this analysis, we adopt the conservative estimate that implementing Good Jobs standards will result in a 20 percent raise for workers earning below or at the private-sector median of $15.84, and a smaller raise for those earning between $15.84 and $19 per hour (for the reasoning behind these estimates, see the Methodology Appendix). Enacting Good Jobs standards would therefore raise the wages of nearly 8.3 million workers comprising the lower-paid half of the federally-supported workforce, as shown in *Figure 10* above. Moreover, although we do not attempt to measure them here, additional compensation gains from higher quality fringe benefits and wider benefit coverage in the contracting workforce could also be significant.

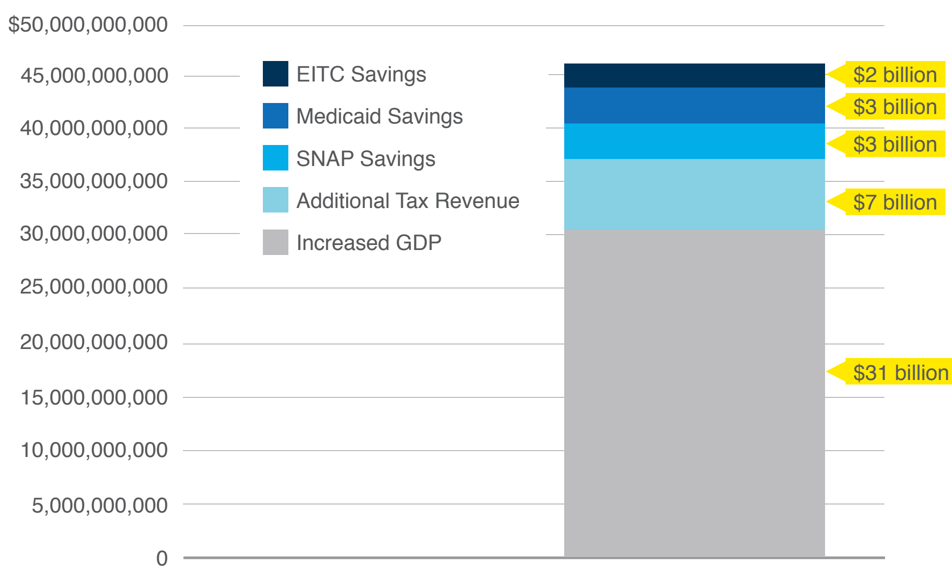
Increased Wages and Economic Impact

We calculate that implementing Good Jobs standards would generate a total of $34.1 billion in additional wages for the more than 8.3 million federally-supported workers who will benefit from the higher standards. However, the benefits of these policies extend far beyond the directly impacted workers: the additional spending generated by the additional wages will increase economic growth and employment for the country as a whole. This $34.1 billion in additional wages would generate an additional $30.5 billion in GDP per year, or about 0.2% in additional growth per year (see the Methodology Appendix for estimate details). The increased economic activity would in turn create more than 260,000 additional jobs, further extending the benefits of a Good Jobs Policy for our federal purchasing footprint.

Effects on Federal Government Revenue

The higher wages and additional growth generated by implementing high-road standards would, in turn, have a significant impact on the federal budget. Not only would the increased wages generate additional tax revenue for the federal government, but it would also lower the cost of the federal safety net, since a significant share of the impacted workers currently rely on programs and benefits like the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and the Earned Income Tax Credit (EITC) to make ends meet. We estimate that, considering federal income tax alone, $6.8 billion in new federal revenue would be generated by the wage increase, since nearly all of the additional earnings would be taxed at either the 15 or 25 percent tax-bracket rates. Additionally, using Census Bureau data on household composition and receipt of benefits by household type, we calculate that more than 1 million federally-dependent workers currently receive SNAP benefits, nearly 600,000 receive Medicaid, and more than 2.4 million are eligible for the EITC. Raising these workers' wages would lift many out of poverty and therefore generate significant fiscal savings due to lower payouts from SNAP, Medicaid and the EITC. Using average benefit amounts by household type, we estimate annual benefit savings of approximately $9 billion—$3.3 billion for the SNAP program, $2.5 billion for the EITC, and $3.1 billion for Medicaid, as shown in *Figure 11* below.

Figure 11. Effect of Good Jobs Policy on Economic Growth and Government Revenue



Source: Author's Calculation

Other Benefits

The increased wages from and precedent set by the Good Jobs Policy may have other wider impacts, as well. Increasing wages and job quality at federally-dependent firms would have a "spillover" effect on competing firms that are not dependent on federal dollars, inducing them to raise wages and extend benefits in order to attract workers. Raising wages may also increase the productivity of workers. Studies by the Economic Policy Institute and many others[9] have documented productivity increases after a minimum wage increase, so it would be reasonable to expect a comparable dynamic between higher wages and productivity gains in the federal purchasing footprint.

Costs of Implementing Good Jobs Standards: Who Pays?

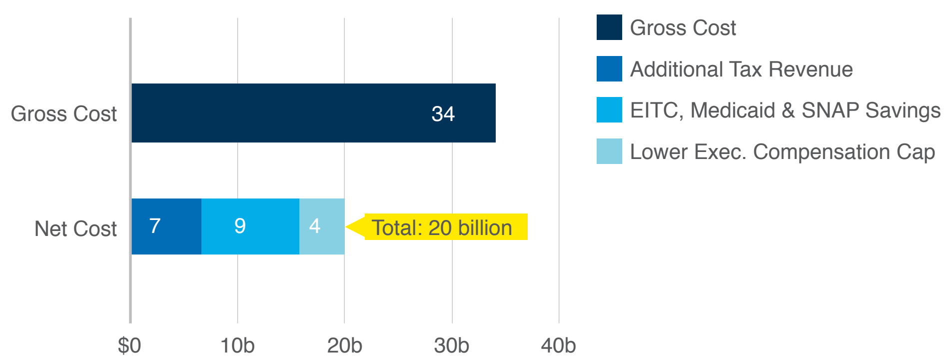
Now to the question that must always be answered whenever any new policy is proposed: how much will it cost, and who will foot the bill? We have already estimated the wage increase from implementing the Good Jobs Policy at $34.1 billion. The precise division of the cost between the federal government and federally-supported firms will depend on the both the amount of competition in the bidding process—for contracting-supported firms—and, if enacted, the mechanism through which federal medical purchasing would incentivize higher employment standards. Studies of the impact of living-wage policies for state and local contractor workers have reached different conclusions as to whether additional payroll costs associated with these policies are "passed on" to government through higher bid prices[10] (but see the box below on the costs of prevailing wage laws). However, the dynamics at the federal level may be different due to greater competition for comparatively more valuable and lengthy contracts.

It should be noted that federally-supported firms are certainly profitable enough to absorb the entire $34.1 billion themselves. In 2012, U.S. corporations earned nearly $1.2 trillion in net profits,[11] equal to nearly 5 percent of gross private sector output.[12] Applying this rate to the federally-supported footprint produces an estimated $104.7 billion in profits for federally-supported firms in 2013.

Additionally, some of the policy's cost to federally-supported firms may be offset by lower costs for executive compensation and by increased productivity. Since we propose awarding preferential bidding to firms with a 50-1 or lower ratio of executive compensation to median pay, firms may be incentivized to cut executive pay to remain competitive for bids, offsetting some of the cost of the wage increases for rank-and-file workers.

Additionally, several of the policy's benefits actually produce increased revenue and fiscal savings for the federal government. In addition to the $6.8 billion in tax revenue and $8.9 billion in EITC, SNAP, and Medicaid savings, we can generate further savings if we lower the federal cap on contract funds applicable for executive compensation from its current level of $487,000 per employee to $230,700, equal to the salary of the Vice President. Demos has proposed such a reduction, and, based on our earlier estimates,[13] we calculate that this would save an additional $4.2 billion per year. As shown in *Figure 12*, these three sources together total at least $20.1 billion in new revenue and savings, enough to entirely offset the federal government's share if it were responsible for 60 percent of the policy's cost or less. We say "at least" because the Good Jobs standards will produce additional economic benefits and savings that we weren't able to quantify.

Figure 12. Gross and Net Cost of Implementing Good Jobs Policies



Source: Author's Calculation

FEDERAL CONTRACTING LABOR NORMS:
A PROVEN PATHWAY FOR CHANGE

Since the earliest days of our republic, it was recognized that federal contracting with the private sector brings special obligations attached to public dollars. The oldest federal procurement regulation still in existence today, first enacted in 1808, prohibited members of Congress from benefiting directly or indirectly from a federal contract; a large body of rules designed to assure fairness and competition in the federal contracting system has evolved since then.[14] At the same time, the federal government also has a long history of setting labor market standards that have reshaped the private sector. In 1840, President Martin Van Buren signed what may have been the first executive order for workforce standards in federal contracting, setting a maximum 10-hour work day for "laborers and mechanics" in federally-financed infrastructure projects.

Prevailing Wage Laws

The late nineteenth century saw the rise of prevailing wage laws, which required federal contract workers to be paid on par with local wages.[15] These laws, the first of which was passed in Kansas in 1891, aimed to prevent a "race to the bottom" in which contractors compete for federal dollars by paying low wages that reduce their bids. Several other states adopted prevailing wage laws in subsequent decades,[16] setting the stage for the federal Davis-Bacon Act, which was passed in 1931 and applied to federal construction projects.[17] In 1934, the Act was amended to lower the threshold of covered contracts from $5,000 to $2,000[18] (a threshold that has not been modified since, notably).[19] In 1936, the Walsh-Healey Act extended prevailing wage rules to federal contracts for manufacturing goods, and, in 1964, the David-Bacon Act was expanded to incorporate fringe benefits.[20] In addition, 32 states, the District of Columbia, and numerous municipalities have followed suit with "little Davis-Bacon" acts.[21]

Promoting Collective Bargaining

Franklin Delano Roosevelt inaugurated modern executive action on contracting standards during the World War II mobilization. With his re-establishment of Woodrow Wilson's National War Labor Board (NWLB) in 1942, incorporating representatives from labor, business, and the public sector, Roosevelt introduced strong "labor peace" requirements as a tool for insuring war-time labor needs and labor performance. At

Prevailing Wage Law Costs and Effects

The Davis-Bacon Act has been scrutinized intensely, particularly because of its potential costs and effects. The Congressional Budget Office finds that the Act has been successful in raising wages by excluding bad contractors and stabilizing wages in the volatile construction industry. Early studies which compared projects covered by the Davis-Bacon Act to projects that were not covered find an increase of 1.5 to 3 percent in costs. However, more recent studies using regression analyses fail to find a statistically significant cost-effect on the government.

While notable, these recent findings are too limited for modeling purposes when considering the potential cost effects of building a more comprehensive Good Jobs Policy for contracting. Yet the evidence that prevailing wage laws have boosted wages without increasing project costs is instructive for such an analysis. From the standpoint of raising workforce standards, on the other hand, a well-known problem with prevailing wage laws is that, by definition, they mirror private wage trends and therefore are not effective in low-wage sectors of the federal purchasing footprint or in low-wage regions of the country.

the core of these requirements, unions embraced "no strike pledges" in return for "maintenance of membership," which brought millions of new workers into the unions. These federal rules to promote collective bargaining played a large part in the growth of union membership from about 9 million to 15 million by the end of the 1940s, according to one estimate.[22]

Executive Orders for Racial Inclusion

Executive Orders were also frequently used as an important tool for strengthening workforce standards, most notably to support racial inclusion in the federal contracting workforce. In 1941, Franklin Delano Roosevelt's Executive Order 8802 prohibited racial discrimination in the federal government and the defense industry.[23] In 1943, he expanded the order to include all government contractors.[24] In 1951, Harry Truman created an enforcement mechanism for E.O. 8802, and he established the Committee on Government Contract Compliance with Executive Order 10308.[25] Two years later, Eisenhower's Executive Order 10479 created the President's Committee on Government Contracts to oversee enforcement.[26] Later, John F. Kennedy and then Lyndon Johnson strengthened the anti-discrimination rules with equal opportunity requirements. Executive Order 11246, signed by President Johnson in September 1965, was a landmark order in this history, "prohibit[ing] federal contractors and federally assisted construction contractors and subcontractors, who do over

$10,000 in Government business in one year from discriminating in employment decisions on the basis of race, color, religion, sex, or national origin."[27] It further required contractors with 50 or more employees and contracts of $50,000 or more to implement affirmative action plans to increase the participation of minorities and women in the workplace.[28]

This important legacy of executive orders had significant effects in diversifying the federal contracting workforce and likely in fostering upward mobility for women and people of color. In 1970, women accounted for 10.2 percent of officers and managers in firms with federal contracts. By 1993, women accounted for approximately 30 percent of officers and managers, according to Employer Information Report (EEO-1) data.[29] A large literature finds that, in the wake of E.O., 11246, federal contractors improved their hiring rates for women and racial minorities much more rapidly than non-contractors did.[30]

THE GROUNDSWELL FOR POLICY ACTION

Contrasted with the game-changing interventions of the FDR and Johnson periods, federal actions to raise workforce standards in federal purchasing have dwindled in recent decades. States and cities, however, have started to take up the slack in using public purchasing as a democratic tool for fostering upward mobility and expanding the middle class.

For example, states and cities are taking steps to promote collective bargaining as an essential part of insuring high-performing contracts. In 2009, Governor David Paterson of New York signed an executive order requiring companies receiving state funding or other forms of state assistance for hotel and convention projects to obtain agreements with unions whereby workers promise not to "strike, boycott or engage in other actions that would disrupt business or deprive the state of revenues," while unions gain "unprecedented leverage to demand right-to-organize provisions," as the New York Times reported.[31] Similar agreements have seen a renaissance at the municipal level as well, led by Los Angeles. Recently, the Los Angeles airport commissioners passed a requirement for airport service providers to adopt labor peace agreements, in order to prevent strikes, boycotts and disruptive demonstrations at LAX.[32] Other related provisions include a Los Angeles City ordinance requiring labor peace agreements for concessions at LAX and three other city airports, and a similar ordinance targeting hotels operating on city lands.

Living wage policies are spreading across the country as well, in more than 120 municipalities. While tailored to their localities, living wage ordinances generally cover employees of government contractors, concessionaires, and lessees.[33] Some municipalities have also established city-wide minimum wages to supplement the contracting living wage.[34] In addition, one state, Maryland, has passed a state-wide living wage.[35] A study of the law finds positive effects: it "increased vendor participation by leveling the playing field," and there is "virtually no evidence" that vendors tried to avoid paying the living wage.[36]

Living wage laws often set a standard for municipal contract employees that far exceeds the federal minimum wage, by as much as 100 percent.[37] A survey of 20 cities finds very low compliance costs—0.003% to 0.079% of the localities' total budgets.[38] This study has been confirmed by a large literature on the subject, examining a broad swath of municipalities.[39] Studies also show that living wage ordinances have little effect on unemployment.[40] A study of the Los Angeles living wage ordinance finds that, in addition to benefiting workers, it benefits firms by reducing absenteeism and turnover, and it benefits city government itself by generating higher tax receipts.[41]

States and localities have also variously instituted "responsible contracting" policies attached to a pre-clearance process. Responsible contracting often includes automatic disqualification of companies with labor law and workplace safety violations, in addition to setting prevailing wage standards, contract time limits, and, in some states, formal remedies to limit privatization of public services, among other interventions.[42] One such law, passed in California in 1999, reviews firms for "violations of laws and regulations, history of suspensions and debarments, past contract performance, financial history and capitalization."[43] The California Department of Industrial Relations scores potential contractors on workplace law compliance.[44] In addition, CALPERS, the giant California state pension fund, has a strict policy of investing only in responsible contractors.[45] Connecticut, Illinois, Ohio and various municipalities have instituted robust pre-clearance policies, and nearly every state and many municipalities have rules or guidelines for considering qualitative factors (variously defined) when considering which businesses should receive contracts.[46]

These state and local precedents have helped to spur new federal action. In 2009, President Obama signed Executive Order 13495, which gives protections to service contract workers when their employer loses a federal service contract. When the new contractor comes in, the order stipulates that the current workers may not be replaced by new workers unless there is something in their record indicating poor performance or lack of qualifications for the position.[47] More recently, President Obama's signed his much-discussed executive order raising the minimum wage in new federal contracts to $10.10 per hour. When the minimum wage increase takes effect in 2015, an estimated 200,000 workers will be positively affected.[48] Obama also recently signed an executive order to protect federal contract workers from retaliation for inquiring about or discussing compensation,[49] and he also signed a Presidential Memorandum instructing the Department of Labor to require federal contractors to submit data on women's pay and thereby encourage compliance with equal pay laws.[50]

KEY ELEMENTS OF A GOOD JOBS POLICY FOR OUR FEDERAL PURCHASING FOOTPRINT

We have long understood that federal contracts for the provision of public goods and services should be governed by democratic principles of transparency, competition, and value for taxpayers. At the same time, since President Van Buren's 10-hour workday for federal construction projects helped to put us on track toward the 8-hour workday, the contracting process has also been understood and extensively utilized as a driver of social change and as a counterweight to discrimination, exploitation, and inequities in the marketplace. Today we have a significant opportunity, and a profound and legitimate need, to more fully harness our federal purchasing power for the benefit of American workers and their families.

Between the burgeoning state and local good jobs policies, and the targeted executive actions we've recently seen in a number of areas, it is fair to say that governments are starting to respond to America's crisis of inequality. But, in their current scope of application and required standards, these actions can only have a small impact on the problem. Much more robust and decisive action is needed where we have the most leverage—our federal purchasing footprint.

In what follows, we outline a framework of standards comprising a Good Jobs Policy in our federal purchasing footprint, which will improve the lives of millions of American workers at federally-supported firms. We recommend direct intervention by the president, by executive order, to require all purchasing agencies to incorporate higher workforce standards in their procedures for awarding and evaluating contracts and other forms of federal purchasing. In areas where the president may not be able to act directly by executive order, such as health-care purchasing, we recommend that the president propose appropriate alternative mechanisms for these aspects of the federal footprint, if necessary working with Congress and other applicable authorities to establish the alternative mechanisms.[51]

The scope of federal purchasing covered by the Good Jobs Policy should include:

- Contracts for goods and services
- Health-care purchasing through Medicare and Medicaid
- Concessions and leasing arrangements in federal facilities, parks, and other properties
- Certain grants-in-aid to states, in particular for highway construction and child nutrition programs

The Good Jobs Policy should incentivize and reward employers who adopt the highest employment standards, including:

- **Respecting employees' right to bargain collectively with their employers,** without being forced to take strike action to win better wages and conditions.
- **Offering living wages and decent benefits,** including health care and paid leave for sickness and caregiving, and offering fair work schedules that are predictable and stable.
- **Demonstrating an exemplary standard of compliance with workplace protection laws,** including laws governing wages, hours, health, and safety, as well as other applicable business regulations.
- **Limiting excessive executive pay**: a strong preference should be given to firms with CEO/median pay ratios below 50-to-1; in addition, the current cap on federal contract funds applicable for executive salaries should be substantially reduced.

CONCLUSION

In a time when our middle class is shrinking and upward mobility is stalled for millions of working Americans, our federal government can and should do more to support working families, yet the evidence we detail here shows that the opposite is the case. More than 8 million employees of firms that do significant business with the federal government have poor quality jobs that leave them well-short of a middle class living standard. On average, these firms get 29 percent of their revenue from the federal government, which means that our tax dollars are helping to create these low-wage jobs on a massive scale. Notably, 70 percent of the federally-subsidized low-wage jobs are held by women, and 45 percent are held by people of color, which exceeds the low-wage employment rates of women and people of color in the economy as a whole.

In previous times of economic and social crisis, national leaders understood that federal purchasing power should be used for the common good. Millions of good jobs were created when President Roosevelt established collective bargaining requirements for federal contracts during World War II, and President Johnson's rules for affirmative action in federal contracts helped to lift millions of women and people of color into the middle class. Today, tens of millions of Americans are facing a crisis of living standards unlike any since the Great Depression, requiring a similarly bold course of action with our federal purchasing dollars.

States and localities are trying to do their part by attaching living wage and collective bargaining requirements to their contracting dollars. But only a small fraction of the U.S. workforce is benefiting from these scattered requirements. In an era of political polarization and policy gridlock on workforce issues, only the federal government's purchasing power has the reach and scale to make a truly significant difference, proportionate to the need. As we demonstrate here, a Good Jobs Policy for our federal purchasing footprint will help put 8 million working households and twenty million people on a pathway to the middle class. This is the policy we need, a cornerstone for rebuilding the middle class.

APPENDIX: METHODOLOGY

To produce the data for this report, we undertook two major groups of estimates: calculating the characteristics (size, income distribution, etc.) of the federally-supported private sector workforce, and projecting the effects of our proposed Good Jobs Policy on that workforce and the economy as a whole. Because the federal government does not compile statistics on the federally-funded private sector workforce, we instead estimated its composition using the process outlined below.

The Federally-Supported Workforce

Contracting-Supported Workforce

First, we obtained data from USASpending.gov on all federal contracts, which totaled $461 billion in FY2013.[52] We then eliminated any contract that was either performed outside of the U.S. or did not have a private industry NAICS code, leaving us with $439 billion in of federal contracts performed within the U.S. and that pertained to private industry. This data included numbers on the annual revenue and employment of the firm performing the contract as well as a NAICS code designating the primary industry in which the work was performed, allowing us to produce our estimates. After cleaning and updating the annual revenue and employment figures, we calculated the total revenue from federal contracting and the share of annual revenue it comprised for each firm. We then eliminated firms that received less than 10% of their revenue from federal contracting, leaving us with "federally-supported" firms who would have a significant incentive to meet our proposed Good Jobs standards.

We then merged the NAICS codes, employment, and revenue share data with 2012 data on gross output and earnings by NAICS industry from the Occupational Employment Survey of the Bureau of Labor Statistics (BLS).[53] We then assumed that, by industry, workers in federally-supported firms have similar wage distributions to the rest of that private sector industry to generate earnings distributions for the federally-supported workforce. To estimate federally-supported employment by industry, we divided each federally-supported firm's employment among industries by the share of its total federal contracting that each industry it did federal contracting business in made up. We then calculated the overall earnings distribution of the contracting-supported workforce through a weighted average, weighted by each industry's share of total contracting.

Medicare-Supported Workforce

Here, we used data from the Centers for Medicare and Medicaid Services on U.S. health expenditures by service category and source of funds,[54] from which we calculated Medicare's share of total spending in each major service category, and again considered any service category where Medicare spending accounted for 10 percent or more of the total. Because we needed to match these service categories to NAICS industries to analyze them, we limiting our analysis to four major service categories—Nursing and Residential Care Facilities, Home Health Care Services, Private Hospitals, and Prescription Drug Expenditures—that matched NAICS industries. These four service categories account for the majority of Medicare spending: two-thirds of the $572 billion in Medicare expenditures in 2012. We then used the BLS data on earnings and employment for these four subsectors/industries to generate our estimates.

Fiscal and Economic Impacts

To estimate the impact of the proposed policy, we examined wage differences for some of the most common low- and medium-wage occupations[55] between competing employers.[56] We found that for low-paid occupations—those with average pay of $12 per hour or less, such as cashiers, sales associates, pharmacy technicians, and customer service representatives—the highest-paying companies pay an average of 22 percent more than the lowest-paying firms across the occupations we examined. Based on this analysis, we adopt the conservative estimate that implementing the policy will result in a 20 percent raise for workers earning below or at the private-sector median of $15.84, and a smaller raise for those earning between $15.84 and $19 per hour. We assume the largest raises for workers at or below the median because the policy awards bidding preference to the firms with, among other factors, the highest median wages; thus, firms with lower wages will give raises to its employees earning less than the median in order to raise its overall median and thus be competitive for contracts. We assume smaller raises for workers earning somewhat above the median because of "spillover effects," where companies give smaller raises to workers earning just above the affected workers to maintain internal pay ladders, similar to the effect observed when the minimum wage is increased.[57] These percentages and cutoffs generate our estimates of 8.3 million affected workers and $34.1 billion in increased wages.

To calculate the effect on GDP of these higher wages, we follow the methodology our colleague Catherine Ruetschlin developed for our study *Retail's Hidden Potential*,[58] making the assumption that the wage increases are not passed on to consumers as higher prices. To generate estimated income tax revenue, we assume that the additional GDP is taxed at a 20 percent rate (i.e. half in the 15 percent bracket and half in the 25 percent bracket). Calculating the savings for the major federal safety net programs—the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and the Earned Income Tax Credit (EITC)—was a multi-step process. First, since our federally-supported workers are all employed private-sector workers, we used American Community Survey microdata[59] to calculate the share of adults employed in the private sector and earning less than $20.48 per hour[60] who were enrolled in SNAP and Medicaid by the type of household they belong to: married couple, single male-headed, single female-headed, or non-family (i.e. single). We obtained equivalent data on EITC recipiency by household type from a recent study by the Richmond Federal Reserve.[61] Then, using our ACS calculations of the share of working private sector-employed adults that are part of each type of household, we estimated the overall share of the federally-supported workforce receiving each type of benefit. Then, using ACS-derived estimates of the average household size for each household type along with average per-person benefit for SNAP[62] and the EITC[63] (by household type) and Medicaid's average cost per type of beneficiary,[64] we calculated the total spending on federally-supported workers and their families for each safety net program. Finally, because our data would not allow us to estimate the precise number of households who would be lifted out of program eligibility by the policy's 20 percent raise, we assumed that, for the affected workers, it leads to a 75 percent reduction in Medicaid and SNAP spending and a 50 percent reduction in the EITC's budgetary impact (because of the EITC's higher income eligibility threshold).

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12. Authors' calculations from St. Louis Fed, FRED database and BLS data.
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